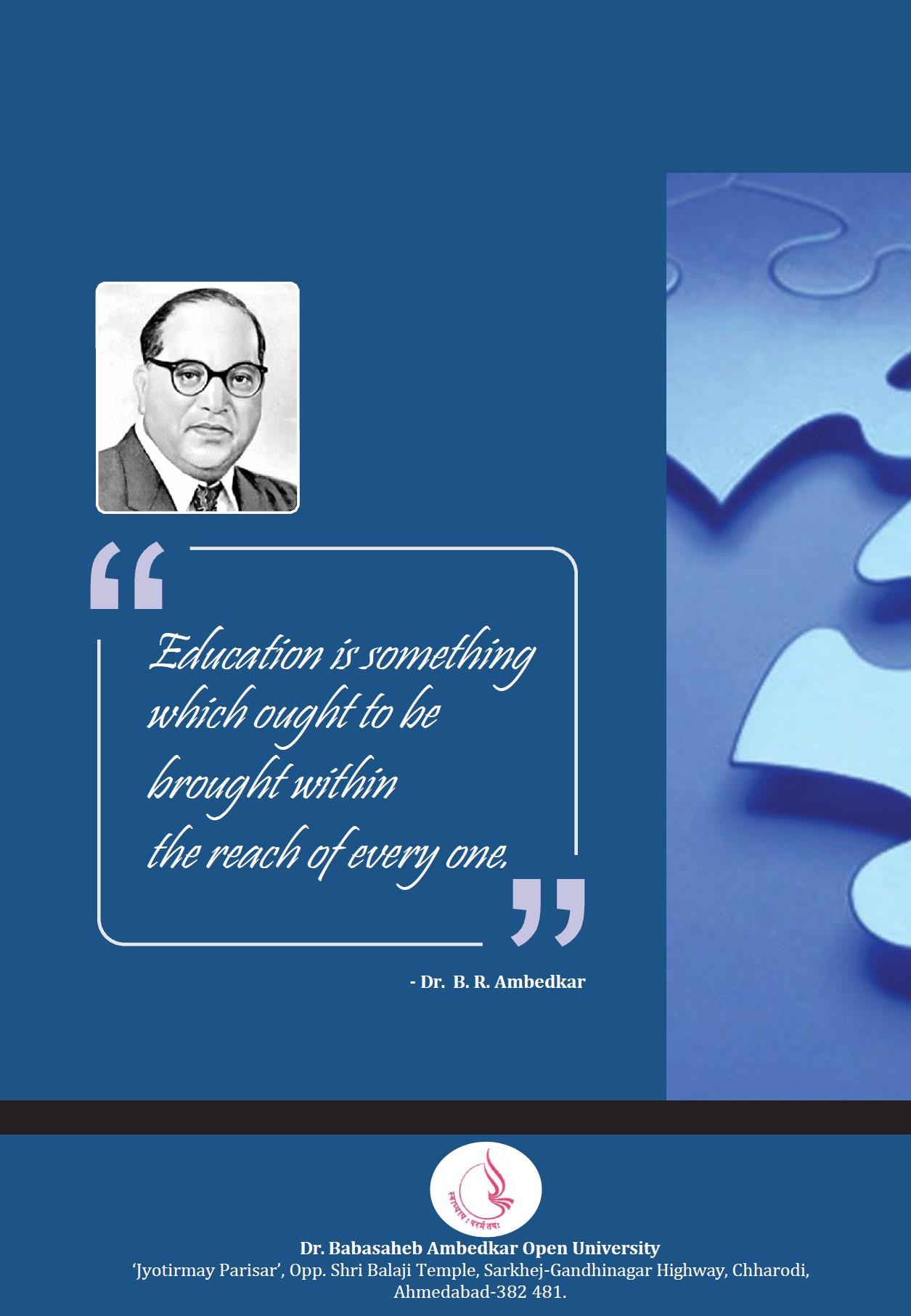
**RETAIL BANKING BBA - 601**

## BLOCK 1:

**INTRODUCTION & CONCEPT OF RETAIL BANKING**

# Dr. Babasaheb Ambedkar Open University Ahmedabad



**BBA-601**

**RETAIL BANKING**

#### BLOCK 1 : INTRODUCTION & BASIC CONCEPT OF RETAIL BANKING

Unit-1 Evolution of Banking

Unit-2 Retail Banking and it’s Growth Unit-3 Basis of Bank Account

Unit-4 Client Profile of Retail Bank

Unit-5 Portfolio, Deposits & Interest Risk Management

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**ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING**

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

**PREFACE**

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect. All the best for your studies from our team!

|  |  |
| --- | --- |
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**UNIT 1: INTRODUCTION AND EVOLUTION OF BANKING**

#### Learning Objectives

After studying this unit, you will be able to:

* Describe the history of banking.
* Discuss the characteristics of banks.

#### Structure

* 1. Introduction
  2. Birth of Banking
     1. Causes of the Development of Money
     2. Birth of the Banking System
     3. Characteristics of a Commercial Bank
  3. Self Assessment Test
  4. Further Readings

#### Introduction

Liberalization and Globalization have shifted the focus of the Indian Banking industry on the retail segment. All banks, irrespective of their size and origin, have started consolidating their efforts on maximizing their benefits from this business opportunity. Reforms of the financial sector initiated in 1995-96, removed the operational constraints that were hindering the growth of the banking sector in India. Since then, the banking sector has never looked back. In order to acquaint yourself with banking, it is always beneficial to trace the history of banking. This unit traces the phases of development of banking and then turns to the present scenario in the banking industry.

#### Birth of Banking

* + 1. **Causes of the Development of Money**

Money originated very largely from non-economic causes: from tribute as well as from trade, from blood-money and bride-money as well as from barter, from ceremonial and religious rites as well as from commerce, from ostentatious ornamentation as well as from acting as the common drudge between economic men.One of the most important improvements over the simplest forms of early barter was the tendency to select one or two items in preference to others so that the preferred items became partly accepted because of their qualities in acting as media of exchange. Commodities were chosen as preferred barter items for a number of reasons - some because they were conveniently and easily stored, some because they had high value densities and were easily portable and some because they were durable. These commodities, being widely desired, would be easy to exchange for others and therefore they came to be accepted as money. Though the disadvantages of barter system provided an impetus for the development of money the impulse of which was purely economic, the archaeological, literary and linguistic evidence of the ancient world and the tangible evidence of actual types of primitive money from many countries demonstrate that barter was not the main factor in the origin and earliest development of money.

A widespread custom of payment for brides in order to compensate the head of the family for the loss of his daughter's services prevailed in olden times. Rulers have, since very ancient times, imposed taxes on or exacted tribute from their subjects. Religious obligations might also entail payment of tribute or sacrifices of some kind. Thus, in many societies, there was a requirement for a means of payment for blood-money, bride-money, tax or tribute and this gave a great impetus to the spread of money.

Objects, originally accepted for one purpose, were often found to be useful for other non-economic purposes and, because of their growing acceptability, began to be used for general trading also, supplementing or replacing barter. Thus, the use of money evolved out of deeply rooted customs; the clumsiness of barter provided an economic impulse but that was not the primary factor. It evolved independently in different parts of the world. The only civilization that functioned without money was that of the Incas.

#### Birth of the Banking System

Banking in its crude form is an age-old phenomenon and its invention preceded that of coinage. As new and more sophisticated instruments of currency evolved, so did banking. It evolved as business expanded an barter system gave way to money which needed safe deposit. In its simple form, it originated from temples and royal palaces around 1000 B.C. in Babylon, as the strongest faith of people was in the places of worship and royal houses as safe places for keeping money and valuables. The practice of depositing personal valuables at these places, which were also functioning as treasuries against a receipt, was perhaps the earliest form of ' banking'.

