

# **BANKER AND CUSTOMER RELATIONSHIP**

# **BANKER AND CUSTOMER RELATIONSHIP**

## **DEFINITION**

**According to sec 5(c) of the Banking Regulation Act 1949, a banker is a person who undertakes business of banking. Banking means accepting deposits from public, for the purpose of lending, repayable on demand or otherwise with drawable by cheque, draft, order.**

# Meaning of customer

- **A customer means a person who seeks to open account which banker accepts with proper introduction. The relationship is not based on frequency of transactions, and durations.**

## Features of bank or banker

- **Receiving money and collecting drafts.**
- **The obligation of honouring cheques drawn upon them, making payments across the counter on demand.**
- **The main line of activity of the organisation should be banking**

# TYPES OF RELATIONSHIP

## **BANKER AND CUSTOMER RELATIONSHIP**

- I. GENERAL RELATIONSHIP
- II. SPECIAL RELATIONSHIP

## **GENERAL RELATIONSHIP BETWEEN BANKER AND CUSTOMER**

1. PRIMARY RELATIONSHIP
2. SECONDARY RELATIONSHIP

# CONT..

## **1. PRIMARY RELATIONSHIP**

**a. DEBTOR AND CRDITOR RELATIONSHIP**

**b. CREDITOR AND DEBTOR RELATIONSHIP**

### **DEBTOR AND CRDITOR RELATIONSHIP**

When banker accepts deposits from the customer he becomes the debtor and the customer is the creditor. The only obligation is to return the amount deposited with interest on demand. The banker can deal with the money anyway he likes.

# Features of debtor and creditor

- **Banker is called a dignified debtor**
- **Customer is not the secured creditor of the bank**
- **Customer's balance at bank is not repayable**
- **Banker should pay the deposit money on demand by the customer.**
- **The deposit should be paid at the appropriate place.**
- **The demand should be made by the customer on working days and during the business hours.**

# **CREDITOR AND DEBTOR RELATIONSHIP**

## **b. CREDITOR AND DEBTOR RELATIONSHIP**

**Here the banker acts as a creditor. The debtor creditor relationship holds good in the case of deposit account. But in the case of loan cash credit and overdraft the banker becomes a creditor and the customer assumes the role of a debtor.**

# SECONDARY RELATIONSHIP

- a) Banker as a trustee
- b) Banker as an agent
- c) Banker as a Bailee
- d) Banker as lessor



# SPECIAL RELATIONSHIP BETWEEN BANKER AND CUSTOMER

1. Obligation of a banker
2. Rights of a banker

## Obligation of a banker

Banker as certain obligation to be fulfilled towards the customer

3. Obligation to honour the customers cheque
4. Obligation to maintain secrecy of customer's account

# Obligation of a banker

3. Obligation to receive the cheques and other instrument for collection
4. Obligation to honour the cheque of customer across the counter.
5. Obligation to give reasonable notice before closing the customer's accounts

# Cont..

## 1. Banker Obligation to honour the customers cheque

The bank has the obligation to honour customer's cheque as and when they are presented. A banker must honour the customer's cheque drawn on him provided

- a. Sufficient funds
- b. Correctness of the cheque
- c. Proper drawing of the cheque
- d. Proper application of funds
- e. Proper presentation
- f. Reasonable time for collection

# Dishonour of Cheque

A cheque is said to be dishonoured when the payment is not made.

Circumstance for dishonour of cheque

1. Insufficiency of funds
2. Notice of the customer's death
3. Notice of the customer's Insolvency
4. Trust accounts
5. Suspicion about the title over the cheque
6. Presentation of a post dated cheque

# Cont...

7. Joint account
8. Material alterations
9. Drawer's signature
10. Proper form of the cheque
11. Drawn on another branch

# Wrongful dishonour of cheque

A cheque may be dishonoured by a banker by mistake or by negligence on the part of any of the employees, even though there is sufficient balance and cheque has been drawn in a proper manner. The banker will be held responsible for the wrongful dishonour of a cheque because of loss or damage to the customer.

# RIGHTS OF BANKER

1. Bankers right to charge interest, commission, Incidental charges and commitment charges
2. Right not to produce books of accounts
3. Right to set off
4. Right to appropriate payment
5. Right to lien

# Banker's right to charge interest, commission, Incidental Charges

Banker has an implied right to charge for service rendered to a customer.

- a. Rights to charge interest: As a creditor the banker has the implied right to charge interest on the advance granted to the customer.
- b. Right to charge commission: A banker render several services to the customers and they cannot be offered free hence the banker has an implied right to levy certain charges known as commission.



# Cont...

c. Incidental charges: Incidental charges are levied by banker on the inoperative or unremunerative current accounts of the customer's. Incidental charges rates are revised by the bank from time to time.

# Cont...

## 2. Right not to produce books of accounts

According to the provisions of the banker books Evidence Act 1891, the banker need not produce the original books of accounts as evidence in cases in which the banker is not a party. He can issue only an attested copy of the required portion of the account which can be utilized as evidence before the court.

# 3. Right to setoff

The right of setoff is the process of combining two or more accounts of a customer. It is a statutory right available to a banker to set off a debt owed to him by a debtor from credit balance held in other account of the debtor.

Conditions for exercising right to setoff

- Two or more account should be in the name of same customer.
- The amount of debts must be certain

## **4. BANKER RIGHT OF GENERAL LIEN**

### Meaning of Lien

Lien is the right of a payment to retain the property belonging to another until the debt due from the owner of that property is repaid.

### Banker general lien

It is the right of the banker to retain the goods and securities entrusted to him as a banker by a customer in respect of the general balance due from the customer.

Cont..

## **Objectives of banker general lien**

The objectives of the banker general lien is to ensure the safety of the banker fund by serving as a protection against the loss that may arise on a loan, overdraft or any other advance to a customer.

## **Banker general lien an implied pledge**

A bankers general lien empowers the bank not only to retain the securities but also to sell them without getting any orders from the court so the banker lien is considered as an implied pledge

# Conditions for exercising general lien by banker

- The securities should belong to the customer
- The banker should be in possession of the securities
- There should be lawful possession of the goods
- The loan should be due for payment .

# Cont..

## **Circumstances under which a banker can exercise right of general lien**

- Banker can exercise lien on bills and cheques deposited for collection
- Banker can exercise lien on documents of title to goods
- Lien on specific securities left with the banker after the repayment of the specific loan
- Lien on funds deposited with the banker in his capacity as a banker.
- Lien on life insurance policy that comes into his hands as a banker.
- Lien on duty discharged fixed deposit receipt that comes into his hand as a banker

# Circumstances under which a banker cannot exercise right of general lien

- No lien on safe custody deposits
- No lien on money deposit for a specific purpose.
- No lien on securities left with the banker by mistake
- No lien on joint accounts where in one joint account holder is a customer.
- No lien on securities received for sale.
- If a banker acts as a trustee under an agreement he cannot exercise lien on trust property.



# Garnishee order

Garnishee order is a order issued by the court at the request of a judgmental creditor(bank) to the garnishee warning him not to pay the money which is with him to the judgement debtor until the claims of the judgement credit is disposed off.