

## Bank, Banker, Customer and Banking Options

### Introduction

The basic function of a bank is accepting money from the public by way of deposits and deploying the same by loans and investments. Further the banks also provide services to the customers like providing locker facility, keeping articles in safe custody, helping the customers to settle their dues, collection of bills, collection of cheques etc. Through these acts different types of relationship develops between the banker and the customer.

### Who is a banker?

A company registered as a bank is allowed to do banking business and the essentials are as follows:

1. Acceptance of deposits should be for the purpose of lending and investment. Companies which take deposits for the purpose of their own funding requirements or financing their own trading or manufacturing business cannot be considered as a bank.
2. The deposit should be accepted from the public.
3. The acceptance of deposits should be in Cash and not in kind.

Since banker does the business with the deposits accepted from the public it is regulated by a special act which is known as Banking Regulation Act of 1949 (BR Act). This act which was enacted by the Parliament of India and it applies to all the banks operating in India. In the year 1965, the act was amended to make it applicable to cooperative banks. Section 5 (b) of BR Act defines banking and Section 7(1) prohibits use of words "Banker" or "Banking" or "Banking company" by a company other than banking company. The definition of banker does not include Moneylenders. Bankers therefore accept deposits, lend money to the needy and invests in securities for liquidity.

### Functions of Banks

Most important and principal function of Banks is to accept deposits from the public for the purpose of lending and investing. Further, Section 6 of the BR Act, 1949 defines the other important functions of the Bank as follows:

1. Discounting of Bills
2. Collection of cheques and Bills

3. Remittances
4. Safe custody of articles/documents
5. Hiring of Safe Deposit Lockers
6. Conducting Foreign Exchange Transactions
7. Issuing Letter of Credit and Guarantees
8. Wealth Management Services
9. Project Appraisal
10. Sale of third party products
11. Executor Trustee Services
12. Securities Trading
13. Acceptance of Central and State Government Taxes
14. Factoring
15. Demat Services

### **Banker Customer Relationship**

Customer of a bank is not defined by any law. However it can be construed that to constitute a customer there must be some recognizable course or habit of dealing in the nature of regular banking business. Hence any person who opts for any of the above functions with the bank regularly is a customer and a banker customer relationship is established. This relationship so established between the banker and the customer is shown in the following chart:

#	Transaction	Banker	Customer
1	Deposit in Bank	Debtor	Creditor
2	Loan from Bank	Creditor	Debtor
3	Mortgage	Mortgagee	Mortgagor
4	Pledge	Pledgee (Pawner)	Pledger (Pawnee)
5	Hypothecation	Hypothecatee	Hypothecator
6	Locker	Lessor	Lessee
7	Collection of instruments	Agent	Principal
8	Draft Purchase	Debtor	Creditor
9	Payee of Draft	Trustee	Beneficiary
10	Standing Instruction	Agent	Principal
11	Articles left with the bank	Trustee	Beneficiary
12	Shares given for sale	Agent	Principal
13	Safe custody	Bailee	Bailor

Before entering into any these functions, the customer has to establish his identity with the bank. The banker should have a comfort feel with the customer before any transaction is entered into or service is offered. For this purpose the banker will ask the customer certain documents to establish the customer identity.

### **Know the Customer**

A customer of the bank can be individuals, proprietorships, partnerships, trusts, companies and Politically Exposed Persons (PEP) resident outside India. When the customer enters into any type of relationship with the bank, the bank will verify the identity of the customer. This is a part of the Customer acceptance policy. As per this policy, the bank will accept customers only after verifying their identity through customer identification procedures.

### **Customer Identification Procedure**

The customer identification is defined as identifying the customer and verifying the identity by using reliable independent source documents. The identification process involves ensuring the legal name of the customer and the correct permanent address of the customer. The customer has to submit to the bank the documents in support of their legal name and correct permanent address. If there is change of permanent address of the customer subsequent to giving the address proof to the bank, a fresh document need to be given within six months in support of the new address. An indicative list of documents in support of the identity/name and address for various customers is given below:

#### **1. For Individuals**

The customer has to provide any of the following along with a recent Photograph.

