

PPB

Crash course

Module- A

Lec-3



Unit-4 Opening Accounts of Various types of Customers

The Complete Guide to KYC and Account Opening Procedures

This comprehensive guide provides bank staff and compliance officers with essential knowledge and procedures for opening accounts for various types of customers. Following these guidelines ensures regulatory compliance while providing excellent customer service.



Agenda

01

Introduction to Account
Opening

Legal requirements and KYC basics

02

Personal Accounts

*Individuals, joint accounts, special
cases*

03

Business Accounts

*Proprietorships, partnerships, LLPs,
companies*

04

Non-Business Entities

Clubs, associations, HUFs

05

Compliance Requirements

Documentation, LEI, and best practices

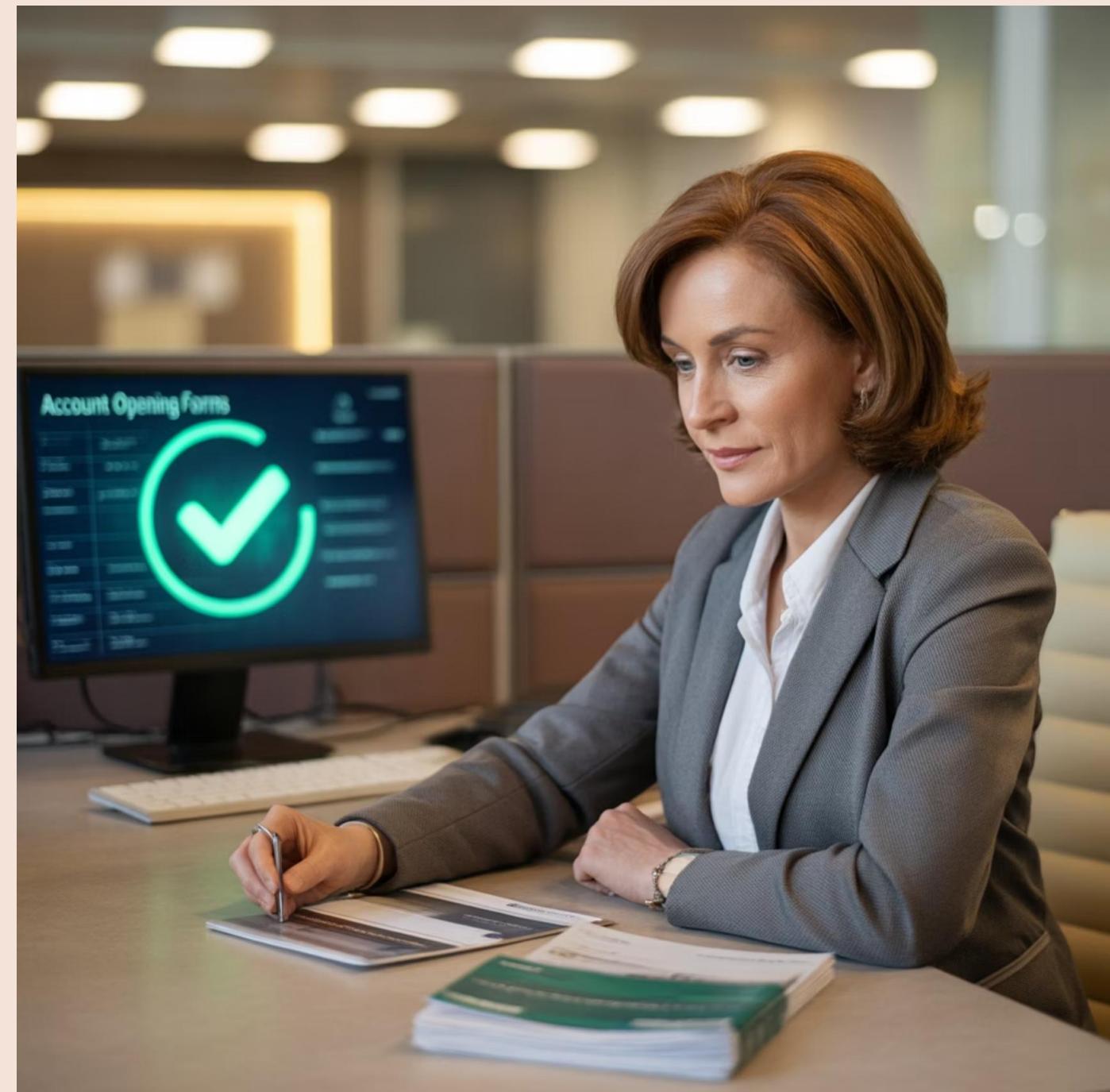
We'll explore each category in detail, providing you with practical guidance for handling various account types while maintaining full regulatory compliance.

Introduction to Account Opening

Banks interact with diverse customer types including:

- *Individuals*
- *Partnership firms*
- *Companies*
- *Co-operative societies*
- *HUFs (Hindu Undivided Families)*
- *Clubs and associations*

Each customer type is governed by specific laws and regulations that bank staff must understand and apply correctly.



