

Visit: iibf.info

BANKER CUSTOMER RELATIONSHIP

JAIIB
PPB



BANKER CUSTOMER RELATIONSHIP

BANKER

- Section 5b of BR Act defines Banking

Features

- Accepting deposits from public for lending and investment
- Repayable on demand or otherwise using cheques or cash

Functions:

- Remittances
- Lockers
- Safe custody of articles
- Forex
- Discounting of Bills
- Non-Fund Based Credit facilities

Obligations & Duties:

- Duty to honour cheques
- To maintain the secrecy of accounts

CUSTOMER

- No legal definition available
- **Based on Judgements under Section 131 of NI ACT:** A customer is a person who to open account which bank accepts with proper introduction

- **As per KYC Guidelines:** A person who is engaged with a financial transaction or activity with a reporting entity and includes a person on whose behalf the person who is engaged in the transactions or activity.

BANKER CUSTOMER RELATIONSHIP **TERMINATES**

- When customer closes the account
- When bank closes the account
- With death, insanity and insolvency of the customer

| | Bank | Customer |
|--|---------------------|---------------------|
| Deposit in the bank | Debtor | Creditor |
| Loan from bank | Creditor | Debtor |
| Locker | Lessor | Lessee |
| Safe custody | Bailee | Bailor |
| Purchase of draft | Debtor | Creditor |
| Payee of draft | Trustee | Beneficiary |
| Collection of cheque & standing instruction | Agent | principal |
| Pledge | Pawnee (Pledgee) | Pawner (Pledger) |
| Mortgage | Mortgagee | Mortgagor |

| | | |
|----------------------|--------------|--------------|
| Hypothecation | Hypothecatee | Hypothecator |
| Assignment | Assignee | Assignor |

KYC Guidelines

- RBI directs KYC guidelines under **Sec 35 A of BR Act**

INTRODUCTION

- Money laundering involves activities by which the proceeds of illegal acts are converted into legal acts.
- Since the banking channels are increasingly being made use of for this purpose.
- Precautions exercised by the banks can help in curbing money laundering and targeting those who engaged in this.
- The RBI has framed specific guidelines that deal with prevention of money laundering.
- These guidelines require banks to establish policies, procedures, and controls to deter money laundering activities.

PMLA 2002

- To prevent the usage of banking system for money laundering
- To put in place the controls for detection and reporting of suspicious activities

The guidelines prescribed, popularly known as **KYC guidelines**.

KYC – Know your customer and anti-money laundering measures is formulated and put in place by every bank.

KNOW: What you should know?

Identity of the customer and beneficial ownership of the accounts, permanent address, registered address

YOUR: Who should know?

Branch manager, audit officer, monitoring officials

CUSTOMER: who is customer?

One who maintains an account, establishes business relationship, on whose behalf account is maintained by intermediaries.

The procedure can be grouped into following:

- A. **Customer acceptance policy**
- B. **Customer identification procedure**
- C. **Monitoring of transaction**
- D. **Risk Management:**

Maintenance of records of Transactions

- Cash transactions of above Rs 10 lakh or its equivalent are to be reported.
- Cash transactions where value of all these transactions within a month aggregating Rs 10 lakh even of these transactions or below Rs 10 lakh.
- Cash transactions in forged or counterfeit currency notes or banknotes and forgery of a valuable security has taken.

Preservation of records

- Banks should maintain for at least five years from the date of cessation of transactions between the bank and the customer, all the necessary records

Reporting of financial intelligence unit

- Cash Transaction Report
- Counterfeit currency notes report
- Non-profit organisation Transaction Report
- Cross border wire Transaction Report
- Suspicious Transaction Report.

Violations under prevention of money laundering act

On Path of violations by the designated director or reporting entity or any of its employees, these can be imposed with penalty not be less than Rs 10,000 but may extend to Rs 1,00,000 for each failure.

NRO – Non-Resident Ordinary Rupee Account

- A Non-Resident Ordinary (NRO) Account is a popular way for many Non-Resident Indians (NRIs) to manage their deposits or income earned in India such as dividends, pension, rent, etc.
- This account allows you to receive funds in either Indian or foreign currency. However, only Indian currency can be withdrawn as NRO Accounts are kept in Indian currency and cannot be freely repatriated into any foreign currency.
- However, the interest you earn in this account is subject to Tax Deducted at Source (TDS).
- In short, an NRO Account helps an NRI to manage their income earned in India.

Features of an NRO Account:

Here are some features of an NRO Account you can consider while opening an account-



- With an NRO Account, you are free to repatriate or transfer the interest you earn on the principal amount deposited. You can also transfer the principal amount within specified limits. As per rules, you can transfer up to USD 1 million in one financial year post payment of applicable taxes.
- The interest you earn on an NRO Account is taxable at 30%, deductible at source. It is noteworthy that the income you earn in India, deposited in an NRO Account can include rent, dividend, pension, etc.

NRE – Non-Resident External Rupee Account

- The NRE account is an Indian rupee-denominated account, offering complete security.
- These accounts can be in the form of savings, current, recurring, or fixed deposits.
- The foreign currency you deposit into the account is converted to INR.
- You can transfer your funds (Principal & Interest amount) to a foreign account from an NRE account without any complications and restrictions.
- **You need to note that the amount you deposit into these accounts must be earned outside India.**

| | NRO | NRE | FCNR(B) |
|--|--------------------------------|-------------------------|-----------------------------|
| Who can open | NRI/OCI | NRI/OCI | NRI/OCI |
| Currency of A/c | Indian rupee | Indian rupee | All convertible currencies |
| Source of funds | Local or funds from aboard | Funds from abroad | Funds from abroad |
| Accounts | SB/CA/RD/TD | SB/CA/RD/TD | Only TDs |
| Min/Max period | As per domestic term deposit | Min 1 yr max 10 Years @ | Minimum-1 yr Maximum-5yr |
| Nomination | Permitted | Permitted | Permitted |
| Repatriation: Principal/ interest | Non-Repatriable | Freely repatriable | Freely repatriable |
| Tax benefits | No exceptions (TDS Applicable) | Exempted from all taxes | Exempted from all taxes |