UNIT – 1 : BANKER AND CUSTOMER RELATIONSHIP

Introduction

The relationship between a banker and a customer is the foundation of banking business. Whenever a customer opens an account in a bank, a legal relationship is created between them. This relationship changes according to the nature of the transaction.

---

1. Meaning and Definition of Banker

A **Banker** is a person, institution, or company carrying on the business of banking.

Definition of Banking

According to Section 5(b) of the Banking Regulation Act, 1949:

"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."

Functions of a Banker

1. Accepting deposits.
2. Granting loans and advances.
3. Collection of cheques and bills.
4. Providing locker facilities.
5. Issuing drafts and pay orders.
6. Agency services.

---

2. Meaning and Definition of Customer

A **Customer** is a person who has an account with a bank and regularly conducts banking transactions.

Essential Characteristics of a Customer

1. Must have an account with the bank.
2. Banking transactions should be regular.
3. Relationship must be recognized by the bank.

Types of Customers

- Individual
- Joint account holders
- Companies
- Partnership firms
- Trusts
- Government institutions

---

3. General and Legal Relationship Between Banker and Customer

The relationship varies according to the transaction involved.

(A) Debtor and Creditor Relationship

This is the most important relationship.

When Customer Deposits Money

- Customer = Creditor
- Bank = Debtor

The deposited money becomes the property of the bank.

Features

1. Bank can use the money for business purposes.
2. Customer cannot demand specific notes deposited.
3. Bank must repay money on demand.

Example

Mr. A deposits ₹1,00,000 in his savings account. The bank becomes debtor and Mr. A becomes creditor.

When Bank Gives Loan

- Bank = Creditor
- Customer = Debtor

The customer is legally bound to repay the loan with interest.

Example

Bank grants a loan of ₹5,00,000 to Mr. B.

(B) Banker as Agent

A bank acts as an agent when it performs various services on behalf of customers.

Agency Functions

Collection Functions

- Collection of cheques
- Collection of bills of exchange
- Collection of dividends
- Collection of interest

Payment Functions

- Payment of insurance premium
- Payment of electricity bills
- Payment of telephone bills
- Payment of taxes

Importance

The bank acts according to instructions given by customers.

(C) Banker as Trustee

A trustee is a person who holds property for the benefit of another.

A bank acts as trustee when:

- It keeps securities in safe custody.

- It manages trust property.
- It holds valuable documents.

Example

Customers deposit:

- Share certificates
- Bonds
- Property documents

The bank becomes trustee and the customer becomes beneficiary.

(D) Bailor and Bailee Relationship

When customers deposit goods or valuables with a bank for safe custody:

- Customer = Bailor
- Bank = Bailee

Example

Jewellery deposited for safe custody.

Duties of Bank

- Take reasonable care.
- Return goods when demanded.

(E) Lessor and Lessee Relationship

In locker facility:

- Bank = Lessor
- Customer = Lessee

The customer pays rent for using the locker.

(F) Mortgagor and Mortgagee Relationship

When property is mortgaged:

- Customer = Mortgagor
- Bank = Mortgagee

The property serves as security for the loan.

---

4. Debt Owed by a Banker vs Ordinary Commercial Debt

Basis	Debt Owed by Banker	Ordinary Commercial Debt
Repayment	On customer's demand	On due date
Place	Particular branch	Any agreed place
Limitation	Starts from demand	Starts from due date
Relationship	Banker-Customer	Creditor-Debtor

Significance

A bank is not required to repay deposits unless a proper demand is made.

---

5. Rights of Banker

The law grants several rights to bankers for protection of their interests.

(A) Banker's Lien

Meaning

A lien is the legal right of a banker to retain securities and goods belonging to the customer until debts are paid.

Definition

Section 171 of the Indian Contract Act recognizes the banker's right of general lien.

Characteristics

1. Available to all bankers.
2. Applies to securities and valuables.
3. Can be exercised without court order.

Example

A customer owes ₹2,00,000 to the bank. The bank may retain securities deposited by him until payment is made.

Importance

Banker's lien is considered an "implied pledge."

(B) Right of Set-Off

Meaning

The right of set-off means the bank can combine accounts of a customer and adjust balances against outstanding liabilities.

Conditions

1. Same customer.
2. Same capacity.
3. Debt should be due.
4. Bank must give notice in some situations.

Example

Savings Account Balance = ₹60,000

Loan Outstanding = ₹40,000

Bank can recover ₹40,000 from the savings account.

Advantages

- Quick recovery of debt.
- Protection against bad debts.

(C) Right to Charge Interest

Banks have the right to charge interest on:

- Loans
- Cash credit
- Overdraft
- Advances

Types of Interest

1. Simple Interest
2. Compound Interest

(D) Right to Charge Commission

Banks can charge commission for services provided.

Examples

- Collection of cheques
- Demand drafts
- Locker facility
- Foreign exchange transactions

---

6. Obligation of Banker to Maintain Secrecy of Customer's Accounts

Meaning

A banker must keep all information regarding customer accounts confidential.

Legal Basis

The duty of secrecy was established in the famous English case:

Tournier vs National Provincial and Union Bank of England (1924).

Importance of Secrecy

1. Protects customer privacy.
2. Builds confidence.
3. Maintains goodwill of the bank.
4. Prevents misuse of information.

Exceptions to Secrecy

A banker may disclose information in the following cases:

1. Disclosure Under Law

Examples:

- Court order
- Income Tax Department
- Enforcement agencies

---

2. Public Duty

When disclosure is necessary in public interest.

Example:

- Fraud investigation
- Criminal cases

---

3. Bank's Own Interest

To recover loans or defend legal actions.

---

4. Customer's Consent

When customer permits disclosure.

Example:

- Providing bank references.

Duties of a Banker

1. Honour valid cheques.
2. Maintain secrecy.
3. Follow customer instructions.
4. Keep accurate records.
5. Provide account statements.
6. Exercise reasonable care.