The account opening process involves obtaining the appropriate form from

*Support
@diveboard:uy*

Individual Accounts: Basic Requirements

Eligibility Criteria

- Must be of legal age (18 years or older)
- Of sound mind
- Not an undischarged insolvent
- Not disqualified by any applicable law

Documentation

- Signed account opening form
- Valid identification documents (6)
- Address proof
- Photographs as required (2)
- PAN or Form 60/61

Special Cases

- Guardian may sign for minors
 - Court-appointed guardian for persons of unsound mind
- (*) KYC required for both account holder and guardian

Always verify original documents and retain certified copies for bank records. Ensure all forms are completely filled with no blank fields.

Joint Accounts: Purpose and Operations

For
Ex

Common Purposes

- Funds belonging to multiple individuals
- Convenient access for family members
- Easy access in event of account holder's death
- Shared financial responsibilities

Key Considerations

Ascertain the relationship among joint holders and the purpose of having a joint account. Understanding expected fund inflows helps with compliance monitoring.

Top

Operational Modes

- Joint accounts can be operated in several ways:
- Either or Survivor (E or S): Any account holder can operate independently (2)
 - Former or Survivor: Only the first named person can operate during their lifetime
 - Jointly: All account holders must sign together
 - Anyone or Survivor: For accounts with more than two holders

Important: Residents can open joint accounts with NRIs only when the NRI is a close relative of all resident account holders.

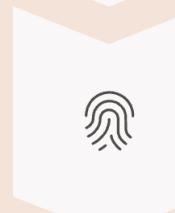


Special Cases: Illiterate Persons



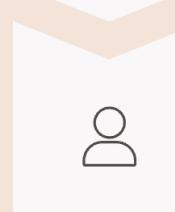
Clear Explanation ✓

Rules must be explained in a language understood by the customer



Thumb Impression

Left thumb impression obtained in presence of bank officer and a witness



Personal Visits ✓

Customer must personally visit with passbook for all withdrawals



Photographs

Multiple photos required - one for account form, another for passbook

(Case Study)



Important Restrictions: Never issue cheque books to illiterate persons.

Current accounts should not be opened for illiterate persons. If they authorize a literate person to operate the account, it must be operated jointly by both.

Special Cases: Blind Persons

Legal Status

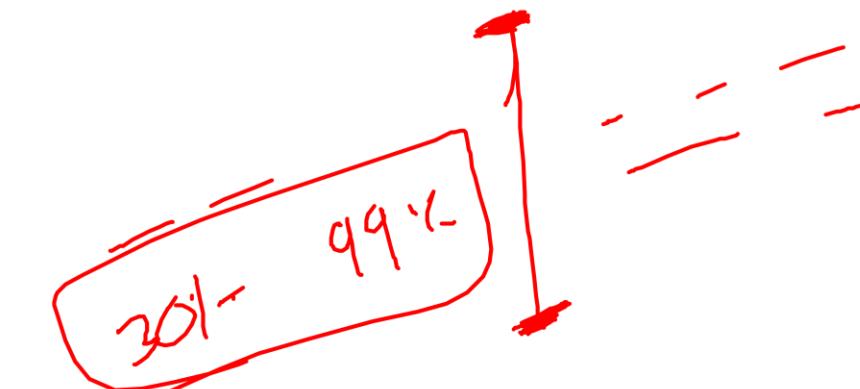
*There is no legal prohibition against blind persons opening bank accounts.
They have full legal capacity to contract.*



Special Precautions

- *Exercise extra care due to potential signature inconsistency*
- *Obtain passport-sized photographs for account form and passbook*
- *Signature/thumb impression must be attested by someone known to the bank*
- *Branch Manager may permit self-operation or next of kin operation with proper authorization*
- *Obtain left thumb impression if signature inconsistency is noticed*
- *Update passbook entries at each transaction and read aloud privately*

These measures balance accessibility with security to protect blind customers from potential fraud.



19- Use study

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Accounts of **Minors**: Legal Framework

Legal Definition

As per Indian Majority Act, 1875,
a person attains majority upon
completing 18 years of age

A minor cannot legally enter into
contracts (Indian Contract Act,
1872)

Banking Exceptions

Banks allow minors above 10
years to open and operate
accounts to encourage savings

Minors can draw, endorse, deliver
and negotiate negotiable
instruments (Section 26, N.I. Act)

cheque

Guardian Role

Father is natural guardian, but
RBI permits mother as guardian
for banking

KYC formalities required for both
minor and guardian

Banks can offer internet banking, ATM, and debit card facilities to minors, but must ensure accounts cannot be overdrawn. On attaining majority, the guardian can no longer operate the account without confirmation from the now-adult account holder.

needs to be
of minor

two minors
cannot open joint
AC

Accounts of Minors: Operational Guidelines

Allowed

- Banks may set minimum age for independent operation.
- Minors can legally draw cheques.
- Internet banking, ATM, debit card facilities permitted.
- Multiple deposit options available.

