LL.B VI TERM

Banking, Insurance Law and Negotiable Instruments

Cases Selected and Edited by

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Paper: LB – 6032 – Banking, Insurance Law and Negotiable Instruments

PART – A: BANKING

_Prescribed Legislation:_ The Banking Regulation Act, 1949 (B.R. Act)

_Prescribed Books:_

2. R.K. Gupta, _Banking - Law and Practice_ (2<sup>nd</sup> ed. 2008)
4. M.L. Tannam, _Banking Law and Practice in India_ (23<sup>rd</sup> ed., 2010)

**Topic 1: The Evolution of Banking Services and its History in India**

History of Banking in India, Bank Nationalization and social control over banking, Various types of Banks and their functions, Contract between banker and customer: their rights and duties, Role and functions of Banking Institutions.

**Topic 2: Banking System in India and Control by Reserve Bank of India**

Definition of ‘bank’, ‘banker’, ‘banking’, ‘banking companies’; Development of banking business and companies; Regulations and restrictions; Powers and control exercised by the Reserve Bank of India (B.R. Act, sections 5-36AD)

1. _Sajjan Bank (Pvt.) Ltd. v. Reserve Bank of India_, AIR 1961 Mad. 8

PART B: INSURANCE

_Prescribed Legislations:_

1. The Insurance Act, 1938
2. The Marine Insurance Act, 1963
3. The Life Insurance Corporation Act, 1956
5. The Insurance Regulatory and Development Authority Act, 1999

_Prescribed Books:_


**Topic 3: Law of Insurance**

Nature and Scope of Insurance; Classification; General Principles – Proximate Cause

3. *Pink v. Fleming* (1890) 25 QBD 396

**Topic 4: Doctrine of Utmost Good Faith**


**Topic 5: Rules of Construction of Insurance Policy**

11. *Harris v. Poland* (1941) All ER 204: 1 K.B.D. 204

**PART – C: NEGOTIABLE INSTRUMENTS**

**Prescribed Legislations:**

1. The Negotiable Instruments Act, 1881 (N.I. Act)
2. The Information Technology Act, 2000 (I.T. Act)

**Prescribed Books:**

   (10th ed., 2009)

**Recommended Readings:**


**Topic 6: Kinds of Negotiable Instruments**

Promissory Note, Bill of Exchange, Cheque – Definition and Nature 
(N.I. Act, sections 4-7, 13)

   AIR 1957 Mad. 355
   AIR 2001 SC 1315 : (2001) 3 SCC 726

**Topic 7: ‘Holder’ and ‘Holder in Due Course’**

Definition of Holder and Holder in Due Course; Comparison between Indian and English Law; Rights of holder in due course; Law Commission of India, Eleventh Report, 1958 (N.I. Act, section 8 read with 78; 9, 19-25, 53, 58, 59 and 118; and the English Bills of Exchange Act, 1882, sections 2, 29 and 90)

15. *Lachmi Chand v. Madanlal Khemka*, AIR 1947 All. 52
17. *Nunna Gopalan v. Vuppuluri Lakshminarasamma*,
   AIR 1940 Mad. 631
   (1991) 1 SCC 113

**Topic 8: Transfer of Negotiable Instruments**

Modes - Negotiation (N.I. Act, sections 14, 46, 47, 48, 57); Assignment (The Transfer of Property Act, 1882, sections 130-132); Meaning of Indorsement - Who can indorse (N.I. Act, sections 15 and 51); Kinds of Indorsement – Indorsement in Blank and Full (N.I. Act, sections 16 and 54), Conditional Indorsement (N.I. Act, section 52), Restrictive Indorsement
(N.I. Act, section 50), Sans Recourse Indorsement (N.I. Act, section 52); Partial Indorsement (N.I. Act, section 56)

**Topic 9: Liability of Parties and Discharge of Parties from Liability on Promissory Note, bill of exchange and Cheque**

Liability of Maker, Drawer, Drawee and Indorser (N.I. Act, sections 30, 31, 32, 35 and 36) Modes – Cancellation [N.I. Act, section 82 (a)]; Release [N.I. Act, section 82 (b)]; Payment [N.I. Act, section 82(c)]; Material Alteration (N.I. Act, sections 87-89)

20. **Canara Bank Ltd. v. I.V. Rajagopal** (1975) 1 M.L.J. 420


**Topic 10: Crossing of Cheques**

Object of crossing; Kinds of crossing – general, special, not-negotiable & account payee crossing; who may cross; Rights and duties of paying banker; Protection of collecting banker (N.I. Act, sections 123-131-A)


24. **Great Western Rail Co. v. London & County Banking Co. Ltd.** (1900-3) All ER Rep. 1004 (HL)

25. **Bapulal Premchand v. Nath Bank Ltd.**, AIR 1946 Bom. 482

26. **Indian Overseas Bank v. Industrial Chain Concern** 1990)1 SCC 484

**Topic 11: Liabilities for Dishonour of Cheques**

Dishonor of cheque for insufficiency etc. of funds; cognizance of offences (N.I. Act, sections 138-147) *The Negotiable Instruments (Amendment) II Ordinance, 2015*


30. **MMTC Ltd. v. Medchl Chemicals & Pharma (P) Ltd.**, AIR 2002 SC 182


32. **C.C. Alavi Haji v. Palapetty Muhammed**,2007 (7) SCALE 380

36. The Negotiable Instruments (Amendment) II Ordinance, 2015

IMPORTANT NOTE:

1. The students are advised to read only the books prescribed above along with legislations and cases.
2. The topics and cases given above are not exhaustive. The teachers teaching the course shall be at liberty to add new topics/cases.
3. The students are required to study the legislations as amended up-to-date and consult the latest editions of books.

* * * * *
Sajjan Bank (Private) Ltd. v. Reserve Bank of India
AIR 1961 Mad. 8

RAMACHANDRA IYER, J. – The Sajjan Bank (Private) Ltd., which is carrying on business at Alandur, originated from Sajjan and Co. Ltd., which was incorporated in November 1944 with the main object of carrying on money-lending business. In May 1946, the company was converted into a banking company and in November of that year its name was changed into Sajjan Bank (Private) Ltd. All its shares are held by its three directors who are said to be closely related. The Banking Companies Act, 1949, referred to hereafter as the Act, came into force on 16.3.1949.

Section 22 of the Act provided amongst other things that every banking company in existence at the commencement of this Act should before the expiry of six months from such commencement and, every other company before commencing banking business in India, apply in writing to the Reserve Bank for a licence under the section to carry on banking business. The section further provided that the Banking Companies in existence at the commencement of the Act could continue to carry on their banking business till final orders were passed on their application for licence.

3. On 14.9.1949, the petitioner bank applied under S. 22 of the Act, to the respondent for a licence to carry on banking business. The Officers of the Reserve Bank inspected the petitioner bank under S. 22 of the Act in July 1952. A report of that inspection was prepared on 11.10.1952. The inspection appears to have revealed the existence of certain defects in the working of the bank. The Reserve Bank therefore decided to keep in abeyance the consideration of the question of issuing a licence evidently with a view to watch the progress of the bank in eradicating the defects pointed out by the inspection report.

The defects noticed were the subject matter of subsequent correspondence between the petitioner and the Reserve Bank. A fresh inspection of the petitioner Bank was carried out in September 1956 under S. 35 of the Act. That also revealed certain defects. The respondent was evidently not satisfied that the affairs of the petitioner Bank were being conducted in the interests of the depositors. The question of the grant of licence was taken up. The petitioner was directed to show cause against the refusal of the licence. The bank was also furnished with a copy of the inspection report.

After considering the representation of the petitioner, the respondent by its letter dated 18.3.1957, declined to grant the licence to the petitioner to carry on banking business in the terms of the first proviso to sub-section (2) of S. 22 of the Act. Aggrieved by that, the petitioner has moved this court for the issue of a writ of certiorari to quash the order of the respondent refusing to grant a licence to carry on business as a banking company.

5. Mr. Rajah Iyer, the learned advocate for the petitioner, raised before me three contentions: (1) That S. 22 of the Banking Companies Act was unconstitutional in so far as it proceeded to restrict the fundamental right of the petitioner to carry on its business, namely,
the banking business; (2) even if the provisions of S. 22 of the Act be held to be in accordance with the Constitution, the action of the respondent was arbitrary; (3) In any event the procedure adopted by the respondent was illegal and in that after an inspection under S. 35, it could only proceed to act under S. 35(4) and not refuse the licence altogether.

7. The Reserve Bank of India came into existence on 1.4.1935. It is a central bank combining in its functions the regulation of both the credit and the currency of the country. Prior to its formation the responsibility for the currency was vested in the Central Government. The Imperial Bank of India performed the banking functions. This dichotomy between currency and credit was found to be a weakness in the Indian monetary system by the Royal Commission of Indian Currency and Finance in 1926. The Commission recommended the establishment of a Central Bank by charter on certain lines which experience had proved to be sound. It is said that the structure of the Bank was modelled very largely on the Bank of England.

It is a non-political statutory body, the general superintendence and management of the bank’s affairs being vested in the Central Board of Directors. For each of the four regional areas, Bombay, Calcutta, Madras and New Delhi, there is a local Board functioning. The function of the local Boards is to advise the Central Board on such matters as may be referred to them or perform such duties as the Central Board may validly delegate to them. The preamble to the Reserve Bank Act states that the bank was constituted to regulate the issue of bank notes, to keep up reserves with a view to secure monetary stability in India and generally to operate currency and credit system of the country to its advantage.

The main function, therefore, of the Reserve Bank is to regulate the monetary system of the country so as to ensure the maintenance of economic stability and assist in its growth. The Bank has got the sole right to issue currency notes and it also acts as the Banker to the Government. It also acts as a banker to the various commercial Banks and other financial institutions and it has got various rights and duties prescribed in Chapter II of the Reserve Bank Act. For the performance of its duties in regard to the regulation of the credit of the country, the Reserve Bank is invested with powers of control of the bank rate, open market transactions etc.

The Reserve Bank’s responsibilities include the development of an adequate and sound banking system not only for trade and commerce but also for the agricultural industry. The Reserve Bank is, therefore, occupying a position of considerable importance in the economic development of the country and its monetary system.

8. Originally, joint stock banks were governed in respect of their incorporation, organisation and management by the Indian Companies Act of 1913, which was common to banking as well as non-banking companies. In 1936, certain new provisions were introduced to the Indian Companies Act of 1913, in regard to the banking companies. In 1949, the Banking Companies Act was passed to consolidate and amend the law relating to the Banking Companies. The necessity for the legislation was for safeguarding the interests of the depositors, shareholders and of the economic interests of the country in particular. Under S. 5(b) of the Act, the term “banking” has been defined as
“accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.”

This definition follows the accepted legal concept of the word “banking.” The essence of a banking business is, therefore, receiving money on current account for deposit from the public repayable on demand and withdrawable by cheque, draft or otherwise.

9. An ordinary moneylender who does not accept moneys on terms enabling a depositor to draw cheques upon him would not, therefore, be a bank or banker properly so called. The provisions of the Act would, therefore, apply only to the limited class of cases where the bank or banker allows the withdrawal of money by the issue of cheques. A banking company has been defined to be a company that transacts the business of banking in India. Section 6 provides that in addition to banking business banking company may engage themselves in various allied businesses which are more or less incidental to or essential for the carrying on of the banking business.

Section 13 prescribes the minimum standards as to paid up capital and aggregate reserves. Sections 12 and 12(a) prevent the control of companies by a few persons to the detriment of a majority of shareholders and permits the Reserve Bank of India to require a banking company to call for a general meeting of the shareholders of the company, to elect fresh directors in accordance with the voting rights. Section 14 prohibits the creation of charges on unpaid capital. Sections 17 and 18 provide for minimum reserve funds and cash reserve. Section 20 prohibits loans on security of the company’s shares and unsecured loans to its directors to firms or private companies in which they are interested. Section 21 gives power to the Reserve Bank of India to control its advances. Section 22 prescribes a system of licensing of banks, the power of licensing being vested in the Reserve Bank of India. I shall advert to that section in greater detail presently.

Section 23 places restrictions on the opening of new places of business or change of existing place of business. Sections 24 and 25 require the maintenance of sufficient liquid assets. Section 26 obliges a bank to report to the Reserve Bank every year about unclaimed deposits. Sections 27 and 28 invest a power in the Reserve Bank to call for information and to punish them if it so decides. Sections 35 and 36 confer power in the Reserve Bank of India to call for periodical returns and inspection of books of accounts and empower the Central Government to take action against banks conducting business in a manner detrimental to the interests of the depositors. Section 35-A gives powers to the Reserve Bank of India to give directions to the banking companies in general, or to any banking company in particular, in the national interest or to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company or to secure proper management thereof.

There are also other provisions relating to the management, restriction on the holding of shares and in regard to the winding up of banking companies. Thus the legislation is a comprehensive measure, covering the establishment, the working and the liquidation of the banks. The Reserve Bank of India is substantially invested with the power of regulation of the banking companies. In this country there are various types of banks ranging from the village
moneylender to a big commercial bank. It was found necessary in the interests of the public that there should be a regulation of the banking system. Section 22 introduces a complete system of licensing of banks by the Reserve Bank. Shortly stated the grant of a licence in the case of banks incorporated in India is dependent upon the maintenance of a satisfactory financial condition. In the case of foreign banks there is a further condition imposed that the country of their origin could not discriminate in any way against the banks registered in India. Sub-sections (1) and (2) provide for the necessity of obtaining a licence by a banking company and the time at which the licence is to be applied. The proviso to sub-section (2) authorises an existing banking company to continue to function until it is granted a licence or refused a licence. The conditions for granting the licence by the Reserve Bank are set out in sub-section (3). The section also provides for the cancellation by the Reserve Bank of a licence granted by it. In that case, the concerned bank is given a right of appeal. Similar enactments exist in the laws of certain foreign countries like America.

10. Mr. Rajah Aiyar contends that the provisions of S. 22(1) are unconstitutional as being in restraint of trade or business as in effect an arbitrary power is vested in the Reserve Bank of India to grant or refuse a licence, which according to him is really a permit for the doing of the business to be granted by the body. He, therefore, contended that the provisions of S. 22(1) of the Act are unconstitutional and invalid. In support of that contention he relied upon the principle stated in Namazi v. Dy. Custodian of Evacuee Property, Madras [AIR 1951 Mad 930]. That was a case where a disposition of property by an intending evacuee was made subject to permission by the Custodian of Evacuee Property. No rules were framed under the Act for his guidance. The nature of the enactment was that the custodian who was a mere officer of the Government could arbitrarily refuse to approve of a transfer by an intending evacuee. My Lord, the Chief Justice, observed:

“It may be said that the Custodian would not ordinarily refuse to approve any transfer unless for proper grounds. But surely that would be gambling on the reasonableness of the Custodian. As the section stands, there is nothing to prevent the Custodian from most unreasonably refusing to approve of any transfer by an intending evacuee.”

It was held that while a permit system would be unconstitutional in so far as it related to the exercise of fundamental rights, it was well settled that a system of licensing, which had for its object the regulation of trades, would not be repugnant to Art. 19(1)(g) of the Constitution. That decision is also valuable for ascertaining whether in a particular case what was intended was only a licence for the regulation of trade or a permit as a condition precedent to the exercise of a business by an arbitrary power in the authority to grant or refuse a licence. The existence of rules for the guidance of the authority, the insistence of reasons for the refusal of a licence, provision for a right of appeal, the nature of the enquiry before the refusal of a licence being judicial in an enquiry were held to constitute that what was prescribed by a statute was only a regulation of trade by the issue of licence and not the insistence of a permit.

The question then is whether the provisions of S. 22(1) of the Banking Companies Act which require a licence for carrying on business by a banking company should be held a system of enabling the doing of such a business by the issue of permits or whether only a
licensure intended to regulate the business of banking. There is no doubt that the Banking Companies Act was passed in the interests of the public after detailed enquiry by a Committee and after consideration of its reports. As I pointed out already the Committee itself recommended a system of licensing of all banking companies. Even the foreign banking experts were not averse to the proposal. The licensing itself is vested in a statutory authority, which is itself a Central Banking institution concerned both with the currency and credit operations in the country.

The Reserve Bank of India was established with a view to fostering the banking business and not for impeding the growth of such business. The powers vested in it under S. 22 are not one invested with a mere officer of the Bank. The standards for the exercise of the power have been laid down in S. 22 itself. The Reserve Bank is a non-political body concerned with the finances of the country. When a power is given to such a body under a statute which prescribes the regulations of a Banking Company, it can be assumed that such power would be exercised so that genuine banking concerns could be allowed to function as a bank, while institutions masquerading as banks or those run on unsound lines or which would affect the interests of the public could be weeded out.

The power given is regulated by the statute and being entrusted to a statutory body which is itself regulating the credit of the country the nature of the power, its exercise after the investigation prescribed by the statute invests it with a quasi-judicial character. Such a power cannot be said to be an arbitrary one. It is a mere licence granted as a matter of course to all genuine banking institutions run on sound lines as the judicial character of power would indicate. It cannot be held to be a permit.

14. It must also be noticed that the refusal of the licence under S. 22 of the Act does not mean a stoppage of business. I have already referred to the fact that the essence of banking is the opening of current account and the enabling of the constituent to draw by cheques. It follows that the refusal of a licence would only entail a loss of that type of business and it would be perfectly open to the petitioner to carry on business as moneylenders the only disability or restriction being that it cannot have transactions under which the constituents could draw cheques on him.

17. This leads us to the next question, namely, whether the respondent in this case has arbitrarily exercised the power, as is complained by the petitioner. There is no complaint in this case that sufficient opportunity was not given. But what is contended on behalf of the petitioner is that further opportunities should have been given to rectify the errors rather than refuse the licence. It is also contended that the petitioner had complied with all the directions, which the respondent gave from time to time and that there was really no default on its part. Mr. Rajah Iyer also contended that while the respondent was giving directions and the petitioner was complying with the same as and when given, the former had made up its mind not to issue the licence and that it did not bring to bear on the decision of the question of a judicial attitude.

The first inspection by the respondent of the petitioner was in 1952 under the provisions of S. 22. That revealed that the petitioner bank was not conducted on sound banking lines. The report dated 11.10.1952 pointed out fundamental errors in the accounts as also non-compliance with the provisions of the Act. The Reserve Bank very properly kept in abeyance
the decision of the question of the grant of licence. But the Bank being one that came into existence before the Act, it could continue its banking business till the licence was granted or refused. It was, therefore, necessary that some kind of control should be exercised over the bank pending decision on the issue of the licence. They, therefore, proceeded to give periodical instructions in regard to the conduct of the bank. I have said that the first inspection revealed defects in the method of keeping accounts and contravention of certain provisions of the Act.

Correspondence that ensued was in regard to both the matters. It was not till 1955 that the defects pointed out were sought to be explained away or remedied. This, therefore, entailed a further inspection, undertaken by the Reserve Bank under S. 35 of the Banking Companies Act. A report was duly submitted to the local board of the Bank, who were satisfied that the proposal to refuse the licence was proper in the circumstances. As pointed out in the report of the Reserve Bank on more than one occasion, the bank was not able to effectuate any material improvement in the pattern of its working. It was not able to attract sufficient deposits from the public. As a private limited company to start with it was converted into a banking company evidently to circumvent the provisions of the Madras Pawn Brokers Act of 1943.

The paid up capital was only Rs. 50,000. Its reserves were found to be poor and the establishment charges had absorbed more than 50 per cent of the gross income. The Reserve Bank gave more than one opportunity to the petitioner to show cause against the refusal of licence. In the report placed before the Central Committee we find a comparative statement of the undesirable features noticed in the inspection reports with the corresponding representation of the bank and the comments of the bank. It was only after a careful consideration of all the matters that the Reserve Bank came to the conclusion that the continuance of the bank would be likely to prove detrimental to the interests of prospective depositors and that the petitioner was not entitled to a licence.

The respondent did not take any hasty action. The progress and working of the bank was closely watched for more than 4 years and every opportunity was given to the bank to justify its claim as a sound banking concern. The learned Advocate General explained that the delay in the disposal of the application by the respondent was due to their anxiety not to precipitate a crisis which a quick decision to refuse licence might occasion and which might further lead to undesirable results. Far from the action of the Reserve Bank being arbitrary, I am satisfied that it has given the utmost consideration to the petitioner’s case.

19. I am, therefore, of the opinion that the action of the Reserve Bank in refusing to grant the licence to the petitioner is within its jurisdiction, and such jurisdiction has been properly exercised in the case, and that there is no case for the issue of a writ under Art. 226 of the Constitution. This petition is dismissed with costs.

* * * * *
PART – B : INSURANCE

Pink v. Fleming
(1890) 25 Q.B.D. 396

LORD FISHER, J. - It is well settled that by the law of England there is a distinction in this respect between cases of marine insurance and those of other liabilities. In cases of marine insurance the liability of the underwriters depends upon the proximate cause of the loss. In the case of an action for damages on an ordinary contract, the defendant may be liable for damage, of which the breach is an efficient cause or causa causans; but in cases of marine insurance only the causa proxima can be regarded. This question can only arise where there is a succession of causes, which must have existed in order to produce the result. Where that is the case, according to the law of marine insurance, the last cause only must be looked to and the others rejected, although the result would not have been produced without them. Here there was such a succession of causes. First, there was the collision. Without that no doubt the loss would not have happened. But would such loss have resulted from the collision alone? Is it the natural result of a collision that the ship should be taken to a port for repairs, and that the cargo should be removed for the purposes of the repairs, and that, the cargo being of a kind that must be injured by handling, it should be injured in such removal? A collision might happen without any of these consequences. If it had not been for the repairs, and for the removal of the cargo for the purposes of such repairs, and for the consequent delay and handling of the fruit, the loss would not have happened. The collision may be said to have been a cause, and an effective cause, of the ship’s putting into a port and of repairs being necessary. For the purpose of such repairs, it was necessary to remove the fruit, and such removal necessarily caused damage to it. The agent, however, which proximately caused the damage to the fruit was the handling, though no doubt the cause of the handling was the repairs, and the cause of the repairs was the collision. According to the English law of marine insurance only the last cause may be regarded. There is nothing in the policy to say that the underwriters will be liable for loss occasioned by that. To connect the loss with any peril mentioned in the policy, the plaintiffs must go back two steps, and that, according to English law, they are not entitled to do.

For these reasons I think that the judgment of Mathew, J., was right. The case of Taylor v. Dunbar [LR 4 C.P. 206], seems to me to have been decided upon substantially the same view as that which I have endeavoured in somewhat different terms to state, and it appears to me to be really an express authority in favour of our decision. With regard to the American authorities, the American law on the subject seems to differ materially from our law, and therefore it is not necessary to consider them.

LINDLEY, J. - It appears to me that the judgment of Mathew, J., was correct. It has long been the settled rule of English law with regard to marine insurance that only the causa proxima or immediate cause of the loss must be regarded. The rule is well known, and people must be taken to have contracted on that footing. In principle the case appears to me to be governed by the decision in Taylor v. Dunbar. The evidence shows that the damage to the fruit was due to the joint operation of the handling and the delay.

* * * *
S.K. DAS, J. - The appellant is Mithoolal Nayak, who took an assignment on 18-10-1945 of a life insurance policy on the life of one Mahajan Deolal for a sum of Rs 25,000 in circumstances that we shall presently state. Mahajan Deolal died on 12-11-1946. Thereafter, the appellant made a demand against the respondent Company for a sum of Rs 26,000 and odd on the basis of the life insurance policy, which had been assigned, to him. This claim or demand of the appellant was repudiated by the respondent Company by a letter dated 10-10-1947, which in substance stated that the insured Mahajan Deolal had been guilty of deliberate misstatements and fraudulent suppression of material information in answers to questions in the proposal form and the personal statement, which formed the basis of the contract between the insurer and the insured. On the repudiation of his claim, the appellant brought the suit out of which this appeal has arisen. The suit was originally instituted against the Oriental Government Security Life Assurance Co. Ltd., Bombay, which issued the policy in favour of Mahajan Deolal on 13-3-1945. Later, on the passing of the Life Insurance Corporation Act, 1956, there was a statutory transfer of the assets and liabilities of the controlled (life) business of all insurance companies and insurers operating in India to a Corporation known as the Life Insurance Corporation of India. By an order of this Court made on 16-2-1960 the said Corporation was substituted in place of the original respondent. For brevity and convenience we shall ignore the distinction between the original respondent and the said Corporation and refer to the respondent in this judgment as the respondent Company. The suit was decreed by the learned Additional District Judge of Jabalpur by his judgment dated 7-5-1949. The respondent Company then preferred an appeal to the High Court of Madhya Pradesh. This appeal was heard by a Division Bench of the said High Court and by a judgment dated 28-8-1956, the appeal was allowed and the suit was dismissed with costs.

2. We now proceed to state some of the relevant facts relating to the appeal and the contentions urged on behalf of the appellant. Mahajan Deolal was a resident of Village Singhpur, Tahsil Narsinghpur. It appears that he was a small landholder and possessed several acres of land. Sometime in December 1942, Mahajan Deolal submitted a proposal through one Rahatullah Khan, an agent of the respondent Company at Narsinghpur, for the insurance of his life with the respondent Company for a sum of Rs 10,000 only. Mahajan Deolal’s age at that time was about 45 as stated by him. In the proposal form that was submitted to the respondent Company, Mahajan Deolal mentioned the name of one Motilal Nayak, by profession a doctor, as a personal friend who best knew the state of the health and habits etc. of the insured. This Motilal Nayak, be it noted, is a brother of the appellant, the evidence in the record showing that the two brothers lived together in the same house. When Mahajan Deolal made the proposal for insurance of his life in December 1942, a doctor named Dr D.D. Desai examined him. This doctor submitted two reports about Mahajan Deolal: one report, it appears, was submitted with the proposal form through the agent of the respondent Company; another report was sent in a confidential cover along with a letter from the doctor. In this letter the doctor explained why he was submitting two medical reports. In substance he said that the report submitted with the proposal form at the instance of the agent, Rahatullah Khan,
was not a correct report and the correct report was the one that he enclosed in the confidential cover. In that report Dr Desai said that Mahajan Deolal was anaemic, looked about 55 years old, had a dilated heart and his right lung showed indications of an old attack of pneumonia or pleurisy. The doctor further said that the general health of Mahajan Deolal was very much run down and he was a total physical wreck. The doctor opined that Mahajan Deolal's life was an uninsurable life. It appears that nothing came out of the proposal made by Mahajan Deolal for the insurance of his life in December 1942. The evidence of the Inspector of the respondent Company shows that on receipt of Dr Desai’s reports, the respondent Company directed that Mahajan Deolal should be further examined by the Civil Surgeon, Hoshangabad and District Medical Officer, Railways at Jabalpur. Mahajan Deolal could not, however, be examined by the two doctors aforesaid and according to the rules of the respondent Company the proposal lapsed on the expiry of six months for want of completion of the medical examination as required by the respondent Company. Then, on 16-7-1944, a second proposal was made through the same agent of the respondent Company for the insurance of the life of Mahajan Deolal, this time for a sum of Rs 25,000. The Inspector of the respondent Company said in his evidence that this second proposal was made at the instance of the same agent, Rahatullah Khan, inasmuch as the proposal of 1942 had not been rejected but had only lapsed. It appears that at the time of the first proposal in 1942 Mahajan Deolal had paid a sum of Rs 571 and odd towards the first premium due in case the proposal was accepted. In the personal statement accompanying the second proposal of 16-7-1944, it was stated that an earlier proposal for insuring the life of Mahajan Deolal was pending with the respondent Company. Now, in the proposal form there was a question to the following effect:

"Have you within the past five years consulted any medical man for any ailment, not necessarily confining you to your house? If so, give details and state names and addresses of medical men consulted."

The answer given to the question was - “No”. This answer, according to the case of the respondent, was false and deliberately false, because, according to the evidence of one Dr P.N. Lakshmanan, Consulting Physician at Jabalpur, Mahajan Deolal was examined and treated by the said doctor between the dates 7-9-1943, and 6-10-1943, when the doctor found that Mahajan Deolal was suffering from anaemia, oedema of the feet, diarrhoea and panting on exertion. We shall advert in greater detail to the evidence of Dr Lakshmanan at a later stage. In his personal statement accompanying the second proposal Mahajan Deolal answered in the negative Question 12(b), the question being as to when he was last under medical treatment and for what ailment and how long. In the same personal statement with regard to questions, for example, Question 5(a), 5(b) etc., as to whether he suffered from shortness of breath, anaemia, and asthma etc., Mahajan Deolal gave negative answers. The contention on behalf of the respondent Company was that these answers in the personal statement were also deliberately false and constituted a fraudulent suppression of material particulars relating to the health of the insured. With regard to the second proposal and the personal statement accompanying it, Dr Motilal Nayak, brother of the appellant, gave a friend’s report, in which he said that Mahajan Pedal’s health was good and that he had never heard that Mahajan Deolal suffered from any illness. It is worthy of note here that Dr Motilal Nayak himself took Mahajan Deolal to Dr Lakshmanan for treatment at Jabalpur in September-October, 1943. On
receipt of the second proposal in July 1944, Mahajan Deolal was examined by Dr Kapadia, who was the District Medical Officer of the Railways at Jabalpur. Dr Kapadia reported that Mahajan Deolal was a healthy man and looked about 52 to 54 years old. He recommended that Mahajan Deolal might be given a policy for fourteen years. In his report Dr Kapadia noted that Mahajan Deolal had stated that he had suffered from pneumonia four or five years ago, and that he had also cholera some years ago. No mention, however, was made of anaemia, asthma, shortness of breath etc. On 29-12-1944 Mahajan Deolal, made a further declaration of his good health and so also on 12-2-1945. On 13-3-1945, the respondent Company issued the policy. It contained the usual terms of such life insurance policies, one of which was that in case it would appear that any untrue or incorrect averment had been made in the proposal form or personal statement, the policy would be void. The first premium due on the policy was taken from the amount that was already in deposit with the respondent Company in connection with the proposal made in 1942. Then, on 22-5-1945, Mahajan Deolal wrote a letter to the respondent Company in which he said that his financial condition had become suddenly worse and that he would not be able to pay the premium for the policy. He requested that the policy be cancelled. In the meantime the premium for 1945 not having been paid, the policy lapsed. Then, on 28-10-1945 Mahajan Deolal made a request for revival of the policy, but a few days before that, namely on 18-10-1945, the policy was assigned in favour of the appellant, by an endorsement made on the policy itself. This assignment was duly registered by the respondent Company by means of its letter dated 1-11-1945 in which the respondent Company said that it accepted the assignment without expressing any opinion as to its validity or effect.

The respondent Company also made an enquiry from the appellant as to whether the latter had any insurable interest in the life of the insured and what consideration had passed from him to the insured. To this the appellant replied that he had no insurable interest in the life of Mahajan Deolal, except that the latter was a friend and he (the appellant) had purchased the policy for a sum of Rs 427.12 n.p. being the premium paid by him so far, because Mahajan Deolal did not wish to continue the policy. On his request for a revival of the policy Mahajan Deolal was again medically examined, this time by one Dr Belapurkar. Later on 25-2-1946 he was examined by Dr Clarke. The policy was then revived on payment of all arrears of premium, these arrears having been paid by the present appellant. On receipt of the revival fee, the policy appears to have been revived some time in July 1946. We have already stated that Mahajan Deolal died in November, 1946. The certificate of Dr Clarke, who was the medical attendant at the time when Mahajan Deolal died, showed that the primary cause of death of Mahajan Deolal was malaria followed by severe type of diarrhoea; the secondary cause was anaemia, chronic bronchitis and enlargement of liver. In the certificate that Dr Clarke gave there was mention of certain other medical practitioners who had attended Mahajan Deolal at the time of his death. One of such medical practitioners mentioned in the certificate was Dr Lakshmanan. On receipt of this certificate the respondent Company got into touch with Dr Lakshmanan and discovered from him that Mahajan Deolal had been treated in September-October 1943 by Dr Lakshmanan for ailments which, according to the doctor, were of a serious nature.
3. Several issues were tried between the parties in the trial court. But the four questions which were argued in the High Court and on which the fate of the appeal depends were these:

   (1) Whether the policy was vitiated by fraudulent suppression of material facts by Mahajan Deolal?

   (2) Whether the present appellant had no insurable interest in the life of the insured, and if so, can he sue on the policy?

   (3) Whether the respondent Company had issued the policy with full knowledge of the facts relating to the health of the insured and if so, is it estopped from contesting the validity of the policy? and

   (4) Whether in any event the appellant is entitled to refund of the money he had paid to the respondent Company?

5. So far as the first question is concerned, the learned trial Judge found that though Mahajan Deolal had given a negative answer to Question 13 in the proposal form and to Questions 5(a), 5(b), 5(f) and 12(b) in the personal statement, these answers though not strictly accurate, furnished no grounds for repudiating the claim of the appellant by the respondent Company, inasmuch as Section 45 of the Insurance Act, 1938 (Act 4 of 1938) applied and the answers did not amount to a fraudulent suppression of material facts by the policy-holder within the meaning of that section. The learned trial Judge found that the ailments for which Dr Lakshmanan treated Mahajan Deolal in September-October 1943 were of a casual or trivial nature and the failure of the policy-holder to disclose those ailments did not attract the second part of Section 45 of the Insurance Act. The High Court came to a contrary conclusion and held that even applying Section 45 of the Insurance Act, the policy-holder was guilty of a fraudulent suppression of material facts relating to his health within the meaning of that section and the respondent Company was entitled to avoid the contract on that ground.

7. We shall presently consider the evidence, but it may be advantageous to read first Section 45 of the Insurance Act, 1938, as it stood at the relevant time. The section, so far as it is relevant for our purpose, is in these terms:

   “No policy of life insurance effected before the commencement of this Act shall after the expiry of two years from the date of commencement of this Act and no policy of life insurance effected after the coming into force of this Act shall, after the expiry of two years from the date on which it was effected, be called in question by an insurer on the ground that a statement made in the proposal for insurance or in any report of a medical officer, or referee, or friend of the insured, or in any other document leading to the issue of the policy, was inaccurate or false, unless the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policy-holder and that the policy-holder knew at the time of making it that the statement was false or that it suppressed facts which it was material to disclose….”

It would be noticed that the operating part of Section 45 states in effect that no policy of life insurance effected after the coming into force of the Act shall, after the expiry of two years from the date on which it was effected, be called in question by an insurer on the ground
that a statement made in the proposal for insurance or in any report of a medical officer, or referee, or friend of the insured, or in any other document leading to the issue of the policy, was inaccurate or false; the second part of the section is in the nature of a proviso which creates an exception. It says in effect that if the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policy-holder and that the policy-holder knew at the time of making it that the statement was false or that it suppressed facts which it was material to disclose, then the insurer can call in question the policy effected as a result of such inaccurate or false statement. In the case before us the policy was issued on 13-3-1945 and it was to come into effect from 15-1-1945. The amount insured was payable after 15-1-1968 or at the death of the insured, if earlier. The respondent Company repudiated the claim by its letter dated 10-10-1947. Obviously, therefore, two years had expired from the date on which the policy was affected. We are clearly of the opinion that Section 45 of the Insurance Act applies in the present case in view of the clear terms in which the section is worded, though learned counsel for the respondent Company sought, at one stage, to argue that the revival of the policy some time in July 1946 constituted in law a new contract between the parties and if two years were to be counted from July, 1946, then the period of two years had not expired from the date of the revival. Whether the revival of a lapsed policy constitutes a new contract or not for other purposes, it is clear from the wording of the operative part of Section 45 that the period of two years for the purpose of the section has to be calculated from the date on which the policy was originally effected; in the present case this can only mean the date on which the policy (Ex. P-2) was effected. From that date a period of two years had clearly expired when the respondent Company repudiated the claim. As we think that Section 45 of the Insurance Act applies in the present case, we are relieved of the task of examining the legal position that would follow as a result of inaccurate statements made by the insured in the proposal form or the personal statement etc. in a case where Section 45 does not apply and where the averments made in the proposal form and in the personal statement are made the basis of the contract.

8. The three conditions for the application of the second part of Section 45 are -

(a) the statement must be on a material matter or must suppress facts which it was material to disclose;

(b) the suppression must be fraudulently made by the policy-holder; and

(c) the policy-holder must have known at the time of making the statement that it was false or that it suppressed facts which it was material to disclose.

The crucial question before us is whether these three conditions were fulfilled in the present case. We think that they were. We are unable to agree with the learned trial Judge that the ailments for which Mahajan Deolal was treated by Dr Lakshmanan in September-October 1943 were trivial or casual ailments. Nor do we think that Mahajan Deolal was likely to forget in July 1944 that he had been treated by Dr Lakshmanan for certain serious ailments only a few months before that date. This brings us to a consideration of the evidence of Dr Lakshmanan. That evidence is clear and unequivocal. Dr Lakshmanan says that Dr Motilal Nayak brought the patient to him at Jabalpur. We have already referred to the fact that Dr Motilal Nayak had himself made a false statement in his friend’s report dated 17-7-1944, when he said that he had never heard that the insured had suffered from any illness. It is
impossible to believe that Dr Motilal Nayak would not remember that he had himself taken
the insured to Jabalpur for treatment by Dr Lakshmanan who was an experienced consulting
physician. Dr Lakshmanan said that when he first examined Mahajan Deolal on 7-9-1943 he
found that his condition was serious as a result of the impoverished condition of his blood,
and that Mahajan Deolal was suffering from anaemia, oedema of the feet, diarrhoea and
panting on exertion. The doctor asked for an examination of the blood. The pathological
report supported the diagnosis that Mahajan Deolal was suffering from secondary anaemia
meaning thereby that anaemia was due to lack of iron and malnutrition. Dr Lakshmanan
further found that from the symptoms disclosed the disease was a major one. Mahajan Deolal
had also cardiac asthma, which was a symptom of anaemia and due to dilatation of heart. Dr
Lakshmanan saw the patient again on 9-9-1943, and then again on 16-9-1943. On 6-10-1943,
Mahajan Deolal himself went to Dr Lakshmanan. On that date Dr Lakshmanan found that
anaemia had very greatly disappeared. In cross-examination Dr Lakshmanan admitted that the
anaemia, dilatation of heart and cardiac asthma from which Mahajan Deolal was suffering
constituted a passing phase that might disappear by treatment. He further admitted that he did
not mention cardiac asthma in his letter addressed to the respondent Company. We have given
our very earnest consideration to the evidence of Dr Lakshmanan and we are unable to hold
that the ailments from which Mahajan Deolal was then suffering were either trivial or casual
in nature. The ailments were serious though amenable to treatment. Mahajan Deolal’s son
gave evidence in the case and he said in his evidence that though Dr Lakshmanan prescribed
some medicine, his father did not take it. He further said that his father was a strict vegetarian.
This evidence was given by the son with regard to what the doctor had said that he prescribed
fresh liver juice made at home according to his directions three times a day. He also
prescribed iron sulphate in tablet form with plenty of water. The son further said that during
his stay at Jabalpur his father felt weak, though he used to move about freely and was never
confined to bed. The son tried to make it appear in his evidence that his father was suffering
from nothing serious. Dr Lakshmanan said in his evidence that his fees for visiting a patient at
Jabalpur were Rs 16 per visit. We agree with the High Court that if Mahajan Deolal was not
suffering from any serious ailment, he would not have been taken by his physician, Dr Motilal
Nayak, from his village to Jabalpur nor would he have consulted Dr Lakshmanan, a
consulting physician of repute, for so many days on payment of Rs. 16 per visit. No doubt,
Mahajan Deolal’s son now tries to make light of the illness of his father, but Dr
Lakshmanan’s evidence shows clearly enough that in September-October 1943 Mahajan
Deolal was suffering from a serious type of anaemia for which he was treated by Dr
Lakshmanan. Mahajan Deolal could not have forgotten in July, 1944 that he was so treated
only a few months earlier and furthermore, Mahajan Deolal must have known that it was
material to disclose this fact to the respondent Company. In his answers to the questions put
to him he not only failed to disclose what it was material for him to disclose, but he made a
false statement to the effect that he had not been treated by any doctor for any such serious
ailment as anaemia or shortness of breath or asthma. In other words, there was a deliberate
suppression fraudulently made by Mahajan Deolal.

9. We may here dispose of the third question. Learned counsel for the appellant has argued before us that Mahajan Deolal was examined under the direction of the respondent Company by as many as four doctors, namely, Dr Desai, Dr Kapadia, Dr Belapurkar and Dr
Clarke. It is further pointed out that Mahajan Deolal had correctly disclosed that he had suffered previously from malaria, pneumonia and cholera. Dr Kapadia, it is pointed out, was specifically asked to examine Mahajan Deolal in view of the conflicting reports that Dr Desai had earlier submitted. On these facts, the argument has been that the respondent Company had full knowledge of all facts relevant to the state of health of Mahajan Deolal and having knowledge of the full facts, it was not open to the respondent Company to call the policy in question on the basis of the answers given by Mahajan Deolal in the proposal form and the personal statement, even though those answers were inaccurate. Learned counsel for the appellant has referred us to the Explanation to Section 19 of the Indian Contract Act in support of his argument. We are unable to accept this argument as correct. It is indeed true that Mahajan Deolal was examined by as many as four doctors. It is also true that the respondent Company had before it the conflicting reports of Dr Desai and it specially asked Dr Kapadia to examine Mahajan Deolal in view of the reports submitted by Dr Desai.

Yet, it must be pointed out that the respondent Company had no means of knowing that Mahajan Deolal had been treated for the serious ailment of secondary anaemia followed by dilatation of heart, etc., in September-October 1943 by Dr Lakshmanan. Nor can it be said that if the respondent Company had knowledge of those facts, they would not have made any difference. The principle underlying the Explanation to Section 19 of the Contract Act is that a false representation, whether fraudulent or innocent, is irrelevant if it has not induced the party to whom it is made to act upon it by entering into a contract. We do not think that that principle applies in the present case. The terms of the policy make it clear that the averments made as to the state of health of the insured in the proposal form and the personal statement were the basis of the contract between the parties, and the circumstance that Mahajan Deolal had taken pains to falsify or conceal that he had been treated for a serious ailment by Dr Lakshmanan only a few months before the policy was taken shows that the falsification or concealment had an important bearing in obtaining the other party’s consent. A man who has so acted cannot afterwards turn round and say: “It could have made no difference if you had known the truth.” In our opinion, no question of waiver arises in the circumstances of this case, nor can the appellant take advantage of the Explanation to Section 19 of the Indian Contract Act.

10. Our finding on the first question makes it unnecessary for us to decide the second question, namely, whether the present appellant merely gambled on the life of Mahajan Deolal when he took the assignment on 18-10-1945. The contention of the respondent Company was that the appellant had no insurable interest in the life of Mahajan Deolal and when he took the assignment of the policy on 18-10-1945 he was merely indulging in a gamble on Mahajan Deolal’s life; the contract was, therefore, void by reason of Section 30 of the Indian Contract Act. On behalf of the appellant, however, the contention was that Section 38 of the Insurance Act provided a complete code for assignment and transfer of insurance policies and the assignment made in favour of the appellant by Mahajan Deolal was a valid assignment in accordance with the provisions of Section 38 aforesaid. The High Court, it appears, proceeded on the footing that from the very inception the policy was taken for the benefit of the appellant on the basis of a gamble on the life of Mahajan Deolal; it said that the appellant and his brother, Dr Motilal Nayak, knew very well that Mahajan Deolal was not
likely to live very long and when the policy was taken out in 1944, it was really for the benefit of the present appellant, who soon after took an assignment on payment of the premium already paid by Mahajan Deolal and such arrears of premium as were then outstanding. It is unnecessary for us to give our decision on these contentions; because if Mahajan Deolal was himself guilty of a fraudulent suppression of material facts on which the respondent Company was discharged from performing its part of the contract, the appellant who holds an assignment of the policy cannot stand on a better footing than Mahajan Deolal himself. It was argued before us that if the policy was valid in its inception, that is to say, if it was in fact effected for the use and benefit of Mahajan Deolal, who undoubtedly had an insurable interest in his own life, it could not afterwards be invalidated by assignment to a person who had no interest but who merely took it as a speculation. As we have stated earlier, on our conclusion on the first question, the appellant is clearly out of Court and cannot claim the benefit of a contract which had been entered into as a result of a fraudulent suppression of material facts by Mahajan Deolal.

11. This brings us to the last question, namely, whether the appellant is entitled to a refund of the money he had paid to the respondent Company. Here again one of the terms of the policy was that all moneys that had been paid in consequence of the policy would belong to the Company if the policy was vitiated by reason of a fraudulent suppression of material facts by the insured. We agree with the High Court that where the contract is bad on the ground of fraud, the party who has been guilty of fraud or a person who claims under him cannot ask for a refund of the money paid. It is a well-established principle that courts will not entertain an action for money had and received, where, in order to succeed, the plaintiff has to prove his own fraud. We are further in agreement with the High Court that in cases in which there is a stipulation that by reason of a breach of warranty by one of the parties to the contract, the other party shall be discharged from the performance of his part of the contract, neither Section 65 nor Section 64 of the Indian Contract Act has any application.

12. For the reasons given above we have come to the conclusion that there is no merit in the appeal. The appeal is accordingly dismissed with costs.

* * * * *
J.N. BHAT, J. – The plaintiff, Kasim Ali Bulbul, carries on business in wood carving and paper machine under the name and style of K.A. Bulbul in Lambert Lane, Residency Road, Srinagar. On 8th June 60 he got his stock-in-trade consisting of wood carving, paper machine, business furniture and two pieces of carpet contained in the shop insured with the defendant company for one year from 8th June 60 to 8th June 61 for a sum of Rs. 30,000.

A policy No. 155860356 was issued in his favour by the defendant company. The plaintiff’s shop caught fire on the night between 4/5th February 1961 while he was asleep in Zadaibal. Next morning he came on the scene and found that the shop had been taken possession by the local officials of the defendant company and the police. It was sealed. The plaintiff gave tentative information of this fire to the defendant company. The plaintiff’s books were seized by the police. The police inquired into the matter and declared the fire accidental. Later on a Surveyor was deputed by the defendant company who made a report. The loss that he sustained on this account was Rs. 273,40.31.

2. The shop remained in possession of the defendant company when on the night of 3rd November 61 another fire broke out which destroyed the remaining articles in the shop. There were some uninsured goods of the value of Rs. 564.50. The total claim of the plaintiff thus comes to Rs. 27,904.81.

3. According to the plaintiff, on the basis of the insurance effected on his goods, the defendant company was liable to make good the loss to him, but did not do so. As the keys of the shop remained with the defendant until 3rd November 61, the defendant was further liable for the loss of uninsured goods valuing Rs. 564.50. The plaintiff therefore claimed a decree for the above-mentioned amount, i.e., Rs. 27,904.81.

4. In defence the defendant company has taken a number of pleas. They are that the defendant has not been properly sued; the plaint is not properly verified and the suit is time-barred. All the benefits under the policy and the suit stand forfeited because (1) the claim is fraudulent; (2) a false declaration has been made in support of the claim; (3) the loss or damage was occasioned by the wilful act and connivance of the plaintiff; (4) the plaintiff has not complied with the terms and conditions of the policy; (5) the plaintiff is not entitled to any relief as the suit was not commenced within three months after the rejection of his claim by the defendant company; and (6) the plaintiff did not comply with condition 11 of the policy and did not submit any claim within the period of 15 days from the date of the alleged loss. Condition 11 is quoted in extenso in the written statement. The plaintiff was notified by letter dated 25-2-61 that as the claim was not submitted in accordance with this condition, his claim could not be entertained.

5. On facts the defendant did not deny the insurance of the articles of the plaintiff with the defendant company as alleged by the plaintiff. But the defendant alleged that this contract was entered into by the defendant on the basis of false representation and suppression of material facts by the plaintiff which vitiated the whole contract. It was admitted that the plaintiff informed the defendant company at Srinagar on 5.2.61 that his shop had been gutted on the
night between 4/5th February 61. On 5.2.61 the plaintiff was asked to submit his claim, account books, pass books and submit his claim form. He was reminded by another letter dated 16.2.61. But the plaintiff did not do anything. It is admitted that the defendant company locked the shop but the plaintiff’s lock also was there. On 25.2.61, the defendant rejected the claim of the plaintiff. The plaintiff did not submit his account books, nor submit his claim in writing. The plaintiff replied the letter of the defendant of 25.2.61 that he could not ascertain the damages as the account books and other documents were lying with the police. By letter dated 28.2.61 the plaintiff was again referred to the letter of the defendant dated 25.2.61. On 27.6.61 the Chief Regional Manager of the defendant company New Delhi notified the plaintiff that he had forfeited all benefits under the policy and his claim stood rejected. The conclusion of the police that the fire was accidental was not correct. Mr. Sarin of Messrs. V.N. Sarin and Co. was appointed as the Surveyor. The survey report was also against the plaintiff. There was further correspondence between the parties. On 9-5-61 the plaintiff submitted a list of goods destroyed by fire but that was beyond time. The plaintiff had been guilty of suppression of facts in the proposal form while replying questions 8(a) and (b) in the proposal form. He had formerly insured the same goods in the year 1957 with the Ruby General Insurance Co. Ltd. and the shop was gutted in that year and the plaintiff’s claim which was a huge amount was settled by that company at Rs. 14860/-. The plaintiff had not complied with conditions 11 and 13 of the policy. Therefore he was not entitled to any amount. The presence of the uninsured goods in the shop was also denied. Even if there were any such goods the defendant was not liable for the loss alleged to have been caused to the plaintiff by the fire of 5.11.61.

6. On these pleadings my learned predecessor-in-office framed the following issues in the case:

1. Is the suit properly stamped? OPP
2. Is the plaint properly verified? OPP
3. What was the value of the goods lying in the shop of the plaintiff at the time of the fire on the night of 4/5th February 1961 and what was the value of the goods damaged or destroyed by the fire?
4. Is the plaintiff’s right to claim extinguished by lapse of time?
5. Is the plaintiff’s suit not within time?
6. Has the plaintiff been guilty of suppression of material facts and false representation at the time of obtaining the policy from the defendant and as such is the policy of insurance void and unenforceable and not binding on the defendant?
7. Has the plaintiff not filed claim within the time stipulated in the policy and as such he has forfeited all rights and claims under the policy?
8. Is the claim of the plaintiff fraudulent?
9. Was the fire occasioned by the connivance or wilful act of the plaintiff?
10. Has the plaintiff’s goods of the value of Rs. 500/- been damaged or destroyed in the fire of November 1962 in the same premises and if so, is he entitled to get the sum of Rs. 500 from the defendant?
11. Is the plaintiff not entitled to any relief as he has not filed the suit within 3 months of the rejection of his claim by the defendant as provided in the policy?
12. To what relief is the plaintiff entitled?
7. One additional issue was framed by order of this court dated 4.10.62 which is to the following effect:

(13) Is the declaration made in support of the suit claim made by the plaintiff true and correct and if not has he forfeited all the benefits under the policy?

11. Before me some of the issues were not at all pressed. For instance, issues 1 and 2 were not at all discussed before me. Therefore, they will be deemed to have been waived. The third issue relates to the value of the goods lying in the shop of the plaintiff at the time of the fire on the night between 4/5th February 61 and the value of the goods damaged or destroyed by fire. The plaintiff in support of this issue has produced the following witnesses:

12. Ama Shah states that the value of goods which were gutted by fire on the night between 4/5th February 1961 in the shop of the plaintiff at Lambert Lane was of the value of thirty to thirty-two to thirty-five thousand rupees. This witness states that he has been carrying on the polishing of the wood carving articles of the plaintiff for a number of years. Mohd. Shaban, who is a broker, states that the goods that were gutted by fire on the relevant night were worth about Rs. 30,000/-. Similarly G.M. Mir who supplied paper machine goods to the plaintiff states that the value of the goods destroyed by fire in the shop of the plaintiff was between Rs. 25 to 30 thousand rupees. The plaintiff’s son also places the value of the gutted goods between 25 to 30 thousand rupees. The plaintiff also in his own statement places the same valuation. The evidence of these witnesses is based on their own estimate of the valuation of the goods. No witness has or could possibly state the correct value of the goods gutted. The plaintiff has produced some books, i.e., the sale book, the stock book and the Counter-foils of certain cash memos. According to the plaintiff on the basis of these documents he has fixed the valuation of the goods gutted as given by him in the plaint. Although this evidence is not full proof, yet there is no direct evidence produced by the defendant to contradict this evidence. The surveyor produced by the defendant Mr. V.N. Sarin proprietor of Messrs. V.N. Sarin and Co. puts the estimated loss of goods at Rs. 6508.20, and the furniture at Rs. 150/-. 

13. The learned counsel for the defendant has criticized the account books produced by the plaintiff and has stated that they were not genuine. They were prepared for the sake of this case. The plaintiff from the very beginning had an evil design of setting fire to this shop which contained a small quantity of goods, and to inflate and bolster up his false claim he got those account books prepared. He has argued that the account books start right from the date the insurance was effected. He has at length cross-examined the plaintiff’s son who has admitted that he writes the accounts of the plaintiff along with another clerk, Mohd. Ishaq. According to the learned counsel for the defendant the accounts have been prepared at one time, being in the same ink and hand though covering a sufficiently long period of time. This argument of the learned counsel for the defendant is not without force, but in view of the ultimate fate that the case is to meet at any hands, I do not think I should very seriously probe into the matter of the valuation of the goods that were gutted. I must therefore accept the figure of loss sustained by the plaintiff as put by him as correct. Therefore issue 3 is decided in favour of the plaintiff.
15. The case of the defendant is that under the terms of the policy of insurance the plaintiff had to intimate the details of the loss to the defendant company within 15 days of its occurrence. Further he had to institute a suit within three months of the rejection of the claim by the defendant. The fire broke out admittedly on the night of 4/5th February. The plaintiff did in fact inform the defendant company’s branch at Srinagar on the morning of 5th February. The then SHO Kothibagh Mr. Abdul Rashid seized the books of the plaintiff from his house on 5-2-61 and prepared a seizure list Ex. PW2/2. The books remained in the custody of the police till 5-5-61. When the plaintiff moved the ADM Srinagar on 3-6-61; the books were returned to him by means of a receipt Ex. PW 1/2 on 5-5-61, vide the statement of Shambu Nath Head Constable Thana Kothibagh PW 1. It is therefore conceivable that the plaintiff was not in a position to give a detailed list of the articles which were burnt to the defendant company within 15 days. The plaintiff has however given a detailed list of the loss caused to him on 9th May 61. The defendant’s contention was based on condition 11 of the policy which runs as under:

“On the happening of any loss or damage the insured shall forthwith give notice thereof to the company and shall within 15 days after the loss or damage or such further time as the company may in writing allow in that behalf, deliver to the Company.

(a) A claim in writing for the loss or damage containing as particulars an account as may be reasonably practicable of all the several articles or items of property damaged or destroyed, and of the amount of the loss and damage thereto respectively, having regard to their value at time of the loss or damage not including the profit of any kind.

(b) Particulars of all other insurances, if any the insured shall also at all time at his own expense produce, procure and give to the company all such further particulars, plans, specifications, books, vouchers, invoices, duplicate or copies thereof, documents, proof and informations with respect to the claim and the origin and cause of the fire and the circumstances under which the loss or damage occurred, and any matter touching the liability or the amount of the liability of the company as any, be reasonably required by or on behalf of the company together with a declaration on oath or in other legal form of the truth of the claim and of any matters connected therewith.

No claim under this policy shall be payable unless the terms of this condition have been complied with.”

16. According to the defendant the plaintiff did not supply the detailed list within 15 days of the occurrence of the fire, and therefore the plaintiff forfeited his right under the policy. Emphasis was laid on the last portion of this condition which says that no claim under this policy shall be payable unless the terms of this condition have been complied with. But I think it was physically impossible for the plaintiff till the 5th of May 61, to give a complete and detailed list of the loss sustained by him as his books were with the police. Therefore to that extent the plaintiff has an explanation or a justification in not supplying the detailed list to the company within 15 days of the damage. But there is the second part of this matter which is covered by condition 13 of the policy. This condition runs as under:
“If the claim be in any respect fraudulent or if any false declaration be made or used by the insured or anyone acting on his behalf to obtain any benefit under this policy, or if the loss or damage be occasioned by the wilful act or with the connivance of the insured, or if the claim be made and rejected and an action or suit be not commenced within three months of such rejection, or in case of an arbitration taking place in pursuance of the 18th condition of this policy within three months after the arbitrator or arbitrators or umpire shall have made their award, all benefits under this policy shall be forfeited.”

17. In this case we have it in the evidence of Mr. Jaipal Bahadur D.W. 2 Chief Regional Manager of the defendant company Northern India that the claim of the plaintiff was rejected by means of a letter of the company dated 25.2.61. The same thing has been testified to by Mr. R.N. Dubash D.W. 5 who has been an employee in this concern from 1957 and is now the O/c of the Company at Srinagar. According to him the company rejected the claim of the plaintiff on 25.2.61. There are a number of letters also which reiterate and refer to the initial letter of the defendant dated 25.2.61. All these letters are signed by Mr. K.B. Pestonjee who was then incharge of the Srinagar branch and is now in Manila and therefore incapable of appearing before the court. His signatures have been identified by Mr. R.N. Dubash.

18. The suit was instituted on 1-2-62 which is clearly about a year after the rejection of the claim of the plaintiff by the defendant. Therefore in terms of this policy the right of the plaintiff to recover the suit amount is extinguished. In the proposal form Ex. D.W. 4/1 the condition is that the declaration made in this form shall be the basis of the contract between the parties. The insurance company agrees to compensate the insured only subject to the conditions mentioned in the policy which appear on the back of the policy.

19. An argument has been advanced that the condition of instituting legal proceedings within three months of the rejection of the claim of the insured by the insurance company is against section 23 and 28 of the Contract Act. Section 28 reads as under:

“Every agreement, by which any party thereto is restricted absolutely from enforcing his rights under or in respect of any contract, by the usual legal proceedings in the ordinary tribunals, or which limits the time within which he may thus enforce his rights, is void to that extent.”

20. Section 23 of the Contract Act makes the following agreements as unlawful: If they are forbidden by law or are of such a nature that if permitted would defeat the provisions of any law, or are fraudulent, or involve or imply injury to the person or property of another, or if the court regards them as immoral or opposed to public policy. A list of illustrations is appended to this section.

22. Section 28 makes all agreements in restraint of legal proceedings void.

23. It is argued that such an agreement is immoral and opposed to public policy and further it curtails the ordinary period of limitation. I need not consider these sections in detail because the matter is completely covered by authority. It will surely be a waste of time to embark on a discussion of the points raised. The following authorities may be mentioned:
In Porter’s *Law of Insurance* (6th Edn.) page 195 it is stated that insurance may lawfully limit the time within which an action may be brought to a period less than that allowed by the statute of limitation and that the true ground, on which the clause limiting the time of claim rests and is maintainable is that, by the contract of the parties the right to indemnity in case of loss and the liability of the Company therefor do not become absolute, unless the remedy is sought within the time fixed by the condition in the policy. In AIR 1924 Cal 186 some English cases were discussed and condition No. 13 of the policy as in the present case was there. The condition amongst other things stated:

“If the claim be made and rejected and an action or suit be not commenced within 3 months after such rejection and in the case of arbitration taking place in pursuance of the 18th condition of this policy within three months of the arbitration when the arbitrator or the umpire shall have made the award, all benefits under the policy shall be forfeited.”

In this case an action commenced after the stipulated period of three months was held to contravene neither section 23 nor section 28 of the Contract Act.

27. The latest authority on the subject is AIR 1966 All 385 wherein according to a clause in the loss-cum-fire insurance policy the insured had to file within 15 days of the loss a complete claim giving full particulars. The loss occurred on 18-8-47. Insured sent a telegram on 21-8-1947 as “sugar is looted. Please note.” The company replied on 25.8.47 asking for policy number and circumstances of loss. The insured sent reply on 8.9.47 giving some particulars. Even this did not give all particulars. The company ultimately rejected the claim. On these facts it was held that the communication was beyond 15 days. The mere fact that the application under section 13 of the Displaced Persons (Debts Adjustment) Act 1951 regarding the claim of the insured who was a displaced person was within time, would not entitled him to get any relief in respect of the loss.

28. In this case even if the plaintiff was entitled to any relief he had forfeited all rights under the policy when he failed to bring his suit within three months of 25th February 61 when his claim was rejected by the insurance company. The claim was not rejected only once, but the basic stand taken by the company in its letter of 25.2.61 was repeated in a number of letters, for instance, D.W. 5/2 dated 28.2.61, D.W. 5/3 dated 27.12.61, D.W. 5/4 dated 21.11.61 and D.W. 2/1 dated 27.6.61. The plaintiff had no justification to wait till 1.2.62 to file the suit. By that time his right had been completely extinguished.

29. In this way issues 4, 5, 7 and 11 are decided against the plaintiff. His suit is clearly time-barred.

30. The second group of issues that can be conveniently taken up together is Nos. 6, 8, and 13. The case of the defendant is that the plaintiff has been guilty of suppression of material facts and has made a false representation at the time of obtaining the policy from the defendant. His claim cannot therefore be entertained. Emphasis on this aspect of the case is laid on the reply of the plaintiff to question 8(a) and 8(b) of the proposal Ex. D.W. 4/1 which is as under:

8 (a) Has the property been insured in the past or at the present time? If so, give full particulars.
8(b) Have you sustained loss. Give full particulars.

To both these queries the plaintiff has said ‘No.’

31. The contention of the learned counsel for the defendant is that the plaintiff had insured the goods of his shop with another insurance company in the year 1957 namely, the Ruby General Insurance Co. During that year also his shop was gutted by fire. He made a claim for Rupees 25,000/- from the Insurance Company, but his claim was settled at Rs. 14807/-. According to the Manager of the Ruby General Insurance Co., Mr. D.N. Chopra, the settlement was arrived at on 24.2.58. The shop of the plaintiff had caught fire on 24.4.57 and the policy of insurance with that company had come into force for one year from 9.10.56 to 9.10.57. The plaintiff and his son admitted this previous insurance, but their case was that the plaintiff is an illiterate person who does not know English. He only know how to sign ‘K.A. Bulbul’ and at the time of entering into the present contract he was not explained the terms of the proposal form or of the insurance policy. D.W. 4 Abdul Ahad Sheikh, Inspector of the New India Assurance Co. has deposed on solemn affirmation that he filed in the form Ex. D.W. 4/1 on 5th June 60 and the answer that he entered against each query in the proposal form was at the instance of the plaintiff. He made the plaintiff understand all the questions and recorded his answers. Col. No. 8 was also filled at the instance of the plaintiff. The plaintiff signed the proposal form after knowing the contents thereof. The plaintiff however tried to negative this evidence by the statement of Gulla Khan who says that the plaintiff is an illiterate person. In view of the statement of Abdul Ahad Sheikh and reading in between the lines the statement of the plaintiff himself, it is difficult to hold that the plaintiff was not put a specific question whether he had not insured this property with another insurance company earlier. I feel that the plaintiff purposely withheld this information from the insurance agent because when previously he had insured the goods of the shop with the Ruby G. Insurance Co. and his shop had caught fire he had claimed Rs. 25000 but was given only Rs. 14000 and odd. Feeling somewhat apprehensive about the state of affairs then, he wilfully suppressed this fact from the defendant insurance company. So on facts it is proved that the plaintiff has made a false statement in reply to question No. 8.

32. Now we have to see what is the legal effect of this false statement. The law on this point is so well settled both in England and India that it does not require any elaborate discussion. Anyhow the following authorities may be mentioned.

33. The effect of non-disclosure or misrepresentation is that the insurers have the right to repudiate, that is to say, to avoid contract.

34. Where, however, insurers answer a claim by repudiating the policy on the ground of fraud, misrepresentation or non-disclosure, they are not bound to offer a return of premium.

39. The matter has again been fully discussed in AIR 1962 SC 814 where a policy holder who had been treated a few months before he submitted his proposal for the insurance of his life with the insurance company by a physician of repute for certain serious ailments as anaemia, shortness of breath and asthma, not only failed to disclose in his answers to the questions put to him by the insurance company that he suffered from these ailments but he made a false statement to the effect that he had not been treated by any doctor of any such serious ailment, it was held that judged by the standards laid down in section 17 Contract Act,
the policy holder was guilty of a fraudulent suppression of material facts when he made his statements, which he must have known were deliberately false and hence the policy issued to him relying on those statements was vitiated. In the circumstances of the case it was held that no advantage could be taken of the Explanation to section 19 of the Contract Act. In this case it was further held:

“Where, according to terms of the life insurance policy, all moneys that had been paid in consequence of policy would belong to the insurance company if the policy was vitiated by reason of a fraudulent suppression of material facts by the insured, and the contract is bad on the ground of fraud, the party who has been guilty of fraud or a person who claims under him cannot ask for a refund of the money paid. It is a well established principle that courts will not entertain an action for money had and received where, in order to succeed, the plaintiff has to prove his own fraud. Further in cases where there is a stipulation that by reason of a breach of warranty by one of the parties to the contract, the other party shall be discharged from the performance of his part of the contract, neither S. 65 nor S. 64 of the Contract Act has any application.”

40. In view of all these authorities, it is clear that the plaintiff simply on the ground that he gave a false reply to questions 8(a) and (b) in the proposal form cannot claim any compensation for fire having been caught by the goods in his shop. In this case the question was very material and withholding of the real information from the insurance company would automatically absolve the insurance company from any liability under the contract. As already remarked, the Privy Council has gone to the length of holding that the answers to a question being material or immaterial, would not make any difference. The plaintiff's suit would therefore fail on this account alone.

41. Issue 8 is not very clear but I have grouped it with issues 6 and 13. In my opinion this issue is based on the fraud alleged to have been committed by the plaintiff in suppressing the material information regarding the previous insurance of the goods of his shop with the Ruby General Insurance Co. in the year 1957. But if this issue is construed as suggesting that the claim of the plaintiff is not bonafide, I have given my finding already that all the weaknesses that the plaintiff's case may have, it can be safely held that it is proved that he lost goods of the valuation mentioned in the plaint during the fire. So these observations dispose of issues 6, 8 and 13.

42. The learned counsel for the defendant has laid great stress on the fact that the fire was caused by the wilful act of the plaintiff. No doubt the plaintiff's conduct is somewhat not above suspicion. According to the plaintiff and his witness Ama Shah, his son Safdar Ali and the plaintiff himself they closed the shop as usual at about 7.30 in the evening. The shop caught fire in the night. The plaintiff or anybody on his behalf did not repair to the scene of occurrence till 10 the next morning. The plaintiff says that he did not know about the occurrence. Although this statement would seem improbable, but there is nothing on the file to clearly contradict this statement of the plaintiff. The police registered the case as a suspicious one and conducted investigation but later on the police also discovered that the fire was accidental (Vide the statement of Abdul Rashid P.W. 2). The defendant has led no positive evidence to show that the plaintiff himself set the goods of his shop on fire. The
defendant's case is based on certain suspicious entries in the account books of the plaintiff and on the conduct of the plaintiff. But that by itself is not sufficient to hold that the plaintiff himself wilfully set his shop on fire or connived at it. In my opinion this issue should be decided against the defendant.

43. The plaintiff claims Rs. 564.50 as the value of uninsured goods which caught fire on November 3, 1961 because according to him the keys of the shop were still with the defendant company. In the first place the plea of the plaintiff that the shop remained under the possession and lock and key of the defendant up to 3rd November 61 is not established. Apart from that fact unless it is shown that the destruction by fire of this uninsured goods was the result of the negligence of the defendant, no responsibility can be fastened upon the defendant. If the plaintiff's case were that he was present on the scene of occurrence on November 3, 1961 to salvage his merchandize, but for the fact that the shop was locked by the defendant, there was some case for the plaintiff. But there is no such suggestion on the part of the plaintiff. Even if the shop was under the lock and key of the defendant and it caught fire which was accidental the defendant would not by the mere fact of the destruction of the goods therein be liable for the damage. Therefore, in my opinion, the plaintiff cannot even claim this amount.

44. From the finding on the issues recorded above, the plaintiff's suit has to be dismissed and is hereby dismissed.

* * * * *
Smt. Krishna Wanti Puri v. Life Insurance Corporation of India
AIR 1975 Del. 19

AVADH BEHARI ROHTAGI, J. – On February 19, 1968, Smt. Krishna Wanti Puri, widow of Late Dharam Pal Puri instituted an action against the Life Insurance Corporation for the recovery of Rs. 85,000/- and profits and interest on the four policies.

2. Dharam Pal Puri when he was alive insured his life with the Corporation and took out four policies.

3. Dharam Pal Puri died on 5th August 1964. The widow claims the amount of the four policies from the Corporation on the ground that she is the assignee. The Corporation resists the suit. The main ground of defence is that Dharam Pal Puri was suffering from heart disease, that he know about his ailment, that he had consulted doctors about his disease but fraudulently suppressed these facts. In the proposal forms and the personal statements, he made declarations knowing them to be false because he never disclosed to the Corporation that he was suffering from heart disease.

4. On the pleadings of the parties the following issues were framed on merits on 19th August, 1969:

(1) Is the plaintiff entitled to recover the amount, if any, due to her on the policies mentioned in the plaint on the allegations made in the plaint? O.P.P.

(2) Who is the assignee of these policies? O.P.P.

(3) Are the defendants entitled to deny payment to the plaintiff on the grounds stated in the written statement? O.P.D.

(4) Relief?

Issue No. 3:

5. The only question that arises for decision is whether the widow is entitled to recover the amount of the four policies from the defendant Corporation or whether the Corporation is entitled to avoid the policies and refuse to pay the amount to her on the ground that the deceased fraudulently concealed and suppressed material facts which were necessary for the insurer to know.

6. The chief issue in the case is Issue No. 3 and clearly the onus of this issue was on the defendant Corporation to prove fraudulent concealment and material suppression of facts. In support of their case, the Corporation examined three doctors. They are Dr. Santosh Singh who was examined on commission. Dr. (Miss) S. Padmavati (D.W. 3) and Dr. V.K. Dewan (D.W. 10). In order to appreciate their evidence, it is necessary to set out the relevant questions which were required to be answered by the deceased in the personal statements and the answers given by him thereto.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What has been your usual state of health?</td>
<td>Good</td>
</tr>
<tr>
<td>Have you consulted a medical practitioner within the last five Years?</td>
<td>No</td>
</tr>
<tr>
<td>If so, give details</td>
<td></td>
</tr>
<tr>
<td>Have you ever suffered from any of the following ailments -</td>
<td>No</td>
</tr>
</tbody>
</table>
Fainting attacks, pain in chest, breathlessness, palpitation or any disease of the heart?

