

transactions

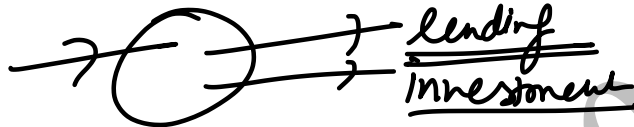
BANKER-CUSTOMER RELATIONSHIP

MODULE A PPB Chapter 1 By Ashish Sir

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

loan

SP/CA/ID

D/D

→ LC/BG/Co.acceptance

- **Obligations & Duties:**

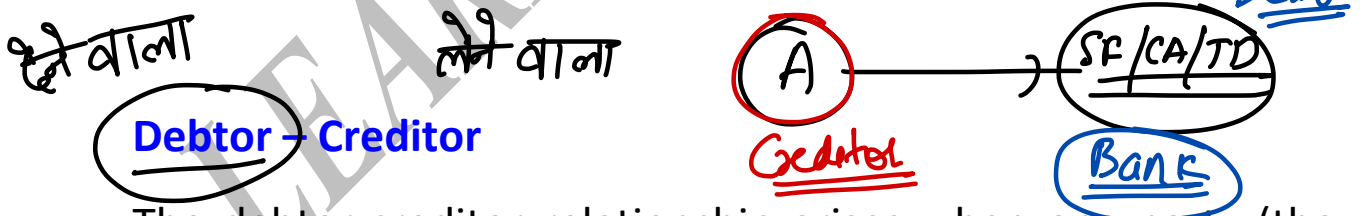
- Duty to honour cheques
- To maintain the secrecy of accounts

CUSTOMER

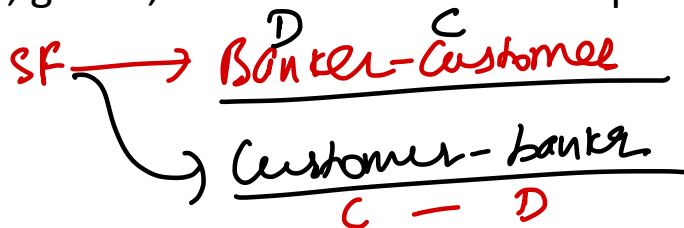
- No legal definition available
- **Based on Judgements under Section 131 of NI ACT:** A customer is a person who to open account which bank accepts with proper introduction
- **As per KYC Guidelines:** A person who is engaged with a financial transaction or activity with a Bank/FI reporting entity and 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



The debtor-creditor relationship arises when one party (the debtor) owes money, goods, or services to another party (the creditor).



Bank as a Trustee



If a customer keeps certain valuables or securities with the bank for safe keeping or deposits money for a specific purpose the banker becomes a bailee also called as trustee.

[when a customer deposits a certain sum of money with banker with specific instructions to use the same for a specific purpose]



Bailee- Bailor

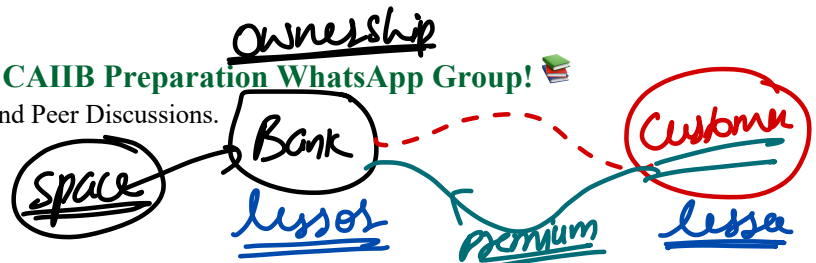
A bailee is a person or entity who temporarily holds the possession of someone else's property (known as the bailor) for a specific purpose and period of time. The bailor entrusts their property to the bailee, who has a duty to take reasonable care of the property.



For ancillary services rendered by the bank like remittances, collection of cheques, bills etc. on behalf of the customer. The Bank is agent and customer is Principal.

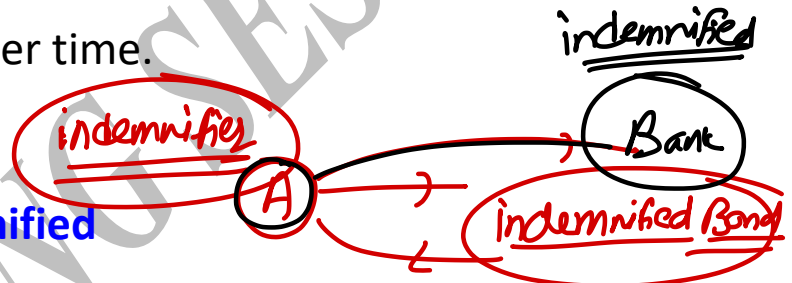
E.g. for Standing instructions

Lessor Lessee



The **lessor** (often a bank or financial institution) owns the asset and provides it to the **lessee** (the customer or borrower) for use **in exchange for periodic lease payments.**

The **lessee gains the right to use the asset** without outright ownership, preserving liquidity and capital. Lease agreements may include operational leases (short-term use) or financial leases (long-term with ownership transfer options). This arrangement allows businesses to access expensive assets while spreading costs over time.




Indemnifier and Indemnified

The **indemnifier (customer)** agrees to compensate the **indemnified (bank)** for any loss, damage, or liability incurred due to specific acts or events. For example, when issuing a duplicate demand draft, the customer may provide an indemnity bond to protect the bank against claims if the original draft is presented. This ensures the bank is safeguarded from potential financial or legal repercussions.

