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(72) Inventor; and

(71) Applicant : KAMATH, Mohanchandra, Narayan [IN/IN]: A-301, Pravah Apartments, Near Mother Milk Place, Judges Bungalow Area, Bodakdev, Ahmedabad 380 015 (IN).

(74) Agents: ACHARYA, Rajeshkumar, H. et al; HK Avenue 19, Swastik Society, Navarangpura, Ahmedabad 380 009 (IN).


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(54) Title: BANKING INSTRUMENT FOR ISSUE OF POST DATED DEMAND DRAFT / POST DATED PAY ORDER

(57) Abstract: The present invention discloses a banking instrument to facilitate customers of a bank by post dating their demand draft or pay order and getting interest rate on it depending upon the bank policy. Here the principal amount is debited to the concerned term deposit account and the interest is debited to the expenditure interest on deposit account. On the due date, the principal amount along with the interest which comes to the amount of draft is transferred to draft payable account being demand liability.
BANKING INSTRUMENT FOR ISSUE OF POST DATED DEMAND DRAFT / POST DATED PAY ORDER

Field of the invention

The invention specifically relates to a baking instrument which facilitates the customers of a bank by post dating their demand draft or pay order at a discounted amount.

Background of the invention

Banking is couple of centuries old and indigenous banking in India is more than hundred years old. However, there is no instrument available in the market to take care of customer’s requirement to purchase a demand draft (or a pay order) before due date on a discounted amount.

One of already known methods and systems include US6006207 which discloses implementation of a loan that provides a way for loan holders to induce customers to prepay portions of loan balances when interest rates are higher than the loan interest rate. Customers are offered discount on prepayment amounts. The full prepayment is credited to customer’s loan balance, the discounted prepayment is received from the customer of loan and the prepayment amount is deducted from the principal balance of the loan.
However, the present invention is related to post dating a draft where the draft is to be received on the current date payable on the post date. Moreover, the present invention proposes interest depending on the bank policy for making such post dated draft.

JP 2003022468 discloses the payment processing terminal specifying the claimant information where a reception date and the prepayment limit day is compared and a discounted amount is computed according to the result of comparison. The payment processing terminal then outputs the discount request amount after subtracting the discount amount from the bill which is to be paid by the payer not the claimant.

US2002049670 discloses payment intermediary system where the payer sends a payment intention notification which forwards it to payment intermediary. Thereafter a deposit account notification is sent to payment intermediary system which deposits an amount indicated by the payer in the deposit account if it is received within a payment period or on payment due date. Funds are paid when a deposit account identification is received within a payment period or a payment due date for each payment which prevents failed deposits if the recipient’s deposit account is changed or lost.
Thus, the patent relates to the present invention only in the matter that it keeps the prepayment amount in the intermediary system for a temporary period of time like wise the present invention provides the method for holding the prepaid amount of draft in the bank for temporary period, but differs in giving interest on the amount depending on the period and bank policy.

US2004002914 discloses a method of extended term financing using financial instrument known as time drafts. A seller sells goods and services to the buyer pursuant to a purchase agreement that includes extended term financing of the purchase price. A finance company buys the time draft and investigates the buyer's credit history. If it is approved, the seller prepares the time draft consisting of a face payment amount and a future payment due date. On the due date, the time draft becomes equivalent of a regular cheque.

But the present invention relates to demand draft and pay orders for which there is no risk of bouncing a cheque or any such fraudulent act which may be the case for the cited document.

Object of the invention

The main object of the present invention is to provide a banking instrument for post dated demand draft or post dated pay order.
The other object of the present invention is to provide a banking instrument which is advantageous for customers when they go for prepayment of amount and by doing so they get interest on it.

**Summary of the invention**

The present invention relates to post dating demand draft or pay order. The invention discloses a banking instrument which allows the customer of a bank to get a post dated demand draft or pay order issued on current date which has to be paid on later date, with interest depending upon the bank's discount policy.

**Detailed Description of the invention**

Many times a customer is required to make payment of a certain amount on a future date, but he is already having the amount with him and he does not get any interest on making payment on a date prior to due date. He is caught between dilemma of making prepayment without any interest or keep his funds in his current account and make payment on due date thereby running the risk of utilizing the funds for some other exigencies and defaulting on the commitment.