No

Any other illness within the last five years requiring treatment for more than a week

No

Have you ever had any electric cardiogram, X-ray or fluoroscopic examination made or your blood examined. If so, give details.

No

Have you ever been in any hospital, asylum or sanatorium, check up, observation, treatment or an operation.

No

7. In identical terms were the answers of the deceased in all the four policies. On the basis of these statements the Corporation issued the policies.

8. On the death of Dharam Pal Puri the widow made a claim and gave to the Corporation the certificate of death of her husband. From the certificate the Corporation came to know that the deceased was admitted in Sir Ganga Ram Hospital on 4th August, 1964 and died there on 5th August 1964. The Corporation also learnt that the deceased was suffering from Mitral Stenosis with auricular fibrillation and that he died of this disease in the hospital. The Corporation made certain investigations and as a result came to the conclusion that Dharam Pal Puri was suffering from this heart disease since 1959 in any case, if not earlier. The Corporation contacted the three doctors named above and took from them certificates stating that the deceased was suffering from this heart disease.

9. Dharam Pal Puri consulted Dr. (Miss) S. Padmavati on 29th May, 1959 and 25th of September, 1959. Dr. Padmavati appeared in the witness-box and deposed to this effect. She had at the request of the Corporation issued a certificate on 11th December, 1964, in which she had stated that the deceased was examined by her on these two occasions and that he suffered from Mitral Stenosis with auricular fibrillation. In the certificate she had also said that the deceased was suffering since 1946 according to the statement of the patient himself which was made to her. The Doctor never saw the patient after 25th September, 1959. When Dr. Padmavati was examined in court on 9th October, 1970 she said that she verified the contents of certificate (D-6) issued by her from the records of the Lady Harding Hospital which were supplied to her. It appears that on 11th December, 1964, when she gave the certificate the records of the Lady Harding Hospital were available to her. She was Professor of Medicine in Lady Harding Medical College at that time. She is F.R.C.P. of London and F.R.C.P. of Edinburgh. She also deposed that before she signed the document she verified the name, address and age of the patient from the record. As regards the nature of the disease, she said this:

“Mitral stenosis is a type of rheumatic heart disease. Auricular Fibrillation is a complication of mitral stenosis in which an abnormal rhythm is supers-imposed. According to entry made in Col. 5 the patient’s case was a case of serious form of heart disease. This disease can be checked without doing the electro cardiogram. This disease can be checked by a stethoscope. Normally a general medical practitioner should be able to check this disease.”

10. The next medical man who was approached by the Corporation to find out the nature of the disease from which Dharam Pal Puri was suffering was Dr. V.K. Dewan. He had also
similarly certified on 17th November, 1964, that Dharam Pal Puri suffered from the very ailment of which Dr. Padmavati deposed. He also said that deceased had been suffering from this disease for about five or seven years before his death. Dr. Dewan is an honorary physician in Sir Ganga Ram Hospital. He attended on the deceased when he was admitted to the hospital on 4th August, 1964. In his evidence before the court he stated that the contents of his certificate (D-7) were correct and the entire form had been filled up by him in his own hand. He derived the information from the hospital record where the patient was admitted.

11. Dr. Santosh Singh was examined on commission at Ranchi. When the deceased was admitted to the hospital in August 1964, Dr. Santosh Singh was the Registrar of Sir Ganga Ram Hospital. He also attended on the deceased on the 4th and 5th of August, 1964, and similarly gave two certificates regarding the hospital treatment. In the two certificates (B-2 and B-3) Dr. Santosh Singh stated that Dharam Pal Puri was suffering from Mitral stenosis and died as a result of heart failure. He said that the deceased had been suffering from this disease for about seven years before his death and the symptoms of this illness were first observed by the deceased about seven years ago. Both these certificates were signed by Dr. Santosh Singh. He solemnly declared that the foregoing statements were true and correct to the best of his knowledge and that the information was correct as per records of the hospital. These certificates are dated 31st October, 1964. Dr. Santosh Singh also signed a report regarding the deceased wherein too he stated that the deceased was suffering from this ailment for the last 7½ years. These certificates and report were obtained by Shri P.C. Puri, the brother of the deceased, and were passed on to the Corporation. These certificates set the Corporation thinking and put the officials on enquiry regarding the cause, place and the date of his death.

12. Later on it appears that Dr. Santosh Singh was prevailed upon by the relatives of the deceased and he issued another certificate of hospital treatment dated 24th October, 1964 and a report dated 28th November, 1964. In the certificate and report Dr. Santosh Singh stated that some attendant on the deceased had reported to him that Dharam Pal Puri had been suffering from the disease only for the last years. The relative also procured another medical attendant certificate dated 30th October 1964, purported to be signed by Dr. Santosh Singh wherein it was stated that the deceased had been suffering from this disease for about 1½ years before his death. A photostat copy of this certificate dated 30th October, 1964, was produced during the examination of Dr. Santosh Singh on commission. The original of this document has not been placed on the record. In his examination Dr. Santosh Singh admitted the correctness of all the documents. He also admitted that Dr. V.K. Dewan was the physician incharge who was attending on the deceased in the hospital. He admitted that the records of the hospital were available to him at the time of signing the two certificates (B-2 and B-3). When it was pointed out to the witness that in some certificates he had given the duration of the disease 7½ years and in some 1½ years, the witness said:

“It appears that certain entries in Exhibit B-2 and Exhibit ‘E’ different. I cannot assign any reason unless I see the original records. Without reference to the original record it is not possible to say whether the entries in the certificates are correctly made.”
13. This is the evidence of the three doctors and the counsel for the Corporation strongly relies on their evidence to show that the deceased had been suffering from heart disease since 1946 and, as has been proved in the evidence of Dr. Padmavati, that Dharam Pal knew about the same and that is the very disease of which he ultimately died. On the ground of fraud and suppression of material facts, the counsel urges that the Corporation is entitled to avoid all the four policies.

15. In *Mithoolal Nayak v. Life Insurance Corporation of India* [AIR 1962 SC 814], it was held that the three conditions for the application of the second part of Section 45 are:

(a) the statement must be on a material matter or must suppress facts which it was material to disclose;
(b) the suppression must be fraudulently made by the policy holder; and
(c) the policy holder must have known at the time of making the statement that it was false or that it suppressed facts which it was material to disclose.

16. The crucial question before me is whether these three conditions were fulfilled in the present case.

17. Now what is the nature of a contract of insurance? Contracts of insurance are *uberrima fides* and therefore the insured owes a duty to disclose before the contract is made every material fact of which he knows or ought to know. If a material fact is not so disclosed, the insurers have the right at any time to avoid the contract. As Lord Mansfield demonstrated in *Carter v. Boehm* [(1763) Sm 5 KC 546, 550], insurance is a contract upon speculation where the special facts upon which the contingent chance is to be computed lie generally in the knowledge of the assured only, so that good faith requires that he should not keep back anything which might influence the insurer in deciding whether to accept or reject the risk. A fact is material if it is one that would affect the mind of a prudent man, even though the assured does not appreciate the materiality. In the words of Bayloy, J:

“I think that in all cases of insurance whether on ships, houses or lives, the underwriter should be informed of every material circumstance within the knowledge of the assured; and that the proper question is, whether any particular circumstance was in fact material, and not whether the party believed it to be so. The contrary doctrine would lead to frequent suppression of information, and it would often be extremely difficult to show that the party neglecting to give the information thought it material. But if it be held that all material facts must be disclosed, it will be in the interest of the assured to make a full and fair disclosure of all the information within their reach.”

18. In India, the duty of disclosure in the case of marine insurance is prescribed as follows in the Marine Insurance Act, 1963:

“S. 20(1) Subject to the provisions of this section, the assured must disclose to the insurer before the contract is concluded, every material circumstance which is known to the assured, and the assured is deemed to know every circumstance which, in the ordinary course of business, ought to be known to him. If the assured fails to make such disclosure, the insurer may avoid the contract.
(2) Every circumstance is material which would influence the judgment of a prudent insurer in fixing the premium, or determining whether he will take the risk.”

19. A similar duty of disclosure exists in the case of non-marine insurances. Whether the policy is taken out for a life, fire, burglary, fidelity or accidental risk, it is the duty of the assured to give full information of every material fact; and it has been held by the Court of Appeal in England that the definition of “material” contained in the Marine Insurance Act, 1906 namely, every circumstance which would influence the judgment of a prudent insurer in fixing the premium, or determining whether he will take the risk is applicable to all forms of insurance.

20. Life Insurance stands on the same footing. The provisions of Marine Insurance Act in India are in par materia with the English Act in this respect. I would, therefore, similarly hold that the test of what is a material fact and the degree of good faith, which is required, is otherwise the same in all classes of insurance.

23. Any material fact that comes to the knowledge of the proposer; the would-be assured, before the contract is made must be disclosed. The duty to disclose all material facts to the insurer arises from the fact that many of the relevant circumstances are within the exclusive knowledge of one party, and it would be impossible for the insurer to obtain the facts necessary for him to make a proper calculation of the risk he is asked to assume without this knowledge. It has been for centuries in England the law in connection with insurance of all sorts, marine, fire, life, guarantee and every kind of policy, that, as the underwriter knows nothing and the would-be assured knows everything, it is the duty of the assured to make a full disclosure to the underwriters of all the material circumstances.

24. The words ‘prudent insurer’ in Section 20(2) of Marine Insurance Act should be noted. They mean that in a dispute the court must apply the objective standard of business usage and disregard the exacting standard of a particular insurer. Circumstances that need not be disclosed include those diminishing the risk and matters of common knowledge generally or in the insurer’s business. The prospective assured must disclose material circumstances that he knows or ought to know: (See Section 20, Marine Insurance Act, 1963).

25. Whether the omission to disclose any particular circumstance is material so as to render the contract voidable is a question of fact in each case.

26. The present case, however, presents no difficulty. If the assured had truly disclosed his illness that fact would have certainly influenced “the judgment of a prudent insurer in fixing the premium or determining whether he will take the risk.”

27. If the insured makes a statement containing certain information and the policy contains a term to the effect that the proposal form constitutes the “basis of the contract,” the insurers are entitled to avoid liability if any answer in the proposal form is incorrect, whether it is material or not. The insurers are entitled to avoid liability if any answer in the proposal form is incorrect irrespective of whether the insured made the answers fraudulently or innocently and irrespective of whether the answer relates to a material fact.

31. In India, the Legislature has enacted in Section 45 of the Insurance Act that no policy of life insurance shall be called in question by an insurer on the ground that a statement made
in the proposal form “leading to the issue of the policy” was inaccurate or false “unless the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policy holder and that the policy holder knew at the time of making it that the statement was false or that it suppressed facts which it was material to disclose.” The statute therefore, superimposes the test of materiality on the terms and conditions of the proposal. The contractual freedom of the insurers has been severely restricted by the Indian Legislature. The insured has thus been sufficiently protected and the resulting contract cannot be rescinded merely upon proof that the information is inaccurate, unless all the three conditions of Section 45 are satisfied. In this sense Indian Law is a distinct advance upon the English Law.

32. In this case it is clearly provided in the proposal form of the Corporation that the declarations of the assured shall be the “basis of the contract” and that

“If any untrue averment be contained therein the said contract shall be absolutely null and void and all moneys which shall have been paid in respect thereof shall stand forfeited to the Corporation.”

33. In view of the term of the policy the insurer is entitled to avoid the contract as there was misrepresentation and concealment by the assured. No one will doubt that the questions in the proposal form regarding state of health were on a material matter and that the answers given by the assured were fraudulent and false. Insurers are generally well able to take care of their own interests by requiring a prospective insured to complete an application form giving information on a wide range of matters. But the important thing is that answers to material questions must be accurate and true. From the very necessity of the case, the assured alone possessed full knowledge of all the material facts and the law required him to show uberrima fides. The insurer contracts on the basis that all material facts have been communicated to him; and it is a condition of the contract that the disclosure shall be made and that if there has been a non-disclosure, he shall be entitled to avoid.

35. To use the language of the Indian Statute, a contract of insurance is a “contract based upon the utmost good faith, and if the utmost good faith be not observed by either party, the contract may be avoided by the opposite party” (Section 19, Marine Insurance Act).

36. The general principle of good faith governing insurance is tersely stated by Lord Chorley:

“The general principle governing insurance is that of good faith. In a sense this applies to all contracts, but an insurer can insist on a more stringent requirement - utmost good faith. The terminology is unfortunate, for good faith, in ordinary parlance, is an absolute term; it cannot be graded. Ordinarily a person has acted either in good faith or in bad faith. But in insurance law utmost good faith has a precise meaning and a genuine purpose.

In negotiations for an ordinary contract no party must say anything that misleads the other party. If he does the other party can avoid the contract… In insurance, however, the cards are stacked against the insurer. The buyer can inspect the goods, and the employer can obtain references about a candidate for employment, but the insurer has very few means of discovering the nature and magnitude of the risk.
Accordingly, in law prospective assured refrain from actively misleading the insurer he must also disclose all material circumstances”.

37. Dharam Pal Puri must have known that it was material to disclose the fact of his ailment to the Corporation. In the answers to the questions put to him he not only failed to disclose what it was material for him to disclose, but he made a false statement to the effect that he had never suffered from any disease of the heart. In other words, there was a deliberate suppression fraudulently made by Dharam P. Fraud, according to Section 17 of the Indian Contract Act, means and includes inter alia any of the following acts committed by a party to a contract with intent to deceive another party or to induce him to enter into a contract.

(1) The suggestion as to a fact of that which is not true by one who does not believe it to be true; and (2) The active concealment of a fact by one having knowledge or belief of the fact.

Judged by the standard laid down in Section 17, Dharam Pal Puri was clearly guilty of a fraudulent suppression of material facts when he made declarations in the proposal form, statements, which he must have known, were deliberately false.

38. The counsel for the plaintiff has argued that the statement of Dr. (Miss) Padmavati should not be believed as the original record of the Lady Hardinge Medical College and Hospital was not produced in court at the time she made her statement. This is true that she gave her deposition in court with the help of the certificate that she had issued in 1964, though she was examined on November 9, 1970. In the course of arguments I ordered that the original record of the hospital should be produced. Today the medical record keeper appeared in court and stated that the record of outdoor patients was maintained in the hospital only for a period of five years and was destroyed thereafter. Dharam Pal Puri was examined by Dr. (Miss) S. Padmavati as an outdoor patient obviously. Dr. (Miss) S. Padmavati did not depose that Dharam Pal Puri was admitted to the hospital. The record of outdoor patients, therefore, could not be produced. Probably by 1970 when Dr. (Miss) S. Padmavati was examined in court the record of the hospital had been destroyed because she examined the patients in 1959. The fact of the destruction of the record does not destroy the probative value of Dr. (Miss) S. Padmavati’s evidence. In her statement she unequivocally stated that she examined Dharam Pal Puri on two occasions and had referred to the record before signing the statement and that the deceased was suffering from heart disease. I have not reason to disbelieve the testimony of a doctor of the eminence of Dr. (Miss) S. Padmavati. What axe she had to grind, what motive to perjure herself? I feel confident to base my conclusion on her evidence because similar was the evidence of Dr. V.K. Dewan and of Dr. Santosh Singh in his two earlier certificates dated October 31, 1964, and the report dated August 4, 1964.

39. The Plaintiff's counsel then argued that no reliance should be placed on the testimony of Dr. V.K. Dewan and Dr. Santosh Singh as they were never told by the deceased that he was suffering from heart trouble for the last seven years. It is true, as appears from the evidence, that Dharam Pal Puri was unconscious when he was admitted to the hospital on August 4, 1964, and his brother who accompanied him gave his past medical history. It is so stated in Exhibit B-2, certificate dated October 31, 1964, of Dr. Santosh Singh. When the deceased was unconscious, his brother was the best person to give the past history of his brother. At that
time his brother was telling the truth because he was interested in saving somehow the life of Dharam Pal his brother. He knew that without disclosing correctly the illness and its past history doctors in the hospital would not be able to give treatment to his brother. It is only later on that Dr. Santosh Singh was prevailed upon to issue certificate and report wherein the doctor changed his stand and said that the illness was of only 1½ years standing before the death. Since I had some doubts on the veracity of the certificates issued by Dr. Santosh Singh for he issued as many as five certificates and reports, I ordered that the original record of Sir Ganga Ram Hospital be produced before me. Today Shanti Swarup Sharma (P.W. 3) brought the original record. I have examined the original record and found that some one had written on the case sheet 7½ years originally. This figure of 7½ was obliterated and in its place 1½ years was written. The two writings are quite different. The entire case-sheet, it is in the evidence of Shanti Swarup Sharma (P.W. 3) is in the hand of Dr. Santosh Singh, who actually made this obliteration is not clear because Dr. Santosh Singh could not be examined with reference to the original case-sheet which I have today before me and which the witness did not have at the time of making his statement on commission. On a consideration of the entire evidence, no doubt is left in my mind that the deceased was suffering from this heart disease since 1946 as deposed by Dr. (Miss) S. Padmavati, for five or seven years as deposed by Dr. V.K. Dewan or for about seven years as was certified by Dr. Santosh Singh in his two certificates and 7½ years as stated by him in his report. In view of the incontrovertible evidence on the record I will discard from consideration the certificate dated August 24, 1964, and the report dated November 28, 1964 of Dr. Santosh Singh. Similarly, the photostat copy of the certificate dated October 31, 1964 is no piece of evidence in this case as the original was never produced in court.

40. On behalf of the plaintiff two witnesses were examined. The first was P.C. Puri, the brother of the deceased. He merely stated that his brother died on August 5, 1964 and that he entered into correspondence with the Corporation after the death of his brother for the purpose of claiming the amount from them. The insurance agents who had come to insure the deceased, he said, filled the proposal forms for these policies, in his presence.

41. The next witness examined by the plaintiff was the widow Krishna Wanti Puri. She completely denied that her husband ever consulted Dr. (Miss) S. Padmavati prior to his death. She also said that she did not know the name of the doctor who attended on the deceased at the time of his death and what was the result of the doctor’s examination. As regards the deceased's illness, she simply said that her husband developed pain in the hip on the morning of August 4, 1964, and he had to be removed to the hospital. As regards other questions put to her she stated that the deceased's elder brother was dealing with the matter of insurance and that she knew nothing about these matters. The cumulative result of the evidence adduced on both sides is that there is no evidence of the doctors examined on behalf of the Corporation to show that the deceased's illness was of the heart and that he suffered from the same since 1946 and that he actually died of it. There is no rebuttal to this evidence on behalf of the plaintiff. Mere denial by the widow takes us nowhere. The brother of the deceased who, according to the widow, knew everything about his own brother said nothing in evidence to disprove the testimony of the doctors. The main plank of the plaintiff's claim is the certificate and the report of Dr. Santosh Singh wherein the doctor had given the period of illness as 1½
years. The certificates and the report, I have already said, are not worth relying upon for the rest of the evidence on the record which in my opinion is overwhelming, contradicts the correctness of the certificate and the report dated November 24, 1964 and November 28, 1964, respectively.

42. The plaintiff's counsel lastly urged that before the deceased was insured he was examined by as many as three doctors of the Corporation Dr. Uppal, Dr. R.N. Rohtagi and Dr. Kartar Singh. All these doctors appeared in the witness-box on behalf of the Corporation. It is true that all of them deposed that in their opinion the deceased was fit to be insured at the time of their examination but their evidence does not advance the case of the plaintiff. The corporation did not know that there was a fraudulent suppression of facts by the deceased. The terms of the policy make it clear that the averments made as to the state of health of the insured in the proposal form and the personal statement were the basis of contract between the parties and the circumstances that Dharam Pal Puri had taken pains to conceal that he had ever been treated for this serious ailment by Dr. (Miss) S. Padmavati when in fact he had been treated only a few months before he took out the first policy dated October 12, 1959, shows that the fraudulent suppression and concealment had an important bearing in obtaining the consent of the Corporation.

43. On the whole case my conclusion is that the declarations made by the deceased in the personal statement were on a material matter and that he suppressed fraudulently facts which were material to disclose and that the deceased knew at the time of making the statement that it was false and that he suppressed facts which it was his duty to disclose.

44. I, therefore, hold that the Corporation is entitled to avoid the policies on the grounds available to the insurers under Section 45 of the Act, which I have reproduced above.

Issue No. 2:

45. In view of my decision on Issue No. 3, this issue does not arise.

Issue No. 1:

46. I have already held that the Corporation is entitled to avoid the policies and therefore, the plaintiff is not entitled to claim the amount on the four policies from them.

Issue No. 4:

47. As a result of my finding on Issue No. 3, I dismiss the suit of the plaintiff, leaving the parties to bear their own costs.

48. As regards the premium paid by the deceased on the four policies, the rule of law is that if the policy is voidable owing to fraudulent misrepresentation, the insurer can have the policy set aside without having to return the premiums. The Supreme Court has held in Mithoolal Nayak that in a case of fraud the plaintiff cannot claim or ask for the refund of the money paid. It was held that the courts would not entertain an action for money had and received where in order to succeed the plaintiff has to prove his own fraud. Above all the policy contains the term that if the policy is void the premium shall be forfeited and this term will prevent the premiums from being recoverable.
PENDSE, J. - The unfurling of the facts would disclose the sorrow plight of a young widow who had to bring up three minor children when her husband died in an unfortunate accident. The petitioner’s husband was employed as a Clerk in Mackinnon Mackenzie Private Limited for about 19 years. The deceased husband of the petitioner took out a double benefit policy while in the employment. The deceased husband submitted to respondent 1 a proposal for issue of an Endowment Policy under Table 25 for 20 years for Rs. 30,000/- on July 5, 1975. The monthly premiums of the said policy were to be paid directly through the salary saving scheme of Messrs. Mackinnon Mackenzie. The policy was taken out by the deceased husband as “Provision for future” and the monthly premiums were paid regularly as per the contract of Insurance. Prior to the acceptance of the Policy by the Life Insurance Corporation, the deceased husband of the petitioner was examined by doctors on the panel of the Corporation and after the doctors certified about the sound health of the petitioner’s husband, the proposal was accepted by the Corporation and the policy was issued on July 7, 1975. On Oct. 4, 1977, the petitioner’s husband while lighting the Stove in the Kitchen, accidentally sustained severe burns. The petitioner’s husband was removed to the Nursing Home and from there to Cooper Hospital but succumbed to his injuries on Oct. 8, 1977. The Coroner issued a certificate certifying that the death occurred due to toxaemia following 50% burns sustained accidentally by the deceased. It is not in dispute that the burns were suffered in an accident when the Stove caught fire.

3. On Oct. 24, 1977, the petitioner addressed a letter to the Senior Divisional Manager - respondent 2 - requesting to settle the Insurance claim under the policy. The Agent of the Corporation who had insured the deceased also requested respondent 2 to pay the amount under the Policy. The Senior Divisional Manager called upon the petitioner to fill up certain forms and return the same along with original Policy. The petitioner was nominated by her husband as the person entitled to receive the amount. The petitioner carried the requirements of the Corporation but was informed by the Senior Divisional Manager by letter D/- Aug. 25, 1978 that the Corporation repudiates all liabilities under the policy as the deceased had deliberately made misstatements and withheld material information regarding the health at the time of effecting assurance with the Life Insurance Corporation. The letter, inter alia, recites that the answers to the following questions given by the deceased were incorrect and false:

### Q. No. 4(d): Have you consulted a medical practitioner within the last five years? If so, give details

**Answers:** No

### Q. No. 6: Have you ever suffered from any of the following ailments?

- **Q. No. 6(a):** Giddiness, fits, neurasthenia, paralysis, insanity, nervous breakdown or any other disease of the brain or the nervous system
  - **Answers:** No

- **Q. No. 6(d):** Sprue, Jaundice, Anaemia, Dysentery, Cholera, Abdominal pain, Appendicitis or any disease of the stomach, liver, spleen or intestine?
  - **Answers:** No

### Q. No. 8(b): Have you remained absent from your work on
The letter further recites that the answers to the questions set out hereinabove were false and the Corporation holds indisputable evidence to establish that before the date of proposal, the deceased suffered from bleeding from fissure cuts, inflamed piles and rectum in April-May 1972, from low blood-pressure, giddiness and weakness in Dec. 1972 and from Influenza in July 1973, Nov. 1973, Sept. 1974, Nov. 1974 and Feb. 1975 for which the deceased was under treatment of doctors and had also availed of leave on Medical grounds. It was claimed by the Corporation that as the deceased did not disclose these facts in the personal Statement form and instead gave false answers in terms of Policy contract and the declaration contained in the form of proposal for assurance and personal statement, the Corporation repudiates the claim and accordingly are not liable for any payment under the policy and all moneys paid as premiums under the policy stand forfeited. The petitioner appealed to the Corporation that the Corporation should not repudiate the contract and decline to pay the amount to the poor widow who had to bring up three minor children, including two daughters, in life. The petitioner pointed out that her husband died at a very young age of 43 years and the Corporation should not jump to the conclusion that the deceased was suffering from piles, giddiness and Influenza merely from the fact that the deceased had taken sick leave from his office.

4. At this juncture, it would be convenient to make reference to a certificate given by the Assistant Manager of Messrs. Mackinnon Mackenzie Private Limited and which was forwarded by the petitioner to the Corporation in pursuance of the demand made by the Corporation. The certificate sets out the sick leave obtained by the deceased while in employment and it would be convenient to set out the relevant portion of the certificate:

<table>
<thead>
<tr>
<th>Pain on a/c.</th>
<th>Medical certificate</th>
<th>Pain on a/c.</th>
<th>Medical certificate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piles</td>
<td>produced</td>
<td>Fever</td>
<td>produced</td>
</tr>
<tr>
<td>Hypertension</td>
<td>Yes</td>
<td>Influenza</td>
<td>Yes</td>
</tr>
<tr>
<td>Influenza</td>
<td>Yes</td>
<td>Influenza</td>
<td>Yes</td>
</tr>
<tr>
<td>Dysentery</td>
<td>Yes</td>
<td>Diarrhoea</td>
<td>Yes</td>
</tr>
<tr>
<td>Influenza</td>
<td>Yes</td>
<td>Sprain in leg</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Influenza Yes Fever Yes

For privilege leave, staff is not required to submit any reasons. Casual leave and privilege leave are not granted when the staff becomes sick. They take sick leave as per the Company’s rules”.

As the appeals made by the petitioner for grant of the amount under the policy fell on the deaf ears, the petitioner was driven to file the present petition under Art. 226 of the Constitution of India in this Court on April 19, 1980 for writ of mandamus directing the respondents to pay the petitioner the amount due under the Policy including all the benefits and bonuses accruing thereon.

5. In an answer to the petition, the respondents filed a return dt. July 31, 1980 sworn by Naresh Chander Gautam, Administrative Officer of the Corporation. The Corporation claims that the dispute pertains to contractual obligations and as such a right cannot be enforced in the writ petition. It is claimed that it would be a gross abuse to issue a high prerogative writ as claimed by the petitioner. It is further claimed that the remedy of the petitioner is to file a suit. On merits, it is claimed that the Corporation was perfectly justified in repudiating the contract as the deceased had made false statements as regards his health and in case the deceased had disclosed the correct facts of his ailments at the time of submitting the proposal papers, then the Corporation would not have entered on the risk. The Corporation further pleads that although the Corporation had in its possession undisputable evidence to hold that the deceased made false and inaccurate statements, the Corporation is not willing to give inspection of the evidence in its possession because it is extremely dangerous to disclose such evidence as it could be spirited away or destroyed. The Corporation declines to produce the evidence even in this petition and claims that the same would be produced from the proper custody when evidence is led in a suit, which the petitioner should file. The Corporation, therefore, claims that the petition should be dismissed with costs.

6. Mrs. Singhvi, learned counsel appearing on behalf of the petitioner, submitted that the entire conduct of the Corporation, right from the inception till the hearing of the petition, smacks of high-handedness and the public body like the Corporation should not indulge in raising false defences and defeating the claim of an unfortunate young widow with three minor children. The learned counsel urged that it is a common knowledge that while submitting the proposal, the insured does not refer to the trivial or minor ailments and it is futile on the part of the Corporation to claim that the amount under the policy cannot be claimed by the petitioner and the Corporation can repudiate the contract merely on the ground that the Corporation finds some material which possibly might indicate that the statements were inaccurate. Mrs. Singhvi submits, and in my judgment with considerable merit, that the mere fact that the sick leave was obtained by the deceased by producing medical certificate cannot lead to the conclusion that the deceased was suffering from serious ailments and such ailments would have reduced his life span. It was also urged that the deceased died due to accidental fire and the ailment, which the Corporation claims the deceased was suffering, had no nexus to the death of the husband of the petitioner. Mrs. Singhvi placed strong reliance upon S. 45 of the Insurance Act, which, inter alia, provides that the Policy cannot be called in question on the ground of mis-statement after two years. Shri Taleyarkhan, learned counsel appearing on behalf of the Corporation, on the other hand, submitted that the basis of the
contract is the statement made by the insured and once it is found that the statements were not correct, then the contract is void and the Corporation is perfectly justified in repudiating the same. Shri Taleyarkhan places strong reliance upon the declaration made by the insured at the time of submitting the proposal form.

7. The first submission of Shri Taleyarkhan that it would be a gross abuse to issue a writ in favour of the petitioner is required to be repelled with the contempt it deserves. The Life Insurance Corporation is a public body and it is regrettable that such contentions are raised to defeat the claim of a poor widow. It has been repeatedly pointed out that the writ jurisdiction is exercised by the Courts for advancing the cause of justice and the public body like the Corporation should not raise frivolous defence to defeat the claim of a citizen on technical consideration. The contention that the dispute pertains to contractual obligations and, therefore, the petitioner should be driven to file a suit is repeatedly raised by the public Corporations and it would be advantageous to refer to certain observations of the Supreme Court in the case of Gujarat State Financial Corporation v. Lotus Hotels Pvt. Ltd. [AIR 1983 SC 848]. Shri Justice Desai speaking for the Bench observed (at p. 851):

“It is next contended that the dispute between the parties is in the realm of contract and even if there was a concluded contract between the parties about grant and acceptance of loan, the failure of the Corporation to carry out its part, of the obligation may amount to breach of contract for which a remedy lies elsewhere but a writ of mandamus cannot be issued compelling the Corporation to specifically perform the contract. It is too late in the day to contend that the instrumentality of the State which would be ‘other authority’ under Art. 12 of the Constitution can commit breach of a solemn undertaking on which other side has acted and then contend that the party suffering by the breach of contract may sue for damages but cannot compel specific performance of the contract”.

8. In spite of the dictum laid down by the Supreme Court on more than one occasion, it is unfortunate that the Corporation should raise such defense to refuse the claim. It is high time that the Corporation should mend its ways and desist from raising such technical contentions and wasting the time of the Court. The contention of the Corporation that the grant of relief to the petitioner would be a gross abuse of the powers is entirely misconceived. The Corporation may very well choose to deny the relief to the citizen and defeat the justice, but in my judgment, the refusal of the Corporation to pay a pittance of an amount to the widow is, in fact, the gross abuse of the powers.

9. Shri Taleyarkhan submitted that the printed form of proposal contains a declaration of the proposal and it reads as under:

“I, Shri Anandrao Talpade the person, whose life is hereinbefore proposed to be assured, do hereby declare that the foregoing statements and answers are true in every particular and agree and declare that those statements and this declaration along with the further statements made or to be made before the Medical Examiner and the declaration relative thereto shall be the basis of the contract of assurance between me and the Life Insurance Corporation of India and that if any untrue averment be
contained therein the said contract shall be absolutely null and void and all moneys which shall have been paid in respect thereof shall stand forfeited to the Corporation.”

The learned counsel urged that the contract between the Corporation and the deceased husband makes it clear that if any untrue averments are contained in the proposal, then the contract should be absolutely null and void and the amount of premium can be forfeited. It was urged that the deceased husband of the petitioner had made false statement as regards his health and before considering whether any such false statements were at all made, it would be appropriate to make reference to S. 45 of the Insurance Act, 1938. Section 43 of the Life Insurance Corporation of India Act, 1956, inter alia, provides that S. 45 of the Insurance Act shall apply to the Corporation as it applies to any other insurer. Shri Taleyarkhan did not dispute that under the provisions of S. 45 of the Insurance Act, it is not open for the Corporation to question any policy on the ground that the statement made in the proposal was inaccurate or false. Shri Taleyarkhan submits that the Corporation can repudiate the policy provided it is shown that such statement by the policyholder was on a material matter and was fraudulently made. It is obvious that in view of the statutory provisions of S. 45 of the Insurance Act, it is not permissible for the Corporation to repudiate the policy merely on the ground that an inaccurate or false statement was made by the policyholder at the time of taking out the policy. The power of the Corporation is repudiate the contract comes to an end after the expiry of two years from the date of commencement of the policy. The policy was taken out by the deceased husband of the petitioner on July 7, 1975 and the deceased died after the passage of two years from the date and obviously the provisions of S. 45 of the Insurance Act come into play.

10. The Supreme Court considered the ambit of S. 45 of the Insurance Act in *Mithoolal Nayak v. Life Insurance Corporation of India* [AIR 1962 SC 814] and laid down that the three conditions for the application of the second part of S. 43 are:

(a) the statement must be on a material matter or must suppress facts which it was material to disclose,

(b) the suppression must be fraudulently made by the policy holder, and

(c) the policy holder must have known at the time of making the statement that it was false or that it suppressed facts which it was material to disclose.

It is necessary now to ascertain whether the deceased made any inaccurate or false statement in the proposal submitted to the Corporation and even assuming that such statement was made whether the second part of S. 45 of the Insurance Act has application to the facts of the case. Column 4 of the proposal form requires the deceased to state what is the usual state of his health and the deceased had answered that it was good. The deceased had also answered that he had not consulted the Medical Practitioner within the last five years prior to the date of making the proposal. The deceased had also stated in Col. 8 that he had not remained absent from the work on the ground of health during previous two years. The Corporation claims that all these statements were false or inaccurate and in support of the claim, the sole reliance by Shri Taleyarkhan is on the certificate issued by the employer and forwarded by the petitioner to the Corporation. It was urged that the certificate sets out in detail the ailments suffered by the deceased from April 14, 1972 onwards till Nov. 18, 1975 and the sick leave secured by the deceased from his office. Shri Taleyarkhan submits that the
deceased had taken sick leave on production of medical certificate and that clearly establishes that the deceased was suffering from ailment and had consulted Medical Practitioner. It is impossible to accept the contention of Shri Taleyarkhan that the deceased had made deliberate false statements. In the first instance, it must be remembered that before the Corporation accepted the proposal of the deceased, a confidential report of the Medical Examiner was secured by the Corporation. The Medical Officer, Dr. Sahil Dipchand, is a Doctorate in Medicine and is attached to the General Hospital at Borivli and is on the panel of the Corporation. The confidential report submitted by the Medical Examiner was made available by Shri Taleyarkhan after I called upon the learned counsel to produce the original and the report unmistakably establishes that the deceased was enjoying sound health. The report was made by the Medical Examiner after examining the deceased thoroughly and it is obvious that the Corporation has not proceeded to accept the proposal of the deceased only on the statements made in the printed form but on the basis of the report received from the Medical Officer. Secondly, the deceased had disclosed in the proposal form that he was operated for appendicitis in the year 1959 and had not hidden the fact of operation from the Corporation. What is urged by Shri Taleyarkhan is that the deceased did not disclose that he was suffering from bleeding piles, hypertension and influenza.

11. Now, even assuming that the certificate issued by the employer is correct and the deceased had in fact secured sick leave on the relevant dates by production of Medical Certificate, it cannot be concluded that the deceased was in fact suffering from the bleeding piles or hypertension. In my judgment, the ailment of bleeding piles, influenza and dysentery are very minor and trivial ailments and the failure to disclose such ailments in the proposal form cannot be treated as a suppression of the relevant particulars. The deceased might have very well felt that it is not necessary to state that he had suffered from flue, dysentery or common cold because such ailment has no bearing whatsoever to the longevity of the person. It is well known that people in Bombay do not consult Medical Practitioners for such petty ailments like flue, fever or dysentery but the medical certificates are required to be produced before the employer in accordance with the service conditions and the mere fact that the medical certificate is produced for obtaining sick-leave cannot lead to the conclusion that the deceased had taken treatment from the Medical Practitioner. Shri Taleyarkhan made reference to paragraph 11 of the return wherein it is claimed that the deceased was suffering from low blood pressure, giddiness and weakness in Dec. 1972. There is no material on record whatsoever to substantiate this claim. The reliance on the certificate issued by the employer would not help the Corporation because the medical certificate issued in Dec. 1972 merely recites that the deceased was suffering from hypertension. It nowhere refers to the deceased suffering from giddiness or blood pressure or weakness. The certificate discloses only one occasion in 1972 when leave was secured on ground of hypertension and piles. The Corporation has stoutly claimed that it is not bound to produce any material which it holds in support of the claim that the deceased had made false and inaccurate statements and the excuse given for such non-production of evidence is that the disclosure may lead to the destruction or spiriting away of the said material. The Corporation cannot take shield behind such vague excuses and sustain its claim that it holds undisputable evidence in its custody. It is obvious that the Corporation has no material in its custody save and except the certificate issued by the employer of the deceased. The action of the Corporation in concluding from that
certificate that the deceased was suffering from serious ailments or illness and thereby repudiating the contract is wholly illegal. The Corporation has raised false bogie of inaccurate statements only to defeat the just claim of the poor widow and the action of the Corporation deserves to be deplored.

12. Even assuming that the deceased had made incorrect or false statements about his ailment, still that fact itself would not be suffice for the Corporation to repudiate the contract in view of the clear-cut provisions of S. 45 of the Insurance Act. Realizing this position, Shri Taleyarkhan urged that the suppression of ailment was a material matter and the deceased suppressed that fact fraudulently. It was urged that the deceased knew at the time of making the statement that it was false and, therefore, it is open for the Corporation to repudiate the contract. In my judgment, the submission is entirely misconceived. In the first instance, there was no suppression whatsoever by the deceased. It was not necessary for the deceased to disclose trivial ailments like fever, flu or dysentery. There is nothing to warrant the conclusion that the deceased had consulted Medical Practitioner within five years prior to the taking out of the Policy. The concept of consultation with the Medical Practitioner is entirely different from securing medical certificate on the ground that the person is down with fever. The perusal of the proposal form leaves no manner of doubt that it is not each and every petty ailment which has to be disclosed by the proposor and what it required to be disclosed is a serious ailment. The deceased was not suffering from any serious ailment and was a young man of 41 years age at the time of taking out of the policy. The Medical Practitioner on the panel of the Corporation had examined him and in these circumstances, it is futile for the Corporation to claim that the deceased was suffering from any serious ailment. In my judgment, the non-disclosure of the fact that the deceased was suffering from fever or down with flue on some occasions is not material matter and, therefore, the failure to disclose the same cannot be construed as suppression of the relevant fact. As laid down by the Supreme Court, it is not suppression of the fact which is sufficient to attract second part of S. 45 of the Insurance Act but what is required is that such suppression should be fraudulently made by the policyholder. The expression “fraudulently” connotes deliberate and intentional falsehood or suppression and some strong material is required before concluding that the policyholder had played a fraud on the Corporation. In my judgment on the facts and circumstances of the present case, it is impossible to come to the conclusion that the deceased had suppressed any material facts and such suppression was done fraudulently. The Corporation cannot deny its liability by a raising hopeless defence that the deceased was suffering from fever, flu and dysentery from time to time. In my judgment, the second part of S. 45 of the Insurance Act is not, at all, attracted to the facts of the case and it is not open for the Corporation to repudiate the contract. The petitioner is entitled to the claim under the policy along with the bonuses and other benefits accrued thereon.

13. In my judgment, the request made by the learned counsel is correct and deserves acceptance. The petitioner husband died on Oct. 8, 1977 and the claim was lodged by the petitioner on Oct. 24, 1977. The Corporation raised false and frivolous pleas to deny the claim of the petitioner who has deprived the petitioner of a small amount though it is quite large to the petitioner, what I am told, is serving as a maid servant to bear up her three minor children. The Corporation has enjoyed the advantage of the amount which was due to the petitioner and
the Corporation is duty bound to pay the said amount with interest to the petitioner who was deprived her just dues. In my judgment, the Corporation should pay the amount due under the policy along with interest at the rate of 15% from the date of lodging of the claim i.e. Oct. 24, 1977 till payment. The Corporation has not only denied payment to the petitioner but has also raised frivolous pleas in answer to the petition and has persisted in defending the petition without any just reasons. In my judgment, this is a fit case to award compensatory costs of Rs. 1,000/- to the petitioner in addition to the normal costs.

14. Accordingly, rule is made absolute and the respondents are directed to pay to the petitioner the amount due under Policy No. 18251483 issued on July 7, 1975 including all the bonuses and other benefits accrued thereon.

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D.P. MOHAPATRA, J. - These appeals, filed by Life Insurance Corporation of India (“the Corporation”), are directed against the judgment of a Division Bench of the Bombay High Court in Writ Appeal No. 843 of 1985 allowing the appeal on the ground that the appellant should have had an opportunity of leading evidence relevant to their contention that the insurance policy was obtained by misrepresentation, and therefore, avoidable at the instance of the Corporation, and remitting the writ petition to the writ court for fresh decision after allowing the Corporation to lead evidence. The Division Bench did not accept the objection raised by the Corporation against maintainability of the writ petition on the ground that the case involves enforcement of contractual rights for adjudication of which a proceeding under Article 226 of the Constitution is not the proper forum. The contention on behalf of the Corporation was that the writ petition should be dismissed as not maintainable leaving it to the writ petitioner, Respondent 1 herein, to file a civil suit for enforcement of her claim.

2. Late Naval Kishore Goel, husband of Smt Asha Goel - Respondent 1, was an employee of M/s Digvijay Woollen Mills Limited at Jamnagar as a Labour Officer. He submitted a proposal for a life insurance policy at Meerut in the State of U.P. on 29-5-1979 which was accepted and the policy bearing No. 48264637 for a sum of Rs 1,00,000 (Rs one lakh) was issued by the Corporation in his favour. The insured passed away on 12-12-1980 at the age of 46 leaving behind his wife, a daughter and a son. The cause of death was certified as acute myocardial infarction and cardiac arrest. Respondent 1 being nominee of the deceased under the policy informed the Divisional Manager, Meerut City, about the death of her husband, submitted the claim along with other papers as instructed by the Divisional Manager and requested for consideration of her claim and for making payment. The Divisional Manager by his letter dated 8-6-1981 repudiated any liability under the policy and refused to make any payment on the ground that the deceased had withheld correct information regarding his health at the time of effecting the insurance with the Corporation. The Divisional Manager drew the attention of the claimant that at the time of submitting the proposal for insurance on 29-5-1979 the deceased had stated his usual state of health as good; that he had not consulted a medical petitioner within the last five years for any ailment requiring treatment for more than a week; and had answered the question if remained absent from place of your work on ground of health during the last five years in the negative. According to the Divisional Manager, the answers given by the deceased as aforementioned were false. Since Respondent 1 failed to get any relief from the authorities of the Corporation despite best efforts, she filed the writ petition seeking a writ of mandamus directing the Corporation and its officers to pay the sum assured and other accruing benefits with interest.

10. Article 226 of the Constitution confers extraordinary jurisdiction on the High Court to issue high prerogative writs for enforcement of the fundamental rights or for any other purpose. It is wide and expansive. The Constitution does not place any fetter on exercise of the extraordinary jurisdiction. It is left to the discretion of the High Court. Therefore, it cannot be laid down as a general proposition of law that in no case the High Court can entertain a writ petition under Article 226 of the Constitution to enforce a claim under a life insurance
policy. It is neither possible nor proper to enumerate exhaustively the circumstances in which such a claim can or cannot be enforced by filing a writ petition. The determination of the question depends on consideration of several factors like, whether a writ petitioner is merely attempting to enforce his/her contractual rights or the case raises important questions of law and constitutional issues, the nature of the dispute raised; the nature of inquiry necessary for determination of the dispute etc. The matter is to be considered in the facts and circumstances of each case. While the jurisdiction of the High Court to entertain a writ petition under Article 226 of the Constitution cannot be denied altogether, courts must bear in mind the self-imposed restriction consistently followed by High Courts all these years after the constitutional power came into existence in not entertaining writ petitions filed for enforcement of purely contractual rights and obligations which involve disputed questions of facts. The courts have consistently taken the view that in a case where for determination of the dispute raised, it is necessary to inquire into facts for determination of which it may become necessary to record oral evidence a proceeding under Article 226 of the Constitution, is not the appropriate forum. The position is also well settled that if the contract entered between the parties provide an alternate forum for resolution of disputes arising from the contract, then the parties should approach the forum agreed by them and the High Court in writ jurisdiction should not permit them to bypass the agreed forum of dispute resolution. At the cost of repetition it may be stated that in the above discussions we have only indicated some of the circumstances in which the High Court have declined to entertain petitions filed under Article 226 of the Constitution for enforcement of contractual rights and obligation; the discussions are not intended to be exhaustive. This Court from time to time disapproved of a High Court entertaining a petition under Article 226 of the Constitution in matters of enforcement of contractual rights and obligation particularly where the claim by one party is contested by the other and adjudication of the dispute requires inquiry into facts.

11. The position that emerges from the discussions in the decided cases is that ordinarily the High Court should not entertain a writ petition filed under Article 226 of the Constitution for mere enforcement of a claim under a contract of insurance. Where an insurer has repudiated the claim, in case such a writ petition is filed, the High Court has to consider the facts and circumstances of the case, the nature of the dispute raised and the nature of the inquiry necessary to be made for determination of the questions raised and other relevant factors before taking a decision whether it should entertain the writ petition or reject it as not maintainable. It has also to be kept in mind that in case an insured or nominee of the deceased insured is refused relief merely on the ground that the claim relates to contractual rights and obligations and he/she is driven to a long-drawn litigation in the civil court it will cause serious prejudice to the claimant/other beneficiaries of the policy. The pros and cons of the matter in the context of the fact-situation of the case should be carefully weighed and appropriate decision should be taken. In a case where claim by an insured or a nominee is repudiated raising a serious dispute and the Court finds the dispute to be a bona fide one which requires oral and documentary evidence for its determination then the appropriate remedy is a civil suit and not a writ petition under Article 226 of the Constitution. Similarly, where a plea of fraud is pleaded by the insurer and on examination is found prima facie to have merit and oral and documentary evidence may become necessary for determination of the issue raised, then a writ petition is not an appropriate remedy.
12. Coming to the question of scope of repudiation of claim of the insured or nominee by the Corporation, the provisions of Section 45 of the Insurance Act is of relevance in the matter. The section provides, inter alia, that no policy of life insurance effected after the coming into force of this Act shall, after the expiry of two years from the date on which it was effected, be called in question by an insurer on the ground that a statement made in the proposal for insurance or in any report of a medical officer, or referee, or friend of the insured, or in any other document leading to the issue of the policy, was inaccurate or false, unless the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policy-holder and that the policy-holder knew at the time of making it that the statement was false or that it suppressed facts which it was material to disclose. The proviso which deals with proof of age of the insured is not relevant for the purpose of the present proceeding. On a fair reading of the section it is clear that it is restrictive in nature. It lays down three conditions for applicability of the second part of the section namely: (a) the statement must be on a material matter or must suppress facts which it was material to disclose; (b) the suppression must be fraudulently made by the policy-holder; and (c) the policy-holder must have known at the time of making the statement that it was false or that it suppressed facts which it was material to disclose. Mere inaccuracy or falsity in respect of some recitals or items in the proposal is not sufficient. The burden of proof is on the insurer to establish these circumstances and unless the insurer is able to do so there is no question of the policy being avoided on ground of misstatement of facts. The contracts of insurance including the contract of life assurance are contracts uberrima fides and every fact of material (sic material fact) must be disclosed, otherwise, there is good ground for rescission of the contract. The duty to disclose material facts continues right up to the conclusion of the contract and also implies any material alteration in the character of the risk which may take place between the proposal and its acceptance. If there are any misstatements or suppression of material facts, the policy can be called into question. For determination of the question whether there has been suppression of any material facts it may be necessary to also examine whether the suppression relates to a fact which is in the exclusive knowledge of the person intending to take the policy and it could not be ascertained by reasonable enquiry by a prudent person.

15. Life Insurance Corporation was created by the Life Insurance Corporation Act, 1956 with a view to provide for nationalisation of life insurance business in India by transferring all such business to a corporation established for the purpose and to provide for the regulation and control of the business of the Corporation and for matters connected therewith or incidental thereto. The said Act contains various provisions regarding establishment of Life Insurance Corporation of India; the functions of the Corporation, the transfer of existing life insurance business to the Corporation, the management of the establishment of the Corporation, the finance, accounts and audit of the Corporation and certain other related matters. Section 30 of the Act provides that except to the extent otherwise expressly provided in this Act, on and from the appointed day the Corporation shall have the exclusive privilege of carrying on life insurance business in India; and on and from the said day any certificate of registration under the Insurance Act held by any insurer immediately before the said day shall cease to have effect insofar as it authorises him to carry on life insurance business in India.
16. In course of time the Corporation has grown in size and at present it is one of the largest public sector financial undertakings. The public in general and crores of policy-holders in particular, look forward to prompt and efficient service from the Corporation. Therefore, the authorities in charge of management of the affairs of the Corporation should bear in mind that its credibility and reputation depend on its prompt and efficient service. Therefore, the approach of the Corporation in the matter of repudiation of a policy admittedly issued by it, should be one of extreme care and caution. It should not be dealt with in a mechanical and routine manner.

17. With the above discussions and observations regarding the questions raised before us, we dispose of the appeals with the direction that the sum, as directed by the learned Single Judge in favour of the claimant, will be paid by the Corporation expeditiously, if it has not already been paid. In view of the above order/direction, it is not necessary to proceed with the case pending before the High Court any further.

* * * * *


MARKANDEY KATJU, J. - This appeal has been filed against the impugned judgment of the National Consumer Disputes Redressal Commission, New Delhi dated 26.3.2004 in Original Petition No.196 of 2001.

3. The facts of the case were that the complainant (respondent in this appeal) had taken Insurance Policies from the appellant on 1.4.1998 in respect of its factory situated in Jauhri Nagar, Goa.

One policy was a fire policy and the other was a consequential loss due to fire policy.

4. On 8.1.1999 at about 3.20 p.m. there was a short circuiting in the main switch board installed in the sub-station receiving electricity from the State Electricity Board, which resulted in a flashover producing over currents. The flashover and over currents generated excessive heat. The paint on the panel board was charred by this excessive heat producing smoke and soot and the partition of the adjoining feeder developed a hole. The smoke /soot along with the ionized air traveled to the generator compartment where also there was short circuiting and the generator power also tripped. As a result, the entire electric supply to the plant stopped and due to the stoppage of electric supply, the supply of water/steam to the waste heat boiler by the flue gases at high temperature continued to be fed into the boiler, which resulted in damage to the boiler.

5. As a result the respondent - complainant approached the Insurance Company informing it about the accident and making its claim. Surveyors were appointed who submitted their report but the appellant-Insurance Company vide letter dated 4.9.2000 rejected the claim. Hence the petition before the National Commission.

6. The claimant-respondent made two claims (i) Rs.1,35,17,709/- for material loss due to the damage to the boiler and other equipments and (ii) Rs.19,11,10,000/- in respect of loss of profit for the period the plant remained closed.

7. The stand of the appellant- Insurance Company was that the loss to the boiler and other equipments was not caused by the fire, but by the stoppage of electric supply due to the short circuiting in the switch board. It was submitted that the cause of the loss to the boiler and the equipments was the thermal shock caused due to stoppage of electricity and not due to any fire. It was submitted that the proximate cause has to be seen for settling an insurance claim, which in the present case, was the thermal shock caused due to stoppage of electricity. However, the National Commission allowed the claim of the respondent and hence this appeal.

8. Ms. Meenakshi Midha who argued this case with great ability submitted that the loss to the boiler and to the equipments did not occur due to any fire. Hence she submitted that the claim of damages did not fall under the cover of the Insurance Policy. She submitted that for a claim relating to fire insurance policy to succeed it is necessary that there must be a fire in the first place. In the absence of fire the claim cannot succeed. She submitted that in the present case (1) there was no fire and (2) in any case it was not the proximate cause of the damage.
9. On the other hand, Shri K.K. Venugopal, learned senior counsel, supported the judgment of the National Commission and stated that the judgment was correct.

10. We have therefore to first determine whether there was a fire. Admittedly there was a short circuit which caused a flashover.

11. Wikipedia defines flashover as follows:
   “A flashover is the near simultaneous ignition of all combustible material in an enclosed area. When certain materials are heated they undergo thermal decomposition and release flammable gases. Flashover occurs when the majority of surface in a space is heated to the autoignition temperature of the flammable gases.”

12. In this connection, it is admitted that the short circuit in the main switch board caused a flashover. The surveyor Shri M.N. Khandeparkar in his report has observed:
   “Flashover, can be defined as a phenomenon of a developing fire (or radiant heat source) radiant energy at wall and ceiling surfaces within a compartment…. In the present case, the paint had burnt due to the said flashover … Such high energy levels, would undoubtedly, have resulted in a fire, causing melting of the panel board…."

13. The other surveyor P.C. Gandhi Associates has stated that "Fire of such a short duration cannot be called a ‘sustained fire’ as contemplated under the policy".

14. In our opinion the duration of the fire is not relevant. As long as there is a fire which caused the damage the claim is maintainable, even if the fire is for a fraction of a second. The term ‘Fire' in clause (1) of the Fire Policy ‘C’ is not qualified by the word 'sustained'. It is well settled that the Court cannot add words to statute or to a document and must read it as it is. Hence repudiation of the policy on the ground that there was no ‘sustained fire’ in our opinion is not justified.

15. We have perused the fire policy in question which is annexure P-1 to this appeal. The word used therein is 'fire' and not 'sustained fire'. Hence the stand of the Insurance Company in this connection is not acceptable.

16. Shri K.K. Venugopal invited our attention to exclusion (g) of the Insurance Policy which stated that the insurance does not cover:
   “(g) Loss of or damage to any electrical machine, apparatus, fixture or fitting (including electric fans, electric household or domestic appliances, wireless sets, television sets and radios) or to any portion of the electrical installation, arising from or occasioned by over running, excessive pressure short circuiting, arcing self-heating or leakage of electricity from what ever cause (lightning included), provided that this exemption shall apply only to the particular electrical machine apparatus, fixtures, fittings or portion of the electrical installation so affected and not to other machines, apparatus, fixture, fittings or portion of the electrical installation which may be destroyed or damaged by fire so set up.”

17. A perusal of the exclusion clause (g) shows that the main part of the exclusion clause which protects the insurer from liability under the policy covers loss of damage to any electrical machinery, apparatus, fixture or fittings including wireless sets, television sets,
radio and so on which themselves are a total loss or a damage or damaged due to short
circuiting, arcing, self heating or leakage of electricity. However, the proviso to the said
clause through inclusion of any other machinery, apparatus, fixture or fitting being destroyed
or damaged by the fire which has affected any other appliances such as television sets, radio,
etc. or electrical machines or apparatus are clearly included within the scope of the Fire Policy
for whatever damage or destruction caused by the fire. If for example the short circuiting
results in damage in a television set through fire created by the short circuiting in it the claim
for it is excluded under the fire policy. However, if from the same fire there is a damage to the
rest of the house or other appliances, the same is included within the scope of the Fire Policy
by virtue of the proviso. In other words, if the proximate cause of the loss or destruction to
any other including other machines, apparatus, fixtures, fittings etc. or part of the electrical
installation is due to the fire which is started in an electrical machine or apparatus all such
losses because of the fire in other machinery or apparatus is covered by the Policy.

18. The main question before us now is whether the flashover and fire was the proximate
cause of the damage in question.

19. To understand this we have to first know the necessary facts. The insurance company
pointed out the chain or sequence of events as under:

“Short-circuiting takes place in the INCOMER 2 of the main switchboard
receiving electricity from the State Electricity Board possibly due to the entry of a
vermin. Short-circuiting results in a flashover. Short-circuiting and flashover
produced over-currents to the tune of 8000 amperes, which in turn produced
enormous heat. The over currents and the heat produced resulted in the expansion and
ionization of the surrounding air.

The electricity supply from the State Electricity Board got tripped. The paint of
the Panel Board charred by the enormous heat produced above and the MS partition
of the adjoining feeder connected to the generator power developed a hole. It also
resulted in formation of smoke/soot. The smoke/soot and the ionized air crossed over
the MS partition and entered into the compartment receiving electricity from the
generator.

Consequently the generator power supply also got tripped. The tripping of
purchased power and generator power resulted in total stoppage of electricity supply
to the plant. The power failure resulted in stoppage of water/steam in the waste heat
boiler. The flue gases at high temperature continued to enter the boiler, which
resulted in thermal shock causing damage to the boiler tubes.”

20. In this connection, it may be noted that in its written submission before the National
Commission the appellant has admitted that there was a flashover and fire. The relevant
portion of the written statement of the appellant before the National Commission is as
follows:

(a) Para 1 of the Preliminary Objections wherein it is stated: … On 8th January, 99, there
was a short circuiting… which resulted in flash over…. The cause of loss to the boiler and
equipment is the thermal shock caused due to stoppage of electricity…. The stoppage of
electricity was due to the fire… short circuiting results in a flash over….
(b) Para 3(iv) of the Preliminary Objections wherein it is stated: … Due to this flash over and over currents excessive heat energy was generated which resulted in the evolution of marginal fire….

(c) Para 3(vi) of the Preliminary Objections wherein it is stated: ... The surveyors observed that the experts in all the reports submitted by the complainant admitted that a flash over took place …;

(d) Para 3(viii) of the Preliminary Objections wherein it is stated: … Fire of extremely short duration followed and preceded by short circuit…;

(e) Para 7 of the reply wherein it is stated: ... It is correct that on 8th January, 1999, short circuit occurred on INCOMER-2 of the 3.3 KV main switch board in the electrical sub station which resulted in a flash over…..

(f) Para 10 of the reply wherein it is stated: … Due to this flash over and over currents excessive heat energy was generated which resulted in the evolution of marginal fire….

(g) Para 21 of the reply wherein it is stated: … A reference of fire, as opposed to sustained fire, in the opinion of M/s. P.C. Gandhi & Associates has been made…. It is in this context that M/s. P.C. Gandhi & Associates have referred to the possible fire after the flash over being of a very short duration.

21. Thus it is admitted in the written statement of the appellant before the National Commission that it was the flashover/fire which started the chain of events which resulted in the damage.

22. Apparently there is no direct decision of this Court on this point as to the meaning of proximate cause, but there are decisions of foreign Courts, and the predominant view appears to be that the proximate cause is not the cause which is nearest in time or place but the active and efficient cause that sets in motion a train or chain of events which brings about the ultimate result without the intervention of any other force working from an independent source.

23. Thus in **Lynn Gas and Electric Company v. Meriden Fire Insurance Company** [158 Mass. 570; 33 N.E. 690; 1893 Mass. LEXIS 345] Supreme Court of Massachusetts was concerned with a case where a fire occurred in the wire tower of the plaintiff's building, through which the wires of electric lighting were carried from the building. The fire was speedily extinguished, without contact with other parts of the building and contents, and with slight damage to the tower or its contents. However, in a part of the building remote from the fire and untouched thereby, there occurred a disruption by centrifugal force of the fly wheel of the engine and their pulleys connected therewith, and by this disruption the plaintiff's building and machinery were damaged to a large extent. It was held that the proximate cause was not the cause nearest in time or place, and it may operate through successive instruments, as an article at the end of a chain may be moved by a force applied to the other end. The question always is:

Was there an unbroken connection between the wrongful act and the injury, a continuous operation? In other words, did the facts constitute a continuous succession of events, so linked
together as to make a natural whole, or there was some new and independent cause intervening between the wrong and the injury?

24. The same view was taken in *Krenie C. Frontis et al. v. Milwaukee Insurance Company* [156 Conn. 492; 242 A.2d 749; 1968 Conn. LEXIS 629]. The facts in that case were that the plaintiffs owned the northerly half of a building that shared a common wall with a factory next door. A fire broke out in the factory and damaged that building. Minimal fire damage occurred to the plaintiffs' building. However, due to the damage next door, the building inspector ordered the removal of the three upper stories of the factory building, which left the common wall insufficiently supported. Due to the safety issue, the inspector ordered the third and fourth floors of plaintiffs' building to be demolished. On this fact it was held that the fire was the active and efficient cause that set in motion a chain of events which brought about the result without the intervention of any new and independent source, and hence was the proximate cause of the damage.

25. In *Farmers Union Mutual Insurance Company v. Blankenship* [231 Ark.127; 328 S.W.2d 360; 1959 Ark. LEXIS 474; 76 A.L.R.2d 1133] the claimant's goods were damaged after a fire originated in his place of business. The goods were not damaged by the flames but by a gaseous vapour caused by the use of a fire extinguisher in an effort to put out the fire. On these facts the Supreme Court of Arkansas upheld the claim of the claimant.

26. In *Leyland Shipping Company Limited v. Norwich Union Fire Insurance Society Limited* [(1917) 1 K.B. 873] the facts of the case were that a ship was insured against perils of the sea during the first world war by a time policy containing a warranty against all consequences of hostilities. The ship was torpedoed by a German submarine twenty five miles from Havre. With the aid of tugs she was brought to Havre on the same day. A gale sprang up, causing her to bump against the quay and finally she sank. The House of Lords upheld the claim for damages observing that the torpedoing was the proximate cause of the loss even though not the last in the chain of event after which she sank.

27. In *Yorkshire Dale Steamship Company Ltd. v. Minister of War Transport (The Coxwold)* [(1942) AC 691 : [1942] 2 All ER 6] during the Second World War a ship in convoy was sailing carrying petrol for use of the armed forces. There was an alteration of the course of the ship to avoid enemy action, and an unexpected and unexplained tidal set carried away the ship and she was stranded at about 2.45 a.m. It was held that the loss was the direct consequence of the warlike operation on which the vessel was engaged.

28. In *The Matter of an Arbitration between Etherington and the Lancashire and Yorkshire Accident Insurance Company* [(1909) 1 K.B. 591] by the terms of the policy (an accident) the insurance company undertook that if the insured should sustain any bodily injury caused by violent, accidental, external and visible means, then, in case such injuries should, within three calendar months of the causing of such injury, directly cause the death of the insured, damages would be paid to his legal heirs. There was a proviso in the policy that this policy only insured against death where the accident was the proximate cause of the death. The assured while hunting had a fall and the ground being very wet he was wetted to the skin. The effect of the shock lowered the vitality of his system and being obliged to ride home afterwards, while wet, still further lowered his vitality. As a result he developed
pneumonia and died. The Court of Appeal uphold the claim holding that the accident was the proximate cause of death.

29. In the present case, it is evident from the chain of events that the fire was the efficient and active cause of the damage. Had the fire not occurred, the damage was also would not have occurred and there was no intervening agency which was an independent source of the damage.

30. Hence we cannot agree with the conclusion of the surveyors that the fire was not the cause of the damage to the machinery of the claimant.

31. Moreover, in *General Assurance Society Ltd. v. Chandmull Jain* [AIR 1966 SC 1644] it was observed by a Constitution Bench of this Court that in case of ambiguity in a contract of insurance the ambiguity should be resolved in favour of the claimant and against the insurance company.

32. Learned counsel for the appellant relied on the decision of the British High Court in *Everett v. The London Assurance* [S.C. 34 L.J.C.P. 299; 11 Jur. N.S. 546; 13 W.R. 862]. By the terms of the policy the premises in question was insured against “such loss or damage by fire to the property.” It was held by the High Court that this did not cover damage resulting from the disturbance of the atmosphere by the explosion of a gunpowder magazine a mile distant from the premises insured. We are in respectful disagreement with the said judgment as the predominant view of most Courts is to the contrary.

33. For the reasons given above, we see no merit in this appeal and it is dismissed.

* * * * *
ROCHE, J. – The plaintiff sues one of the underwriting members of Lloyd’s under a Lloyd’s policy of insurance against burglary, housebreaking and theft, dated May 1, 1919. During the currency of the policy the premises were broken into, and about £475 worth of the plaintiff’s goods were stolen. The action is brought to establish the liability of the defendant and the other underwriter of the policy. The defence is a short one, and turns on one point only - not an easy one to decide.

The policy contains the following clause: “Warranted that the premises are always occupied.” I have to decide whether that warranty has been broken by the plaintiff. It is alleged that the warranty has been broken in this case, and that therefore the underwriters are not liable. The facts are that on June 22 the premises were broken into. The plaintiff and his wife, who were the only persons resident on the premises, were absent from the premises on the afternoon of the day of the burglary. The plaintiff was away partly on business, and his wife spent the afternoon at a garden party and fete, where she was joined later by the plaintiff, and they both spent the evening at the fete. During their absence the shop and premises were left unattended between 2.30 p.m. and 11.30 p.m., except for an interval about seven o’clock p.m. when the plaintiff himself returned to change his clothes. If the warranty means, as the defendant contends, that the premises are never to be left unattended, and that there must be some continuous attendance on the premises, then there has undoubtedly been a breach of the warranty for both the plaintiff and his wife were absent from the premises for some hours on the day in question. But, in my judgment, that is not the meaning of the warranty. I think it means that the premises are to be used, continuously and without interruption, for occupation, that is to say, as a residence, and not merely as a lock-up shop which is left unoccupied after business hours. That is the construction I should put on the words, and I am fortified in arriving at this conclusion by the judgment of Bray, J., in Winicofski v. Army and Navy General Assurance Association, Ltd. [(1919) 88 J.K.B. 1171] and by the American decisions cited by counsel for the plaintiff, most of which are collected in Mr. Macgilliavray’s most useful book on Insurance Law, at p. 887.

But the matter does not rest there, for if the warranty does not bear the meaning which I have given to it, I should hold, that the language used is very ambiguous; and it is a well-known principle of insurance law and other matters, that if the language of a clause drawn by a party himself for his own protection is ambiguous it must be construed against him, and if the words of a warranty in a policy are ambiguous they must be construed against the underwriter who has inserted the warranty in it for his own protection. Therefore the defence, on the whole, fails. The only materiality which attached to the question whether the plaintiff returned to the premises about seven o’clock is that it fixes the time when the burglary happened, because the premises were all right then. It was contended for the defendant that if the warranty is to be construed in a way I suggest, it affords very little protection to the underwriters. I do not agree. If the premises are used for residential as well as for business purposes, it is obvious that a thief would never know at what moment the occupier might return from a temporary absence and disturb his operations. It is that kind of occupation
which this warranty requires and which has been secured. The defendant has not stipulated for the continuous presence of some one in the premises, which he could have done by providing that the premises were never to be left unattended. I therefore give judgment for the plaintiff with costs.

* * * * *
HARRIS v. POLAND
(1941) All ER 204

ATKINSON, J. - The plaintiff lives in a flat at 4, Chartfield Avenue, London. In Jan., 1939, she took out a Lloyds comprehensive policy insuring her against loss by fire, burglary and housebreaking and other causes at her flat. There was an attempted burglary at her flat during the summer, which made her nervous about the safety of her jewellery while she was out and the flat was empty. She had jewellery worth about £500. On Dec. 2, she was going out for the day. She had over £100 in banknotes, and, therefore, felt more uneasy than usual about the safety of her empty flat. It occurred to her that perhaps the least likely place which a burglar would suspect as a hiding-place would be in the fireplace in the sitting-room amongst the paper and sticks under the coalite. She was probably quite right. She got a piece of newspaper and wrapped the money and the jewellery in it. Particulars of the latter are given in the statement of claim. The notes were in a registered envelope, the pearl necklace was in a soft leather suit case, the wrist-watch was wrapped in tissue paper, the watch set in diamonds was in a grey leather case lined with velvet, the links were in tissue paper, and were in a cotton bag along with the wrist-watch, while the rings were in tissue paper. She wrapped the articles in a newspaper and hid the parcel in the fireplace under the coalite, mixed up with the paper already there. It may be observed that this care was very much in the interests of the under-writers on whom would fall any loss suffered from burglary.

The plaintiff returned home late in the afternoon, and, feeling cold, lighted the fire, forgetting all about what she had done. Early the following morning, she remembered the hiding of her jewellery and money. Two of the pieces were repairable, but the rest of them and the notes had been completely destroyed by fire. The plaintiff seeks to recover the loss – agreed at £460 – from the underwriters. The relevant words in the policy are to insure her "from loss or damage caused by fire… burglary, housebreaking, theft or larceny" and various other causes. The plaintiff says that the loss she has suffered comes within that plain and simple language. Goods insured against loss by fire have been unintentionally either totally destroyed or badly damaged by fire, and, therefore, she says, her claim comes exactly within the language used.

The view presented on her behalf is that, while the burning of something intended to be consumed by fire is, of course, not fire under the policy, the moment one gets the accidental burning of something not intended to be consumed by fire, there is damage by fire within the meaning of the policy, and, therefore, if insured property not intended to be consumed by fire is ignited and thereby damaged or lost, or if insured property is damaged by heat, smoke, water or demolition caused by the burning of property not intended to be consumed by fire, there is loss or damage by fire within the meaning of the policy.

The underwriters very properly want it to be made quite clear that they are not disputing liability on the ground of negligence, or on the ground that the loss was due to an act of forgetfulness on the part of the plaintiff, or on the ground that the loss was the inevitable result of her own act. In their view, the position is just the same as if a maid instructed by the plaintiff not to light the fire had forgotten or misunderstood her instructions and lighted it and so caused the loss. They agree that there has been accidental loss which would be covered by
an all risks policy, but they dispute that this loss is a loss by fire within the meaning of the policy. Their case and the principle they seek through the defendant to establish is that, where damage is done to insured property by a fire in a place where fire is intended to be – where fire has not broken bounds – the loss is not covered, because such a fire is not a fire within the meaning of the policy. It is said that there must be ignition where no ignition ought to be in order to create liability. The argument is that there must be a fortuitous fire somewhere where fire ought not to be, that it is only damage caused by such an accidental fire which comes within the policy, and that the actual burning of the insured property does not in itself constitute fire within the meaning of the policy. The idea presented is that there must be an unintentional coming of fire from its proper place to the insured property and that the policy is not concerned with the coming of insured property to a fire which is behaving itself with perfect propriety in a place where it is intended to be.

Counsel for the defendant urges that the first question which I ought to ask myself is whether there was a fire within the meaning of the policy, and that only if I find that there was does there arise the question whether or not such fire caused damage to insured property, and he contends that it is impossible to hold that the fire, intentionally lighted, and burning quite properly in the grate, was a fire within the meaning of the policy. According to this view, the short and simple words in the policy against “loss or damage caused by fire” mean loss or damage caused to insured property by a fortuitous fire of something not intended to be consumed by fire in a place where fire is not intended to be.