With the expansion of trade and commerce, the concept of banking gained importance. The handling of banking gradually transcended from individuals to groups and later to companies. With the Industrial Revolution of the 18th and 19th centuries, it attained a more significant place in the area of lending. Bank in their first primitive beginnings and later in more developed forms did not enjoy a steady and harmonious growth. Banking emerged and evolved through various phases adapting itself continuously to meet the increasing needs of trade and commerce. In the first half of the 19th century the East India Company established three banks; the Bank of Bengal in 1809, the Bank of Bombay in 1840 and the Bank of Madras in 1843, which were known as "Presidency Banks." These three banks were amalgamated in 1920 and a new bank, the Imperial Bank of India was established on 27th January, 1921. In 1955, the State Bank of India Act was passed and the Imperial Bank of India was taken over by the newly constituted State Bank of India. The Reserve Bank, which acts as the Central Bank, was created in 1935 by passing of The Reserve Bank of India Act, 1934. The Swadeshi Movement gave a fillip to Indian joint stock banking and several of the present leading banks were established around this time. By 1913, there were 41 Indian banks in the field, namely, The Punjab National Bank Ltd., Bank of India Ltd., Canara Bank Ltd., Indian Bank Ltd. etc.

#### Characteristics of a Commercial Bank

The word 'bank' is derived from the Greek word 'banque' or the Italian word 'banco' both meaning 'a bench' at which moneylenders and money changers used to display their coins and transact their business in the market places. A bank is a profit-seeking firm dealing in money and credit. It accepts deposits and keeps it under safe custody.

A commercial bank is an institution that primarily accepts deposits and extends credit to serve consumer and corporate needs for capital. It creates credit by making advances out of the funds received and thus mobilizes the savings in the economy. Under the Banking Regulation Act 1949, "Banking includes accepting deposits from the public, for the purpose of lending or investment; and repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise." In contrast to most other financiers, commercial banks extend credit rather than taking an investment position in a corporate enterprise. Commercial banks receive deposits in two main ways: (a) consumer or commercial deposits, and (b) central bank and other bank deposits. Commercial banks generate revenue from the interest charged to consumers and through a variety of customer service fees.

#### Self Assessment Test

1. Explain causes of Development of Money.
2. Explain the Birth of Banking System.
3. Explain the Characteristics of a Commercial Bank.

#### Further Readings

1. Retail Management Principles And Practices- Author(s)/Editor(s): Dr K N Batik

1. Retail Management - Author(s)/Editor(s): M A Shewan
2. Retail Management - S N Mitra
3. Retail Banking- Raghu Palat

### UNIT 2 : GROWTH OF RETAIL BANKING

#### Learning Objectives

After studying this unit, you will be able to:

* + Define retail banking.
  + Discuss present scenario in the banking industry.
  + Study The Barriers to the Development of Indian Banking Sector
  + Know the birth of banking.

#### Structure

* 1. Growth of Retail Banking
     1. Retail Banking
     2. What is Retail Banking?
     3. Retail Banking in India
     4. Reasons for Retail Growth — An Analysis
     5. Advantage of Retail Banking
     6. The Path Ahead in India
     7. The Barriers to the Development India Banking Sector
  2. Self Assessment Test
  3. Further Readings

#### Growth of Retail Banking

* + 1. **Retail Banking**

Globalization has carved new benchmarks in the Indian banking industry. Every bank, irrespective of its size and origin, has started chanting the 'retail banking' mantra. Since retail banking has evolved new standards; banks have started redrawing their strategies to suit the present needs. Banking as a whole is undergoing a change. The traditional approach of "the sellers' market" for banking-related products and services has been redefined to a "buyers' market" in recent years. Gone are the days where getting a retail loan was somewhat cumbersome. All these emphasize the momentum that retail banking is experiencing in the Indian economy in recent years. A larger option for the consumer is getting translated into a larger demand for financial products and customization of services is fast becoming the norm than a competitive advantage. With the retail banking sector expected to grow at a rate of 30%, players are focusing more and more on the retail and are waking up to the potential of this sector of banking. At the same time, the banking sector as a whole is witnessing structural changes in regulatory frameworks and securitization and stringent NPA norms are expected to be in place by 2004, which means the faster one adapts to these changing dynamics the faster is one expected to gain the advantage.

#### What is Retail Banking?

Retail banking is, however, quite broad in nature; it is a banking service that is geared primarily towards individual consumers. Retail banking is usually made available by commercial banks as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking entities provide a wide range of personal banking services, including offering savings and checking accounts, bill paying services as well as debit and credit cards. Through retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium-sized businesses. Today much of retail banking is streamlined electronically via Automated Teller Machines (ATMs) or through virtual retail banking known as online banking. Related ancillary services include credit cards or depository services. Today's retail banking sector is characterized by three basic characteristics:

* + - * Multiple products (deposits, credit cards, insurance, investments and securities);
      * Multiple channels of distribution (call centre, branch, Internet and kiosk); and
      * Multiple customer groups (consumer, small business, and corporate).

#### Retail Banking in India

Retail banking in India is not a new phenomenon. It has always been prevalent in India in various forms. For the last few years, it has become synonymous with mainstream banking for many banks. The typical products offered in the Indian retail banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. The loans are marketed under attractive brand names to differentiate the products offered by different banks. The Report on Trend and Progress of India, 2003-04 has shown that the loan values of these retail lending typically range from Rs.20,000 to Rs.100 lakh. The loans are generally for a duration of five to seven years, with housing loans granted for a longer duration of 15 years. Credit card is another rapidly growing sub-segment of this product group. In recent past, retail lending has turned out to be a key profit driver for banks with retail portfolio constituting 21.5 per cent of total outstanding advances as on March 2004. The overall impairment of the retail loan portfolio worked out much less then the Gross NPA ratio for the entire loan portfolio.

#### Table Composition of Retail Credit

|  |  |  |  |
| --- | --- | --- | --- |
| Type March | 2000 March | 2001 March | 2002 March |
| Housing | 14100(3.52). | 16143(3.44) | 22346(4.16) |
| Consumer Durables | 3855(0.96) | 5566(1.91) | 7015(1.31.) |
| Loans given against  bonds | 2146(0.54) | 1697(0.36) | 1520(0.28) |
| Non priority sector  personal loans | 15409(3.84) | 18064(3.85) | 22403(4.36) |
| Sub-total | 35510(8.86) | (41470(8.84) | 54283 (10.11) |
| Goss bank credit | 400818(100) | 469153 (100) | 536727 (100) |

It can be inferred that except loans against shares / bonds, the share of every component of retail credit has increased three-fold. The declining interest rate and the incentives that are granted to the housing sector and being translated into higher home loans while the entry of public sector into the personal loan segment, apart from the aggressive forays of new private sector banks are pushing up the growth of the growth of these segments. Within the retail segment, the housing loans had the least gross asset impairment. In fact, retailing makes ample business sense in the banking sector. While new generation private sector banks have been able to create a niche in this regard, the public sector banks have not lagged behind. Leveraging their vast branch network and outreach, public sector banks have aggressively forayed to garner a larger slice of the retail pie. By international standards, however, there is still much scope for retail banking in India. After all, retail loans constitute less than seven per cent of GDP in India vis-a-vis about 35 per cent for other Asian economies. As retail banking in India is still growing from modest base, there is a likelihood that the growth numbers seem to get somewhat exaggerated. One, thus, has to exercise caution is interpreting the growth of retail banking in India. The Indian players are bullish on the retail business and this is not totally unfounded. There are two main reasons behind this. Firstly, it is now undeniable that the face of the Indian consumer is changing. This is reflected in a change in the urban household income pattern. The direct fallout of such a change will be the consumption patterns and hence the banking habits of Indians, which will now be skewed towards retail products.

At the same time, India compares pretty poorly with the other economies of the world that are now becoming comparable in terms of spending patterns with the opening up of our economy. For instance, while the total outstanding retail loans in Taiwan is around 41% of GDP, the figure in India stands at less than 5%. The comparison with the West is even more staggering. Another comparison that is natural when comparing retail sectors is the use of credit cards. Here also, the potential lies in the fact that of all the consumer expenditure in India in 2001, less than 1% was through plastic, the corresponding US figure standing at 18%.