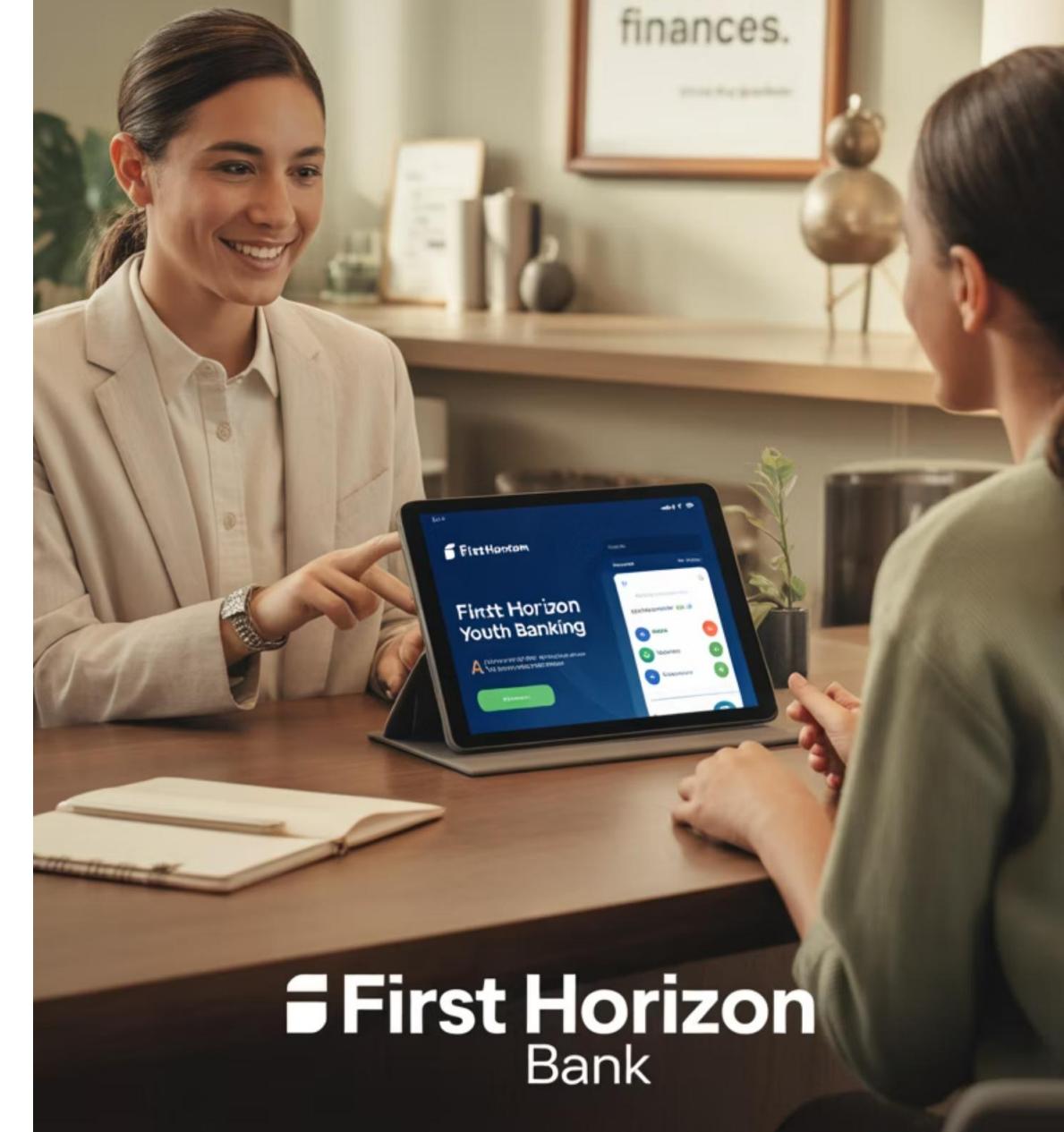
Prohibited

- Accounts must never be overdrawn.
- Two minors cannot open a joint account.
- Guardian cannot operate account after minor attains majority.
- Step-parents are not considered natural guardians.



In Event of Death: If a minor account holder dies, the guardian must close the account. Banks typically set maximum balance limits for minor-operated accounts.

Youth Forizor. Youth Banking



First Horizon
Bank

Hindu Undivided Family (HUF) Accounts

HUF Structure

A Hindu Undivided Family is a unique legal entity under Hindu law where:

- Business is inheritable and passes to legal heirs
- Family members are called coparceners
- Eldest male member is typically the Karta (manager)
- Since 2005 amendment, daughters (married or unmarried) are recognized as coparceners



Account Opening Requirements

- Account opening form signed by the Karta
- Declaration from Karta stating names of coparceners
- KYC documents of the Karta
- Separate PAN for the HUF (distinct from Karta's personal PAN)
- Address proof of the HUF



Proprietorship Firm Accounts

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Legal Status

A proprietorship is not legally separate from its owner. The proprietor and the business are considered the same legal entity for banking purposes.

Required Documents

Current account opening form signed by the proprietor
Specimen signature card signed by the proprietor
Proprietorship declaration/letter as per bank's format
Business proof documents (registration certificates, licenses)
KYC documents of the proprietor

Operational Considerations

The proprietor has unlimited liability for business debts
The account should be monitored for business-related transactions
No separate KYC is required for the business entity

A proprietorship account is among the simplest business accounts to open, but proper documentation of the business-customer relationship remains essential for compliance.

Partnership Firm Accounts: Legal Framework

Definition

Section 4 of the Indian Partnership Act, 1932 defines partnership as "a relationship subsisting between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

Key Characteristics

- Partners are mutual agents who can bind the firm
- Registration is optional (except in Gujarat and Maharashtra)
- Partners have unlimited liability
- Partnership dissolves upon death of a partner (unless specified otherwise)

Partners act as agents of the firm and can bind it through their actions. This applies even to sleeping or secret partners (M.M. Abbas Bros. and Others vs. Chetandas Fatehchand AIR 1979 Mad.).

