UNIT – 3

# Banker Customer Relationship Expanded

Relationship • Accounts • Special Customers • Lien • Illiterate • Lunatic • Partnership • HUF • Trustees • Companies

Banking Law – Expanded Edition

SYNOPSIS

# Unit Overview

This expanded unit covers the complete banker-customer relationship (general and special), definition of customer (pre-CBS and post-CBS), all major types of accounts, and detailed treatment of special classes of customers including minors, illiterate persons, lunatics, partnership firms, Joint Hindu Family, trustees, companies and co-operative societies, along with banker’s lien.

LEARNING OBJECTIVES

# What You Will Learn

### 01 Relationship

Explain debtor-creditor and all special relationships

### 02 Customer

Distinguish pre-CBS and post-CBS concept of customer

### 03 Accounts

Describe Savings, Current, RD, FD, DEMAT, NRI accounts

### 04 Special

Apply rules for minor, illiterate, lunatic, partnership, HUF, trustees, companies

### 05 Lien

Explain general lien under Section 171 and its limitations

### 06 Precautions

Know practical safeguards while opening and operating special accounts

RELATIONSHIP

# Banker-Customer Relationship – Overview

*The relationship arises when the banker agrees to open an account. It is contractual and trust-based. Nature depends on the type of transaction.*

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|---|---|
| **General** | Debtor-Creditor (when customer deposits) and Creditor-Debtor (when customer borrows) |
| **Special** | Trustee-Beneficiary, Bailee-Bailor, Agent-Principal, Lessor-Lessee |
| **Trust** | Banking is a trust-based relationship; often long-term and generational |

# Debtor-Creditor Relationship in Detail

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| **Deposit** | Customer deposits money → Bank becomes debtor, customer becomes creditor |
| **Ownership** | Money becomes bank’s property; bank can use it as it likes |
| **Demand** | Bank is obliged to pay only when the customer demands |
| **Loan** | On borrowing, relationship reverses – bank is creditor, customer is debtor |
| **Documents** | Borrower executes documents and offers security before availing credit |

# Special Relationships Explained

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| **Trustee** | When valuables are entrusted to be returned on demand |
| **Bailee** | Delivery of goods for a purpose (safe custody / lockers) – Section 148 Contract Act |
| **Agent** | Collection of cheques, payment of bills, standing instructions – Section 182 |
| **Lessor** | Safe deposit lockers – bank is lessor, customer is lessee |
| **Charges** | Bank is entitled to reasonable charges for agency and other services |

CUSTOMER DEF

# Who is a Customer? – Detailed View

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| **No Statutory Definition** | Determined by case law and RBI KYC guidelines |
| **KYC Definition** | Person/entity maintaining account or business relationship; beneficial owner; professional intermediary clients; high-risk single transactions |
| **Pre-CBS View** | Customer was regarded as customer of a particular branch only |
| **Post-CBS View** | Customer is customer of the bank as a whole; can operate from any branch |
| **Technical Position** | Persons who only purchase drafts or encash cheques without maintaining account are generally not treated as customers |

# Savings and Current Accounts

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| **Savings** | For individuals; interest bearing; restriction on number of withdrawals; ATM/Debit card |
| **BSBDA** | Basic Savings Bank Deposit Account – no minimum balance requirement |
| **Current** | For businessmen, companies, institutions; no interest; unlimited transactions; overdraft facility available |
| **Salary Account** | Opened under employer-bank arrangement; salary credited periodically |

RD FD

# Recurring Deposit and Fixed Deposit

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| **RD** | Fixed monthly instalment; tenure usually 6 to 120 months; premature withdrawal with penalty |
| **FD** | Lump-sum deposit for fixed period; higher interest; tenure from 7 days to 10 years |
| **Tax Saving FD** | Eligible for deduction under Section 80C |
| **Insurance** | DICGC covers up to ₹5 lakh (principal + interest) |
| **Loan against FD** | Available usually as overdraft facility |

# DEMAT and NRI Accounts

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| **DEMAT** | Electronic holding of shares and securities; handled by NSDL and CDSL |
| **Benefits** | Easy transfer, reduced paperwork, anywhere trading |
| **NRO** | For income earned in India / foreign earnings transferred to India |
| **NRE** | For Indian citizens working abroad; repatriable |
| **FCNR** | Foreign currency term deposits; withdrawn only on maturity |

MINOR

# Special Customer – Minor

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| **Age** | Below 18 years (or 21 if guardian appointed by court) |
| **Contract** | Agreement by minor is void under Indian Contract Act |
| **Guardian Account** | Below 10 years – operated by natural/legal guardian |
| **Self-operated** | 10 years and above – RBI permits independent operation with restrictions |
| **No Overdraft** | Minors’ accounts cannot be overdrawn |
| **RBI Directive** | Account can be opened with mother as guardian even if father is alive |