#### Reasons for Retail Growth — An Analysis

1. Economic prosperity and the consequent increase in purchasing power has given a fillip to a consumer boom. Note that during the 10 years after 1992, India's economy grew at an average rate of 6.8 percent and continues to grow at the almost the same rate — not many countries in the world match this performance.
2. Changing consumer demographics indicate vast potential for growth in consumption both qualitatively and quantitatively. India is one of the countries having highest proportion (70%) of the population below 35 years of age • (young population).
3. Technological factors played a major role. Convenience banking in the form of debit cards, internet and phone-banking, anywhere and anytime banking has attracted many new customers into the banking field. Technological innovations relating to increasing use of credit / debit cards, ATMs, direct debits and phone banking has contributed to the growth of retail banking in India.
4. Treasury income of the banks, which had strengthened the bottom lines of banks for the past few years, has been on the decline during the last two years. In such a scenario, retail business provides a good vehicle for profit maximization. Considering the fact that retail's share in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.
5. Decline in interest rates has also contributed to the growth of retail credit by generating the demand for such credit. In this backdrop, it is necessary to mention two specific domains of retail lending in India, viz.,
6. credit cards and (b) housing.

#### Advantage of Retail Banking

Retail banking has its own advantages and that overpower its disadvantages. The advantages could be analyzed from two perspectives:

#### Recourse side

* 1. Retail deposits are stable and contribute to core deposits.
  2. They are interest-insensitive and less baring for additional interest.
  3. They constitute low cost funds for the banks.
  4. Effective CRM with customers builds a strong customer base.
  5. Retail banking increases the subsidiary business of the banks.

#### Assets side

* 1. Retail banking results in better yields and better bottom line.
  2. Retail segment is a good avenue for funds deployment.
  3. The consumer loans are presumed to be of lower risk and NPA perception.
  4. It helps in economic revival.
  5. It ensures innovative product development.
  6. It involves minimum marketing efforts.

#### The Path Ahead in India

Retail banking has immense opportunities in a growing economy like India. As the growth story gets unfolded in India, retail banking is going to emerge as a major driver. The rise of the Indian middle class is an important contributory factor in this regard. The percentage of middle to high income Indian households is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to India's retail banking segment. The combination of the above-mentioned factors promises substantial growth in the retail sector, which at present, is in the nascent stage. Due to bundling of services and delivery channels, the areas of potential conflicts of interest tend to increase in universal banks and financial. conglomerates.

Some of the key policy issues relevant to the retail banking sector are: financial inclusion, responsible lending, access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

#### The Barriers to the Development India Banking Sector

1. **Customer retention** is going to be a major challenge. According to a research by Reichheld and Sasser in the Harvard Business Review, 5 per cent increase in customer retention can increase profitability by 35 per cent in banking business, 50 per cent in insurance and brokerage, and 125 per cent in the consumer credit card market. Thus, banks need to emphasize on retaining customers and increasing market share.
2. **Rising indebtedness** could turn out to be a cause for concern in future. India's position, of course, is not comparable to that of the developed world where household debt as a proportion of disposable income is much higher. Such a scenario creates high uncertainty.
3. **Information technology** poses both opportunities and challenges. Even with ATM machines and Internet Banking, many consumers still prefer the personal touch of their neighborhood branch bank. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to checking accounts and rapid movement of money for stock transfers. However, this dependence on the network has brought IT department's additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. Illustratively, ensuring that all bank products and services are available, at all times, and across the entire organization is essential for today's retails banks to generate revenues and remain competitive. Besides, there are network management challenges, whereby keeping these complex, distributed networks and applications operating properly in support of business objectives becomes essential. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers.
4. **KYC issues** and money laundering risks in retail banking are yet another important issue. Retail lending is often regarded as a low risk area for money laundering because of the perception of the sums involved. However, competition for clients may also lead to KYC procedures being waived in the bid for new business. Banks must also consider seriously the type of identification documents they will accept and other processes to be completed.

#### Self Assesment Test

* + 1. What is Retail Banking? Explain Retail Banking in India.
    2. Explain the Advantages of Retail banking in detail.
    3. Explain in detail the Barriers to the Development of Indian Banking Sector.

#### Further Reading

* + 1. Keynote address by Ms Shyamala Gopinath, Deputy Governor of the Reserve Bank of India, at the IBA - Banking Frontiers International Conference on "Retail Banking Directions: Opportunities & Challenges", Mumbai, 28 May.
    2. Article on 'Mobile Banking Facilities in Indian Banks' - Prof. Aithal.
    3. Article on 'Insurance Management' — With specific reference to bank assurance - Mr. Sudhindra Bhat.
    4. Article on 'Money Laundering in Banking' by Prof. J.D.Agarwal Professor of Finance & Founder Chairman & Director, Indian Institute of Finance Chief Editor, Finance India

### UNIT 3: BASIS OF BANK ACCOUNT

#### Learning Objectives

After studying this unit, you will be able to:

* Describe the types of bank accounts.

#### Structure

* 1. Introduction
  2. Bank Accounts
     1. Introduction
     2. Definition
     3. Types of Deposit Accounts
     4. Rights of Depositors
  3. Self Assessment Test
  4. Further Reading

#### 3.1 Introduction

One of the important functions of a retail bank is to accept deposit money from the public. The deposits accepted by the bankers are of two types, namely, demand and time deposits. Demand deposits are deposits payable on demand and include savings and current account deposits whereas time deposits are those which are repaid to the customers only after completion of a specific time period. This type generally takes the form of fixed and recurring deposits. Banks, at a retail level,

d.1 with different categories of customers. Each customer is dealt with, by the bank, in a different manger in accordance with the rules and regulations. This unit provides an overview of the different types of bank accounts that could be opened and other issues pertaining to them.

#### Bank Accounts

* + 1. **Introduction**

A bank is a business that provides banking services for profit. Traditional banking services include receiving deposits of money, lending money and processing transactions. Some banks (called Banks of issue) issue banknotes as legal tender. Many banks offer ancillary financial services to make additional profit; for example: selling insurance products, investment products or stock broking. Acceptance of deposit being the core activity, it is the most important function that has to be discussed in detail. Let us study different types of bank accounts that could be opened and various issues pertaining to them.

#### Definition

A bank account is a monetary account with a banking institution, recording the balance of money for a customer. Bank accounts may have a positive or credit balance where the bank holds money on behalf of the customer; or a negative or debit balance where the customer owes money to the bank.

Broadly, accounts opened for the purpose of holding credit balances are referred to as deposit accounts whilst accounts opened fc ie. purpose of holding debit balances are referred to as loan

accounts. Some accounts are by their function rather than the nature of the balance they hold.

#### Types of Deposit

Accounts The Deposit Products offered by the bank are broadly categorized into the following types:

* + - 1. Savings Bank Account
      2. Current Account
      3. Term Deposits
      4. Deposits held in FCNR (Banks) Accounts
      5. Joint Accounts

#### Savings Bank Account

Obtaining funds held in a Savings Account may not be as convenient as a Demand Account. For example, one may need to visit an ATM or bank branch, instead of writing a cheque or using a debit card. This transference is so easy that savings accounts are often termed as near money.