Even when management powers are restricted to one partner, it remains a partnership (K.D. Kamath Co. vs. C.I.T. 1972 ITR(SC)).



Partnership Firm Accounts: Operational Guidelines

2052:



Proper Signing

Partners must sign for and on behalf of the firm, not as individuals

3



Cheque Handling

Cheques payable to the firm must not be credited to partners' personal accounts



Partner Disputes

If any partner gives notice to stop operations, halt all transactions and inform all partners

Jointly by all



Partnership Changes

For new partners: continue account if in credit; open new account if in debit to avoid Clayton's Rule



⚠ Partner Limitations: Partners cannot: open bank accounts in their own name for the firm, withdraw legal suits filed by the firm, admit liability in suits against the firm, or transfer immovable property without specific authorization.

Partnership Documentation Requirements

Core Documents

- 1 • *Current account opening form signed by all partners*
- *Specimen signature cards from all partners*
- *Partnership letter signed by all major partners in personal capacity*
- *Original Partnership Deed (for verification) with certified copy*

Additional Requirements

- 2 • *Certificate of Registration (for registered partnerships)*
- *Complete operating instructions with specimen signatures*
- *Permanent Account Number (PAN) of the partnership firm*
- *KYC documents for all partners*

Special Situations

- 3 • *For partner retirement: Stop operations and open new account*
- *For partner death: Close account and determine liability*
- *For partnership dissolution: Obtain formal dissolution deed*



Limited Liability Partnership (LLP)

Legal Framework

Formed under the Limited Liability Partnership Act, 2008

Combines the flexibility of partnership with limited liability protection of a company

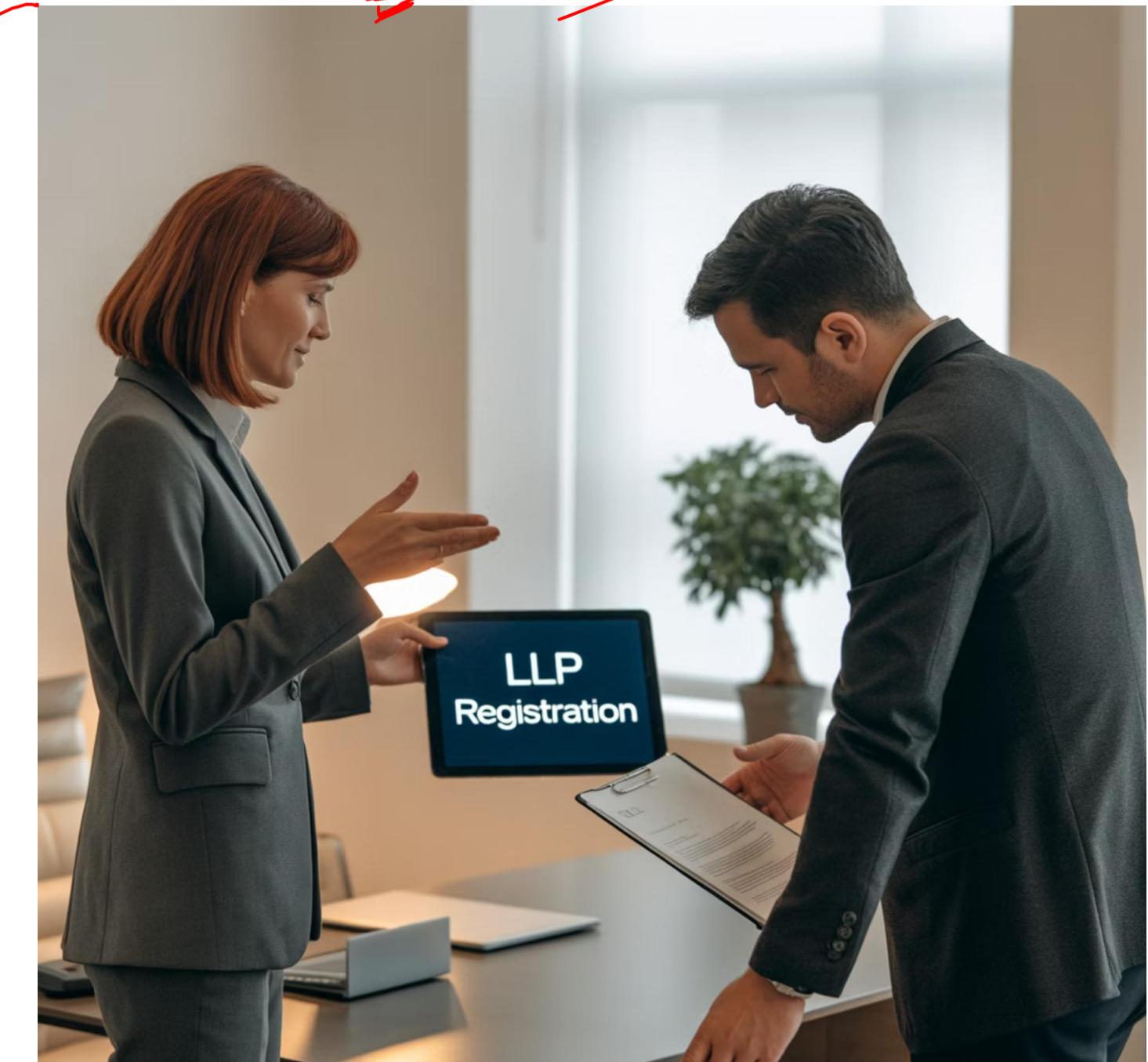
Key Requirements

- Minimum two Designated Partners
- Designated Partner Identification Number (DPIN) required
- Written LLP agreement determining mutual rights and duties
- Each partner acts as agent of LLP but not of other partners