For example, if some installments in housing loan, personal loan, consumer loan etc. are to be prepaid, then the financing bank does not allow any discount, rather levy additional charges by way of prepayment charges. Moreover, the payment of raw
material etc. may be due on 15th of the month, but on 1st of the month the customer has earmarked the funds and he does not get any benefit of making payment on 1st of the month.

He also would not like to have excess liquidity for fear of diversion. In such cases an instrument which is post dated issued on the current date with interest ie; issued on discounted amount, would be the ideal solution for the customer.

According to the invention, the customer will be required to make the payment of principal amount calculated on the basis of rate of interest prevailing in the bank for the period applicable. For example, in case the customer approaches the bank on 1st of June and required the draft to be made payable on 16th of July, then amount collected from him will be the principal amount discounted on the face value for for 45 days at the rate of interest applicable for 45 days. The customer will immediately be issued the demand draft or the pay order as the case may be.

Explaining in detail, a term deposit account will be opened in the name of the customer with the principal amount. If the customer is not an existing customer, then Know Your Customer (KYC) requirements shall be adhered to. On the due date, the principal along with the interest which will come to the amount of draft, will be transferred to draft payable account being demand liability. The principal amount will be
debited to the concerned term deposit account and the bank will debit the interest to the expenditure interest on deposit account.

The invention is illustrated in more detail in the following example. The example describes and demonstrates embodiments within the scope of the present invention. This example is given solely for the purpose of illustration and is not to be construed as limitation of the present invention, as many variations thereof are possible without departing from the spirit and the scope.

Assume that a customer wants a demand draft payable on 16th September for Indian Rupees (INR) 100000/- (Indian Rupees One Hundred Thousand Only) and he approaches the bank for issue of Demand Draft on 1st September. Assume the rate of interest applicable for 15 days is 4% per annum. Now on 1st September, the bank will debit customer's account for INR 99836/- which is the principal amount at the rate of 4% interest for 15 days and issue demand draft for INR 100,000/- being the face value.

So a short term deposit account (term liability) will be created in the bank with the credit of principal amount INR 99836/-. On 16th September this amount will be debited to the short term deposit account. The bank will pay interest INR 164/- calculated from 4% interest rate from its expenditure interest on deposit account. And thus the draft payable account (demand liability) will credited with the total amount INR
100000/-

The principal amount can be calculated in following way.

Let Principal amount be X, then

\[ X + X \times \frac{4}{100} \times \frac{15}{365} = 100000 \]

Multiplying both sides by 36500, we get

\[ 36500X + 60X = 36500 \times 100000 \]

\[ 36560X = 36500 \times 100000 \]

Therefore

\[ X = \frac{36500000000}{36560} \]

\[ X = 99836 \]

This is can be clearly understood from the table shown below.

<table>
<thead>
<tr>
<th>Demand Draft payable on 16th September = INR 100000/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Amount</td>
</tr>
<tr>
<td>Principal Amount</td>
</tr>
<tr>
<td>Principal Amount</td>
</tr>
<tr>
<td>Description</td>
</tr>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>Interest on Principal Amount</td>
</tr>
<tr>
<td>Demand Draft Amount</td>
</tr>
</tbody>
</table>
I claim,

1. Post Dated Demand Draft / Post Dated Pay Order consists of a banking instrument,
   wherein a bank issues the demand draft or pay order on current date payable on post date;
   wherein the amount of demand draft or pay order is the sum of principal amount and interest on principal amount.

2. Banking instrument as claimed in claim 1, wherein the principal amount is calculated on the basis of rate of interest prevailing in the bank for the period applicable.

3. Banking instrument as claimed in claim 1 and 2, wherein the principal amount is credited into the short term deposit account of the bank.

4. Banking instrument as claimed in claim 1, wherein expenditure interest paid on deposit account of the bank provides interest on principal amount.

5. Banking instrument as claimed in claim 1, wherein the principal amount along
with the interest, being the amount of draft, is transferred to Draft Payable
Account being demand liability on due date.

Banking instrument substantially herein described with reference to the foregoing
description.