Some Savings Accounts require funds to be kept on deposit for a minimum length of time, but most permit unlimited access to funds. True Savings Accounts do not offer cheque-writing privileges, although many institutions call "Savings Accounts" their Higher-interest Demand Accounts or Money Market Accounts. Savings Bank Account, as the very name suggests, is intended for savings for the future. There are no restrictions on the number and amount of deposit that can be made on any day. Minimum amount of withdrawal / deposit is Rs.10/-. Balance in the account earns interest at rates advised by the Head Office from time to time. The facility of withdrawal by cheque is also allowed subject to certain restrictions. These accounts can be opened by eligible persons and also certain organizations and agencies (as approved by the RBI). The bank requires satisfactory introduction of the person/s opening the account by a person acceptable to the bank. The rules governing the process of opening a Savings Account are:

* + **Photograph:** The bank is required to obtain 2 recent photographs of the person/s who is/are authorized to operate the account. The purpose is to check the identity of the person/s operating the account. In case of minors, the photograph of the guardian has to be produced while opening the account. It should be noted here that the photograph cannot substitute the signature of the account holder. It implies that all transactions have to be validated by signing cheques or any other withdrawal instrument.
  + **Address:** The bank must collect a complete proof of address while opening the bank account. A recent copy of any of the following documents is acceptable: telephone bill, electricity bill, ration card, passport, driving license. The bank will provide to the prospective customers details of the documents required for identification of the person/s opening the account in addition to a satisfactory introduction.
  + **PAN/GIR:** The bank is required to obtain Permanent Account Number (PAN) or General Index Register (GIR) number or alternatively obtain declaration in Form no.60 or 61 as per the income Tax Act (Vide Section 139-A) from the person/s opening the account.
  + **Minimum Balance:** The account holder is required to maintain minimum balance in the account, as specified by the bank from time to time, separately for computerized and non- computerized branches and also depending on whether the account holder wants to avail the cheque book facility or not. Non-compliance of this would attract service charges. Individual banks have the discretion to change the norms and levy charges for non-compliance of the same. However, adequate notice will be given informing about the change/s levied. Interest as prescribed by RBI is paid on half yearly basis on minimum balance between the 10th day and last day of the month, provided it works out a minimum Re.1 .
  + Issue of cheque book is subject to satisfactory operation in the account. Passbook is provided to customer and updated periodically.
  + Specimen signature of the client has to be obtained along with the documents so as to facilitate verification during withdrawal.
  + The table below enlists the important documents required to be submitted by various clientele while opening a bank account:

|  |  |  |
| --- | --- | --- |
| Sr. No | Type of Client | Documents Requirement |
| 1 | Individual | ID proof Address proof PAN number  2 recent passport size photographs |
| 2 | Sole proprietorship | A certified true copy of it's shops and establishments license or any approval from the government  A declaration by the sole proprietor that he is the sole proprietor |
| 3 | Hindu Undivided Family | A HUF declaration signed by all the composite members HUF deed  Certified true copy of the IT returns of the last 2 years |
| 4 | Partnerships | A certified copy of the partners hip agreement  List of all the partners along with their address proofs A true copy of the resolution of partners to open an Account  PAN no.  Proof of address  Authorization letter issued to one partner to transact business |
| 5 | Limited Companies | Memorandum of Association and Certificate of Incorporation  Certificate of Commencement of Business  A copy of the Resolution of the Board of Directors Principal place of business  Copy of PAN number Address proof |

#### Current Account

Reserve Bank of India has defined Current Account as "a form of demand deposit wherefrom withdrawals are allowed any number of times depending on the balance in the account up to a particular agreed amount and shall also be deemed to include other deposit accounts that are neither savings deposit nor term deposit." Current Accounts are designed to meet the needs of such sections of the public who operate their account regularly and frequently. i.e. traders, businessmen, corporate bodies or the like who receive money and make payments very often. Current Accounts are suitable to such category of customers as there is no restriction on the number of withdrawal or deposit. Current accounts can be opened by individuals, partnership firms, private & public ltd. co., HUFs, / specified associates, societies, trusts, etc. Unlike Savings Accounts where the primary reason for depositing money is to generate interest, the main function of a Demand Account is transactional

and therefore most providers either pay no interest or pay a low level of interest on credit balances. As required by law, while opening the current account, the following regulations need to be adopted:

* + The bank requires satisfactory introduction of the person, opening the account by a person acceptable to the bank.
  + The bank is required to obtain 2 photographs of all the person/s who is/are opening and operating the account.
  + The bank is required to obtain Permanent Account Number (PAN) or General Index Register (GIR) number or alternatively obtain declaration in Form no.60 or 61 as per the income Tax Act (Vide Section 139-A) from the person, opening the account (i.e. including partners or registered / unregistered partnership as also registered / incorporate bodies / companies).
  + The bank will provide to the prospective customers details of the documents required for identification of the person, opening the account in addition to a satisfactory introduction. Minimum balance as stipulated from time to time is required to be maintained by the customers
  + The bank usually does not pay interest on the balance in the current accouth.
  + The bank charges service charge on the following services offered to the customers :

1. Ledger folio used
2. Cheque books issued
3. Non-maintenance of minimum balance
4. Return of cheques, etc.
   * The applicant (i.e. account opener) should declare in the Account Opening Form or separately that he is not enjoying any credit facility with any bank and if he does enjoy any facility, he should declare full particulars thereof indicating the name of the bank, branch wherefrom he has availed these facilities and also submit No Objection Certificate from financing bank/institution.
   * Statement of Account is provided to the account holder monthly or more frequently as per the arrangement.
   * Stop Payment facility — The bank will accept stop payment instructions from the depositors in respect of cheques issued by them (subject to maintenance of required balance). Charges as specified will be recovered from the customer.
   * Closing of the Accounts: While dosing the Current Account, the account holder should return all the unused cheques to the bank. The bank may also ask the customer to close the account if the customer is no longer a desirable one or the account is non-operational for along time.
   * Term Deposit Account

A Fixed Deposit is defied as " a deposit received by a bank for a fixed period and which is withdraw able only after expiry of a said fixed period and also includes deposits such as recurring, cumulative, annuity, reinvestment deposits, cash certificates and so on."

The deposits received by the bank for a fixed period withdraw able after the expiry of the fixed period and include deposits such as recurring, fixed, etc. Bank has tailored various Term Deposit

Schemes to suit the needs and expectation of the investing people in every walk of life. Tenn Deposits can be opened by individuals, partnership finns, private / public ltd. Companies

HUFs,/ Institutions/Societies/Trusts etc.

As required by law, the following are the rules and regulations that are followed:

* The bank requires satisfactory introduction of the person/s opening the account by a person acceptable to the bank. The customer is required to submit 2 photographs of all the person/s who is/are opening and operating the account.
* The bank is required to obtain Permanent Account Number (PAN) or General Index Register (GIR) number or altematively obtain declaration in Form no.60 or 61 as per the Income Tax At (Vide Section 139-A) from the person/s opening the account.
* The bank will provide to the prospective customers details of the documents required for identification of the person/s opening the account M addition to a satisfactory introduction. Persons as entities already having operative accounts such as SB, Current Account etc. need not provide the above documents for opening of the Term Deposit Accounts.
* Interest: Interest is paid on fixed deposits at a rate determined by individual banks. Interest is normally paid on maturity of the deposit which means on completion of the term. On such deposits I % extra interest can be paid to the retired employees, not to those employees who have resigned. Higher rate of interest can also be offered to senior citizens.
* Premature withdrawals are allowed unless specified otherwise, at the rate of interest applicable for the period for which the deposit has run ruling on the date of deposits, subject to penalty if any prescribed by the bank.
* Maturity: On maturity of the tenn deposit, the account holder can withdraw the amount with interest or renew the deposit for another specific term. In case the account holder withdraws the amount, the bank is responsible for withdrawing TDS on the interest accrued on the principal amount.
* Loans: The fixed deposit can be accepted as a surety for the purpose of issuing loans
* Premature withdrawal of NRE tenn deposits:

1. In the case of premature withdrawal of NRE term deposit, for conversion into Resident Foreign currency (RFC) accouM, the bank may not levy any penalty for premature withdrawal. If such a deposit as not run for a minimum period of I year, the bank may, at its discretion, pay interest at a rate of exceeding the rate payable on Savings Deposit held in RFC Accounts, provided request for such a conversion is made by NRE account holder, immediately on return to India.
2. Conversion of NRE deposit into Foreign Currency Non-resident deposit and vice versa before maturity will be subject to the penal provision relating to pre-mature withdrawal.
3. Conversion of NRSR / NRNR deposit into NRO deposit before maturity will be subject to the penal provision relating to pre-mature withdrawal.