The whole difference between the parties lies in those last few words. Unless there is spontaneous combustion, and apart from fires caused by electricity or lighting, the unintentional burning of insured property must, I suppose, always be caused directly or indirectly by, or must be due to, fire created intentionally of matter intended to be consumed, as, for example, domestic fires, lighted candles, oil lamps, gas jets, matches, tapers, cigarettes. Of course, one does not insure against the happening of such intended fires. One insures against the risk of insured property getting burned by unintentional contact with some such fire, or with fire started by some such fire. A householder has of necessity to make use of fire in his house for heating and lighting. He knows that fire is a source of danger, not merely from the escape of fire from its legitimate place but also from things coming in contact with it in its legitimate place in any of the forms I have just enumerated. I have no doubt that, when the ordinary man insures against loss by fire, he believes that he is insuring against every kind of loss which he may suffer from the more or less compulsory use of fire by himself or his neighbour. If he were told that the words in a Lloyds policy meant only loss from contact with fire where no fire ought to be, many questions would spring his mind, as they spring to mine. Am I not covered, he would ask, if the wind blows something – say a valuable manuscript or a sheet of foreign stamps – into the fire in the grate, or if a careless servant drops something into the fire, or if my wife stumbles and causes her lace scarf or silver fox tie to get caught by a flame in the fire grate? To all these questions the answers of counsel for the defendant is: “No.” But what if part of the scarf is consumed in the grate and the rest of it is consumed outside the grate on the hearth-rug? Do I get compensation for the part burnt outside the grate, though not for the part burnt in the grate? Also, what if the burning scarf burns a hole in the carpet? That is not the fault of the fire in the grate, which has not broken
bounds. Am I covered for that? Again, what is the position if the lace catches fire by coming in contact with a lighted candle on the dinner-table? The flame of the candle is in the exact place where it is intended to be. Is it on a par with the fire in the grate? Moreover, what if the wind blows a curtain against a lighted gas jet and the curtain catches fire? I imagine that the ordinary man would say: “Your policy is no use to me. I shall never know where I am. I want an underwriter who knows what he means and says what he means.” There certainly ought to be some clear understanding as to the meaning of these apparently simple words, so that persons insuring may know where they stand, and – if the defendant is right – not continue in a fool’s paradise believing that they have a protection which in fact they have not.

There are one or two well-settled rules of construction with regard to policies. One is that the construction depends, not upon the presumed intention of the parties, but upon the meaning of the words used. In *Nelson Line (Liverpool), Ltd. v. Nelson & Sons, Ltd.* [(1908) AC 16], LORD LOREBURN, L.C., said, at p. 20:

> I know of only one standard of construction, except where words have acquired a special conventional meaning, namely, what do the words mean on a fair reading, having regard to the whole document.

There is another rule which I find summarised in *Hamlyn & Co. v. Wood & Co.* [(1891) 2 Q.B. 488], where LORD Esher, M.R., said, at p. 491:

> I have for a long time understood that rule to be that the court has no right to imply in a written contract any such stipulation, unless, on considering the terms of the contract in a reasonable and business manner, an implication necessarily arises that the parties must have intended that the suggested stipulation should exist. It is not enough to say that it would be a reasonable thing to make such an implication. It must be a necessary implication in the sense that I have mentioned.

Another rule of construction is that, as a policy is prepared by the underwriters, any ambiguity therein must be taken most strongly against the underwriters by whom it has been prepared. If a policy is reasonably susceptible of two constructions, that one which is more favourable to the insured will be adopted. Again, in *West India Telegraph Co. v. Home & Colonial Insurance Co.* [(1880) 6 Q.B.D. 51], BRETT, L.J., said, at p. 58:

> An English policy is to be construed according to the same rules of construction; which are applied by English courts to the construction of every other mercantile instrument. Each term in the policy, and each phrase in the policy, is *prima facie* to be construed according to its ordinary meaning.

Guided by these principles, I can see no reason whatever for limiting the indemnity given by the policy in the way claimed by the defendant. In my judgment, the risks against which the plaintiff is insured include the risk of insured property coming unintentionally in contact with fire and being thereby destroyed or damaged, and it matters not whether that fire comes to the insured property or the insured property comes to the fire. The words of the policy are just as descriptive of one as they are of the other, and I cannot read into the contract a limitation which is not there. To enable me to accept the contention of the underwriters, I should have to read something into the contract, some such words as “unless the insured property is burned by coming in contract with fire in a place where fire is intended to be.”
Why should I? What justification can there be for so doing? To what absurdities would it lead? A red hot cinder jumps from the fire and sets on fire some paper of value. Admittedly, there is liability. A draught from the window blows the same paper into the same fire. Is that any less an accidental loss by fire? Are the words in the policy any less applicable to the latter than they are to the former? A draught blows the flame of a candle against a curtain. Admittedly, there is liability. What if the curtain is blown against the flame of the candle, however? Surely the result must be the same. If it is not the same, the result is an absurdity. If it is the same, why should the result be different if one substitutes a fire in a grate for the lighted candle in a candlestick? Unless I am bound by authority to the contrary, or unless I can find a consensus of opinion to the contrary among textbook writers indicating a generally accepted interpretation of these words, I must give effect to the view I have formed.

Counsel for the defendant relies and it is his only prop upon *Austin v. Drewe* [(1816) 4 Camp. 360], not, indeed, upon the actual decision, which gives him no help, but upon two sentences to be found in the summing up to the jury by Gibbs, C.J. The facts of that case were very simple [p. 360]:

This was an action on a policy of insurance against fire. The premises insured were used as a manufactory for sugar baking. The building was divided into seven or eight storey's. On the ground floor were pans for boiling the sugar, and a stove to heat them. From the stove a chimney or flue went to the top of the building, and as it passed each floor, there was a register in it with an aperture into the rooms, whereby more or less heat might be introduced at pleasure. The upper floors were used for drying the baked sugars. One morning the fire being lighted as usual below, the servant whose duty it was to have opened the register in the highest storey forgot to do so. The consequence was that the smoke, sparks, and heat, were completely intercepted in their progress through the flue, and were forced into the room where the sugars were drying. The smoke being perceived below, the alarm was given. One or two men were suffocated in attempting to open the register; but at last it was opened, and the mischief remedied. Had it remained shut much longer, the premises would probably have been burnt down: but in point of fact there never was more fire than was necessary to carry on the manufacture, and the flame never got beyond the flue. The sugars, however, were very much damaged by the smoke, and still more by the heat. The loss amounted to several thousand pounds. The question was whether this was a loss for which the insurance office was liable.

The head note is as follows:

From the negligence of a servant of the assured in not opening a register, smoke and heat from a stove used in the manufactory are forced into a room and greatly damage goods, without actually burning any, the fire not being greater than it ought to have been had there been free vent for the smoke and heat. This held not to be a loss within the policy.

Judging from the head note, the grounds of the decision were the negligence of the plaintiff’s servant and the absence of any burning of any of the insured property. Nowadays it is well-established that negligence is immaterial, and, in the case with which I have to deal,
there was burning of the insured property. In the direction to the jury, however, GIBBS, C.J., said, at p. 362:

If there is a fire, it is no answer that it was occasioned by the negligence or misconduct of servants; but in this case there was no fire except in the stove and the flue, as there ought to have been, and the loss was occasioned by the confinement of heat. Had the fire been brought out of the flue, and anything had been burnt, the company would have been liable. But can this be said, where the fire never was at all excessive, and was always confined within its proper limits? This is not a fire within the meaning of the policy.

There are several sources of damage from fire. There are the flames, the heat generated, and the smoke and sparks produced. Some might find it difficult to see how it could be said, when in fact smoke, sparks and excessive heat were forced into the room, that the fire was always confined within its proper limits. It could only be true of the actual flames. I asked counsel for the defendant what the position would be if the excessive heat had caused some of the bags to ignite, and the answer was that the loss would be within the policy – and yet it would have been just as true to say that the fire had not been brought out of the flue. I might put the question in a more awkward way. Suppose that some bags ignited and some were merely ruined by the heat. There would be liability for the former, but not for the latter, according to his view, yet the only distinction would be that in the one case there was ignition and in the other there was not.

The next report of this case to which I will refer is in Holt 126. There one can find little, if any, reference to this point about the fire escaping from its proper place. According to that report, I think that the ground upon which GIBBS, C.J., directed the jury was this [pp. 127, 128]:

As no substance, therefore, was taken possession of by the fire, which was not intended to be fuel for it, as the sparks and smoke caused no mischief, but as the damage arose from an excess of heat in the rooms, occasioned by the register being shut, I am of opinion that the plaintiffs are not entitled to recover.

The main point, and the point in the forefront there, is surely that no substance was taken possession of by the fire which was not intended to be fuel for it.

The editor’s note about that case is as follows, at p. 128:

It is not to be concluded from this case that an insurer on a policy against fire is exempt from a loss occasioned thereby, on the ground that the servants of the assured have been careless or unskillful, and that the fire was occasioned by their negligence and misconduct. An insurer would unquestionably be answerable in such a case. The spirit of the decision of the present case is this: that there was no loss by fire, by whatever cause or misconduct produced. The injury arose from the misdirection of heat, occasioned by the unskillful management of the machinery in the sugar house. It was not, therefore, in any fair and reasonable construction of the policy, one of those accidents against which the defendant had engaged to indemnify the plaintiffs.
Therefore, the test of liability according to that report and according to that note is surely whether or not something has been consumed by fire which was not intended to be consumed.

There was a motion for a new trial in the Court of Common Pleas, and I turn to the report of that motion in 6 Taunt 436. It is interesting to read the arguments in that case and see how it was dealt with. The Solicitor-General, said this, among other things, at p. 438:

If actual flame was the cause of the damage, it matters not whether the fire was properly or improperly lighted, but the question is whether fire occasioned the damage. If any other criterion be taken, it would in many cases of policies against fire introduce nice and intricate questions. It cannot be necessary that the fire, to produce a loss within the policy, should be only such fire as is communicated to some substance not contained in the intended and proper receptacle of fire.

Then he goes on to give other illustrations. He has put the very point for which counsel for the defendant contends. GIBBS, C.J., is reported to have said this, at pp. 438, 439:

I think it is not necessary to determine any of those extreme questions. In the present case, I think no loss was sustained by any of the risks in the policy. The loss was occasioned by the extreme mismanagement by the plaintiffs of their register. I so directed the jury, and I have no reason to alter the opinion I then formed.

Then DALAAS, J., said, at p. 439:

I am of the same opinion. The only cause of the damage appears to me to have been the unskillful management of the machinery by the plaintiffs’ own servants, and it is therefore not a loss within the meaning of the policy.

The rule was refused, apparently on the ground of negligence. Be that as it may, it is very difficult to argue that this case is an authority for the construction put upon it by counsel for the defendant, when it is said by GIBBS, C.J., in terms, “I think it is not necessary to determine any of those extreme questions”, one of them being this very question whether or not it is necessary that the fire should have taken place in some place other than the place where the fire was intended to be.

There was fourth report of this same case. It is in 2 Marsh. 130, GIBBS, C.J., is reported, at p. 132, in the same language as I have just read, and DALAAS, J., said:

His Lordship’s direction appears to me to have been perfectly right, and the jury have drawn a perfectly correct conclusion from it. There was nothing on fire which ought not to have been on fire; and the loss was occasioned by the carelessness of the plaintiffs’ themselves.

Then PARK, J., concurred. The words “There was nothing on fire which ought not to have been on fire” suggests that the test of liability is that there must be the ignition of something which ought not to be ignited. In that case, there was no ignition of anything but the fuel, and, therefore, there was no liability, and no fire within the policy. The test is there laid down by DALAAS, J., and concurred in by PARK, J. That is exactly the case for which the plaintiff here contends - namely, that there was ignition here of something which ought not to have been ignited, newspaper, sticks of wood, banknotes, cotton, leather, jewellery, and so on.
The next case to which I was referred was *Everett v. London Assurance* (1865) 19 CBNS 126. That was a claim on a policy of insurance against fire. There had been an explosion about a quarter of a mile away which had damaged the plaintiff’s premises, so that the windows had been blown in and other damage sustained, and a claim was made that this was damage caused by fire within the meaning of the policy. The argument as to the effect of *Austin v. Drewe* is not without interest. It took the form of a quotation from MARSHALL ON INSURANCE, Vol. 2, Book IV (a), p. 790, which is as follows:

In MARSHALL ON INSURANCE, Vol. 2, Book IV (a), p. 790 (Edn. 1823), it is said that

“by the terms of the usual policy, the insurers undertake to pay, make good, and satisfy to the insured all loss or damage which may happen by fire during the term specified in the policy... In order, therefore, to bring the loss within the risk insured against, it must appear to have been occasioned by actual ignition; and no damage occasioned by mere heat, however intense, will be within the policy.

In support of that proposition, *Austin v. Drewe* was relied upon. It ended up with a quotation with reference to *Austin v. Drewe* that the sugar was damaged “not by the smoke but by the excessive heat: but *nothing took fire.*” Those last words, “nothing took fire”, are in italics, showing that those were the words intended to be taken as the test. In that case, BYLES, J., said, at p. 134:

The expression in the policy which we have to construe is “loss or damage occasioned by fire.”

That is exactly the expression which I have to construe in this case, except that I have the word “caused” instead of the wood “occasioned.” Then BYLES, J., continues as follows, at p. 134:

Those words are to be construed as ordinary people would construe them. They mean loss or damage either by ignition of the article consumed, or by ignition of part of the premises where the article is: in the one case, there is a loss, in the other damage, occasioned by fire. LORD BACON says: “It were infinite for the law to judge the causes of causes, and their impulsions one of another; therefore it contented itself with the immediate cause, and judged the acts by that, without looking to any further degree.”

It is a little too wide, because it is clear that there need not be ignition of part of the premises where the article is if the loss is, occasioned by the ignition of premises in the near neighbourhood, but the result is the same.

There is one other case to which I was referred, and that is *Upjohn v. Hitchens* [(1918) 2 K.B. 48]. During the argument in that case, SCRUTTON, L.J., said, at p. 61:

It has been held, however, that “fire” within the meaning of a fire policy means fire which has broken bounds, so that damage caused by excess of fire heat in an ordinary grate is not damage by fire within the policy.

I do not think that I can attach very much weight to an intervention of that kind with no argument about it, but there is something which I think is a little more relevant in the
judgment of PICKFORD, L.J., at p. 53. In that case, there was a covenant to insure premises against loss or damage by fire, and the question was whether such damage was within a policy which did not cover the premises for damage caused by enemy aircraft. PICKFORD, L.J., said,

Nor am I impressed by the other case put where it has been held that the ordinary policy against fire does not cover damage caused by overheating from a fire in an ordinary grate. There the damage was held not to be damage by fire, but damage by heating, damage caused by an ordinary domestic fire not being covered unless it sets fire to the house.

He must have used the word “house” because he was dealing with a case of fire in a house.

Substituting the words “insured property”, again I find the same test laid down by HALLETT, J., in a similar case. The weight of authority seems to me to be strongly in favour of the test contended for by counsel for the plaintiff, and I think that the true test is whether or not there has been an ignition of the insured property which was not intended to be ignited. If there has been, the loss is one caused by fire. That is to say, has insured property been damaged otherwise than by burning as a direct consequence of the ignition of other property not intended to be ignited? In other words, I base my view in substance on what DALLAS, J., said in Austin v. Drewe.

I was referred to textbooks, including one very old one, MARSHALL ON INSURANCE, a quotation from which I read in Everett’s case. The next, I think, was BUNYON ON INSURANCE. There is no suggestion in Bunyon’s book of this limitation about the fire being restricted to places where fire is not intended to be. There is a paragraph describing his view of the risk insured against, at p. 161:

The “risk” must now be construed as applicable not only to loss by fire, but also to loss by the agency of the other perils insured against. In the case of loss by fire, there must, of course, be actual ignition, not necessarily of the property itself, but of some substance near to it.

He refers to Austin v. Drewe and continues as follows, at p. 162:

It is not, of course, necessary that the property must be itself on fire, since losses by smoke and water, when the fire has not touched the objects insured, are familiar to all managers of insurance offices. All that appears to be necessary is, that something should have caught fire, and damage have been thereby occasioned to the insured property.

The next was MACGILLIVRAY ON INSURANCE, which was the one textbook in which counsel for the defendant could find any support for his contention, because the author says, at p. 809:

Fire within the meaning of a fire policy means fire which has broken bounds. There must be actual ignition where no ignition ought to be. Damage caused by excess of fire-heat in its proper place, or by smoke from a fire in its proper place, is not damage by fire. Thus, where articles are destroyed in process of manufacture by
the excessive application of heat, whether by negligence or pure misadventure, the
damage cannot be recovered as damage by fire, unless they have actually ignited.

I do not know exactly what that means, but at any rate there is some suggestion there on the
lines of the argument of counsel for the defendant. In my view, however, a careful
examination of the one authority on which that rests really negatives his argument that that
case is an authority for his proposition.

Then, as a matter of interest, I was referred to WELFORD AND OTTER BARRY ON FIRE
INSURANCE, 2nd Edn., p. 61:

Any loss, therefore, occasioned by such a fire, whether by the burning of any
property in the fire itself, or by the scorching or cracking of any property adjacent to
it owing to its intense heat, if unaccompanied by ignition, is not covered by the
contract, since the cause of the loss cannot be regarded as a peril insured against.

That line in particular, “whether by the burning of any property in the fire itself”, was
strongly relied upon by counsel for the defendant. However, the answer was to refer to
WELFORD AND OTTER BARRY ON FIRE INSURANCE, 3rd Edn., p. 59. Before one refers to
what is said there. I want to refer to the preface to the third edition:

Many questions in fire insurance are not covered by direct authority, and may still
be regarded as open. In discussing such questions, an attempt has been made to
answer them... Another example, which is discussed for the first time in this edition,
is the question whether an article which accidentally falls into a domestic fire and is
burned there is destroyed by fire within the meaning of a fire policy.

There is a statement by an author that whatever may have been said in the second edition
was not the result of a discussion or consideration of this particular question, and then he
says, at p. 59:

So long as the fire is burning in the grate or furnace, it is fulfilling the purpose for
which it was lighted. If, therefore, property adjacent to the fire is merely damaged by
scorching or cracking, owing to its proximity to the fire, the loss is not covered;
though the element of accident may be present, there is no ignition of the property,
and nothing is on fire which ought not to be on fire. If, however, the fire breaks its
bounds and, by throwing out sparks or otherwise, causes ignition to take place outside
the grate or furnace, there is at once a loss by fire within the meaning of the contract.
The question then arises, what is the position where property is accidentally burned in
an ordinary fire, such as a domestic fire: the fire never breaks its bounds, but
something which was never intended to be burned falls or is thrown by accident into
the grate and is burned. In this case, equally with the case where the fire breaks its
bounds, there is an accident and something is burned which ought not to have been
burned. The only distinction between them is that in the one case it is the fire which
escapes out of its proper place and comes into contract with the property destroyed,
whereas in the other case it is the property which gets out of its proper place and
comes in contact with the fire. This distinction does not appear to be sufficient to
make any difference in the result. The object of the contract is to indemnify the
assured against accidental loss by fire, and so long as the property is accidentally
burnt, the precise nature of the accident seems to be immaterial. It may be therefore concluded that the loss in both cases falls equally within the contract.

In the textbooks, there is no clear consensus as to the meaning of these words which might force one to say that they have acquired an authorised meaning to which one can give effect. The most which counsel for the defendant can get out of the textbooks is perhaps a difference of opinion or an ambiguity. However, ambiguity is not his case, because the interpretation of those words which is most favourable to the insured must be adopted, and it seems to me that, if the underwriters wish to avoid liability, they must put words to that effect in their policy. In my judgment, the plaintiff is entitled to succeed. It is, of course, an unusual case. It has not been suggested that the loss was due to the negligence of the plaintiff. The underwriters have made it clear that they wish to stand or fall on the principle for which they have contended. I give judgment for the plaintiff for the agreed amount of £460.

* * * * *
PART – C : NEGOTIABLE INSTRUMENTS

Mohammad Akbar Khan v. Attar Singh
AIR 1936 PC 171

LORD ATKIN, J. - The suit was commenced by a plaint dated 25th July 1929, based upon a deposit receipt dated 1st April 1917, to recover the principal sum of Rs. 43,900 said to have been deposited with the defendants on deposit account with interest at the agreed rate of 5¼ per cent per annum. The alleged deposit receipt bore only an affixed stamp of 1 anna, and the Subordinate Judge in framing the issues stated as the first issue the question whether the document fell within the definition of a promissory note and was it therefore not admissible in evidence. Without hearing any evidence as to the circumstances in which the document came into existence he decided this issue as a preliminary point in favour of the defendants, holding that the document was a promissory note, was improperly stamped, and therefore, was inadmissible in evidence for any purpose under S. 35, Stamp Act. Their Lordships will discuss this decision later. Leave however was given to the plaintiff to amend; and on 2nd January 1931 the plaintiff presented an amended plaint alleging that on 1st April 1917, it was agreed between the plaintiff and the defendants that the plaintiff should deposit Rs. 43,900 with the defendants for a period of two years with interest at 5¼ per cent per annum: and that at the expiration of the two years the amount was allowed to remain in deposit with the defendants on the condition that the plaintiff would be at liberty to recover the amount with interest at any time he liked, and that interest would be credited annually in the books of the defendants. The defendants in their respective written statements denied that there was any agreement apart from that recorded in the inadmissible promissory note. They denied any agreement in 1919, they pleaded the Statute of Limitation and finally pleaded that they had repaid the money in 1919. Further issues were raised as to the liability of some of the defendants as members of the alleged joint Hindu family as members of which they were sued. As to these issues no question now arises before their Lordships. The Subordinate Judge does not appear to have thought it necessary to frame a new issue to meet the allegation in the amended pleadings of the agreement made in 1919. He heard the evidence on both sides and eventually gave judgment for the plaintiff. The plaintiff’s evidence was that when his father died in 1914 he had Rs. 25,000 deposited with the defendants which he, the plaintiff, had withdrawn in 1914, and had afterwards re-deposited in 1916 while he was engaged in the war. On his return from the war in 1917 he wished to deposit with the defendants whom he knew to be a very reliable firm of money-lenders a further sum of Rupees 50,000. He sent for the two principal defendants, father and son, and told them he wished to deposit with them the sum named.

They said they could not take so large a sum and could invest only Rs. 43,900 in a certain business. They asked him not to fix the interest higher than 7 annas, i.e., 5¼ per cent per annum. (The interest on the Rs. 25,000 had been 6 per cent). “They said they could not repay me the money within two years: after that they would repay me at any time on demand after receiving due notice.” He sent his accountant Abdulla with them to his regular bankers Duni Chand Hari Chand who conducted all his receipts and disbursements. Later Abdulla handed
him the receipt in question, which admittedly was prepared by the defendants. The plaintiff then proceeded to give evidence as to the 1919 transaction. He said that he was on duty as a martial law commander near Lahore in April 1919; and that on 21st April or 22nd on hearing of the death of his uncle he came home to Hoti on leave. While there the defendants, the father and possibly the son, came to him. They said that the two years had elapsed. “They asked what should be done about the money. I told them I did not then want to withdraw that money and would like to keep it with them as the times were uncertain. I told them to credit the interest and pay it to me when I wanted it. They agreed to this.” Before the trial the defendant Hira Singh had died, a very old man.

The son Attar Singh said that in 1917 he had taken some land on mortgage from one Hamish Gul. He, Hamish Lal, had acquired the land by pre-emption and Rs. 42,500 had to be deposited as pre-emption money, which was found by the defendant, Attar Singh. He took a loan from the plaintiff for Rs. 43,900 at 5¼ per cent interest, wrote a promissory note for this and gave it to the plaintiff himself. No mention was made of the money being placed on deposit. He made no agreement with the plaintiff after the expiration of two years to keep the money on deposit. After two years he repaid the money and the interest. His father and he both went to the plaintiff and his father paid the money.

The defendants’ story about the payment of the money was not accepted by either of the Courts in India. The absence of any receipt, the non-return of the alleged promissory note, and the failure by the defendants to produce any books dealing with the transaction amply support the finding of the trial Judge in this respect. The defence therefore had to rest upon the Limitation Act, a defence meritorious enough where the defendant has been left in long enjoyment of property: or where from the lapse of time the original existence or the discharge of an obligation is left in doubt but void of all merit where, as here, an original obligation is admitted and a fictitious discharge is falsely alleged. Nevertheless it must be carefully examined, and the plaintiff’s rights determined accordingly. The articles of the Limitation Act which are relevant are:

59. For money lent under an agreement that it shall be payable on demand: Three years from the time when the loan was made.

60. For money deposited under an agreement that it shall be payable on demand, including money of a customer in the hands of his banker so payable: Three years from the time when the demand is made.

To which should be added article

120. Suit for which no period of limitation is provided elsewhere than in this schedule; Six years from the time when the right to sue accrues.

It is therefore necessary to determine whether this was money lent by the plaintiff to the under defendant; or whether it was deposited under agreement that it should be payable on demand. An attempt was made by the plaintiff to establish that the money was deposited with the defendants as bankers payable on demand. The trial Judge accepted this view, but their Lordships are not prepared to differ from the Judicial Commissioner’s Court in this respect. That the defendants were moneylenders is admitted, but there is no satisfactory evidence that they carried on business as bankers, or indeed how such business is carried on in the North-
West Frontier Province: and in the absence of such evidence it would be unsafe to affirm the trial Judge’s finding. Was this then a loan or was it a deposit payable on demand? It should be remembered that the two terms are not mutually exclusive. A deposit of money is not confined to a bailment of specific currency to be returned in specie. As in the case of a deposit with a banker it does not necessarily involve the creation of a trust, but may involve only the creation of the relation of debtor and creditor, a loan under conditions. The distinction which is perhaps the most obvious is that the deposit not for a fixed term does not seem to impose an immediate obligation on the depositor to seek out the depositor and repay him. He is to keep the money till asked for it. A demand by the depositor would therefore seem to be a normal condition of the obligation of the depositor to repay. It is unnecessary however in this case to decide any question as to implied conditions, for the case of the plaintiff rests on an express stipulation made in 1919.

Before however coming to a final decision as to the rights of the parties it seems necessary to discuss the point decided by the trial Judge that the document signed by the defendants in 1917 was a promissory note and inadmissible because improperly stamped. No objection to this ruling appears to have been taken on the hearing of the appeal: but their Lordships thought right to allow the point to be raised before them, as it involves no question of fact: on the other hand the determination of the issue as to whether any and what agreement was made in 1919 is much embarrassed by the Court having to deal with a fund as it were in vacuo, with no evidence admissible as to how there came to be any sum in the hands of the defendants at that date having heard the discussion their Lordships have come to the conclusion that the document was not a promissory note. The Indian Stamp Act does not suffer from the defect of the English Stamp Act in ignoring the definitions in the Bills of Exchange Act, 1882, and enacting a definition of its own. According to the Indian Act, “Promissory Note” means a promissory note as defined by the Negotiable Instruments Act, 1881. By the latter Act, S. 4(a) “promissory note” is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument. There follow illustrations lettered (a) to (h) of which three only need be set out.

A signs instruments in the following terms:

(a) I promise to pay B or order Rs. 500.
(b) I acknowledge myself to be indebted to B in Rs. 1,000 to be paid on demand, for value received.
(c) Mr. B. IOU Rs. 1,000.

The instruments respectively marked (a) and (b) are promissory notes. The instruments respectively marked (c) are not promissory notes. It is necessary to refer to S. 13:

“A negotiable instrument means a promissory note… payable either to order or to bearer.”

Explanation – A promissory note ... is payable to order which is expressed to be so payable or which is expressed to be payable to a particular person, and does not
convey words prohibiting transfer or indicating an intention, that it shall not be transferable.

The instrument in question in this case is according to the authorised translation in the following terms:

May God protect us. This (one) receipt is hereby executed by Bhai Hira Singh Attar Singh Kharbanda, residents of Hoti, for Rupees 43,900 (forty three thousand and nine hundred rupees) half of which amount comes to twenty one thousand nine hundred fifty, received from the firm of Lala Duni Chand Lala Hari Chand Sethi for and on behalf of Captain Mahommad Akbar Khan of Hoti. This amount to be payable after 2 (two) years. Interest at the rate of Rs. 5-4-0 (Rs. five annas four) per cent per year to be charged. Dated this 20th day of Chetar (first month of Hindu Calendar year) Sambat 1974, corresponding to 1st April 1917. Stamp has been duly affixed

(Sd.) Hira Singh, Kharbanda. (Sd.) Attar Singh, Kharbanda.

If this document is otherwise within the definition of a promissory note, it would seem that it must be negotiable, for there appear to be no words prohibiting transfer or indicating an intention that it should not be transferable. It must be admitted that it would be a somewhat unusual visitor in the accustomed circles of negotiable paper. It is indeed doubtful whether a document can properly be styled a promissory note which does not contain an undertaking to pay, not merely an undertaking which has to be inferred from the words used. It is plain that the implied promise to pay arising from an acknowledgment of a debt will not suffice; for the third illustration indicates that an IOU is not a promissory note, though of the implied promise to pay there can be no doubt. The second illustration however seems to show that the express words “I promise” or “I undertake” are unnecessary. The form of words is taken from an early English case, reported in Casborne v. Dutton, [Selwyn’s N. P. 11th Ed. p. 401] where according to the learned author the Court stated that the words “to be paid” in the document there sued on amounted to a promise to pay, observing that the same words in a lease would amount to a covenant to pay rent. It does not appear to form a useful general illustration except in the case of a document in that particular form of words.

Their Lordships prefer to decide this point on the broad ground that such a document as this is not and could not be intended to be brought within a definition relating to documents which are to be negotiable instruments. Such documents must come into existence for the purpose only of recording an agreement to pay money and nothing more, though of course they may state the consideration. Receipts and agreements generally are not intended to be negotiable, and serious embarrassment would be caused in commerce if the negotiable net were cast too wide. This document plainly is a receipt for money containing the terms on which it is to be repaid. It is not without significance that the defendants who drew it, and who were experienced money lenders, did not draw it on paper with an impressed stamp as they would have had to if the document were a promissory note, and that they affixed a stamp which is sufficient if the document is a simple receipt. Being primarily a receipt even if coupled with a promise to pay it is not a promissory note. It will have the effect of overruling some decisions in the Indian Courts notably the case of Manick Chand v. Jomoona Doss
where the defendant had given a sale note to his customer recording a resale to him of certain rupee paper previously bought from the customer, and bringing out a difference expressed to be payable on a day in the next month. The document was a sale note coupled with an account, and in no way resembled a promissory note, or anything capable of being a negotiable instrument. Once it is decided that the document has not to be stamped as a promissory note, their Lordships are not called upon to decide whether the document otherwise bears a sufficient stamp. If that question had been raised it is sufficient to say that if improperly stamped it could have been stamped after execution under a penalty.

The further objection to the admissibility of the document was that it recorded the terms of a contract reduced to the form of this document, and that under Ss. 91 and 92, Evidence Act, no oral evidence was admissible to contradict, vary, add to, or subtract from its terms. The answer is that the document does not record or purport to record all the terms of the contract between the parties. There is nothing in the document which explains how the money came to be received: and nothing to prevent the parties from showing that it was paid by way of loan, deposit, or on account of some joint adventure. The use of the money might have been limited in various ways. The only terms which the document does express are as to the date of repayment of the money expressed to be received and as to the rate of interest. These terms the defendants do not now seek to contradict, vary, add to or subtract from. The Board therefore can proceed to examine the evidence untrammeled by the restriction imposed upon themselves unnecessarily as now appears by the Courts below of having to disregard the receipt or evidence as to the actual transaction in 1917. Their Lordships see no reason for rejecting the plaintiff’s evidence as to this which seems to be supported by evidence as to a former and, as he says, similar transaction entered into by both his father and himself as to Rs. 25,000. But it has to be remembered that the transaction in 1917 assuming it to have been a deposit was not a deposit payable on demand. The receipt shows that it was payable after the expiration of two years. Without deciding the point their Lordships prefer to assume that the evidence given by the plaintiff that it was also stipulated in 1917 that if not paid in two years it was to remain payable on demand should be rejected as inconsistent with the express terms of the document: and they are not prepared to find that there was an implied term that it should be so payable.

The real question in the case is whether there was any agreement made in 1919 and if so whether the plaintiff has established the agreement alleged by him. The outstanding fact is that after 1919 no interest was in fact paid nor was any claim made to have the principal repaid until at the earliest 1925. Obviously some explanation is required. The defendants supplied a plain tale. The principal and interest were repaid at the due date. This unfortunately is untrue. The plaintiff’s explanation is the alleged agreement in 1919 that the money and interest were to remain on deposit with the defendants payable on demand. It is uncontradicted save by a story which is shown to be false. In these circumstances it would appear that the real question for the tribunal of fact is whether there are inherent improbabilities or extrinsic facts justifying the Court in rejecting the plaintiff’s account. Their Lordships do not find that there are. The Court of the Judicial Commissioner quite rightly commented upon the fact that three witnesses were called on the plaintiff’s behalf at an early stage of the trial to support the agreements in 1917 and 1919, as alleged in the
statement of claim a different set of three for each transaction. One of the last three obviously confused the story of 1919 with that of 1917: the evidence of all six has been treated as unreliable; and their Lordships do not dissent from this view.

The plaintiff must suffer the necessary disadvantage which attaches to any party who seeks to support his case in a Court of justice with unreliable evidence. And if it could be shown that he knowingly suborned false witnesses there could be no doubt as to the result of his claim. But no evidence nor any cross-examination was directed against the plaintiff in this respect, and in his evidence he makes no reference to corroborative witnesses being present. It was considered in the judgment under appeal that the fact that the plaintiff in 1925 demanded payment of the debt of Rs. 25,000, which bore a rate of interest of 6 per cent per annum without demanding payment of the present debt which only bore a rate of 5¼ per cent, threw some doubt on the plaintiff’s case.

Again the plaintiff was not asked about this and it would not be difficult to suggest reasons why a creditor might be willing to leave a larger sum outstanding even at a lower rate of interest if he were not dissatisfied with the credit of his debtor. It seems also to be overlooked that the difficulty, if difficulty there be, applies equally to the only other alternative view that there was a loan outstanding but that it was not payable on demand. That some arrangement was made at the end of 1919 accounting for the non-payment at the stipulated date and in succeeding years seems certain. In the careful judgment given on appeal the Court says:

Probably something did happen on the expiry of two years originally fixed, but what it exactly was we have no means of ascertaining on this record. There is something which neither party is willing to disclose.

But the explanation given by the plaintiff is consistent with all the facts: the only counter-explanation was payment, which was false: no other explanation was suggested to the plaintiff who was surely entitled to have an opportunity of meeting it if it is to be used against him. In all the circumstances of this case their Lordships come to the conclusion that there was no ground for reversing the decision of the trial Judge in favour of the plaintiff. The appeal should be allowed except as against defendants 2 and 3 and the decree of the Court of the Judicial Commissioner dated 27th June 1932, should be set aside: and the decree of the Subordinate Judge dated 15th October 1931, should be restored. The appeal should be dismissed against the defendants 2 and 3 with costs and those defendants should also have their costs of the appeal against them in the Court of the Judicial Commissioner. The appellant should have the costs of the appeal against the other defendants here and in the Court of the Judicial Commissioner. Their Lordships will humbly advise His Majesty accordingly.

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Ponnuswami Chettiar v. P. Vellaimuthu Chettiar
AIR 1957 Mad. 355

PANCHAPAKESA AYYAR J. - This petition raises an interesting question of law not exactly covered by any ruling. The main point of law is whether the absence of the name of the payee in a promissory note will make the note invalid, though the payee was known with certainty even at execution. The facts are briefly these: It was a suit brought against the petitioner by one Vallaimuthu Chettiar for the recovery of Rs. 1177-8-0, the principal and the interest due on a promissory note, dated 16-11-1950, for Rs. 1000.

Two defences were raised by the petitioner in the lower courts. One was that the promissory note was not supported by consideration. The lower courts found that the promissory note was fully supported by consideration, and Mr. B. V. Viswanatha Aiyar, learned counsel for the petitioner, was not able to shake that finding which is in my opinion quite correct.

2. The next plea was that the promissory note was not executed in favour of a known and certain person and, so, would be invalid. Mr. B.V. Viswanatha Aiyar urged vehemently before me that a promissory note in favour of a person without his name being mentioned in it should be held to be totally invalid and inoperative, even though full consideration might have passed, and the person lending was known with precision even at the time of execution by the person borrowing, and though the description in the context, could refer only to him.

The description of the payee in the suit promissory note was “son of Palaniandi Chettiar.” He was certainly that. But there are also three other sons of Palaniandi Chettiar, according to the plaintiff, though they never lent a pie to the petitioner and had not come into the picture at all. I think the law is not so wooden as to allow this kind of quibbling by a debtor in a desperate attempt somehow to escape his just liability.

If really the lender was not known, and if Rs. 1000 had been brought by a maid-servant or other servant from the house of Palaniandi Chettiar and handed over to the petitioner with the statement that a son of Palaniandi Chettiar had lend him this Rs. 1000, and the petitioner had honestly been ignorant as to who the lender was, and had executed a promissory note in favour of a son of Palaniandi then the case might be at least arguable that Palaniandi had four sons and that the petitioner had executed the suit note without knowing or seeing the particular son who lend him the Rs. 1000, and so the promissory note would fail as the payee was not certain.

But here “the son of Palaniandi” who lent the money was the plaintiff Vallamuthu Chettiar, who swore to it, and it was not alleged by the borrower, the defendant, that any of the other three sons of Palaniandi had lent him a pie out of the amount in that promissory note. The other three sons were far away, and had nothing to do with the petitioner or this promissory note.

Though the name of the plaintiff was not mentioned (perhaps by sheer slip or accident), the lender and borrower knew it, and there was the description. To say that the name must always be mentioned to make a promissory note valid is, in my opinion, not sustainable in any modern court of justice, equity and good conscience, though such a plea might have been
allowed in a court, like the old Anglo-saxon Courts, deciding on outworn formulae without reference to living facts.

Many a Hindu woman will not name her husband, but to say from that that she has no husband will be absurd. Many a man is known by his caste or village or official name, or surname, like Mudaliar, Ayyar or Rao, Ambedkar, Gandhi, Nehru, Kirloskar, Prime Minister, Rajah of Sandur, etc., and not by his personal name.

To say that hundreds of Raos Mudaliars Ayyars, Gandhis, Nehrus etc., might have been the persons who lent the money, when the particular man who has lent the money is known, even at that time beyond all doubt to the lender and the borrower is in my opinion, disingenuous and meaningless. The Hindu lawgivers and Mimamsakas have said, 2000 years ago, that “I” cannot be made into “O” or “O” into “I”, by any amount of quibbling, and that arguments will not avail to show that there is no gooseberry on the palm when it is there.

So too, no amount of quibbling can change the fact that this particular promissory note was executed by the petitioner in favour of the plaintiff, that particular son of Palaniandi. This defence had been raised only because the defence of “no consideration” collapsed. The plaintiff swore that he was the man who lent, and the defendant would not swear that the plaintiff was not the man who was mentioned in the promissory note as the lender.

The description in the promissory note is, no doubt, a little defective because of the failure to mention the rank of the plaintiff among Palaniandi’s sons like “first son of Palaniandi” etc. But the evidence (which can be let in in such cases to clear the pretended, but not real, ambiguity) shows that the parties knew even then with certainty that the lender was the plaintiff, and no other son of Palaniandi.

Section 96 of the Indian Evidence Act will apply, as held by the learned Judges at the new trial and evidence regarding the name could be let in in such cases. The ruling in *Abdul Hakim Ear Mahomed v. Ebrahim Solaiman Salehjee and Co.* [AIR 1921 Cal 480], shows this. In this view, the civil revision petition has no merits, and is dismissed.

* * * * *
B.N. AGRAWAL, J. - 9. The concept of post-dated cheque was well known even in common law and it was in effect a bill of exchange payable on demand with a post-date upon which the demand was to be made. As far back as in 1776 and while the Law of Merchant was then in the process of formation, it was held in *Da Silva v. Fuller* [Sel Ca 238 MS] referred to in Chitty on Bills of Exchange, 11th Edn., (188) that a banker was not justified in paying a post-dated cheque before its actual date. In 1868 nearly a hundred years later, the Court of Queen’s Bench in *Emanuel v. Robarts* [(1868) 9 B & S 121] observed that a banker was justified in refusing payment of a post-dated cheque before its due date and that the custom of banker to do so was a part of the contract between the banker and the customer. In *Bull v. O’Sullivan* [LR 6 QB 209], the Court laid down that a post-dated cheque payable to order was an instrument payable to order on demand on its date. Later, in 1877 in *Gatty v. Fry* [(1877) 2 Ex D 265] the Court held that a post-dated cheque is not payable on the day it is issued but on the day of its date. All these cases were decided before the law was codified in England by the Bills of Exchange Act, 1882. After passing of the aforesaid Act, in *Palme 6 Palmer, Re, ex p Richdale* [(1882) 19 Ch.D. 409], it has been decided by the Court of Appeal that a post-dated cheque was equivalent to a bill of exchange payable on a future date, namely, the date of the cheque. In *Hinchcliffe v. Ballarat Banking Co.* [1870 1 VR (L) 229] the Court determined the exact point in question in the present case against the bank, holding that a post-dated cheque is a bill of exchange payable at a future date and that the banker may be liable to an action by the customer for negligence if he pays such cheque before the day it bears date.

10. In the high authority of *Royal Bank of Scotland v. Tottenham* [(1894) 71 LT 168], similar question was the subject-matter of consideration before the Court of Appeal in which Lord Esher, M.R., after due consideration observed thus:

“A cheque is a contract between the parties, and it is for a Judge at the trial to construe that contract by reading what is written upon it. Reading this cheque, upon its face it is dated the 10th of August, and is payable to order. What is the true construction of that contract upon reading it? It is simply an order to pay £ 250 upon demand. It is said that this is not the proper construction under the circumstances, because the cheque was signed on the 3rd of August, and handed over to the payee on the 8th of August, being dated the 10th of August. It is said that the cheque was, therefore, a post-dated cheque. Upon those facts being proved before the Judge, what ought he to do? Must he say that, in construing this written document, because it was handed over before the day of the date written upon it, he must put a different construction upon it and say that it is not a bill payable upon demand, but a bill payable two days after the day of its issue or negotiation? I have never heard of a cheque being so construed, and the argument of the appellant is entirely fallacious.... It is not denied that, by the Bills of Exchange Act, 1882, a post-dated cheque is not made invalid;.... The objection as to post-dating a cheque is therefore now an
obsolete and useless objection. If a cheque is dealt with as a bill of exchange before the date which it bears, then it becomes a bill of exchange in the ordinary sense; but it is not in any way an escrow. All the defences and objections are futile and must fail.”

14. In Halsbury’s Laws of England, 4th Edn. (Reissue) Vol. 3(1), at p. 143, procedure to be adopted by the bank in relation to post-dated cheque has been enumerated which reads thus:

“Post-dated cheques are not invalid, but the banker should not pay such a cheque if presented before the date it bears. If, therefore, a cheque dated on a Sunday is presented on the previous business day, it should be returned with the answer ‘post-dated’. A post-dated cheque, however, if presented at or after its ostensible date, should be paid though the banker knows it to be post-dated, and even if it has been presented before the date and refused payment.”

15. In Chalmers & Guest on Bills of Exchange, Cheques and Promissory Notes, 15th Edn., at p. 74, the concept of “post-dated cheques” has been explained as under:

“Post-dated cheques - Cheques are often issued post-dated, that is to say, bearing a date later than that on which they are in fact issued. The purpose of issuing a post-dated cheque is to prevent the drawee banker from paying the cheque to the payee or a holder before the date written on the cheque. It is clear that the instrument is a cheque once the date written on it arrives. But its status is unclear prior to that date. It is arguable that, between the date of its issue and the date written on the cheque, it is not payable on demand and so cannot be a cheque but an instrument of a different kind. The view has been expressed that: ‘so far as regards its practical effect, a post-dated cheque is the same thing as a bill of exchange at so many days’ date as intervene between the day of delivering the cheque and the date marked upon the cheque’. It has also been stated that the effect of issuing a post-dated cheque is equivalent to giving a promissory note not payable until the date written on the cheque.”

16. In Thomson’s Dictionary of Banking, 12th Edn., p. 463 “post-dated” has been defined as follows:

“Post-dated - A cheque which is dated subsequent to the actual date on which it is drawn, and which is issued before the date it bears, is called a post-dated cheque. A post-dated cheque should not be paid before the date appearing thereon.... A cheque presented for payment before the date has arrived should be returned marked ‘post-dated’”

17. F.E. Perry in The Law and Practice Relating to Banking : 1, at pp. 137 and 138 has dealt with “post-dated cheque” as under:

“A cheque must not be post-dated, that is, dated after the day on which it is presented for payment to the drawee branch. Post-dated cheques present far more difficulties to the banker than antedated cheques: There are practical difficulties rather than legal ones.... But a cheque is generally post-dated because the drawer
does not expect to have the funds to meet it until that date arrives. It is a mandate to the banker to the effect that it should not be paid before that date arrives.”

18. In *Jiwanlal Achariya v. Rameshwarlal Agarwalla* [AIR 1967 SC 1118] a cheque dated 25-2-1954 was delivered on 4-2-1954 and encashed soon after 25-2-1954. This Court was considering the question of payment envisaged within the meaning of Section 20 of the Indian Limitation Act, 1908 and delivering the majority judgment, Wanchoo, J. observed thus:

“Where, therefore, the payment is by cheque and is conditional, the mere delivery of the cheque on a particular date does not mean that the payment was made on that date unless the cheque was accepted as unconditional payment. Where the cheque is not accepted as an unconditional payment, it can only be treated as a conditional payment. In such a case the payment for purposes of Section 20 would be the date on which the cheque would be actually payable at the earliest, assuming that it will be honoured….. As the payment was conditional it would only be good when the cheque is presented on the date it bears, namely, 25-2-1954 and is honoured. The earliest date, therefore, on which the respondent could have realised the cheque which he had received as conditional payment on 4-2-1954 was 25-2-1954 if he had presented it on that date and it had been honoured.”

19. From a bare perusal of Sections 5 and 6 of the Act it would appear that a bill of exchange is a negotiable instrument in writing containing an instruction to a third party to pay a stated sum of money at a designated future date or on demand. On the other hand, a “cheque” is a bill of exchange drawn on a bank by the holder of an account payable on demand. Under Section 6 of the Act a “cheque” is also a bill of exchange but it is drawn on a banker and payable on demand. A bill of exchange even though drawn on a banker, if it is not payable on demand, it is not a cheque. A “post-dated cheque” is not payable till the date which is shown thereon arrives and will become cheque on the said date and prior to that date the same remains bill of exchange.

* * * * *
WALI ULLAH, J. – This is an appeal by the defendants against the decree passed by the learned Civil Judge decreeing the claim due on the basis of a promissory note dated 25-8-1928. The suit was instituted by B. Madan Lal Khemka as Secretary of Baba Kali Kamliwala Panchaiti Kshetra, Rishikesh, a registered society under Act 21 of 1860. The two defendants impleaded were Lala Lachmi Chand and his son, Onkar Prasad. As mentioned above, the suit was decreed against the defendants, both of whom filed an appeal in this Court. Lala Lachhi Chand died during the pendency of the appeal leaving his son Onkar Prasad, appellant 2, as his sole legal representative. The position, therefore, is that Onkar Prasad is the sole appellant in this case.

2. The case set out in the plaint was to this effect. A pro-note was executed by Lala Lachhmi Chand, defendant 1, on 25-3-1928 for a sum of Rs. 10,000. The rate of interest stipulated was 12 annas per cent per mensem. It was in favour of Shri 108 Baba Kali Kamliwala Ramnath Maniramji of Rishikesh. On 28-7-1930 a sum of Rs. 4800 was paid by defendant 1 through one Mt. Draupadi. On 25-8-1932 a fresh pro-note was executed in renewal of the previous pro-note by both Lala Lachhmi Chand and Onkar Prasad for a sum of Rs. 8363 the total amount then found due. On 5-11-1934 another pro-note by way of renewal was executed for Rs. 9887-43. It was executed by Lala Lachhmi Chand alone. In November 1937 another pro-note is said to have been executed in respect of the amount found due on the previous pro-note and handed over to the creditor. Along with this pro-note a letter (Ex. 5) dated 3-11-1937 acknowledging the liability for payment of Rs. 12,024-1-6 then due was sent over the signatures of both Lala Lachhmi Chand and Onkar Prasad. Lastly, on 14-11-1939 a pro-note was executed by both Lachhmi Chand and Onkar Prasad for a sum of Rs. 13,302-11-9. This purported to be by way of renewal of the pre-existing liability under the former pro-note. The plaint was filed on 4-11-1942 with the allegations set out above and it was specifically stated in para. 7 of the plaint that the cause of action for the suit arose on 25-8-1928, the date of the original transaction, and it was stated that limitation was saved by reason of the subsequent acknowledgment in the form of pro-notes executed from time to time by the defendants in favour of the plaintiff.

3. The defendants resisted the suit on various grounds. Of them the most material pleas were these: (i) The suit was misconceived inasmuch as the plaintiff was not a payee under the pro-note of 1928 and consequently was not entitled to sue under the provisions of the Negotiable Instruments Act; (ii) that the cause of action on the basis of the pro-note of 1928, as set out in the plaint, did not exist; and (iii) that in any event, the defendants were “agriculturists” and as such entitled to the benefit of the Agriculturists’ Relief Act in the matter of reduction of interest and the grant of instalments. It may be mentioned here in passing that the plaintiff admitted that the defendants were agriculturists. It is also a matter of admission that both the defendants were members of a joint Hindu family and Lachhmi Chand was the Karta of that family.

4. The facts, as set out in the plaint, were substantially admitted. The defendants led no oral evidence while the plaintiff contented himself with the production of one single witness
Bishambhar Sahai, the Karinda of the plaintiff. Bishambhar Sahai produced the plaintiff’s Bahi Khata from Sambat 1995 to Sambat 1998. His evidence was to the effect that the plaintiff’s accounts were kept regularly and defendants, accounts were sent to them regularly. His evidence was also intended to prove that all the loans advanced by Baba Ramnath Maniramji were actually advanced by the Kshetra Kali Kamlivala which was the real creditor. The documentary evidence in the case consists of various pro-notes executed from time to time and the correspondence exchanged between the parties as well as the statement of the defendants’ accounts as they stood in the Bahi Khatas of the plaintiff.

5. The learned Civil Judge, on a consideration of the materials on the record, came to the conclusion that the defendants were “agriculturists” but that the plaintiff was not a “creditor” within the meaning of S. 32, Agriculturists’ Relief Act. On the main question, whether the plaintiff was debarred from suing on the pro-note dated 25-8-1928, the learned Civil Judge seems to have missed the real point which had to be decided. He came to the conclusion, to quote his own words, that “there was no legal defect in the plaint” and in view of the renewals of the original loan he held that the suit was within limitation. In view of the findings recorded by him, he decreed the claim with costs and pendente lite and future interest at 3 per cent per annum payable by monthly instalments of Rs. 500 each, first instalment falling due on 1-9-1943. On failure to pay any of those instalments the whole amount due was directed to be recoverable at one.

6. Learned counsel for the appellant has strongly contended that the plaintiff not being the “payee” of the pro-note could not, by reason of S. 78 read with S. 8, Negotiable Instruments Act, successfully enforce the liability of the defendants under the pro-note. We have heard learned counsel for the parties at great length on this question. Our attention has been invited to a large number of rulings both of this Court as well as of other High Courts. The relevant provisions of the Negotiable Instruments Act are contained in Ss. 8 and 78 of the Act.

7. Reading the two sections together it is clear that the person to whom the payment should be made in order to discharge the maker or the acceptor from all liability under the instrument is the “holder” of the instrument or his accredited agent, such as a banker acting as an agent for collection. The “holder” of a promissory note is essentially the person who “entitled in his own name.” The words “entitled in his own name” are obviously most significant. The legislature appears to have clearly intended to prevent any one from claiming the rights of a “holder” under the Act on the grounds that the ostensible holder is a mere name-lender. The term “holder”, therefore, does not include a person who, though in possession of the instrument, has not the right to recover the amount due thereon from the parties thereto. The principle enshrined in S. 78 of the Act is clearly in accordance with the basic principle underlying the law relating to negotiable instruments, viz., that the doctrine of benami will introduce an element of uncertainty greatly hampering the free circulation of negotiable instruments. The Negotiable Instruments Act has been enacted for encouraging trade and commerce and the underlying principle undoubtedly is that promissory notes, bills of exchange, and cheques should be negotiated as apparent on their face without reference to the secret title to them. It is for this reason that the provisions of S. 78 provide that in order to discharge the maker or acceptor from liability payment must be made to the “payee” or the “holder” of the instrument. Section 48 of the Act provides for the negotiation of a promissory
note by the holder by means of an endorsement and delivery. The effect of such endorsement and delivery is to transfer to the endorsee the property in the note with a right to negotiate it still further. It would appear, therefore, that the property, or ownership, in a promissory note including the right to recover the amount due thereon is vested by statute in the holder of the note. The express words of s. 78 no doubt do not negative a right of suit but the effect of allowing a suit by any one except the payee or the holder of the note would necessarily be to put the maker or the acceptor of the instrument in a most difficult situation. As has been said, a person so circumstanced is liable to be shot at twice: once by the person who is the “real” holder and then again by the person who is the “holder” within the meaning of the Negotiable Instruments Act.

8. Under the general law, a principal can institute a suit to enforce a contract entered into by his agent though his name is not disclosed but S. 78, Negotiable Instruments Act, clearly implies that there is an exception to the general rule so far as negotiable instruments are concerned. There are numerous cases in the reports and quite a number of them have been brought to our notice in the course of arguments by the learned counsel in which S. 78 of the Act has been strictly construed, and it has been held that a valid discharge can be given to the maker or acceptor of the instrument only by the payee of the note or the holder thereof. It has further been clearly laid down that there is no such thing for this purpose as a benami promissory note taken in the name of one person but really meant for the benefit of another. Where a hand-note is executed in favour of a benamidar it is not open to the promisor to assert that the holder of the note is not the beneficial owner. Conversely, if a suit is to be based upon the hand-note it must be instituted by the holder whose name appears on the note and not by any person who alleges that the original holder is his benamidar and that he is the beneficial owner. It was observed by their Lordships of the Privy Council in Sadasukh Janki Das [AIR 1918 PC 146] that:

“It is of the utmost importance that the name of a person or firm to be charged upon a negotiable document should be clearly stated on the face or on the back of the document, so that the responsibility is made plain and can be instantly recognised as the document passes from hand to hand ... It is not sufficient that the principal’s name should be “in some way” disclosed, it must be disclosed in such a way that on any fair interpretation of the instrument his name is the real name of the person liable upon the bills.”

With reference to the contention based on Ss. 26, 27 and 28 of the Negotiable Instruments Act, their Lordships observed:

“These sections contain nothing inconsistent with the principles already enunciated, and nothing to support the contention, which is contrary to all established rules, that in an action on a bill of exchange or promissory note against a person whose name properly appear as party to the instrument, it is open either by way of claim or defence to show that the signatory was in reality acting for an undisclosed principal.”

9. As a corollary to the general rule above indicated, it has been held that the “real” creditor, as distinguished from the payee or the holder of the instrument, cannot be allowed to
fall back upon the original consideration and to sue for the money advanced by him independently of the promissory note by proving the actual loan. On the contrary, obviously with a view to moderate the rigour of the general rule above indicated, it has been held in a number of cases that section 78 does not in reality deal with a right of suit and looking to the language of section 78 that is obviously correct. It has accordingly been held that the real owner is entitled to sue provided he is in a position to obtain a good discharge from liability from the maker or acceptor of the instrument. The fact that a person who is not the holder of the instrument cannot claim the privileges of a “holder”, so it has been held, does not disentitle him from suing. Thus, in a suit brought by the “real” creditor to which the maker and the holder of the promissory note were parties a decree was passed against the maker with a proviso that payment shall be made to the real creditor only on his securing a valid discharge of the maker from the holder of the note. The contention that the real creditor, the holder of the promissory note being his benamidar, is precluded from maintaining a suit for enforcement of the liability incurred by the maker under the pro-note was repelled. With the utmost respect to the two learned Judges, we must say we find ourselves in full agreement with their views.

10. As must have been noticed from the discussion and the decisions in the cases above referred to judicial opinion on the question whether a suit lies at the instance of the real holder as distinguished from the payee or the endorsee of a promissory note is far from unanimous. The broader view, however, which has been accepted in some of the cases appeals to us as the one more in consonance with the dictates of justice and fairplay. It must, however, be carefully noted that in all these cases, with the exception of the Nagpur case, the “holder” of the note was himself a party to the suit. In the Nagpur case, however, the promissory notes in question were in favour of Khudai Dad Khan and not in favour of the firm of partnership that had instituted the suit. In that case Khudai Dad Khan does not appear to have been impleaded as a party but he had entered the witness box and was evidently agreeable to the decree being passed in favour of the plaintiff (the partnership). Under those circumstances the decree in favour of the firm was maintained provided the firm obtained within one month from the date of the decision a proper discharge from Khudai Dad Khan exonerating the defendant from all liability to him under the pro-note.

11. Reverting to the facts of the present case we find that the pro-note dated 25-8-1928 as also the pro-notes executed subsequently by the defendants were all in favour of Shri 108 Baba Kali Kamliwala Ramnath Maniramji or Rishikesh, that is to say, in favour of an individual person, namely, Ramnath Maniramji of Rishikesh. It is true that in the pro-note dated 5-11-1934 Baba Ramnath Maniramji is described as “the owner and manager of the Kshetra Baba Kali Kamliwala” but that cannot be of any help to the plaintiff-respondent in this case. It is beyond dispute therefore that the original pro-note as well as the pro-notes executed subsequently were in favour of Ramnath Maniramji Maharaj, may be that he was the owner and manager of what became a registered society as Baba Kali Kamlawiwal Panchaiti Kshetra, Rishikesh, in the year 1932 – we are informed that the society was registered on 4-1-1932 – but that fact, in our judgment, cannot make any real difference. The position, therefore, is that the suit has been instituted in the name of a registered body and the payee of the promissory note in question is not a party to the suit. During the course of the hearing of
this appeal we were informed by the learned counsel that Ramnath Maniramji Maharaj was
deal. Beyond this statement of the learned counsel for the respondent, however, there is no
other indication in the record as to whether he is dead or alive and also, if he died when he
died and whether he left any heir and who that heir is. From the unrebuted evidence of
Bishambhar Sahai, the Karinda of the plaintiff respondent, it appears that the consideration of
the pro-note in question may very possibly have come out of the funds of the Kshetra Baba
Kali Kamliwala, the registered society, but in the present case we find it impossible to hold
that the plaintiff (the registered society) was (while the suit was pending in the Court below)
or is even now in a position to secure a discharge of the defendant from all liability under the
pro-note in suit. We are, therefore, constrained to hold that the present case does not fall even
within the scope of the “broader principle” referred to above, this view of the matter, the
contention of the learned counsel for the appellant must be accepted. It follows, therefore, that
the suit be instituted by the plaintiff

12. In the result, therefore, this appeal may be allowed, the decree of the Court below set
aside and the suit filed by the plaintiff-respondent dismissed.

* * * * *
H.L. AGRAWAL, J. – A money suit was filed against him by the plaintiff-respondent for recovery of a sum of Rs. 1541/15/- annas on the basis of a handnote admittedly executed by him on 4.7.1959 for a sum of Rs. 1133/11/- annas in favour of Dhir Narain Chand, the father of the plaintiff. It has been stated in the plaint, inter alia, that the plaintiff’s father had expressed his desire in presence of the defendant second party that the amount in respect of this loan would go to the plaintiff alone to which the defendant second party expressly consented. The defendant second party are the two widows of Dhir Narain Chand aforesaid.

2. Defendant No. 1 filed a written statement and contested the suit on various grounds, inter alia, that the plaintiff being not the holder of the handnote in question, she had no right to institute the suit in question. As it is only this question that is falling for my consideration, it is not necessary to advert to any other defence put forward on behalf of the defendant. The trial court; accepted the defence and dismissed the suit but on a appeal, however, the learned Additional Subordinate Judge has decreed the same and, therefore, this second appeal has been filed by defendant No. 1. The learned Additional Subordinate Judge has overcome this plea of the appellant on the ground that the plaintiff was an heir of Dhir Narain Chand who had every right to make arrangement and partition the assets among his heirs. On referring to the evidence and the circumstances on record, he has held that the plaintiff’s father did make such an arrangement according to which this debt was made realisable by the plaintiff alone.

3. In my opinion, the court of appeal below has committed an apparent error of law in decreeing the suit. Under the provisions of Section 78 of the Negotiable Instruments Act, payment of the amount due on a promissory note etc. in order to discharge the maker or acceptor thereof must be made to the holder of the instrument or if the same is endorsed then to the endorsee as provided under Section 82(c) of the Act which is not the case here. The provisions of the Negotiable Instruments Act are very specific.

4. Admittedly in this case the handnote in question is not indorsed in favour of the plaintiff nor does the recital in any way indicate the intention of the creditor for the payment of the ultimate dues by the debtor to the plaintiff. The term “Holder” has been defined in Section 8 of the Negotiable Instruments Act, according to which the holder of a promissory note, inter alia, means a person entitled in his own name to the possession thereof and to receive or recover the amount due thereon from the parties thereto. Admittedly, therefore, the plaintiff does not answer any of the descriptions mentioned above and the defendant was not bound to make the payment to her of the dues in question and as such the plaintiff has no right to institute the suit. It is not a case either of any transfer of this debt or claim which under the provisions of the Transfer of Property Act would be an “actionable claim” by the father to the plaintiff. In view of the provisions of Section 130 of the Transfer of Property Act the transfer of an actionable claim has to be effected; only by the execution of an instrument in writing signed by the transferee or his duly authorised agent and only thereafter the rights and remedies of the transferor is to vest in the transferee. The learned Additional Subordinate Judge, therefore, was not right in referring to any other mode of supposed arrangement by the father of the plaintiff and the different members of the family which did not answer this
requirement of law. Reference may be made to a decision of the Calcutta High Court in *Harkishore Barua v. Guru Mia Chowdhry* [AIR 1931 Cal 387]. As the provisions of the enactments referred to above themselves are clear, it is not necessary to cite any further authority in support of my views.

5. I would accordingly allow this appeal, set aside the judgment and decree of the court of appeal below and restore the order of dismissal of the suit passed by the trial court.

* * * *
Nunna Gopalan v. Vuppuluri Lakshminarasamma
AIR 1940 Mad. 631

LEACH, C. J. – On 10th December 1933 the respondent executed a promissory note in favour of one Maddipati Tattabayi, alias Tata, defendant 2 in the suit out of which this petition arises.

The respondent says that she paid the amount due on the promissory note two days later, but the instrument was left in the hands of the payee, who the next day endorsed it to the petitioner. The petitioner instituted a suit on the promissory note in the Court of the District Munsif of Kovur. The District Munsif passed a decree against the respondent and the payee. The respondent then appealed to the Subordinate Judge of Ellore, who confirmed the decree so far as it affected the payee, but dismissed the suit so far as it concerned the respondent. The Subordinate Judge held that the petitioner was a holder in due course, but inasmuch as the respondent had paid the amount due on the promissory note to the payee he was not entitled to recover from the respondent. The petitioner filed a second appeal, but as the amount involved was less that Rs. 500 the appeal did not lie. My learned brother Krishnaswami Ayyangar, however, allowed the appeal to be treated as an application for revision under S. 115, Civil P. C., and the case has been placed before this Bench for decision.

The opinion of the Subordinate Judge that the petitioner was not entitled to recover is contrary to the provisions of the Negotiable Instruments Act. S. 9 of the Act states that the term “holder in due course” means any person who for consideration became the possessor of a promissory note, bill of exchange or cheque if payable to bearer, or the payee or endorsee, if payable to order, before the amount mentioned in it became payable, and without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title. S. 22 says that the maturity of a promissory note or bill of exchange is the date at which it falls due. It is to be observed that in the case of a promissory note which is payable on demand, (as in this case) it does not become payable until demand is made. On demand being made it falls due immediately. S. 60 provides that a negotiable instrument may be negotiated (except by the maker, drawee or acceptor after maturity) until payment or satisfaction by the maker, drawee or acceptor at or after maturity, but not “after such payment or satisfaction.” “Such payment” means at or after maturity. S. 118 says that until the contrary is proved it shall be presumed that every transfer of a negotiable instrument was made before its maturity, and that the holder of a negotiable instrument is a holder in due course. In this case, there is no evidence of any demand having been made on the respondent before she paid the amount to the payee of the instrument and it must therefore be taken that the endorsement to the petitioner took place before maturity. According to the sections of the Act to which reference has been made the petitioner is clearly entitled to recover from the maker.

In Glasscock v. Balls [(1890) 24 QBD 13], the Court of appeal had to consider the position of a person who was a holder of a promissory note in these circumstances. The payee of the instrument had taken from the maker a further security for the same amount in the shape of a mortgage. The payee transferred the mortgage to another person, receiving on the transfer the amount of the debt. Subsequently the payee endorsed the promissory note which remained in his hands to the plaintiff for value, the plaintiff having no knowledge of the circumstances. It was held that the note, not having been paid or returned to the maker, was
still current at the time of the endorsement, and the plaintiff as a bonafide endorsee for value was entitled to recover upon it. Lord Esher said:

In this case the plaintiff sues the maker of a promissory note payable on demand as endorsee. It was admitted that the plaintiff was endorsee of the note for value without notice of anything that had occurred. The plaintiff cannot be said to have taken the note when overdue, because it was not shown that payment was ever applied for, and the cases show that such a note is not to be treated as overdue merely because it is payable on demand and bears date some time back. If a negotiable instrument remains current, even though it has been paid, there is nothing to prevent a person to whom it has been endorsed for value without knowledge that it has been paid from suing.

That is the position here. The principle laid down in *Lickbarrow v. Mason* (1787) 2 TR 63, that wherever one of two innocent persons must suffer by the acts of a third, he who has enabled the third person to occasion the loss must sustain it, has also direct application. The respondent had discharged the promissory note on 12th December 1933, but it was endorsed to the petitioner without knowledge of this fact the next day and the respondent as the maker of the note should have insisted on its return to her when she paid the amount. She did not do so and as she left the instrument in the hands of the payee and thus gave him an opportunity to commit a fraud she must suffer in preference to the petitioner. In this connexion I may point out that S. 81, Negotiable Instruments Act, provides that any person liable to pay, and called upon by the holder thereof to pay, the amount due on a promissory note, is before payment entitled to have it shown, and is on payment entitled to have it delivered up to him, or, if the instrument is lost or cannot be produced, to be indemnified against any further claim thereon against him. The respondent, having paid the promissory note without insisting on its return to her or without obtaining from the payee a guarantee, acted at her own risk.

In *Muthureddi v. Velu Asari* [AIR 1917 Mad 886], Seshagiri Ayyar J., held that the maker of a promissory note could not plead against a holder in due course that he had paid the money to the payee before the indorsement, and relied on the decision in *Nash v. De Freville* [(1900) 2 QB 72]. The only dissentient note is that struck by Pandalai J., in *Venkanna v. Subbayya* [AIR 1933 Mad 300], on which the respondent relies. There the facts were these. A promissory note was executed by *A* in favour of *B*, but the note came into the possession of his wife and her nephew who refused to give it up to *B*. As the result *B* asked *A* to give him a fresh promissory note, which *A* did. The new promissory note was subsequently negotiated by *B*. Eventually *A* paid the amount due on the promissory note to the endorsee. After *B*’s death his wife negotiated the original promissory note and the endorsee called upon *A* for payment. Liability was denied by *A* and Pandalai J. accepted his defence. This decision is clearly wrong. Apart from the provisions of the Negotiable Instruments Act the principle in *Lickbarrow v. Mason* ([1787] 2 TR 63), applied. The maker of the promissory note gave of his own free will a new promissory note without insisting on the return of the original instrument or obtaining an indemnity. Had he obtained an indemnity it would not of course have precluded the plaintiff from recovering from him, but if he had taken a proper indemnity would have safeguarded his position. *Venkanna v. Subbayya* [AIR 1933 Mad 300], was wrongly decided and cannot be allowed to stand.
It follows that the petition must be allowed and the decision of the Subordinate Judge so far as it exonerated the respondent must be set aside. The decree of the District Munsif will therefore be restored in its entirety.

* * * * *
S.D. Asirvatham v. G. Palniraju Mudaliar
AIR 1973 Mad. 439

ISMAIL, J. – The defendants are the appellants, executed a promissory note dated 6-4-1960, for a sum of Rs. 5,000 payable with interest at 12 per cent per annum in favour of one Peter Manickam. The said Peter Manickam endorsed the promissory note in favour of the respondent herein on 10-9-1964. It is on the basis of this endorsement, the respondent herein instituted the suit against the appellants for recovery of Rs. 6,800 made up of the principal of Rs. 5,000 and interest of Rs. 1,800 due under the promissory note but prayed for a decree only against the first appellant-first defendant. In his written statement, the first appellant contended that the respondent herein was not a holder in due course under law, since there was no notice of transfer and that the respondent had knowledge of the partial discharge of the suit promissory note to the extent of Rs. 3,000 on 7-8-1961, even before the transfer, and that consequently the claim of the respondent for the whole of the suit promissory note instead of only claiming the balance of Rs. 2,000 was prima facie fraudulent and collusive. He further contended that the respondent who was abetting the original payee in all the transactions knew about all the facts stated above and that the assignment of the suit promissory note in his favour was not a bona fide transfer and was a fraudulent and collusive one. The second appellant herein filed a separate written statement in which she also contended that the appellants had paid Rs. 3,000 to the original promisee on 7-8-1961, that the original promisee, as his usual custom, did not allow the first appellant to endorse the payment of this sum of Rs. 3,000 paid towards the principal amount under the suit promissory note and the same was ignored, that the original promisee has not given due credit for this payment of Rs. 3,000 and had fraudulently transferred the suit promissory note in favour of the respondent and that to a notice sent to the original promisee demanding him to give credit for the same, there was no reply. The further case of the second appellant was that the respondent was not a holder in due course and that the assignment of the suit promissory note in his favour was not bona fide, as it was vitiated by and that there was also no notice of assignment or demand from the respondent to the appellant herein.