Documentation

Similar to partnership firms, but must include:

- LLP Agreement
- Certificate of Incorporation
- DPIN details of designated partners



Limited Companies: Types and Characteristics



Public Limited

Minimum seven members for incorporation

No upper limit on number of members

Shares freely transferable

Can invite public to subscribe for securities

(*) *Government Companies are those where 51% or more shares are held by Central/State governments. These companies don't require "limited" to follow the company name. (Section 2(45) of Companies Act, 2013)*



Private Limited

Minimum 2 members, maximum 200 members

Restricts right to transfer shares

Cannot invite public to subscribe for securities

Requires minimum paid-up share capital as prescribed



One Person Company

Only one person as member

Another person named as Nominee

Functions on footing of private limited company

Introduced under Section 2(62) of Companies Act, 2013

Company Accounts: Operational Guidelines

Key Operational Rules

- Cash withdrawals permitted only with specific company authorization ✓
- Operations typically require two or more authorized signatories jointly ✓
- ✓ Death of authorized signatory doesn't stop payment of cheques they signed ✓
- ✓ Trading companies have implied borrowing powers; non-trading companies must specify in their Memorandum ✓
- Cheques payable to company must never be deposited in personal accounts ✓



- ✖ Fraud Prevention: To minimize risk, companies often designate multiple signatories with instructions that any two (or more) out of several authorized persons must sign jointly. This creates a system of checks and balances. —



Required Documentation for Company Accounts



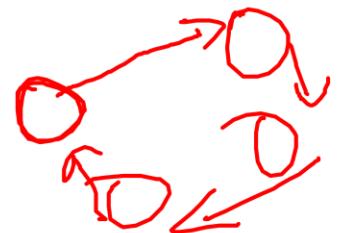
Additional documents may be required for foreign companies, Section 8 companies (non-profit), or listed companies. Always consult current regulatory guidelines.

Clubs, Associations, and Unregistered Bodies

10

Documentation Requirements

- Current account opening form signed by all Managing Committee members
- Specimen signature cards from authorized signatories
- Copy of Bye Laws/Rules
- Resolution of Managing Committee authorizing account opening
- List of beneficial owners (if any)
- Memorandum of Understanding or similar documents



Operational Considerations

These entities often have a rotating membership or leadership structure. Banks should:

- Establish clear succession procedures for signatories
- Verify authorization through proper meeting minutes
- Update signatory records when committee changes
- Apply appropriate KYC measures for all authorized persons



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Legal Entity Identifier (LEI): A Critical Compliance Requirement

20

What is LEI?

A 20-digit alpha-numeric code that uniquely identifies parties to financial transactions worldwide

✓ Developed after the Global Financial Crisis to improve financial data accuracy and risk management

✓ In India, LEI code can be obtained from Legal Entity Identifier India Ltd. (LEIL), a subsidiary of CCIL

2008

LEI

Implementation Status

Mandatory for all participants in OTC markets for:

- ✓ Rupee Interest Rate derivatives
- ✓ Foreign currency derivatives
- ✓ Credit derivatives in India

LEI requirements are expanding to cover more entity types and transaction categories as part of global financial reform.

- ① Key Takeaway: Banks must ensure that eligible entities obtain and maintain valid LEI codes as per regulatory requirements. This is crucial for transaction reporting and risk management across the financial system.



Unit-5 Operational aspects of Deposit accounts

deposit

Current Account Fundamentals

Key Features

Transactional focus:
Designed for frequent financial transactions by businesses

Unrestricted transactions: No limits on deposits or withdrawals

Non-interest bearing: No interest payable on deposits held

Eligibility

- Individuals
- Businesses (all types)
- Organizations & associations
- Government bodies



Current Account Restrictions

(+) Cannot be Open

Minors

Cannot open accounts independently. Accounts can be opened and operated only by natural guardians on behalf of minors.

Pardanashin Women

Traditional restrictions prevent these women from opening current accounts due to identification and verification challenges.

Illiterate Persons

Cannot open current accounts due to operational constraints in managing checkbooks and written instructions.

Blind Persons

Restricted from opening current accounts due to specialized service requirements beyond standard operating procedures.

These restrictions exist primarily due to verification requirements, operational complexities, and legal considerations in managing transactional accounts.



Your
financial journey.
Our expertise.