Premature extension / renewal of term deposit — In case the depositor desires to renew the deposit by seeking premature closure of an existing term deposit, the bank will permit the renewal at the applicable rate on the date of renewal, provided the deposit has run for a minimum period of 15

days and is renewed for a period longer than the balance period of the original deposit. While prematurely closing a deposit for the purpose of renewal, interest on the deposit for the period it has remained with the bank will be paid at the rate applicable to the period remained with the bank and not the contracted rate.

* + Generally, loans/overdrafts against deposits are allowed except on Certificate of Deposit (CD). Such loans are sanctioned by charging interest at rates announced from time to time by the bank. The bank may also consider loan against deposit standing in the name of minor.

However, a suitable declaration stating that loan is for the benefit of the minor is to be submitted by the depositor applicant.

* + Deposits are renewed by the bank on due dates, on request. Wherever the depositor has executed the option of automatic renewal in the Account Opening Form, the bank may renew the deposit until the instructions are revoked in writing. The bank intimates the depositor in advance regarding the date of maturity.
  + Interest on deposit is payable either monthly at discounted value or quarterly or half-yearly.
  + Renewal of overdue Term Deposits: When a term deposit is renewed on maturity, on renewed deposit interest rate for the period specified by the depositor as applicable on the date of maturity would be extended. If request for renewal is received after the date of maturity, such overdue deposit will be renewed with effect from the date of maturity at the interest rate applicable as on the due date, provided such request is received within 14 days from the date of maturity. In respect of deposits renewed after 14 days from the date of maturity, the deposits will be renewed from the date of maturity for the period requested applying the rate of interest ruling on the date of maturity or on the date of renewal whichever is lower, subject to renewal for a period not less than 15 days from the date of renewal.
  + In case of overdue NRE deposits, if renewed (partly or wholly) within 14 days (both days included) from the date of maturity, then the rate of interest payable on the amount so renewed will be the rate as on the date of 1; ,aturity or on the date when the depositor seeks renewal, whichever is lower. In the case of overdue NRE deposits, where the overdue period exceeds 14 days, and if the depositor places the entire amount of overdue deposit or a portion thereof as a fresh NRE term deposit, then interest payable is the rate prevailing as on the day of the fresh deposit provided the period of the fresh deposit is not less than 1 year from the date of making such fresh deposit.
  + Interest on overdue deposit is paid if the deposit is renewed, as decided by the bank from time to time.
  + Interest on bank deposits is exempt from Income Tax up to a limit specified by Income Tax authorities from time to time.
  + Presently, if the total interest on deposits, per depositor per branch per financial year exceeds Rs.5000/-, the same is subject to Tax Deducted at Source (TDS) at the rate stipulated by the Income Tax authorities.
  + The depositor may furnish declaration in Form No.15-G/ 15-H preferably at the commencement of the financial year for receiving interest on deposits without deduction of tax.
  + The bank will issue TDS certificate for the tax deducted.

#### Loan against Term Deposits

A term deposit receipt is an acknowledgement of receipt of the specified amount repayable after the specified period of time. Customers sometimes require advances against their fixed deposit receipts with the bank maturing at a future date. Though banks are not bound to allow such advances. They normally extend this facility. While making advances against a fixed deposit receipt, a banker should take certain precautions.

#### Precautions:

* + No advance should be made against a fixed deposit receipt issued by another bank, as the latter has a paramount lien on the deposit receipt issued by it and may refuse to register the lien of the lending bank.
  + Advance should be granted only to the person in whose name the deposit receipt is issued. If the deposit is in two or more names and loan is to be granted to one of them, all the depositors should sign a letter of authority.
  + In the case of deposits in the names of minors, loans may be granted provided a declaration is obtained from the guardian that the money belongs to him, but has been kept in the minor's name as a matter of convenience and the amount of advance is intended to be utilized for the benefit of the minor.
  + The deposit receipt should be discharged by all the depositors on an appropriate revenue stamp. Even where deposit is payable to "either or survivor" or "anyone or survivor", discharge by all the depositors must be obtained. The signatures must be tallied with the specimen signatures in bank's record.
  + The bank must take actual possession of the receipt with a letter signed by the depositor/depositors authorizing the bank to appropriate the proceeds of the receipt on maturity, in case the customer fails to pay the loan on due date.
  + The bank should make a note of its lien across the fixed deposit receipt as well as in the fixed deposit register and ledger.
  + While advancing against the receipt of another branch of the bank. It should confirm that no loan has already been advanced against that deposit. It should, after granting the loan, intimate the branch which issued the deposit receipt to note and confirm its lien. A letter should also be taken from the customer to remit the proceeds to the lending branch on maturity.
  + A margin of 5 per cent to 10 per cent is usually kept on loans against fixed deposi.. In the ca.se of cash certificates issued by the bank, the margin is calculated on the current value (surrender value) of the certificates.
  + In case the loan is advanced against a fixed deposit receipt in the name of a third party, along with the usual documents from the party, the banker tak. the fixed deposit receipt duly discharged by the person in whose name the deposit stands. Also, a letter of approval to apply the proceeds of the receipt in case the loan 15 101 paid is taken from the party in whose name deposit receipt is issued.
  + Interest on loans against fixed deposit is now governed by the Reserve Bank of India directive. Banks are required to charge a minimum of 2 per cent above the interest payable on such deposit. Thus, for example, if a loan is advanced on the security of a fixed deposit receipt carrying interest @ 9% per annum the bard( must charge interest at the minimum rate of 11 per cent per annum. He may, of course, charge a rate higher than this.

#### Deposits held in FCNR (Banks) Accounts

The deposits under the category means, "term deposits" received for a fixed period and withdraw able only after the expiry of the said fixed period and shall also include Reinvestment Deposits and Cash Certificates or other deposits of similar nature.

Other important features:

* 1. Covers deposits in Pound Sterling, US Dollar, Japanese Yen and EURO from non- resident individuals of Indian nationality or origin (NRIs).
  2. Repatriation of funds in foreign cun-encies is permitted.
  3. Presently the deposits are accepted under this category for the following maturity periods:
     1. One year and above but less than two years.
     2. Two years and above but less than three years.
     3. Three years only.
  4. No Recurring Deposits shall be accepted under FCNR (B) Scheme.
  5. Transfer of funds from the existing NRE accounts to FCNR(B) accounts and vice versa, of the same account holder, is permissible.

#### Manner of payment of interest:

1. The interest on the deposits accepted under the scheme will be paid on the basis of 360 days to year.
2. The interest on FCNR deposits will be calculated and paid in the manner indicated below:
   1. For deposits up to one year, at the applicable rate without any compounding effect,
   2. In respect of deposits for more than 1 year, at intervals of 180 days each and thereafter for remaining actual number of days. However, the depositor will have the option to receive the interest on maturity with compounding effect.

#### Payment of interest on ovemlue FCNR(B)Deposits :

1. Overdue FCNR (B) deposit or a portion thereof may be renewed provided the overdue period from the date of maturity fill the date of renewal (both days inclusive) does not exceed 14 days. men the rate of interest payable Notes on the amount of the deposit so renewed shall he the appropriate rate of interest for the period of renewal as prevailing

on the date of maturity of the earlier deposit or on the date of renewal. whichever is lower.

