

Tutorial Notes

Class: B.Com (Prog.) Semester VI (DSE3)

Subject: Banking & Insurance.

Topic: Endorsement and its types.

Prepared by: Dr. Aftab Alam

Faculty of Commerce, Karim City College, Jsr.

Endorsement

An endorsement is the mode of negotiating a negotiable instrument. A negotiable instrument payable otherwise than to a bearer can be negotiated only by endorsement and delivery. An endorsement, according to sec. 15 of the NI Act is “when the maker or holder of a negotiable instrument signs the same, otherwise than as such marker. For the purpose of negotiation on the back or face thereof or on a slip of paper annexed thereto, he is said to endorse the same and is called the endorser. The person to whom the instrument is endorsed is called the endorsee.

“The word endorsement is said to have been derived from Latin ‘en’ means ‘upon’ and ‘dorsum’ meaning ‘the back’. Thus usually the endorsement is on the back of the instrument though it may be even on the face of it. Where no space is left on the instrument, the endorsement may be made on a slip of paper attached to it. This attached slip of paper is called ‘Allonge’.

Types of Endorsement

According to the N.I. Act, 1881 endorsement may take any of the following forms:

1. Endorsement in Blank or General Endorsement:

In case of an endorsement in blank, the payee or endorser does not specify an endorsee and he simply signs his name (S. 16 NIA).

2. Endorsement in Full or Special Endorsement:

When the payee or endorser specifies the person to whom or to whose order the instrument is to be paid, the endorsement is called special endorsement or endorsement in full. The specified person i.e. the endorsee then becomes the payee of the instrument.

3. Restrictive Endorsement:

An endorsement is restrictive when it prohibits further negotiation of a negotiable instrument. Sec. 50 of the NI Act 1881 states. “The endorsement may, by express words, restrict or exclude the right to negotiate or pay constitute the endorsee an agent to endorse the instrument or to receive its contents for the endorser or for some other specified person.”

For example, if B endorses an instrument payable to bearer as follows, the right of C to further negotiate is excluded

- Pay the contents to C only
- Pay C for my use

4. Partial Endorsement:

If only a part of the amount of the instrument is endorsed, it is a case of partial endorsement. An endorsement which purports to transfer to the endorsee only a part of the amount payable, or which purports to transfer the instrument to two or more endorsees severally, is not valid.

5. Conditional Endorsement:

If the endorser of a negotiable instrument, by express words in the endorsement, makes his liability or the right of the endorsee to receive the amount due thereon, dependent on the happening of a specified event, although such event may never happen, such endorsement is called a conditional endorsement (Section 52 of NI Act). Such an endorser gets the following rights:

He may make his liability on the instrument conditional on the happening of a particular event. He will not be liable to the subsequent holder if the specified event does not take place to the instrument even before the particular event takes place.