One of the more common ways to go through a financial business transaction is with a bill of exchange.

A Bill of Exchange, also referred to as BOE, is an unconditional, written order by an entity (the drawer) to another (the drawee) to pay an amount, either right away or on a set date for payment of goods or services received. Once the payee receives, accepts, and signs the bill, it then becomes a post-dated check and a binding contract between the two parties.

The two parties typically involve two parties: a drawer—the person who has the bill drafted or written up, and a drawee—the person who is responsible for payment on the bill. When the draft becomes a bill, the drawer then becomes the “payee”, or the receiver of payment from the drawee or buyer.

A bill of exchange can either be paid immediately, which is known as a “sight bill” or on a fixed date, which is known as a “term bill.”

Before a bill of exchange is accepted and signed, it is referred to as a “draft”. All “drafts” are negotiable until signed. Only until “drafts” are signed do they become a bill of exchange and are put into order.

It’s clear that various types of bills of exchange can be confusing, and can vary depending on their purpose. Let's take a look at the **various types of bills of exchange.**

What Are the Various Types of Bills of Exchange?

Now that you have a better understanding of what a BOE is, here is a breakdown of the various types of bills of exchange.

Bills of Exchange: Period

Bills of exchange can be based on period as demand bills and term bills.

Demand bills do not have a fixed date associated with them. They are payable at any time.

Term bills of exchange are payable after a certain amount of time or on a fixed date.

Bills of Exchange: Object

Bills of exchange are based on objects or purpose. There are trade bills and accommodation bills.

Trade bills are typically drawn by the seller of goods and are accepted by the buyer.

Accommodation bills do not involve the sale or purchase of any goods and/ or services; rather they are agreements between two parties with the purpose of financial support.

Bills of Exchange: Classification

Bills of exchange can also be based on classification. Bills of exchange can be classified as inland bills and foreign bills, and often involve international trade.

Inland bills are drawn between two parties that are located or reside in the same country and thus are made payable in the same country.

Foreign bills are drawn and involve parties in two different countries. For example, an international bill might involve a seller located in the United States, where the bill is drawn, and a buyer in England. In this example, the bill is made payable in England, the buyer or drawee's location.

Hundi

Hundi/**Hundee** is a financial instrument that developed in Medieval India for use in trade and credit transactions. Hundis are used as a form of remittance instrument to transfer money from place to place, as a form of credit instrument or IOU to borrow money and as a bill of exchange in trade transactions. The Reserve Bank of India describes the Hundi as "an unconditional order in writing made by a person directing another to pay a certain sum of money to a person named in the order.

History

Hundis have a very long history in India. Written records show their use at least as far back as the sixteenth century. The merchant Banarasi Das, born 1586, received a hundi for 200 rupees from his father to enable him to borrow money to start trading.[2]

During the colonial era, the British government regarded the hundi system as indigenous or traditional, but not informal. They were reluctant to interfere with it as it formed such an important part of the Indian economy and they also wished to tax the transactions taking place within the system.[3] Official hundi forms were produced incorporating revenue stamps bearing the image of British monarchs, including Queen Victoria, and disputes between merchants often entered the court system, so in no way was the system an underground one even though it did not take place through normal banking channels.

Cheque

A cheque is a document issued by an individual to his or her bank, directing them to pay the person whose name is mentioned in the document the sum specified in it for such a document to be valid, it is important that the person issuing it has an account in the said bank. An issuer of the cheque is called drawer, and the one to whom it is issued is the drawee.

Types of Cheque

The purpose of negotiable instruments is to ensure that monetary transactions can take place smoothly and as per the required specifications. For instance, cash is the most preferred mode to make immediate payments. For payments that can be accepted at a later date, people accept cheques. Lately, for a direct account to account transaction, we have credit and debit cards. Each type of payment has a specific negotiable instrument attached to it. In case of cheques, there are different types of cheque which one uses in various circumstances.

Some of the most common types of cheque are listed here.

1. <u>Bearer Cheque</u>

The first among the types of cheques is the bearer cheque. This cheque is payable to the bearer of the check or whose name the cheque carries in the column meant for the name of the drawee. Ideally, this cheque has “or bearer” printed at the end of the dotted lines, which is meant to have the name of the drawee. This cheque can be presented over the counter of the drawee bank and is payable to the one presenting it. It is a transferable instrument and thus can be passed on to another by mere delivery, there is no need to endorse this type of cheque.

2. <u>Order Cheque</u>

In this cheque, the printed word “bearer” is canceled thereby making it payable only to the person whose name is written in the place of drawee. Once “bearer” has been canceled on the cheque, it is automatically understood that this is an order cheque and the bank can only complete the transaction once they have identified, to their satisfaction, the bearer of the cheque to be the same person, as named in it.

3. <u>Crossed Cheque</u>

In a crossed cheque, the drawer makes two parallel transverse lines at the top left corner of the cheque with or without writing “a/c payee”. This makes sure that no matter who presents the cheque to the drawer bank, the transaction is made into the account of the person named in the cheque only. The advantage of cross cheque is that it reduces the risk of money being given to an unauthorized person because this type of cheque can only be cashed by the drawee’s bank.

4. Open Cheque

Also known sometimes as an uncrossed cheque. Any cheque that is not crossed comes under open cheque category. This cheque can be presented to the drawer’s bank and is payable to the person presenting it. The drawee of this cheque can also transfer it to another person by writing their name on the cheque and thereby making them the drawee. To make the cheque open, the word OPEN should not be crossed off, and the person issuing the cheque must ensure his/her signatures on both the front and the back of the cheque. Otherwise, the payee may be denied the payment by the bank. The payee is also expected to sign at the back of the cheque while receiving the amount.

5. Post- Dated Cheque

A cheque bearing a later date than the one on which it is actually issued, is called as a post-dated cheque. This cheque maybe presented to the drawee bank at any time after its issuance, but the money will not be transferred from the account of the payer until the date mentioned on the cheque. The payee can also present the cheque after the date mentioned on the cheque too. It will still be valid, and the money will be transferred to the payee's account.

6. Stale Cheque

As the name suggests, a stale cheque is one which is past its validity period and can no longer be encashed. Initially, this period was six months from the date of issue. Now, this period has been reduced to three months.

7. Travelers' Cheque

These may be equated with a universally accepted currency. A travelers' cheque is available almost everywhere and comes in various denominations. This is an instrument issued by the bank itself to make payments from one place to another. There is no expiry date of a travelers' cheque and thus it can be used during your next travel as well, or you have the option to encash it once you land back in India.

8. Self Cheque

The drawer usually issues a self-cheque to his or her self. The name column of the drawee has the word "self" written in it. A self-cheque is drawn when the drawer wishes to withdraw money from the bank in cash for his use. This cheque can only be encashed in the account holder's or the drawer's bank. This cheque must be used carefully because if it is lost, another person may easily get it encashed by visiting the drawer's bank.

9. Bankers Cheque

A banker's cheque, as is self-explanatory here, is a cheque issued by the bank on behalf of the account holder in order to make payment of a specified sum, by order, to another person within the same city. It is valid only for three months from the date of issue, but if needed, can be re-validated upon fulfilling certain legal obligations.