2. The learned VII Assistant Judge who tried the suit framed the following issues:-
   1. Whether the plaintiff is not a bonafide holder in due course?
   2. Whether the principal amount of the suit promissory note was partially discharged by the defendant by payment of Rs. 3,000 on 7-8-1961 apart from payment of interest upto 27-9-1961 to the original payee?
   3. Is the suit liable to be dismissed against the second defendant?
   4. To what amount if any the plaintiff is entitled?

On issue No. 2, the learned Assistant Judge accepted the case of the appellants herein that a sum of Rs. 3,000 was paid by the first appellant to the original payee, namely, P.W. 1 under the promissory note on 7-8-1961. On issue No. 1, he held that the appellants had not established that the respondent herein was not a bona fide holder in due course. On issue No. 3 he held that the appellants had jointly executed the suit promissory note and were jointly and severally liable and therefore the respondent was entitled to pray for a decree only against the first appellant and that on that ground it could not be held that the suit was liable to be
dismissed as against the second appellant. In view of these findings, he decreed the suit as prayed for. Hence, the present appeal by the defendants in the suit.

3. The only point urged by the learned counsel for the appellants is that the suit promissory note had matured on the date of the endorsement by the original payee in favour of the respondent herein, namely, on 10-9-1964 that consequently Section 59 of the Negotiable Instruments Act, 1881 hereinafter referred to as the Act applied to the facts of this case and that therefore the respondent herein was entitled to claim only the balance of the amount due under the promissory note, after giving credit for the sum of Rs. 3,000 paid by the first appellant to the original payee, and not the full amount for which the promissory note was executed. The factual basis for this contention is Ex. B-1 dated 6-12-1961, a notice sent by the counsel for the original payee, namely, P. W. 1 to the first appellant herein demanding payment of the amount due under the promissory note. It is the correctness of this contention that we propose to consider in this appeal.

4. We may immediately mention that the appellants had not established that the respondent herein was aware of the payment of Rs. 3,000 made by the first appellant herein on 7-8-1961 or of the issue of the notice by the counsel for P. W. 1 to the first appellant on 6-12-1961 under Ex. B-1 at the time when he became an endorsee of the suit promissory note namely, on 10-9-1964. It is against this admitted fact that the question raised will have to be considered.

5. A promissory note may be payable either ‘on demand’ or “at a fixed or determinable future time.” In the present case, promissory note, is payable on demand. According to Section 22 of the Act the maturity of a promissory note is the date at which it falls due. In view of this, a Bench of this Court in Nunna Gopalan v. Vuppuluri Lakshminarasamma [AIR 1940 Mad 631] has held that in the case of a promissory note which is payable on demand the note does not become payable until demand is made and on the demand being made it falls due immediately. Basing himself on this legal position and on Ex. B-1, the learned counsel for the appellants contended that Section 59 of the Act is attracted to the facts of this case and that consequently the respondent herein will have only such rights against the appellants herein as P. W. 1, the endorser, who had received a sum of Rs. 3,000 had against the appellants. We have extracted the relevant portion of Section 59 already. That section applies only to a holder and does not apply to a holder in due course. Section 118 of the Act deals with certain presumptions and one such presumption is that a holder of a negotiable instrument is a holder in due course [S. 118 (g)]. According to Section 9 of the Act, ‘Holder in due course’ means any person who for consideration became the possessor of a promissory note bill of exchange or cheque, if payable to bearer, or the payee or endorsee thereof, if payable to order, before the amount mentioned in it became payable and without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title. Admittedly in this case at the time when the respondent herein became an endorsee of the promissory note in question on paying the full amount due thereunder, he had no knowledge of either the notice. In view of this, the question for consideration is, whether the appellants had established, having regard to Sections 9 and 118 of the Act that the respondent herein was not a holder in due course. There is absolutely nothing in the evidence adduced on behalf of the appellants to establish this case namely, that the respondent herein is
not a holder in due course. From the mere fact that there is a notice, Ex. B-1, issued on behalf of the original payee to the first appellant herein demanding payment of the money due under the promissory note or that the first appellant herein paid a sum of Rs. 3,000 to P. W. 1 as evidenced by Ex. B-5, it cannot be concluded that the respondent herein is not a holder in due course, unless it is further established that the respondent had knowledge of either or both of the facts referred to above. With reference to a promissory note payable on demand, whether a demand for the payment of the same has been actually made or not will not be apparent on the face of the document and consequently the promissory note cannot be said to be overdue under Section 59 of the Act so as to affect the endorsee.

8. In view of the legal position, it must be held that the right of the respondent herein to sue on the promissory note and recover the full amount due thereunder cannot be said to have been affected by Section 59 of the Act.

9. However, the learned counsel for the appellants repeatedly contended before us that on 10-9-1964 when the respondent obtained the promissory note by endorsement it was long overdue since the promissory note was dated 6-4-1960. We are unable to accept this argument. It is no doubt true that the second of the endorsement of payment of interest has been made on 27-9-1961, as evidenced by Ex. A-1 (b) and the respondent himself obtained the promissory note by endorsement on 10-9-1964 namely, just 17 days before the suit thereon would have been barred by limitation. But we are unable to hold that this alone will make the respondent herein as a person, not a holder in due course. As pointed out by Thiruvenkatachiar, J. in the judgment referred to already-

“If nothing more appears than that the instrument has been left outstanding for a pretty long period it cannot be concluded from that alone that the instrument had become payable when it was endorsed over to the holder as a promissory note payable on demand is according to custom and practice treated as a continuing security. For the same reason it cannot be held from that circumstance alone, that the endorsee had sufficient cause to suspect any defect in the title of the endorser.”

We entirely agree with this observation of the learned Judge.

10. The case of the appellants cannot be looked at with reference to the payment of Rs. 3000 as evidenced by Ex. B-5 dated 7-8-1961. It is admitted that this payment is not endorsed on the promissory note itself. We have already referred to the contention of the appellants in the written statement that as was usual. P.W. 1 did not allow the first appellant to endorse the payment of Rs. 3000 made towards the principal amount due under the promissory note. However, that case has not been made out. On the other hand, the evidence will show that such a plea is not true. We have already referred to the case of the appellants that the interest due under the promissory note upto 27-9-1961 had been paid by the appellants to P.W. 1. As a matter of fact, the promissory note Ex. A-1, contains two endorsements of payment of interest – one dated 28-7-1961, marked as Exhibit A-1 (a) and the other dated 27-9-1961 marked as Ex. A-1 (b). It is significant to note that the payment of Rs. 3000 towards the principal has been made on 7-8-1961 namely, Ex. A-1 (a) endorsement and before Ex. A-1 (b) endorsement. Therefore when the first appellant made Ex. A-1 (b) endorsement on 27-9-1961 there was nothing to prevent him from making the endorsement of payment of the principal
amount of Rs. 3000 on 7-8-1961. Therefore, on the face of it, the case of the appellants that P. W. 1 did not allow them to endorse the payment of the principal of Rs. 3000 on 7-8-1961 is not true. Hence, when the respondent obtained the promissory note Ex. A-1, by the endorsement dated 10-9-1964 as evidenced by Ex. A-2, the promissory note apart from containing two endorsements of payment of interest did not contain any endorsement of payment of principal sum of Rs. 3000. In such a situation, the question is whether the respondent is prevented from suing on the promissory note for the entire amount due thereunder. Even at the risk of repetition, we may point out that it is not established that the respondent had knowledge of this payment of Rs. 3000. In such a situation, it was held in Annamalai Chetti v. Maung Saing [AIR 1927 Rang 161]:

“Where the promissory note has no endorsement of any payment and there is nothing to show that the endorsee was aware of any payments to the endorser and he is a holder in due course, he is entitled to recover according to the apparent tenor of the instrument. If the instrument has been discharged, the remedy of the person paying is to sue the original payee to refund the amount which he had to pay over again.”

This decision directly applies to the facts of this case. Consequently, if the appellant herein, by not making an endorsement of payment of Rs. 3000 on the promissory note enabled P. W. 1 to perpetrate a fraud by endorsing the note in favour of the respondent herein the appellants alone would have to bear the loss. In AIR 1940 Mad 631 to which we have already made reference the facts were the respondent therein executed a promissory note in favour of the second defendant in the suit on 10-12-1933, but paid the amount due on the promissory note two days later however, the instrument was left in the hands of the payee who on the next day endorsed it to the petitioner. The petitioner instituted a suit on the promissory note. The question was, whether the respondent could be made liable or not. This Court held that when the respondent paid the amount due under the promissory note she should have insisted on its return to her and when she did not do so and left the instrument in the hands of the payee and thus gave him an opportunity to commit a fraud she must suffer in preference to the petitioner. Similarly, in the present case, when the appellants paid a sum of Rs. 3000 to P.W. 1 on 7-8-1961 and did not make an endorsement thereof on the note itself and thereby enabled P.W. 1 to endorse the note to the respondent herein for full value, they alone must suffer the loss in preference to the respondent herein. After all it should not be forgotten that even when S. 59 of the Act applies to a particular case, it merely provides for the rights of an endorsee being subject to all equities. Under these circumstances, the appeal fails and is dismissed.

* * * * *
2. The plaintiff Catholic Syrian Bank Ltd. is a banking company incorporated under the Indian Companies Act having its Head Office in Trichur and branches at various places. The first defendant firm consisting of defendants 2 to 4 as partners who are brothers, was doing business in Tellicherry in hill produces and they were allowed credit facilities by the plaintiff Bank, like accommodation by way of Hundi discount, key loan and cheque purchases up to a limit of Rs 35,00,000. A promissory note was executed by defendants 2 to 4 in favour of their mother, defendant 5 for an amount of Rs 35,00,000 and the same was endorsed in favour of the plaintiff as security for the facilities granted to the first defendant firm. Defendant 5 had also deposited the title deeds of her properties shown in the plaint schedule to create an equitable mortgage to secure the repayment of the amounts due from first defendant. The first defendant firm had dealings with defendant 6 as well as others. The first defendant firm was supplying goods consisting of hill products and used to receive payments by way of cheques. On October 26, 1974, defendant 6 drew a cheque on the Union Bank of India, Palghat Branch in favour of the first defendant payable to the first defendant firm or order a sum of Rs 2,00,000. The cheque was purchased by the plaintiff Bank from the first defendant on October 30, 1974 on valid consideration and proceeds were credited by the Bank to the account of the first defendant. Similarly another cheque was drawn on October 31, 1974 and the first defendant endorsed the same to the plaintiff for valid consideration and the proceeds were credited to the account of the first defendant who withdrew the amount at various dates. The plaintiff Bank sent the cheques for collection but the Union Bank of India returned the same with the endorsement “full cover not received”. Defendants 2 to 5 by two separate agreements offered to pay the amounts to the plaintiff Bank and as per the terms therein they were to pay Rs 1000 per month and defendant 5 was to pay the amount realised by her from the tenants by way of rent and they could pay only Rs 12,313.35. Thereupon after exchange of notices between defendant 6 and other defendants a suit was filed for the recovery of the balance amount from defendant 6 who also issued the cheques.

3. Defendant 6 who is the appellant herein, contended that the cheques were issued to the first defendant on their representation that they would supply a large consignment of pepper, dry ginger etc. and the understanding was that the cheques would be presented only after the consignment was despatched. Since the first defendant failed to despatch the goods, defendant 6 could not pay the money in the Bank and therefore the cheques were not honoured. He also pleaded that he would not admit the purchase of cheques by the plaintiff and that plaintiff was only a collection agent and there was no consideration for purchase and therefore the plaintiff was not a holder in due course. It was also contended that plaintiff acted negligently and in disregard of the provisions of law, therefore there was no valid cause of action against the defendant. It may not be necessary for us to refer to the stand taken by the other defendants. The trial court held that the plaintiff is a ‘holder in due course’ and as such is entitled to
enforce the liability against defendant 6, who is the maker of the cheques. The trial court also held that defendants 2 to 4 were personally liable for the plaint claim and the assets of the first defendant would also be liable if the hypothecation is not sufficient to discharge the decree amount. Defendant 6 alone filed an appeal in the High Court and the others figured as respondents. The High Court confirmed the findings of the trial court but modified the decree holding that immovable properties described in the schedule to the plaint would be proceeded against in the first instance and if the entire decree amount cannot be realised by the sale of those properties, the plaintiff-Bank would proceed against the assets of the first defendant-firm, and for the balance, if any, the decree-holder would proceed against defendants 2 to 4 and 6 and the liability of defendant 5 is restricted to the extent of immovable properties mortgaged by her. Aggrieved by the said judgment and decree, defendant 6 has preferred this appeal.

4. Dr Chitale, learned counsel appearing for the appellant submitted that respondent 1 herein namely the plaintiff Bank is not a ‘holder in due course’ and therefore cannot maintain any legal action against the appellant i.e. defendant 6 who had drawn the cheques. His main submission is that the plaintiff Bank acted negligently and did not act in good faith in paying the amounts due under the cheques to the defendant firm without making any enquiries regarding the “title” of the person namely defendant 1 from whom the Bank claims to have purchased the cheques for consideration. It is submitted that the cheques were issued by defendant 6, the appellant, with the understanding that the goods would be supplied and the plaintiff Bank without making any enquiries whether the goods were supplied or not and without any verification from the Union Bank of India paid the amounts to the payee namely defendant 1 within few days in a hasty and negligent manner. Therefore, according to the learned counsel, the necessary ingredients of the definition of ‘holder in due course’ in the case of plaintiff are not satisfied and consequently the plaintiff Bank cannot maintain any claim against the appellant.

5. Section 9 of the Act which defines ‘holder in due course’. The definition makes it clear that to be a ‘holder in due course’ a person must be a holder for consideration and the instrument must have been transferred to him before it becomes overdue and he must be a transferee in good faith and another important condition is that the transferee namely the person who for consideration became the possessor of the cheque should not have any reason to believe that there was any defect in the title of the transferor.

6. It is beyond dispute that the plaintiff Bank credited the proceeds to the account of the first defendant who also withdrew the amount on various dates. Therefore it has been rightly held that the plaintiff purchased the cheques for valid consideration after the necessary endorsement by the bearer before they became overdue. In this context, the learned counsel, however, contended that the plaintiff was only a holder and was only a collection agent as per the endorsement made by the first defendant. Section 8 defines ‘holder’ as a person entitled in his own name to the possession of a cheque or bill of exchange or a promissory note and to receive or recover the amount due thereon from the parties thereto. In the instant case, the holder namely the first defendant made the necessary endorsements in the two cheques in favour of the plaintiff Bank and the Bank endorsed “payee account credited”. The first defendant withdrew this amount and there is no dispute about it. It must also be noted in this
context that there is no endorsement on the cheque made by the drawer namely the appellant that the cheques are not negotiable. In the absence of the cheques being crossed as “not negotiable” nothing prevented the plaintiff Bank to purchase the cheques for a valuable consideration and the presumption under Section 118(g) comes to his rescue and there is no material whatsoever to show that the cheques were obtained in any unlawful manner or for any unlawful consideration.

7. Now the question is whether the other requirement of the definition i.e. “without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title” is satisfied. It is contended on behalf of the appellant that the cheques were issued on the representation that defendant 1 would supply the goods and that the cheques would be presented after the despatch and delivery of the goods but defendant 1 failed to despatch the goods and that plaintiff without any enquiries about the title of the payee could not have purchased the cheques because there was sufficient cause to believe that the title of the bearer was not free from defects. According to the learned counsel, the Indian law is stricter, and is not satisfied merely with the honesty of the person taking the instrument, but requires the person to exercise due diligence, and goes a step further than English law in scrutinising the causes which go to make up the belief in the mind of the transferee.

8. To appreciate the submission of the learned counsel it becomes necessary to refer to the various authorities cited by him including the textbooks, in the first instance on English law and then an Indian law on the subject. In English law, Section 29 of the Bills of Exchange Act, 1882 defines ‘holder in due course’. The relevant part of Section 29(1)(b) reads thus:

“29. Holder in due course. - (a) A holder in due course is a holder who has taken a bill, complete and regular on the face of it, under the following conditions, namely:

(b) that he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.”

Section 90 of this Act reads as under:

“90. Good faith. - A thing is deemed to be done in good faith within the meaning of this Act, where it is in fact done honestly, whether it is done negligently or not.”

These provisions have been understood and interpreted to mean that the holder should take the bill in good faith and he is deemed to have acted in good faith and if he acts honestly and negligence will not affect his title.

10. In Chitty on Contracts (26th edn.) the learned author states the requirement that must be fulfilled before a person may be considered a holder in due course as under:

“First, he must take the bill when it is complete and regular on its face. Secondly, he must take it before it is overdue and without notice that it was previously dishonoured, if such was the fact. Knowledge that a bill is bound to be dishonoured may also be relevant. Thus, a Canadian authority suggests that a holder, who has taken a cheque with the knowledge of its having been countermanded, is not a holder in due course. Thirdly, he must take it in good faith and without having notice of any
defect in the title of the person who negotiates the bill to him. In particular the title of
the person who negotiates the bill is defective when he obtained the bill or its
acceptance by fraud, duress or other unlawful means, or for an illegal consideration,
or when he negotiates it in breach of faith or under circumstances amounting to fraud.
Last, a holder in due course must take the bill for value i.e. consideration.”

The learned author dealing with the presumption of good faith has noted in paragraph
2781 thus:

“Presumption of good faith. - Every party whose signature appears on a bill is
prima facie deemed to have become a party thereto for value. Every holder of a bill is
prima facie deemed to be a holder in due course; but if the acceptance, issue or
subsequent negotiation of the bill was affected with fraud, duress or illegality, the
burden of proof is shifted, and the holder must prove that, subsequent to the alleged
fraud or illegality, value was in good faith given for the bill. Thus, once a fraud is
proved, the burden of proof is shifted to the holder who must then show not only that
value has been given for the bill, but also that he took the bill in good faith and
without notice of the fraud. If the holder can discharge this onus he is, again, in the
position of a holder in due course.”

The learned author Chitty in paragraph 2778 dealing with the subject ‘The Consideration
for a Bill’ has stated thus:

“For example, if a person whose banking account is overdrawn negotiates to his
bankers a cheque, drawn by a third party, to reduce the overdraft, the banker becomes
a holder for value of the cheque. The pre-existing debt of the overdraft, is a sufficient
consideration for the negotiation of the cheque to the banker.”

11. A consideration of the above passages and decisions goes to show that English law
requires that the holder in taking the instrument should act in good faith and that he had no
notice of any defect in the title and if he has acted honestly, he is deemed to have acted in
good faith whether it is negligently or not. With the above background of English law, we
shall now examine the Indian law on the subject.

12. In Bhashyam and Adiga on The Negotiable Instruments Act (15th edn., p. 171),
the authors have dealt with the position in Indian law and it is observed that it would be seen that
the Indian legislature has adopted the older English law as laid down by Abbott, C.J., (later
Lord Tenterden) in Gill v. Cubitt [107 ER 806] Relying on this passage the learned counsel
proceeded to submit that the Indian law is stricter than English law and requires the person to
exercise due diligence and in this context the Indian law goes even a step further than English
law in scrutinising the causes which go to make up the belief in the mind of the transferee.
Gill case is a case where a bill of exchange was stolen during the night, and taken to the office
of a discount broker early in the following morning by a person whose features were known,
but whose name was unknown to the broker and the latter being satisfied with the name of the
acceptor, discounted the bill, according to his usual practice, without making any enquiry of
the person who brought it. On these facts it was held that the plaintiff had taken the bill under
circumstances which ought to have excited the suspicion of a prudent and careful man.
Abbott, C.J. observed:
“It appears to me to be for the interest of commerce, that no person should take a security of this kind from another without using reasonable caution. If he takes such security from a person whom he knows, and whom he can find out, no complaint can be made of him. In that case he has done all any person could do. But if it is to be laid down as the law of the land, that a person may take a security of this kind from a man of whom he knows nothing, and of whom he makes no enquiry at all, it appears to me that such a decision would be more injurious to commerce than convenient for it, by reason of the encouragement it would afford to the purloining, stealing, and defrauding persons of securities of this sort. The interest of commerce requires that bona fide and real holders of bills, known to be such by those with whom they are dealing, should have no difficulties thrown in their way in parting with them. But it is not for the interest of commerce that any individual should be enabled to dispose of bills or notes without being subject to enquiry.”

Bayley, J. agreeing with Abbott, C.J., however, added:

“I admit that has been generally the case; but I consider it was parcel of the bona fides whether the plaintiff had asked all those questions which, in the ordinary and proper manner in which trade is conducted, a party ought to ask. I think from the manner in which my Lord Chief Justice presented this case to the consideration of the jury, he put it as being part and parcel of the bona fides; and it has been so put in former cases.”

Holroyd, J., having agreed with Abbott, C.J. further observed that:

“The question whether a bill or note has been taken bona fide involves in it the question whether it has been taken with due caution. It is a question of fact for the jury, under all the circumstances of the case, whether a bill has been taken bona fide or not; and whether due and reasonable caution has been used by the person taking it. And if a bill be drawn upon parties of respectability capable of answering it, and another person discounts it merely because the acceptance is good, without using due caution, and without inquiring how the holder came by it, I think that the law will not, under such circumstances, assist the parties so taking the bill, in recovering the money. If the bill be taken without using due means to ascertain that it has been honestly come by, the party, so taking on himself the risk for gain, must take the consequence if it should turn out that it was not honestly acquired by the person of whom he received it. Here the person in possession of the bill was a perfect stranger to the plaintiff, and he discounted it, and made no inquiry of whom the bill had been obtained, or to whom he was to apply if the bill should not be taken up by the acceptor. I think those circumstances tend strongly to show that the party who discounted the bill did not choose to make inquiry, but supposing the questions might not be satisfactorily answered, rather than refuse to take the bill, took the risk in order to get the profit arising from commission and interest.” (emphasis supplied)

In Chalmers on Bills of Exchange (13th edn., page 283) the learned author deals with the expression ‘good faith’ occurring in Section 90 of the said Act and it is stated as under:
“Test of bona fides.” The test of bona fides as regards bill transactions has varied greatly. Previous to 1820 the law was much as it now is under the Act. But under the influence of Lord Tenterden (Abbott, C.J. in Gill v. Cubbitt) due care and caution was made the test, and this principle seems to be adopted by Section 9 of the Indian Negotiable Instruments Act.

The learned author Parathasarathy in his book Cheques in Law and Practice (4th edn.) has also noted this aspect. At page 74, a passage reads thus:

“The Indian definition imposes a more stringent condition on the holder in due course than does the English definition. Under English law, he should not have notice of a defect in the transferor’s title and he should have taken the instrument in good faith. Under Indian law, there should be no cause to believe that any such defect existed. Hence, it is not sufficient if the holder acts in good faith. He should also exercise due care and caution in taking the instrument. Perhaps, the Indian definition is based on Gill v. Cubbitt.”

In Raghavji Vizpal v. Narandas Parmanandas [(1906) 8 Bom LR 921] the Bombay High Court, however, held that negligence does not affect the title of a person taking the instrument in good faith for value. It is observed thus:

“The test of good faith in such cases is thus: Regard to the facts of which the taker of such instruments had notice is most material whether he took in good faith. If there be anything which excites suspicion that there is something wrong in the transaction, the taker of the instrument is not acting in good faith if he shuts his eyes to the facts presented to him and puts the suspicions aside without further inquiry.”

We may also mention it here that there is no reference to Gill case in the above decision. In Bhashyam and Adiga on The Negotiable Instruments Act (15th edn., p. 172), the author having noticed the ratio in Raghavji case observed:

“The Bombay High Court quoted the later English decisions with approval and applied them to the facts of the case before them, but the question is not discussed in the light of the words of this section, and the decision is opposed to the opinion expressed by Chalmers in his commentaries on the Indian Act.”

In Durga Shah Mohan Lal Bankers v. Governor General in Council [AIR 1952 All. 590], a Division Bench examined the scope of the provisions of Section 9 of the Act and held that:

“The provision that the person must have become possessor of a cheque “without having sufficient cause to believe” is more favourable to the person who claims to have become holder in due course than the words “acting bona fide”. His claim would be defeated only if it is found that there was sufficient cause for him to believe that a defect existed. If he fails to prove bona fides or absence of negligence, it would not negative his claim. There must be evidence of positive circumstances on account of which he ought to have believed that some defect existed.”

In this case also there is no reference to Gill case. The learned counsel for the appellant submitted that the decision in Raghavji case is in favour of the appellant. He, however, conceded that the Durga Shah case is in favour of the respondent i.e. the plaintiff Bank. We
may, however, note another judgment of the learned Single Judge of the Bombay High Court in *Sunderdas Sobhraj, a firm v. Liberty Pictures, a firm* [AIR 1956 Bom 618] wherein the scope of Section 9 is considered and it is held thus:

“The rule as laid down in Section 9 of the Negotiable Instruments Act which defines “holder in due course” is stricter than the rule of English law on the subject and a payee or endorsee of a negotiable instrument can, under our law, prefer a claim to be a holder in due course of the instrument only if he obtained the same without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title.

A bona fide holder for value without notice is, of course, as I have already observed, in a different position.”

The learned Single Judge has not, however, referred to the *Raghavji* case. We have already noted that in *Raghavji* case reliance was placed on English decisions later to the decision in *Gill* case. The authors Chalmers, Bhashyam and Adiga and Parathasarathy have uniformly stated that Section 9 of the Act is based on the ratio in *Gill* case. Learned counsel appearing on both sides could not place any other decision directly on the question. The view taken by the Allahabad High Court in *Durga Shah* case is more or less in accordance with the principle laid down in *Gill* case.

13. However, with regard to the legal importance of negligence in appreciating the principle of “sufficient cause to believe” a passage from Chalmers’ book *The Law Relating to Negotiable Instruments in British India* (4th edn.) may usefully be noted:

“All the circumstances of the transactions whereby the holder became possessed of the instrument have a bearing on the question whether he had “sufficient cause to believe” that any defect existed.

It is left to the court to decide, in any case where the holder has been negligent in taking the instrument without close enquiry as to the title of his transferor, whether such negligence is so extraordinary as to lead to the presumption that the holder had cause to believe that such title was defective.”

This view is more sound and logical. The legal position as explained by Chitty may be noted in this context which reads as under:

“While the doctrine of constructive notice does not apply in the law of negotiable instruments the holder is not entitled to disregard a “red flag” which has raised his suspicions.”

We, therefore, modify the view taken by the Allahabad High Court in *Durga Shah* case to the extent that though the failure to prove bona fide or absence of negligence would not negative the claim of the holder to be a holder in due course, yet in the circumstances of a given case, if there is patent gross negligence on his part which by itself indicates lack of due diligence, it can negative his claim, for he cannot negligently disregard a “red flag” which arouses suspicion regarding the title. In this view of the matter we hold that the decision in *Raghavji* case does not lay down correct law. We agree with the view taken by the Allahabad High Court with above modification.
14. Before we apply the above principles to the facts of this case we would like to advert to another submission of the learned counsel Dr Chitale. He urged that in the instant case the plaintiff Bank has not acted in good faith and with due diligence in crediting the proceeds to the account of the first defendant inasmuch as there is no authority either by way of express or implied contract between them and the first defendant. In support of this submission he relied on certain passages in Halsbury’s Laws of England. In Halsbury’s Laws of England (4th edn. in paragraph 221, page 186), the author says:

“Bank as holder for value. - A banker who is asked by a customer to collect a cheque and who, pursuant to a contract express or implied to do so, credits the customer forthwith with the amount of the cheque before the proceeds are received, in fact receives the sum for himself and not for the customer; but he has the same statutory protection in such circumstances as if he had received payment of the cheque for the customer.

Every holder is deemed to be a holder in due course; but, if the instrument is shown to be affected by fraud, a banker dealing with it must show that he gave value in good faith subsequent to the fraud. The status of holder for value may be claimed by the bank; where cash has been given for the cheque over the counter; where the cheque is paid in reduction of an overdraft, where the cheque is paid in on the footing that it may be at once drawn against, whether in fact it is drawn against or not; or where the cheque is subject to a lien. However, the mere existence of an overdraft, though the banker’s lien in respect thereof makes him a holder for value to the extent of that lien, would not preclude the protection.

A banker who gives value for, or has a lien on, a cheque payable to order which the holder derives to him for collection without indorsing it has such, if any, rights as he would have had if, upon delivery, the holder has indorsed the cheque in blank. A banker taking such a cheque is the holder thereof and, if the requisite conditions are present, a holder for value or in due course. It is not essential that the cheque be credited to the account of the holder.”

15. In A.L. Underwood Ltd. v. Bank of Liverpool [(1924) All ER Rep 230], Atkin, L.J. dealing with the protection that can be availed by a banker in such case, observed as under:

“It is sufficient to say that the mere fact that the bank, in their books, enter the value of the cheques on the credit side of the account on the day on which they receive the cheques for collection, does not, without more, constitute the bank a holder for value. To constitute value there must be in such a case a contract between banker and customer, express or implied, that the bank will, before receipt of the proceeds, honour cheques of the customer drawn against the cheques. Such a contract can be established by course of business and may be established by entry in the customer’s passbook, communicated to the customer and acted upon by him. Here there is no evidence of any such contract.” To the same effect is the ratio laid down in Baker v. Barclays Bank Ltd (1955) 2 All ER 571 After applying the dictum of Atkin, L.J. in Underwood case, it is observed therein that “it was not enough to show merely that the bank had entered the value of the cheques on the credit side of the account on which the bank received the cheques. To constitute value there must
be in such a case a contract between banker and customer, express or implied, that
the bank will before receipt of the proceeds honour cheques of the customer drawn
against the cheques.”

17. From the above discussion it emerges that the Indian definition imposes a more
stringent condition on the holder in due course than the English definition and as the learned
authors have noted the definition is based on *Gill case*. Under the Indian law, a holder, to be a
holder in due course, must not only have acquired the *bill, note or cheque for valid
consideration but should* have acquired the cheque without having sufficient cause to believe
that any defect existed in the title of the person from whom he derived his title. This condition
requires that he should act in good faith and with reasonable caution. However, mere failure
to prove bona fide or absence of negligence on his part would not negative his claim. But in a
given case it is left to the court to decide whether the negligence on part of the holder is so
gross and extraordinary as to presume that he had sufficient cause to believe that such title
was defective. However, when the presumption in his favour as provided under Section
118(g) gets rebutted under the circumstances mentioned therein then the burden of proving
that he is a ‘holder in due course’ lies upon him. In a given case, the court, while examining
these requirements including valid consideration must also go into the question whether there
was a contract express or implied for crediting the proceeds to the account of the bearer
before receiving the same. The enquiry regarding the satisfaction of this requirement
invariably depends upon the facts and circumstances in each case. The words “without having
sufficient cause to believe” have to be understood in this background.

18. In the instant case there is sufficient evidence establishing the fact that the defendants
were allowed credit facilities up to a limit of Rs 35,00,000 by the Bank and this fact is not in
dispute. The pledging of the title deed by defendant 5 of her properties with the Bank with an
intention to create an equitable mortgage to secure the repayment of the amounts due from the
first defendant and the fact that a pronote for an amount of Rs 35,00,000 executed by
defendants 2 to 4 in favour of defendant 5 was endorsed in favour of the plaintiff Bank would
establish that there was an express contract for providing the credit facilities. It should
therefore necessarily be inferred that there is also an implied contract to credit the proceeds of
the cheques in favour of the first defendant to his account before actually receiving them. As a
question of fact this aspect is established by the evidence on record. In such a situation the
plaintiff need not make enquiries about the transactions of supply of goods etc. that were
going on between defendants 1 and 6. Even if defendant 1 has not supplied the goods in
respect of which the cheque in question were issued by defendant 6 there was no cause at any
rate sufficient cause for the plaintiff to doubt the title of the first defendant nor can it be said
that the plaintiff acted negligently disregarding ‘red flag’ raising suspicion. Viewed from this
background it cannot be said that there was sufficient cause to doubt the title nor there is
scope to infer gross negligence on the part of the plaintiff.

19. There is no material which amounts to rebuttal of the presumption in his favour as
provided under Section 118(g). On the other hand, the plaintiff has discharged the necessary
burden to the extent on him and has proved that he is a holder in due course for valid
consideration. Therefore, we hold that he could validly maintain an action against all the
defendants including defendant 6. Therefore, we affirm the judgments of the courts below and dismiss the appeal.

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RAMAPRASADA RAO, J. - The plaintiff had a personal account with the Canara Bank Limited, at its Madras Branch hereinafter referred to as the Bank on 6th April, 1964. The plaintiff was the representative of a reputed group of concerns in Coimbatore, popularly known as M/s. Lakshmi Mills Company Limited, Coimbatore, and its sister concerns at Madras. The group companies had a liaison office at Madras. There was a telephone in the Madras office of the group companies, which was apparently intended for the advantage and benefit of the sister concerns and which was in the sole administrative custody of the plaintiff.

In the course of his official duties, the plaintiff gave a cheque for Rs. 294-40 towards the telephone bill for the aforesaid telephone admittedly standing in the name of the said M/s. Lakshmi Mills Company Limited. This cheque was drawn on the personal account kept by the plaintiff with the defendant-bank. On 8th April, 1964 when the cheque came for clearance, the defendant did not honour the cheque, though the plaintiff had a sum of Rs. 653-83 to his credit in his account with the bank. On 24th April, 1964, the telephone department advised the plaintiff of the dishonour of the cheque. The plaintiff met the officials of the Bank on 28th April, 1964 and according to the defendant, the manager of the Madras Office of the Bank expressed regret for what all happened. It is said that the manager of the department approached the telephone department and requested them to re-present the cheque for payment. Apparently, the telephone department was not interested in such representation. But on prompt steps taken by the plaintiff it was resorted on 7th May 1964. As the telephone bill remained unpaid, the telephone was disconnected on 6th May, 1964. The plaintiff tried to explain to his employers the circumstances under which the cheque was dishonoured and how the telephone was disconnected and later restored. The plaintiff’s employers, however, did not, accept the explanation and on 15th June, 1964 the plaintiff’s services were terminated.

According to the plaintiff, he lost the job, which was fetching him a sum of Rs. 600 per mensum besides free boarding and lodging and a car for his conveyance, on the sole ground that the plaintiff did not pay the telephone bill in time as a result of which the telephone was disconnected. The plaintiff says that the defendant was mainly responsible for not having honoured the cheque, when there was sufficient money to his credit and such negligence on the part of the defendant bank which was wilful resulted in himself being dismissed from the reputed group concerns of M/s. Lakshmi Mills Company Limited, Coimbatore. He would allege that but for this happening, he would have continued in the mill for a period, of 10 years with better prospects and advantages and might have earned about Rs. 75,000 which had been lost once and for all. The plaintiff however, limited his claim for compensation or damages against the defendant-bank for loss of earnings for a period of five years, which he estimated at Rs. 36,000 and also claimed a sum of Rs. 14,000 for loss of prestige and status and for mental agony caused to him by losing his covetable job. As the plaintiff’s notice of demand was not respected, he filed the present action *in forma pauperis* for recovery of Rs. 50,000 being the damages suffered by him because of the wrongful dishonour of the cheque by the Bank.
2. In the written statement the defendant admits that the plaintiff had a current account with its branch office at Thambu Chetty Street, Madras, and that the plaintiff was working as the representative of Messrs. Lakshmi Mills Company Limited. They would concede that by mistake and oversight the cheque for Rs. 294-40 presented by the Telephone Department was dishonoured and that they expressed regret in person for the same and that they assured the plaintiff that they would inform the Telephone Department at Madras about the mistake and arrange for payment on representation of the said cheque. They followed up the interview with the plaintiff, by phoning up the cash Department of the Madras Telephones and requested them that the cheque may be represented once again. They were informed that the Telephone Department would do so and hence they did not take any further steps. They also expected the plaintiff to forward another cheque to the Telephone Department with a request for the representation of the same. They would allege that they have taken all possible and reasonable steps to arrange for payment of the cheque on representation. According to the defendant, if the facts relating to the dishonour of the cheque was conveyed to the Managing Agents of M/s. Lakshmi Mills Company Limited, Coimbatore, and if, after all this, the Mills terminated the service without reference to the Bank, it was an arbitrary act on the part of the employers and would allege that the said termination of service and the damages claimed and said to have been suffered by the plaintiff cannot, in law and in fact, be said to flow naturally from the dishonouring of the cheque. They would deny that the plaintiff was entitled to the damages as claimed by him and would refer to certain incidents in 1963 and 1964 which would reflect upon the status of the plaintiff. In any event, they would say that the plaintiff did not take immediate steps to avert the consequence, which would flow from the dishonour of the cheque and mitigate the damages. The claim for Rs. 50,000 is excessive and unreasonable. The defendant would specifically plead that the plaintiff ought to have issued a fresh cheque on his account or utilised the other funds of his employer for paying the telephone bill and he, not having taken such steps, cannot claim the exaggerated amount of Rs. 50,000. The plaintiff filed replication and answered that the reference made by the Bank to his dealings in 1963-64 were irrelevant besides being incorrect. He would add that when the cheque issued towards the telephone bill of a reputed company was not honoured, it did react on the reputation of the company and it is only on account of the dishonour and the supervening disconnection of the telephone, that his services were terminated. The correspondence that ensued between the plaintiff and his employers will disclose how the principals were greatly upset by the dishonour of the cheque and the later disconnection of the telephone and would assert that the immediate and proximate cause for his termination of service is the wilful and negligent act of the dishonour of the cheque by the defendant-bank.

3. A supplemental written statement was also filed wherein again the defendant would reiterate their stand. On the above pleadings, the following issues were framed:

1. What is the total compensation or salary which the plaintiff was entitled to as employee by the Lakshmi Mills Limited, and sister concerns as alleged by him?
2. Whether the defendant is not liable to compensate the plaintiff for the damage or loss caused to him by the default in honouring the plaintiff’s cheque?
3. Was the dishonouring of the plaintiff’s cheque wilful and negligent?
4. Was the damage claimed by the plaintiff, the natural and reasonable consequence of dishonouring the cheque by the defendant bank?

5. Was the service of the plaintiff terminated by the Lakshmi Mills Limited, and sister concerns as a result of the dishonouring of the cheque?

6. To what damages, if any, general and special is the plaintiff entitled to? and

7. To what relief?

4. On issues 2 and 3, the trial Court found against the defendant. It held that the dishonouring of a cheque by a Bank if it is due to mistake cannot affect the liability of the Bank to pay damages, which would reasonably flow from their wrongful act. It also observed that the conduct of the Bank throughout reflects that they were negligent in handling the transaction and hence, would find that the dishonoring of the cheque issued by the plaintiff, in the circumstances, should be viewed to be due to indifference and wilful negligence. On issues 4 and 5, the trial Judge found that the action of Lakshmi Mills Company Limited, against the plaintiff was because of the disconnection of the telephone and such disconnection was because of the dishonour of the plaintiff’s cheque Exhibit A-1 by the defendant Bank. On issues 1 and 6, the trial Court estimated the damages in all at Rs. 14,000 and decreed the suit accordingly and directed the defendant to pay Court-fee on the amount allowed and directed the plaintiff to pay the Court-fee on the sum disallowed. It is as against this, the present appeal has been filed.

5. The learned Counsel for the appellant would say that the termination of the plaintiff’s services by M/s. Lakshmi Mills Company Limited, cannot solely be attributed to the dishonouring of the cheque and the later disconnection of the telephone but according to him it is due to other causes. In any event, he would say that the special damages of Rs. 10,000 granted by the Court-below and general damages of Rs. 4,000 under the head of mental agony and loss of reputation are on the high side and exaggerated. On the other hand, Mr. Challapathy Rao, learned Counsel for the respondent-plaintiff would urge that the damages were correctly reckoned by the Court below and that such damages flow from the wilful and negligent act of the officers of the appellant Bank and that the defendant is liable to suffer the decree.

6. Before we consider the respective broad contentions, it is necessary to summarise the relevant correspondence, which led to the catastrophe in this case. It is common ground that Exhibit A-1, which is the cheque drawn by the plaintiff was issued by the plaintiff at a time when he had enough money in the Bank in his account for the same being honoured. The Bank having so indifferently dealt with its customer’s account, did not even make a second verification regarding their act, but kept silent over it until the plaintiff called upon them and apprised of the position. In fact, the plaintiff was advised about the dishonour of the cheque by the Telephone Department on or about 24th April, 1964 and he met the officers of the Bank on the same day besides writing them a letter. Even then, the Bank would take the incidents very lightly and under Exhibit A-4 they would write a formal and a casual letter to the District Manager, Telephones, Madras, stating that they had telephonic conversation with their cash department in respect of the cheque and requested the Madras Telephones to represent the cheque for payment. This is the least that could be expected of a Banker, who has realised his mistake in dishonouring the cheque. One should have expected the Bank to
have taken more concrete steps in averting further untoward consequences in the matter of the dishonoured cheque when, as Bankers they ought not to have done it. Besides writing Exhibit A-4, no further steps were taken by the Bank. It is no doubt true that one of the assistants of the Bank expressed personally regret. But between 24th April, 1964 and 6th May, 1964 when the cheque was dishonoured, the silence and the inaction of the Bank remains unexplained.

When, therefore the telephone was disconnected, the plaintiff wrote Exhibit B-1, dated 6th May, 1964 wherein the plaintiff intimated to the Bank that the Telephone Department has taken further steps to disconnect the telephone. No doubt, the plaintiff took emergent steps to restore the phone on the 7th of May, 1964, which step was taken on his own and not for and on behalf of the Bank either. When the Bank was informed about the phone disconnection and about the mental agony, which by then the plaintiff was suffering since he was being taken to task by his employers for such gross dereliction of duty, the defendant-Bank would still in a light-hearted manner reply to Exhibit B-1 under Exhibit A-7 stating that they took up the matter with the Telephone Department and that the Department agreed to represent the cheque and concluded “in spite of this, we do not understand why this misunderstanding has been created”. Here again, there is no contrite expression of regret on the part of the Bank excepting to formally express it to the plaintiff.

7. Thereafter the concerned exhibits revolve round the correspondence which passed between the plaintiff and his employers, which resulted in his service being terminated. The plaintiff apprised his employers under Exhibit A-5, dated 7th May, 1964 in writing as to the circumstances under which the telephone was disconnected. It appears to be fairly clear that the employers by then were very much dissatisfied about the way in which the matter was handled by the plaintiff and his Bankers and Exhibit A-5 was in the nature of a letter of apology written by the plaintiff to his employers and was one in which he requested them to pardon him for the unhappy incident. Under Exhibit A-8 he was asked to go over to meet the managing agents at Coimbatore. The plaintiff could not meet the managing agents at Coimbatore and wanted time till 22nd May, 1964, as he was ill by then. This is seen from Exhibit A-9. Again he was asked by a telephonic message as is seen from Exhibit A-6 to render accounts for the matters, which he was dealing with by them and also go over to Coimbatore to meet Mr. G. K. Devarajulu Naidu, who was the Managing Director of the Mills. In reply thereto, the plaintiff gave a statement of account in respect of the moneys of the group companies which he maintained as their representative of the Madras branch. This statement of account was not fully accepted by their employers as is seen from Exhibit A-27. The employers had to pursue the matter under Exhibit A-12 and call for further accounts. It is no one’s case that the employers were so tight and corrective as against the plaintiff prior to the dishonouring of the cheque and disconnection of the telephone. Exhibit A-13 and A-14 are further letters, which were exchanged between the plaintiff and his employers. In the meantime the plaintiff wanted to make a frantic but a last effort with the Bankers so that he could avert a catastrophe so far as his connections with Messrs. Lakshmi Mills Company Limited, was concerned, and wrote exhibit A-15 to the Bank. In Exhibit A-15 the plaintiff requested the Bank to write to him that there was enough money in the account in the Bank on the date when the cheque was dishonoured and that it was by oversight on the part of the Bank that the amount under the cheque was not paid and that it was because of it, the telephone was disconnected. He would also make it clear that such a letter giving the facts
could convince his employers. He made it candid that if the Bank kept silent in spite of his requests, his services would be terminated for which the Bank would be held responsible. To this there was no reply and ultimately the expected event happened and under Exhibit A-16 the plaintiff’s services were terminated. The plaintiff thereafter followed up the events by issuing Exhibit B-2, the Counsel’s notice before suit claiming a sum of Rs. 50,000 as damages and has come to Court thereafter.

8. The plaintiff examined himself besides letting in other evidence, oral and documentary. The defendant examined the Manager of its branch office when the incident happened. The plaintiff reiterated what all he said earlier in the correspondence. He referred to the fact that he was the liaison officer of four companies, which were very reputed establishments; they were Lakshmi Mills Company Limited; Lakshmi Machine Works Limited; Lakshmi Card clothing Manufacturing Company Private Limited, and G. Kuppuswamy Naidu and Company. His business was to attend as a liaison officer to the purchase and despatch of goods required by the concerns, to take the delivery of imported machinery from Harbour and despatching them to Coimbatore and selling motors and pumps manufactured by them. In that context he brought out before the Court that the telephone was the essential link between himself and his employers. He reiterated what all he had stated in the correspondence, but accepted that he got a part-time job under Sri Rama Vilas Mills Limited, Coimbatore at Rs. 285 per month and that job was from 1st September, 1964 to 31st December, 1966 and from 1st January, 1967 he was without any employment. In cross-examination it was brought out that the telephone connection was in the name of Lakshmi Mills Company Limited, and that the four other concerns, which were appointed with it, were sharing the expenses towards that phone. The Bank would refer to some personal discussions it had with one Rudrappa Naidu, who was undoubtedly connected with Lakshmi Mills etc. Ultimately, what is brought about in the cross-examination has merely a bearing on the letters and the correspondence which ensued between the plaintiff and the bank.

9. Mr. Nayak, appearing for the Bank was unable to dislodge the finding of fact by the Court below that the disconnection of the telephone was due to the dishonour of the cheque and that the dishonour of the cheque was due to the negligence of the Bank. The Counsel’s attempt was to sustain the attitude of the bank and urge that they have taken all steps to avoid an injury to the plaintiff. His further contention was that all necessary steps were taken by the bank so as to make out absence of negligence on their part. We are unable to agree with the learned Counsel for the appellant that the bank was bona fide in its attempts to avert negligence on its part. We have already traced briefly the correspondence which touch upon the presence or absence of negligence on the part of the bank. When the bank was apprised of the dishonour, one would expect the officials of the bank, instead of being light-hearted and chimerical in their attitude, should promptly act so as to satisfy their customer whose cheque they negligently dishonoured. Exhibit A-4 which the bank wrote does not appear to be a bona fide step taken by them in the situation. When the cheque was dishonoured, they ought to have issued a credit note or paid off cash to the Telephone Department and advised them to treat the return of the cheque as to of no consequence. But, on the other hand, a casual letter was written asking the District Manager, Telephones to represent the cheque. Mere expression of regret is not the answer to the situation. It is expected of a bank to honour its customer’s
cheque if it has sufficient funds in his hands. If it fails to do so, it will be liable to damages. The reason is obvious. It injuriously affects the reputation, credit and integrity of its customer. Even section 31 of the Negotiable Instruments Act provides that the drawee of a cheque having sufficient funds of the drawer in his hands properly applicable to the payment of such cheque must pay the cheque when duly required so to do, and in default of such payment, must compensate the drawer for any loss or damage caused by such default. The bank aggravated the situation by its inaction between 24th April, 1964 and 6th May, 1964. Even when the bank was put on notice about the disconnection of the telephone, the attitude of the bank did not change. The plaintiff in an agonising mood complained under Exhibit B-1 about the gravity of the situation. The bank would reply in a very matter of fact fashion stating that it took up the matter with the Telephone Department and has concluded by saying “in spite of this we do not understand why this misunderstanding has been created”. Of course, they followed it up by an expression of regret. As pointed out by a Division Bench of this Court in New Central Hall v. United Commercial Bank [AIR 1959 Mad. 153], the fact that such dishonouring took place due to a mistake of the Bank is no excuse nor can the offer of the Bank to write and apologise to the payees of such dishonoured cheques affect the liability of the bank to pay damages for their wrongful act”. The bank would plead that they had a frank discussion with Sri Rudrappan who was one of the principal representatives of the employers. Nothing prevented the Bank from taking out a subpoena to Sri Rudrappan to prove their effort at reconciliation. Here again the bank miserably failed to take any such steps.

10. On the other hand it is clear in the instant case that the dismissal of the plaintiff from the service of his employer was due to the disconnection of the telephone of the group companies which action had a definite impact on the dishonour of the cheque. It has not been brought out that the employers ever had any serious complaint against the plaintiff prior to the dishonour of the cheque. As a matter of fact, the letters exchanged between the plaintiff and his employers as summarised above by us is a pointer to the effect that it was the dishonour of the cheque and the consequential serious inconvenience caused to the employer in the matter of disconnection of the telephone, which appears to be a commercial necessity for the well-known group companies at all times, that was mainly responsible for the ultimate dismissal of the plaintiff from service. A last minute effort was made by the plaintiff asking the bank to write to him about the real state of affairs. In Exhibit A-15 he made such a specific request and made it clear that such a letter is likely to convince his employers and such a conviction if gained is likely to avoid the catastrophe of his dismissal from service. The bank never cared to reply. We are satisfied that beyond reasonable doubt, there is sufficient nexus between the dishonour of the cheque and the consequential disconnection of the telephone with the final act of dismissal of the plaintiff from service by his employers. It is not in dispute in the instant case that the group companies in which the plaintiff was employed was a commercial group having a recognised business status and mercantile integrity. It was not also urged before us that the absence of a telephone with the liaison officer of such group companies at Madras would not matter. On the other hand, the appellant insisted that he was not negligent and that all possible efforts were made by him to ease the situation. As we said, the methodology adopted by the bank in a serious situation like this is not a satisfactory one and in a case like this we should characterise such a slow and haphazard movement of a responsible bank as
negligence on its part. The *causa causans* of the dismissal of the plaintiff's service is therefore attributable to the conduct of the bank which we find is far from reasonable and indeed abounding in negligence.

11. The word ‘compensate’ used in section 31 has special signification in the context in which it is used. The well-understood proposition in law is that damages are awardable if a sufficient nexus is established between the wrongful act and the resultant loss to the injured. This principle laid down in section 73 of the Contract Act is a well-known one. Under this section, the measure of compensation for any loss or damage caused in case of breach of contract is fixed as that which naturally arose in the usual course of things from such breach or which the parties knew, when they made the contract, to be likely to result from the breach of it and such compensation is not to be given for any remote and indirect loss or damage sustained by reason of the breach. Adopting this as the standard or yard-stick by which damages have to be awarded in case where a party suffers an injury by reason of the negligence or negligent conduct of another, it is essential that the party complaining of such an injury or claiming such compensation should be in a position to connect the injury with the act of malfeasance or misfeasance or negligence on the part of the other party. Besides creating such a nexus, he should also prove that the resultant damage has flown from the event of negligence. As between a banker and a customer, statute law itself makes it mandatory that the injured customer should be compensated for the wrongful act of the banker. We have seen this in section 31 of the Negotiable Instruments Act. But in all such cases a distinction has been made between compensation which has to be paid to a trader and that which has to be paid to a non-trader in cases of proved injury caused at the instance of the banker. The banker’s failure to honour his customer’s cheques and drafts when he has moneys of the customer to meet them, is a peculiar type of breach of contract which has certain significations attached to it. As pointed out by McGregor on Damages, Thirteenth Edition, at page 917:

“The important characteristic of such cases is that the plaintiff, where a trader, can recover substantial damages for injury to his credit without proof of actual damage”.

The reason has been explained by the learned author with reference to decided cases thus:

“The *ratio decidenti* in such cases is that the refusal to meet the cheque, under such circumstances, is so obviously injurious to the credit of a trader that the latter can recover, without allegation of specific damage, reasonable compensation for the injury done to his credit: but this rule does not apply where the customer is not a trader: in such cases substantial damages cannot be awarded without proof of actual injury to credit”.

This distinction has been well brought out by many decided cases in Courts in our country.

In *Mohammed Hussain v. Chartered Bank* [AIR 1965 Mad. 266], which was later approved by a Bench of our Court in O.S.A. No. 52 of 1964, Sadasivam, J., after reviewing the English authority said that “a negligent act may be the effective cause of an injury though it may not be proximate in time, if it is the particular incident, in a chain of events which has
in fact led to the injury, that is, if it is the real cause of subsequent accident. To determine responsibility the law will consider the proximate and not the remote cause of an injury.”

The learned Judge referred to the observations of Tindal, C.J., in Davis v. Carret [130 ER 1456, 1459, 1030] in the following terms:

“(N)o wrongdoer can be allowed to apportion or qualify his own wrong and that as a loss has actually happened whilst his wrongful act was in operation and force, and which is attributable to his wrongful act, he cannot set up as an answer to the action the bare possibility of a loss, if his wrongful act had never been done.”

The learned Judge also approved of the distinction which is invariably made between traders and non-traders in the matter of recovery of damages from a negligent banker. The line thus drawn between a trader and a non-trader in the matter of recovery of compensation from a defaulting banker is traceable to the well-known principle that the credit of a trader if marred and injured without reasonable cause is likely to totally mar his reputation and credit in the market and it is this that prompted courts of law to award substantial damages to a trader in case of wrongful dishonour of cheques as against the banker without proof of actual loss to the customer. As against this, in so far as a non-trader is concerned, it is but reasonable to expect proof of such special damage claimed by him so as to entitle him to recover the same. As secrecy is maintained as between a non-trader and his banker, the fact that a particular cheque, big or small, has been dishonoured would only affect the particular customer and the prestige of that customer but it would not have a deleterious effect in the eye of the community at large. On account of this concept which is found in the ratio of such decisions that courts call for proof of special damage in case the subject-matter relates to the dishonour of cheque of a non-trader.

12. Bearing these principles in mind, it is for us to assess the quantum of damages to which the plaintiff is legitimately entitled to in the instant case as found by the trial Court and as accepted by us and consider whether there has been proof of such special damage in the instant case by the plaintiff-respondent. So long as the damages claimed is not remote and purely speculative, Courts are bound to consider the reasonable requests of injured parties and grant them proper relief. The plaintiff was earning a sum of Rs. 600 per month with his employers. He got an employment between 1964 and 1966. This was taken into account by the learned trial Judge in assessing the special damages to which the plaintiff would be entitled to by reason of the consequential dismissal of the plaintiff from the employer’s service. We have no hesitation in finding that the dismissal was due to the dishonour of the cheque which resulted in the telephone being cut off. He claimed special damages of Rs. 36,000 it being the probable salary which he would have got for a period of five years from the date of termination of his service, since on the date of termination he was 50 years of age. The trial court did take every aspect into consideration and estimated the special damages at Rs. 10,000 to the plaintiff and we agree with the Court below that the quantum of damages granted is a reasonable assessment of the same having regard to the situation in which the plaintiff was placed. We may add that in the appeal before us there was no serious argument against the quantum of damages awarded by the Court below. In addition to a sum of Rs. 10,000 awarded as special damages, a sum of Rs. 4,000 as general damages towards loss of prestige, status and mental agony was also granted. The claim of the plaintiff was that he was
entitled to a sum of Rs. 14,000 under this head. But the learned Judge awarded Rs. 4,000 as general damages. This again was not attacked by the learned Counsel for the plaintiff. We, therefore, confirm the decree of the trial Court in the sum of Rs. 14,000 as against the defendant as special and general damages together with interest at 6 per cent per annum from the date of judgment of the court below till date of payment. The respondent shall carry out the special directions issued by the trial Court in paragraph 32 of its judgment in the matter of the payment of Court-fee due to Government. The appeal is therefore dismissed with costs.

* * * * *
LORD SHAW - The facts of this case are very simple, and they have been told by your Lordships who preceded me. The case is one between banker and customer. It is almost as important, in view of the large citation of authority which has been made in the courts below and at the Bar of this House, to keep in mind some things which are not part of this case as those things which are. In the first place, not only is this not a case between the drawer and the acceptor of a bill or between the acceptor and a holder of the bill in due course, but it is not the analogue of such a case. The reason that I state this in the forefront of my opinion is that it disposes at once of a considerable body of authority which was cited as relevant to the consideration of the present suit. The distinction between a case of the latter sort and of the present was very clearly brought out in Scholfield v. Earl of Londesborough [(1894) 2 Q.B. 660] by LORD WATSON and by LORD DAVEY. In the words of the former, which are directly applicable to the present case:

“(T)he duty of the customer raises directly out of the contractual relation existing at the time between him and the banker, who is his mandatory. There is no such connection between the drawer or acceptor and possible future endorsees of a bill of exchange.”

In the next place, on the facts before us themselves the elements are of the simplest. It is the case of a customer drawing a cheque in his own favour from his banker. There is no complication as to the cheque having passed to a payee, third party, nor is there any question accordingly as to any conduct or misconduct on the part of such payee. The case is direct in that sense. Nor is there any question of the genuineness of the signature; it is admitted to be genuine. I state this elementary point because it disposes again of a considerable portion of the authorities cited to us in regard to forged cheques. A cheque with the signature of a customer forged is not the customer’s mandate or order to pay. With regard to that cheque, it does not fall within the relation of banker and customer. If the bank honours such a document not proceeding from its customer, it cannot make the customer answerable for the signature and issue of a document which he did not sign or issue; the banker paying accordingly has paid without authority, and cannot charge the payment against a person who was a stranger to the transaction.

The case, then, must be taken as the simplest one namely, of a cheque duly signed, forwarded on behalf of the customer to the banker, and honoured. There are in these circumstances reciprocal obligations. If the cheque does not contain on its face any reasonable occasion for suspicion as to the wording and figuring of its contents, the banker, under the contract of mandate which exists between him and his customer, is bound to pay. He dare not, without liability at law, fail in this obligation, and the consequences to both parties of the dishonour of a duly signed and ex facie valid cheque are serious and obvious. In the second place, if there be on the face of the cheque any reasonable ground for suspecting that it has been tampered with, then that, in the usual case, is met by the marking “refer to drawer”, and by a delay in payment, until that reference clears away the doubt. Always granted that the doubt was reasonable, the refusal to pay is warranted. These obligations on the banker do not,
of course, exist until after the cheque has been presented. Upon the other part there are obligations resting upon the customer. In the first place, his cheque must be unambiguous and must be ex facie in such a condition as not to arouse any reasonable suspicion. But it follows from that, that it is the duty of the customer, should his own business or other requirements prevent him from personally presenting it, to take care to frame and fill up his cheque in such a manner that when it passes out of his (the customer’s) hands it will not be so left that before presentation, alterations, interpolations, etc., can be readily made upon it without giving reasonable ground for suspicion to the banker that they did not form part of the original body of the cheque when signed. To neglect this duty of carefulness is a negligence cognizable by law. The consequences of such negligence fall alone upon the party guilty of it namely, the customer.

It appears to me that a crucial consideration in a case such as the present is this: What is the point of time at which these respective obligations meet. The point of time is the presentation of the cheque. Not until that moment is the banker confronted with any mandate or order, and, in my opinion, the responsibility for the cheque and all that has happened to it between its signature and its presentation is not and ought not to be laid upon the banker. If at that moment three things are satisfied namely, (i) that the cheque is duly signed, (ii) that its appearance and statement of contents present no reasonable ground for suspicion, and (iii) there are customer’s funds available then the banker is bound to pay. But if a banker were bound to inquire, in regard to every cheque with quite genuine signatures, what had been their history from the time that the customer lifted his pen from the cheque until the time when it was presented at the bank, banking business would be greatly impeded or impossible, and, in my humble view, it would be subjected to risks for which there is no foundation in legal principle. It is entirely different, however, on the matter of this intervening period, with regard to the obligations of the customer. When a customer makes a cheque payable to himself or bearer it is entirely at his option when to present it. The responsibility for what occurs between signature and presentation, a period in his control, lies entirely with him. If, as in the present case, he gives it to a clerk, who tampers with it in such a way that no man of ordinary skill can find the roguery out, there does not seem to me to be any foundation in law for discharging the customer from the responsibility for these events or for laying them upon the banker, who was in no sort of position either of control over or participation therein. It may be true it is true in this case that what happened in the meantime to increase the nominal value of the cheque and to deceive all parties was a crime. But it was a crime brought about during this period of the customer’s responsibility, and, as frequently happens in such cases, the crime of the customer’s own servant. Accordingly, the condition of the cheque has been altered, not only during the period of the customer’s responsibility, but by the act of some person with whom he had left the document in charge. If it is suggested that this is a hardship upon the customer (abating for the moment the obvious consideration that it is still harder for the banker) the answer of the general case is obvious namely, that it is part of the customer’s duty to fill up his cheque in such a way as to prevent roguery being made easy.

I do not here pronounce any judgment upon another type of case which may be figured. I refer to a case in which there has been no negligence on the part of the customer in the respect last alluded to, but in which erasures of great skill or deletions, say accomplished by chemical aid,
have been made upon a cheque so as to undo all the case properly exercised by the customer in regard to its contents. Yet I cannot conceal from your Lordships that I should have the greatest doubt whether this kind of roguery having been practised during that period of responsibility on the part of the customer to which I have referred the customer would not also be liable. But the present is not a case of that kind. It is a case of negligence, and it is necessary to state again that in which the negligence consists. The negligence consists in the breach of a duty owing by the customer to the banker. That duty is so to fill up his cheque as that it leaves his hands blank. The present case was upon its facts a very near approach to that of a blank cheque; a figure “2” was upon it with space before and behind it which easily permitted the “2” being turned into “120”. As for the words of the cheque, these were wholly blank and the clerk to whom it was entrusted filled in the words “one hundred and twenty pounds.” In that condition it was presented to the bank and honoured. I ask myself: so far as the banker was concerned, what difference did it make to his obligation to pay, that between the time when his customer signed it, and his customer’s servant presented it, the servant had filled up that cheque from being a blank to what it was, or from being a cheque with a figure “2” to what it was?, and I ask myself with regard to the customer, what difference does it make in principle that the cheque is left by him entirely blank or is left so blank that the contents finally appearing on it may so appear without arousing the slightest suspicion? There is a suggestion in some of the judgements below that the limitation of the authority to the clerk was a limitation to £2 because of the isolated figure “2.” That was a limitation of authority only indicated to the clerk, and no care was taken that such a limitation of authority should reach the knowledge of the banker. So that in truth, my Lords, for all practical purposes and so far as the banker was concerned the same limitation of authority could have been pleaded, although the figure “2” had not been inserted, and that by simply establishing that the clerk knew perfectly well that it was to be a £2 and nothing more. The roguery would have been little more and little different than it was whether the cheque had been entirely blank or with the figure “2” placed where it stood. It does not appear to me that on principle the duty of properly and fully filling up the cheque is met by what was done in the present case. It is no doubt true that, had the cheque been presented as signed, it might have been honoured without impropriety, but when a cheque is not presented as signed and has been tampered with before presentation, the question whether the customer has been negligent in a duty that lay upon him of so filling up his cheque as to prevent such tampering, if answered in the affirmative, absolves the banker if the latter has paid on an ex facie unsuspicious document.

I had intended to go over in detail the authorities from Young v. Grote [(1827) 4 Bing. 253] downwards; but this is unnecessary, and I think it would be presumptuous in me to do so after the full treatment thereof by my noble and learned friend on the Woolsack. I express my entire agreement with his Lordship’s narrative and conclusions upon that subject. In particular I desire to say that Young v. Grote was rightly decided. I may further indicate my view that many subsequent decisions which have referred to it have introduced a certain embarrassment into this portion of our law, not because of what is said in Young v. Grote itself, but of what later judges, even while approving the decision, thought must have underlain it. Not a word is said, for instance, in Young v. Grote, about estoppel. It may be that some such doctrine was in the judges’ minds in deciding it. I am not enough of a psychological expert to say. It is enough for me,
agreeing as I do entirely with the result of the decision, to observe that I think it safest to place the

case upon the grounds which the judges themselves put it. It was treated by them as a case of

negligence. As BEST, C.J., said: “We decide here on the ground that the bank has been misled by

want of proper caution on the part of his customer.” PARK, J., concurred with the arbitrator on the

fact of negligence. “Great negligence” was the reason assigned by GASELLEE, J. And, said

BARROW, J., “the blame is all one side.” That was the ground of his judgment. I do not think it

expedient to speculate upon anything deeper than or different from that, and, as I say, I think the

course of the law has been disturbed by speculations of that order. It is true that BEST, C.J.,

founded upon certain sentences of POTHIER, but these sentences seem, like Young v. Grote itself,

to be perfectly apposite to the present case and to be entirely sound. I think this sentence of

POTHIER’s may be held as a plainly statement of the law of England and Scotland on the subject in

the present day. Young v. Grote has been approved, by a preponderating body of decisions and in

the highest quarters, since its date. I beg to say, however, that I express no surprise that great
difficulty was felt upon this topic in the courts below. That difficulty is caused for two reasons.
The first I have already alluded to namely, the speculations made in subsequent cases as to what

underlay or was supposed to underlie that judgment. Alongside of these explorations des arrières

pensées, it is consoling to be able to place the few simple sentences in which the judges in

Young v. Gorte pronounced their own opinions. There was also a certain note of invitation to review

in the language used by LORD HALSBURY in Scholfield case, although it has to be borne in mind that

the learned Lord’s doubts and queries were answered in the case itself by the other four learned

Lords who sat with him.

A very substantial difficulty, however, has been caused by Colonial Bank of Australasia,

Ltd. v. Marshall [(1906) A.C. 559], to which great respect has to be paid. In that case, as the

judgment of SIR Authur Wilson undoubtedly shows, the crux of the decision was the

opinion expressed in these words – namely, that the duty which

“subsists between customer and bank is substantially the same as that contended for

in Scholfield v. Earl of Londesborough as existing between the acceptor and the

holder of the bill.”

In my opinion, this was erroneous, and I illustrate the error not only by the passage from

LORD WATSON already quoted, but by the following citation from LORD MACNAGHTEN.

Referring to the report in BINGHAM he says:

“the court went very much on the authority of the doctrine laid down by POTHIER that

in cases of mandate generally, and particularly in the case of banker and customer, if

the person who received the mandate is misled through the fault of the person who

gives it, the loss must fall exclusively on the giver. That is not unreasonable; but the
d Doctrine has no application to the present case. There is no mandate as between the

acceptor of a bill and a subsequent holder.”

I humbly think Colonial Bank of Australasia, Ltd. v. Marshall to be in conflict with the

great and binding authority of Scholfield and I do not see my way to follow it.

* * * * *
V.S. MALIMATH, J. – The respondent plaintiff brought the suit to recover a sum of Rs. 2,635/-, which includes principal amount of Rs. 2,000/- and interest thereon. The suit is based on the pronote dated 9-2-1961 executed by the defendant in favour of the plaintiff. He, however, pleaded discharge to the extent of Rs. 2,000/-. The defendant did not deny the execution and consideration of the pronote. He, however, pleaded discharge to the extent of Rs. 2,000/-. The defendant further took a specific stand that the pronote in question has been materially altered by the plaintiff. The defendant’s case is that at the time of Navarathri in the year 1961, he paid a sum of Rs. 2,000/- to the plaintiff and made an endorsement on the back side of the pronote about the payment of the said sum of Rs. 2,000/- to the plaintiff. The defendant’s case is that the said endorsement was made in pencil and not in ink, as no pen was available at that time. The defendant has further stated that the plaintiff has erased the endorsement made by him and that is the material alteration of the pronote. Relying on the provisions of Section 87 of the Negotiable Instruments Act, the defendant contended that the pronote has become void and unenforceable. The plaintiff denied the discharge pleaded by defendant to the extent of Rs. 2,000/-. He further asserted that no endorsement, whatsoever, was made on the back of the pronote by the defendant. He also asserted that no erasure was made, as alleged by the defendant.

2. The learned Munsiff dismissed the plaintiff’s suit. He came to the conclusion that the pronote has been materially altered, as contended by the defendant. He appears to have come to the conclusion that the discharge pleaded by the defendant to the extent of Rs. 2,000/- was established.

3. The lower appellate court reversed the decree of the trial court and decreed the plaintiff’s suit. The learned Civil Judge came to the conclusion that the pronote has not been materially altered. He held that the discharge pleaded to the extent of Rs. 2,000/- has not been satisfactorily established.

4. It is the legality of the decree passed by the learned Civil Judge in appeal that is challenged in this second appeal under Section 100 of the Code of Civil Procedure.

5. Shri Swamy, the learned counsel for the appellant contended that the finding of the learned Civil Judge that the pronote has not been materially altered, is not in accordance with law. In order to satisfy myself, I perused the pronote. The pronote is on a printed form. The alleged alteration of the pronote is on the back side of the pronote. The back side of the pronote is blank and nothing whatsoever is found written there at present. Shri Swamy pointed out that the texture of the paper on the side somewhere near the middle on the top side indicates that some erasure of some writing has been made. He relied upon the evidence of the hand-writing expert to whom the document was sent who has given an opinion that there is some erasure of some writing on the back side of the pronote. In order to prove that an endorsement was made by the defendant on the back side of the pronote, which has subsequently been erased by the plaintiff, the defendant has not only examined himself but also examined one Shankarappa. The learned Civil Judge has assessed the evidence of the defendant and his witness, Shankarappa. He has observed that Shankarappa, is a chance witness.
whose evidence is not worthy of acceptance. I do not find any good reasons to disagree with the conclusion of the learned Civil Judge. As the defendant has not established that an endorsement was made on the back side of the promissory note in pencil, the question of erasing the alleged endorsement does not arise.

Shri Swami contended that the evidence or opinion of the handwriting expert to the effect that something was written on the back side of the promissory note which has been erased has been accepted by both the courts below. He, therefore, contended that his client has established that there is an alteration in the promissory note. As the promissory note was in the custody of the plaintiff all along, Shri Swamy urged that it is for the plaintiff to explain satisfactorily the erasure that is found on the back side of the promissory note. The plaintiff has asserted that there was no writing on the back side of the promissory note and that he has not erased any such writing on the back side of the promissory note. Merely on the basis of the vague type of evidence of the handwriting expert it is difficult to hold that there was some writing on the back side of the promissory note which has been erased by the plaintiff when the document was in his custody. Even otherwise, I find it difficult to accede to the contention of Shri Swamy that Section 87 of the Negotiable Instruments Act can be invoked in the facts and circumstances of this case. It is not disputed that no part of the promissory note as such has been altered in any manner whatsoever. Even if the entire contention of the defendant is accepted, it would only mean that an endorsement made by the defendant on the back side of the promissory note has been materially altered by the plaintiff.