1. If the overdue period exceeds 14 days. renewal of the FCNR (B) deposit from the date of maturity is prohibited. In such cases. if the depositor placoo the entire maturity proceeds of the overdue deposit or a portion thereof. a fresh FCNR (B) deposit, simple interest will bc paid for the overdue period on the amount so placed . fresh FCNR (B) deposit as per the Scheme

#### Interest payable on the deposit of a deceased depositor

1. Where the amount of deposit is claimed before maturity by premature closure:
   1. Where claimant is non-resident:
      1. Where the deposit has not completed the minimum period of deposit, i.e., I year, no interest is payable.
      2. Where the deposit has completed the mininunn period of deposit, interest is payable at the rate of interest applicable for the period run as prevailing on the effective date of deposit, without penal cut.
   2. Where claimant is resident: As in 1 (i) above.
2. Where the amount of deposit is claimod during the tenure of the deposit, but settlement is made after the maturity date.
   1. Where the claimant is non-resident: Interest is payable at the contracted rate till the date of maturity. For the period from the date of maturity till the date of payment, simple interest is payable at the applicable interest rate for FCNR (B) deposits as prevailing on the date of maturity for the period for which the deposit remained with the bank beyond the date of maturity.
   2. Where the claimant is resident: Branch will convert the maturity proceeds into Indian Rupeoo on the maturity date. Interest on such Rupee amount is payable for the subsequent period form the date of maturity till the date of payment at a rate as applicable to domestic deposit of similar maturity.
3. Where the amount of deposit is claimed after maturity date:
   1. Where the claimant is non-resident: As in 2 (i) above
   2. Where the 010114000 10 resident: The foreign currency deposit proceeds will be first notionally converted into Rupees and on such Rupee amount, interest is payable for the subsequent period from the date of maturity till the date of payment at a rate as applicable to domestic deposit of similar maturity.

#### Joint Accounts:

Deposit accounts can be opened by an individual in his own name or by more than one individual subject to maximum of four persons, known as Joint Account. SB Account can be opened by a minor jointly with natural guardian or with mother as guardian.

* **Operations of Joint Account :** The Joint Account opened by more than one individual subject to a maximum of 4 persons can be operated by single individual or by more than one individual jointly. The mandate for operating the account can be modified with the consent of all the joint

account holders. In case of SB Account opened by minor jointly with the natural guardian the operation is by the natural guardian only.

* + **Transfer of Accounts:** Current Account, SB, Term Deposits may be transferred from one branch to another branch within the bank at the request of the account holders subject to certain conditions.
  + **Addition of Names :** The bank may, at the request of the depositor/s, allow addition of name/s subject to the condition that the total number of depositors does not exceed four in case of both the SB, CA & Term Deposits. Deletion in name/s of depositor/s is also permitted, subject to the condition that one of the original depositors should continue to be a depositor.
  + **Change in Rate of Interest:** The rate of interest on deposits will be prominently displayed in the branch premises apart from placing the same on our bank's website. The changes, if any, with regard to the deposit schemes and other related services shall also be communicated upfront and shall be prominently displayed. The same may also be published in a newspaper.
  + **Customer Information:** The customer information collected from the customers shall not be used for cross-selling of services/ products by the bank, subsidiaries & affiliates. If the bank proposes to use such information, it shall be with the consent of the account holder/s.
  + **Secrecy of the Customer Accounts:** The Bank shall not disclose details / particulars of the customers' accounts to a third person or party without the express or implied consent from the customer. However, there are some exceptions viz. Disclosure of information under compulsion of law, where there is a duty towards the public to disclose and where interest of the bank requires disclosure.
  + **Inoperative Accounts:** SB & CA accounts in which there are no operations for a period of 2 years and above from the date of last operation, except by way of any charges debited, or interest debited/credited will be treated as inoperative account. Service charges are levied to inoperative account. Depositor/s can revive the account. In case the balance is less than Rs.20/- account will be closed if there is no response from the depositor to the notice sent by the bank.
  + **Repayment under Joint Deposits** The Joint Account holder can give any of the following mandates for disposal of balance in the account.
  1. Either or survivor
  2. No.1 or survivor

#### Jointly

**Either or survivor :** The bank will be making payment of the maturity proceeds to the surviving depositor who presents the deposit receipt and furnishes the proper discharge without reference to the other depositor as well as to the legal heirs of the deceased depositor.

**No.1 or survivor:** If No.1 is not alive on the date of maturity the bank will be making payment to the survivor without reference to the legal heirs of no. 1 . If No.1 dies after maturity, the claim will be settled in favor of the survivor subject to production of a notarized indemnity for indemnifying the bank in case of the claim from legal heirs of the No.1.

**Payable jointly:** If one or more of the depositors dies on or after maturity, the amount will be paid jointly to the surviving depositors along with the legal heirs of the deceased depositor. If the depositor has registered nomination with the bank, the balance outstanding in the account of the deceased depositor will be settled in favor of the nominee after the bank is satisfied about the identity of the nominee.

* The bank may not insist on succession certificate from the Legal heirs irrespective of the amount involved. However, the bank may adopt such safeguards in considering settlement of claims as appropriate including abstention of indemnity.
* In the absence of nomination and where there are no disputes among the claimants, the bank will settle the claim in respect of the deceased person to his/ her legal heirs after observing all the formalities.
* In the case of NRE deposit where the claimant/s are residents, the deposit on maturity will be treated as domestic deposit and interest will be paid for the subsequent period at a rate applicable to the domestic deposit of a similar maturity.

#### Payment of Interest

a. In respect of the deposit of the deceased closed before maturity and repaid to the legal heirs / representatives of the deceased depositor, interest is payable at the rate applicable for the period for which the deposit actually remained with the bank without any penal cut.

ii. In the event of the death of the depositor before the date of the maturity of the deposit and the amount of the deposit is claimed after the date of maturity, the bank shall pay interest at the contracted rate till the date of maturity. From the date of maturity till the date of payment, the bank shall pay simple interest at the applicable rate prevailing on the date of maturity, for the period for which the deposit remained with the bank beyond the date of maturity. In the event of death of the depositor after the date of maturity, the bank shall pay interest at SB rate prevailing on the date of maturity from the date of maturity till the date of payment.

#### Rights of Depositors

Deposits being the basic financial raw materials, depositors form the core for banking business. There is now an awakening on depositors' rights, rightly so, in the banks, as it is fulfillment of such rights which can enable an effective resource management mechanism in banks. Further, the depositor, being a consumer of various products and services offered by the bank, is entitled to the following rights:

* **Right to Information:** A depositor will have right to information about price, quality, quantity and standard of the produCts/services offered by the bank to enable him / her to take an independent decision.
* **Right to Choose:** A depositor will have the absolute freedom to choose among the various products and services offered by the bank to suit his her requirements.
* Right to Avail / Utilize the Products and Services: A depositor will have the right to avail/utilize the products/services chosen by him / her without any intervention / obstacle.
* Right to be Heard and Redressal of Grievances: A depositor will have the right to be heard and seek redressal against deficient service / poor quality of products and services, unfair trade practices and unscrupulous exploitation. This includes his/ her right to fair redressal of any genuine grievance relating to products / services which he /she has chosen to utilize.

#### Self Assessment Test

1. Explain Bank Accounts and also explain Savings Account and Current Accounts.
2. Explain Term Deposits and Deposits held in FCNR Banks.
3. Explain Joint Accounts and Rights of Deposits

#### Further Reading

1. Retail Management Principles And Practices- Author(s)/Editor(s): Dr K N Bank
2. Retail Managemen - Author(s)/Editor(s): M A Shewan
3. Retail Management - S N Mitra
4. Retail Banking- Raghu Palat

### UNIT 4: CLIENT PROFILE OF RETAIL BANK

#### Learning Objectives

Learning Objectives

After studying this unit, you will be able to:

* Describe the types of bank accounts.
* Know the Client Profile of Retail Banks

#### Structure

* 1. Client Profile of Retail Banks
     1. Introduction
     2. Definition
     3. Types of Bank Customers
  2. Self Assessment Test
  3. Further Reading

#### Client Profile of Retail Banks

* + 1. **Introduction**

A bank is a business that provides banking services for profit. Traditional banking services include receiving deposits of money, lending money and processing transactions. Many banks offer ancillary financial services to make additional profit; for example: selling insurance products, investment products or stock broking. The primary activity of banking being accepting deposits and lending, this

unit has made an attempt to provide an overview of different types of customers that accesses the services of banks. Before we look into the types of customers accessing the services of banks, let us define the term 'customer'.