ILLITERATE

# Special Customer – Illiterate Persons

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| **Opening** | Account can be opened with thumb impression instead of signature |
| **Witness** | Thumb impression should be attested by a witness known to the bank |
| **Photograph** | Recent photograph is usually obtained and affixed |
| **Operations** | Withdrawals generally require personal presence; left hand thumb for males, right for females is conventional practice |
| **Safeguards** | Bank must take extra care to prevent fraud; explain terms clearly |

LUNATIC

# Special Customer – Lunatics / Persons of Unsound Mind

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| **Capacity** | A person of unsound mind is not competent to contract |
| **Existing Account** | If customer becomes lunatic, bank should stop operations on the account |
| **Guardian/Manager** | Account can be operated by a manager/guardian appointed by the court under Mental Health Act / relevant law |
| **Proof** | Bank should insist on certified copy of the court order |
| **Liability** | Bank is protected if it acts in good faith on the basis of court order |

PARTNERSHIP 1

# Partnership Firms – Account Opening & Operation

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| **Opening Formalities** | Partnership deed, declaration of partners, KYC of all partners, photographs, PAN of firm |
| **Operation** | Any partner can operate unless the mandate restricts it to specific partners |
| **Mandate** | Bank should obtain clear operational instructions signed by all partners |
| **Cheques** | Cheques drawn by authorised partners bind the firm |

PARTNERSHIP 2

# Partnership – Liability, Death, Retirement, Insolvency

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| **Liability** | Partners are jointly and severally liable for firm's debts |
| **Death** | Death of a partner dissolves the firm (unless partnership at will provides otherwise); bank should stop operations and settle |
| **Retirement** | Retiring partner remains liable for acts done before retirement unless public notice is given |
| **Insolvency** | Insolvency of a partner dissolves the firm; bank must act cautiously |
| **New Partner** | Introduction of new partner requires fresh mandate and documents |

# Joint Hindu Family (HUF) Accounts

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| **Karta** | Manager of the HUF; normally the senior-most male member (now females can also be Karta) |
| **Operation** | Account is generally operated by the Karta |
| **Liability** | Karta has unlimited liability; other members have limited liability to the extent of their share in joint family property |
| **Opening** | HUF letter, list of coparceners, KYC of Karta and major members |
| **Precaution** | Bank should verify that the transaction is for the benefit of the family |

# Trustees – Account Opening and Precautions

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| **Opening** | Trust deed, resolution of trustees, KYC of trustees, PAN of trust |
| **Operation** | As per the mode prescribed in the trust deed or resolution |
| **Precautions** | Bank must ensure that the trustees are acting within their powers |
| **Breach of Trust** | If bank knowingly allows breach of trust, it may become liable |
| **Change of Trustees** | Fresh mandate and documents required when trustees change |

# Companies / Corporate Customers

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| **Board Resolution** | Essential – authorises opening of account and names authorised signatories |
| **Documents** | Certificate of Incorporation, Memorandum & Articles, PAN, Board resolution, list of directors |
| **Authorised Signatories** | Only those named in the resolution can operate the account |
| **Common Seal** | Earlier required on some documents; now largely optional after Companies Act amendments |
| **Change** | Any change in authorised signatories requires fresh Board resolution |

CO-OPERATIVE

# Co-operative Societies

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| **Special Rules** | Governed by the Co-operative Societies Act of the State / Multi-State Act |
| **Opening** | Bye-laws, resolution of managing committee, list of office-bearers, KYC |
| **Operation** | As per the resolution and bye-laws |
| **Precaution** | Bank should verify that the society is duly registered and the office-bearers are authorised |

# Banker's Lien – Section 171 Indian Contract Act

*Bankers may, in the absence of a contract to the contrary, retain as security for a general balance of account, any goods bailed to them. A banker's lien is tantamount to an implied pledge.*

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|---|---|
| **General Lien** | Right to retain goods/securities for the general balance due |
| **Particular Lien** | Only for a specific debt (e.g., craftsman, carrier) |
| **Implied Pledge** | Banker can sell the securities after giving reasonable notice |
| **Limitations** | No lien on goods held as trustee or agent, or for a specific purpose |
| **Same Right** | Applicable only when the debts are in the same right and same capacity |

SUMMARY POINTS

# Must-Remember Points

- Core relationship is debtor-creditor; special relationships arise from specific services.
- Post-CBS, customer is of the bank as a whole, not merely of a branch.
- Special customers (minor, illiterate, lunatic, partnership, HUF, trustees, companies, co-operative societies) require specific documents and operational safeguards.
- Banker’s general lien under Section 171 is a powerful right resembling an implied pledge.
- Clear mandates, Board resolutions and trust deeds are essential to protect the bank.