

# What is the Negotiable Instruments Act, 1881?

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## About Negotiable Instruments Act, 1881

- It came into force on 1st March 1881, and it extends to the whole of India.
- It was enacted to provide a uniform legal framework for the use of negotiable instruments in India.
  - A negotiable instrument is a piece of paper that guarantees the payment of a certain sum of money, either immediately upon demand or at any predetermined period, and whose payer is typically identified.
  - It is a document that is envisioned by or made up of a contract that guarantees the unconditional payment of money and may be paid now or at a later time.
- Section 13 of the Act states that, "A negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer".
  - However, no section of this act affects the usage of paper currency, which is governed by the Indian Paper Currency Act of 1871.
- The Act has been amended several times to ensure that it is in line with changing business practices and legal requirements.
  - It was amended in 1988 and now includes cheque defaulters as well. A person who issues cheques without sufficient balance in their account is considered a 'defaulter' and the act of 'cheque bounce' is a criminal offence.

- The 2015 amendment allows filing cheque bounce cases in a court at a place where the cheque was presented for clearance and not the place of issue.
  - Promissory Notes:
    - It is a written promise to pay a specific amount of money to the person named in the document.'
    - It can be transferred by endorsement and delivery.
    - In the case of State Bank of India vs. Gangadhar Ramchandra Panse, the court held that a [promissory note](#) must contain an unconditional promise to pay a specific amount of money. If the promise is conditional, the document will not be considered a promissory note.
  - Bills of Exchange:
    - It is a written order by the maker to the payee to pay a certain amount of money to a third party.
    - The person who issues the bill is called the 'drawer,' and the person to whom the payment is to be made is called the 'drawee.' The person in whose favor the payment is to be made is called the 'payee.'
    - It can be transferred by endorsement and delivery.
    - In the case of Bank of India vs. O.P. Swarnakar, the court held that a bill of exchange is a negotiable instrument that can be transferred by endorsement and delivery. The transfer of a bill of exchange is valid even if the transferor does not own the instrument at the time of transfer.
  - Cheques:
    - A cheque is a written order by the drawer to the bank to pay a certain amount of money to the payee. The bank is required to pay the amount mentioned in the cheque to the payee or their authorized representative.
    - It can be transferred by endorsement and delivery.
    - In the case of Canara Bank vs. Nuclear Power Corporation of India Ltd, the court held that a cheque must be drawn on a specified bank and must not be expressed to be payable otherwise than on demand.
    - The court also held that the bank is under a legal obligation to pay the cheque amount to the payee or their authorized representative, even if the drawer has insufficient funds in their account.
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## Q1) What are Promissory Notes?

A promissory note is a written promise by one party (the note's issuer or maker) to pay another party (the note's payee) a definite sum of money, either on demand or at a specified future date. A promissory note typically contains all the terms involved, such as the principal debt amount, interest rate, maturity date, payment schedule, the date and place of issuance, and the issuer's signature.

**Source:** [S.143A NI Act | Interim Compensation In Cheque Dishonour Cases Isn't Mandatory : Supreme Court Lays Down Broad Parameters](#)

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