# BHARAT SCHOOL OF BANKING

# DEMAND DRAFTS (DD), DD VS. CHEQUES

## Demand Draft

It is a **negotiable** instrument similar to a **bill of exchange,** with some special features.

**Demand Draft** or **DD** is always issued by a **bank (drawer)** on behalf of its **customers** after taking the amount from him/her. The **bank** then directs **another bank** or its **own branches** (**drawee**) to **pay** a certain sum (the **amount** received from the **customer**) to the specified party **(payee**, whom the **customer** wants to pay).

You could think that why would you use a **Demand Draft** instead of a **Cheque**. There are **few** good **reasons** behind it -

- Before **issuing** a **DD,** the **bank** will take the **amount (advance payment)** from the **customer**, i.e., the **payment** is **guaranteed**. But in case of **Cheque**, it could **bounce**, if the **account** of the **customer** doesn't have **sufficient balance** in it. So, to eliminate the **risk**, the **payee** could ask you to provide a **DD** instead of a **Cheque**.
- For issuing a **DD**, you **don't need** a **bank account**, you can go to the **bank counter,** and issue it. But **cheque** is inherently related with a bank **account**.

Now, try to understand about the **differences** between a **Demand Draft** and a **Cheque** -

| | Demand Draft (DD) | Cheque |
|---|---|---|
| **Parties** | **Drawer –** bank only (individual pays)**, Drawee –** Same or other banks, **Payee –** any party | **Drawer –** individual/ac holder**, Drawee –** banker of individual, **Payee –** any party |
| **Negotiability** | DD can only be made **payable to** a specified **party**, also known as **pay to order** | Cheques can also be made **payable to** the **bearer**, along with **pay to order** |
| **Payments** | **Orders** of payment by a **bank** to **another bank** | **Orders** of payment from an **account holder** to the **bank** |
| **Honor** | Always **honored**, because already paid | Can be **dishonored**, depending on **account balance** |
| **Guarantee** | Issuer party is **backed** by a **bank guarantee** | Issuer party is liable to the cheque and **not backed** by a **bank guarantee** |
| **Defined** | Not precisely defined in NIA Act | **NIA Act, 1881** |