#### Definition

A customer is someone who makes use of or receives the products or services of an individual or organization. The word is historically derived from "custom," meaning "habit"; a customer was someone who frequented a particular shop, who made it a habit to purchase goods there, and with

whom the shopkeeper had to maintain a relationship to keep his or her "custom," meaning "expected purchases" in the future. Customers can be classified into two main groups: internal and external.

Internal customers work for the same organization as the supplier of the goods or services, possibly in another department or another branch. External customers do not work for the same organization; they may be another organization or a member of the public. A customer, from the banking perspective, is one who has an account with a bank.

#### Types of Bank Customers

Customers of a bank can be classified into the following categories:

* + - 1. Minors & women
      2. Literates & illiterates
      3. Lunatics
      4. Trustees
      5. Executors and administrators
      6. Limited Companies
      7. Clubs, Societies and Charitable Institutions
      8. Non-Resident

#### a) Minors

As per the Indian Contract Act of 1872, a minor is non-competent to contract and cannot open an account. A minor is defined as any individual below the age to 18. A minor can open a bank

account. Even though a minor cannot enter Notes into a contract, he/ she can open an account subject to certain provisions:

* + Minor is someone who is under 18 years of age. If a minor has a guardian appointed by a court, then she will remain a minor till the age of 21. In case of minor, it is preferable that a Savings Bank Account is opened rather than a Current Account.
  + It is advisable to open the bank account of the minor in the name of the guardian. If the account is opened in the name of the minor, it still implies that the account is in the name of the guardian and the beneficiary of the balance being the minor. In the case of a Hindu minor, the natural guardian is the father and then the mother. This does not include stepfathers/ stepmothers. In regard to a minor married girl, her husband shall be the natural guardian. If the father becomes a Sanyasi, (Hindu holy man) or does not remain a Hindu he will remain a guardian. A Hindu father may appoint a guardian. Such a guardian will act after the death of the parents. The court may appoint a guardian if, in the court's opinion, the father is unfit to be one.
  + The Supreme Court has held that a mother can act as the natural guardian if the father is not in actual charge of the affairs of the minor because of his indifference or because of an agreement with the mother.
  + The Indian Contract Act 1872 states that a minor is not capable of entering into a valid contract. A contract for the supply of necessaries of life to a minor is, however, a valid contract. A minor can repudiate all other contracts. A banker must therefore be careful in his dealings with minors.
  + If a minor enters into a contract representing himself as a major and then refuses to honor the contract on the grounds that he is a minor, the minor has to restore the benefits he got through the contract.

#### Modus operandi for opening a Savings Bank Account:

* + A Savings Bank Account can be opened in the name of the minor to be operated upon by the guardian. In the name of the minor to be operated by himself if he is 12 years old or more. Two minors above the age of 12 can create a Joint Account.
  + At the time of opening the account, the date of birth of the minor is recorded.
  + When the minor reaches maturity, the minor's account in the guardian's name should be closed and the balance should be paid to the account holder or the balance should be transferred new account.
  + If the father of a Hindu minor dies, his mother becomes the natural guardian. If the mother also dies during his minority, there would be either a guardian appointed by the will of the mother (natural guardian) or a guardian will be appointed by the court. Banks would return the balance in the account to that guardian.

In the case of Muslim minors, mothers cannot sign as guardians.

* **Risk:** There is no risk in opening an account in the name of a minor so long as it is not overdrawn. Bankers cannot recover the money due if there is a loan or an overdraft as it is void ab initio

invalid. If a minor has pledged assets for a loan, the banker cannot possess these assets, as the pledge is invalid.

* If an advance is granted to a minor on the guarantee of third party, this advance cannot be recovered from the guarantor also as the contract between the creditor (banker) and the principal debtor (minor) is invalid.
* **Minor and Partnership:** A partnership is based on two or more persons who are competent to enter a contract. A minor can be admitted to a partnership with the consent of the other partners but he will not be liable for losses. In view of the restricted liability of the minor, the bank should be careful while lending to partnership firm which has a minor partner. He must within 6 months of becoming a major repudiate his liability as a partner. Otherwise he can be held liable for the debts of the partnership.
* **Minor and Guarantor:** A minor is not competent to contract but he can act as an agent of the principal.

#### Married Women

**Contractual Capacity:** The Indian Contact Act of 1872 doesn't make any distinction between a man and a woman on the basis of marriage. A married woman may enter into a valid contract. Therefore she is given the authority to open a bank account. She has the right to draw and endorse cheques as any other customer.

* + While opening the account of a married woman, the details of her husband should also be taken by the banker. In case credit has to be granted to a married woman, it should be granted only after adequate appraisal.
  + With regard to debts taken, the husband will not be liable unless the loan is taken with his consent and authority or it is for the necessaries of life.

#### Pardanashin Woman: Some consideration that are taken:

1. Any contract that she enters may have been subject to undue influence and
2. The contract may not have been made freely and with full understanding of the contract.

#### Illiterate Persons

* + An illiterate person does not suffer from any legal disability and hence accounts may be opened for illiterate persons. However, there are some considerations that have to be taken:
  + The thumb impression of the illiterate person has to be taken by the banker in the presence of two witnesses.
  + For the purpose of ease in time of withdrawals the photograph of the illiterate person has to be attested by a responsible person.
  + Withdrawal by the illiterate customer should be permitted only if the customer comes personally to the bank.

#### Lunatics

A lunatic is a person of an unsound mind. According to the Indian Contract Act of 1872, a person of an unsound mind is declared incompetent to contract. Therefore, any contract entered by a person of unsound mind with the bank is not enforceable. Banks are advised not to open an account in the name of a person of unsound mind. If unknowingly the bank has opened an account of lunatic, then the Notes operations of the account should be immediately terminated.

#### Trustee

* + Section 3 of the Indian Trust Act of 1882 defines trust as "an obligation annexed to the ownership of property and arising out of confidence reposed in and accepted by the owner and accepted by him for the benefit of the other and the owner." In short, a trustee is the one who manages the trust. Trusts are formed by a document called the Trust Deed.
  + While dealing with a Trust, the banker should consider the following :
  + Bankers should examine the trust deed thoroughly and determine the powers vested in the trustees. Trustees are usually expected to act jointly. They are not permitted to delegate their powers unless the Trust Deed permits them to do so.
  + The bank should retain a Xerox certified copy of the Trust Deed. • If there are two or more trustees then the bank should be clear as to who is going to operate the account. The bank must be clear on the issues of appointment of new trustees in case of one or more trustee dies or retires.
  + Trusts and mortgage: The trustees have no implied powers to bowwow any sum against the property of the trust. If the Trust Deed confers these powers on the trustees then the bank can grant a loan.
  + Unless explicitly mentioned by the Trust Deed, the operational powers of the trustee are not influenced by the insolvency state of the trustees.

#### Executors and Administrators

* + Executors are persons appointed by the will of a person to manage his estate after his death. The power and authority of an executor is derived from the will and he has to act in accordance with the directions given in the will. In other words, on the death of the testator, the executor named in the will is granted by the court an official probate. Hence the executor shall operate with respect to the right conferred to him on the basis of the will of the testator.
  + Executor vs. Administrators: An administrator is appointed by the court in case there is no will left behind by the deceased person. In view of
  + this, the court issues an administration order that authorizes the administrator to act in accordance to the rights conferred to them by the court. The only difference between an executor and an administrator is based on the origin of appointment.