As already noticed no part of the promissory note is written on the back side of the document. The entire promissory note has been completed only on one side of the paper. Section 87 of the Negotiable Instruments Act contemplates material alteration of a negotiable instrument. If there is a material alteration of a negotiable instrument, the same renders the document void against any one who is a party thereto at the time of making such an alteration and does not consent thereto unless it was made in order to carry out the common intention of the original parties. The endorsement which is alleged to have been made on the back side of the promissory note does not form part of the negotiable instrument. It is an independent transaction, unconnected with the negotiable instrument in question. The alleged endorsement could as well have been made on an independent piece of paper and not on the back side of the promissory note. Merely because an endorsement has been made on the back side of the promissory note, it does not become part of the promissory note. As the endorsement in question is not a part of the negotiable instrument, any alteration in the said endorsement does not attract the penal provisions of Section 87 of the Indian Negotiable Instrument Act. Hence, even if the entire case of the defendant about the endorsement of the promissory note is true, the same does not, in any way, render the promissory note (Ex. D-1) void under Section 87 of the Negotiable Instruments Act. There is, therefore, no substance in the contention of Shri Swamy that the plaintiff’s suit is liable to be dismissed on account of the alleged material alteration of the endorsement on the back side of the promissory note Ex. D-1.

6. The learned Civil Judge, after assessing the evidence on record, has recorded a finding of fact to the effect that the defendant has failed to prove the discharge pleaded by him to the extent of Rs. 2,000/-. That finding is not liable for interference in this second appeal.

7. For the reasons stated above, this appeal fails and the same is dismissed.

* * * * *
R.S. BACHAWAT, J. – On August 30, 1961, the plaintiff instituted a suit in the City Civil Court, Calcutta under Order XXXVII of the Code of Civil Procedure claiming a decree on a dishonoured cheque dated 29th July, 1961 drawn by the defendant and payable to the plaintiff or order. The cheque is crossed generally and is marked with the words “a/c payee only.” Those words are written within the transverse lines of the crossing. The writ of summons in the prescribed form was served on the defendant on September 19. On September 25, the defendant filed a petition praying for extension of the time to make an application for leave to appear and to defend the suit. The Registrar rejected the petition on September 28. On October 6, the defendant filed another petition asking for leave to appear and to defend the suit. By an order dated October 7, 1961 the Judge dismissed this petition. The defendant has moved this Court in revision against this order and has obtained a rule. The revision case has been referred to this Bench under Chapter II R. 1 proviso (ii) of the Appellate Side Rules.

2. Mr. Sen for the defendant contended that the cheque dated the 29th July, 1961 is not a negotiable instrument within the meaning of Sec. 13 of the Negotiable Instruments Act, 1881 and that a suit on it under Order XXXVII, C.P.C. was not maintainable at all and in any event was not triable by the Judges of the City Civil Court.

3. Now Order XXXVII, C.P.C. bears the heading “Summary Procedure on Negotiable Instruments.” Rule 2 of Order XXXVII, C.P.C. however enables the plaintiff to institute a suit under the summary procedure upon “bills of exchange, hundies or promissory notes.” The rule makes no distinction between negotiable and non-negotiable bills of exchange. The heading cannot control the clear and express enacting words of the rule and limit its operation to negotiable instruments as defined in Sec. 13 of the Negotiable Instruments Act, 1881.

4. The notification dated December, 14, 1958 published in the Calcutta Gazette on December 11, 1958 stated that “in exercise of the Power conferred by Cl. (b) of R. 1, O. XXXVII of the Code of Civil Procedure, 1908, the Governor is pleased to specially empower the Chief Judge and the Judges of the City Civil Court, Calcutta to try summarily suits on Negotiable Instruments.” By R. 1(b) of O. XXXVII C.P.C. under which the notification was issued, the whole of the order is extended to courts specially empowered in that behalf by the State Government. The clear intention of the notification is to extend the whole of the order to the City Civil Court and to empower its Judges to try summarily all suits triable under the order. The expression “negotiable instruments” in the notification is borrowed from the heading of Order XXXVII, C.P.C. In both places the expression indicates bills of exchange, hundies and promissory notes referred to in the body of Order XXXVII, C.P.C. Even Act XXVI of 1881, though called the Negotiable Instruments Act, 1881 deals with instruments both negotiable and non-negotiable; by way of example see Secs. 4 and 5 of the Act.

5. A cheque marked “a/c payee only” is a bill of exchange and consequently the plaintiff is entitled to institute a suit on it under O. XXXVII, C.P.C. and the Judges of the City Civil Court are empowered to try the suit. In this view of the matter the question whether such a cheque is a negotiable instrument within the meaning of Section 13 of the Negotiable
Instruments Act, 1881 does not arise for decision in this case and consequently we ought not to express any opinion on the question. I notice that, according to English decisions, the marking “a/c payee” on a crossed cheque payable to order or bearer is no part of the crossing: the words do not restrict the transferability, nor it seems the negotiability of the cheque, the words refer to the banker and not to the transferee and constitute a direction to the banker that the proceeds of the cheque collected by him are to be placed to the credit of the payee specified in the cheque. The collecting banker may lose his statutory protection if he disregards the direction. In practice the collecting banker usually declines to take a cheque so marked for an account other than that of the payee and the marking therefore indirectly restrains the negotiability of the cheque. The position of the paying banker honouring the cheque with the knowledge that the proceeds of the cheque are going otherwise than to the specified payee is not quite clear. And it seems that a cheque marked “a/c payee only” has the same significance as a cheque marked “a/c payee”.

6. Mr. Sen next contended that the trial Judge wrongly refused leave to defend the suit. There is no substance in this contention. By Art. 159 of the Indian Limitation Act 1908, an application for leave to appear and to defend the suit must be made within 10 days from the date of the service of the writ of summons. No such application was made within the time prescribed. Consequently, the trial Judge was bound to refuse the leave. The application for extension of time to make the application for leave to defend the suit was misconceived. The trial Judge had no power to extend the time. This application for extension of time ought to have been disposed of by the trial Judge and not by the Registrar but this irregularity does not affect the decision in the case.

7. I should refer to one other matter, R. 2 of Order XXXVII, C.P.C. enables the plaintiff to institute a suit by presenting a plaint in the form prescribed. As yet this Court has prescribed no form of the plaint under Order XXXVII, C.P.C.. In the absence of a prescribed form of plaint, the plaintiff may maintain a suit under Order XXXVII, C.P.C. by presenting a plaint showing his cause of action on the instrument and indicating his intention to proceed under Order XXXVII, C.P.C. We pass the following order:

The Rule be and is hereby discharged.

D.N. SINHA, J. – 8. This matter has come before us in the following circumstances. A suit was filed under the summary provisions of Order XXXVII of the Code of Civil Procedure, by the plaintiff, Messrs. Gulabchand Dhanraj, against the defendant firm of Messrs. Tailors Priya, based on two dishonoured cheques, which have been endorsed and crossed with the words “a/c payee only”, for the recovery of a sum of Rs. 4393.60 nP. in the City Civil Court, Calcutta, which has been given jurisdiction to try summary suits on negotiable instruments, vide Notification dated 14th December, 1958 (In exercise of the power conferred by clause (b) of Rule 1 of Order XXXVII of the Code of Civil Procedure). The writ of summons was served on the defendant on 19-9-61. The defendant appeared on 28-9-61 and filed a petition praying for ten days’ time to apply for leave to defend the suit. The Registrar of the City Civil Court rejected this petition, and the suit was fixed for hearing ex parte on 6-10-61. Thereupon, the defendant made an application to Court for leave to defend the suit under Rule 2 of Order XXXVII. Upon that, the Court passed an order dated 7th October, 1961 rejecting
the application. It appears from the judgment of the learned Judge that two points were taken before him. The first was that the Registrar should not have dismissed the application for time in the manner he did, and the second point was that Order XXXVII of the Code of Civil Procedure did not apply at all, as the cheques being crossed “a/c payee” ceased to be negotiable instruments and, therefore, were not governed by the provisions of Order XXXVII of the Code of Civil Procedure. On the point, the learned Judge held that the crossing of cheque with the words “a/c payee only” did not restrain its negotiability, and the point accordingly failed. The learned Judge, therefore, directed the suit to be heard on 20-11-61.

Thereupon, the plaintiff made an application to this Court in its civil revisional jurisdiction and a rule was issued. This rule came up for hearing before a Division Bench presided over by P. N. Mookerjee, J. It was pointed out that the Chief Judge and the Judges of the City Civil Court have been empowered to try suits on negotiable instruments, and that a point arose as to whether cheques crossed with the words “a/c payee only”, came within the meaning of the term “negotiable instruments.” The nature of a cheque indorsed and/or crossed with the words “a/c payee only” is a very important question, which constantly arises in the courts, and it is necessary to deal with it. The position with regard to a cheque indorsed or crossed with the words “a/c payee” or “a/c payee only” under the English law, has been summarised by Sheldon in his “Practice and Law of Banking 6th Edn. page 78 as follows:

“'Account Payee’ these words and variants such as “Payee’s a/c,” “Account A.B.” etc., are often added to the crossing of a cheque. Such expressions have no statutory significance since they are not sanctioned by the Bills of Exchange Act, 1882; and if added, as they frequently are in practice, to order or bearer cheques, they do not in any way affect their negotiability.

With regard to the paying banker, it is obvious that, after fulfilling his duty of paying the cheque in good faith and without negligence, his responsibility ceases and he cannot be expected to follow the money after it has reached the collecting banker, and insist upon the collecting banker paying it into the proper account. But the collecting banker is in a different position. These words are in the nature of a direction to him, and, if he places the money received to an account other than that of the specified payee, he stands to lose the protection of Sec. 82 on the ground of negligence. Hence the collecting banker should not collect cheques so marked, except for the named payees.”

9. This principle has also been stated by Chalmers in his “Bills of Exchange”, 12th Edn. page 253, in the following manner:

“Of recent years the practice has sprung up of marking cheques with the words “account payee.” This is not an addition to the crossing, but a direction to the collecting banker that the proceeds of the cheque are to be placed to the credit of the payee specified in the cheque. [See (1914) 3 KB 356, 373 CA]. It has been held

(1) that the marking “a/c payee” does not restrict the negotiability of the cheque, [See (1891) 1 QB 435 CA] and

(2) that the cheque drawn payable to “T. C. and others or bearer”, “a/c payee” is not payable to bearer, but should be credited to the account of “T. C. and others.”
(3) where a cheque is marked “a/c payee only, not negotiable” and the payee indorses it to his banker for collection, the banker is a holder and indorsee of the cheque.

If, then, the collecting banker pays a cheque marked “a/c payee” otherwise than to that account, he does so at his own risk; presumably if he does not keep the payee’s account he may refuse to handle the cheque.”

10. Upon this point, we find the following statement of law in *Byles on Bills* 20th Edn. p. 45:

“The practice has arisen in recent times of adding to the crossing the words “account payee” or similar words. Sec. 78 does not prohibit the addition of these words, since they are a mere direction to the receiving banker. Though the word “payee” means the person designated in the cheque as payee and not the owner of the cheque at the time when it is presented, the words “account payee” are not sufficient, in the case of a cheque drawn to order or bearer, to make it non-transferable within the meaning of Secs. 8(1) of the Code. At the same time they operate as a caution to the collecting banker to put him on inquiry and disregard by him, in the absence of explanation, amounts to negligence on his part.”

12. The law has been summarised thus in *Halsbury’s Laws of England* 3rd Edn. page 183 paras 3, 4, 7:

“The marking to a particular account, as “account payee” or “account of A.B.”, has no warrant or recognition in the Bills of Exchange Act, 1882. It does not affect the transferability of the cheque. Nor it is submitted, does it affect its negotiability. This particular crossing has been in use too long for it to be disregarded, and it must be taken to convey an intimation to the collecting banker that the proceeds of the cheque are only to be placed to the specified account. It is therefore, the custom of most banks to decline to take the cheque for any other account, and a disregard of the intimation would probably be deemed negligence.”

16. I now come to the provisions of the Indian Negotiable Instruments Act. Section 5 of the said Act defines a “Bill of Exchange” as being an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument. Section 6 provides that a cheque is a bill of exchange drawn on a specified banker and not payable otherwise than on demand. Section 7 defines the word “payee” as being the person named in the instrument to whom, or to whose order, the money is directed to be paid. Section 13 defines a “Negotiable Instrument” which includes a cheque payable either to order or bearer. A cheque is payable to order which is expressed to be so payable or which is expressed to be payable to a particular person, and does not contain words prohibiting transfer or indicating an intention that it shall not be transferable. Section 14 provides that when a cheque is transferred to any person so as to constitute that person the holder thereof, the instrument is said to be negotiated. Chapter XIV of the said Act deals with the subject of crossed cheques. Cheques may be crossed in two ways e.g. generally (section 123) or specially (Sec. 124). Where a cheque bears across its face, the words “and company” or any abbreviation thereof,
between two parallel transverse lines, or of two parallel transverse lines simply, either with or without the words “not negotiable”, that addition shall be deemed a crossing and the cheque shall be deemed to be crossed generally. Where a cheque bears across its face in addition the name of a banker, either with or without the words “not negotiable”, that addition shall be deemed a crossing, and the cheque shall be deemed to be crossed specially, and to be crossed to that banker. Section 129 provides that any banker paying a cheque crossed generally, otherwise than to a banker or a cheque crossed specially otherwise than to the banker to whom the same is crossed, or his agent for collection, shall be liable to the true owner of the cheque for any loss he may sustain owing to the cheque having been so paid. Section 130 lays down that a person taking a cheque crossed generally or specially, bearing in either case the words “not negotiable”, shall not have, and shall not be capable of giving a better title to the cheque, than that which the person from whom he took it had. Under the Indian Law as it stood previously, and the English Law before the Bills of Exchange Act, a person could draw a non-transferable cheque by simply omitting the word “order or bearer”. But now, both under the Indian law and the English Law, one way to restrain negotiation of a cheque is by crossing a cheque with the words “not negotiable”. A cheque crossed “not negotiable”, may be transferred, but the transfer is not attended by the same important consequences as in the negotiation of a negotiable instrument. If the transferor had a good title, the transferee is entitled to receive payment. But if the title of the transferor is defective, the transfer is affected by such defects, and is not immune to the same, as is a holder for value in due course of a negotiable instrument. In other words, a cheque endorsed as ‘Not Negotiable’ is deprived of one of the two attributes of negotiability, viz., transferability free from defects; but is left with the other, namely transferability by delivery or endorsement. Thus, where a cheque is marked with the crossing ‘not negotiable’, there cannot be “a holder in due course”, but only a “holder”. Next, we come to section 50 of the said Act, which deals with the effects of endorsement. It provides that the endorsement of a negotiable instrument followed by delivery, transfers to the endorsee the property therein, with the right of further negotiation; but the endorsement may, by express words, restrict or exclude such right. Section 54 provides that, subject to the provisions contained in the said Act as to crossed cheques, a negotiable instrument indorsed in blank is payable to the bearer thereof even though originally to order.

17. It is thus found that a cheque is a negotiable instrument and may be transferred or negotiated by endorsement and delivery, making the endorsee the holder in due course. But unlike other negotiable instruments, there are specific provisions with regard to crossed cheques. Those provisions have been mentioned above. If the words “not negotiable” are used with special crossing, then it is still transferable but not negotiable. The Negotiable Instruments Act does not provide specifically for a crossing, “a/c payee” or “a/c payee only”. At one time it used to be thought in England that such endorsement had no legal effect and it was even thought that such endorsement invalidated a cheque. However, the practice of making such endorsements is so widespread and has been going on for such a length of time, that it can no longer be said that such a crossing would invalidate a cheque. But, there has really been no satisfactory decision with regard to the legal consequences of such crossing. It seems that the textbooks are unanimous in their opinion that an endorsement or crossing containing the words “a/c payee” or “a/c payee only” does not restrict the negotiability of the
cheque. It is only a direction on the collecting banker to put the money into the account of the person shown as the payee, on the face of the cheque. The result is this: Supposing A issues a cheque in favour of B and crosses it “a/c payee only”. B may negotiate it in favour of C, and C may negotiate it in favour of D and so on. The only result of such crossing is that when it is put into the hands of the collecting banker, the Banker is put on notice that the money must be put into the account of B only and not in any other account, and if it puts the money into some other account with notice of the crossing, it will be liable for negligence. I however fail to see the merits of this curious procedure. In the illustration given above, C may take the cheque from B and become the holder for value and yet if he goes to his banker and asks the banker to collect the money, the duty of the banker would be, not to put the money into C’s account but into B’s account, and if B has no account then the banker may refuse to accept the cheque at all. Under such circumstances, I do not see what benefit C has got by negotiation. It amounts to this, that he becomes a holder for value but without the right of getting his banker to collect the money!

18. This curious position in law is not known to the public at large. It is generally believed that by crossing a cheque with the words “a/c payee only”, it is made non-negotiable. Indeed, such endorsements are made in order to render it non-negotiable, and as a measure of safety. In my opinion, the law on the point should be reconsidered and there is no reason why we should blindly follow the English Law on the point. However, the position seems to have been so uniformly accepted by textbook writers, both in England and India, that I am unable to depart from that view on the strength of my own feelings about it. The matter should however be corrected by legislation. I therefore hold that according to the law as it stands at present, a cheque payable to order or bearer and crossed “a/c payee” or “a/c payee only” but without the endorsement, “not negotiable”, is a negotiable instrument, and may be negotiated, but the collecting banker has a duty to put the money, when collected, into the account of the payee indicated, and into no other account.

19. For the reasons aforesaid, this application fails and I agree with the order made by my Lord, Bachawat, J.

* * * * *
**Great Western Rail Co. v. London & County Banking Co. Ltd.**
(1900-3) All ER Rep. 1004 (HL)

**Facts:** H obtained from the appellants by false pretences a cheque payable to his order, crossed generally and marked ‘not negotiable’. He took the cheque to a branch of the respondent bank where it was received in good faith and cashed, part of the proceeds being retained by the bank for the account of a customer of theirs and the balance handed to H. H had not and never had had, an account with the bank but they had been in the habit for many years past of cashing cheques for him as a matter of convenience. The bank crossed the cheque to themselves and received payment for it. In action by the appellants to recover the amount of cheque from the bank, the bank was not entitled for the protection afforded by section 82 of the Bills of Exchange Act, 1882, because (i) for a person to be a customer of a bank, within section 82 he must have either a deposit or a current account with the bank, or there must be some entry of debit or credit in a book or papers of the bank relating to his transactions, or some similar relation must exist, and, applying this test, H was not a ‘customer’ of the bank within section 82; (ii) in the circumstances the bank did not receive payment of the cheque for H within section 82 for the money in respect of the cheque had already been given to H in exchange for the cheque and so the money received by the bank when the cheque was prescribed was received, not for H, but for the banks own account for reimbursement; (iii) furthermore, H had never had any title to the cheque and it being marked ‘not negotiable’, under section 81 of the Act, the bank could not acquire a better title to it than H had, and the title to the money which the bank received, for the cheque was as defective as their title to the cheque itself; accordingly, the appellants were entitled to succeed.

**THE EARL OF HALSBURY, L.C.** – The importance of this case depends upon the true construction of ss. 81 and 82 of the Bills of Exchange Act, 1882. I think that there are more reasons than one for the opinion that I entertain, but the sections to which I refer are of such wide and general importance that I prefer to rest my judgment upon the true construction of those two sections.

I think it very important that everyone should know that people who take a cheque which is marked “not negotiable” and treat it as a negotiable security must recognise the fact that, if they do so, they take the risk of the person for whom they negotiate it having no title to it. In this case, it cannot be pretended that Huggins had any title to the cheque at all. I do not understand what additional security is supposed to be given to a cheque by putting the words “not negotiable” upon it, if the fact of it being negotiated can give a title to anyone. The supposed distinction between the title to the cheque itself and the title to the money obtained by it seems to me to be absolutely illusory. The language of the statute, which seems to be clear enough, would be absolutely defeated by holding that a fraudulent holder of the cheque could give a title either to the cheque or to the money. Section 82, which contemplates the receipt of such a cheque in the ordinary course of business for a customer of bank, seems to me to contemplate a totally different class of transaction from that which is disclosed in this case. The bank thought proper to take this cheque as representing its face value, and if the holder of it had no title, as he certainly had not, there is nothing in s. 82 which will entitle
them to treat it as a receiving payment for a customer. It is not true to say that the banker is here sought to be made liable by reason of his having received payment for a customer. I do not think that Huggins was a customer of the bank at all within the meaning of the section; but what the bank are really insisting upon here is the valid negotiability of a cheque, fraudulently obtained, which, by the form of it comes within the provision in s. 81 that the person taking such a cheque shall not have a better title to the cheque than that which the person from whom he took it had. The bank insists, nevertheless, that Huggins gave a title to them, which enables them to sue. As I have said, I do not think that Huggins was a customer at all. I do not think that the transaction was a banking transaction, and although I think that there is another and a distinct ground which would defeat the bank’s claim, I am content to rest my judgment upon the true construction of the statute. I, therefore, move your Lordships that the decision of the Court of Appeal be reversed, and that judgment be entered for the appellants with costs.

LORD DAVEY – The first point raised by the learned counsel for the respondents was that Huggins, in the circumstances which are stated in the case, had a property in the cheque which was indeed voidable by the appellants, who had been defrauded, but that the money having been received by the respondents in good faith and without notice of the fraud before the appellants had disaffirmed the transaction, it could not be recovered back from them, the respondents. I am of opinion that Huggins never had any property in the cheque, which was handed to him only as the collector and agent of the overseers in payment of a debt alleged to be due to them. The appellants never intended to vest any property in him for his own benefit, but the property in the cheque was intended to be passed to his employers the overseers, notwithstanding that it was made payable to Huggin’s order. Huggins, therefore, had no real title to the cheque, and, it being marked “not negotiable”, the respondents never acquired title to it as against the appellants. BIGHAM, J., however, and the Court of Appeal decided in favour of the respondents on the ground that Huggins was a customer of the respondents, and that they received the cheque for collection on his behalf within the meaning of s. 82 of the Bills of Exchange Act. The facts upon which they came to that conclusion are that Huggins had for about twenty years been in the habit of cashing cheques received by him as collector of rates at the respondents’ bank. His employers, the overseers, kept their account at another bank at Newbury, and it was prima facie his duty to pay cheques received by him as collector of rates at the respondents’ bank. His employers, the overseers, kept their account at another bank at Newbury, and it was prima facie his duty to pay cheques received by him for rates into their banking account. It does not appear whether Huggins cashed cheques at the respondents’ bank in any cases, except those in which he had to make payments out of the rate collected as poor rate to the credit of the waywarden, or rural district council, who kept their accounts with the respondents. In all the instances which were put in evidence from the books of the respondents the transaction was similar to the one in question namely, a payment to the credit of a customer of the respondents by means of a large cheque out of which Huggins received the change. He was asked the question in cross-examination whether he ever cashed cheques with the respondents, except when he had to make a payment out of the rate to the credit of one of their customers. Unfortunately, a discussion arose and the question was never answered. It is not shown that he did so, and I doubt whether he ever did.

But, be this as it may, I do not think that the relation of customer and banker was ever established between him and the respondents. It is true that there is no definition of customer
in the Act, but it is a well-known expression, and I think that there must be some sort of account – either a deposit or a current account – or some similar relation to make a man a customer of a banker. On the facts proved in this case I do not think that the respondents undertook any duty towards Huggins. They took the cheque, which he offered in payment of a sum to be placed to the credit of their customers, and gave him the change, or in some cases (though it is not proved) they may have bought his cheque, possibly for their own convenience in remitting to the head office. But this will not, in my opinion, prove that Huggins was a customer, or that they undertook to collect the cheques on his behalf, so as to bring them within the protection of s. 82. I, therefore, agree that the appeal should be allowed.

* * * * *
M.C. CHAGLA, J. – The plaintiff as the true owner of a cheque for Rs. 4000 has filed this suit against the defendant bank for conversion of the said cheque and claiming Rs. 4000. The material facts are really not a dispute. On 5th February 1945, Messrs. Ramchandra Ramgopal, a firm of merchants at Akola, drew a cheque upon the Laxmi Bank, Limited, for the sum of Rs. 4000 payable to the plaintiff or bearer. The cheque was crossed generally by Messrs. Ramchandra Ramgopal before delivery to the plaintiff. On the same day, the plaintiff dispatched this cheque by post from Akola to his commission agents Messrs. Chimanlal Mohanlal Suratvala for presentment and collection. This cheque never reached M/s Chiman Lal Mohan Lal Suratvala and apparently it was stolen during transit. On 25th February 1945, the defendant bank opened a branch in Bombay and on 26th February 1945 and Nemchand Amichand Gandhi an account by paying to the credit of his account Rs. 300 in cash. Although the name of the depositor was Gandhi, he signed his application form as “N.A. Gandhi”. On 29th January 1945, Gandhi withdrew from his account by a cheque written in Gujarati the sum of Rs. 225. On 7th February 1945, Gandhi drew a further sum of Rs. 50 by drawing another cheque this time in English. Therefore the position was that on 7th February 1945, there was only a sum of Rs. 25 to the credit of Gandhi’s Account. On 7th February 1945, Gandhi paid in into his account the cheque for Rs. 4000, which had been drawn in favour of the plaintiff and of which the plaintiff claims to be the true owner. This cheque was collected by the defendant bank and the amount credited to Gandhi’s account. On 8th February 1945, Gandhi drew a cheque for Rs. 3800 on his account. The cheque was drawn in favour of Kantilal Maganlal Shah or bearer and has been endorsed by R.H. Desai. Bapulal Premchand, the plaintiff, has given evidence and also Chimanlal Nagindas Suratvala bearing out the facts as to the cheque being given to the plaintiff by the firm of Ramchandra Ramgopal and the cheque being stolen while in transit. On this evidence there can be no doubt and it has not been disputed by Mr. Taraporewalla that the plaintiff is the true owner of the cheque; nor can there be any doubt that Gandhi who paid in this cheque to the credit of his account had no title to this cheque.

2. It is, therefore, clear that as against the true owner the defendant bank is guilty of conversion. Under the ordinary law the bank would have no answer to the plaintiff’s claim. But S. 131, Negotiable Instruments Act, 1881, affords the defendant bank a statutory protection against the true owner in cases of conversion provided certain conditions mentioned in that section are complied with. If a banker in good faith and without negligence receives payment for a customer of a cheque crossed generally or specially to himself he shall not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment. In order, therefore, to escape the liability which the general law imposes upon a person or a party who converts the goods belonging to the true owner thereof, the banker must discharge the burden of establishing that he received payment on behalf of a customer of his of a cheque not belonging to the customer but to someone else in good faith and without negligence. In this case it is not suggested that the bank acted without good faith, but the plaintiff’s allegation is that the bank acted with
negligence in collecting cheque and thereby has lost the protection afforded to a bank by S. 131, Negotiable Instruments Act, and the short point that I have to determine in this case is whether on the facts established the defendants have discharged their burden of proving that they acted without negligence. Now negligence is essentially a question of fact and it must depend upon the circumstances of each case whether negligence has been proved or not. It is difficult to define “negligence”.

6. Therefore what I have to determine in this case is whether in collecting the cheque belonging to customer Gandhi the bank acted without reasonable care in reference to the interest of the plaintiff, the true owner of the cheque. The Privy Council in **Commissioners of Taxation v. English, Scottish and Australian Bank Ltd**.[(1920) A.C. 683] laid down the principle which ought to guide the Courts in considering the question whether a bank is guilty of conversion in having been negligent in collecting a cheque on behalf of a customer which in fact did not belong to him. In that case one A. Friend of Sydney, put a cheque drawn by himself on the Australian Bank of Commerce for £786-18-3 into an envelope, along with some other cheques drawn by other members of his family, and addressed the envelope to the Commissioner of Taxation, George Street North, Sydney. This cheque was in payment of an assessment for income-tax. It was crossed with the word “Bank”, that is to say, generally not especially. This cheque was stolen by some person unknown and was never cashed by the Commissioners of Taxation. On the following day, a man who gave his name as Stewart Thallon entered the head office of the respondents’ bank at Sydney and stated that he wished to open an account. The accountant took his name and address, which this man gave, at certain well-known residential chambers in Sydney. He then handled in a sum of £20. The Accountant filled up the “paid-in” slip and the account was duly opened and a cheque-book issued to Thallon. On the following day the stolen cheque was handed in by Thallon; and on the next day Thallon withdrew three sums of £483-16-6, £266-10-0 and £50-12-6 by cheque drawn by himself. Thallon was never seen again and it was found that no person of that name lived at the address he had given. The Commissioner of Taxation then filed an action from which the appeal went to the Privy Council against the bank for conversion of the cheque. The Supreme Court for New South Wales held that the bank was not guilty of negligence. In discussing the question of negligence, their Lordships of the Privy Council are at pains to point out that the negligence with which the Court was concerned was not in opening the account but “in collecting the cheque” though the circumstances connected with the opening of an account may shed light on the question of whether there was negligence in collecting the cheque, and the test of negligence which their Lordships adopted was whether the transaction of paying in any given cheque coupled with the circumstances antecedent and present was so out of the ordinary course that it ought to have aroused doubts in the bankers’ mind and caused them to make inquiry. Their Lordships emphasized that negligence was a question of fact and they rejected the argument of the learned Chief Justice of the Supreme Court that the care that the bankers should take should not be less than a man invited to purchase or cash such a cheque for himself might reasonably be expected to take. Their Lordships thought that was an inapposite standard for the simple reason that it was no part of the business or ordinary practice of individuals to cash cheque which were offered to them, whereas it was part of the ordinary business or practice of a bank to collect cheques for their customers. The argument that was presented to the Board was that the bank was negligent in collecting the cheque for a
customer who was of recent introduction and about whom the bank knew nothing. Their Lordships then pointed out that there was nothing suspicious about the way the account was opened; they were of the opinion that there was nothing suspicious in the fact that a cheque was paid into that account for collection one day after the account had been opened; they further pointed out that if it was laid down that no cheque should be collected without a thorough inquiry as to the history of the cheque, it would render making business as ordinarily carried on impossible; customers would often be left for long periods without available money. But their Lordships do say that if the cheque had been for some unusually large sum, perhaps suspicion might have been aroused; but whether the cheque is or is not for an unusually large sum is really a question of degree. Their Lordships finally point out that in the cheque presented by Thallon there was no note of alarm or of warning which could have aroused the suspicion of the bank. Under the circumstances, their Lordships dismissed the appeal and held that the bank was not negligent. I have taken pains to reproduce at some length the reasons of the Privy Council in coming to the conclusion they did because both the decision and the observations of their Lordships are of considerable assistance in deciding the case before me and also of applying the test which the Privy Council did in the case before them.

7. The first contention of the plaintiff is that no individual of the name of Gandhi in fact existed and that the identity of Gandhi has not been established by evidence in this case. I accept Modi’s testimony that he did know Gandhi as a broker before Gandhi came to him for the purpose of opening an account on 26th January 1945. I have also got the evidence of Gupte, the accountant of the defendant bank, on this point. Gupte says that when the cheque for Rs. 225 came to him in the ordinary course, he noticed that although the name of the drawer was Gandhi, he was signing as “Gandi” and he therefore sent for Gandhi and inquired of him about this. This man who said he was Gandhi told Gupte that he did this because his signature should not be forged. The next question I have got to consider is whether Modi was negligent in recommending Gandhi to the defendant bank as a customer. It is true that even asking Modi’s evidence at its best. Modi had a rather casual acquaintance with Gandhi. But it is difficult for me to see why Modi did anything wrong in giving a reference if Gandhi went to him with actual cash and wanted to open an account in the bank after he had met Gandhi before at the pedhi of his friend Dave and had known him as a broker. Assuming that Modi was negligent in introducing Gandhi to the defendant bank, the next question is whether the negligence of Modi can be imputed to the bank. Now it is not suggested on the record as it stands that it was any part of the duty of Modi and the cashier to introduce customers. It is true that Modi has said that before he was employed he told the Manager that he would be able to introduce a few customers. That perhaps improved his chance of his being taken on as a cashier, but that does not mean that it was incumbent upon him in the performance of his duties to introduce customers. Modi gave a reference for Gandhi to the bank just as any other outsider would have done. The reference was not given in the performance of his duties as a cashier and therefore the negligence, if any, of Modi cannot be imputed to the bank. In order that the plaintiff should succeed, he must establish that the bank was negligent in accepting Gandhi as a customer if such negligence is sufficient to disentitle the defendant bank from the protection given to it under S. 131, Negotiable Instruments Act.
8. It is next urged by the plaintiff that the bank was negligent in accepting Gandhi as a customer. On this point the practice as to accepting customers is deposed to by Gangooli, the manager: of the defendant bank, and he says that the bank opened accounts only of such persons as were known to any member of its staff or to any outsider who was known to the bank. Gangooli further says that when a customer was introduced by a person other than a member of the staff, the bank made no reference to him about the customer either in writing or orally; but when a customer was introduced by the members of the staff, he always sent for that member of the staff and questioned him about the credentials of the customer. Gangooli also pointed out one of the rules of the bank, which was that the proposed customer should be properly introduced and his interpretation of the word “properly” was that it must be by one whom he could trust; and in the ordinary course he would trust every officer and servant in the bank if he introduced a customer. Gangooli, the manager, has further told me that when he saw the application form for opening the account of Gandhi and he saw that Gandhi was introduced by Modi he sent for Modi and asked him about Gandhi and Modi told Gangooli that he knew Gandhi well, that he was a broker and also knew that he had effected transaction with Dave. The manager stated that after he had this discussion with Modi he passed the form and initialled it in red ink. The manager further said that he followed the same practice with regard to the other customers introduced by Modi. On 26th January 1945, there were nine applications for opening new current accounts. Of these nine, three were introduced by Modi; three by the manager himself; and the remaining three by an outsider. In respect of all the three persons introduced by Modi the manager made personal inquiries of Modi. Mr. Tendolkar has commented on the fact that the manager did not tell Sub Inspector Paltonwalla about what Modi had told him about Gandhi before his application was sanctioned. In my opinion, that fact by itself is not sufficient to make me come to the conclusion that the manager’s testimony on this point should be disbelieved. I accept the evidence of Gangooli, the manager of the defendant bank, that when he received the application form of Gandhi, he sent for Modi and made the inquiries to which he has deposed here.

9. In the next place, a great deal of emphasis was laid by the plaintiff on the fact that the address given by Gandhi, namely, 103, Kavarana Street, Fort, in his application form was a non-existent address. Now the position with regard to this address is that I have the evidence of Desai, Road Inspector, “A” Ward, Bombay Municipality, who has stated that the Municipality keeps a record of all the public streets and of such private streets as the public have access to; and no street, public or private, by the name of Kavarana Street appears in this record. But he admitted to Mr. Taraporewalla that the Post and Telegraph Office Directory did mention this street as being near the Bombay General Post Office. Sub-Inspector Paltonwalla also said that he could not find any such street as Kavarana Street in the Fort. But the Road Inspector of the Bombay Municipality did admit that there was a building known in Frere Road called Kavarana Building; next to this building there was a bye-lane off Frere Road; that bye-lane was not named; and the address of Kavarana Building was No. 103, Frere Road. There is no evidence before whether any man by the name of Gandhi was living in the Kavarana Building, the address of which is No. 103, Frere Road.

10. It is further contended that there were suspicious circumstances attendant upon the opening of the account by Gandhi. In the first place, it is pointed out that whereas the name of
the customer was Gandhi, he signed his application form and his specimen signature card as “Gandi.” Gangooli, the manager, has stated that it was not uncommon for a man to give his specimen signature which was differently spelt for his own name; and as I have already pointed out, both Gupte and Modi have stated that in answer to inquiries by them Gandhi told them that he signed his name differently from the way in which it was spelt in order that his signature should not be copied. Then it is pointed out that it is very unusual for Modi, the cashier of the bank, to have filled in on behalf of Gandhi the paying in slip in respect of the deposit of Rs. 200 and also the application form for opening an account with the bank. It is true that the manager says that it is not customary for the cashier to do these things; but Modi has stated in the witness box that he did this because Gandhi did not know English and he did it as a friendly act. Modi also said that he filled in the application forms of other customers besides Gandhi whom he had introduced. The important fact to remember in connexion with the opening of Gandhi’s account is that the account was opened with cash and not with any cheque paid in by Gandhi. When a customer opens an account with a cheque, certain inquiries may become necessary as to the cheque; but when an account is opened with cash, obviously the position is very different. I am stressing this point because when I come to deal with the authorities cited at the bar, its importance and relevance will become clear.

11. It is further urged that the bank’s suspicions should have been aroused before they collected the cheque from Gandhi by the manner in which Gandhi’s account was operated. A great deal of emphasis was placed on the fact that by 7th February 1945, the credit to Gandhi’s account only stood at Rs. 25 and that on that very day a cheque for Rs. 4000 was paid in. Now the rules relating to current accounts of the bank provide that accounts should be opened with a minimum sum of Rs. 500; but as far as the Bombay branch was concerned, the evidence is borne out by the subsequent amendment of the rule itself that the managing director had given his sanction to opening accounts in Bombay with a minimum sum of Rs. 300 and in Bombay the minimum balance required to be maintained was Rs. 50. If the balance of Rs. 50 is not maintained, then a fee of Re. 1 is charged to the customer. The manager stated that it was not unusual for a customer to deposit the minimum amount necessary and then to withdraw within four or five days the maximum amount permissible and leave just the balance required. It is true that Gupte, the accountant in the defendant bank, did not quite agree with this view of the manager because he said that he knew of two or three cases where a customer had opened an account with the minimum deposit required and withdrawn practically the whole of the amount within a few days. He would consider such a thing as unusual. But Gupte went on to say that he did not think that that circumstance would put the bank on inquiry. It is difficult to see why a customer who opens an account with the minimum permissible, namely, Rs. 300 should not operate upon it so as to reduce it to an amount less than required under the rules to maintain the account and when he finds that he has gone below the minimum necessary, pay in a sum of Rs. 4000 so that the balance goes up to a much larger sum than required. It cannot be suggested that the payment of a cheque for Rs. 4000 was for such a large sum or such a disproportionate sum that it should have aroused the suspicion of the bank. Gupte, the accountant, has stated in his evidence that in the course of one day sums aggregating to rupees four lakhs are paid into the bank. If one were to look at the proportion between the original deposit, namely Rs. 300, and the payment of Rs. 4000, it is less striking than the proportion between the £ 20 deposited by Thallon in the Privy
Council case and the deposit on the subsequent day of a cheque for £786. The Privy Council there did not think that the cheque for £786 was for an unusually large sum. There is less reason to think here that the paying in of a cheque for Rs. 4000 by Gandhi was of so unusually a large sum that the suspicion of the bank should have been aroused. A further point was sought to be made that cheques were drawn by Gandhi in Gujarati and in English; but Gupte, the accountant, produced two cheques of another customer, one written in Gujarati and the other in English. Thus there is nothing in this fact by itself, which was sufficient to put the bank on inquiry with regard to its customers.

12. Having considered the various contentions of the plaintiff and having reviewed the evidence on the various points, I should now like to consider, in view of the authorities, what is the true and correct approach to the facts of this case. Primarily, inquiry as to negligence must be directed in order to find out whether there is negligence in collecting the cheque and not in opening the account. If there was anything suspicious about the cheque of Rs. 4000 which Gandhi paid in to the credit of his account, there can be no doubt that it would have been the duty of the bank to make the necessary inquiries before they cashed the cheque. To use the language of the Privy Council, if there had been any note of warning or alarm on the cheque itself, then if the bank had collected it disregarding the note of warning or alarm it would have done so at its own peril. But in this case the cheque is a perfectly innocuous document. It is made out in the name of the plaintiff or bearer and, as I have said, it is generally crossed and it is drawn by two partners of the firm of Ramchandra Ramgopal; and it is not seriously disputed by Mr. Tendolkar that there is nothing on the face of the cheque which should put the bank on inquiry. Therefore, prima facie, the bank was not negligent in collecting this cheque, which on the face of it did not in any way arouse its suspicion. But it is not sufficient that the cheque itself should not arouse the suspicion of the bank. If there is any antecedent or present circumstance, again to use the language of the Privy Council, which aroused the suspicion of the bank, then it would be the duty of the bank before it collected the cheque to make the necessary inquiry and undoubtedly one of the antecedent circumstance would be the opening of the account. Now it is important to bear in mind that there is no connection whatever in this case between the opening of the account and the stealing of the cheque. The cheque did not come into existence till 5th February 1945, and the account was opened on 26th January 1945. It is impossible to believe that Gandhi or whoever opened the account on 26th January had the remotest idea that on 5th February Messrs. Ramchandra Ramgopal would make out a cheque in favour of the plaintiff on 5th February and that the plaintiff would post it to his commission agent Suratvala and he would get an opportunity to steal the cheque and get his bank to collect it. But apart from there being no connection whatever between the stealing of the cheque and the opening of the account, was there any suspicious circumstance at all about the opening of the account? As I have pointed out, the account was opened with cash. There was a reference by the cashier and that reference was sufficient according to the practice followed by the bank. The manager made the necessary inquiries and the account was opened. But what Mr. Tendolkar contends for is that it is the duty of the bank to make inquiries about the respectability of an intended customer in every case although there may not be the least suspicious circumstance attendant upon the opening of the account and, according to Mr. Tendolkar, proper and sufficient inquiries were not made in this case by the bank about the respectability or the integrity of Gandhi, their customer.
13. In the Privy Council case, *Commissioners of Taxation v. English, Scottish and Australian Bank Ltd.*, curiously enough the case was cited at the bar by Mr. Romer K.C. on behalf of the appellants not on the question of negligence but on the question of what is sufficient to constitute a person a customer of the bank, and in the judgment of their Lordships this case is not referred to at all; and when one turns to the facts of the Privy Council case, which I have already set out in some detail above, it will be remembered that Thallon, the customer of the bank in that case, was given no reference. The bank knew nothing about him and yet the Privy Council, far from imposing upon the bank any necessity for making an inquiry about this customer, held that the bank was not negligent because there was nothing suspicious about the way the account was opened. It is true that in *Ladbroke & Co. v. Todd*, at least in the judgment as reported in (1914) 111 L.T. 43, Bailhache J. does say that there was nothing suspicious in the opening of the account by Jobson and yet he took the view that it was incumbent upon the bank to make the inquiries about the respectability of the customer. In view of the Privy Council decision, it is difficult for me to hold that the principle of law enunciated in (1914) 111 L.T. 43, is the correct law. According to the Privy Council, as I read the judgment, if a customer opens an account with cash and there is nothing suspicious about the manner in which the account is opened, the fact that the bank made no inquiries about the customer would not disentitle the bank to the protection given to it by S. 131, Negotiable Instruments Act. Of course on the facts before me there was actually a reference given by Modi to Gandhi and I have also held that the manager of the defendant bank did make inquiries about the position and status of Gandhi.

24. In my opinion, there is no absolute and unqualified obligation on a bank to make inquiries about a proposed customer. I agree that modern banking practice requires that a customer should be properly introduced or, in other words, that the bank should act on the reference of some one whom it could trust. Therefore, perhaps in most cases it would be wiser and more prudent for a bank not to accept a customer without some reference. But I am not prepared to go so far as to suggest that after a bank has been given a proper reference with regard to a proposed customer and although there are no suspicious circumstances attendant upon the opening of the account, it is still incumbent upon the bank to make further inquiries with regard to the customer. In this case, of course, as I have already pointed out, the manager of the defendant bank accepted the reference of the cashier Modi and also in fact made certain inquiries of Modi as to the position and status of Gandhi. In my opinion, it was not obligatory upon the defendant bank to make any further inquiries about this customer, and in having failed to make any such further inquiries, in my judgment; they are not guilty of negligence.

25. It is further urged that it is the duty of a bank to notice the account of a customer from time to time and in failing to notice the account the bank is guilty of negligence. Reliance is placed on an observation of Sankey L.J. in (1929) 1 K.B. 40 for this proposition. This is what the learned Lord Justice says (p. 70):

26. “….and there may be negligence in not noticing the account of the customer from time to time and considering whether it is a proper or a suspicious one.”

27. Again the language used suggests that it is not obligatory, but in certain cases it may become necessary. But even for this limited proposition, Sankey L.J. relies on *Morison v. London County and Westminster Bank Ltd.* Lord Chief Justice, to warrant the proposition
laid down by Sankey L.J. In *Crumplin v. London Joint Stock Bank Ltd*, Pickford J. observed that if the account had been opened with a very small sum to credit or with a sum that was very soon drawn down practically to nothing, and then large sums were paid in by cheques in quick succession, he would have no hesitation in coming to the conclusion that fact ought to have put the banker upon inquiry and he ought to have seen that the matter was right. But in this particular case the learned Judge came to the conclusion that as the cheques paid in were for comparatively small amounts and the cheques were paid at long intervals, there was no negligence on the part of the bankers to make any inquiry. It is true that in the case before me the account was opened with a very small sum and had been brought down practically to nothing. But I have noted the case where after that large sums had been brought in by cheques in quick succession. All that happened was that when the account was reduced to Rs. 25, a cheque for Rs. 4000 was paid in. In my opinion that was not sufficient to put the bank on inquiry and the bank was not negligent in not having made any inquiries when they discovered the state of account on 7th February 1945. Under all the circumstances of the case, the bank has established that there was no negligence on its part in collecting the cheque of Gandhi and crediting it to his account and, therefore, the bank is protected by S. 131, N.I.Act, and is not liable to the plaintiff for conversion.

28. I should like to mention one further contention on which an issue has been raised and which has been very rightly not pressed by Mr. Taraporewalla and that is the issue of contributory negligence. In their written statement, the defendants have alleged that the plaintiff was guilty of contributory negligence. It is difficult to see how a person who converts an article belonging to the true owner can turn upon the true owner and say: “I am not guilty of conversion because you showed negligence in relation to your own article.” However negligent the true owner may be, it can be no answer by the person who converts the article that he should be let off from his liability because of the negligence of the true owner. But for the protection afforded to the bank by S. 131, N.I. Act, the bank would have no defence whatever to the claim of the plaintiff. Suit dismissed with costs.

* * * *
Indian Overseas Bank v. Industrial Chain Concern

(1990) 1 SCC 484

K.N. SAIKIA, J. - 2. The respondent - Industrial Chain Concern as plaintiff filed Original Suit in the City Civil Court, Madras for recovery of Rs 26,383.49 together with interest and costs, being the total amount of loss sustained by it on account of the alleged negligence and conversion on the part of the defendant - Indian Overseas Bank having its central office at 151, Mount Road, Madras-2, hereinafter referred as ‘the Bank’, by negligently allowing one Sethuraman, Manager of the plaintiff firm at Madras, to open a ‘fictitious account’ in the name of ‘Industrial Chain Concern’ as its proprietor and helping him to pay in stolen drafts and cheques drawn in favour of the plaintiff and collecting the same and paying to Sethuraman the proceeds thereof and closing the account thereafter. It was the case of the plaintiff that it was doing extensive business in Steel Roller Chains and Sprockets with leading industries and government undertakings. Its head office was situate at 36, Linghi Chetti Street, Madras-1. It had supplied goods to seven parties who sent to it drafts and cheques in its name amounting to Rs 26,383.49 and those drafts and cheques had been received by Sethuraman, its Manager, who after opening the ‘fictitious account’ in the Bank’s Nungambakkam Branch paid in the stolen drafts and cheques and the Bank collected those and allowed Sethuraman to withdraw the same defrauding the plaintiff. The plaintiff averred that the Bank was negligent and guilty of conversion in opening of the account, collection of the cheques and drafts and allowing Sethuraman to withdraw the same and therefore, it was liable to make good the plaintiff’s loss.

3. The appellant Bank as defendant resisted the suit contending, inter alia, that it was not negligent in allowing Sethuraman to open the account inasmuch as approaching the Bank Sethuraman represented that he, as proprietor, had started a firm under the name and style of “Industrial Chain Concern” and proposed to open an account in that name. Since the Manager of the Bank at Nungambakkam Branch was erstwhile classmate of Sethuraman he (the Manager) knew him and gave the introduction relying on which the current account was opened and after opening the account, which was a real account and not a ‘fictitious account’ as alleged, various cheques and drafts had been paid into the account by the customer for collection and the Bank in good faith and without negligence, in course of its business, collected them and credited the account and Sethuraman as customer withdrew money from his account, and that neither at the time of opening the account nor at the time of paying in and collection of the cheques, nor at the time of allowing money to be withdrawn there was anything to arouse any suspicion regarding the bona fides of the representation made by Sethuraman. Later on the customer having expressed a desire to close the account because, as he said, he was winding up his business, the account was closed. There was, therefore, no negligence on the part of the Bank acting in good faith and it was not liable for conversion.

5. Mr. C. Seetharamiah, the learned counsel for the appellant submits, inter alia, that the finding of the courts below that the defendant Bank was negligent in opening the account is contrary to law inasmuch as there were no circumstances antecedent or present to arouse any suspicion and there was no obligation on the part of the Bank to compare and verify the name and address given by Sethuraman as proprietor, Industrial Chain Concern with the address of
the then existing plaintiff’s firm of the same name; that the High Court’s finding that the Bank was negligent in clearing the amounts of the cheques is equally contrary to law inasmuch as there was nothing ex facie to put the Bank on guard and there was no warning or indication of defective title on the face of the cheques and drafts to arouse suspicion of the Bank and it was not necessary for it to make thorough enquiry about the cheques and drafts to have been entitled to invoke the protection of Section 131 of the Negotiable Instruments Act; and that even assuming, but not admitting that the Bank was negligent, the plaintiff itself contributed to it by entrusting Sethuraman to receive the cheques and drafts and to deal with them for a long time and that even when the complaint was made to Deputy Commissioner of Police on February 19, 1975 it was about two cheques only, and there was still no complaint about other cheques and drafts.

6. The first question to be decided, therefore, is whether the Bank was negligent in opening the account in the name of Sethuraman, as proprietor, Industrial Chain Concern.

7. Evidence of DW 1 Muthukrishnan, Manager of the Bank at the relevant time is that the account was opened by Ex. B-1, the Account Opening Form, on October 3, 1974 by Sethuraman under the title Industrial Chain Concern, the sole proprietary concern. It was signed by Sethuraman for Industrial Chain Concern with a rubber stamp as proprietor. Muthukrishnan, DW 1 deposed:

“This account was opened by R. Sethuraman under the title Industrial Chain Concern sole proprietary concern. Sethuraman is the sole proprietor. Before that date I knew Sethuraman. He was my collegemate in 1955-57 in Vivekananda College. I was meeting him in social gathering. When he went to open an account, he represented that he had just started as commission agent under the name and style of Industrial Chain Concern as sole proprietary concern. He wanted to open an account with overdraft facility. I declined his request for overdraft because he himself stated that he had just started commission business. I was able to identify him as the collegemate and to open his account I have signed the introduction in my personal capacity. ... It was an ordinary current deposit account. The introduction given by me was in the normal course of banking business. Before opening account, he showed me some business correspondence and orders. Some of the orders were placed by India Sugars and Refineries and Madras Fertilisers. At that time there was nothing to show that the Industrial Chain Concern was not a proprietary concern or that Sethuraman was an employee of the firm. He opened an account with cash deposit of Rs 100 as he described himself as a proprietary concern and as he just then started the business and as I did not grant loan facility there was no occasion for calling credit reports from other bankers. There was normal operation of the account. Cheques given in the name of the concern were deposited in the account and after realisation they were withdrawn.”

Comparing the statement of account and Ex. B-1 with the above evidence there is nothing to doubt this witness. He denied that at any stage the Bank had acted with negligence or without good faith or that there was no proper introduction for opening an account. He clearly said that the address given in Ex. B-1 was Nallathambi Mudali Chetti Street and that he knew the location and it was far away from Nungambakkam. That was the place of business of
Sethuraman mentioned at the opening of an account and the Mount Road Branch of the defendant Bank was the nearest branch for that place. Opening of an account by Sethuraman with a trading place at Nallathambi Street with Nungambakkam Branch occurred to him as unusual but it did not create any suspicion as he asked Sethuraman why he wanted to open an account in Nungambakkam Branch and Sethuraman replied: “I am a commission agent. I want overdraft facility. You are the only agent known to me and that is why I have come to Nungambakkam Branch.” DW 1 also said that in opening the current account he glanced through the order and correspondence shown to him by Sethuraman regarding supplies but he did not check up the address given in the correspondence by these companies in the name of the Industrial Chain Concern. He denied that he had not checked up the business credentials for the account to be opened in the name of the business concern and that he was negligent in that aspect. He said: “I declined overdraft facility. That itself shows that I was not negligent. Once I declined overdraft facility it did not strike me to refer Sethuraman to the nearest branch from his trading place. I did not refer him to the Mount Road Branch. I suggested he can go to the Mount Road Branch. He came with another request that his overdraft application might be considered after the period of about one year, after his business had improved. Therefore, he wanted to open an account in Nungambakkam Branch.” Both courts below held that the Bank acted in good faith. We agree. The question is whether the Bank could be held to have been negligent while opening the account.

8. It is, however, necessary to bear in mind that this question is often associated with the question of negligence in collecting cheques, etc. for the customers paid into the account. This is because till an account is opened no banker-customer relationship exists between the bank and the person proposing to open an account. Once the account is opened, that relationship is created and with it mutual rights and obligation between the banker and the customer are created under law. Opening an account by cash is a little different from opening an account by a cheque as in that case the Bank has to act according to the tenor of that instrument and its collection and payment involves the Bank’s duty owed to its real owner if the proposer happens not to be its real owner. Even when an account is opened by depositing cash but so soon after the opening of the account any cheque is paid into it as to make it part of the same transaction with the opening, the same duty may be implied by law.

9. What is the standard of care to be taken by a bank in opening an account? In the Practice and Law of Banking by H.P. Sheldon, 11th edn., in chapter 5 at page 64 it is said:

“Before opening an account for a customer who is not already known to him, a banker should make proper preliminary inquiries. In particular, he should obtain references from responsible persons with regard to the identity, integrity and reliability of the proposed customer.

If a banker does not act prudently and in accordance with current banking practice when obtaining references concerning a proposed customer, he may later have cause for regret.”

10. M.L. Tannan in Banking Law and Practice in India, 18th edn. at page 198 says:

“Before opening a new account, a banker should take certain precautions and must ascertain by inquiring from the person wishing to open the account, if such
person is unknown to the banker, as to his profession or trade as well as the nature of the account he proposes to open. By making necessary inquiries from the references furnished by the new customer, the banker can easily verify such information and judge whether or not the person wishing to open an account is a desirable customer. It is necessary for a bank to inquire, from responsible parties, given as references by the customer, as to the latter’s integrity and respectability, an omission of which may result in serious consequences not only for the banker concerned, but also for other bankers and the general public.”

11. One of the tests of deciding whether the bank was negligent, though not always conclusive, is to see whether the Rules or instructions of the banks were followed or not. We may accordingly consult those instructions. Ex. B-6 contains the general instructions regarding constituent accounts for bank. Mark II deals with opening of accounts. It says:

“Except at large branches where the sub-agent or accountant may be authorised to open Current Accounts, no new Current Account shall be opened without the authority of the agent manager who is solely responsible for all Current Accounts being opened in the proper manner. A written application on the appropriate form must be submitted and will be initialled by the agent at the top left corner after he has satisfied himself of the respectability of the applicant(s). It is important that every party must be introduced to the Bank by a respectable person known to the Bank, who must normally call at the Bank and sign in the column specially provided for the purpose in the account opening form. In all cases his signature must be verified with the specimen lodged and attested. The agent or accountant may introduce constituents to the Bank provided they are known to him personally and in such cases he should sign the application form at the appropriate place in his personal capacity. When the introduction of any other member of the staff is accepted, the agent must invariably make independent inquiry and record his findings on the account opening form for future reference if the need arises....”

12. Mark IV deals with accounts of proprietary concerns. It says:

“An individual trading in the name of concern should fill in Form F.S. 5 and sign it in his personal name and also affix his signature on behalf of the concern as proprietor in the space provided.”

If the banker was negligent in following up the references given at opening of account and subsequently cheques etc. are collected for the customer paid into that account and those happened to be of someone else the Bank may be liable for conversion, unless protected by law. In the instant case, Sethuraman having been known to the Manager who gave the introduction, there was no violation of any instruction or rules.

14. In *Ladbrooke & Co. v. Todd*, the plaintiff drew a cheque and sent it to the payee by post. The letter was stolen and the thief took it to the defendant, a banker, and used it for the purpose of opening an account for the purpose of which he forged the payee’s endorsement. The defendant accepted believing him to be the payee. He was not introduced to the bank and no references were obtained. The defendant opened the account and the cheque was specially cleared at the request of the thief, and he drew out the proceeds on the next day. On the
discovery of the fraud the plaintiff brought an action against the defendant for conversion. One of the main questions raised was whether the account having been opened by payment in all the cheques to be collected the defendant could be properly regarded as having received payment for a customer. It was held that as account was already opened when the cheque was collected, payment had been received for a customer. The drawer thereupon sent another cheque to the real payee and took an assignment of his rights in the stolen cheque and, as holders of the cheque or alternatively as assignees, brought an action against the bank to recover the proceeds collected by the bank as money had and received to their use. Evidence was given that it was the general practice of bankers to obtain a satisfactory introduction or reference. It was held that the banker had acted in good faith, but was guilty of negligence in not taking reasonable precautions to safeguard the interests of the true owner of the cheque and that therefore he had put himself outside the protection of Section 82 of the Bills of Exchange Act, 1882. Bailhache, J. also said that the banker would have been entitled to the protection of the section as having received payment for a customer, but had lost it owing to his want of due care. It was also held that the relation of banker and customer began as soon as the first cheque was handed in to the banker for collection, and not when it was paid.

16. In the instant case there was no question of a reference inasmuch as the Manager himself knew Sethuraman and gave the introduction. The account was not opened by depositing any cheque but by depositing cash of Rs 100. The first cheque was paid into the account later and there is nothing to show that it formed part of the same transaction. No particulars have been proved as to the tenor of that cheque. The Manager made several inquiries which in the facts and circumstances of the case, in our view, were sufficient, for it is an accepted rule that the banker may refrain from “making inquiries which it is improbable will lead to detection of the potential customer’s purpose if he is dishonest and which are calculated to offend him and may drive away his customer if he is honest.” Except when circumstances of a case so justifies, in making inquiries the banker’s attitude may be solicitous and not detective. Sethuraman was believed when he said that he was the proprietor of Industrial Chain Concern which he recently started. He showed some orders and references in proof of his business. The banker believed in existence of his business but did not meticulously examine the addresses. Sethuraman was asked as to why he wanted to come to that branch and his reply was that he expected there to have overdraft facility and when that was refused he expressed that after his business improved he would expect to be granted overdraft facilities after one year. There is no doubt that Sethuraman was a rogue, but he prepared the plan intelligently and the banker in good faith believed in his statements. We, therefore, find it difficult to hold that the Bank was negligent in opening the account accepting the deposit of cash by a person known to the Manager of the Bank under the above circumstances.

17. Mr. Balakrishnan has argued that a cheque for Rs 2800 was paid in on the same date which was a stolen cheque and it ought to have aroused suspicion of the banker. But there is nothing to show that it formed part of the same transaction. As we have already observed, once an account is opened the relationship of banker and customer begins. Duration is not of the essence. As was held in Ladbroke & Co. the mere opening of an account without the actual transaction was sufficient to constitute the relationship and this view was followed in
Commissioners of Taxation v. English, Scottish and Australian Bank and it was stated that the word ‘customer’ signifies a relationship of which duration is not of the essence. The contract is not between a habitue and a newcomer, but between a person for whom the bank performs a casual service ... and a person who has an account of his own at the bank. Lord Chorley has even expressed the view that for the purpose of establishing the relationship of banker and customer there appears to be no logic in the actual opening of the account, and when the banker agrees to accept the customer the relationship comes into existence at that time though the account may not be opened until later. According to the author “the relationship being contractual should be subjected to the normal rules of contract law and the making of the contract depends on the acceptance of the offer. This contract could clearly be effected before an account had actually been opened though it would state that there must be an agreement to open an account before the banker and customer relationship can exist.” In the instant case there is, therefore, no doubt that the first cheque was subsequently paid in by Sethuraman as a customer and the Bank was to collect it on account of the customer. The Bank, therefore, in collecting the cheque and paying the proceed to Sethuraman acted as a Collecting Banker and can be held negligent, if at all, only as such as it was to collect it on account of the customer. In fact, from the statement of account it is clear that the account was opened on October 3, 1974 and was closed on February 1, 1975 and there were a number of transactions of deposits and withdrawals. The detailed particulars of the cheques paid into the account are not in evidence, it is, therefore, difficult to know whether each individual cheque or draft should have aroused suspicion in the mind of the banker before accepting the same for collection from its customer.

18. The High Court did not analyse the legal position and did not consider the facts and circumstances in this regard in proper perspective. We are not inclined to hold the Bank negligent in opening the account considered alone.

19. The next question is whether the Bank was negligent in collecting the cheques. In collecting a cheque on account of a customer the banker is protected by Section 131 of the Negotiable Instruments Act, 1881.

22. In the instant case in the absence of any evidence giving the details of the cheques and their tenor, we are unable to hold that there were notices and circumstances which ought to arouse suspicion on the part of the Bank. The Bank normally has an obligation to collect the customer’s cheques paid into his account. In Halsbury’s Laws of England, 4th edn., Vol. 3 at para 46 we read:

“46. Customer’s title to money paid in: In the absence of notice, express or implied the banker is not concerned to question the customer’s title to money paid in by him, although if a person entrusted with a cheque wrongfully pays it to the bank to the credit of someone who is not entitled to it, the true owner, if he has given notice to the bank of his title while the credit remains, may recover the amount from the bank as money had and received; or as damages for conversion. ....

A banker should be very cautious in accepting for a customer’s account any cheque drawn by him as agent upon his principal’s account, however broad may be the authority to draw. If the court detects circumstances which should arouse
suspicion that the agent was abusing his authority, the banker will be liable to the principal even though the cheque was crossed.”

This is because in every case of opening an account bank takes a mandate and, until changed, controls the operation of the account. In the instant case, having already opened the account the Bank was not concerned to question the customer’s title to money paid in by him, when a cheque was drawn in favour of Industrial Chain Concern.

23. In *Capital and Counties Bank v. Gordon*, the House of Lords accepted the position that a bank acts basically as a mere agent or conduit pipe to receive payment of the cheques from the banker on whom they are drawn and to hold the proceeds at the disposal of its customer. Unless crossed the banker himself is the holder for value. He may be a sum collecting agent or he may take as holder for value or as holder in due course. As an agent of the customer for collection he is bound to exercise diligence in the presentation of he cheques for payment within reasonable time. If a banker fails to present a cheque within a reasonable time after it reaches him, he is liable to his customer for loss arising from the delay. A banker receiving instruments paid in for collection and credit to a customer’s account may collect solely for a customer or for himself or both. Where he collects for the customer he will be liable in conversion if the customer has no title. However, if he collects in good faith and without negligence he may plead statutory protection under Section 131 of the Act.

24. In the instant case in the absence of evidence on record we find it difficult to ascertain whether the Bank was collecting the cheques merely as agent of the customer or as holder for value or as holder in due course. Some of the entries in the statement do show deposits and withdrawals of lesser amounts on the same date, but that is not enough for arriving at any conclusion whether the Bank was collecting as a holder for value and not merely as an agent of the customer.

25. To enable a bank to avail the immunity under Section 131 as a collecting banker he has to bring himself within the conditions formulated by the section. Otherwise he is left to his common law liability for conversion or for money had and received in case of the person from whom he took the cheques having no title or defective title. The conditions are:

   (a) that the banker should act in good faith and without negligence in receiving a payment, that is, in the process of collection, (b) that the banker should receive payment for a customer on behalf of him and thus acting as a mere agent in collection of the cheque and not as an account holder (c) that the person for whom the banker acts must be his customer and (d) that the cheque should be one crossed generally or especially to himself. The receipt of payment contemplated by the section is one from the drawee bank. It is settled law that the onus of bringing himself within the section rests on the banker.

26. We have already observed that the principle enunciated in the *Commissioners of Taxation v. English, Scottish and Australian Bank* is that the opening of the account is material as shedding light on the question whether there was negligence in collecting a cheque does bring out the true position that there must be sufficient connection established between the opening of the account and the collection of the cheque before a defence under Section 131 could be held to be barred. The question would then be one of facts as to how far the two stages can be regarded as so intimately associated as to be considered as one transaction. We
have already found that in the instant case there was no evidence to show that the opening of
the account and the collection of the cheques and drafts formed part of the same transaction.
Where a banker in good faith and without negligence receives payment for a customer of a
cheque and the customer has no title or a defective title to the cheque, the banker does not
incur any liability to the true owner of the cheque by reason only of having received such
payment. The banker is not to be treated for purposes of the protective section as having been
negligent by reason only of his failure to concern himself with absence of, or irregularity in,
endorsement of the cheque or other instrument to which the section applies. This has to be so
because the drawer of the cheque is not a customer of the bank while the payee is. Where the
protection attaches, it covers the receipt of the cheque and every step taken in the ordinary
course of business and intended to lead up to the receipt of payment. Even if there was
negligence in opening of the account that act ipso facto would not result in loss to the true
owner of the cheque collected. While collecting the cheque for a customer the bank is under
obligation to present it promptly so as to avoid any loss due to change of position. When it
receives the money collected then also there is no direct loss to the true owner. It is only when
the amount is paid or withdrawn by the customer that the loss results. During this period what
is important to note is that at every step in collection of the money and making payment the
banker is bound by the banker-customer relationship and rights and obligations flowing
therefrom. Even so, if there was anything to rouse suspicion regarding the cheque and
ownership of the customer the banker may find itself beyond the protection of Section 131.
The scope or ambit of possible suspicion will depend on various situations that may have
prevailed between the drawer of the cheque and the customer. In the instant case Sethuraman
having been believed to have been the proprietor of Industrial Chain Concern the cheques
payable to Industrial Chain Concern left little scope to have aroused any suspicion in the
minds of the Bank. The position may have been different if Sethuraman was known as acting
as an employee of Industrial Chain Concern and the cheques were payable to that concern, but
were deposited into personal account of the employee which was not the case here.

27. There can be no doubt that the existence of a current account created relationship of
banker and customer in this case. Sethuraman would be a customer even if his account was
overdrawn until that account was closed. In Halsbury’s Laws of England, 4th edn., Vol. 3 at
para 103 it is said:

“If the banker wishes to plead the statutory protection, his dealings throughout
must be in good faith and without negligence. The alternative liability arising from
negligence renders the question of good faith practically superfluous, and it is seldom,
if ever, raised. Negligence in this connection is breach of a duty to the possible true
owner, not the customer, created by the statute itself, the duty being not to disregard
the interests of the true owner.”

It is a settled law that the test of negligence for the purpose of Section 131 of the Act is
whether the transaction of paying in any given cheque coupled with the circumstances
antecedent and present is so out of the ordinary course that it ought to arouse doubts in the
banker’s mind and cause him to make inquiries. The banker is bound to make inquiries when
there is anything to rouse suspicion that the cheque is being wrongfully dealt with in being
paid into the customer’s account. However, the banker is not called upon to be abnormally
suspicious. In the instant case no such regulation of the bank has been produced so as to establish that in collecting the cheque and allowing the customer to withdraw the bank violated its own regulations. Nor has the plaintiff been able to show that the transactions in paying in the drafts and cheques coupled with the circumstances antecedent and present were so out of the ordinary that it ought to arouse doubts in the banker’s mind and cause him to make inquiries. As we have observed that the Bank’s negligence in not making inquiries as to the customer upon opening an account if there was any, could shed light in its negligence in collecting the cheques for him. But we have found that there was no such negligence in this case. Mr. Balakrishnan’s submission that in this case while opening the account, the appellant should have inquired of the plaintiff’s firm does not reasonably follow in view of the fact that what Sethuraman said was that he was the proprietor of the newly established firm “Industrial Chain Concern” and if that was the name of the payee in the cheques, Sethuraman having been accepted as its proprietor there would be no room for suspicion that the firm’s cheques were being paid into the proprietor’s personal account. There is no allegation and proof that the collection and payment were made contrary to the tenors of the instruments. Carelessness could occur at the time of collection especially if there was failure to pay due attention to the actual terms of the mandate. The actual circumstances at the time of paying in for collection, if the amount was very large one might raise suspicion. But in this case the first cheque paid in was of 2800.17 which could not be regarded as such a large amount to have aroused suspicion considering the fact that the firm was ‘Industrial Chain Concern’, dealing in industrial chains and pulleys.

30. As a general rule a banker before accepting a customer, must take reasonable care to satisfy himself that the person in question is of good reputation; and if he fails to do so he will run the risk of forfeiting the protection given by Section 131 of the Act but ‘reasonable care’ will depend on the facts and circumstances of the case. The courts have tended to accept the practices and procedures which bankers lay down for themselves, but that can by no means be decisive. The “type of necessary inquiry at the opening of an account seems to be less stringent at present than it was a generation ago, and it is difficult to spell out from the cases any hard and fast rules”. This is so because, in the words of Lord Chorley, the use of banking facilities at the present day “has become so widespread and has penetrated so far into social strata where banking accounts were previously unknown, that precautions at one time considered necessary are now difficult in the press of business to apply. One of the obvious problems is that of the dishonest employee who may wish to open a bank account for the purpose of getting cheques collected for which he has stolen from his employer. If the banker is aware of his employment he will naturally watch that those cheques of which the employer is payee, or in which he is otherwise interested, do not pass through the account. But how far can he be expected to keep himself informed of the employment of all his customers? This is typical of the problems which have faced the judges, and on which their views have tended to vary from time to time, and indeed from judge to judge.”

33. It is thus clear that the question of negligence or no negligence depends entirely on the facts of each individual case and thus makes it difficult to judge in advance how any particular litigation involving allegations of negligence will go. In the instant case
Sethuraman had in effect opened another account in the name of the plaintiff firm and operated it himself as its proprietor.

34. As we have already observed carelessness on the part of the bank is most likely to occur at the time of collection of cheques especially in failure to pay due attention to the actual terms of the mandate. It is not here a case of playing the detective but of a careful examination of everything which appears on the front and back of the instrument. Each set of circumstances produces its own requirements. The instruments, crossing, type of crossing, per pro, pay cash or order etc. are important. The banker may be negligent in acting contrary to such mandates under appropriate circumstances. In the instant case, however, no details regarding such mandates on the alleged cheques are available.

35. The High Court took the view that if the Manager of the Bank gave the introduction of Sethuraman to open the account in the plaintiff’s name showing him as its proprietor without making any enquiry as to its true relationship with the concern then he was taking a risk and when it transpired that Sethuraman had made fraudulent representation then the Manager should be taken to have acted negligently. We are not inclined to agree inasmuch as while dealing with a customer for collecting a cheque, there is no contractual relation between the collecting banker and the true owner. The duty is implied by law. A conduct beneficial to the customer at the expense of the true owner when the Bank acts in good faith and without negligence, is no breach of that duty. It is from this position of the true owner that question of negligence under Section 131 of the Act has to be viewed.