<b>For Proof for identity/name</b>	<b>For Proof for correct permanent address</b>
Passport	Telephone Bill
PAN card	Electricity Bill
Voter's Identity Card	Ration Card
Driving License	Letter from Employer subject to the satisfaction of the bank
Letter issued by UIDAI containing name, address and	Letter from any recognized public authority subject to

Aadhar number	the satisfaction of the bank
Any Identity Card subject to bank's satisfaction	Rent agreement indicating the address of the customer duly registered with State Government or similar registration authority.
Letter from recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of the bank	Any other Bank account statement

## 2. For Proprietorships

To verify the name and activity of the Proprietorship any two of the following documents need to be provided to the bank:

#	Identity, activity and address
1	Registration certificate, if it is registered
2	Certificate/license issued by the municipal authorities under shops and establishment
3	Sales and Income tax returns
4	CST/VAT certificate
5	Certificate/registration document issued by Sales tax/service tax/professional tax authorities
6	License issued by registration authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost and Works Accountant of India, Institute of Company Secretaries of India, Indian Medical Association, Food & Drug control authorities.
7	Full set of Completed Income tax return filed with Income Tax department duly acknowledged by Income tax authorities
8	Electricity Bills in the name of proprietorship
9	Water Bills in the name of proprietorship
10	Landline (telephone) Bills in the name of proprietorship

### 3. For Partnerships

To verify the name and activity of the Partnership any two of the following documents need to be provided to the bank:

#	Identity, activity and address
1	Registration certificate, if it is registered
2	Partnership deed – Name of all partners and their address
3	Sales and Income tax returns of the partnership
4	Power of Attorney or an employee of the firm to transact business on its behalf
5	Any official valid document identifying the partners and the persons holding power of attorney and their address, telephone number of the partnership
6	Full set of Completed Income tax return filed with Income Tax department duly acknowledged by Income tax authorities
7	Electricity Bills in the name of partnership
8	Water Bills in the name of partnership
9	Landline (telephone) Bills in the name of partnership

### 4. For Trusts

Any one of the following is needed to verify the names of trustees, settlers, beneficiaries and signatories:

#	Identity, activity and address
1	Registration certificate, if it is registered
2	Power of Attorney granted to transact business on its behalf – Name and address of the founder, managers/directors and the beneficiaries
3	Any official valid document to identify the trustees, settlers, beneficiaries and those persons holding power of attorney, founders/managers/directors and their addresses
4	Resolution of the managing body of the foundation/association – telephone/fax Number
5	Landline (telephone) Bills

### 5. For Companies

All of the following documents are required to be submitted:

#	Identity
1	Certificate of Incorporation, Memorandum of Association and Articles of

	Association – Principal place of business – mailing address of the Company
2	Power of Attorney granted to managers, officers or employees to transact business on its behalf
3	Resolution of Board of Directors to open an account and identification of those who have authority to operate the account
4	PAN allotment letter
5	Landline (telephone) Bills

## 6. For Accounts of Politically Exposed Persons (PEP) resident outside India

Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country. For example: Heads of States or Government, Senior Politicians, senior government/judicial/military officers, senior executives of state owned corporations, important political party officials, etc. The bank has to check all the information available in the public domain and the source of funds coming into the bank has to be very clearly mentioned and explained.

### Small Accounts

For facilitating more customers to open bank accounts especially in rural areas, Government of India vide notification no: 14/2010/F.No.6/2/2007-E S dated December 16, 2010, 'small account' means a savings account where-

1. The aggregate of all the credits in a financial year does not exceed Rupees one lakh;
2. The aggregate of all withdrawals and transfers in a month does not exceed Rupees ten thousand; and
3. The balance at any point of time does not exceed Rupees fifty thousand.

For opening these small accounts a simplified version of identifying the customers' legal name and correct permanent address is laid out. According to the notification the customers should produce (1) job card issued by NREGA duly signed by an officer of the state government and letters issued by the Unique Identification Authority of India containing the details of name, address and Aadhaar number (2) Aadhaar card if the

address provided by the account holder is the same, as that on Aadhaar letter as a proof of both identity and address.