Savings Bank Account Overview

Purpose & Features

- **Designed for individual savings, not business transactions**
- **Available with or without cheque facility**
- **Offers interest on deposits at rates determined by banks**
- **Supports standing instructions for periodic payments**
- **Allows cash, cheque, and electronic deposits**
- **No ceiling on account balances**

Withdrawal Methods

- **Cheques (if facility available)**
- **Withdrawal slips with passbook**
- **Net banking transfers**
- **Mobile banking**
- **ATM/debit cards**



Savings Account Eligibility

Eligible Entities ✓

- *Individuals (single or joint names)*
- *Minors above 10 years (independently)*
- *Karta of Hindu Undivided Family (HUF)*
- *Entities with RBI general permission*

Prohibited Entities ✗

- *Government departments*
- *Municipal bodies/corporations*
- *Political parties*
- *Business/trading concerns*
- *Professional firms,*

The RBI maintains specific guidelines on entities permitted to hold savings accounts to preserve the fundamental purpose of these accounts for individual savings rather than business operations.

Savings Bank Regulations

✓ Minimum Balance Requirements

- Banks may require maintaining minimum balances
- Notice must be given before charging penalties:
- SMS/email/letter notification of shortfall
- One month grace period before charges
- Charges must be reasonable and proportionate
- Account cannot go into debit solely due to penalties

Account Closure Procedure

1. Written request required from all account holders
2. Surrender of unused cheque leaves
3. Passbook must be presented for updating
4. Final withdrawal form/cheque for remaining balance
5. Passbook returned with "account closed" marked on all pages



Basic Savings Bank Deposit Account (BSBDA)

Promoting Financial Inclusion for Lower Economic Segments

Zero balance requirement - No minimum balance needed

Free transactions - Minimum four withdrawals monthly (including ATM)

Unlimited deposits - No restrictions on number or value

Free ATM card - ATM or ATM-cum-Debit card included

Multiple deposit methods - Cash, electronic transfers, government cheques

□ BSBDAs are a key instrument in the national financial inclusion strategy, designed to bring banking services to underserved populations.

Important Restrictions

- Only one BSBDA per person in the banking system
- Other SB accounts must be closed within 30 days of opening BSBDA
- Additional services may be offered at reasonable, transparent charges



Fixed Deposits

Key Features

- **Specific sum deposited for predetermined period**
- **Minimum period: 7 days**
- **Maximum period: typically 120 months**
- **No minimum amount restrictions**
- **Deposits \geq ₹3 crore classified as "Bulk Deposits" (₹2 crore for RRBs)**

Joint Holder Operations

- **Addition/deletion of joint holders permitted with all holders' consent**
- **Original deposit amount and duration must remain unchanged**
- **Splitting of joint deposits allowed at bank's discretion**
- **Split deposits maintain original period and aggregate amount**



Your Financial Journey
starts here.



Loans Against Term Deposits

Application Process

Customers must surrender duly discharged TD receipt with a letter of lien. Banks verify ownership and apply prescribed margin requirements.

Loan Amount Calculation

Typically 80-95% of deposit value (5-20% margin applied) on principal amount or on value with accrued interest for reinvestment deposits.

200% ↗

Interest Rate Structure

Interest charged at a spread over the rate paid on the TD, as per bank policy. Usually 1-2% higher than the TD interest rate.

10%

Foreclosure Implications

If TD is foreclosed, loan is first recovered from deposit proceeds. Interest rate is revised based on applicable rate for actual deposit period minus penal interest.

Recurring Deposits & Certificate of Deposits

Recurring Deposits (RD)

- Fixed monthly deposits for predetermined period
- Interest computed with quarterly compounding
- Delayed installments reduce maturity amount
- Foreclosure interest paid without compounding for incomplete quarters
- Not available under FCNR(B) Scheme
- Loan provisions similar to Term Deposits



Certificate of Deposits (CD)

- Negotiable money market instruments
- Issued by SCBs, RRBs, and SFBs
- Dematerialized form, minimum ₹5 lakh
- Tenor: 7 days to 1 year
- Fixed or floating interest rates
- Tradable in secondary market
- Buyback possible if offered to all investors
- Subject to stamp duty

XS



The Depositor Education and Awareness Fund (DEAF)

Established by RBI in 2014 under Banking Regulation Act

Banks must transfer credit balances from accounts unclaimed or inoperative for ten years or more to this fund. The rightful owners can claim this money anytime, even after transfer to DEAF.

Deposit Accounts

- Savings accounts
- Fixed/term deposits
- Cumulative/recurring deposits
- Current accounts
- Other deposit accounts

