



## **RESERVE BANK OF MALAWI**

### **ANNUAL GLOBAL MONEY WEEK 10-17 MARCH 2014**

#### **USING CHEQUES TO CASH MONEY AND PAY FOR BILLS**

How many people out there know what a cheque is and how it works? Do you know the benefits of using a cheque? These are things we take for granted and hardly think about. However, we can assure you that most people cannot answer these two questions.

A 64 year old woman has been running a personal business for the past 12 years. Three years ago, the business grew to a point where she would boast that her earnings were way better than those of a working class person. When we visited her, she was glad to see us and requested we give her advice some advice pertaining to her business.

She indicated that her business had grown to a point where she could now open a current account so that she can “sign” cheques when buying goods like the Mzungu across the road. She therefore needed help in opening a current account and getting a cheque book.

We laughed and asked her if she knew what a cheque was and how it works. She told us it’s a piece of paper you sign and use to buy goods.

We sat down with her and gave her a lecture which is being published here, not for the 64 year old woman but for the smart children, youth and general public out there who have the privilege to receive this information at an earlier age than the 64 year old woman.

#### **What is a Cheque?**

A cheque is an instrument in writing containing an unconditional order, addressed to a banker. It is signed by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money to the order of certain person or to the bearer of the instrument."

The definition highlights the following:

- (i) A cheque is a written order to pay

- (ii) It is addressed to a banker or a bank
- (iii) The owner of the cheque must have money deposited into a bank account
- (iv) The banker pays the cheque bearer the amount written on the cheque on demand, i. e. on presentation of the cheque to the banker

It is important to note that for one to have a cheque book they must open a current account with a bank.

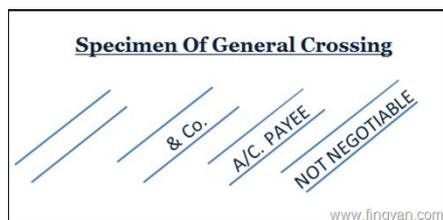
## **Benefits of using cheques**

It is more secure as it cannot be cashed at any unsecure area. Secondly, it is only the instrument bearer who can cash it.

## **Types of cheques**

### **1. Crossed Cheque**

When a cheque is crossed it means the cheque has two parallel lines drawn on the face of the cheque. A crossed cheque cannot be encashed at the cash counter of a bank. It can only be credited (deposited) to the payee's account.



### **2. Uncrossed / Open Cheque**

When a cheque is not crossed, it is known as an "Open Cheque" or an "Uncrossed Cheque" (has no parallel lines). The payment of such a cheque can be obtained at the counter of the bank. An open cheque may be a bearer cheque or an order one.

### **3. Anti-Dated Cheque**

If a cheque bears a date earlier than the date on which it is to be presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid up to six months from the date of the cheque.

### **4. Post-Dated Cheque**

If a cheque bears a date which is yet to come (future date) then it is known as post-dated (PD) cheque. A post-dated cheque cannot be honoured earlier than the date on the cheque.

### **5. Stale Cheque**

If a cheque is presented for payment after six months from the date of the cheque it is called stale cheque. A cheque is valid for a period of six months from the date of issue. Once a cheque is stale, it cannot be honoured by the bank.

### **How to use a cheque**

A cheque must be in writing. It can be written in ink pen, ball point pen, typed or even printed. Oral orders are not considered as cheques. The following outlines how to effectively use a cheque;

#### **1. Cheque is drawn by a customer on his bank**

A cheque is always drawn on a specific bank. The Cheque book facility is made available only to current account holders of that particular bank.

#### **2. Cheque must be signed by the account holder**

A cheque must always be signed by account holder. Unsigned cheques or signed by persons other than the account holder or drawer are not regarded as authentic.

#### **3. A cheque must mention the exact amount to be paid**

Cheques must be for money only. The amount to be paid by the banker must be certain. It must be written in both words and figures.

#### **4. Payee must be certain**

The drawer (account holder) of the cheque should be certain to whom the payment of a cheque is to be made (payee). Payee could be either a real person e.g. *Vodacom Nsanje* or an artificial person such as *Joint Stock Company*. The name of the payee must be written on the cheque or it can be made payable to bearer (payable to the person who presents it to the bank for encashment). However, bearer cheques are risky because if such cheques are lost, they can be encashed by anyone who finds the lost cheques.

#### **Cheque must be duly dated by the drawer**

A cheque must be duly dated by the account holder (drawer). The cheque must indicate clearly the date, month and the year.

#### **A Cheque always has 3 parties:**

1. Drawer: A drawer is a person (account holder) who draws money from an a bank account using a cheque.
2. Drawee: A drawee is a bank on whom a cheque is drawn.
3. Payee: A payee is a person in whose favour a cheque is drawn

### **Benefits of using cheques**

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### **Caution!**

1. It is risky to keep blank signed bearer cheques
2. You should always keep your cheque book in a safe and secure place
3. Never issue a cheque when there is no money in your account as you will incur extra costs in penalties

The 64 year old woman has managed to maintain her current account for the past three years now. We are certain that children, the youth and the general public out there will be smarter and responsible with their cheques.