37. While arriving at the above conclusion we have borne in mind the standard of reasonable care and the banking practices and its trend in a developing banking system in the country. Any stricter liability may not be conducive. It will also be observed that expansion of the banker’s liability and corresponding narrowing down of the banker’s protection under the provision of Section 131 of the Act may make the banker’s position so vulnerable as to be disadvantageous to the expansion of banking business under the ever-expanding banking system. This is because a commercial bank, as distinguished from a Central bank, has the following characteristics, namely (1) that they accept money from, and collect cheques for, their customers and place them to their credit; (2) that they honour cheques or orders drawn on them by their customers when presented for payment and debit their customers accordingly; and (3) that they keep current accounts in their books in which the credits and debits are entered. The receipt of money by banker from or on account of his customer constitute it the debtor of the customer. The bank borrows the money and undertakes to repay it or any part of it at the branch of the bank where the account is kept during banking hours and upon payment being demanded. The banker has to discharge this obligation and normally the banker would not question the customer’s title to the money paid in. Applying the above principles of law to the facts of the instant case we are not inclined to hold that the Bank was negligent either in collecting the cheques and drafts or allowing Sethuraman to withdraw the proceeds. In the result, this appeal succeeds.
Modi Cements Ltd. v. Kuchil Kumar Nandi
(1998) 3 SCC 249

S.P. KURDUKAR, J - 3. The present proceedings arise out of a complaint filed by the appellant in the Court of Chief Judicial Magistrate, Calcutta under Section 138 of the Negotiable Instruments Act, 1881 against the respondent. The appellant-Company is a public limited company manufacturing and selling cement under the brand name “Modi Cement” throughout India.


5. It is alleged by the appellant in the complaint that the respondent purchased from them non-levy Modi Cement on credit against the orders placed on behalf of his concerns. These orders were placed by the respondent with the Calcutta office of the appellant and it was agreed that the price of the consignments was to be paid by the respondent at the said office. After taking accounts it was found that on 23-2-1994 the respondent incurred a liability/debt of Rs 1,10,53,520.30 payable to the appellant towards the purchased price of the cement supplied by them to the respondent. In partial discharge of the said liability/debt the respondent drew three cheques in favour of the appellant on 23-2-1994, 26-2-1994 and 28-2-1994 bearing Cheques Nos. 1308340-42 for a sum of Rs 2,00,000 each.

6. The appellant presented these three cheques on 9-8-1994 for encashment through their bankers, Bank of India, J.L. Nehru Road Branch, Calcutta. On 6-9-1994 the Indian Bank, Bankura, the banker of the respondent returned the said cheques as unpaid with an endorsement “payment stopped by the drawer”. Later on it transpired that vide his letter dated 8-8-1994 the respondent had given such instruction. The appellant on 13-9-1994 sent a legal notice in terms of Section 138 of the Act to the respondent demanding payment of the aforesaid amounts under the cheques. The said notice was duly served on the respondent on 17-9-1994. Since the respondent failed and neglected to make the payment of the amount of the aforesaid three cheques within the stipulated period of 15 days which expired on 2-10-1994, the appellant filed three criminal complaints against the respondent under Section 138 of the Act. After entering appearance in obedience to the processes issued in connection with the above three cases the respondent filed applications for staying the proceedings which were rejected.

7. The respondent then filed three petitions under Section 482 CrPC in the High Court of Calcutta for quashing the complaints. The learned Single Judge vide his common judgment and order dated 21-11-1996 allowed the petitions of the respondent and quashed the complaints. It is against this order passed by the High Court the appellant has filed these appeals.

8. Briefly stated the reasons given by the High Court are as under:

   (i) The appellant has not pleaded in his complaint that the cheques were returned by the bank unpaid “either because the amount of money standing to the credit of that
account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank”. The necessary ingredients of Section 138 of the Act having not been pleaded the Court could not have taken cognizance of the offence.

(ii) Mere endorsement of the bank “payment stopped” was not sufficient to entertain the complaint as that was not an ingredient of the offence under Section 138 of the Act.

9. The High Court has laid much stress in its judgment to emphasize that a petition under Section 482 CrPC is tenable when no offence even prima facie was made out in the complaint. There can be no dispute regarding that legal proposition but the application thereof will depend upon the averments made in the complaint. But the second reasoning of the High Court is contrary to the decision of this Court in Electronics Trade & Technology Development Corpn. Ltd. v. Indian Technologists & Engineers (Electronics) (P) Ltd. [(1996) 2 SCC 739]. While interpreting Section 138 of the Act, it firstly observed as under:

“5. It would thus be clear that when a cheque is drawn by a person on an account maintained by him with the banker for payment of any amount of money to another person out of the account for the discharge of the debt in whole or in part or other liability is returned by the bank with the endorsement like (1) in this case, ‘refer to the drawer’ (2) ‘instructions for stoppage of payment’ and stamped (3) ‘exceeds arrangement’, it amounts to dishonour within the meaning of Section 138 of the Act. On issuance of the notice by the payee or the holder in due course after dishonour, to the drawer demanding payment within 15 days from the date of the receipt of such a notice, if he does not pay the same, the statutory presumption of dishonest intention, subject to any other liability, stands satisfied.”

10. It then took up for consideration a similar contention advanced before them by the learned counsel for the drawer of the cheques that stoppage of payment due to instructions does not amount to an offence under Section 138 of the Act and repelling the same observed:

“We find no force in the contention. The object of bringing Section 138 on statute appears to be to inculcate faith in the efficacy of banking operations and credibility in transacting business on negotiable instruments.”

The Court further observed:

“It is seen that once the cheque has been drawn and issued to the payee and the payee has presented the cheque and thereafter, if any instructions are issued to the bank for non-payment and the cheque is returned to the payee with such an endorsement, it amounts to dishonour of cheque and it comes within the meaning of Section 138.”

11. Another two-Judge Bench while dealing with the same question in K.K. Sidharthan v. T.P. Praveena Chandran [(1996) 6 SCC 369]:

“This shows that Section 138 gets attracted in terms if cheque is dishonoured because of insufficient funds or where the amount exceeds the arrangement made with the bank. It has, however, been held by a Bench of this Court in Electronics Trade and Technology Development Corpn. Ltd. v. Indian Technologists and
Engineers (Electronics) (P) Ltd. that even if a cheque is dishonoured because of ‘stop payment’ instruction to the bank, Section 138 would get attracted.”

We are in complete agreement with the above legal proposition.

12. The learned counsel for the appellant vehemently urged that both these decisions of this Court clearly support the case of the appellant and the trial court had rightly issued the process and the High Court was totally wrong in taking a contrary view.

13. It was, however contended on behalf of the respondent that the decision in Electronics Trade & Technology Development Corpn. Ltd. does not support the appellant as far as the facts that emerged in the present cases inasmuch as the drawer had intimated to the bank on 8-8-1984 to stop the payment whereas the cheques were presented for encashment on 9-8-1994 although the same were drawn on 23-2-1994, 26-2-1994 and 28-2-1994. The learned counsel for the respondent strongly relied upon the following observations in Electronics Trade & Technology Development Corpn. Ltd:

“Suppose after the cheque is issued to the payee or to the holder in due course and before it is presented for encashment, notice is issued to him not to present the same for encashment and yet the payee or holder in due course presents the cheque to the bank for payment and when it is returned on instructions, Section 138 does not get attracted.”

14. The learned counsel for the appellant submitted that if the attention of the Court was drawn to the provisions of Section 139 of the Act which according to him, had an important bearing on the point in issue, the Court would certainly not have made the above observations.

15. According to the learned counsel if the observations of this Court in Electronics Trade & Technology Development Corpn. Ltd. to the effect,

“[S]uppose after the cheque is issued to the payee or to the holder in due course and before it is presented for encashment, notice is issued to him not to present the same for encashment and yet the payee or holder in due course presents the cheque to the bank for payment and when it is returned on instructions, Section 138 does not get attracted”

is accepted as good law, the very object of introducing Section 138 in the Act would be defeated.

16. We see great force in the above submission because once the cheque is issued by the drawer a presumption under Section 139 must follow and merely because the drawer issues a notice to the drawee or to the bank for stoppage of the payment it will not preclude an action under Section 138 of the Act by the drawee or the holder of a cheque in due course. The object of Chapter XVII, which is entitled as “OF PENALTIES IN CASE OF DISHONOUR OF CERTAIN CHEQUES FOR INSUFFICIENCY OF FUNDS IN THE ACCOUNTS” and contains Sections 138 to 142, is to promote the efficacy of banking operations and to ensure credibility in transacting business through cheques. It is for this reason we are of the considered view that the observations of this Court in Electronics Trade & Technology Development Corpn. Ltd. in para 6 to the effect “Suppose after the cheque is issued to the
payee or to the holder in due course and before it is presented for encashment, notice is issued to him not to present the same for encashment and yet the payee or holder in due course presents the cheque to the bank for payment and when it is returned on instructions, Section 138 does not get attracted”, does not fit in with the object and purpose for which the above chapter has been brought on the statute-book.

17. The above view has been referred to in K.K. Sidharthan as is clear from paras 5 and 6 of the judgment. Paras 5 and 6 read as under:

“5. The above apart, though in the aforesaid case this Court held that even ‘stop payment’ instruction would attract the mischief of Section 138, it has been observed in para 6, that if ‘after the cheque is issued to the payee or to the holder in due course and before it is presented for encashment, notice is issued to him not to present the same for encashment and yet the payee or holder in due course present the cheque to the bank for payment and when it is returned on instruction, Section 138 does not get attracted’.

6. From the facts mentioned above, we are satisfied that in the present case cheques were presented after the appellant had directed its bank to ‘stop payment’. We have said so because though it has been averred in the complaint that the cheque dated 10-10-1994 was presented for collection on that date itself through the bank of the respondent which is Catholic Syrian Bank Ltd., from the aforesaid letter of the Indian Overseas Branch, we find that the cheque was presented on 15-10-1994 (in clearing). The lawyer’s notice to the respondent being of 4th October, which had been replied on 12th from Cochi, which is the place of the respondent, whereas the Advocate who issued notice on behalf of the appellant was at Thrissur, it would seem to us that the first cheque had even been presented after the instruction of ‘stop payment’ issued by the appellant had become known to the respondent.”

With the above observations, the complaint under Section 138 of the Act was quashed.

18. The aforesaid propositions in both these reported judgments, in our considered view, with great respect are contrary to the spirit and object of Sections 138 and 139 of the Act. If we are to accept this proposition it will make Section 138 a dead letter, for, by giving instructions to the bank to stop payment immediately after issuing a cheque against a debt or liability the drawer can easily get rid of the penal consequences notwithstanding the fact that a deemed offence was committed. Further the following observations in para 6 in Electronics Trade & Technology Development Corpn. Ltd.

“Section 138 intended to prevent dishonesty on the part of the drawer of negotiable instrument to draw a cheque without sufficient funds in his account maintained by him in a bank and induce the payee or holder in due course to act upon it. Section 138 draws presumption that one commits the offence if he issues the cheque dishonestly”

in our opinion, do not also lay down the law correctly.

19. Section 138 of the Act is a penal provision wherein if a person draws a cheque on an account maintained by him with the banker for payment of any amount of money to another person from out of that account for the discharge, in whole or in part of any debt or other
liability, is returned by the bank unpaid, on the ground either because of the amount of money standing to the credit of that account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank, such person shall be deemed to have committed an offence. The distinction between the deeming provision and the presumption is well discernible. To illustrate, if a person draws a cheque with no sufficient funds available to his credit on the date of issue, but makes the arrangement or deposits the amount thereafter before the cheque is put in the bank by the drawee, and the cheque is honoured, in such a situation drawing of presumption of dishonesty on the part of the drawer under Section 138 would not be justified. Section 138 of the Act gets attracted only when the cheque is dishonoured.

20. On a careful reading of Section 138 of the Act, we are unable to subscribe to the view that Section 138 of the Act draws presumption of dishonesty against drawer of the cheque if he without sufficient funds to his credit in his bank account to honour the cheque issues the same and, therefore, this amounts to an offence under Section 138 of the Act. For the reasons stated hereinabove, we are unable to share the views expressed by this Court in the above two cases and we respectfully differ with the same regarding interpretation of Section 138 of the Act to the limited extent as indicated above.

21. It is needless to emphasize that the Court taking cognizance of the complaint under Section 138 of the Act is required to be satisfied as to whether a prima facie case is made out under the said provision. The drawer of the cheque undoubtedly gets an opportunity under Section 139 of the Act to rebut the presumption at the trial. It is for this reason we are of the considered opinion that the complaints of the appellant could not have been dismissed by the High Court at the threshold. In the result the appeals succeed.

* * * * *
The common question that arises for consideration in these appeals is whether a company and its directors can be proceeded against for having committed an offence under Section 138 of the Negotiable Instruments Act, 1881 ("the NI Act") after the company has been declared sick under the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985 ("the SICA") before the expiry of the period for payment of the cheque amount. The answer to the question depends on interpretation of Section 138 of the NI Act and its interaction with the relevant provisions of SICA. Since the relevant facts involved in all the cases are similar and a common question of law arises in all the cases they were heard together and they are being disposed of by this judgment.

3. The factual positions about which there is no dispute may be stated thus: post-dated cheques were issued on behalf of the Company in favour of the complainant in course of business of the Company. When the complainant presented the cheques in the bank they were returned without payment. Then the complainant issued notice to the Company and/or its Directors stating the facts of dishonour of the cheques and demanding payment. Since no payment was made within the period of 15 days stipulated under the NI Act the payee filed complaint against the Company and/or its Directors alleging, inter alia, that they had committed an offence under Section 138 of the NI Act. Before the cheques were presented in the bank or after the bank declined to honour the cheques the drawer Company was declared sick under the provisions of SICA by the Board of Industrial and Financial Reconstruction ("the BIFR"). On receipt of the summons from the Court in the criminal case registered on the basis of the complaint the accused Company and/or its Directors filed petitions under Section 482 of the Code of Criminal Procedure or under Article 227 of the Constitution seeking quashing of the complaint/proceedings in the criminal case, mainly on the ground that in view of the provisions in Section 22 of SICA the criminal case instituted against them for commission of the alleged offence under Section 138 NI Act is misconceived and compelling the accused to face trial in the case will amount to abuse of the process of court. The High Court having declined to interfere in the proceeding and dismissed the petitions filed by the accused, they have filed these appeals challenging the order passed by the High Court.

4. The main thrust of the arguments of the learned counsel appearing for the appellants is that on the Company being declared sick by BIFR no steps could be taken by the complainants for realisation of the amounts said to be due to them and therefore the criminal proceedings initiated against the drawer Company and its Directors on the allegation that the cheques drawn in favour of the complainant were dishonoured by the bank is misconceived and should be quashed; alternatively it is their contention that the proceedings in the criminal case should be stayed or suspended till the accused Company becomes a functional and viable unit. On behalf of the appellants reliance is placed on Sections 22 and 22-A of SICA.

5. The learned counsel appearing for the respondents on the other hand contend that on the undisputed fact-situation of the case a prima facie case under Section 138 of the NI Act is made out against the accused and on being satisfied about this position the learned Magistrate took cognisance of the offence and ordered issue of summons to the appellants. It is their
submission that Section 22 has no application to criminal proceedings and that the said section does not bar payment of dues by the accused company or its directors; an embargo is placed only on the creditors from realising their dues from the company by a proceeding for winding up or execution or distress. It is also the submission of learned counsel for the respondents that the criminal case cannot be said to be a proceedings for realisation of money due from the company.

8. It is relevant to note here that Chapter XVII of the NI Act in which the aforementioned sections are included was inserted in the Act w.e.f. 1-4-1989 by Act 66 of 1988. The object of bringing Section 138 on statute is to inculcate faith in the efficacy of banking operations and credibility in transacting business on negotiable instruments.

10. On a reading of the provisions of Section 138 of the NI Act it is clear that the ingredients which are to be satisfied for making out a case under the provision are:

(i) a person must have drawn a cheque on an account maintained by him in a bank for payment of a certain amount of money to another person from out of that account for the discharge of any debt or other liability;

(ii) that cheque has been presented to the bank within a period of six months from the date on which it is drawn or within the period of its validity, whichever is earlier;

(iii) that cheque is returned by the bank unpaid, either because the amount of money standing to the credit of the account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with the bank;

(iv) the payee or the holder in due course of the cheque makes a demand for the payment of the said amount of money by giving a notice in writing, to the drawer of the cheque, within 15 days of the receipt of information by him from the bank regarding the return of the cheque as unpaid;

(v) the drawer of such cheque fails to make payment of the said amount of money to the payee or the holder in due course of the cheque within 15 days of the receipt of the said notice.

11. If the aforementioned ingredients are satisfied then the person who has drawn the cheque shall be deemed to have committed an offence. In the explanation to the section clarification is made that the phrase “debt or other liability” means a legally enforceable debt or other liability.

12. Section 141 NI Act is a provision specifically dealing with the offences by companies. Therein it is laid down, inter alia, that if the person committing an offence under Section 138 of the NI Act is a company, every person who, at the time the offence was committed, was in charge of, and was responsible to the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly. Under the proviso to sub-section (1) it is laid down that nothing contained in this sub-section shall render any person liable to punishment if he proves that the offence was committed without his knowledge, or that he had exercised all due diligence to prevent the commission of such offence.
13. Sub-section (2) of the section makes any director/manager/secretary or other officer of the company in connivance or any neglect on the part of whom, an offence under the Act has been committed by the company, such director/manager/secretary or other officer is deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

14. From the facts of the case alleged by the complainant, the gist of which has been noted earlier, the position is clear that no exception can be taken against the order of the Magistrate taking cognisance of the offence under Section 138 of the NI Act against the appellants. Undisputedly the cheques were drawn by the appellants for payment of a certain amount of money due to the complainant, from the account in the bank and the said cheques were dishonoured by the bank and the amount remained unpaid even after a lapse of 15 days from the date of the notice issued by the complainant after the cheques were dishonoured. Therefore, the ingredients of Section 138 being prima facie established from the complaint and the documents filed with it, the Magistrate rightly took cognisance of the offence and issued summons to the appellants.

15. The next question for consideration is whether under the provisions of SICA there was any legal impediment for payment of the amount for which the cheques were drawn and for that reason the appellants cannot be taken to have committed an offence under Section 138 of the NI Act. A bare reading of Section 22 of SICA makes the position clear that during pendency of an inquiry under Section 16 or during the preparation of a scheme referred to under Section 17 or during implementation of a sanctioned scheme or pendency of an appeal under Section 25, no proceedings for winding up of the industrial company or for execution, distress or the like against any of the properties of the industrial company or for the appointment of a receiver in respect thereof and no suit for the recovery of money or for enforcement of any security against the industrial company or of any guarantee in respect of any loans or advance granted to the industrial company, shall lie or be proceeded with further, except with the consent of the Board or the appellate authority, as the case may be. The section only deals with proceedings for recovery of money or for enforcement of any security against the industrial company or of any guarantee in respect of any loans or advance granted to the company and a proceedings for winding up of the company. The section does not refer to any criminal proceedings.

16. A contention was raised on behalf of the appellants that if the criminal case is proceeded with and the appellants are convicted and sentenced to fine then it will be necessary to realise the amount of fine from the assets of the Company which would be impermissible in view of the provisions of Section 22 of SICA. We have no hesitation in rejecting this contention.

17. Another contention which was raised on behalf of the appellant in this connection is that if the Directors of the Company on being convicted are arrested and kept in jail the efforts of BIFR for reconstruction/revival of the Company will not be possible and in that event the very purpose of inquiry by BIFR will be rendered futile. The contention is too remote and the apprehension far-fetched. We reject the said contention.

18. In our considered view Section 22 SICA does not create any legal impediment for instituting and proceeding with a criminal case on the allegations of an offence under Section
138 of the NI Act against a company or its directors. The section as we read it only creates an embargo against disposal of assets of the company for recovery of its debts. The purpose of such an embargo is to preserve the assets of the company from being attached or sold for realisation of dues of the creditors. The section does not bar payment of money by the company or its directors to other persons for satisfaction of their legally enforceable dues.

19. The question that remains to be considered is whether Section 22-A of SICA affects a criminal case for an offence under Section 138 NI Act. In the said section provision is made enabling the Board to make an order in writing to direct the sick industrial company not to dispose of, except with the consent of the Board, any of its assets — (a) during the period of preparation or consideration of the scheme under Section 18; and (b) during the period beginning with the recording of opinion by the Board for winding up of the company under sub-section (1) of Section 20 and up to commencement of the proceedings relating to the winding up before the High Court concerned. This exercise of the power by the Board is conditioned by the prescription that the Board is of the opinion that such a direction is necessary in the interest of the sick industrial company or its creditors or shareholders or in the public interest. In a case in which BIFR has submitted its report declaring a company as “sick” and has also issued a direction under Section 22-A restraining the company or its directors not to dispose of any of its assets except with consent of the Board then the contention raised on behalf of the appellants that a criminal case for the alleged offence under Section 138 NI Act cannot be instituted during the period in which the restraint order passed by BIFR remains operative cannot be rejected outright. Whether the contention can be accepted or not will depend on the facts and circumstances of the case. Take for instance, before the date on which the cheque was drawn or before expiry of the statutory period of 15 days after notice, a restraint order of BIFR under Section 22-A was passed against the Company then it cannot be said that the offence under Section 138 NI Act was completed. In such a case it may reasonably be said that the dishonouring of the cheque by the bank and failure to make payment of the amount by the Company and/or its Directors is for reasons beyond the control of the accused. It may also be contended that the amount claimed by the complainant is not recoverable from the assets of the Company in view of the ban order passed by BIFR. In such circumstances it would be unjust and unfair and against the intent and purpose of the statute to hold that the Directors should be compelled to face trial in a criminal case.

20. Except in the circumstances noted above we do not find any good reason for accepting the contentions raised by the learned counsel for the appellants in favour of the prayer for quashing the criminal proceedings or for keeping the proceedings in abeyance. It will be open to the appellants to place relevant materials in this regard before the learned Magistrate before whom the cases are pending and the learned Magistrate will examine the matter keeping in mind the discussions made in this judgment. We make it clear that we have not considered the question whether in the facts and circumstances of a particular case Section 138 NI Act is attracted or not, for that is a question to be considered by the Court at the appropriate stage of the case in the light of the evidence on record. The appeals are disposed of on the terms aforesaid.
R.P. SETHI, J.-The complaint filed under Section 138 of the Negotiable Instruments Act, 1881 ("the Act") was quashed by the High Court vide the judgment impugned in this appeal holding that the same was barred by time as the complainant had allegedly failed to file it within the statutory period from the date of accruing of the cause of action.

2. In order to appreciate the legal submissions, a résumé of facts of the case is necessary. In its complaint, the appellant Company had stated that Accused 2 to 9 who are partners of the respondent Firm purchased cement from it and issued cheque for Rs 9,13,353.84 on 26-5-1998 which was drawn on Karur Vysa Bank Ltd., Ernakulam Branch. When presented for collection, the cheque was dishonoured on account of insufficiency of funds in the account of the accused. The information regarding non-payment of the cheque amount was communicated by the bank to the complainant on 2-6-1998. The complainant on 13-6-1998, through its advocate, issued a statutory notice in terms of Section 138 of the Act intimating Respondents 1 and 2 regarding the dishonour of the cheque and calling upon the respondents to pay the said amount within a period of 15 days from the receipt of the said notice. The postal acknowledgement receipt of the notice, served upon the respondents, was received by the complainant on 15-6-1998. However, Respondents 1 and 2, vide their letter dated 20-6-1998, which was received by the advocates of the appellant on 30-6-1998, intimated that they had in effect received empty envelopes without any contents and requested the appellant to mail the contents. It is worth noticing that by the time the complainant received the intimation of the respondents, the statutory period of filing the complaint was about to expire. Believing the averments of the respondents to be true, though not admitting but as an abundant caution the appellant presented the cheque again on 1-7-1998 to the drawee bank through their bankers. The cheque was again dishonoured by the drawee bank on 2-7-1998. A registered statutory notice was issued to the accused intimating the dishonour of the cheque and the payment was demanded. The accused received the said notice on 27-7-1998 but did not make the payment. According to the complainant, the accused on 6-7-1998 (sic 6-8-1998) sent a registered cover to its Ernakulam office which contained some waste newspaper bits. As despite dishonour of the cheque and receipt of notice, the cheque amount was not paid, the appellant filed the complaint on 9-9-1998, admittedly, within the statutory period from the second notice. The Additional Chief Judicial Magistrate, Ernakulam took cognizance and issued process to the respondents. Instead of appearing before the Magistrate, the respondents filed a petition under Section 482 of the Code of Criminal Procedure in the High Court praying for quashing the complaint on the ground that the same was barred by limitation which was disposed of vides the judgment impugned in this appeal.

3. The Act was enacted and Section 138 thereof incorporated with a specified object of making a special provision by incorporating a strict liability so far as the cheque, a negotiable instrument, is concerned. The law relating to negotiable instruments is the law of commercial world legislated to facilitate the activities in trade and commerce making provision of giving sanctity to the instruments of credit which could be deemed to be convertible into money and easily passable from one person to another. In the absence of such instruments, including a
cheque, the trade and commerce activities, in the present day world, are likely to be adversely affected as it is impracticable for the trading community to carry on with it the bulk of the currency in force. The negotiable instruments are in fact the instruments of credit being convertible on account of legality of being negotiated and are easily passable from one hand to another. To achieve the objectives of the Act, the legislature has, in its wisdom, thought it proper to make such provisions in the Act for conferring such privileges to the mercantile instruments contemplated under it and provide special penalties and procedure in case the obligations under the instruments are not discharged. The laws relating to the Act are, therefore, required to be interpreted in the light of the objects intended to be achieved by it despite there being deviations from the general law and the procedure provided for the redressal of the grievances to the litigants. Efforts to defeat the objectives of law by resorting to innovative measures and methods are to be discouraged, lest it may affect the commercial and mercantile activities in a smooth and healthy manner, ultimately affecting the economy of the country.

4. Section 138 of the Act makes a civil transaction to be an offence by fiction of law. Where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person is returned by the bank unpaid either because of the amount or money standing to the credit of that person being insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account, such person, subject to the other conditions, shall be deemed to have committed an offence under the section and be punished for a term which may extend to one year or with fine which may extend to twice the amount of cheque or with both. To make the dishonour of the cheque as an offence, the aggrieved party is required to present the cheque to the bank within a period of six months from the date on which it is drawn or within the period of its validity, whichever is earlier and the payee or the holder in due course of the cheque makes a demand for payment of the cheque amount by giving a notice in writing to the drawer of the cheque within 15 days of the receipt of information by him from the bank regarding the return of the cheque as unpaid and drawer of such cheque fails to make the payment of the amount within 15 days of the receipt of the said notice. Section 139 refers to presumption that unless the contrary is proved, the holder received the cheque of the nature referred to under Section 138 for the discharge in whole or in part of any debt or other liability. Section 140 restricts the defence in any prosecution under Section 138 of the Act and Section 141 refers to such offence committed by the companies. Section 142 provides that, notwithstanding anything contained in the Code of Criminal Procedure, no court shall take cognizance of an offence under the section except upon a complaint in writing made by the payee or, as the case may be, the holder of the cheque and that such complaint is made within one month of the date on which the cause of action arose under clause (c) of proviso to Section 138 of the Act.

6. To constitute an offence under Section 138 of the Act, the complainant is obliged to prove its ingredients which include the receipt of notice by the accused under clause (b). It is to be kept in mind that it is not the “giving” of the notice which makes the offence but it is the “receipt” of the notice by the drawer which gives the cause of action to the complainant to file the complaint within the statutory period. This Court in *K. Bhaskaran v. Sankaran Vaidhyan*
Balan [(1999) 7 SCC 510] considered the difference between “giving” of a notice and “receipt” of the notice and held:

“18. On the part of the payee he has to make a demand by ‘giving a notice’ in writing. If that was the only requirement to complete the offence on the failure of the drawer to pay the cheque amount within 15 days from the date of such ‘giving’, the travails of the prosecution would have been very much lessened. But the legislature says that failure on the part of the drawer to pay the amount should be within 15 days ‘of the receipt’ of the said notice. It is, therefore, clear that ‘giving notice’ in the context is not the same as receipt of notice. Giving is a process of which receipt is the accomplishment. It is for the payee to perform the former process by sending the notice to the drawer at the correct address.

19. In Black’s Law Dictionary ‘giving of notice’ is distinguished from ‘receiving of the notice’: ‘A person notifies or gives notice to another by taking such steps as may be reasonably required to inform the other in the ordinary course, whether or not such other actually comes to know of it.’ A person ‘receives’ a notice when it is duly delivered to him or at the place of his business.

20. If a strict interpretation is given that the drawer should have actually received the notice for the period of 15 days to start running no matter that the payee sent the notice on the correct address, a trickster cheque drawer would get the premium to avoid receiving the notice by different strategies and he could escape from the legal consequences of Section 138 of the Act. It must be borne in mind the court should not adopt an interpretation which helps a dishonest evader and clips an honest payee as that would defeat the very legislative measure.

21. In Maxwell’s Interpretation of Statutes the learned author has emphasised that ‘provisions relating to giving of notice often receive liberal interpretation’. The context envisaged in Section 138 of the Act invites a liberal interpretation for the person who has the statutory obligation to give notice because he is presumed to be the loser in the transaction and it is for his interest the very provision is made by the legislature. The words in clause (b) of the proviso to Section 138 of the Act show that the payee has the statutory obligation to ‘make a demand’ by giving notice. The thrust in the clause is on the need to ‘make a demand’. It is only the mode for making such demand which the legislature has prescribed. A payee can send the notice for doing his part for giving the notice. Once it is despatched his part is over and the next depends on what the sendee does.

22. It is well settled that a notice refused to be accepted by the addressee can be presumed to have been served on him.

23. Here the notice is returned as unclaimed and not as refused. Will there be any significant difference between the two so far as the presumption of service is concerned? In this connection a reference to Section 27 of the General Clauses Act will be useful. The section reads thus:

‘27. Meaning of service by post.- Where any Central Act or Regulation made after the commencement of this Act authorises or requires any document to be served
by post, whether the expression ‘serve’ or either of the expressions ‘give’ or ‘send’ or any other expression is used, then, unless a different intention appears, the service shall be deemed to be effected by properly addressing, pre-paying and posting by registered post, a letter containing the document, and unless the contrary is proved, to have been effected at the time at which the letter would be delivered in the ordinary course of posts.’"

7. Section 27 of the General Clauses Act deals with the presumption of service of a letter sent by post. The despatcher of a notice has, therefore, a right to insist upon and claim the benefit of such a presumption. But as the presumption is a rebuttable one, he has two options before him. One is to concede to the stand of the sendee that as a matter of fact he did not receive the notice, and the other is to contest the sendee’s stand and take the risk for proving that he, in fact, received the notice. It is open to the despatcher to adopt either of the options. If he opts for the former, he can afford to take appropriate steps for the effective service of notice upon the addressee. Such a course appears to have been adopted by the appellant Company in this case and the complaint filed, admittedly, within limitation from the date of the notice of service conceded to have been served upon the respondents.

8. In Sadanandan Bhadran v. Madhavan Sunil Kumar [(1998) 6 SCC 514], this Court held that clause (a) of the proviso to Section 138 did not put any embargo upon the payee to successively present a dishonoured cheque during the period of its validity. On each presentation of the cheque and its dishonour a fresh right and not cause of action accrues. The payee or holder of the cheque may, therefore, without taking pre-emptory action in exercise of his right under clause (b) of Section 138 of the Act, go on presenting the cheque so as to enable him to exercise such right at any point of time during the validity of the cheque. But once a notice under clause (b) of Section 138 of the Act is “received” by the drawer of the cheque, the payee or the holder of the cheque forfeits his right to again present the cheque as cause of action has accrued when there was failure to pay the amount within the prescribed period and the period of limitation starts to run which cannot be stopped on any account. This Court emphasised that “needless to say the period of one month from filing the complaint will be reckoned from the date immediately falling the day on which the period of 15 days from the date of the receipt of the notice by the drawer expires”. (emphasis supplied)

10. It is conceded in this case that in response to the notice sent by the appellant through their counsel on 13-6-1998, the respondents herein, vide their letter dated 20-6-1998, intimated “received one empty envelope without any content in it. Therefore request you to kindly send the content, if any”. This intimation was received by the appellant on 30-6-1998, the day on which the period of limitation on the basis of earlier notice was to expire. They had exercised the option to accept the averments made by the respondents in their letter dated 20-6-1998 and issued a fresh notice after again presenting the cheque. The respondents have not denied the issuance of their letter dated 20-6-1998. Despite admitting its contents, they opted to approach the High Court for quashing the proceedings merely upon assumption, presumption and conjectures. They tried to blow hot and cold in the same breath, stating on the one hand that the notice of dishonour had not been received by them and on the other praying for dismissal of the complaint on the plea that the complaint was barred by time in view of the notice served by the appellant, which they had not received. The plea of the
respondents was not only contradictory, and an afterthought, but apparently carved out to resist the claim of the complainant and thereby frustrate the provisions of law.

11. The High Court fell in error by not referring to the letter of the respondents dated 20-6-1998 and quashing the proceedings merely by reading a line from para 6 of the complaint. The appellant in para 7 of their complaint had specifically stated that:

“Even though the complainant is not admitting the said allegation, on abundant caution the complainant presented the cheque again on 1-7-1998 to the drawee bank through the complainant’s bankers, Punjab National Bank. The cheque was again dishonoured by the drawee bank on 2-7-1998; a registered lawyer notice was issued to the 1st accused Firm as well as to the 2nd accused intimating the dishonour of the cheque and demanding payment. The accused have received the notice on 27-7-1998. The accused did not make any payment so far.”

The receipt of the second notice has conceded not been denied by the respondents.

12. Under the circumstances the appeal is allowed and the order of the High Court quashing the complaint filed by the appellant is set aside.

* * * * *
These appeals are against a judgment dated 18-12-1998. By this common judgment two complaints, filed by the appellants, under Section 138 of the Negotiable Instruments Act have been quashed.

4. The appellant is a Government of India company, incorporated under the Companies Act. The appellant has a regional office at Chennai. The 1st respondent is also a company. The 2nd and 3rd respondents were/are the Directors of the 1st respondent Company. It is stated that the 2nd respondent has now died.

5. The appellant and the 1st respondent entered into a memorandum of understanding dated 1-6-1994. This memorandum of understanding was slightly altered on 19-9-1994. Pursuant to the memorandum of understanding two cheques, one dated 31-10-1994 in a sum of Rs 20,26,995 and another dated 10-11-1994 in a sum of Rs 22,10,156, were issued by the 1st respondent in favour of the appellant. Both the cheques when presented for payment were returned with the endorsement “payment stopped by drawer”. Two notices were served by the appellant on the 1st respondent. As the amounts under the cheques were not paid the appellants lodged two complaints through one Lakshman Goel, the Manager of the regional office of the appellant.

6. The respondents filed two petitions for quashing of the complaints. By the impugned order both the complaints have been quashed.

7. At this stage it must be mentioned that the respondents had also issued, to the appellants, four other cheques. Those cheques were also dishonoured when presented for payment. Four other complaints, under Section 138 of the Negotiable Instruments Act, had also been filed by the appellants. Those four complaints had also been lodged by the same Shri Lakshman Goel. In those four cases the respondents filed separate applications for discharge. Those discharge applications were on identical grounds as urged by the respondents in the two petitions for quashing the complaints. The Magistrate accepted the contention and discharged the respondents. The High Court allowed the revision filed by the appellants and set aside the order of discharge. The High Court held, as between the same parties, that the Magistrate had erred in holding that the complaints filed by Lakshman Goel were not maintainable. The High Court held that, at this stage, it was not possible to accept defence that the complainant-appellants were not entitled to present the cheques as the respondents had expected the goods. The High Court restored the four complaints and directed the Magistrate to proceed with the trial in accordance with law. The respondents filed SLPs before this Court which were summarily dismissed.

8. In this case the respondents have taken identical contentions in their petitions to quash the complaints viz. that the complaints filed by Mr Lakshman Goel were not maintainable and that the cheques were not given for any debt or liability. It was pointed out to the learned Judge that, between the same parties and on identical facts, it had already been held that case for discharge was made out. Yet the learned Judge chose to ignore those findings and proceeded to hold to the contrary.
9. In the impugned judgment it has been held that the complaints filed by Mr Lakshman Goel were not maintainable. It was noticed that in those two complaints, at a subsequent stage, one Mr Sampath Kumar, the Deputy General Manager of the appellant was allowed to represent the appellants. The High Court held that it is only an Executive Director of the Company who has the authority to institute legal proceedings. It is held that the complaint could only be filed by a person who is in charge of or was responsible to the Company. It is held that authorisation must be on the date when the complaint is filed and a subsequent authorisation does not validate the complaint. It is held that the absence of a complaint by a duly delegated authority is not a mere defect or irregularity which could be cured subsequently. It is held that if the record does disclose any authorisation, then taking cognizance of the complaint was barred by Section 142(a) of the Negotiable Instruments Act. It has been held that the Senior Manager (who had lodged the complaints) and the Deputy General Manager (who was substituted) had not been authorised by the Board of Directors to sign and file the complaint on behalf of the Company or to prosecute the same. It is held that the Manager or the Deputy General Manager were mere paid employees of the Company. It is then held as follows:

“Therefore, it is clear that the legal position as crystallised by the rulings is to the effect that a complaint under Section 138 of the Negotiable Instruments Act can be filed for and on behalf of a body such as corporation, who has only artificial existence through a particular mode and when that mode is not followed, any proceedings initiated or any complaint filed will be vitiates from its very inception. In my opinion, here, the complaint is signed and presented by a person, who is neither an authorised agent nor a person empowered under the articles of association or by any resolution of the Board to do so. Hence, the complaint is not maintainable. The taking of cognizance of such a complaint is legally not acceptable. Hence, these two complaints filed for and on behalf of M.M.T.C. Limited against the petitioners herein, which were taken on file in CCs Nos. 3324 and 3325 of 1995 are not maintainable at all and that cognizance of the said complaints ought not to have been taken by the Magistrate.”

10. In our view the reasoning given above cannot be sustained. Section 142 of the Negotiable Instruments Act provides that a complaint under Section 138 can be made by the payee or the holder in due course of the said cheque. The two complaints, in question, are by the appellant Company who is the payee of the two cheques.

11. This Court has, as far back as, in the case of Vishwa Mitter v. O.P. Poddar [(1983) 4 SCC 701] held that it is clear that anyone can set the criminal law in motion by filing a complaint of facts constituting an offence before a Magistrate entitled to take cognizance. It has been held that no court can decline to take cognizance on the sole ground that the complainant was not competent to file the complaint. It has been held that if any special statute prescribes offences and makes any special provision for taking cognizance of such offences under the statute, then the complainant requesting the Magistrate to take cognizance of the offence must satisfy the eligibility criterion prescribed by the statute. In the present case, the only eligibility criteria prescribed by Section 142 is that the complaint must be by
the payee or the holder in due course. This criterion is satisfied as the complaint is in the name and on behalf of the appellant Company.

12. In the case of *Associated Cement Co. Ltd. v. Keshvanand* [(1998) 1 SCC 687], it has been held by this Court that the complainant has to be a corporeal person who is capable of making a physical appearance in the court. It has been held that if a complaint is made in the name of an incorporeal person (like a company or corporation) it is necessary that a natural person represents such juristic person in the court. It is held that the court looks upon the natural person to be the complainant for all practical purposes. It is held that when the complainant is a body corporate it is the de jure complainant, and it must necessarily associate a human being as de facto complainant to represent the former in court proceedings. It has further been held that no Magistrate shall insist that the particular person, whose statement was taken on oath at the first instance, alone, can continue to represent the company till the end of the proceedings. It has been held that there may be occasions when different persons can represent the company. It has been held that it is open to the de jure complainant company to seek permission of the court for sending any other person to represent the company in the court. Thus, even presuming, that initially there was no authority, still the company can, at any stage, rectify that defect. At a subsequent stage the company can send a person who is competent to represent the company. The complaints could thus not have been quashed on this ground.

13. The learned Judge has next gone into facts and arrived at a conclusion that the cheques were issued as security and not for any debt or liability existing on the date they were issued. In so doing the learned Judge has ignored the well-settled law that the power of quashing criminal proceedings should be exercised very stringently and with circumspection. It is settled law that at this stage the Court is not justified in embarking upon an enquiry as to the reliability or genuineness or otherwise of the allegations made in the complaint. The inherent powers do not confer an arbitrary jurisdiction on the court to act according to its whim or caprice. At this stage the Court could not have gone into merits and/or come to a conclusion that there was no existing debt or liability.

14. It is next held as follows:

“This is a special provision incorporated in the Negotiable Instruments Act. It is necessary to allege specifically in the complaint that there was a subsisting liability and an enforceable debt and to discharge the same, the cheques were issued. But, we do not find any such allegation at all. The absence of such vital allegation considerably impairs the maintainability.”

15. In the case of *Maruti Udyog Ltd. v. Narender* [(1999) 1 SCC 113], this Court has held that, by virtue of Section 139 of the Negotiable Instruments Act, the court has to draw a presumption that the holder of the cheque received the cheque for discharge of a debt or liability until the contrary is proved. This Court has held that at the initial stage of the proceedings the High Court was not justified in entertaining and accepting a plea that there was no debt or liability and thereby quashing the complaint.

17. There is therefore no requirement that the complainant must specifically allege in the complaint that there was a subsisting liability. The burden of proving that there was no
existing debt or liability was on the respondents. This they have to discharge in the trial. At this stage, merely on the basis of averments in the petitions filed by them the High Court could not have concluded that there was no existing debt or liability.

18. Lastly it was submitted that a complaint under Section 138 could only be maintained if the cheque was dishonoured for reason of funds being insufficient to honour the cheque or if the amount of the cheque exceeds the amount in the account. It is submitted that as payment of the cheques had been stopped by the drawer one of the ingredients of Section 138 was not fulfilled and thus the complaints were not maintainable.

19. Just such a contention has been negatived by this Court in the case of Modi Cements Ltd. v. Kuchil Kumar Nandi [(1998) 3 SCC 249]. It has been held that even though the cheque is dishonoured by reason of “stop-payment” instruction an offence under Section 138 could still be made out. It is held that the presumption under Section 139 is attracted in such a case also. The authority shows that even when the cheque is dishonoured by reason of stop-payment instructions by virtue of Section 139 the court has to presume that the cheque was received by the holder for the discharge, in whole or in part, of any debt or liability. Of course this is a rebuttable presumption. The accused can thus show that the “stop-payment” instructions were not issued because of insufficiency or paucity of funds. If the accused shows that in his account there were sufficient funds to clear the amount of the cheque at the time of presentation of the cheque for encashment at the drawer bank and that the stop-payment notice had been issued because of other valid causes including that there was no existing debt or liability at the time of presentation of cheque for encashment, then offence under Section 138 would not be made out. The important thing is that the burden of so proving would be on the accused. Thus a court cannot quash a complaint on this ground.

20. In this view of the matter, the impugned judgment cannot be sustained and is set aside. The learned VIIth Metropolitan Magistrate, G.T. Chennai is directed to proceed with the complaints against Respondents 1 and 3 in accordance with law. It is made clear that the setting aside of the impugned order will not tantamount to preventing the respondents from taking, at the trial, pleas available to them including those taken herein.

* * * * *
ARUN KUMAR, J. - 2. These appeals involve a pure question of law as to applicability of Section 138 of the Negotiable Instruments Act, 1881 (hereinafter referred to as “the Act”) to a case in which a person issuing a post-dated cheque stops its payment by issuing instructions to the drawee bank before the due date of payment. The facts involved in all the appeals are almost similar, except variations in dates and amounts of cheques involved in each case. For the purpose of this judgment we have taken the facts in Criminal Appeal No. 315 of 2003 [arising out of SLP (Crl.) No. 2742 of 2002]. The facts are in a very narrow compass. Respondent 1 addressed a letter to the appellant on 20-7-1992 enclosing therewith ten post-dated cheques, each for an amount of Rs 40,000 by way of refund of amount due from him to the appellant. The two cheques which are the subject matter of the present appeal were dated 10-12-1994 and 10-4-1995. On 12-2-1993 Respondent 1 again wrote to the appellant denying his liability to pay the amount under the aforesaid cheques on the ground that they were issued under a mistaken belief of liability and asked the appellant to treat the cheques as invalid. Respondent 1 also wrote to the drawee bank on 15-3-1993 to stop payment of the aforesaid post-dated cheques issued by him. On 10-5-1995, the appellant presented the two cheques dated 10-12-1994 and 10-4-1995 for payment, but the said cheques were returned unpaid with the endorsement “present again” on 12-5-1995. On 24-5-1995 the appellant issued notice under Section 138 proviso (b) of the Act demanding payment of the amount of Rs. 80,000 i.e. the total amount of the two cheques. On failure of Respondent 1 to make the payment in pursuance of the notice, the appellant filed a complaint under Section 138 of the Act on 7-7-1995. The Magistrate concerned dismissed the complaint vide an order dated 18-10-1999, taking the view that Section 138 of the Act was not attracted in these facts. The appellant filed an appeal against the said order of the Magistrate. The Goa Bench of the Bombay High Court dismissed the appeal on 16-3-2002 upholding the view of the learned Judicial Magistrate. Both the courts primarily based their decision on a misreading of the judgment of this Court in Anil Kumar Sawhney v. Gulshan Rai [(1993) 4 SCC 424]. They took the view that the accused had only countermanded a bill of exchange on the date the accused wrote the letter about stopping payment of the cheques. Before the due date the instruments were merely bills of exchange and not cheques. Therefore, no offence could be said to have been made out under Section 138 of the Act. According to the courts below the payment had been stopped before the cheques became payable.

3. The learned counsel for the appellant has submitted that mere writing of letter to the bank stopping payment of the post-dated cheques does not take the case out of the purview of the Act. He has invited our attention to the object behind the provision contained in Chapter XVII of the Act. For appreciating the issue involved in the present case, it is necessary to refer to the object behind introduction of Chapter XVII containing Sections 138 to 142. This chapter was introduced in the Act by the Banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988 with the object of inculcating faith in the efficacy of banking operations and giving credibility to negotiable instruments in business transactions and in order to promote efficacy of banking operations. With the policy of
liberalisation adopted by the country, which brought about increase in international trade and commerce, it became necessary to inculcate faith in banking. World trade is carried through banking operations rather than cash transactions. The amendment was intended to create an atmosphere of faith and reliance on banking system. Therefore, while considering the question of applicability of Section 138 of the Act to a situation presented by the facts of the present case, it is necessary to keep the objects of the legislation in mind. If a party is allowed to use a cheque as a mode of deferred payment and the payee of the cheque on the faith that he will get his payment on the due date accepts such deferred payment by way of cheque, he should not normally suffer on account of non-payment. The faith, which the legislature has desired that such instruments should inspire in commercial transactions would be completely lost if parties are as a matter of routine allowed to interdict payment by issuing instruction to banks to stop payment of cheques. In today’s world where use of cash in day-to-day life is almost getting extinct and people are using negotiable instruments in commercial transactions and plastic money for their daily needs as consumers, it is all the more necessary that people’s faith in such instruments should be strengthened rather than weakened. Provisions contained in Sections 138 to 142 of the Act are intended to discourage people from not honouring their commitments by way of payment through cheques. It is desirable that the court should be in favour of an interpretation that serves the object of the statute. The penal provisions contained in Sections 138 to 142 of the Act are intended to ensure that obligations undertaken by issuing cheques as a mode of payment are honoured. A post-dated cheque will lose its credibility and acceptability if its payment can be stopped routinely. A cheque is a well-recognized mode of payment and post-dated cheques are often used in various transactions in daily life. The purpose of a post-dated cheque is to provide some accommodation to the drawer of the cheque. Therefore, it is all the more necessary that the drawer of the cheque should not be allowed to abuse the accommodation given to him by a creditor by way of acceptance of a post-dated cheque. If stoppage of payment of a post-dated cheque is permitted to take the case out of the purview of Section 138 of the Act, it will amount to allowing the party to take advantage of his own wrong.

4. The present case was decided by the courts below mainly on the basis of the judgment of this Court in SAWHNEY case. In that case this Court noted that a cheque under Section 6 of the Act is a bill of exchange drawn on a banker and is payable on demand. From this it follows that a bill of exchange though drawn on a banker, if not payable on demand is not a cheque. A post-dated cheque is only a bill of exchange when it is written or drawn. It becomes a cheque when it is payable on demand. It is not payable till the date that is shown on the face of the document. It will become a cheque only on the date shown on it, prior to that it remains a bill of exchange. In SAWHNEY case, this Court was concerned with the question of limitation as provided in proviso (a) to Section 138 of the Act. This proviso requires that a cheque should be presented to the Bank within a period of six months from the date on which it is drawn or within the period of its validity, whichever is earlier. The cheques in question in SAWHNEY case were dated 15-12-1991 and 15-5-1991 totalling an amount of Rs 5,00,000. These cheques were returned by the banker with the endorsement “not arranged for - no fund”. The payee thereafter issued notice as contemplated under Section 138 of the Act followed by complaint under Section 138 being filed in the Court of the Chief Judicial Magistrate at Karnal. It appears from the judgment that these cheques were handed over to the
payee in a settlement arrived at in a court case on 5-3-1990. The question for consideration was as to the date on which the cheques in question could be taken as drawn, in other words, what is the starting point of limitation of six months provided in proviso (a) to Section 138 of the Act. According to the drawer, the cheques were drawn in March 1990 when they were written and handed over to the payee. The cheques were post-dated and bore the dates mentioned hereinbefore. Proviso (a) to Section 138 uses the words “the date on which it is drawn”. The cheques were drawn in March 1990 and were presented for encashment in the year 1991 which was beyond the period of six months provided in proviso (a) to Section 138 and therefore, no offence was said to be made out under Section 138. Keeping in view the object of Section 138 i.e. to enhance the acceptability of cheques by making the drawer liable for penalty in case the cheque is dishonoured, it was felt that the drawer of a post-dated cheque could defeat Section 138 of the Act by showing a date beyond six months of its delivery. An interpretation which supports the object of the provision had to be adopted. Therefore, it was held that a post-dated cheque for the purpose of clause (a) of the provision to Section 138 has to be considered to have been drawn on the date it bears. On the basis of Sections 5 and 6 of the Act, it was observed that:

“A ‘post-dated cheque’ is only a bill of exchange when it is written or drawn, it becomes a ‘cheque’ when it is payable on demand. The post-dated cheque is not payable till the date, which is shown on the face of the said document. It will only become cheque on the date shown on it and prior to that it remains a bill of exchange under Section 5 of the Act. As a bill of exchange a post-dated cheque remains negotiable but it will not become a ‘cheque’ till the date when it becomes ‘payable on demand’.”

The ratio of the decision in Sawhney case is found in the following words:

“One of the main ingredients of the offence under Section 138 of the Act is, the return of the cheque by the bank unpaid. Till the time the cheque is returned by the bank unpaid, no offence under Section 138 is made out. A post-dated cheque cannot be presented before the bank and as such the question of its return would not arise. It is only when the post-dated cheque becomes a ‘cheque’, with effect from the date shown on the face of the said cheque, the provisions of Section 138 come into play. The net result is that a post-dated cheque remains a bill of exchange till the date written on it. With effect from the date shown on the face of the said cheque it becomes a ‘cheque’ under the Act and the provisions of Section 138(a) would squarely be attracted. In the present case the post-dated cheques were drawn in March 1990 but they became ‘cheques’ in the year 1991 on the dates shown therein. The period of six months, therefore, has to be reckoned from the dates mentioned on the face of the cheques.”

5. From the above it will be seen that in Sawhney case the point for consideration was the date from which the period of six months provided in proviso (a) to Section 138 should be counted. The Court clearly held that a post-dated cheque becomes a cheque only on the date it bears when it becomes payable on demand, and therefore, limitation will start from that date.
6. In the present case the issue is very different. The issue is regarding payment of a post-dated cheque being countermanded before the date mentioned on the face of the cheque. For the purpose of considering the issue, it is relevant to see Section 139 of the Act, which creates a presumption in favour of the holder of a cheque. Thus, it has to be presumed that a cheque is issued in discharge of any debt or other liability. The presumption can be rebutted by adducing evidence and the burden of proof is on the person who wants to rebut the presumption. This presumption coupled with the object of Chapter XVII of the Act which is to promote the efficacy of banking operation and to ensure credibility in business transactions through banks persuades us to take a view that by countermanding payment of post-dated cheque, a party should not be allowed to get away from the penal provision of Section 138 of the Act. A contrary view would render Section 138 a dead letter and will provide a handle to persons trying to avoid payment under legal obligations undertaken by them through their own acts which in other words can be said to be taking advantage of one’s own wrong. If we hold otherwise, by giving instructions to banks to stop payment of a cheque after issuing the same against a debt or liability, a drawer will easily avoid penal consequences under Section 138. Once a cheque is issued by a drawer, a presumption under Section 139 must follow and merely because the drawer issued notice to the drawee or to the bank for stoppage of payment it will not preclude an action under Section 138 of the Act by the drawee or the holder of the cheque in due course. We are in respectful agreement with the view taken in Modi case (1998) 3 SCC 249. The said view is in consonance with the object of the legislation. On the faith of payment by way of a post-dated cheque, the payee alters his position by accepting the cheque. If stoppage of payment before the due date of the cheque is allowed to take the transaction out of the purview of Section 138 of the Act, it will shake the confidence which a cheque is otherwise intended to inspire regarding payment being available on the due date.

7. **NEPC Micon Ltd. v. Magma Leasing Ltd.** [(1999) 4 SCC 253] was a case in which the drawer of the cheque closed the account in the bank before presentation of the cheque and the cheque when presented was returned by the bank with the remark “account closed”. The question arose whether in this situation Section 138 of the Act would be attracted. It was contended on behalf of the appellant that Section 138 being a penal provision it should be strictly interpreted. Section 138 according to the appellant applied only in two situations i.e. either because the money standing to the credit of the account of the drawer is insufficient to honour the cheque or it exceeds the amount arranged to be paid from that account by an agreement made with the bank. Rejecting the contentions raised on behalf of the accused this Court held that return of a cheque on account of ‘account being closed’ would be similar to a situation where the cheque is returned on account of insufficiency of funds in the account of the drawer of the cheque. Before one closes his account in the bank, he withdraws the entire amount standing to credit in the account. Withdrawal of the entire amount would therefore mean that there were no funds in the account to honour the cheque, which squarely brings the case within Section 138 of the Act. On the question of strict interpretation of penal provisions raised on behalf of the accused it was observed:

“If the interpretation, which is sought for, were given, then it would only encourage dishonest persons to issue cheques and before presentation of the cheque close ‘that account’ and thereby escape from the penal consequences of Section 138.”
Any interpretation, which withdraws the life and blood of the provision and makes it ineffective and a dead letter, should be averted. It is the duty of the court to interpret the provision consistent with the legislative intent and purpose so as to suppress the mischief and advance the remedy. The legislative purpose is to permit the efficacy of banking and of ensuring that in commercial or contractual transactions, cheques are not dishonoured and credibility in transacting business through banks is maintained. We would like to quote the following observations contained in NEPC Micon Ltd. v. Magma Leasing Ltd.: 

“15. In view of the aforesaid discussion we are of the opinion that even though Section 138 is a penal statute, it is the duty of the court to interpret it consistent with the legislative intent and purpose so as to suppress the mischief and advance the remedy. As stated above, Section 138 of the Act has created a contractual breach as an offence and the legislative purpose is to promote efficacy of banking and of ensuring that in commercial or contractual transactions cheques are not dishonoured and credibility in transacting business through cheques is maintained. The above interpretation would be in accordance with the principle of interpretation quoted above ‘brush away the cobweb varnish, and show the transactions in their true light’ (Wilmot, C.J.) or (by Maxwell) ‘to carry out effectively the breach of the statute, it must be so construed as to defeat all attempts to do, or avoid doing, in an indirect or circuitous manner that which it has prohibited’. Hence, when the cheque is returned by a bank with an endorsement ‘account closed’, it would amount to returning the cheque unpaid because ‘the amount of money standing to the credit of that account is insufficient to honour the cheque’ as envisaged in Section 138 of the Act.”

8. We are unable to agree with the reasoning adopted by the courts below. The impugned judgments of the High Court and the Judicial Magistrate, Ist Class, Panaji, Goa are set aside. We hold that Section 138 of the Negotiable Instruments Act will be attracted in the facts of the case. However, whether a case for punishment under that provision is made out, will depend on the outcome of the trial.

* * * *

See Goaplast (P) Ltd. v. Chico Ursula D’Souza [(2003) 9 SCALE 791], in which a two-judge Bench of the Court, consisting of B.P. Singh and A.R. Lakshmanan, JJ., reiterated the above decision. See also K.R. Indira v. G. adinarayana [AIR 2003 SC 4689], in the absence of specific demand for payment, the demand notice would be invalid and the acquittal of the accused would be valid. It was, however, stated that consolidated demand notice in respect of dishonour od four cheques did not invalidate the notice.

* * * *
2. The matter has been placed before the three Judge Bench in view of a Reference made by a two-Judge Bench of this Court, pertaining to the question of service of notice in terms of Clause (b) of proviso to Section 138 of the Negotiable Instruments Act, 1881 (‘the Act’). Observing that while rendering the decision in *D. Vinod Shivappa v. Nanda Belliappa*, this Court has not taken into consideration the presumption in respect of an official act as provided under Section 114 of the Indian Evidence Act, 1872, the following question has been referred for consideration of the larger Bench:

“Whether in absence of any averments in the complaint to the effect that the accused had a role to play in the matter of non-receipt of legal notice; or that the accused deliberately avoided service of notice, the same could have been entertained keeping in view the decision of this Court in *Vinod Shivappa* case?”

3. As it hardly needs emphasis that necessary averments in regard to the mode and the manner of compliance with the mandatory requirements of Section 138 of the Act are required to be made in the complaint, from the format of the question, the scope of controversy appears to lie in a narrow compass but bearing in mind the fact that the issue raised has wider implication with regard to the very maintainability of the complaint itself, we deem it necessary to deal with the issue in little more detail.

4. Chapter XVII of the Act originally containing Sections 138 to 142 was inserted in the Act by the Banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988 with the object of promoting and inculcating faith in the efficacy of banking system and its operations and giving credibility to negotiable instruments in business transaction. The introduction of the said Chapter was intended to create an atmosphere of faith and reliance on banking system by discouraging people from not honouring their commitments by way of payment through cheques. Section 138 of the Act was enacted to punish those unscrupulous persons who purported to discharge their liability by issuing cheques without really intending to do so. To make the provisions contained in the said Chapter more effective, some more Sections were inserted in the Chapter and some amendments in the existing provisions were made. Though, in this reference, we are not directly concerned with these amendments but they do indicate the anxiety of the Legislature to make the provisions more result oriented. Therefore, while construing the provision, the object of the legislation has to be borne in mind.

5. As noted above, the controversy arises in the context of service of notice in terms of Section 138 of the Act. The conditions pertaining to the notice to be given to the drawer, have been formulated and incorporated in Clauses (b) and (c) of the proviso to Section 138 of the Act, which read as follows:

“Provided that nothing contained in this section shall apply unless - x x x x x

(b) the payee or the holder in due course of the cheque, as the case may be, makes a demand for the payment of the said amount of money by giving a notice in
writing, to the drawer of the cheque, of the receipt of information by him from the
bank regarding the return of the cheque as unpaid; and

(c) the drawer of such cheque fails to make the payment of the said amount of
money to the payee or, as the case may be, to the holder in due course of the cheque,
within fifteen days of the receipt of the said notice.”

6. As noted hereinbefore, Section 138 of the Act was enacted to punish unscrupulous
drawers of cheques who, though purport to discharge their liability by issuing cheque, have
no intention of really doing so. Apart from civil liability, criminal liability is sought to be
imposed by the said provision on such unscrupulous drawers of cheques. However, with a
view to avert unnecessary prosecution of an honest drawer of the cheque and with a view to
give an opportunity to him to make amends, the prosecution under Section 138 of the Act has
been made subject to certain conditions. These conditions are stipulated in the proviso to
Section 138 of the Act, extracted above. Under Clause (b) of the proviso, the payee or the
holder of the cheque in due course is required to give a written notice to the drawer of the
cheque within a period of thirty days from the date of receipt of information from the bank
regarding the return of the cheque as unpaid. Under Clause (c), the drawer is given fifteen
days time from the date of receipt of the notice to make the payment and only if he fails to
make the payment, a complaint may be filed against him. As noted above, the object of the
proviso is to avoid unnecessary hardship to
an honest drawer. Therefore, the observance of
stipulations in quoted Clause (b) and its aftermath in Clause (c) being a pre-condition for
invoking Section 138 of the Act, giving a notice to the drawer before filing complaint under
Section 138 of the Act is a mandatory requirement.

7. The issue with regard to interpretation of the expression ‘giving of notice’ used in
Clause (b) of the proviso is no more res integra. In K. Bhaskaran v. Sankaran Vaidhyan
Balan, the said expression came up for interpretation. Considering the question with
particular reference to scheme of Section 138 of the Act, it was held that failure on the part of
the drawer to pay the amount should be within fifteen days ‘of the receipt’ of the said notice.
‘Giving notice’ in the context is not the same as ‘receipt of notice’. Giving is a process of
which receipt is the accomplishment. It is for the payee to perform the former process by
sending the notice to the drawer at the correct address and for the drawer to comply with
Clause (c) of the proviso. Emphasizing that the provisions contained in Section 138 of the Act
required to be construed liberally, it was observed thus:

“If a strict interpretation is given that the drawer should have actually received
the notice for the period of 15 days to start running no matter that the payee sent the
notice on the correct address, a trickster cheque drawer would get the premium to
avoid receiving the notice by different strategies and he could escape from the legal
consequences of Section 138 of the Act. It must be borne in mind that Court should
not adopt an interpretation which helps a dishonest evader and clips an honest payee
as that would defeat the very legislative measure. In Maxwell’s Interpretation of
Statutes the learned author has emphasized that “provisions relating to giving of
notice often receive liberal interpretation.” The context envisaged in Section 138 of
the Act invites a liberal interpretation for the person who has the statutory obligation
to give notice because he is presumed to be the loser in the transaction and it is for his
interest the very provision is made by the legislature. The words in Clause (b) of the proviso to Section 138 of the Act show that payee has the statutory obligation to ‘make a demand’ by giving notice. The thrust in the clause is on the need to ‘make a demand’. It is only the mode for making such demand which the legislature has prescribed. A payee can send the notice for doing his part for giving the notice. Once it is dispatched his part is over and the next depends on what the sendee does.”

8. Since in Bhaskaran, the notice issued in terms of Clause (b) had been returned unclaimed and not as refused, the Court posed the question: “Will there be any significant difference between the two so far as the presumption of service is concerned?” It was observed that though Section 138 of the Act does not require that the notice should be given only by ‘post’, yet in a case where the sender has dispatched the notice by post with correct address written on it, the principle incorporated in Section 27 of the General Clauses Act, 1897 (‘G.C. Act’) could profitably be imported in such a case. It was held that in this situation service of notice is deemed to have been effected on the sendee unless he proves that it was not really served and that he was not responsible for such non-service.

9. All these aspects have been highlighted and reiterated by this Court recently in Vinod Shivappa case. Elaborately dealing with the situation where the notice could not be served on the addressee for one or the other reason, such as his non availability at the time of delivery, or premises remaining locked on account of his having gone elsewhere etc; it was observed that if in each such case, the law is understood to mean that there has been no service of notice, it would completely defeat the very purpose of the Act. It would then be very easy for an unscrupulous and dishonest drawer of a cheque to make himself scarce for sometime after issuing the cheque so that the requisite statutory notice can never be served upon him and consequently he can never be prosecuted. It was further observed that once the payee of the cheque issues notice to the drawer of the cheque, the cause of action to file a complaint arises on the expiry of the period prescribed for payment by the drawer of the cheque. If he does not file a complaint within one month of the date on which the cause of action arises under Clause (c) of the proviso to Section 138 of the Act, his complaint gets barred by time. Thus, a person who can dodge the postman for about a month or two, or a person who can get a fake endorsement made regarding his non availability, can successfully avoid his prosecution because the payee is bound to issue notice to him within a period of 30 days from the date of receipt of information from the bank regarding the return of the cheque as unpaid. He is, therefore, bound to issue the notice, which may be returned with an endorsement that the addressee is not available on the given address. This Court held:

“We cannot also lose sight of the fact that the drawer may by dubious means manage to get an incorrect endorsement made on the envelope that the premises has been found locked or that the addressee was not available at the time when postman went for delivery of the letter. It may be that the address is correct and even the addressee is available but a wrong endorsement is manipulated by the addressee. In such a case, if the facts are proved, it may amount to refusal of the notice. If the complainant is able to prove that the drawer of the cheque knew about the notice and deliberately evaded service and got a false endorsement made only to defeat the process of law, the Court shall presume service of notice. This, however, is a matter
of evidence and proof. Thus even in a case where the notice is returned with the endorsement that the premises has always been found locked or the addressee was not available at the time of postal delivery, it will be open to the complainant to prove at the trial by evidence that the endorsement is not correct and that the addressee, namely the drawer of the cheque, with knowledge of the notice had deliberately avoided to receive notice. Therefore, it would be premature at the stage of issuance of process, to move the High Court for quashing of the proceeding under Section 482 of the Code of Criminal Procedure. The question as to whether the service of notice has been fraudulently refused by unscrupulous means is a question of fact to be decided on the basis of evidence. In such a case the High Court ought not to exercise its jurisdiction under Section 482 of the Code of Criminal Procedure.”

10. It is, thus, trite to say that where the payee dispatches the notice by registered post with correct address of the drawer of the cheque, the principle incorporated in Section 27 of the G.C. Act would be attracted; the requirement of Clause (b) of proviso to Section 138 of the Act stands complied with and cause of action to file a complaint arises on the expiry of the period prescribed in Clause (c) of the said proviso for payment by the drawer of the cheque. Nevertheless, it would be without prejudice to the right of the drawer to show that he had no knowledge that the notice was brought to his address.

11. However, the Referring Bench was of the view that this Court in Vinod Shivappa case did not take note of Section 114 of Evidence Act in its proper perspective. It felt that the presumption under Section 114 of the Evidence Act being a rebuttable presumption, the complaint should contain necessary averments to raise the presumption of service of notice; that it was not sufficient for a complainant to state that a notice was sent by registered post and that the notice was returned with the endorsement ‘out of station’; and that there should be a further averment that the addressee-drawer had deliberately avoided receiving the notice or that the addressee had knowledge of the notice, for raising a presumption under Section 114 of Evidence Act.

12. Therefore, the moot question requiring consideration is in regard to the implication of Section 114 of the Indian Evidence Act, 1872 insofar as the service of notice under the said proviso is concerned. Section 114 of the Indian Evidence Act, 1872 reads as follows:

“Section 114 - Court may presume existence of certain facts.- The Court may presume the existence of any fact which it thinks likely to have happened, regard being had to the common course of natural events, human conduct and public and private business, in their relation to the facts of the particular case.

Illustrations

The Court may presume -

(f) That the common course of business has been followed in particular cases;”

13. According to Section 114 of the Act, read with illustration (f) thereunder, when it appears to the Court that the common course of business renders it probable that a thing would happen, the Court may draw presumption that the thing would have happened, unless there are circumstances in a particular case to show that the common course of business was
not followed. Thus, Section 114 enables the Court to presume the existence of any fact which it thinks likely to have happened, regard being had to the common course of natural events, human conduct and public and private business in their relation to the facts of the particular case. Consequently, the court can presume that the common course of business has been followed in particular cases. When applied to communications sent by post, Section 114 enables the Court to presume that in the common course of natural events, the communication would have been delivered at the address of the addressee. But the presumption that is raised under Section 27 of the G.C. Act is a far stronger presumption. Further, while Section 114 of Evidence Act refers to a general presumption, Section 27 refers to a specific presumption. For the sake of ready reference, Section 27 of G.C. Act is extracted below:

“27. Meaning of service by post. - Where any Central Act or Regulation made after the commencement of this Act authorizes or requires any document to be served by post, whether the expression ‘serve’ or either of the expressions ‘give’ or ‘send’ or any other expression is used, then, unless a different intention appears, the service shall be deemed to be effected by properly addressing, prepaying and posting by registered post, a letter containing the document, and, unless the contrary is proved, to have been effected at the time at which the letter would be delivered in the ordinary course of post”.

14. Section 27 gives rise to a presumption that service of notice has been effected when it is sent to the correct address by registered post. In view of the said presumption, when stating that a notice has been sent by registered post to the address of the drawer, it is unnecessary to further aver in the complaint that in spite of the return of the notice unserved, it is deemed to have been served or that the addressee is deemed to have knowledge of the notice. Unless and until the contrary is proved by the addressee, service of notice is deemed to have been effected at the time at which the letter would have been delivered in the ordinary course of business. This Court has already held that when a notice is sent by registered post and is returned with a postal endorsement ‘refused’ or ‘not available in the house’ or ‘house locked’ or ‘shop closed’ or ‘addressee not in station’, due service has to be presumed. It is, therefore, manifest that in view of the presumption available under Section 27 of the Act, it is not necessary to aver in the complaint under Section 138 of the Act that service of notice was evaded by the accused or that the accused had a role to play in the return of the notice unserved.

15. Insofar as the question of disclosure of necessary particulars with regard to the issue of notice in terms of proviso (b) of Section 138 of the Act, in order to enable the Court to draw presumption or inference either under Section 27 of the G.C. Act or Section 114 of the Evidence Act, is concerned, there is no material difference between the two provisions. In our opinion, therefore, when the notice is sent by registered post by correctly addressing the drawer of the cheque, the mandatory requirement of issue of notice in terms of Clause (b) of proviso to Section 138 of the Act stands complied with. It is needless to emphasise that the complaint must contain basic facts regarding the mode and manner of the issuance of notice to the drawer of the cheque. It is well settled that at the time of taking cognizance of the complaint under Section 138 of the Act, the Court is required to be prima facie satisfied that a case under the said Section is made out and the aforenoted mandatory statutory procedural
requirements have been complied with. It is then for the drawer to rebut the presumption about the service of notice and show that he had no knowledge that the notice was brought to his address or that the address mentioned on the cover was incorrect or that the letter was never tendered or that the report of the postman was incorrect. In our opinion, this interpretation of the provision would effectuate the object and purpose for which proviso to Section 138 was enacted, namely, to avoid unnecessary hardship to an honest drawer of a cheque and to provide him an opportunity to make amends.

