

JAIB PPB Module A (Unit 1-Banker Customer Relationship)

REQUIREMENTS TO BE CALLED A BANK

As per Sec. 5(b) of 'the Banking Regulation Act, 1949 (BR Act)', the term 'Banking' means accepting for the purpose of lending or investment, deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise

- ✓ A company incorporated under Indian Companies Act, 1956 or Companies Act, 2013 can be a bank, a banker or a banking company.
- ✓ Under Sec. 5(c) of BR Act, 'Banking Company' means any company that transacts the business of banking.
- ✓ Sec. 7(1) defines 'banking company' as a company which transacts the business of banking.
- ✓ Sec. 7(2) defines 'banking company' as a company which transacts the business of banking.



Who is a Customer?

Sir John Paget's

to constitute a customer there must be some recognizable course or habit of dealing in the nature of regular banking business.

Dr. Hart

a customer is one who has an account with a banker or for whom a banker habitually undertakes to act as such

Kerala High Court observed in *State of Central India Ltd. Bankers' Association v. V. Gopinathan and others* (1979, Kerala)

has no artificiality in the definition of a customer. So long as a person has an account with a banker or for whom a banker habitually undertakes to act as such, he is a customer. The fact that the money has been accepted on the footing that it will be repaid to the customer is not a bar to his being a customer.



Debtor-Creditor (Bank is a Debtor and Customer is a Creditor)

The main features of this relationship are:

- The bank is free to use the money in a way most beneficial to it.
- The customer should make a demand of payment. The banker is not required to pay voluntarily.
- The demand should be made in specified manner, in writing by cheque, draft, withdrawal form, order or otherwise, during working hours.
- The creditor (customer) does not have any security from the debtor (bank).
- The law of limitation does not begin to run until a demand has been made for repayment, in case of both demand and fixed deposit



BANK AS A TRUSTEE

A trustee is a person or firm that holds and administers property or assets for the benefit of a third party

Trustees are required to make decisions in the beneficiary's best interests and have a fiduciary responsibility to them

If a customer keeps certain valuables or securities with the bank for safe-keeping or deposits a certain amount of money for a specific purpose, the banker, besides becoming a bailee, is also a trustee



BAILEE-BAILOR RELATIONSHIP (BANK-BAILEE AND CUSTOMER-BAILOR)

When a customer deposits certain valuables, bonds, securities or other documents with the bank, for their safe custody, the bank, besides becoming a trustee as discussed earlier, also becomes a bailee and the customer is the bailor

According to the terms of Sec. 148 of the Indian Contract Act, 1872, the bank becomes custodian of the securities of the customer and hence as a bailee is liable for any loss caused to the bailor due to its negligence



AGENT-PRINCIPAL RELATIONSHIP (BANK IS AGENT AND CUSTOMER IS PRINCIPAL)

According to Section 182, of the Indian Contract Act, 1872, a principal is a person who delegates authority to another person namely, the agent

Among the ancillary services rendered by the bank are remittance, collection of cheques, bills, to pay regularly, electricity bills, telephone bills, insurance premium, club fees, etc. on behalf of the customers



Principal-Agent Relationship

LESSOR AND LESSEE (BANK AS A LESSOR AND CUSTOMER AS A LESSEE)

Section 105 of 'Transfer of Property Act' deals with lease, lesser, lessee

The banks provide safe deposit lockers to the customers for use on lease basis.

It has the responsibility to ensure that no fire, theft, building collapse do not occur in the bank's premises due to its own shortcomings, negligence



INDEMNIFIER AND INDEMNIFIED (BANK IS INDEMNIFIED OR INDEMNITY HOLDER AND CUSTOMER IS INDEMNIFIER))

A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself for the conduct of any other person is a contract of indemnity - Sec. 124 (Indian Contract Act, 1872) in transactions of issue of duplicate demand draft, fixed deposit receipt etc



Banker Customer Relationship Summarised

Transaction	Bank	Customer
Deposit in the bank	Debtor	Creditor
Loan from bank	Creditor	Debtor
Safe custody	Bailee	Bailor
Locker	Lessor	Lessee
Collection of Cheque	Agent	Principal
Purchase of a draft*	Debtor	Creditor
Payee of a draft	Trustee	Beneficiary
Pledge	Pawner (Pledgee)	Pawnee (Pledger)
Mortgage	Mortgagee	Mortgagor
Standing instruction	Agent	Principal
Sale/purchase of securities on behalf of a customer	Agent	Principal
Money deposited but instructions not given for its disposal	Trustee	Beneficiary
Articles left by mistake	Trustee	Beneficiary
Shares given for sale	Agent	Principal
Hypothecation	Hypothecatee	Hypothecator

*As per Haryana and Punjab High court judgment in the case of Traders Banks vs. Kalyan Singh- 1953

Q1. Which of the following is/are correct regarding the definition of Banker?

- I. Under Section 5(1) of the Banking Regulation Act, 1946, 'bank' means any institution which transacts banking business in India.
 - II. Sec. 7(1) of the Banking Regulation Act, 1946 defines 'banker' or 'banking business' as any business which is carried on by a banking company or by a person or firm or company other than a banking company.
 - III. Sec. 7(2) of the Banking Regulation Act, 1946 defines 'banking business' as any business which is carried on by a banking company or by a person or firm or company other than a banking company.
 - IV. As per Section 5(1) of the Banking Regulation Act, 1946, the term 'Bank' includes any institution which transacts banking business in India.
- A. Only I & II
B. Only II & III
C. I, II & III
D. All are correct

Ans: D. All are correct

Q2. Match the following and choose the correct sequence:

I. Sir John Paget's	a. Broadly speaking, a customer is a person who has the habit of resorting to the same place or person to do business
II. Dr. Hart	b. to constitute a customer there must be some recognizable course or habit of dealing in the nature of regular banking business.
III. Central Bank of India Ltd. Bombay vs. V.Gopinathan Nair and others	c. a customer is one who has an account with a banker or for whom a banker habitually undertakes to act as such

-
- A. I-b, II- c, III- a
 - B. I-c, II-a, III-b
 - C. I-a, II-c, III-b
 - D. None of these

Ans: A. I-b, II- c, III- a

Q3. Mr A has availed Home loan from your branch. What is the relationship of the bank with Mr. A?

- A. Mr. A is Creditor and bank is debtor
- B. Mr. A is Debtor and bank is creditor
- C. Mr.A is Principal and bank is agent
- D. Mr. A is Bailor and bank is Bailee

Ans: B. Mr. A is Debtor and bank is creditor

Q4. _____ have a fiduciary responsibility towards their assets?

- A. Agent
- B. Bailee
- C. Trustee
- D. Indemnity

Ans: C. Trustee

Q5. Ms. B has deposited her assets to your branch. The relationship of the contract will be executed when _____ of the following?

- A. Principal-Agent
- B. Agent- Principal
- C. Indemnified-Indemnifier
- D. Indemnified-Indemnity

Ans: D. Indemnified-Indemnity

Q6. In which of the following services provided by bank, bank will not be in Lessor-Lessee relationship?

- A. Safe deposit
- B. Collection of cheques
- C. remittance
- D. When a customer deposits money

Ans: A. Safe deposit

Q7. According to the terms of Sec. 148 of the Indian Contract Act, 1872, the bank becomes custodian of the securities of the customer. What will be the relationship of the bank with customer?

- A. Principal -Agent
- B. Creditor- Debtor
- C. Bailee- Bailor
- D. Lessor- Lessee

Ans: C. Bailee- Bailor