Credit Facilities

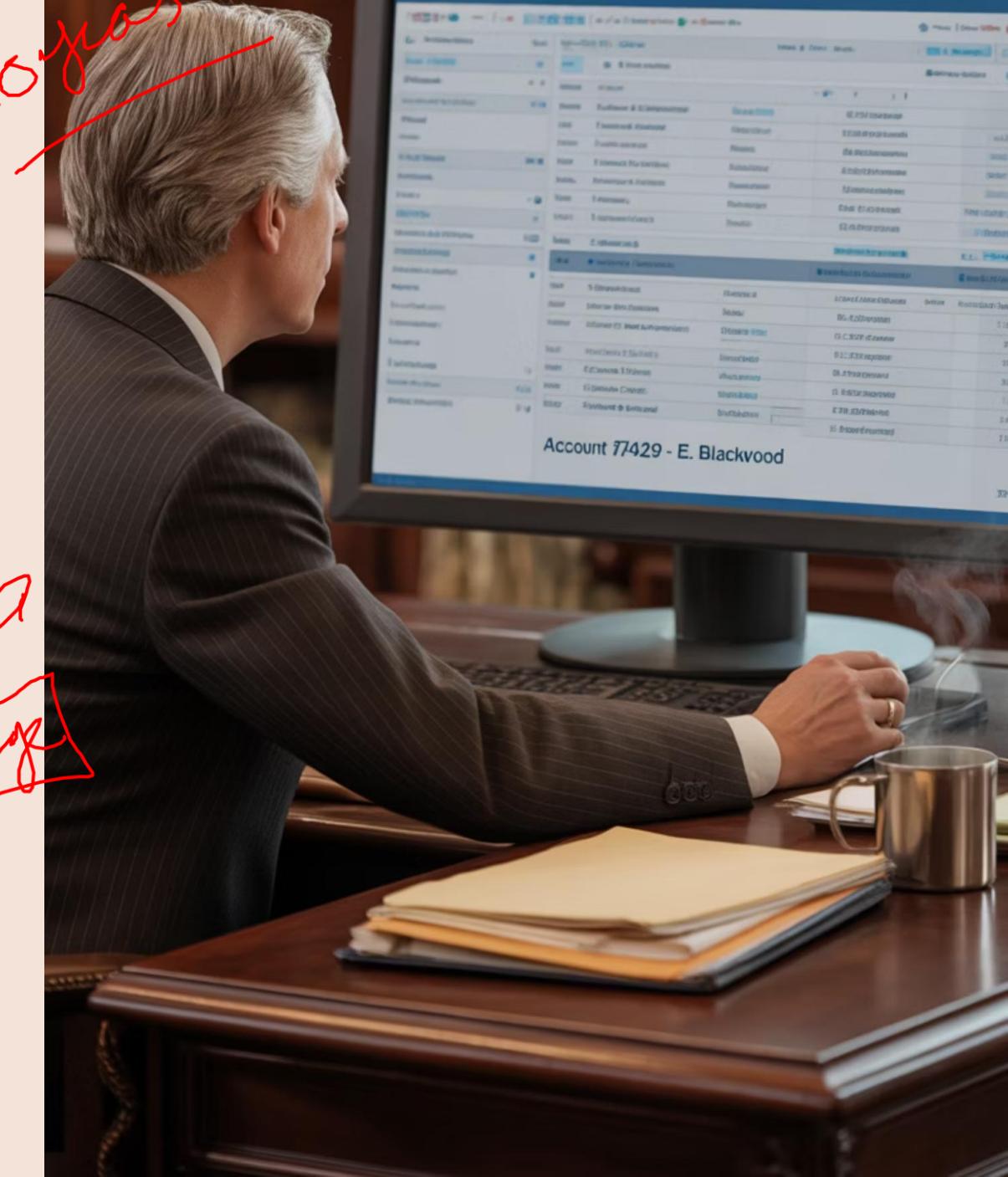
- Cash credit accounts
- Loan accounts (after appropriation)
- Margin money
- Security deposits

Transitory Accounts

- Outstanding transfers
- Demand drafts/pay orders
- Vostro accounts
- Inter-bank clearing adjustments
- Unadjusted NEFT credits

Gran
① Inoperative AC
② dormant AC
③ unclaimed AC
→ 2 yrs.
→ 10 yrs.

10 yrs



Nomination Facility

Legal Framework

Governed by Banking Regulations Act, 1949
(amended 1983) through sections 45 ZA to ZF
and "The Banking Companies (Nominations)
Rules 1985"

Eligibility & Operations

- Available to individual depositors for all deposit types
- Joint deposits require mandates from all joint holders ✓
- Nominees can be changed or nominations canceled as needed



Prescribed Forms

1

Form DA-1: For making nominations by depositors

2

Form DA-2: For cancellation of nominations

3

Form DA-3: For variations/changes to existing nominations



- ⓘ Nomination is a crucial facility that ensures smooth transfer of deposit proceeds to nominees in case of depositor's death, avoiding legal complications.



Best Practices in Deposit Account Operations



Security Protocols

Implement strict verification processes for account opening, transactions, and closures. Regularly update customer identification procedures and conduct periodic KYC refreshes.



Customer Communication

Provide clear information about terms, charges, and interest rates. Send timely notifications for minimum balance requirements, account dormancy, and policy changes.



Regulatory Compliance

Stay updated on RBI guidelines for deposit accounts. Maintain proper documentation for nominations, account modifications, and closure procedures.



Digital Integration

Ensure seamless integration between physical and digital account operations. Provide secure, user-friendly digital services while maintaining traditional service options.

Key Takeaways



. Self funded

Account Type Selection

Understanding customer needs is crucial for recommending the appropriate account type:

- Current accounts: For businesses with high transaction volume*
- Savings accounts: For individuals seeking interest on deposits*
- BSBDAs: For financial inclusion of lower economic segments*
- Fixed/Recurring deposits: For systematic savings with higher returns*

Operational Excellence

Consistent application of regulations ensures compliance and customer satisfaction:

- Follow proper documentation protocols for all account*
- Maintain accurate records of nominations and mandate*
- Implement proper procedures for dormant accounts and DEAF transfers*
- Balance regulatory requirements with customer convenience*

Contact your supervisor or compliance department with specific questions about deposit account operations



Unit-6 Operational Aspects of Banking: Cash, Clearing, and Collections



Core Branch Operations

Cash Transactions

Handling deposits and withdrawals with proper security protocols

Instrument Collection

Processing cheques, drafts, warrants, and other negotiable instruments

Remittances

Managing fund transfers between accounts and institutions

- These core operations require meticulous attention to detail, stringent security measures, and exceptional customer service to maintain the bank's reputation and regulatory standing.