16. As noticed above, the entire purpose of requiring a notice is to give an opportunity to the drawer to pay the cheque amount within 15 days of service of notice and thereby free himself from the penal consequences of Section 138. In Vinod Shivappa, this Court observed:

“One can also conceive of cases where a well intentioned drawer may have inadvertently missed to make necessary arrangements for reasons beyond his control, even though he genuinely intended to honour the cheque drawn by him. The law treats such lapses induced by inadvertence or negligence to be pardonable, provided the drawer after notice makes amends and pays the amount within the prescribed period. It is for this reason that Clause (c) of proviso to Section 138 provides that the section shall not apply unless the drawer of the cheque fails to make the payment within 15 days of the receipt of the said notice. To repeat, the proviso is meant to protect honest drawers whose cheques may have been dishonoured for the fault of others, or who may have genuinely wanted to fulfil their promise but on account of inadvertence or negligence failed to make necessary arrangements for the payment of the cheque. The proviso is not meant to protect unscrupulous drawers who never intended to honour the cheques issued by them, it being a part of their modus operandi to cheat unsuspecting persons.”

17. It is also to be borne in mind that the requirement of giving of notice is a clear departure from the rule of Criminal Law, where there is no stipulation of giving of a notice before filing a complaint. Any drawer who claims that he did not receive the notice sent by post, can, within 15 days of receipt of summons from the court in respect of the complaint under Section 138 of the Act, make payment of the cheque amount and submit to the Court that he had made payment within 15 days of receipt of summons (by receiving a copy of complaint with the summons) and, therefore, the complaint is liable to be rejected. A person who does not pay within 15 days of receipt of the summons from the Court along with the copy of the complaint under Section 138 of the Act, cannot obviously contend that there was no proper service of notice as required under Section 138, by ignoring statutory presumption to the contrary under Section 27 of the G.C. Act and Section 114 of the Evidence Act. In our view, any other interpretation of the proviso would defeat the very object of the legislation. As observed in Bhaskaran’s case (supra), if the ‘giving of notice’ in the context of Clause (b) of the proviso was the same as the ‘receipt of notice’ a trickster cheque drawer would get the premium to avoid receiving the notice by adopting different strategies and escape from legal consequences of Section 138 of the Act.

18. In the instant case, the averment made in the complaint in this regard is: “Though the complainant issued lawyer’s notice intimating the dishonour of cheque and demanded
payment on 4.8.2001, the same was returned on 10.8.2001 saying that the accused was ‘out of station’.” True, there was no averment to the effect that the notice was sent at the correct address of the drawer of the cheque by ‘registered post acknowledgement due’. But the returned envelope was annexed to the complaint and it thus, formed a part of the complaint which showed that the notice was sent by registered post acknowledgement due to the correct address and was returned with an endorsement that ‘the addressee was abroad.’ We are of the view that on facts in hand the requirements of Section 138 of the Act had been sufficiently complied with and the decision of the High Court does not call for interference.

19. In the final analysis, with the clarification indicated hereinabove, we reiterate the view expressed by this Court in *K. Bhaskaran* and *Vinod Shivappa* cases.

20. For the reasons aforementioned, we do not find any merit in this appeal. It is dismissed accordingly but with no order as to costs in the circumstances of the case.

* * * *
Dashrath Rupsingh Rathod v. State of Maharashtra
(2014)9SCC129

Vikramajit Sen, J. 1. Leave granted in Special Leave Petitions. These Appeals raise a legal nodus of substantial public importance pertaining to Court's territorial jurisdiction concerning criminal complaints filed under Chapter XVII of the Negotiable Instruments Act, 1881 (for short, 'the NI Act'). This is amply adumbrated by the Orders dated 3.11.2009 in I.A. No. 1 in CC 15974/2009 of the three-Judge Bench presided over by the then Hon'ble the Chief Justice of India, Hon'ble Mr. Justice V.S. Sirpurkar and Hon'ble Mr. Justice P. Sathasivam which SLP is also concerned with the interpretation of Section 138 of the NI Act, and wherein the Bench after issuing notice on the petition directed that it be posted before the three-Judge Bench.

2. The earliest and the most often quoted decision of this Court relevant to the present conundrum is K. Bhaskaran v. Sankaran Vaidhyan Balan (1999) 7 SCC 510 wherein a two-Judge Bench has, inter alia, interpreted Section 138 of the NI Act to indicate that, "the offence Under Section 138 can be completed only with the concatenation of a number of acts. Following are the acts which are components of the said offence: (1) Drawing of the cheque, (2) Presentation of the cheque to the bank, (3) Returning the cheque unpaid by the drawee bank, (4) Giving notice in writing to the drawer of the cheque demanding payment of the cheque amount, (5) Failure of the drawer to make payment within 15 days of the receipt of the notice." The provisions of Sections 177 to 179 of the Code of Criminal Procedure, 1973 (for short, 'Code of Criminal Procedure') have also been dealt with in detail. Furthermore, Bhaskaran in terms draws a distinction between 'giving of notice' and 'receiving of notice'. This is for the reason that Clause (b) of proviso to Section 138 of the NI Act postulates a demand being made by the payee or the holder in due course of the dishonored cheque by giving a notice in writing to the drawer thereof. While doing so, the question of the receipt of the notice has also been cogitated upon.

3. The issuance and the receipt of the notice is significant because in a subsequent judgment of a Coordinate Bench, namely, Harman Electronics Pvt. Ltd. v. National Panasonic India Pvt. Ltd. (2009) 1 SCC 720 emphasis has been laid on the receipt of the notice, inter alia, holding that the cause of action cannot arise by any act of omission or commission on the part of the 'accused', which on a holistic reading has to be read as 'complainant'. It appears that Harman transacted business out of Chandigarh only, where the Complainant also maintained an office, although its Head Office was in Delhi. Harman issued the cheque to the Complainant at Chandigarh; Harman had its bank account in Chandigarh alone. It is unclear where the Complainant presented the cheque for encashment but it issued the Section 138 notice from Delhi. In those circumstances, this Court had observed that the only question for consideration was "whether sending of notice from Delhi itself would give rise to a cause of action for taking cognizance under the NI Act." It then went on to opine that the proviso to this Section "imposes certain further conditions which are required to be fulfilled before cognizance of the offence can be taken." We respectfully agree with this statement of law and underscore that in criminal jurisprudence there is a discernibly
demarcated difference between the commission of an offence and its cognizance leading to prosecution. The Harman approach is significant and sounds a discordant note to the Bhaskaran ratio. Harman also highlights the reality that Section 138 of the NI Act is being rampantly misused so far as territorial jurisdiction for trial of the Complaint is concerned. With the passage of time equities have therefore transferred from one end of the pendulum to the other. It is now not uncommon for the Courts to encounter the issuance of a notice in compliance with Clause (b) of the proviso to Section 138 of the NI Act from a situs which bears no connection with the Accused or with any facet of the transaction between the parties, leave aside the place where the dishonor of the cheque has taken place. This is also the position as regards the presentation of the cheque, dishonor of which is then pleaded as the territorial platform of the Complaint Under Section 138 of the NI Act. Harman, in fact, duly heeds the absurd and stressful situation, fast becoming common-place where several cheques signed by the same drawer are presented for encashment and requisite notices of demand are also dispatched from different places. It appears to us that justifiably so at that time, the conclusion in Bhaskaran was influenced in large measure by curial compassion towards the unpaid payee/holder, whereas with the passage of two decades the manipulative abuse of territorial jurisdiction has become a recurring and piquant factor. The liberal approach preferred in Bhaskaran now calls for a stricter interpretation of the statute, precisely because of its misemployment so far as choice of place of suing is concerned. These are the circumstances which have propelled us to minutely consider the decisions rendered by two-Judge Benches of this Court.

4. It is noteworthy that the interpretation to be imparted to Section 138 of the NI Act also arose before a three-Judge Bench in Shri Ishar Alloy Steels Ltd. v. Jayaswals Neco Ltd. (2001) 3 SCC 609 close on the heels of Bhaskaran. So far as the factual matrix is concerned, the dishonoured cheque had been presented for encashment by the Complainant/holder in his bank within the statutory period of six months but by the time it reached the drawer's bank the aforementioned period of limitation had expired. The question before the Court was whether the bank within the postulation of Section 138 read with Sections 3 and 72 of the NI Act was the drawee bank or the collecting bank and this Court held that it was the former. It was observed that "non-presentation of the cheque to the drawee bank within the period specified in the Section would absolve the person issuing the cheque of his criminal liability Under Section 138of the NI Act, who otherwise may be liable to pay the cheque amount to the payee in a civil action initiated under the law. A combined reading of Sections 3, 72and 138 of the NI Act would leave no doubt in our mind that the law mandates the cheque to be presented at the bank on which it is drawn if the drawer is to be held criminally liable." Clearly, and in our considered opinion rightly, the Section had been rendered 'accused-centric'. This decision clarifies that the place where a complainant may present the cheque for encashment would not confer or create territorial jurisdiction, and in this respect runs counter to the essence of Bhaskaran which paradoxically, in our opinion, makes actions of the Complainant an integral nay nuclear constituent of the crime itself.
5. The principle of precedence should promptly and precisely be paraphrased. A co-ordinate Bench is bound to follow the previously published view; it is certainly competent to add to the precedent to make it logically and dialectically compelling. However, once a decision of a larger Bench has been delivered it is that decision which mandatorily has to be applied; whereas a Co-ordinate Bench, in the event that it finds itself unable to agree with an existing ratio, is competent to recommend the precedent for reconsideration by referring the case to the Chief Justice for constitution of a larger Bench. Indubitably, there are a number of decisions by two-Judge Benches on Section 138 of the NI Act, the majority of which apply Bhaskaran without noting or distinguishing on facts Ishar Alloy. In our opinion, it is imperative for the Court to diligently distill and then apply the ratio of a decision; and the view of a larger Bench ought not to be disregarded. Inasmuch as the three-Judge Bench in Ishar Alloy has categorically stated that for criminal liability to be attracted, the subject cheque has to be presented to the bank on which it is drawn within the prescribed period, Bhaskaran has been significantly whittled down if not overruled. Bhaskaran has also been drastically diluted by Harman inasmuch as it has given primacy to the service of a notice on the Accused instead of its mere issuance by the Complainant.

6. In Prem Chand Vijay Kumar v. Yashpal Singh (2005) 4 SCC 417, another two-Judge Bench held that upon a notice Under Section 138 of the NI Act being issued, a subsequent presentation of a cheque and its dishonor would not create another 'cause of action' which could set the Section 138 machinery in motion. In that view, if the period of limitation had run out, a fresh notice of demand was bereft of any legal efficacy. SIL Import, USA v. Exim Aides Silk Exporters (1999) 4 SCC 567 was applied in which the determination was that since the requisite notice had been dispatched by FAX on 26.6.1996 the limitation for filing the Section 138 Complaint expired on 26.7.1996. What is interesting is the observation that "four constituents of Section 138 are required to be proved to successfully prosecute the drawer of an offence Under Section 138 of the NI Act" (emphasis supplied). It is also noteworthy that instead of the five Bhaskaran concomitants, only four have been spelt out in the subsequent judgment in Prem Chand. The commission of a crime was distinguished from its prosecution which, in our considered opinion, is the correct interpretation of the law. In other words, the four or five concomitants of the Section have to be in existence for the initiation as well as the successful prosecution of the offence, which offence however comes into existence as soon as subject cheque is dishonored by the drawee bank. Another two-Judge Bench in Shamshad Begum v. B. Mohammed (2008) 13 SCC 77 speaking through Pasayat J this time around applied Bhaskaran and concluded that since the Section 138 notice was issued from and replied to Mangalore, Courts in that city possessed territorial jurisdiction. As already noted above, this view is not reconcilable with the later decision of Harman.

7. The two-Judge Bench decision in Mosaraf Hossain Khan v. Bhagheeratha Engg. Ltd. (2006) 3 SCC 658 requires to be discussed in some detail. A Complaint Under Section 138 of the NI Act was filed and cognizance was taken by the Chief Judicial Magistrate, Birbhum at Suri, West Bengal for the dishonor of a number of cheques issued
by the accused-company which had its headquarters in Ernakulam, Kerala where significantly the accused-company's bank on whom the dishonored cheques had been drawn was located. Several judgments were referred to, but not Bhaskaran. The third ingredient in Bhaskaran, i.e. the returning of the cheque unpaid by the drawee bank, was not reflected upon. Inasmuch as Mosaraf Hossain refers copiously to the cause of action having arisen in West Bengal without advertising at all to Bhaskaran, leave aside the three-Judge Bench decision in Ishar Alloy, the decision may be seen as per incuriam. Moreover, the concept of forum non convenience has no role to play Under Section 138 of the NI Act, and furthermore that it can certainly be contended by the accused-company that it was justifiable/convenient for it to initiate litigation in Ernakulam. If Bhaskaran was followed, Courts in Ernakulam unquestionably possessed territorial jurisdiction. It is, however, important to italicize that there was an unequivocal endorsement of the Bench of a previously expressed view that, "where the territorial jurisdiction is concerned the main factor to be considered is the place where the alleged offence was committed". In similar vein, this Court has opined in Om Hemrajani v. State of U.P. (2005) 1 SCC 617, in the context of Sections 177 to 180 Code of Criminal Procedure that "for jurisdiction emphasis is on the place where the offence is committed."

8. The territorial jurisdiction conundrum which, candidly is currently in the cauldron owing to varying if not conflicting ratios, has been cogitated upon very recently by a two-Judge Bench in Criminal Appeal No. 808 of 2013 titled Nishant Aggarwal v. Kailash Kumar Sharma decided on 1.7.2013 and again by the same Bench in Criminal Appeal No. 1457 of 2013 titled Escorts Limited v. Rama Mukherjee decided on 17.09.2013. Bhaskaran was followed and Ishar Alloy and Harman were explained. In Nishant the Appellant issued a post-dated cheque drawn on Standard Chartered Bank, Guwahati in favour of complainant-Respondent. It appears that the Appellant had endeavored to create a case or rather a defence by reporting to his bank in Guwahati as well as to the local police station that 'one cheque (corresponding to the cheque in question) was missing and hence payment should be stopped.' The Respondent-drawer was a resident of District Bhiwani, Haryana; he presented the cheque for encashment at Canara Bank, Bhiwani but it was returned unpaid. The holder then issued a legal notice which failed to elicit the demanded sum of money corresponding to the cheque value, and thereupon followed it by the filing of a criminal complaint Under Sections 138 and 141 of the NI Act at Bhiwani. The Judicial Magistrate, Bhiwani, vide order dated 5.3.2011, concluded that the court in Bhiwani did not possess territorial jurisdiction and he accordingly returned the complaint for presentation before the proper Court. The five concomitants of Section 138 extracted in Bhaskaran, were reiterated and various paragraphs from it were reproduced by this Court. Nishant also did not follow Ishar Alloy which, as already analyzed, has concluded that the second Bhaskaran concomitant, namely, presentation of cheque to the bank refers to the drawee bank and not the holder's bank, is not primarily relevant for the determination of territorial jurisdiction. Nishant distinguished Ishar Alloy on the predication that the question of territorial jurisdiction had not been raised in that case. It is axiomatic that when a Court interprets any statutory provision, its opinion must apply to and be determinate in all factual and legal permutations and situations. We think that the dictum in Ishar Alloy is
very relevant and conclusive to the discussion in hand. It also justifies emphasis that *Ishar Alloy* is the only case before us which was decided by a three-Judge Bench and, therefore, was binding on all smaller Benches. We ingeminate that it is the drawee Bank and not the Complainant's Bank which is postulated in the so-called second constituent of Section 138 of the NI Act, and it is this postulate that spurs us towards the conclusion that we have arrived at in the present Appeals. There is also a discussion of *Harman* to reiterate that the offence Under Section 138 is complete only when the five factors are present. It is our considered view, which we shall expound upon, that the offence in the contemplation of Section 138 of the NI Act is the dishonor of the cheque alone, and it is the concatenation of the five concomitants of that Section that enable the prosecution of the offence in contradistinction to the completion/commission of the offence.

9. We have also painstakingly perused Escorts Limited which was also decided by the *Nishant* two-Judge Bench. Previous decisions were considered, eventually leading to the conclusion that since the concerned cheque had been presented for encashment at New Delhi, its Metropolitan Magistrate possessed territorial jurisdiction to entertain and decide the subject Complaint Under Section 138 of the NI Act. Importantly, in a subsequent order, in *FIL Industries Ltd. v. Imtiyaz Ahmed Bhat* passed on 12th August 2013, it was decided that the place from where the statutory notice had emanated would not of its own have the consequence of vesting jurisdiction upon that place. Accordingly, it bears repetition that the ratio in *Bhaskaran* has been drastically diluted in that the situs of the notice, one of the so-called five ingredients of Section 138, has now been held not to clothe that Court with territorial competency. The conflicting or incongruent opinions need to be resolved.

10. We shall take a short digression in terms of brief discussion of the approach preferred by this Court in the context of Section 20 of the Code of Civil Procedure, 1908 (hereinafter referred to as, 'Code of Civil Procedure'), which inter alia, enjoins that a suit must be instituted in a court within the local limits of whose jurisdiction the Defendant actually and voluntarily resides, or carries on business, or personally works for gain, or where the cause of action wholly or in part arises. The Explanation to that Section is important; it prescribes that a corporation shall be deemed to carry on business at its sole or principal office, or, in respect of any cause of action arising at any place where it has also a subordinate office, at such place. Since this provision primarily keeps the Defendant in perspective, the corporation spoken of in the Explanation obviously refers to the Defendant. A plain reading of Section 20 of the Code of Civil Procedure arguably allows the Plaintiff a multitude of choices in regard to where it may institute its lis, suit or action. Corporations and partnership firms, and even sole proprietorship concerns, could well be transacting business simultaneously in several cities. If Sub-sections (a) and (b) of Section 20 are to be interpreted disjunctively from Sub-section (c), as the use of the word 'or' appears to permit the Plaintiff to file the suit at any of the places where the cause of action may have arisen regardless of whether the Defendant has even a subordinate office at that place. However, if the Defendants' location is to form the fulcrum of jurisdiction, and it has an office also at the place where the cause of action has occurred, it has been held that the Plaintiff is precluded from instituting the suit anywhere else. Obviously, this is also because every
other place would constitute a *forum non convenience*. This Court has harmonized the various hues of the conundrum of the place of suing in several cases and has gone to the extent of laying down that it should be courts Endeavour to locate the place where the cause of action has substantially arisen and reject others where it may have incidentally arisen. **Patel Roadways Limited, Bombay v. Prasad Trading Company** AIR 1992 SC 1514 : (1991) 4 SCC 270 prescribes that if the Defendant-corporation has a subordinate office in the place where the cause of action arises, litigation must be instituted at that place alone, regardless of the amplitude of options postulated in Section 20 of the Code of Civil Procedure. We need not dilate on this point beyond making a reference to **ONGC v. Utpal Kumar Basu** (1994) 4 SCC 711 and **South East Asia Shipping Co. Ltd. v. Nav Bharat Enterprises Pvt. Ltd.** (1996) 3 SCC 443.

11. We are alive to the possible incongruities that are fraught in extrapolating decisions relating to civil law onto criminal law, which includes importing the civil law concept of "cause of action" to criminal law which essentially envisages the place where a crime has been committed empowers the Court at that place with jurisdiction. In **Navinchandra N. Majithia v. State of Maharashtra**: (2000) 7 SCC 640 this Court had to consider the powers of High Courts Under Article 226(2) of the Constitution of India. Noting the presence of the phrase "cause of action" therein it was clarified that since some events central to the investigation of the alleged crime asseverated in the Complaint had taken place in Mumbai and especially because the fundamental grievance was the falsity of the Complaint filed in Shillong, the writ jurisdiction of the Bombay High Court was unquestionably available. The infusion of the concept of 'cause of action' into the criminal dispensation has led to subsequent confusion countenanced in High Courts. It seems to us that **Bhaskaran** allows multiple venues to the Complainant which runs counter to this Court's preference for simplifying the law. Courts are enjoined to interpret the law so as to eradicate ambiguity or nebulousness, and to ensure that legal proceedings are not used as a device for harassment, even of an apparent transgressor of the law. Law's endeavour is to bring the culprit to book and to provide succour for the aggrieved party but not to harass the former through vexatious proceedings. Therefore, precision and exactitude are necessary especially where the location of a litigation is concerned.

**RELEVANT PROVISIONS**

12. The provisions which will have to be examined and analysed are reproduced for facility of reference:

**Negotiable Instruments Act, 1881**

138. *Dishonour of cheque for insufficiency, etc., of funds in the account.*-Where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from out of that account for the discharge, in whole or in part, of any debt or other liability, is returned by the bank unpaid, either because of the amount of money standing to the credit of that account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank, such person shall be deemed to have committed an offence and shall, without prejudice to any other
provisions of this Act, be punished with imprisonment for a term which may be
extended to two years, or with fine which may extend to twice the amount of the
cheque, or with both:
Provided that nothing contained in this section shall apply unless-

(a) the cheque has been presented to the bank within a period of six
months from the date on which it is drawn or within the period of its
validity, whichever is earlier.

(b) the payee or the holder in due course of the cheque, as the case may
be, makes a demand for the payment of the said amount of money by
giving a notice in writing, to the drawer of the cheque, within thirty
days of the receipt of information by him from the bank regarding the
return of the cheque as unpaid; and

(c) the drawer of such cheque fails to make the payment of the said
amount of money to the payee or, as the case may be, to the holder in
due course of the cheque, within fifteen days of the receipt of the said
notice.

Explanation. For the purposes of this section, "debt or other liability"
means a legally enforceable debt or other liability.

142. Cognizance of offences.-Notwithstanding anything contained in the Code of
Criminal Procedure, 1973 (2 of 1974)-
(a) no court shall take cognizance of any offence punishable Under
Section 138 except upon a complaint, in writing, made by the payee or, as the
case may be, the holder in due course of the cheque;
(b) such complaint is made within one month of the date on which the cause
of action arises Under Clause (c) of the proviso to Section 138;
Provided that the cognizance of a complaint may be taken by the Court after
the prescribed period, if the complainant satisfies the Court that he had
sufficient cause for not making a complaint within such period.

(c) no court inferior to that of a Metropolitan Magistrate or a Judicial
Magistrate of the first class shall try any offence punishable Under
Section 138.

Code of Criminal Procedure, 1973

177. Ordinary place of inquiry and trial.- Every offence shall ordinarily be
inquired into and tried by a Court within whose local jurisdiction it was committed.
178. Place of inquiry or trial.- (a) When it is uncertain in which of several local
areas an offence was committed, or
(b) where an offence is committed partly in one local area and partly in
another, or
(c) where an offence is a continuing one, and continues to be committed in
more local areas than one, or

(d) where it consists of several acts done in different local areas,

it may be inquired into or tried by a Court having jurisdiction over any of such local
areas.

179. Offence triable where act is done or consequence ensues.-When an act is an
offence by reason of anything which has been done and of a consequence which has
ensued, the offence may be inquired into or tried by a Court within whose local
jurisdiction such thing has been done or such consequence has ensued.

PARLIAMENTARY DEBATES

13. The XVIIth fasciculus of the Negotiable Instruments Act containing Sections 138 to
142 was introduced into the statute in 1988. The avowed intendment of the amendment was
to enhance the acceptability of cheques. It was based on the Report of the Committee on
Banking Laws by Dr. Rajamannar, submitted in 1975, which suggested, *inter alia*, penalizing the issuance of cheque without sufficient funds. The Minister of Finance had
assuaged apprehensions by arguing that safeguards for honest persons had been
incorporated in the provisions, viz., (i) the cheque should have been issued in discharge of
liability; (ii) the cheque should be presented within its validity period; (iii) a Notice had to
be sent by the Payee demanding payment within 15 days of receiving notice of dishonor;
(iv) the drawer was allowed to make payment within 15 days from the date of receipt of
notice; (v) Complaint was to be made within one month of the cause of action arising; (vi)
no Court inferior to that of MM or JMFC was to try the offence. The Finance Minister had
also stated that the Court had discretion whether the Drawer would be imprisoned or/and
fined. Detractors, however, pointed out that the Indian Penal Code already envisioned
criminal liability for cheque-bouncing where dishonest or fraudulent intention or *mens
rea* on part of the Drawer was evident, namely, cheating, fraud, criminal breach of trust etc.
Therefore, there was no justification to make the dishonor of cheques a criminal offence,
ignoring factors like illiteracy, indispensable necessities, honest/innocent mistake, bank
frauds, *bona fide* belief, and/or unexpected attachment or freezing of account in any judicial
proceedings as it would bring even honest persons within the ambit of Section 138 NI Act.
The possibility of abusing the provision as a tool of harassment could also not be ruled out.
Critics also decried the punishment for being harsh; that civil liability can never be
converted into criminal liability; that singling out cheques out of all other negotiable
instruments would be violative of Article 14 of Constitution of India. Critics contended that
there was insufficient empirical enquiry into statutes or legislation in foreign jurisdictions
criminalizing the dishonor of cheques and statistics had not been made available bearing
out that criminalization would increase the acceptability of cheques. The Minister of Finance
was not entirely forthright when he stated in Parliament that the drawer was also allowed
sufficient opportunity to say whether the dishonor was by mistake. It must be borne in mind
that in the U.K. deception and dishonesty are key elements which require to be proved. In
the USA, some States have their own laws, requiring fraudulent intent or knowledge of
insufficient funds to be made good. France has criminalized and subsequently decriminalized the dishonor except in limited circumstances. Instead, it provides for disqualification from issuing cheques, a practice which had been adopted in Italy and Spain also. We have undertaken this succinct study mindful of the fact that Parliamentary debates have a limited part to play in interpretation of statutes, the presumption being that Legislators have the experience, expertise and language skills to draft laws which unambiguously convey their intentions and expectations for the enactments. What is palpably clear is that Parliament was aware that they were converting civil liability into criminal content inter alia by the deeming fiction of culpability in terms of the pandect comprising Section 138 and the succeeding Sections, which severely curtail defences to prosecution. Parliament was also aware that the offence of cheating etc., already envisaged in the Indian Penal Code, continued to be available.

**CIVIL LAW CONCEPTS NOT STRICTLY APPLICABLE**

14. We have already cautioned against the extrapolation of civil law concepts such as "cause of action" onto criminal law. Section 177 of the Code of Criminal Procedure unambiguously States that every offence shall ordinarily be inquired into and tried by a Court within whose local jurisdiction it was committed. "Offence", by virtue of the definition ascribed to the word by Section 2(n) of the Code of Criminal Procedure means any act or omission made punishable by any law. Halsbury states that the venue for the trial of a crime is confined to the place of its occurrence. Blackstone opines that crime is local and jurisdiction over it vests in the Court and Country where the crime is committed. This is obviously the *raison d'etre* for the Code of Criminal Procedure making a departure from the Code of Civil Procedure in not making the "cause of action" routinely relevant for the determination of territoriality of criminal courts. The word "action" has traditionally been understood to be synonymous to "suit", or as ordinary proceedings in a Court of justice for enforcement or protection of the rights of the initiator of the proceedings. "Action, generally means a litigation in a civil Court for the recovery of individual right or redress of individual wrong, inclusive, in its proper legal sense, of suits by the Crown"-[Bradlaugh v. Clarke 8 Appeal Cases 354 p. 361]. Unlike civil actions, where the Plaintiff has the burden of filing and proving its case, the responsibility of investigating a crime, marshalling evidence and witnesses, rests with the State. Therefore, while the convenience of the Defendant in a civil action may be relevant, the convenience of the so called complainant/victim has little or no role to play in criminal prosecution. Keeping in perspective the presence of the word "ordinarily" in Section 177 of Code of Criminal Procedure, we hasten to adumbrate that the exceptions to it are contained in the Code of Criminal Procedure itself, that is, in the contents of the succeeding Section 178. The Code of Criminal Procedure also contains an explication of "complaint" as any allegation to a Magistrate with a view to his taking action in respect of the commission of an offence; not being a police report. Prosecution ensues from a Complaint or police report for the purpose of determining the culpability of a person accused of the commission of a crime; and unlike a civil action or suit is carried out (or 'prosecuted') by the State or its nominated agency. The principal definition of "prosecution" imparted by Black's Law Dictionary 5th Edition is "a criminal action; the proceeding instituted and carried on by due process of law, before a competent Tribunal, for the purpose of determining the guilt or innocence of a person
charged with crime." These reflections are necessary because Section 142(b) of the NI Act contains the words, "the cause of action arises under the proviso to Section 138", resulting arguably, but in our opinion irrelevantly, to the blind borrowing of essentially civil law attributes onto criminal proceedings. We reiterate that Section 178 admits of no debate that in criminal prosecution, the concept of "cause of action", being the bundle of facts required to be proved in a suit and accordingly also being relevant for the place of suing, is not pertinent or germane for determining territorial jurisdiction of criminal Trials. Section 178, Code of Criminal Procedure explicitly states that every offence shall ordinarily be inquired into and tried by a Court within whose local jurisdiction it was committed. Section 179 is of similar tenor. We are also unable to locate any provision of the NI Act which indicates or enumerates the extraordinary circumstances which would justify a departure from the stipulation that the place where the offence is committed is where the prosecution has to be conducted. In fact, since cognizance of the offence is subject to the five Bhaskaran components or concomitants the concatenation of which ripens the already committed offence Under Section 138 NI Act into a prosecutable offence, the employment of the phrase "cause of action" in Section 142 of the NI Act is apposite for taking cognizance, but inappropriate and irrelevant for determining commission of the subject offence. There are myriad examples of the commission of a crime the prosecution of which is dependent on extraneous contingencies such as obtainment of sanction for prosecution Under Section 19 of the Prevention of Corruption Act 1988. Similar situation is statutorily created by Section 19 of the Environmental Protection Act 1986, Section 11 of the Central Sales Tax Act 1956, Section 279of the Income Tax Act, Sections 132 and 308, Code of Criminal Procedure, Section 137 of the Customs Act etc. It would be idle to contend that the offence comes into existence only on the grant of permission for prosecution, or that this permission constitutes an integral part of the offence itself. It would also be futile to argue that the place where the permission is granted would provide the venue for the trial. If sanction is not granted the offence does not vanish. Equally, if sanction is granted from a place other than where the crime is committed, it is the latter which will remain the place for its prosecution.

SECTION 138 NI ACT

15. The marginal note of Section 138 of the NI Act explicitly defines the offence as being the dishonor of cheques for insufficiency, etc., of funds in the account. Of course, the headings, captions or opening words of a piece of legislation are normally not strictly or comprehensively determinative of the sweep of the actual Section itself, but it does presage its intendment. See: Frick India Ltd. v. Union of India: (1990) 1 SCC 400 and Forage and Co. v. Municipal Corporation of Greater Bombay (1999) 8 SCC 577. Accordingly, unless the provisions of the Section clearly point to the contrary, the offence is concerned with the dishonour of a cheque; and in the conundrum before us the body of this provision speaks in the same timbre since it refers to a cheque being "returned by the bank unpaid". None of the provisions of the Indian Penal Code have been rendered nugatory by Section 138 of the NI Act and both operate on their own. It is trite that mens rea is the quintessential of every crime. The objective of Parliament was to strengthen the use of cheques, distinct from other negotiable instruments, as mercantile tender and therefore it
became essential for the Section 138 NI Act offence to be freed from the requirement of proving mens rea. This has been achieved by deeming the commission of an offence de hors mens rea not only Under Section 138 but also by virtue of the succeeding two Sections. Section 139 carves out the presumption that the holder of a cheque has received it for the discharge of any liability. Section140 clarifies that it will not be available as a defence to the drawer that he had no reason to believe, when he issued the cheque, that it would be dishonoured. Section 138 unequivocally states that the offence is committed no sooner the drawee bank returns the cheque unpaid.

16. Section 138 NI Act is structured in two parts - the primary and the provisory. It must be kept in mind that the Legislature does not ordain with one hand and immediately negate it with the other. The proviso often carves out a minor detraction or diminution of the main provision of which it is an appendix or addendum or auxiliary. Black Law Dictionary states in the context of a proviso that it is - "a limitation or exception to a grant made or authority conferred, the effect of which is to declare that the one shall not operate, or the other be exercised, unless in the case provided. .... A clause or part of a clause in a statute, the office of which is either to except something from the enacting clause, or to qualify or restrain its generality, or to exclude some possible ground of misinterpretation of its extent." It should also be kept in perspective that a proviso or a condition is synonymous. In our perception in the case in hand the contents of the proviso place conditions on the operation of the main provision, while it does form a constituent of the crime itself, it modulates or regulates the crime in circumstances where, unless its provisions are complied with, the already committed crime remains impervious to prosecution. The proviso to Section 138 of the NI Act features three factors which are additionally required for prosecution to be successful. In this aspect Section 142 correctly employs the term "cause of action" as compliance with the three factors contained in the proviso are essential for the cognizance of the offence, even though they are not part of the action constituting the crime. To this extent we respectfully concur with Bhaskaran in that the concatenation of all these concomitants, constituents or ingredients of Section 138 NI Act, is essential for the successful initiation or launch of the prosecution. We, however, are of the view that so far as the offence itself the proviso has no role to play. Accordingly a reading of Section 138 NI Act in conjunction with Section 177, Code of Criminal Procedure leaves no manner of doubt that the return of the cheque by the drawee bank alone constitutes the commission of the offence and indicates the place where the offence is committed.

17. In this analysis we hold that the place, situs or venue of judicial inquiry and trial of the offence must logically be restricted to where the drawee bank, is located. The law should not be warped for commercial exigencies. As it is Section 138 of the NI Act has introduced a deeming fiction of culpability, even though, Section 420 is still available in case the payee finds it advantageous or convenient to proceed under that provision. An interpretation should not be imparted to Section 138 which will render it as a device of harassment i.e. by sending notices from a place which has no casual connection with the transaction itself, and/or by presenting the cheque(s) at any of the banks where the payee may have an account. In our discernment, it is also now manifest that traders and
businessmen have become reckless and incautious in extending credit where they would heretofore have been extremely hesitant, solely because of the availability of redress by way of criminal proceedings. It is always open to the creditor to insist that the cheques in question be made payable at a place of the creditor's convenience. Today's reality is that the every Magistracy is inundated with prosecutions Under Section 138 NI Act, so much so that the burden is becoming unbearable and detrimental to the disposal of other equally pressing litigation. We think that Courts are not required to twist the law to give relief to incautious or impetuous persons; beyond Section 138 of the NI Act.

18. We feel compelled to reiterate our empathy with a payee who has been duped or deluded by a swindler into accepting a cheque as consideration for delivery of any of his property; or because of the receipt of a cheque has induced the payee to omit to do anything resulting in some damage to the payee. The relief introduced by Section 138 of the NI Act is in addition to the contemplations in the Indian Penal Code. It is still open to such a payee recipient of a dishonored cheque to lodge a First Information Report with the Police or file a Complaint directly before the concerned Magistrate. If the payee succeeds in establishing that the inducement for accepting a cheque which subsequently bounced had occurred where he resides or ordinarily transacts business, he will not have to suffer the travails of journeying to the place where the cheque has been dishonored. All remedies under the Indian Penal Code and Code of Criminal Procedure are available to such a payee if he chooses to pursue this course of action, rather than a Complaint Under Section 138 of the NI Act. And of course, he can always file a suit for recovery wherever the cause of action arises dependent on his choosing.

19. The interpretation of Section 138 of the NI Act which commends itself to us is that the offence contemplated therein stands committed on the dishonor of the cheque, and accordingly the JMFC at the place where this occurs is ordinarily where the Complaint must be filed, entertained and tried. The cognizance of the crime by the JMFC at that place however, can be taken only when the concomitants or constituents contemplated by the Section concatenate with each other. We clarify that the place of the issuance or delivery of the statutory notice or where the Complainant chooses to present the cheque for encashment by his bank are not relevant for purposes of territorial jurisdiction of the Complaints even though non-compliance thereof will inexorably lead to the dismissal of the complaint. It cannot be contested that considerable confusion prevails on the interpretation of Section 138 in particular and Chapter XVII in general of the NI Act. The vindication of this view is duly manifested by the decisions and conclusion arrived at by the High Courts even in the few cases that we shall decide by this Judgment. We clarify that the Complainant is statutorily bound to comply with Section 177 etc. of the Code of Criminal Procedure and therefore the place or situs where the Section 138 Complaint is to be filed is not of his choosing. The territorial jurisdiction is restricted to the Court within whose local jurisdiction the offence was committed, which in the present context is where the cheque is dishonored by the bank on which it is drawn.

20. We are quite alive to the magnitude of the impact that the present decision shall have to possibly lakhs of cases pending in various Courts spanning across the country. One
approach could be to declare that this judgment will have only prospective pertinence, i.e. applicability to Complaints that may be filed after this pronouncement. However, keeping in perspective the hardship that this will continue to bear on alleged accused/Respondents who may have to travel long distances in conducting their defence, and also mindful of the legal implications of proceedings being permitted to continue in a Court devoid of jurisdiction, this recourse in entirety does not commend itself to us. Consequent on considerable consideration we think it expedient to direct that only those cases where, post the summoning and appearance of the alleged Accused, the recording of evidence has commenced as envisaged in Section 145(2) of the Negotiable Instruments Act, 1881, will proceeding continue at that place. To clarify, regardless of whether evidence has been led before the Magistrate at the pre-summoning stage, either by affidavit or by oral statement, the Complaint will be maintainable only at the place where the cheque stands dishonored. To obviate and eradicate any legal complications, the category of Complaint cases where proceedings have gone to the stage of Section 145(2) or beyond shall be deemed to have been transferred by us from the Court ordinarily possessing territorial jurisdiction, as now clarified, to the Court where it is presently pending. All other Complaints (obviously including those where the accused/Respondent has not been properly served) shall be returned to the Complainant for filing in the proper Court, in consonance with our exposition of the law. If such Complaints are filed/ refiled within thirty days of their return, they shall be deemed to have been filed within the time prescribed by law, unless the initial or prior filing was itself time barred.

DISPOSAL of PRESENT APPEALS

Crl. Appeal No. 2287 of 2009
21. A learned Single Judge of the High Court of Judicature at Bombay, Nagpur Bench has, pursuant to a threathbare discussion of Bhaskaran concluded that since the concerned cheque was drawn on the Bank of India, Bhandara Branch, Maharashtra where it was dishonored, the Judicial Magistrate First Class, Digras, District Yavatmal had no jurisdiction to entertain the Complaint. It is pertinent to note that the subject cheque was presented at Digras, District Yavatmal where the Complainant had a bank account although he was a resident of District Washim, Maharashtra The learned Single Judge, in the impugned judgment, had rightly rejected the argument that the Complaint itself should be dismissed; instead he ordered that it be returned to the complainant for filing in the appropriate Court. The Appeal is accordingly dismissed.

Crl. Appeal No. 1593 of 2014 [Arising out of S.L.P.(Crl.) No. 2077 of 2009
22. In this Appeal the Respondent-accused, having purchased electronic items from the Appellant-company, issued the cheque in question drawn on UCO Bank, Tangi, Orissa which was presented by the Complainant-company at State Bank of India, Ahmednagar Branch, Maharashtra as its branch office was located at Ahmednagar. The cheque was dishonoured by UCO Bank, Tangi, Orissa. A Complaint was filed before JMFC, Ahmednagar. An application was filed by the Respondent-accused Under Section 177 Code of Criminal Procedure questioning the jurisdiction of the JMFC Ahmednagar, who held that since the demand notice was issued from and the payment was claimed at Ahmednagar, he
possessed jurisdiction to try the Complaint. The High Court disagreed with the conclusion of the JMFC, Ahmednagar that the receipt of notice and nonpayment of the demanded amount are factors which will have prominence over the place wherefrom the notice of demand was issued and held that JMFC, Ahmednagar did not have the territorial jurisdiction to entertain the Complaint. In view of the foregoing discussion on the issue above, the place where the concerned cheque had been dishonoured, which in the case in hand was Tangi, Orissa, the Appeal is allowed with the direction that the Complaint be returned to the Complainant for further action in accordance with law.


23. The facts being identical to Criminal Appeal arising out of S.L.P.(Crl.) No. 2077 of 2009, these Appeals stand dismissed.

Crl. Appeal Nos. 1596-1600 of 2014 [Arising out of S.L.P.(Crl.) Nos. 1308-1312 of 2009]

24. The Appellant-complainant herein has its Registered Office in Delhi from where the Respondents-accused are also carrying on their business. The cheques in question were issued by the Respondent No. 2-accused drawn on Indian Overseas Bank, Connaught Place, New Delhi. However, the same were presented and dishonored at Nagpur, Maharashtra where the Complainant states it also has an office. There is no clarification why the cheques had not been presented in Delhi where the Complainant had its Registered Office, a choice which we think is capricious and perfidious, intended to cause harassment. Upon cheques having been dishonored by the concerned bank at Delhi, five Complaints were filed before Judicial Magistrate First Class, Nagpur who heard the Complaints, and also recorded the evidence led by both the parties. However, the JMFC, Nagpur acquitted the Respondent No. 2-accused on the ground of not having territorial jurisdiction. On appeals being filed before the High Court of Bombay, the judgment of the JMFC, Nagpur was partly set aside so far as the acquittal of the Respondent No. 2-accused was concerned and it was ordered that the Complaints be returned for filing before the proper Court. In view of the conclusion arrived at by us above, these Appeals are also dismissed.

Crl. Appeal No. 1604 of 2014 [Arising out of S.L.P.(Crl.) No. 59 of 2013]

25. The cheque in question was drawn by the Respondent-accused on State Bank of Travancore, Delhi. However, it was presented by the Appellant-complainant at Aurangabad. A Complaint was filed before JMFC, Aurangabad who issued process. Respondent-accused filed an application Under Section 203 of Code of Criminal Procedure seeking dismissal of the Complaint. The application was dismissed on the predication that once process had been initiated, the Complaint could not be dismissed. On a writ petition being filed before the High Court of Bombay, Aurangabad Bench, the order of issuance of process was set aside and the Complaint was ordered to be returned for being presented before a competent court having jurisdiction to entertain the same. The High Court had correctly noted that the objection pertained to the territorial jurisdiction of the JMFC, Aurangabad, a feature which had not been comprehensively grasped by the latter. The High Court noted that the Registered Office of the Complainant was at Chitegaon, Tehsil Paithan, District Aurangabad whereas the Accused was transacting business from Delhi. The High Court pithily underscored that in paragraph 4 of the Complaint it had been
specifically contended that credit facility was given to the Accused in Delhi, where the Complainant-company also had its branch office. The statutory notice had also emanated from Aurangabad, and it had been demanded that payment should be made in that city within the specified time. It was also the Complainant's case that the Invoice, in case of disputes, restricted jurisdiction to Aurangabad courts; that intimation of the bouncing of the cheques was received at Aurangabad. It is however necessary to underscore that the Accused had clarified that the subject transaction took place at Delhi where the goods were supplied and the offending cheque was handed over to the Complainant. It appears that a Civil Suit in respect of the recovery of the cheque amount has already been filed in Delhi. We may immediately reiterate that the principles pertaining to the cause of action as perceived in civil law are not relevant in criminal prosecution. Whilst the clause restricting jurisdiction to courts at Aurangabad may have efficacy for civil proceedings, provided any part of the cause of action had arisen in Aurangabad, it has no bearing on the situs in criminal prosecutions. Since a Civil Suit is pending, we hasten to clarify that we are not expressing any opinion on the question of whether the courts at Delhi enjoy jurisdiction to try the Suit for recovery. In the impugned judgment, the High Court duly noted Bhaskaran and Harman. However, it committed an error in analyzing the cause of action as well as the covenant restricting jurisdiction to Aurangabad as these are relevant only for civil disputes. However, the impugned judgment is beyond interference inasmuch as it concludes that the JMFC, Aurangabad has no jurisdiction over the offence described in the Complaint. The Appeal is accordingly dismissed.

T.S. Thakur, J.

26. I have had the advantage of going through the draft order proposed by my esteemed brother Vikramajit Sen, J. I entirely agree with the conclusions which my erudite brother has drawn based on a remarkably articulate process of reasoning that illumines the draft judgment authored by him. I would all the same like to add a few lines of my own not because the order as proposed leaves any rough edges to be ironed out but only because the question of law that arises for determination is not only substantial but of considerable interest and importance for the commercial world. The fact that the view being taken by us strikes a discordant note on certain aspects which have for long been considered settled by earlier decisions of this Court being only an additional reason for the modest addition that I propose to make of these decisions Bhaskaran's case stands out as the earliest in which this Court examined the vexed question of territorial jurisdiction of the Courts to try offences punishable Under Section 138 of the Negotiable Instruments Act, 1881(hereinafter called "NI Act"). Bhaskaran's case was heard by a two-judge Bench of this Court who took the view that the jurisdiction to try an offence Under Section 138 could not be determined only by reference to the place where the cheque was dishonoured. That is because dishonour of the cheque was not by itself an offence Under Section 138 of The Negotiable Instruments Act, 1881, observed the Court. The offence is complete only when the drawer fails to pay the cheque amount within the period of fifteen days stipulated Under Clause (c) of the proviso to Section 138 of the Act. Having said that the Court recognised the difficulty in fixing a place where such failure could be said to have taken place. It could, said the Court,
be the place where the drawer resides or the place where the payee resides or the place where either of them carries on business. To resolve this uncertainty the Court turned to Sections 178 and 179 of the Code of Criminal Procedure to hold that since an offence Under Section 138 can be completed only with the concatenation of five acts that constituted the components of the offence any Court within whose jurisdiction any one of those acts was committed would have the jurisdiction to try the offence. The Court held:

The offence Under Section 138 of the Act can be completed only with the concatenation of a number of acts. The following are the acts which are components of the said offence: (1) drawing of the cheque, (2) presentation of the cheque to the bank, (3) returning the cheque unpaid by the drawee bank, (4) giving notice in writing to the drawer of the cheque demanding payment of the cheque amount, (5) failure of the drawer to make payment within 15 days of the receipt of the notice.

It is not necessary that all the above five acts should have been perpetrated at the same locality. It is possible that each of those five acts could be done at five different localities. But a concatenation of all the above five is a sine qua non for the completion of the offence Under Section 138 of the Code. In this context a reference to Section 178(d) of the Code is useful. It is extracted below:

178. (a)-(c) (d) where the offence consists of several acts done in different local areas, it may be enquired into or tried by a court having jurisdiction over any of such local areas.

Thus it is clear, if the five different acts were done in five different localities any one of the courts exercising jurisdiction in one of the five local areas can become the place of trial for the offence Under Section 138 of the Act. In other words, the complainant can choose any one of those courts having jurisdiction over any one of the local areas within the territorial limits of which any one of those five acts was done. As the amplitude stands so widened and so expansive it is an idle exercise to raise jurisdictional question regarding the offence Under Section 138 of the Act.

27. Bhaskaran held the field for two years. The first blow to the view taken by this Court in Bhaskaran's case was dealt by a three-Judge Bench decision in Ishar case. The question that arose in that case was whether the limitation of six months for presentation of a cheque for encashment was applicable viz-a-viz presentation to the bank of the payee or that of the drawer. High Courts in this country had expressed conflicting opinions on the subject. This Court resolved the cleavage in those pronouncements by holding that the cheque ought to be presented to the drawee bank for its dishonor to provide a basis for prosecution Under Section 138. The Court observed:

The use of the words "a bank" and "the bank" in the section are an indicator of the intention of the legislature. "The bank" referred to in proviso (a) to the proviso to Section 138 of the Act would mean the drawee bank on which the cheque is drawn and not all banks where the cheque is presented for collection including the bank of the payee, in whose favour the cheque is issued.

It, however, does not mean that the cheque is always to be presented to the drawer's bank on which the cheque is issued. However, a combined reading of Sections 3, 72 and 138 of the Act would clearly show that the law mandates the cheque to be presented at the bank on which it is drawn if the drawer is to be held criminally
liable. Such presentation is necessarily to be made within six months at the bank on which the cheque is drawn, whether presented personally or through another bank, namely, the collecting bank of the payee.

28. Ishar Alloy's case (supra) did not deal with the question of jurisdiction of the Courts nor was Bhaskara noticed by the Court while holding that the presentation of the cheque ought to be within six months to the drawee bank. But that does not, in our view, materially affect the logic underlying the pronouncement, which pronouncement coming as it is from a bench of coordinate jurisdiction binds us. When logically extended to the question of jurisdiction of the Court to take cognizance, we find it difficult to appreciate how a payee of the cheque can by presentation of the cheque to his own bank confer jurisdiction upon the Court where such bank is situate. If presentation referred to in Section 138 means presentation to the "drawee bank", there is no gainsaying that dishonor would be localized and confined to the place where such bank is situated. The question is not whether or not the payee can deposit his cheque in any bank of his choice at any place. The question is whether by such deposit can the payee confer jurisdiction on a Court of his choice? Our answer is in the negative. The payee may and indeed can present the cheque to any bank for collection from the drawee bank, but such presentation will be valid only if the drawee bank receives the cheque for payment within the period of six months from the date of issue. Dishonor of the cheque would be localized at the place where the drawee bank is situated. Presentation of the cheque at any place, we have no manner of doubt, cannot confer jurisdiction upon the Court within whose territorial limits such presentation may have taken place.

29. Then came Harman Electronics case which was a case where the complaint Under Section 138 was filed in a Delhi Court, only because the statutory notice required to be issued under the proviso to Section 138 was issued from Delhi. If Bhaskaran was correctly decided, Harman should not have interfered with the exercise of jurisdiction by the Delhi Court for issue of a notice was in terms of Bhaskaran, one of the factors that clothed the Court in Delhi to take cognizance and try the case. Harman did not do so. In Harman's case this Court, emphasized three distinct aspects. Firstly, it said that there was a world of difference between issue of a notice, on the one hand, and receipt, thereof, on the other. Issue of notice did not give rise to a cause of action while receipt did, declared the Court.

30. Secondly, the Court held that the main provision of Section 138 stated what would constitute an offence. The proviso appended thereto simply imposed certain further conditions which must be fulfilled for taking cognizance of the offence. The following passage deals with both these aspects:

It is one thing to say that sending of a notice is one of the ingredients for maintaining the complaint but it is another thing to say that dishonor of a cheque by itself constitutes an offence. For the purpose of proving its case that the accused had committed an offence Under Section 138 of the Negotiable Instruments Act, the ingredients thereof are required to be proved. What would constitute an offence is stated in the main provision. The proviso appended thereto, however, imposes certain further conditions which are required to be
fulfilled before cognizance of the offence can be taken. If the ingredients for constitution of the offence laid down in provisos (a), (b) and (c) appended to Section 138 of the Negotiable Instruments Act are intended to be applied in favour of the accused, there cannot be any doubt that receipt of a notice would ultimately give rise to the cause of action for filing a complaint. As it is only on receipt of the notice that the accused at his own peril may refuse to pay the amount. Clauses (b) and (c) of the proviso to Section 138 therefore must be read together. Issuance of notice would not by itself give rise to a cause of action but communication of the notice would.

31. Thirdly, the Court held that if presentation of the cheque or issue of notice was to constitute a good reason for vesting courts with jurisdiction to try offences Under Section 138, it would lead to harassment of the drawer of the cheques thereby calling for the need to strike a balance between the rights of the parties to the transaction. The Court said: We cannot, as things stand today, be oblivious of the fact that a banking institution holding several cheques signed by the same borrower can not only present the cheque for its encashment at four different places but also may serve notices from four different places so as to enable it to file four complaint cases at four different places. This only causes grave harassment to the accused. It is, therefore, necessary in a case of this nature to strike a balance between the right of the complainant and the right of an accused vis-à-vis the provisions of the Code of Criminal Procedure.

32. Bhaskaran was, in the wake of the above, considerably diluted and the logic behind vesting of jurisdiction based on the place from where the notice was issued questioned. Even presentation of the cheque as a reason for assumption of jurisdiction to take cognizance was doubted for a unilateral act of the complainant/payee of the cheque could without any further or supporting reason confer jurisdiction on a Court within whose territorial limits nothing except the presentation of the cheque had happened.

33. Three recent decisions need be mentioned at this stage which have followed Bhaskaran and attempted to reconcile the ratio of that case with the subsequent decisions in Ishar Alloy Steels and Harman Electronics. In Nishant Aggarwal v. Kailash Kumar Sharma (2013) 10 SCC 72 this Court was once again dealing with a case where the complaint had been filed in Court at Bhiwani in Haryana within whose territorial jurisdiction the complainant had presented the cheque for encashment, although the cheque was drawn on a bank at Gauhati in Assam. Relying upon the view taken in Bhaskaran this Court held that the Bhiwani Court had jurisdiction to deal with the matter. While saying so, the Court tried to distinguish the three-Judge Bench decision in Ishar Alloy Steels (supra) and that rendered in Harman Electronics case (supra) to hold that the ratio of those decisions did not dilute the principle stated in Bhaskaran case. That exercise was repeated by this Court in FIL Industries Ltd. v. Imtiyaz Ahmad Bhat (2014) 2 SCC 266 and in Escorts Ltd. v. Rama Mukherjee (2014) 2 SCC 255 which too followed Bhaskaran and held that complaint Under Section 138 Negotiable Instrument Act could be instituted at any one of the five places referred to in Bhaskaran's case.
34. We have, with utmost respect to the Judges comprising the Bench that heard the above cases, found it difficult to follow suit and subscribe to the view stated in Bhaskaran. The reasons are not far too seek and may be stated right away.

35. Section 138 is a penal provision that prescribes imprisonment upto two years and fine upto twice the cheque amount. It must, therefore, be interpreted strictly, for it is one of the accepted rules of interpretation that in a penal statute, the Courts would hesitate to ascribe a meaning, broader than what the phrase would ordinarily bear. Section 138 is in two parts. The enacting part of the provision makes it abundantly clear that what constitutes an offence punishable with imprisonment and/or fine is the dishonor of a cheque for insufficiency of funds etc. in the account maintained by the drawer with a bank for discharge of a debt or other liability whether in full or part. The language used in the provision is unambiguous and the ingredients of the offence clearly discernible viz. (a) Cheque is drawn by the accused on an account maintained by him with a banker. (b) The cheque amount is in discharge of a debt or liability and (c) The cheque is returned unpaid for insufficiency of funds or that the amount exceeds the arrangement made with the bank. But for the proviso that comprises the second part of the provision, any dishonour falling within the four corners of the enacting provision would be punishable without much ado. The proviso, however, draws an exception to the generality of the enacting part of the provision, by stipulating two steps that ought to be taken by the complainant holder of the cheque before the failure of the drawer gives to the former the cause of action to file a complaint and the competent Court to take cognizance of the offence. These steps are distinct from the ingredients of the offence which the enacting provision creates and makes punishable. It follows that an offence within the contemplation of Section 138 is complete with the dishonor of the cheque but taking cognizance of the same by any Court is forbidden so long as the complainant does not have the cause of action to file a complaint in terms of Clause (c) of the proviso read with Section 142 which runs as under:

Section 142: Cognizance of offences.--Notwithstanding anything contained in the Code of Criminal Procedure, 1973 (2 of 1974)--

(a) no court shall take cognizance of any offence punishable Under Section 138 except upon a complaint, in writing, made by the payee or, as the case may be, the holder in due course of the cheque;

(b) such complaint is made within one month of the date on which the cause of action arises Under Clause (c) of the proviso to Section 138: [Provided that the cognizance of a complaint may be taken by the Court after the prescribed period, if the complainant satisfies the Court that he had sufficient cause for not making a complaint within such period.]

(c) no court inferior to that of a Metropolitan Magistrate or a Judicial Magistrate of the first class shall try any offence punishable Under Section 138.

36. The following would constitute 'cause of action' referred to in sub Clause (b) above:

(a) The complainant has presented the cheque for payment within the period of six months from the date of the issue thereof.
(b) The complainant has demanded the payment of the cheque amount from the drawer by issuing a written notice within thirty days of receipt of information by him from the bank regarding the dishonour.

(c) The drawer has failed to pay the cheque amount within fifteen days of the receipt of the notice.

37. A proper understanding of the scheme underlying the provision would thus make it abundantly clear that while the offence is complete upon dishonor, prosecution for such offence is deferred till the time the cause of action for such prosecution accrues to the complainant. The proviso in that sense, simply postpones the actual prosecution of the offender till such time he fails to pay the amount within the statutory period prescribed for such payment. There is, in our opinion, a plausible reason why this was done. The Parliament in its wisdom considered it just and proper to give to the drawer of a dishonored cheque an opportunity to pay up the amount, before permitting his prosecution no matter the offence is complete, the moment the cheque was dishonored. The law has to that extent granted a concession and prescribed a scheme under which dishonor need not necessarily lead to penal consequence if the drawer makes amends by making payment within the time stipulated once the dishonor is notified to him. Payment of the cheque amount within the stipulated period will in such cases diffuse the element of criminality that Section 138 attributes to dishonor by way of a legal fiction implicit in the use of the words "shall be deemed to have committed an offence". The drawer would by such payment stand absolved by the penal consequences of dishonor. This scheme may be unique to Section 138 NI Act, but there is hardly any doubt that the Parliament is competent to legislate so to provide for situations where a cheque is dishonored even without any criminal intention on the part of the drawer.

38. The scheme of Section 138 thus not only saves the honest drawer but gives a chance to even the dishonest ones to make amends and escape prosecution. Compliance with the provision is, in that view, a mandatory requirement. (See C.C. Alavi Haji v. Palapetty Muhammed and Anr. (2007) 6 SCC 555).

39. Harman in that view correctly held that "what would constitute an offence is stated in the main provision. The proviso appended thereto however imposes certain further conditions which are required to be fulfilled before cognizance of the offence can be taken." If the Parliament intended to make the conditions stipulated in the proviso, also as ingredients of the offence, the provision would have read differently. It would then have specifically added the words "and the drawer has despite receipt of a notice demanding the payment of the amount, failed to pay the same within a period of fifteen days from the date of such demand made in writing by a notice". That, however, is not how the enacting provision of Section 138 reads. The legislature has, it is obvious, made a clear distinction between what would constitute an offence and what would give to the complainant the cause of action to file a complaint for the court competent to take cognizance. That a proviso is an exception to the general rule is well settled. A proviso is added to an enactment to qualify or create an exception to what is contained in the enactment. It does
not by itself state a general rule. It simply qualifies the generality of the main enactment, a portion which but for the proviso would fall within the main enactment.

40. The P. Ramanatha Aiyar, Law Lexicon, 2nd Edition, Wadhwa & Company at page 1552 defines proviso as follows:

The word "proviso" is used frequently to denote the clause the first words of which are "provided that" inserted in deeds and instruments generally. And containing a condition or stipulation on the performance or non-performance of which, as the case maybe. The effect of a proceeding clause or of the deed depends.

A Clause inserted in a legal or formal document, making some condition, stipulation, exception or limitation or upon the observance of which the operation or validity of the instrument depends [Section 105, Indian Evidence Act]. A proviso is generally intended to restrain the enacting clause and to except something which would have otherwise been within it or in some measure to modify the enacting clause....

41. To quote "Craies on Statute Law", 7th Edn., Sweet & Maxwell at page 220 "If the principal object of the Act can be accomplished and stand under the restriction of the saving clause or proviso, the same is not to be held void for repugnancy."

42. One of the earliest judgments on the subject is a three Judge Bench decision in Kedarnath Jute Manufacturing Co. v. Commercial Tax Officer, Calcutta and Ors. AIR 1966 SC 12. The Court was in that case examining the effect of a proviso which imposed a condition on getting exemption from tax and observed:

...The substantive clause gives the exemption and the proviso qualifies the substantive clause. In effect the proviso says that part of the turnover of the selling dealer covered by the terms of Sub-clause (ii) will be exempted provided a declaration in the from prescribed is furnished. To put it in other words, a dealer cannot get the exemption unless he furnishes the declaration in the prescribed form. It is well settled that "the effect of an excepting or qualifying proviso, according to the ordinary rules of construction, is to except out of the preceding portion of the enactment, or to qualify something enacted therein, which but for the proviso would be within it": see "Craies on Statute Law", 6th Edn., p. 217.

43. Also pertinent is a four-Judge Bench decision of this Court in Dwarka Prasad v. Dwarka Das Saraf MANU/SC/0505/1975: (1976) 1 SCC 128 where this Court was examining whether a cinema theatre equipped with projectors and other fittings ready to be launched as entertainment house was covered under the definition of 'accommodation' as defined in Section 2(1)(d) of Uttar Pradesh (Temporary) Control of Rent and Eviction Act, 1947. The proviso provided for some exception for factories and business carried in a building. It was held that sometimes draftsmen include proviso by way of over caution to remove any doubts and accommodation would include this cinema hall:

18. A proviso must be limited to the subject-matter of the enacting clause. It is a settled rule of construction that a proviso must prima facie be read and considered in relation to the principal matter to which it is a proviso. It is not a separate or
independent enactment. 'Words are dependent on the principal enacting words, to which they are tacked as a proviso. They cannot be read as divorced from their context' 1912 A.C. 544. If the rule of construction is that prima facie a proviso should be limited in its operation to the subject-matter of the enacting clause, the stand we have taken is sound. To expand the enacting clause, inflated by the proviso, sins against the fundamental rule of construction that a proviso must be considered in relation to the principal matter to which it stands as a proviso. A proviso ordinarily is but a proviso, although the golden rule is to read the whole section, inclusive of the proviso, in such manner that they mutually throw light on each other and result in a harmonious construction.

The proper course is to apply the broad general rule of construction which is that a section or enactment must be construed as a whole, each portion throwing light if need be on the rest.

The true principle undoubtedly is, that the sound interpretation and meaning of the statute, on a view of the enacting clause, saving clause, and proviso, taken and construed together is to prevail. (Maxwell on Interpretation of Statutes, 10th Edn. p. 162)

(Emphasis supplied)


The normal function of a proviso is to except something out of the main enacting part or to qualify something enacted therein which but for the proviso would be within the purview of the enactment. Proviso to Rule 74(1) is added to qualify or create an exception.

45. Reference may also be made to Tribhovandas Haribhai Tamboli v. Gujarat Revenue Tribunal and Ors. MANU/SC/0355/1991: (1991) 3 SCC 442 wherein this Court clearly held that when the language of the main enactment is clear, the proviso can have no effect on the interpretation of the main clause.

7. It is a cardinal rule of interpretation that a proviso to a particular provision of a statute only embraces the field, which is covered by the main provision. It carves out an exception to the main provision to which it has been enacted by the proviso and to no other. The proper function of a proviso is to except and deal with a case which would otherwise fall within the general language of the main enactment, and its effect is to confine to that case. Where the language of the main enactment is explicit and unambiguous, the proviso can have no repercussion on the interpretation of the main enactment, so as to exclude from it, by implication what clearly falls within its express terms. The scope of the proviso, therefore, is to carve out an exception to the main enactment and it excludes something which otherwise would have been within the rule. It has to operate in the same field and if the language of the main enactment is clear, the proviso cannot be torn apart from the main enactment nor can it be used to nullify by implication what the enactment clearly says nor set at naught the real
46. The same line of reasoning was followed in *A.N. Sehgal and Ors. v. Raje Ram Sheoram and Ors.* 1992 Supp (1) SCC 304 while interpreting a proviso in the Haryana Service of Engineers Rules, 1960 where the Court held that the proviso to Rule 5(2)(a) cannot be applied to confer the benefit of regular appointment on every promotee appointed in excess of 50% quota. This Court harmoniously read the main provision and the proviso and gave effect to the rule.

47. In *Kerala State Housing Board and Ors. v. Ramapriya Hotels (P) Ltd. and Ors.* 1994 (5) SCC 672 this Court was examining whether the period of 4 years envisaged in proviso to Section 16(i) under Kerala Land Acquisition Act, 1961 could be reckoned from date when agreement was executed or from date of publication of notification Under Section 3(1) of the Act after the agreement was executed. After relying on Tribhovandas Haribhai Tamboli (supra) and A.N. Sehgal (supra) this Court held that the proviso should be harmoniously read with the section. To quote Tribhovandas (supra) as followed in this judgment:

> In *Tribhovandas Haribhai Tamboli v. Gujarat Revenue Tribunal* this Court held that the proper function of a proviso is to except and deal with a case which would otherwise fall within the general language of the main enactment and its effect is to be confined to that case. Where the language of the main enactment is explicit and unambiguous, the proviso can have no repercussion on the interpretation of the main enactment, so as to exclude from it, by implication what clearly falls within its express terms. The scope of the proviso, therefore, is to carve out an exception to the main enactment and it excludes something which otherwise would have been within the rule. It has to operate in the same field and if the language of the main enactment is clear, the proviso cannot be torn apart from the main enactment nor can it be used to nullify by implication what the enactment clearly says, nor set at naught the real object of the main enactment, unless the words of the proviso are such that it is its necessary effect. In that case it was held that by reading the proviso consistent with the provisions of Section 88 of the Bombay Tenancy and Agricultural Act, the object of the main provision was sustained.

(Emphasis supplied)

48. In *Kush Sahgal and Ors. v. M.C. Mitter and Ors.* (2000) 4 SCC 526 a landlady made an application for eviction of the tenant on the basis that she wanted the place for business purposes which was not allowed as per the proviso to Section 21(2) U.P. Urban Buildings (Regulation of Letting, Rent and Eviction) Act, 1972. The Court examined the role and purport of the proviso and observed:

This we say because the normal function of a proviso is to except something out of the enactment or to qualify something enacted therein which but for the proviso would be within the purview of the enactment. (See: *Kedarnath Jute Manufacturing Co. Ltd. v. Commercial Tax Office* [1965] 3 SCR 626). Since the natural presumption is that but for the proviso, the enacting part of the section would have included the subject-matter of the
proviso, the enacting part has to be given such a construction which would make the exceptions carved out by the proviso necessary and a construction which would make the exceptions unnecessary and redundant should be avoided (See: Justice G.P. Singh’s "Principles of Statutory Interpretation" Seventh Edition 1999, p-163). This principle has been deduced from the decision of the Privy Council in Govt. of the Province of Bombay v. Hormusji Manekji: AIR 1947 PC 200) as also the decision of this Court in Durga Dutt Sharma v. Navaratna Pharmaceutical Laboratories: AIR 1965 SC 980.

49. To the same effect are the decisions of this Court in Ali M.K. and Ors. v. State of Kerala and Ors.: (2003) 11 SCC 632, Nagar Palika (supra) and in Steel Authority of India Ltd. v. S.U.T.N.I. Sangam and Ors.: (2009) 16 SCC 1.

50. In conclusion, we may refer to Maxwell, "Interpretation of Statutes" Edn. 12, 1969, on P. 189-190 which states that it is a general finding and practice "that inconsistencies can be avoided by applying the general rule that the words of a proviso are not to be taken "absolutely in their strict literal sense" [R v. Dimbdin(1910)] but that a proviso is "of necessity... limited in its operation to the ambit of the section which it qualifies" [Lloyds and Scottish Finance Ltd. v. Modern Cars and Canavans (Kingston) Ltd. (1966)]. And, so far as that section itself is concerned, the proviso receives a restricted construction: where the section confers powers, "it would be contrary to the ordinary operation of a proviso to give it an effect which would cut down those powers beyond what compliance with the proviso renders necessary." [Re Tabrisky v. Board of Trade (1947)]"

51. Bhaskaran, in our view, reads the proviso as prescribing the ingredients of the offence instead of treating it as an exception to the generality of the enacting part by stipulating further conditions before a competent Court may take cognizance of the same. Seen in the light of the provisions of Section 142 of the Act, the proviso simply defers prosecution of the offender till the conditions prescribed therein are satisfied. Bhaskaran does not view the matter in that perspective while Harman (supra) does. We find ourselves in respectful agreement with the view in Harman's case on this aspect.

52. In Bhaskaran, this Court resolved the confusion as to the place of commission of the offence by relying upon Sections 177 to 179 of the Code of Criminal Procedure. But the confusion arises only if one were to treat the proviso as stipulating the ingredients of the offence. Once it is held that the conditions precedent for taking cognizance are not the ingredients constituting the offence of dishonor of the cheque, there is no room for any such confusion or vagueness about the place where the offence is committed. Applying the general rule recognized Under Section 177 of the Code of Criminal Procedure that all offences are local, the place where the dishonor occurs is the place for commission of the offence vesting the Court exercising territorial jurisdiction over the area with the power to try the offences. Having said that we must hasten to add, that in cases where the offence Under Section 138 is out of the offences committed in a single transaction within the meaning of Section 220(1) of the Code of Criminal Procedure then the offender may be charged with and tried at one trial for every such offence and any such inquiry or trial may
be conducted by any Court competent to enquire into or try any of the offences as provided by Section 184 of the Code. So also, if an offence punishable Under Section 138 of the Act is committed as a part of single transaction with the offence of cheating and dishonestly inducing delivery of property then in terms of Section 182(1) read with Sections 184 and 220 of the Code of Criminal Procedure such offence may be tried either at the place where the inducement took place or where the cheque forming part of the same transaction was dishonored or at the place where the property which the person cheated was dishonestly induced to deliver or at the place where the accused received such property. These provisions make it clear that in the commercial world a party who is cheated and induced to deliver property on the basis of a cheque which is dishonored has the remedy of instituting prosecution not only at the place where the cheque was dishonored which at times may be a place other than the place where the inducement or cheating takes place but also at the place where the offence of cheating was committed. To that extent the provisions of Chapter XIII of the Code will bear relevance and help determine the place where the offences can be tried.

53. We may at this stage refer to two other decisions of this Court which bear some relevance to the question that falls for our determination. In Sadanandan Bhadran v. Madhavan Sunil Kumar : (1998) 6 SCC 514 a two-judge bench of this Court held that Clause (a) of proviso to Section 138 does not disentitle the payee to successively present cheque for payment during the period of its validity. On each such presentation of the cheque and its dishonour a fresh right-and not cause of action - accrues in his favour. He may, therefore, without taking pre-emptory action in exercise of such right Under Clause (b) of Section 138 go on presenting the cheque so long as the cheque is valid for payment. But once he gives a notice Under Clause (b) of Section 138 he forfeits such right for in case of failure of the drawer to pay the money within the stipulated time he would be liable for the offence and the cause of action for prosecution will arise. The correctness of this view was questioned in MSR Leathers v. S. Palaniappan and Anr.: (2013) 1 SCC 177 before a bench comprising of Markandey Katju and B. Sudershan Reddy, J.J. who referred the issue to a larger bench. The larger bench in MSR Leathers's case (supra) overruled Sadanandan Bhadran (supra) holding that there was no reason why a fresh cause of action within the meaning of Section 142(b) read with Section 138 should not be deemed to have arisen to the complainant every time the cheque was presented but dishonored and the drawer of cheque failed to pay the amount within the stipulated period in terms of proviso to 138. This Court said:

In the result, we overrule the decision in Sadanandan Bhadran's case (supra) and hold that prosecution based upon second or successive dishonour of the cheque is also permissible so long as the same satisfies the requirements stipulated in the proviso to Section 138 of the Negotiable Instruments Act. The reference is answered accordingly. The appeals shall now be listed before the regular Bench for hearing and disposal in light of the observations made above.