Following are some of the aspects that have to be given special attention by the banker :

* + On the death of the testator the bank should freeze the operations of the account.
  + Once the official probate issued by the court is produced by the administrator or the executor, they should be allowed permitted to operate the account.
  + Death of an account holder, all payments from his account must be stopped.
  + Though it is an existing account, the bank should get the signatures of the new account operators on an account opening form. On careful scrutiny of the official probate, the bank is expected to transfer the outstanding balance from the deceased account to the executors or administrators account.
  + The banker should honor only those cheques that are signed by the executor or the administrator. If the authority is granted to one or more executors to operate the account then any one of the executors can revoke the authority. In such a circumstance, the banker should obtain a fresh letter of authority specifying the names of the people operating the account.
  + The executor or the administrator is not granted the right to set off his/ her personal debts from the proceeds of the trust account.
  + In case of power of attorney holder, unlike an administrator, a general notice of authority is given. The power of attorney holder is an agent of the account and acts in his name.
  + This may be special or specific (to operate the bank a, or other specific powers like the sale of property) or general (which may give the holder authority to act on the custodial behalf for many activities including banking).
  + The banks must ensure that the power of attorney should be stamped and registered at the Registrar of Documents or attested by a notary.
  + The power of attorney should act in accordance with the powers granted on him. The power of attorney must produce all the details of identification to the bank.

#### Limited Companies

* + Limited companies are legal entities created under the Companies Act. It is an artificial person operating under a common seal and having perpetual succession. A public limited company has to have a minimum of seven members. There is no maximum limit. On the other hand, a private limited company has to have at least two members. It cannot have more than fifty members.

#### While dealing with such companies, banks must consider the following points:

* + Banks must examine the company's memorandum and articles of association to determine what it mayor may not do. The Certificate of Incorporation and Certificate Commencement of Business, issued by Registrar of Companies, must be examined as these provide conclusive proof that the company is incorporated and is permitted to do business. A private limited company is not required to obtain a Certificate of Commencement of Business. A certified copy of both the documents has to be retained by the bankers.
  + Along with an application to open a bank account, the company must furnish a board resolution that approves the opening of the bank account and how the account should be operated and by whom. The bank should obtain a list of the Board of Directors and indicate as to who is authorised to operate the account. A specimen signature should be obtained.
  + A latest copy of the balance sheet should be submitted to ascertain the financial position of the company.
  + Banks must ensure that borrowings are only for purposes mentioned in the Memorandum of Association.
  + The bank must obtain a certified copy of the resolution to borrow.
  + The Board must also pass a resolution that the borrowing is within its limits.

#### Clubs, Societies and Charitable Institutions

* Non-trading concerns, like clubs or associations, open an account with the bank for the purpose of functioning. They have their independent identity as they are incorporated under the Act. These organizations are governed by their bye laws or its constitution which will detail how they are to operate.
* A resolution of the Managing Committee is required to open a bank account. This should detail who are the signatories and the manner in which the account should be operated.
* If the person appointed to operate the account dies or resigns, operation should stop till the society/club nominates another person.

#### Non-Resident

* + The Foreign Exchange Management Act defines a 'resident' and states that all others are non- residents.

#### A person resident in India is:

1. A person residing in India for more than one hundred and eighty two days during the course of the preceding financial year but does not include:
2. A person who has gone out of India or stays outside India, in either case
   1. for or on taking up employment outside India, or
   2. for carrying on a business or vocation outside India, or
   3. for any other purpose in such circumstances as would indicate his intention to stay outside India for an uncertain period.
3. A person who has come to India or stays in India, in either case other than:
   1. for or on taking up employment in India, or
   2. for carrying on a business or vocation in India, or
   3. for any other purpose in such circumstances as would indicate his intention to stay in India for an uncertain period;
4. any person or corporate body registered or incorporated in India.
5. an office, branch or agency in India owned or controlled by a person resident outside India.
6. an office, branch or agency in India outside India owned or controlled by a person resident in India. A person resident outside India is a person who is not resident in India i.e. a person who stays outside India or has otherwise gone out of India:
   1. for or on taking up employment outside India, or
   2. for carrying on a business or vocation outside India, or
   3. for any other purpose, in such circumstances as vPliuld indicate his intention to stay outside India for an uncertain period.

To open any NRI account, a duly filled in account opening form has to be submitted with the following:

* Passport copy
* 2 photographs
* Initial money remittance.
* Self-attested copy of photographs.

In the Account Opening Form, the signature may be verified by anyone of the following:

* Indian embassy/Consulate
* Bank abroad
* A person known to the bank
* Notary public

A NRI can usually open any of the following types of accounts:

* NRE Saving Bank A/c / Current Accounts
* Fixed Deposits in Indian Rupees
* Fixed Deposits in Foreign Currency

#### Persons of Indian Origin

1. For the purposes of availing of the facilities of opening and maintenance of bank accounts and investments in shares/securities in India:

* A foreign citizen (other than a citizen of Pakistan or Bangladesh) is deemed to be of Indian origin, if, he, at any time, held an Indian passport,

OR

* he or either of his parents or any of his grand parents was a citizen of India by virtue of the Constitution of India or Citizenship Act, 1955 (57 of 1955).

Note: A spouse (not being a citizen of Pakistan or Bangladesh) of an Indian citizen or of a person of Indian origin is also treated as a person of Indian origin for the above purpose provided the bank accounts are opened or investments in shares / securities in India are made by such persons only jointly with their NRI spouses.

1. For investments in immovable properties:

A foreign citizen (other than citizen of Pakistan, Bangladesh, Afghanistan, Bhutan, Sri Lanka or Nepal), is deemed to be of Indian origin if, he held an Indian Passport at any time,

OR

He or his father or paternal grand-father was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of

1955).

#### Definition

Citizen of a foreign country (other than a citizen of Bangladesh or Pakistan) is a PIO if:

1. he/ she at any time held an Indian Passport; OR
2. he/ she or either of his/ her parents or any of his/ her grandparents was a citizen of India; OR
3. spouse (not being a citizen of Bangladesh or Pakistan) of an Indian citizen or (a) or (b) above.

#### Documentation Process

* + Photocopy of the relevant pages of current Passport OR
  + Copy of PIO card
  + Copy of past Indian Passport of self / parent / grand-parent along with a self-declaration about Indian origin OR
  + Self-declaration for PIO as given on the Relationship Form
  + At least one of the following address proofs (for First Applicant only)
  + Utility Bill
  + Driving License
  + Residence Permit (Govt. issued Identity Card)
  + Credit Card Bills
  + Rent Receipt
  + Overseas / Indian Bank Statement

Note: (All Originals should be present with you for verification)

#### Self Assessment Test

1. Explain the following Types of Bank Customers
   1. Minors and Women
   2. Literates and Illiterates
2. Explain the following Types of Bank Customers
   1. Lunatic
   2. Trustees
   3. Executors and administrators
3. Explain the following Types of Bank Customers
   1. Clubs, Societies and Charitable Institutions
   2. Non-Resident
4. Explain the Documentation Process in detail

#### Further Reading

1. Retail Management Principles And Practices- Author(s)/Editor(s): Dr K N Bank
2. Retail Managemen - Author(s)/Editor(s): M A Shewan
3. Retail Management - S N Mitra
4. Retail Banking- Raghu Palat
5. Keynote address by Ms Shyamala Gopinath, Deputy Governor of the Reserve Bank of India, at the IBA - Banking Frontiers International Conference on "Retail Banking Directions: Opportunities & Challenges", Mumbai, 28 May.
6. Article on 'Mobile Banking Facilities in Indian Banks' - Prof. Aithal.

### UNIT 5 : Project Data Loading WorkFlow

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### Data Files Available:

### Bank

### Branch

### Customer

### Account

### Customer\_Account

### ProductType Master

### Transaction Type Master

### Channel master

### Bank transactions

### Business rules on files:

### Bank:

### bankId should be an auto genetrated Pk

### Branch:

### Branchid should be an auto genetrated PK

### BankId should be a foreign key of Bank table

### Bancode should be numeric

### Branch name should be unique

### Branch opendate is date column

### Customer:

### Customer\_Id should be an auto generated PK

### Customer should have a valid date of birth

### Customer gender should be Male,Female or unknown

### Customer SSN should be XXX-XX-XXX format

### Customer email should have a valid domain

### Account:

### AccountId should be an auto generated identity PK column

### should have productid and branchid foreign keys

### Account number should be a sixteen digits number

### ATM number should be a sixteen digits number

### Account number <> ATM number

### Account opendate should be a valid date