Evolution of Clearing Systems

Historically, clearing houses operated at the local level and were managed by:

- Reserve Bank of India
- State Bank of India
- Other banks nominated by RBI

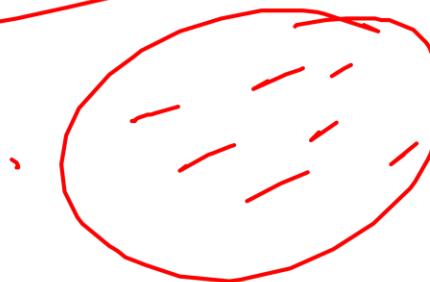
The accounts of all member banks were maintained at the nodal branch of the bank managing the clearing house.

This evolution has dramatically improved efficiency while reducing the risk of loss, theft, or fraud in the clearing process.



Modern clearing has evolved to electronic systems:

- Reduced physical movement of instruments
- Faster settlement times 2 u - 18
- Lower operational costs
- Enhanced security features
- Improved audit trails



Cheque Truncation System (CTS)

Introduced by RBI in 2008, CTS enables inter-bank clearance of cheques without physical movement. The system processes electronic images rather than paper cheques.

Legal Framework

Amendments to the Negotiable Instruments Act, Information Technology Act, and Bankers' Book Evidence Act in 2002 provided the legal foundation for CTS implementation.

Current Status

CTS is now fully operational nationwide, replacing the MICR-based cheque processing system completely.



Key Characteristics of CTS

①



Electronic Image

Digital representation of a paper cheque that replaces the physical document from the point of truncation onward

②



Authorized Truncators

Only banks and clearing houses can truncate cheques; customers cannot create or submit electronic images

③



Clearing Cycle

Truncation occurs only during the clearing cycle to reduce realization time



Physical Storage

Archiv

After truncation, the paper cheque remains in the custody of the truncating bank/clearing house

Digital signatures may be added to the electronic image by the truncating bank or clearing house, although this is optional.



Benefits of Cheque Truncation System

For Banks

- *Significant cost savings through clearing location consolidation*
- *Reduced investment in MICR machines and maintenance*
- *Lower liquidity requirements*
- *Elimination of MICR amount encoding errors*
- *Reduced reconciliation discrepancies*

For Customers

- *Faster cheque clearing cycles*
- *Enhanced security for transactions*
- *Reduced risk of cheque loss or manipulation*
- *Greater transparency in the clearing process*
- *Improved service quality*

CTS eliminates the risk of cheques being lost, tampered with, or pilfered during transit, while the CTS 2010 standards have enhanced security and automation throughout the system.



CTS Image Specifications and Processing

Image Requirements

CTS uses three images per cheque: front Gray Scale, front Black & White, and back Black & White

Digital Signatures

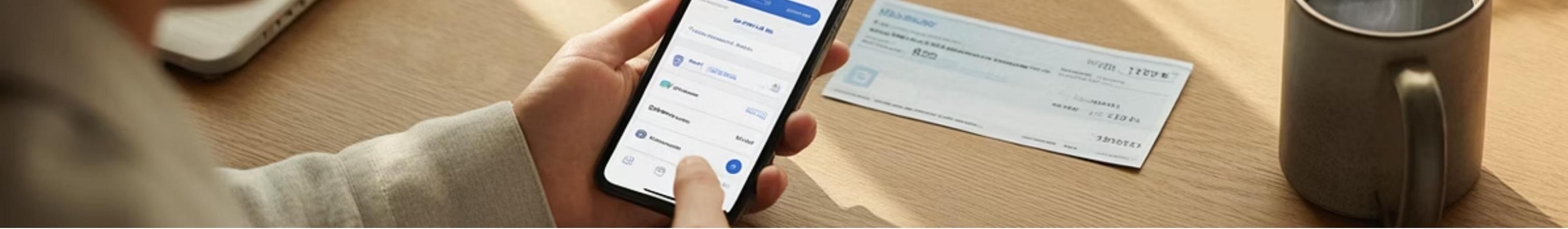
Presenting banks must digitally sign both images and data at the point of origin

Quality Assessment

Rigorous Image Quality Assessment (IQA) occurs at multiple levels; non-compliant images are rejected

Physical Request Option

Paying banks can demand the physical instrument if image quality is unsatisfactory or for other verification needs



Positive Pay System for CTS

Implemented by RBI effective January 1, 2021, Positive Pay is a cheque verification mechanism that helps prevent fraud by matching key details before payment.

Customer Submission

The cheque issuer electronically submits key details (date, beneficiary name, amount) through SMS, mobile app, internet banking, or ATM

System Verification

When presented for payment, the cheque details are cross-checked against the submitted information

Discrepancy Flagging

Any mismatches are flagged by CTS to both the drawee and presenting banks for investigation

This system is mandatory for cheques of ₹5,00,000 and above, while for amounts between ₹50,000 and ₹5,00,000, customers have the discretion to use the facility.

Thank You



Comment Your Feedback