54. What is important is that in Sadanandan Bhadran (supra) this Court had, on a careful analysis of Section 138, held that an offence is created when a cheque is returned by the
bank unpaid for any reasons mentioned therein, although the proviso to Section 138 stipulates three conditions for the applicability of the section. It is only upon satisfaction of the three conditions that prosecution can be launched for an offence Under Section 138. This Court observed:

On a careful analysis of the above section, it is seen that its main part creates an offence when a cheque is returned by the bank unpaid for any of the reasons mentioned therein. The significant fact, however, is that the proviso lays down three conditions precedent to the applicability of the above section and, for that matter, creation of such offence and the conditions are: (i) the cheque should have been presented to the bank within six months of its issue or within the period of its validity, whichever is earlier; (ii) the payee should have made a demand for payment by registered notice after the cheque is returned unpaid; and (iii) that the drawer should have failed to pay the amount within 15 days of the receipt of the notice. It is only when all the above three conditions are satisfied that a prosecution can be launched for the offence Under Section 138. So far as the first condition is concerned, Clause (a) of the proviso to Section 138 does not put any embargo upon the payee to successively present a dishonoured cheque during the period of its validity. This apart, in the course of business transactions it is not uncommon for a cheque being returned due to insufficient funds or similar such reasons and being presented again by the payee after sometime, on his own volition or at the request of the drawer, in expectation that it would be encashed. Needless to say, the primary interest of the payee is to get his money and not prosecution of the drawer, recourse to which, normally, is taken out of compulsion and not choice. For the above reasons it must be held that a cheque can be presented any number of times during the period of its validity. Indeed that is also the consistent view of all the High Courts except that of the Division Bench of the Kerala High Court in Kumaresan 1 which struck a discordant note with the observation that for the first dishonour of the cheque, only a prosecution can be launched for there cannot be more than one cause of action for prosecution.

(Emphasis supplied)

55. MSR Leathers (supra) also looked at Section 138 and held that a complaint could be filed Under Section 138 after cause of action to do so had accrued in terms of Clause (c) of the proviso to Section 138 which happens no sooner the drawer of the cheque fails to make the payment of the cheque amount to the payee within fifteen days in terms of Clause (b) to proviso to Section 138. MSR Leathers was not so much concerned with the question whether the proviso stipulated ingredients of the offence or conditions precedent for filing a complaint. It was primarily concerned with the question whether the second or successive dishonor followed by statutory notices and failure of the drawer to make payment could be made a basis for launching prosecution against the drawer. That question, as noticed above, was answered in the affirmative holding that successive cause of action could arise if there were successive dishonors followed by statutory notices as required under the law and successive failure of the drawer to make the payment. MSR Leathers cannot, therefore, be taken as an authority for determining whether the proviso stipulates conditions precedent
for launching a prosecution or ingredients of the offence punishable Under Section 138. Sadanandan Bhadran may have been overruled to the extent it held that successive causes of action cannot be made a basis for prosecution, but the distinction between the ingredient of the offence, on the one hand, and conditions precedent for launching prosecution, on the other, drawn in the said judgment has not been faulted. That distinction permeates the pronouncements of this Court in Sadanandan Bhadran and MSR Leathers. High Court of Kerala has, in our view, correctly interpreted Section 138 of the Act in Kairali Marketing and Processing Cooperative Society Ltd. v. Pullengadi Service Cooperative Ltd. : (2007) 1 KLT 287 when it said:

It is evident from the language of Section 138 of the N.I. Act that the drawer is deemed to have committed the offence when a cheque issued by him of the variety contemplated Under Section 138 is dishonoured for the reasons contemplated in the Section. The crucial words are "is returned by the bank unpaid". When that happens, such person shall be deemed to have committed the offence. With the deeming in the body of Section 138, the offence is already committed or deemed to have been committed. A careful reading of the body of Section 138 cannot lead to any other conclusion. Proviso to Section 138 according to me only insists on certain conditions precedent which has to be satisfied if the person who is deemed to have committed the offence were to be prosecuted successfully. The offence is already committed when the cheque is returned by the bank. But the cause of action for prosecution will be available to the complainant not when the offence is committed but only after the conditions precedent enumerated in the proviso are satisfied. After the offence is committed, only if the option given to avoid the prosecution under the proviso is not availed of by the offender, can the aggrieved person get a right or course of action to prosecute the offender. The offence is already deemed and declared but the offender can be prosecuted only when the requirements of the proviso are satisfied. The cause of action for prosecution will arise only when the period stipulated in the proviso elapses without payment. Ingredients of the offence have got to be distinguished from the conditions precedent for valid initiation of prosecution.

The stipulations in the proviso must also be proved certainly before the offender can be successfully prosecuted. But in the strict sense they are not ingredients of the deemed offence under the body of Section 138 of the N.I. Act, though the said stipulations; must also be proved to ensure and claim conviction. It is in this sense that it is said that the proviso does not make or unmake the offence Under Section 138 of the N.I. Act. That is already done by the body of the Sections. This dispute as to whether the stipulations of the proviso are conditions precedent or ingredients/components of the offence Under Section 138 of the N.I. Act may only be academic in most cases. Undoubtedly the ingredients stricto sensu as also the conditions precedent will have to be established satisfactorily in all cases. of course in an appropriate case it may have to be considered whether substantial compliance of the conditions precedent can be reckoned to be sufficient to justify a conviction. Be that as it may, the distinction between the ingredients and conditions precedent is
certainly real and existent. That distinction is certainly vital while ascertaining complicity of an indictee who faces indictment in a prosecution Under Section 138 with the aid of Section 141 of the N.I. Act. That is how the question assumes such crucial significance here.

56. To sum up:

(i) An offence Under Section 138 of the Negotiable Instruments Act, 1881 is committed no sooner a cheque drawn by the accused on an account being maintained by him in a bank for discharge of debt/liability is returned unpaid for insufficiency of funds or for the reason that the amount exceeds the arrangement made with the bank.

(ii) Cognizance of any such offence is however forbidden Under Section 142 of the Act except upon a complaint in writing made by the payee or holder of the cheque in due course within a period of one month from the date the cause of action accrues to such payee or holder Under Clause (c) of proviso to Section 138.

(iii) The cause of action to file a complaint accrues to a complainant/payee/holder of a cheque in due course if

(a) the dishonoured cheque is presented to the drawee bank within a period of six months from the date of its issue.

(b) If the complainant has demanded payment of cheque amount within thirty days of receipt of information by him from the bank regarding the dishonour of the cheque and

(c) If the drawer has failed to pay the cheque amount within fifteen days of receipt of such notice.

(iv) The facts constituting cause of action do not constitute the ingredients of the offence Under Section 138 of the Act.

(v) The proviso to Section 138 simply postpones/defers institution of criminal proceedings and taking of cognizance by the Court till such time cause of action in terms of Clause (c) of proviso accrues to the complainant.

(vi) Once the cause of action accrues to the complainant, the jurisdiction of the Court to try the case will be determined by reference to the place where the cheque is dishonoured.

(vii) The general rule stipulated Under Section 177 of Code of Criminal Procedure applies to cases Under Section 138 of the Negotiable Instruments Act. Prosecution in such cases can, therefore, be launched against the drawer of the cheque only before the Court within whose jurisdiction the dishonour takes place except in situations where the offence of dishonour of the cheque punishable Under Section 138 is committed along with other offences in a single transaction within the meaning of Section 220(1) read with Section 184 of the Code of Criminal Procedure or is covered by the provisions of Section 182(1) read with Sections 184 and 220 thereof.
57. Before parting with this aspect of the matter, we need to remind ourselves that an avalanche of cases involving dishonour of cheques has come upon the Magistracy of this country. The number of such cases as of October 2008 were estimated to be more than 38 lakhs by the Law Commission of India in its 213th Report. The result is that cases involving dishonour of cheque is in all major cities choking the criminal justice system at the Magistrate's level. Courts in the four metropolitan cities and other commercially important centres are particularly burdened as the filing of such cases is in very large numbers. More than five lakh such cases were pending in criminal courts in Delhi alone as of 1st June 2008. The position is no different in other cities where large number of complaints are filed Under Section 138 not necessarily because the offence is committed in such cities but because multinational and other companies and commercial entities and agencies choose these places for filing the complaints for no better reason than the fact that notices demanding payment of cheque amounts were issued from such cities or the cheques were deposited for collection in their banks in those cities. Reliance is often placed on Bhaskaran's case to justify institution of such cases far away from where the transaction forming basis of the dishonoured cheque had taken place. It is not uncommon to find complaints filed in different jurisdiction for cheques dishonoured in the same transaction and at the same place. This procedure is more often than not intended to use such oppressive litigation to achieve the collateral purpose of extracting money from the accused by denying him a fair opportunity to contest the claim by dragging him to a distant place. Bhaskaran's case could never have intended to give to the complainant/payee of the cheque such an advantage. Even so, experience has shown that the view taken in Bhaskaran's case permitting prosecution at any one of the five different places indicated therein has failed not only to meet the approval of other benches dealing with the question but also resulted in hardship, harassment and inconvenience to the accused persons. While anyone issuing a cheque is and ought to be made responsible if the same is dishonoured despite compliance with the provisions stipulated in the proviso, the Court ought to avoid an interpretation that can be used as an instrument of oppression by one of the parties. The unilateral acts of a complainant in presenting a cheque at a place of his choice or issuing a notice for payment of the dishonoured amount cannot in our view arm the complainant with the power to choose the place of trial. Suffice it to say, that not only on the Principles of Interpretation of Statutes but also the potential mischief which an erroneous interpretation can cause in terms of injustice and harassment to the accused the view taken in the Bhaskaran's case needs to be revisited as we have done in foregoing paragraphs.

58. With the above observations, I concur with the order proposed by my noble Brother, Vikramajit Sen, J.
K.G. BALAKRISHNAN, C.J. 2. In the present case, the trial court had acquitted the appellant-accused in a case related to the dishonour of a cheque under Section 138 of the Negotiable Instruments Act, 1881 [Hereinafter `Act']. This finding of acquittal had been made by the Addl. JMFC at Ranebennur, Karnataka in Criminal Case No. 993/2001, by way of a judgment dated 30-5-2005. On appeal by the respondent-complainant, the High Court had reversed the trial court's decision and recorded a finding of conviction while directing that the appellant-accused should pay a fine of Rs. 75,000, failing which he would have to undergo three months simple imprisonment (S.I.). Aggrieved by this final order passed by the High Court of Karnataka [in Criminal Appeal No. 1367/2005] dated 26-10-2005, the appellant-accused has approached this Court by way of a petition seeking special leave to appeal. The legal question before us pertains to the proper interpretation of Section 139 of the Act which shifts the burden of proof on to the accused in respect of cheque bouncing cases. More specifically, we have been asked to clarify the manner in which this statutory presumption can be rebutted.

3. Before addressing the legal question, it would be apt to survey the facts leading up to the present litigation. Admittedly, both the appellant-accused and the respondent-claimant are residents of Ranebennur, Karnataka. The appellant-accused is a mechanic who had engaged the services of the respondent-complainant who is a Civil Engineer, for the purpose of supervising the construction of his house in Ranebennur. The said construction was completed on 20-10-1998 and this indicates that the parties were well acquainted with each other.

4. As per the respondent-complainant, the chain of facts unfolded in the following manner. In October 1998, the accused had requested him for a hand loan of Rs. 45,000 in order to meet the construction expenses. In view of their acquaintance, the complainant had paid Rs. 45,000 by way of cash. On receiving this amount, the appellant-accused had initially assured repayment by October 1999 but on the failure to do so, he sought more time till December 2000. The accused had then issued a cheque bearing No. 0886322, post-dated for 8-2-2001 for Rs. 45,000 drawn on Syndicate Bank, Kudremukh Branch. Consequently, on 8-2-2001, the complainant had presented this cheque through Karnataka Bank, Ranebennur for encashment. However, on 16-2-2001 the said Bank issued a return memo stating that the 'Payment has been stopped by the drawer' and this memo was handed over to the complainant on 21-2-2001. The complainant had then issued notice to the accused in this regard on 26-2-2001. On receiving the same, the accused failed to honour the cheque within the statutorily prescribed period and also did not reply to the notice sent in the manner contemplated under Section 138 of the Act. Following these developments, the complainant had filed a complaint (under Section 200 of the Code of Criminal Procedure) against the accused for the offence punishable under Section 138 of the Act.

5. The appellant-accused had raised the defence that the cheque in question was a blank cheque bearing his signature which had been lost and that it had come into the hands of the
complainant who had then tried to misuse it. The accused's case was that there was no legally enforceable debt or liability between the parties since he had not asked for a hand loan as alleged by the complainant.

6. The trial judge found in favour of the accused by taking note of some discrepancies in the complainant's version. As per the trial judge, in the course of the cross-examination the complainant was not certain as to when the accused had actually issued the cheque. It was noted that while the complaint stated that the cheque had been issued in December 2000, at a later point it was conceded that the cheque had been handed over when the accused had met the complainant to obtain the work completion certificate for his house in March 2001. Later, it was stated that the cheque had been with the complainant about 15-20 days prior to the presentation of the same for encashment, which would place the date of handing over of the cheque in January 2001. Furthermore, the trial judge noted that in the complaint it had been submitted that the complainant had paid Rs. 45,000 in cash as a hand loan to the accused, whereas during the cross-examination it appeared that the complainant had spent this amount during the construction of the accused's house from time to time and that the complainant had realized the extent of the liability after auditing the costs on completion of the construction. Apart from these discrepancies on part of the complainant, the trial judge also noted that the accused used to pay the complainant a monthly salary in lieu of his services as a building supervisor apart from periodically handing over money which was used for the construction of the house. In light of these regular payments, the trial judge found it unlikely that the complainant would have spent his own money on the construction work. With regard to these observations, the trial judge held that there was no material to substantiate that the accused had issued the cheque in relation to a legally enforceable debt. It was observed that the accused's failure to reply to the notice sent by the complainant did not attract the presumption under Section 139 of the Act since the complainant had failed to prove that he had given a hand loan to the accused and that the accused had issued a cheque as alleged. Furthermore, the trial judge erroneously decided that the offence made punishable by Section 138 of the Act had not been committed in this case since the alleged dishonor of cheque was not on account of insufficiency of funds since the accused had instructed his bank to stop payment. Accordingly, the trial judge had recorded a finding of acquittal.

7. However, on appeal against acquittal, the High Court reversed the findings and convicted the appellant-accused. The High Court in its order noted that in the course of the trial proceedings, the accused had admitted that the signature on the impugned cheque (No. 886322, dated 8-2-2001) was indeed his own. Once this fact has been acknowledged, Section 139 of the Act mandates a presumption that the cheque pertained to a legally enforceable debt or liability. This presumption is of a rebuttal nature and the onus is then on the accused to raise a probable defence. With regard to the present facts, the High Court found that the defence raised by the accused was not probable. In respect of the accused's stand that he had lost a blank cheque bearing his signature, the High Court noted that in the instructions sent by the accused to his Bank for stopping payment, there is a reference to cheque No. 0886322, dated 20-7-1999. This is in conflict with the complainant's version
wherein the accused had given instructions for stopping payment in respect of the same cheque, albeit one which was dated 8-2-2001. The High Court also noted that if the accused had indeed lost a blank cheque bearing his signature, the question of his mentioning the date of the cheque as 20-7-1999 could not arise. At a later point in the order, it has been noted that the instructions sent by the accused to his bank for stopping payment on the cheque do not mention that the same had been lost. However, the correspondence does refer to the cheque being dated 20-7-1999. Furthermore, during the cross-examination of the complainant, it was suggested on behalf of the accused that the complainant had the custody of the cheque since 1998. This suggestion indicates that the accused was aware of the fact that the complainant had the cheque, thereby weakening his claim of having lost a blank cheque. Furthermore, a perusal of the record shows that the accused had belatedly taken up the defence of having lost a blank cheque at the time of his examination during trial. Prior to the filing of the complaint, the accused had not even replied to the notice sent by the complainant since that would have afforded an opportunity to raise the defence at an earlier stage. All of these circumstances led the High Court to conclude that the accused had not raised a probable defence to rebut the statutory presumption. It was held that:

6. Once the cheque relates to the account of the accused and he accepts and admits the signatures on the said cheque, then initial presumption as contemplated under Section 139 of the Negotiable Instruments Act has to be raised by the Court in favour of the complainant. The presumption referred to in Section 139 of the N.I. Act is a mandatory presumption and not a general presumption, but the accused is entitled to rebut the said presumption. What is required to be established by the accused in order to rebut the presumption is different from each case under given circumstances. But the fact remains that a mere plausible explanation is not expected from the accused and it must be more than a plausible explanation by way of rebuttal evidence. In other words, the defence raised by way of rebuttal evidence must be probable and capable of being accepted by the Court. The defence raised by the accused was that a blank cheque was lost by him, which was made use of by the complainant. Unless this barrier is crossed by the accused, the other defence raised by him whether the cheque was issued towards the hand loan or towards the amount spent by the complainant need not be considered....

Hence, the High Court concluded that the alleged discrepancies on part of the complainant which had been noted by the trial court were not material since the accused had failed to raise a probable defence to rebut the presumption placed on him by Section 139 of the Act. Accordingly, the High Court recorded a finding of conviction.

8. In the course of the proceedings before this Court, the contentions related to the proper interpretation of Sections 118(a), 138 and 139 of the Act. Before addressing them, it would be useful to quote the language of the relevant provisions:

**118. Presumptions as to negotiable instruments.** - Until the contrary is proved, the following presumptions shall be made:
(a) of consideration: that every negotiable instrument was made or drawn for consideration, and that every such instrument when it has been accepted, endorsed, negotiatied or transferred, was accepted, endorsed, negotiatied or transferred for consideration;

138. Dishonor of cheque for insufficiency, etc., of funds in the account. - Where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from out of that account for the discharge, in whole or in part, of any debt or other liability, is returned by the bank unpaid, either because of the amount of money standing to the credit of that account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank, such person shall be deemed to have committed an offence and shall, without prejudice to any other provision of this Act, be punished with imprisonment for a term which may extend to two years, or with fine which may extend to twice the amount of the cheque, or with both:
Provided that nothing contained in this section shall apply unless-

(a) the cheque has been presented to the bank within a period of six months from the date on which it is drawn or within the period of its validity, whichever is earlier.

(b) the payee or the holder in due course of the cheque, as the case may be, makes a demand for the payment of the said amount of money by giving a notice, in writing, to the drawer of the cheque, within thirty days of the receipt of information by him from the bank regarding the return of the cheque as unpaid; and

(c) the drawer of such cheque fails to make the payment of the said amount of money to the payee or, as the case may be, to the holder in due course of the cheque, within fifteen days of the receipt of the said notice.

Explanation. - For the purposes of this section, 'debt or other liability' means a legally enforceable debt or other liability.

139. Presumption in favour of holder. - It shall be presumed, unless the contrary is proved, that the holder of a cheque received the cheque, of the nature referred to in Section 138 for the discharge, in whole or in part, of any debt, or other liability.

9. Ordinarily in cheque bouncing cases, what the courts have to consider is whether the ingredients of the offence enumerated in Section 138 of the Act have been met and if so, whether the accused was able to rebut the statutory presumption contemplated by Section 139 of the Act. With respect to the facts of the present case, it must be clarified that contrary to the trial court's finding, Section 138 of the Act can indeed be attracted when a cheque is dishonoured on account of 'stop payment' instructions sent by the accused to his bank in respect of a post-dated cheque, irrespective of insufficiency of funds in the account. This position was clarified by this Court in Goa Plast (Pvt.) Ltd. v. Chico Ursula D'Souza: (2003) 3 SCC 232, wherein it was held:
Chapter XVII containing Sections 138 to 142 was introduced in the Act by Act 66 of 1988 with the object of inculcating faith in the efficacy of banking operations and giving credibility to negotiable instruments in business transactions. These provisions were intended to discourage people from not honouring their commitments by way of payment through cheques. The court should lean in favour of an interpretation which serves the object of the statute. A post-dated cheque will lose its credibility and acceptability if its payment can be stopped routinely. The purpose of a post-dated cheque is to provide some accommodation to the drawer of the cheque. Therefore, it is all the more necessary that the drawer of the cheque should not be allowed to abuse the accommodation given to him by a creditor by way of acceptance of a post-dated cheque. In view of Section 139, it has to be presumed that a cheque is issued in discharge of any debt or other liability. The presumption can be rebutted by adducing evidence and the burden of proof is on the person who wants to rebut the presumption. This presumption coupled with the object of Chapter XVII of the Act leads to the conclusion that by countermanding payment of a post-dated cheque, a party should not be allowed to get away from the penal provision of Section 138. A contrary view would render Section 138 a dead letter and will provide a handle to persons trying to avoid payment under legal obligations undertaken by them through their own acts which in other words can be said to be taking advantage of one's own wrong....

10. It has been contended on behalf of the appellant-accused that the presumption mandated by Section 139 of the Act does not extend to the existence of a legally enforceable debt or liability and that the same stood rebutted in this case, keeping in mind the discrepancies in the complainant's version. It was reasoned that it is open to the accused to rely on the materials produced by the complainant for disproving the existence of a legally enforceable debt or liability. It has been contended that since the complainant did not conclusively show whether a debt was owed to him in respect of a hand loan or in relation to expenditure incurred during the construction of the accused's house, the existence of a legally enforceable debt or liability had not been shown, thereby creating a probable defence for the accused. Counsel appearing for the appellant-accused has relied on a decision given by a division bench of this Court in Krishna Janardhan Bhat v. Dattatraya G. Hegde (2008) 4 SCC 54, the operative observations from which are reproduced below (S.B. Sinha, J. at Paras. 29-32, 34 and 45):

29. Section 138 of the Act has three ingredients viz.:
(i) that there is a legally enforceable debt
(ii) that the cheque was drawn from the account of bank for discharge in whole or in part of any debt or other liability which presupposes a legally enforceable debt; and
(iii) that the cheque so issued had been returned due to insufficiency of funds.

30. The proviso appended to the said section provides for compliance with legal requirements before a complaint petition can be acted upon by a court of law.
Section 139 of the Act merely raises a presumption in regard to the second aspect of the matter. Existence of legally recoverable debt is not a matter of presumption under Section 139 of the Act. It merely raises a presumption in favour of a holder of the cheque that the same has been issued for discharge of any debt or other liability.

31. The courts below, as noticed hereinbefore, proceeded on the basis that Section 139 raises a presumption in regard to existence of a debt also. The courts below, in our opinion, committed a serious error in proceeding on the basis that for proving the defence the accused is required to step into the witness box and unless he does so he would not be discharging his burden. Such an approach on the part of the courts, we feel, is not correct.

32. An accused for discharging the burden of proof placed upon him under a statute need not examine himself. He may discharge his burden on the basis of the materials already brought on record. An accused has a constitutional right to maintain silence. Standard of proof on the part of the accused and that of the prosecution in a criminal case is different.

34. Furthermore, whereas prosecution must prove the guilt of an accused beyond all reasonable doubt, the standard of proof so as to prove a defence on the part of the accused is 'preponderance of probabilities'. Inference of preponderance of probabilities can be drawn not only from the materials brought on record by the parties but also by reference to the circumstances upon which he relies.

Specifically in relation to the nature of the presumption contemplated by Section 139 of the Act, it was observed;

45. We are not oblivious of the fact that the said provision has been inserted to regulate the growing business, trade, commerce and industrial activities of the country and the strict liability to promote greater vigilance in financial matters and to safeguard the faith of the creditor in the drawer of the cheque which is essential to the economic life of a developing country like India. This however, shall not mean that the courts shall put a blind eye to the ground realities. Statute mandates raising of presumption but it stops at that. It does not say how presumption drawn should be held to have been rebutted. Other important principles of legal jurisprudence, namely, presumption of innocence as a human right and the doctrine of reverse burden introduced by Section 139 should be delicately balanced. Such balancing acts, indisputably would largely depend upon the factual matrix of each case, the materials brought on record and having regard to legal principles governing the same.

11. With respect to the decision cited above, counsel appearing for the respondent-claimant has submitted that the observations to the effect that the 'existence of legally recoverable debt is not a matter of presumption under Section 139 of the Act' and that 'it merely raises a presumption in favour of a holder of the cheque that the same has been issued for discharge of any debt or other liability' [See Para. 30 in Krishna Janardhan Bhat (supra)] are in conflict with the statutory provisions as well as an established line of precedents of this
Court. It will thus be necessary to examine some of the extracts cited by the respondent-claimant. For instance, in *Hiten P. Dalal v. Bratindranath Banerjee* (2001) 6 SCC 16, it was held (Ruma Pal, J. at Paras. 22-23):

22. Because both Sections 138 and 139 require that the Court 'shall presume' the liability of the drawer of the cheques for the amounts for which the cheques are drawn, ..., it is obligatory on the Court to raise this presumption in every case where the factual basis for the raising of the presumption has been established. It introduces an exception to the general rule as to the burden of proof in criminal cases and shifts the onus on to the accused (...). Such a presumption is a presumption of law, as distinguished from a presumption of fact which describes provisions by which the court may presume a certain state of affairs. Presumptions are rules of evidence and do not conflict with the presumption of innocence, because by the latter all that is meant is that the prosecution is obliged to prove the case against the accused beyond reasonable doubt. The obligation on the prosecution may be discharged with the help of presumptions of law or fact unless the accused adduces evidence showing the reasonable probability of the non-existence of the presumed fact.

23. In other words, provided the facts required to form the basis of a presumption of law exists, the discretion is left with the Court to draw the statutory conclusion, but this does not preclude the person against whom the presumption is drawn from rebutting it and proving the contrary. A fact is said to be proved when, after considering the matters before it, the Court either believes it to exist, or considers its existence so probable that a prudent man ought, under the circumstances of the particular case, to act upon the supposition that it exists. Therefore, the rebuttal does not have to be conclusively established but such evidence must be adduced before the Court in support of the defence that the Court must either believe the defence to exist or consider its existence to be reasonably probable, the standard of reasonability being that of the prudent man. (emphasis supplied)

12. The respondent-claimant has also referred to the decision reported as *Mallavarapu Kasivisveswara Rao v. Thadikonda Ramulu Firm and Ors.* 2008 (8) SCALE 680, wherein it was observed:

Under Section 118(a) of the Negotiable Instruments Act, the court is obliged to presume, until the contrary is proved, that the promissory note was made for consideration. It is also a settled position that the initial burden in this regard lies on the defendant to prove the non-existence of consideration by bringing on record such facts and circumstances which would lead the Court to believe the non-existence of the consideration either by direct evidence or by preponderance of probabilities showing that the existence of consideration was improbable, doubtful or illegal....

This decision then proceeded to cite an extract from the earlier decision in *Bharat Barrel & Drum Manufacturing Company v. Amin Chand Pyarelal* : (1993) 3 SCC 35(Para. 12):
Upon consideration of various judgments as noted hereinabove, the position of law which emerges is that once execution of the promissory note is admitted, the presumption under Section 118(a) would arise that it is supported by a consideration. Such a presumption is rebuttable. The defendant can prove the non-existence of a consideration by raising a probable defence. If the defendant is proved to have discharged the initial onus of proof showing that the existence of consideration was improbably or doubtful or the same was illegal, the onus would shift to the plaintiff who will be obliged to prove it as a matter of fact and upon its failure to prove would disentitle him to the grant of relief on the basis of the negotiable instrument. The burden upon the defendant of proving the non-existence of the consideration can be either direct or by bringing on record the preponderance of probabilities by reference to the circumstances upon which he relies. In such an event, the plaintiff is entitled under law to rely upon all the evidence led in the case including that of the plaintiff as well. In case, where the defendant fails to discharge the initial onus of proof by showing the non-existence of the consideration, the plaintiff would invariably be held entitled to the benefit of presumption arising under Section 118(a) in his favour. The court may not insist upon the defendant to disprove the existence of consideration by leading direct evidence as the existence of negative evidence is neither possible nor contemplated and even if led, is to be seen with a doubt. The bare denial of the passing of the consideration apparently does not appear to be any defence. Something which is probable has to be brought on record for getting the benefit of shifting the onus of proving to the plaintiff. To disprove the presumption, the defendant has to bring on record such facts and circumstances upon consideration of which the court may either believe that the consideration did not exist or its non-existence was so probable that a prudent man would, under the circumstances of the case, act upon the plea that it did not exist.

(emphasis supplied)

Interestingly, the very same extract has also been approvingly cited in Krishna Janardhan Bhat (supra).

13. With regard to the facts in the present case, we can also refer to the following observations in M.M.T.C. Ltd. and Anr. v. Medchl Chemicals & Pharma (P) Ltd.: (2002) 1 SCC 234 (Para. 19):

...The authority shows that even when the cheque is dishonored by reason of stop payment instruction, by virtue of Section 139 the Court has to presume that the cheque was received by the holder for the discharge in whole or in part, of any debt or liability. Of course this is a rebuttable presumption. The accused can thus show that the ‘stop payment’ instructions were not issued because of insufficiency or paucity of funds. If the accused shows that in his account there was sufficient funds to clear the amount of the cheque at the time of presentation of the cheque for encashment at the drawer bank and that the stop payment notice had been issued because of other valid causes including that there was no existing debt or liability at the time of presentation
of cheque for encashment, then offence under Section 138 would not be made out. The important thing is that the burden of so proving would be on the accused.... (emphasis supplied)

14. In light of these extracts, we are in agreement with the respondent-claimant that the presumption mandated by Section 139 of the Act does indeed include the existence of a legally enforceable debt or liability. To that extent, the impugned observations in Krishna Janardhan Bhat (supra) may not be correct. However, this does not in any way cast doubt on the correctness of the decision in that case since it was based on the specific facts and circumstances therein. As noted in the citations, this is of course in the nature of a rebuttable presumption and it is open to the accused to raise a defence wherein the existence of a legally enforceable debt or liability can be contested. However, there can be no doubt that there is an initial presumption which favours the complainant. Section 139 of the Act is an example of a reverse onus clause that has been included in furtherance of the legislative objective of improving the credibility of negotiable instruments. While Section 138 of the Act specifies a strong criminal remedy in relation to the dishonor of cheques, the rebuttable presumption under Section 139 is a device to prevent undue delay in the course of litigation. However, it must be remembered that the offence made punishable by Section 138 can be better described as a regulatory offence since the bouncing of a cheque is largely in the nature of a civil wrong whose impact is usually confined to the private parties involved in commercial transactions. In such a scenario, the test of proportionality should guide the construction and interpretation of reverse onus clauses and the accused/defendant cannot be expected to discharge an unduly high standard or proof. In the absence of compelling justifications, reverse onus clauses usually impose an evidentiary burden and not a persuasive burden. Keeping this in view, it is a settled position that when an accused has to rebut the presumption under Section 139, the standard of proof for doing so is that of 'preponderance of probabilities'. Therefore, if the accused is able to raise a probable defence which creates doubts about the existence of a legally enforceable debt or liability, the prosecution can fail. As clarified in the citations, the accused can rely on the materials submitted by the complainant in order to raise such a defence and it is conceivable that in some cases the accused may not need to adduce evidence of his/her own.

15. Coming back to the facts in the present case, we are in agreement with the High Court's view that the accused did not raise a probable defence. As noted earlier, the defence of the loss of a blank cheque was taken up belatedly and the accused had mentioned a different date in the 'stop payment' instructions to his bank. Furthermore, the instructions to 'stop payment' had not even mentioned that the cheque had been lost. A perusal of the trial record also shows that the accused appeared to be aware of the fact that the cheque was with the complainant. Furthermore, the very fact that the accused had failed to reply to the statutory notice under Section 138 of the Act leads to the inference that there was merit in the complainant's version. Apart from not raising a probable defence, the appellant-accused was not able to contest the existence of a legally enforceable debt or liability. The fact that the accused had made regular payments to the complainant in relation to the construction of
his house does not preclude the possibility of the complainant having spent his own money for the same purpose. As per the record of the case, there was a slight discrepancy in the complainant's version, in so far as it was not clear whether the accused had asked for a hand loan to meet the construction-related expenses or whether the complainant had incurred the said expenditure over a period of time. Either way, the complaint discloses the prima facie existence of a legally enforceable debt or liability since the complainant has maintained that his money was used for the construction-expenses. Since the accused did admit that the signature on the cheque was his, the statutory presumption comes into play and the same has not been rebutted even with regard to the materials submitted by the complainant.

16. In conclusion, we find no reason to interfere with the final order of the High Court, dated 26-10-2005, which recorded a finding of conviction against the appellant. The present appeal is disposed of accordingly.
These appeals are directed against orders dated 19th April, 2010 and 27th August, 2010 passed by the High Court of Gujarat at Ahmedabad whereby the High Court has quashed 40 different complaints under Section 138 of the Negotiable Instruments Act, 1881 filed by the Appellant against the Respondents. Relying upon the decision of this Court in Vinod Tanna and Anr. v. Zaher Siddiqui and Ors. : (2002) 7 SCC 541, the High Court has taken the view that dishonor of a cheque on the ground that the signatures of the drawer of the cheque do not match the specimen signatures available with the bank, would not attract the penal provisions of Section 138 of the Negotiable Instruments Act. According to the High Court, the provisions of Section 138 are attracted only in cases where a cheque is dishonored either because the amount of money standing to the credit to the account maintained by the drawer is insufficient to pay the cheque amount or the cheque amount exceeds the amount arranged to be paid from account maintained by the drawer by an agreement made with the bank. Dishonor of a cheque on the ground that the signatures of the drawer do not match the specimen signatures available with the bank does not, according to the High Court, fall in either of these two contingencies, thereby rendering the prosecution of the Respondents legally impermissible. Before we advert to the merits of the contentions urged at the Bar by the learned Counsels for the parties, we may briefly set out the factual backdrop in which the controversy arises.

3. The Appellant is a proprietorship firm engaged in the sale of chemicals. It has over the past few years supplied Naphthalene Chemicals to the Respondent-company against various invoices and bills issued in that regard. The Appellant's case is that a running account was opened in the books of account of the Appellant in the name of the Respondent-company in which the value of the goods supplied was debited from time to time as per the standard accounting practice. A sum of Rs. 4,91,91,035/- (Rupees Four Crore Ninety One Lac Ninety One Thousand Thirty Five only) was according to the Appellant outstanding against the Respondent-company in the former's books of accounts towards the supplies made to the latter. The Appellant's further case is that the Respondent-company issued under the signatures of its authorized signatories several post dated cheques towards the payment of the amount aforesaid. Several of these cheques (one hundred and seventeen to be precise) when presented were dishonored by the bank on which the same were drawn, on the ground that the drawers' signatures were incomplete or that no image was found or that the signatures did not match. The Appellant informed the Respondents about the dishonor in terms of a statutory notice sent under Section 138 and called upon them to pay the amount covered by the cheques. It is common ground that the amount covered by the cheques was not paid by the Respondents although according to the Respondents the company had by a letter dated 30.12.2008, informed the Appellant about the change of the mandate and requested the Appellant to return the cheques in exchange of fresh cheques. It is also not in dispute that fresh cheques signed by the authorized signatories, according to the new mandate to the Bank, were never issued to the Appellant ostensibly because the offer to issue such cheques was subject to settlement of accounts,
which had according to the Respondent been bungled by the outgoing authorized signatories. The long and short of the matter is that the cheques remained unpaid despite notice served upon the Respondents that culminated in the filing of forty different complaints against the Respondents under Section 138 of the Negotiable Instruments Act before the learned trial court who took cognizance of the offence and directed issue of summons to the Respondents for their appearance. It was at this stage that Special Criminal Applications No. 2118 to 2143 of 2009 were filed by Shri Mustafa Surka accused No. 5 who happened to be one of the signatories to the cheques in question. The principal contention urged before the High Court in support of the prayer for quashing of the proceedings against the signatory to the cheques was that the dishonor of cheques on account of the signatures 'not being complete' or 'no image found' was not a dishonor that could constitute an offence under Section 138 of the Negotiable Instrument Act.

4. By a common order dated 19th April, 2010, the High Court allowed the said petitions, relying upon the decision of this Court in Vinod Tanna's case (supra) and a decision delivered by a Single Judge Bench of the High Court of Judicature at Bombay in Criminal Application No. 4434 of 2009 and connected matters. The Court observed:

In the instant case, there is no dispute about the endorsement that "drawers signature differs from the specimen supplied" and/or "no image found-signature" and/or "incomplete signature/illegible" and for return/dishonor of cheque on the above endorsement will not attract ingredients of Section 138 of the Act and insufficient fund as a ground for dishonoring cheque cannot be extended so as to cover the endorsement "signature differed from the specimen supplied" or likewise. If the cheque is returned/bounced/dishonored on the endorsement of "drawers signature differs from the specimen supplied" and/or "no image found-signature" and/or "incomplete signature / illegible", the complaint filed under Section 138 of the Act is not maintainable. Hence, a case is made out to exercise powers under Section 482 of the Code of Criminal Procedure, 1973 in favour of the Petitioner.

5. Special Criminal Applications No. 896 to 935 of 2010 were then filed by the remaining accused persons challenging the proceedings initiated against them in the complaints filed by the Petitioner on the very same ground as was taken by Mustafa Surka. Reliance was placed by the Petitioners in the said petitions also upon the decision of this Court in Vinod Tanna's case (supra) and the decision of the Single Judge Bench of High Court of Bombay in Mustafa Surka v. Jay Ambe Enterprise and Anr. (2010 (1) Bom. (Crl.) 758). The High Court has, on the analogy of its order dated 19th April, 2010 passed in the earlier batch of cases which order is the subject matter of SLP Nos. 1780-1819 of 2011, quashed the proceedings and the complaints even qua the remaining accused persons, Respondents herein. The present appeals, as noticed above, assail the correctness of both the orders passed by the High Court in the two batch of cases referred to above.

6. Chapter XVII comprising Sections 138 to 142 of the Negotiable Instruments Act was introduced in the statute by Act 66 of 1988. The object underlying the provision contained in the said Chapter was aimed at inculcating faith in the efficacy of banking operations and giving credibility to negotiable instruments in business and day to day transactions by
making dishonor of such instruments an offence. A negotiable instrument whether the same is in the form of a promissory note or a cheque is by its very nature a solemn document that carries with it not only a representation to the holder in due course of any such instrument but also a promise that the same shall be honored for payment. To that end Section 139 of the Act raises a statutory presumption that the cheque is issued in discharge of a lawfully recoverable debt or other liability. This presumption is no doubt rebuttable at trial but there is no gainsaying that the same favors the complainant and shifts the burden to the drawer of the instrument (in case the same is dishonored) to prove that the instrument was without any lawful consideration. It is also noteworthy that Section 138 while making dishonor of a cheque an offence punishable with imprisonment and fine also provides for safeguards to protect drawers of such instruments where dishonor may take place for reasons other than those arising out of dishonest intentions. It envisages service of a notice upon the drawer of the instrument calling upon him to make the payment covered by the cheque and permits prosecution only after the expiry of the statutory period and upon failure of the drawer to make the payment within the said period.

7. The question that falls for our determination is whether dishonor of a cheque would constitute an offence only in one of the two contingencies envisaged under Section 138 of the Act, which to the extent the same is relevant for our purposes reads as under:

138. Dishonor of cheque for insufficiency, etc., of funds in the account.—Where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from out of that account for the discharge, in whole or in part, of any debt or other liability, is returned by the bank unpaid, either because of the amount of money standing to the credit of that account is insufficient to honor the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank, such person shall be deemed to have committed an offence and shall, without prejudice to any other provision of this Act, be punished with imprisonment of a term which may extend to one year, or with fine which may extend to twice the amount of the cheque, or with both.

8. From the above, it is manifest that a dishonor would constitute an offence only if the cheque is retuned by the bank 'unpaid' either because the amount of money standing to the credit of the drawer's account is insufficient to honor the cheque or that the amount exceeds the amount arranged to be paid from that account by an agreement with that bank. The High Court was of the view and so was the submission made on behalf of the Respondent before us that the dishonor would constitute an offence only in the two contingencies referred to in Section 138 and none else. The contention was that Section 138 being a penal provision has to be construed strictly. When so construed, the dishonor must necessarily be for one of the two reasons stipulated under Section 138 & none else. The argument no doubt sounds attractive on the first blush but does not survive closer scrutiny. At any rate, there is nothing new or ingenious about the submission, for the same has been noticed in several cases and repelled in numerous decisions delivered by this Court over the past more than a decade.
We need not burden this judgment by referring to all those pronouncements. Reference to only some of the said decisions should, in our opinion, suffice.

9. In NEPC Micon Ltd. v. Magma Leasing Ltd.: (1999) 4 SCC 253, the cheques issued by the Appellant-company in discharge of its liability were returned by the company with the comments 'account closed'. The question was whether a dishonor on that ground for that reason was culpable under Section 138 of the Negotiable Instruments Act. The contention of the company that issued the cheque was that Section 138 being a penal provision ought to be strictly construed and when so interpreted, dishonor of a cheque on ground that the account was closed was not punishable as the same did not fall in any of the two contingencies referred to in Section 138. This Court noticed the prevalent cleavage in the judicial opinion, expressed by different High Courts in the country and rejected the contention that Section 138 must be interpreted strictly or in disregard of the object sought to be achieved by the statute. Relying upon the decision of this Court in Kanwar Singh v. Delhi Administration: AIR 1965 SC 871), and Swantra v. State of Maharashtra (1975) 3 SCC 322 this Court held that a narrow interpretation of Section 138 as suggested by the drawer of the cheque would defeat the legislative intent underlying the provision. Relying upon the decision in State of Tamil Nadu v. M.K. Kandaswami: (1975) 4 SCC 745, this Court declared that while interpreting a penal provision which is also remedial in nature a construction would defeat its purpose or have the effect of obliterating it from the statute book should be eschewed and that if more than one constructions are possible the Court ought to choose a construction that would preserve the workability and efficacy of the statute rather than an interpretation that would render the law otiose or sterile. The Court relied upon the much quoted passage from the Seaford Court Estates Ltd. v. Asher (1949 2 All E.R. 155) wherein Lord Denning, L.J. observed:

The English language is not an instrument of mathematical precision. Our literature would be much poorer if it were. This is where the draftsmen of Acts of Parliament have often been unfairly criticised. A judge, believing himself to be fettered by the supposed rule that he must look to the language and nothing else, laments that the draftsmen have not provided for this or that, or have been guilty of some or other ambiguity. It would certainly save the judges trouble if Acts of Parliament were drafted with divine prescience and perfect clarity. In the absence of it, when a defect appears a judge cannot simply fold his hands and blame the draftsman. He must set to work on the constructive task of finding the intention of Parliament, and he must do this not only from the language of the statute, but also from a consideration of the social conditions which gave rise to it and of the mischief which it was passed to remedy, and then he must supplement the written word so as to give 'force and life' to the intention of the legislature.... A judge should ask himself the question how, if the makers of the Act had themselves come across this ruck in the texture of it, they would have straightened it out? He must then do so as they would have done. A judge must not alter the material of which the Act is woven, but he can and should iron out the creases.
10. Relying upon a three-Judge Bench decision of this Court in Modi Cements Ltd. v. Kuchil Kumar Nandi: (1998) 3 SCC 249, this Court held that the expression "the amount of money .... is insufficient to honour the cheque" is a genus of which the expression 'account being closed' is a specie.

11. In Modi Cements Ltd. (supra) a similar question had arisen for the consideration of this Court. The question was whether dishonour of a cheque on the ground that the drawer had stopped payment was a dishonour punishable under Section 138 of the Act. Relying upon two earlier decisions of this Court in Electronics Trade & Technology Development Corporation Ltd. v. Indian Technologists and Engineers (Electronics) (P) Ltd.: (1996) 2 SCC 739 and K.K Sidharthan v. T.P. Praveena Chandran: (1996) 6 SCC 369, it was contended by the drawer of the cheque that if the payment was stopped by the drawer, the dishonor of the cheque could not constitute an offence under Section 138 of the Act. That contention was specifically rejected by this Court. Not only that, the decision in Electronics Trade & Technology Development Corporation Ltd. (supra) to the extent the same held that dishonor of the cheque by the bank after the drawer had issued a notice to the holder not to present the same would not constitute an offence, was overruled. This Court observed:

18. The aforesaid propositions in both these reported judgments, in our considered view, with great respect are contrary to the spirit and object of Sections 138 and 139 of the Act. If we are to accept this proposition it will make Section 138 a dead letter, for, by giving instructions to the bank to stop payment immediately after issuing a cheque against a debt or liability the drawer can easily get rid of the penal consequences notwithstanding the fact that a deemed offence was committed. Further the following observations in para 6 in Electronics Trade & Technology Development Corpn. Ltd. "Section 138 intended to prevent dishonesty on the part of the drawer of negotiable instrument to draw a cheque without sufficient funds in his account maintained by him in a bank and induce the payee or holder in due course to act upon it. Section 138 draws presumption that one commits the offence if he issues the cheque dishonestly" (emphasis supplied) in our opinion, do not also lay down the law correctly.

20. On a careful reading of Section 138 of the Act, we are unable to subscribe to the view that Section 138 of the Act draws presumption of dishonesty against drawer of the cheque if he without sufficient funds to his credit in his bank account to honor the cheque issues the same and, therefore, this amounts to an offence under Section 138 of the Act. For the reasons stated hereinabove, we are unable to share the views expressed by this Court in the above two cases and we respectfully differ with the same regarding interpretation of Section 138 of the Act to the limited extent as indicated above.

12. We may also at this stage refer to the decisions of this Court in M.M.T.C. Ltd. and Anr. v. Medchl Chemicals and Pharma (P) Ltd. and Anr.: (2002) 1 SCC 234, where too this Court considering an analogous question held that even in cases where the dishonor was on account of "stop payment" instructions of the drawer, a presumption regarding the
cheque being for consideration would arise under Section 139 of the Act. The Court observed:

19. Just such a contention has been negatived by this Court in the case of Modi Cements Ltd. v. Kuchil Kumar Nandi. It has been held that even though the cheque is dishonoured by reason of "stop-payment" instruction an offence under Section 138 could still be made out. It is held that the presumption under Section 139 is attracted in such a case also. The authority shows that even when the cheque is dishonored by reason of stop-payment instructions by virtue of Section 139 the court has to presume that the cheque was received by the holder for the discharge, in whole or in part, of any debt or liability of course this is a rebuttable presumption. The accused can thus show that the "stop-payment" instructions were not issued because of insufficiency or paucity of funds. If the accused shows that in his account there were sufficient funds to clear the amount of the cheque at the time of presentation of the cheque for encashment at the drawer bank and that the stop-payment notice had been issued because of other valid causes including that there was no existing debt or liability at the time of presentation of cheque for encashment, then offence under Section 138 would not be made out. The important thing is that the burden of so proving would be on the accused. Thus a court cannot quash a complaint on this ground.

13. To the same effect is the decision of this Court in Goaplast (P) Ltd. v. Chico Ursula D'souza and Anr. : (2003) 3 SCC 232, where this Court held that 'stop payment instructions' and consequent dishonor of the cheque of a post-dated cheque attracts provision of Section 138. This Court observed:

Chapter XVII containing Sections 138 to 142 was introduced in the Act by Act 66 of 1988 with the object of inculcating faith in the efficacy of banking operations and giving credibility to negotiable instruments in business transactions. The said provisions were intended to discourage people from not honouring their commitments by way of payment through cheques. The court should lean in favour of an interpretation which serves the object of the statute. A post-dated cheque will lose its credibility and acceptability if its payment can be stopped routinely. The purpose of a post-dated cheque is to provide some accommodation to the drawer of the cheque. Therefore, it is all the more necessary that the drawer of the cheque should not be allowed to abuse the accommodation given to him by a creditor by way of acceptance of a post-dated cheque.

In view of Section 139, it has to be presumed that a cheque is issued in discharge of any debt or other liability. The presumption can be rebutted by adducing evidence and the burden of proof is on the person who wants to rebut the presumption. This presumption coupled with the object of Chapter XVII of the Act leads to the conclusion that by countermanding payment of post-dated cheque, a party should not be allowed to get away from the penal provision of Section 138 of the Act. A contrary view would render Section 138a dead letter and will provide a handle to persons trying to avoid payment under legal obligations undertaken by them through their own acts which in other words can be said to be taking advantage of one's own wrong. (Emphasis supplied)
14. A three-Judge Bench of this Court in Rangappa v. Sri Mohan: (2010) 11 SCC 441 has approved the above decision and held that failure of the drawer of the cheque to put up a probable defence for rebutting the presumption that arises under Section 139 would justify conviction even when the Appellant drawer may have alleged that the cheque in question had been lost and was being misused by the complainant.

15. The above line of decisions leaves no room for holding that the two contingencies envisaged under Section 138 of the Act must be interpreted strictly or literally. We find ourselves in respectful agreement with the decision in NEPC Micon Ltd. (supra) that the expression "amount of money .... is insufficient" appearing in Section 138 of the Act is a genus and dishonor for reasons such "as account closed", "payment stopped", "referred to the drawer" are only species of that genus. Just as dishonor of a cheque on the ground that the account has been closed is a dishonor falling in the first contingency referred to in Section138, so also dishonor on the ground that the "signatures do not match" or that the "image is not found", which too implies that the specimen signatures do not match the signatures on the cheque would constitute a dishonor within the meaning of Section 138 of the Act. This Court has in the decisions referred to above taken note of situations and contingencies arising out of deliberate acts of omission or commission on the part of the drawers of the cheques which would inevitably result in the dishonor of the cheque issued by them. For instance this Court has held that if after issue of the cheque the drawer closes the account it must be presumed that the amount in the account was nil hence insufficient to meet the demand of the cheque. A similar result can be brought about by the drawer changing his specimen signature given to the bank or in the case of a company by the company changing the mandate of those authorized to sign the cheques on its behalf. Such changes or alteration in the mandate may be dishonest or fraudulent and that would inevitably result in dishonor of all cheques signed by the previously authorized signatories. There is in our view no qualitative difference between a situation where the dishonor takes place on account of the substitution by a new set of authorized signatories resulting in the dishonor of the cheques already issued and another situation in which the drawer of the cheque changes his own signatures or closes the account or issues instructions to the bank not to make the payment. So long as the change is brought about with a view to preventing the cheque being honored the dishonor would become an offence under Section 138 subject to other conditions prescribed being satisfied. There may indeed be situations where a mismatch between the signatories on the cheque drawn by the drawer and the specimen available with the bank may result in dishonor of the cheque even when the drawer never intended to invite such a dishonor. We are also conscious of the fact that an authorized signatory may in the ordinary course of business be replaced by a new signatory ending the earlier mandate to the bank. Dishonor on account of such changes that may occur in the course of ordinary business of a company, partnership or an individual may not constitute an offence by itself because such a dishonor in order to qualify for prosecution under Section 138 shall have to be preceded by a statutory notice where the drawer is called upon and has the opportunity to arrange the payment of the amount covered by the cheque. It is only when the drawer despite receipt of such a notice and despite the opportunity to make
the payment within the time stipulated under the statute does not pay the amount that the dishonor would be considered a dishonor constituting an offence, hence punishable. Even in such cases, the question whether or not there was a lawfully recoverable debt or liability for discharge whereof the cheque was issued would be a matter that the trial Court will examine having regard to the evidence adduced before it and keeping in view the statutory presumption that unless rebutted the cheque is presumed to have been issued for a valid consideration.

16. In the case at hand, the High Court relied upon a decision of this Court in Vinod Tanna's case (supra) in support of its view. We have carefully gone through the said decision which relies upon the decision of this Court in Electronics Trade & Technology Development Corporation Ltd. (supra). The view expressed by this Court in Electronics Trade & Technology Development Corporation Ltd. (supra) that a dishonor of the cheque by the drawer after issue of a notice to the holder asking him not to present a cheque would not attract Section 138 has been specifically overruled in Modi Cements Ltd. case (supra). The net effect is that dishonor on the ground that the payment has been stopped, regardless whether such stoppage is with or without notice to the drawer, and regardless whether the stoppage of payment is on the ground that the amount lying in the account was not sufficient to meet the requirement of the cheque, would attract the provisions of Section 138.

17. It was contended by learned Counsel for the Respondent that the Respondent-company had offered to issue new cheques to the Appellant upon settlement of the accounts and that a substantial payment has been made towards the outstanding amount. We do not think that such an offer would render illegal a prosecution that is otherwise lawful. The offer made by the Respondent-company was in any case conditional and subject to the settlement of accounts. So also whether the cheques were issued fraudulently by the authorized signatory for amounts in excess of what was actually payable to the Appellant is a matter for examination at the trial. That the cheques were issued under the signature of the persons who were authorized to do so on behalf of the Respondent-company being admitted would give rise to a presumption that they were meant to discharge a lawful debt or liability. Allegations of fraud and the like are matters that cannot be investigated by a Court under Section 482 Code of Criminal Procedure and shall have to be left to be determined at the trial after the evidence is adduced by the parties.

18. On behalf of the signatories of the cheques dishonored it was argued that the dishonor had taken place after they had resigned from their positions and that the failure of the company to honor the commitment implicit in the cheques cannot be construed an act of dishonesty on the part of the signatories of the cheques. We do not think so. Just because the authorized signatories of the cheques have taken a different line of defence than the one taken by the company does not in our view justify quashing of the proceedings against them. The decisions of this Court in National Small Industries Corporation Limited v. Harmeet Singh Paintal and Anr. : (2010) 3 SCC 330 and S.M.S. Pharmaceuticals Ltd. v. Neeta Bhalla and Anr. : (2005) 8 SCC 89 render the authorized signatory liable to be prosecuted
along with the company. In the National Small Industries Corporation Limited's case (supra) this Court observed:

19. (c) The answer to Question (c) has to be in the affirmative. The question notes that the managing director or joint managing director would be admittedly in charge of the company and responsible to the company for the conduct of its business. When that is so, holders of such positions in a company become liable under Section 141 of the Act. By virtue of the office they hold as managing director or joint managing director, these persons are in charge of and responsible for the conduct of business of the company. Therefore, they get covered under Section 141. So far as the signatory of a cheque which is dishonoured is concerned, he is clearly responsible for the incriminating act and will be covered under Sub-section (2) of Section 141.

19. In the result, we allow these appeals, set aside the judgment and orders passed by the High Court and dismiss the special criminal applications filed by the Respondents. The trial Court shall now proceed with the trial of the complaints filed by the Appellants expeditiously. We make it clear that nothing said in this judgment shall be taken as an expression of any final opinion on the merits of the case which the trial Court shall be free to examine on its own. No costs.

Gyan Sudha Misra, J. 20. I endorse and substantially agree with the views expressed in the judgment and order of learned Brother Justice Thakur. However, I propose to highlight a specific aspect relating to dishonor of cheques which constitute an offence under Section 138 as introduced by the Banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988 by adding that in so far as the category of 'stop payment of cheques' is concerned as to whether they constitute an offence within the meaning of Section 138 of the 'NI Act', due to the return of a cheque by the bank to the drawee/holder of the cheque on the ground of 'stop payment' although has been held to constitute an offence within the meaning of Sections 118 and 138 of the NI Act, and the same is now no longer res integra, the said presumption is a 'rebuttable presumption' under Section 139 of the NI Act itself since the accused issuing the cheque is at liberty to prove to the contrary. This is already reflected under Section 139 of the NI Act when it lays down as follows:

139. Presumption in favour of holder-- It shall be presumed, unless the contrary is proved, that the holder of a cheque received the cheque, of the nature referred to in Section 138 for the discharge, in whole or in part, of any debt or other liability.

21. We have to bear in mind that the Legislature while incorporating the provisions of Chapter XVII, Sections 138 to 142 inserted in the NI Act (Amendment Act 1988) intends to punish only those who know fully well that they have no amount in the bank and yet issue a cheque in discharge of debt or liability already borrowed/incurred -which amounts to cheating, and not to punish those who refused to discharge the debt for bona fide and sustainable reason. It is in this context that this Hon'ble Court in the matter of M.M.T.C. case was pleased to hold that cheque dishonor on account of drawer's stop payment instruction constitutes an offence under Section 138 of the NI Act but it is subject to the
rebuttable presumption under Section 139 of the NI Act as the same can be rebutted by the drawer even at the first instance. It was held therein that in order to escape liability under Section 139, the accused has to show that dishonour was not due to insufficiency of funds but there was valid cause, including absence of any debt or liability for the stop payment instruction to the bank. The specific observations of the Court in this regard may be quoted for ready reference which is as follows:

The authority shows that even when the cheque is dishonoured by reason of stop-payment instructions by virtue of Section 139 the court has to presume that the cheque was received by the holder for the discharge, in whole or in part, of any debt or liability. of course this is a rebuttable presumption. The accused can thus show that the "stop-payment" instructions were not issued because of insufficiency or paucity of funds. If the accused shows that in his account there were sufficient funds to clear the amount of the cheque at the time of presentation of the cheque for encashment at the drawer bank and that the stop-payment notice had been issued because of other valid causes including that there was no existing debt or liability at the time of presentation of cheque for encashment, then offence under Section 138 would not be made out. The important thing is that the burden of so proving would be on the accused. Thus a court cannot quash a complaint on this ground.

Therefore, complaint filed in such a case although might not be quashed at the threshold before trial, heavy onus lies on the court issuing summons in such cases as the trial is summary in nature.

22. In the matter of Goaplast case also this Court had held that ordinarily the stop payment instruction is issued to the bank by the account holder when there is no sufficient amount in the account. But, it was also observed therein that the reasons for stopping the payment can be manifold which cannot be overlooked. Hence, in view of Section 139, it has to be presumed that a cheque is issued in discharge of any debt or other liability. But the presumption can be rebutted by adducing evidence and the burden of proof is on the person who wants to rebut the presumption. However, this presumption coupled with the object of Chapter XVII of the Act leads to the conclusion that by countermanding payment of post-dated cheque, a party should not be allowed to get away from the penal provision of Section 138 of the Act. Therefore, in order to hold that the stop payment instruction to the bank would not constitute an offence, it is essential that there must have been sufficient funds in the accounts in the first place on the date of signing of the cheque, the date of presentation of the cheque, the date on which stop payment instructions were issued to the bank. Hence, in Goaplast matter (supra), when the magistrate had disallowed the application in a case of 'stop payment' to the bank without hearing the matter merely on the ground that there was no dispute about the dishonor of the cheque issued by the accused, since the signature was admitted and therefore held that no purpose would be served in examining the bank manager since the dishonor was not in issue, this Court held that examination of the bank manager would have enabled the Court to know on what date stop payment order was sent by the drawer to the bank clearly leading to the obvious inference
that stop payment although by itself would be an offence, the same is subject to rebuttal provided there was sufficient funds in the account of the drawer of the cheque.

23. Further, a three judge Bench of this Court in the matter of Rangappa case held that Section 139 is an example of a reverse onus clause that has been included in furtherance of the legislative objective of improving the credibility of negotiable instruments. While Section 138 of the Act specifies the strong criminal remedy in relation to the dishonor of the cheques, the rebuttable presumption under Section 139 is a device to prevent undue delay in the course of litigation. The Court however, further observed that it must be remembered that the offence made punishable by Section138 can be better described as a regulatory offence since the bouncing of a cheque is largely in the nature of a civil wrong whose money is usually confined to the private parties involved in commercial transactions. In such a scenario, the test of proportionality should guide the construction and interpretation of reverse onus clauses and the Defendant accused cannot be expected to discharge an unduly high standard of proof”. The Court further observed that it is a settled position that when an accused has to rebut the presumption under Section 139, the standard of proof for doing so is all preponderance of probabilities.

24. Therefore, if the accused is able to establish a probable defence which creates doubt about the existence of a legally enforceable debt or liability, the prosecution can fail. The accused can rely on the materials submitted by the complainant in order to raise such a defence and it is inconceivable that in some cases the accused may not need to adduce the evidence of his/her own. If however, the accused/drawer of a cheque in question neither raises a probable defence nor able to contest existence of a legally enforceable debt or liability, obviously statutory presumption under Section 139 of the NI Act regarding commission of the offence comes into play if the same is not rebutted with regard to the materials submitted by the complainant.

25. It is no doubt true that the dishonor of cheques in order to qualify for prosecution under Section 138 of the NI Act precedes a statutory notice where the drawer is called upon by allowing him to avail the opportunity to arrange the payment of the amount covered by the cheque and it is only when the drawer despite the receipt of such a notice and despite the opportunity to make the payment within the time stipulated under the statute does not pay the amount, that the said default would be considered a dishonor constituting an offence, hence punishable. But even in such cases, the question whether or not there was lawfully recoverable debt or liability for discharge whereof the cheque was issued, would be a matter that the trial court will have to examine having regard to the evidence adduced before it keeping in view the statutory presumption that unless rebutted, the cheque is presumed to have been issued for a valid consideration. In view of this the responsibility of the trial judge while issuing summons to conduct the trial in matters where there has been instruction to stop payment despite sufficiency of funds and whether the same would be a sufficient ground to proceed in the matter, would be extremely heavy.

26. As already noted, the Legislature intends to punish only those who are well aware that they have no amount in the bank and yet issue a cheque in discharge of debt or liability
which amounts to cheating and not to punish those who bona fide issues the cheque and in return gets cheated giving rise to disputes emerging from breach of agreement and hence contractual violation. To illustrate this, there may be a situation where the cheque is issued in favour of a supplier who delivers the goods which is found defective by the consignee before the cheque is encashed or a postdated cheque towards full and final payment to a builder after which the apartment owner might notice breach of agreement for several reasons. It is not uncommon that in that event the payment might be stopped bona fide by the drawer of the cheque which becomes the contentious issue relating to breach of contract and hence the question whether that would constitute an offence under the NI Act. There may be yet another example where a cheque is issued in favour of a hospital which undertakes to treat the patient by operating the patient or any other method of treatment and the doctor fails to turn up and operate and in the process the patient expires even before the treatment is administered. Thereafter, if the payment is stopped by the drawer of the cheque, the obvious question would arise as to whether that would amount to an offence under Section 138 of the NI Act by stopping the payment ignoring Section 139 which makes it mandatory by incorporating that the offence under Section 138 of the NI Act is rebuttable. Similarly, there may be innumerable situations where the drawer of the cheque for bonafide reasons might issue instruction of 'stop payment' to the bank in spite of sufficiency of funds in his account.

27. What is wished to be emphasized is that matters arising out of 'stop payment' instruction to the bank although would constitute an offence under Section 138 of the NI Act since this is no longer res-integra, the same is an offence subject to the provision of Section 139 of the Act and hence, where the accused fails to discharge his burden of rebuttal by proving that the cheque could be held to be a cheque only for discharge of a lawful debt, the offence would be made out. Therefore, the cases arising out of stop payment situation where the drawer of cheques has sufficient funds in his account and yet stops payment for bonafide reasons, the same cannot be put on par with other variety of cases where the cheque has bounced on account of insufficiency of funds or where it exceeds the amount arranged to be paid from that account, since Section 138 cannot be applied in isolation ignoring Section 139 which envisages a right of rebuttal before an offence could be made out under Section 138 of the Act as the Legislature already incorporates the expression "unless the contrary is proved" which means that the presumption of law shall stand and unless it is rebutted or disproved, the holder of a cheque shall be presumed to have received the cheque of the nature referred to in Section 138 of the NI Act, for the discharge of a debt or other liability. Hence, unless the contrary is proved, the presumption shall be made that the holder of a negotiable instrument is holder in due course.

28. Thus although a petition under Section 482 of the Code of Criminal Procedure may not be entertained by the High Court for quashing such proceedings, yet the judicious use of discretion by the trial judge whether to proceed in the matter or not would be enormous in view of Section 139 of the NI Act and if the drawer of the cheque discharges the burden even at the stage of enquiry that he had bona fide reasons to stop the payment and not make the said payment even within the statutory time of 15 days provided under the NI Act, the
trial court might be justified in refusing to issue summons to the drawer of the cheque by
holding that ingredients to constitute offence under Section 138 of the NI Act is missing
where the account holder has sufficient funds to discharge the debt. Thus the category of
'stop payment cheques' would be a category which is subject to rebuttal and hence would be
an offence only if the drawer of the cheque fails to discharge the burden of rebuttal.

29. Thus, dishonor of cheques simpliciter for the reasons stated in Section 138 of the NI Act
although is sufficient for commission of offence since the presumption of law on this point
is no longer res integra, the category of 'stop payment' instruction to the bank where the
account holder has sufficient funds in his account to discharge the debt for which the
dishonor was issued, the said category of cases would be subject to rebuttal as this question
being rebuttable, the accused can show that the stop payment instructions were not issued
because of insufficiency or paucity of funds, but stop payment instruction had been issued
to the bank for other valid causes including the reason that there was no existing debt or
liability in view of bonafide dispute between the drawer and drawee of the cheque. If that
be so, then offence under Section 138 although would be made out, the same will attract
Section 139 leaving the burden of proof of rebuttal by the drawer of the cheque. Thus, in
cases arising out of 'stop payment' situation, Sections 138 and 139 will have to be given a
harmonious construction as in that event Section 139 would be rendered nugatory.

30. The instant matter however do not relate to a case of 'stop payment' instruction to the
bank as the cheque in question had been returned due to mismatching of the signatures but
more than that the Petitioner having neither raised nor proved to the contrary as envisaged
under Section 139 of the NI Act that the cheques were not for the discharge of a lawful debt
nor making the payment within fifteen days of the notice assigning any reason as to why
the cheques had at all been issued if the amount had not been settled, obviously the plea of
rebuttal envisaged under Section 139 does not come to his rescue so as to hold that the
same would fall within the realm of rebuttable presumption envisaged under Section 139 of
the Act. I, therefore, concur with the judgment and order of learned Brother Justice Thakur
subject to my views on the dishonor of cheques arising out of cases of 'stop payment'
instruction to the bank in spite of sufficiency of funds on account of bonafide dispute
between the drawer and drawee of the cheque. This is in view of the legal position that
presumption in favour of the holder of a cheque under Section 139 of the NI Act has been
held by the NI Act as also by this Court to be a rebuttable presumption to be discharged by
the accused/drawee of the cheque which may be discharged even at the threshold where the
magistrate examines a case at the stage of taking cognizance as to whether a prima facie
case has been made out or not against the drawer of the cheque.

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An Ordinance further to amend the Negotiable Instruments Act, 1881
Whereas the Negotiable Instruments (Amendment) Ordinance, 2015 was promulgated by the President on the 15th day of June, 2015;
And whereas the Negotiable Instruments (Amendment) Bill, 2015 to replace the Negotiable Instruments (Amendment) Ordinance, 2015 has been passed by the House of the People and is pending in the Council of States;
And whereas Parliament is not in session and the President is satisfied that circumstances exist which render it necessary for him to take immediate action;
Now, therefore, in exercise of the powers conferred by clause (1) of Article 123 of the Constitution, the President is pleased to promulgate the following Ordinance—

1. Promulgated by the President on September 22, 2015 and published in the Gazette of India, Extra., Part II, Section 1, dated 22nd September, 2015, pp. 1-4, No. 34

Section 1. Short title and commencement
1. Short title and commencement.— (1) This Ordinance may be called the Negotiable Instruments (Amendment) Second Ordinance, 2015.
2. (2) It shall be deemed to have come into force on the 15th day of June, 2015.

Section 2. Amendment of Section 6
4. Amendment of Section 6.— In the Negotiable Instruments Act, 1881 (26 of 1881)(hereinafter referred to as the principal Act), in Section 6,—
5. (i) in Explanation I, for clause (a), the following clause shall be substituted, namely—
6. “(a) “a cheque in the electronic form” means a cheque drawn in electronic form by using any computer resource and signed in a secure system with digital signature (with or without biometric signature) and asymmetric crypto system or with electronic signature, as the case may be;”;
7. (ii) after Explanation II, the following Explanation shall be inserted, namely—
8. Explanation III.— For the purposes of this section, the expressions “asymmetric crypto system”, “computer resource”, “digital signature”, “electronic form” and “electronic signature” shall have the same meanings respectively assigned to them in the Information Technology Act, 2000 (21 of 2000).

Section 3. Amendment of Section 142
9. Amendment of Section 142.— In the principal Act, Section 142 shall be numbered as sub-section (1) thereof and after sub-section (1) so as numbered, the following sub-section shall be inserted, namely—
10. “(2) The offence under Section 138 shall be inquired into and tried only by a court within whose local jurisdiction,—
11. (a) if the cheque is delivered for collection through an account, the branch of the bank where the payee or holder in due course, as the case may be, maintains the account, is situated; or
12. (b) If the cheque is presented for payment by the payee or holder in due course otherwise through an account, the branch of the drawee bank where the drawer maintains the account is situated.

13. **Explanation.** — For the purposes of clause (a), where a cheque is delivered for collection at any branch of the bank of the payee or holder in due course, then, the cheque shall be deemed to have been delivered to the branch of the bank in which the payee or holder in due course, as the case may be, maintains the account.”.

**Section 4. Insertion of new section**

14. **4. Insertion of new section.**— In the principal Act, after Section 142, the following section shall be inserted, namely—

15. “142-A. **Validation for transfer of pending cases.**— (1) Notwithstanding anything contained in the Code of Criminal Procedure, 1973 (2 of 1974) or any judgment, decree, order or directions of any court, all cases transferred to the court having jurisdiction under sub-section (2) of Section 142, as amended by the Negotiable Instruments (Amendment) Ordinance, 2015 (6 of 2015), shall be deemed to have been transferred under this Ordinance, as if that sub-section had been in force at all material times.

16. (2) Notwithstanding anything contained in sub-section (2) of Section 142 or subsection (1), where the payee or the holder in due course, as the case may be, has filed a complaint against the drawer of a cheque in the court having jurisdiction under sub-section (2) of Section 142 or the case has been transferred to that court under sub-section (1), and such complaint is pending in that court, all subsequent complaints arising out of Section 138 against the same drawer shall be filed before the same court irrespective of whether those cheques were delivered for collection or presented for payment within the territorial jurisdiction of that court.

17. (3) If, on the date of the commencement of this Ordinance, more than one prosecution filed by the same payee or holder in due course, as the case may be, against the same drawer of cheques is pending before different courts, upon the said fact having been brought to the notice of the court, such court shall transfer the case to the court having jurisdiction under sub-section (2) of Section 142, as amended by the Negotiable Instruments (Amendment) Ordinance, 2015 (Ord. 6 of 2015), before which the first case was filed and is pending, as if that sub-section had been in force at all material times.”. 

**THE END**