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Relationship	Bank	Customer	Example
<u>Debtor-Creditor</u>	Debtor	Creditor	Customer deposits money <u>in a savings or fixed deposit account.</u>
<u>Creditor-Debtor</u>	Creditor	Debtor	<u>Bank grants a loan or overdraft facility to the customer.</u>
Trustee-Beneficiary	Trustee	Beneficiary	<u>Bank acts as a trustee for a customer's will or trust fund.</u>
<u>Agent-Principal</u>	Agent	Principal	Bank collects a cheque or bill on behalf of the customer.
Bailor-Bailee	Bailee	<u>Bailor</u>	Customer keeps valuables in a bank locker ^{safekeeping} <u>provided by the bank.</u>
<u>Bailee-Bailor</u>	Bailor	Bailee	<u>Bank lends pledged gold or documents to the customer for temporary use.</u>
<u>Lessor-Lessee</u>	Lessor	<u>Lessee</u>	Bank leases equipment or property to the customer under a leasing agreement.
<u>Lessee-Lessor</u>	<u>Lessee</u>	Lessor	Customer leases property to the bank for branch operations.
<u>Indemnity Holder-Indemnifier</u>	Indemnity Holder (Indemnified)	Indemnifier	Customer indemnifies the bank when a <u>duplicate demand draft is issued.</u>
Guarantor-Beneficiary	Beneficiary	<u>Guarantor</u>	Customer provides a guarantee for a third party's loan from the bank.
<u>Custodian-Customer</u>	Custodian	Customer	Bank holds securities in a demat account for safekeeping.
<u>Advisor-Client</u>	Advisor	Client	Bank advises a customer on investment or wealth management strategies.

Demand Deposits

CASA

SF CA RD FD
demand

Demand deposits are funds deposited in a bank account that can be withdrawn at any time without prior notice. These are highly liquid accounts.

Examples: Savings accounts, current accounts.

Features:

- Allow frequent withdrawals and deposits.
- Typically earn lower interest or no interest (especially in current accounts).
- Used for day-to-day transactions.

Purpose: To provide customers with easy access to their funds for routine expenses or business needs.

Time Deposits

RD/FD Time period

Definition: Time deposits are funds deposited for a fixed period, where withdrawals are restricted until the maturity date, unless the depositor is willing to pay a penalty.

Examples: Fixed deposits (FDs), recurring deposits (RDs).

Features:

- Offer higher interest rates compared to demand deposits.
- Cannot be withdrawn prematurely without penalties.

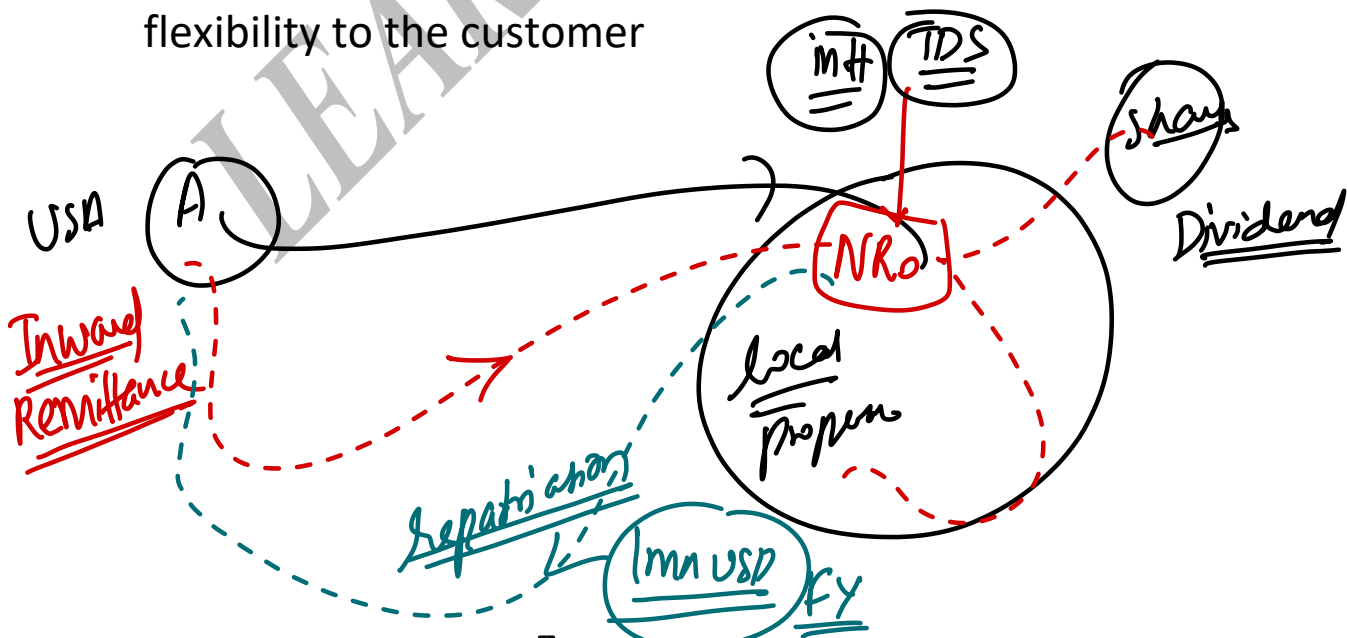
- Often used for savings or investment purposes.

Purpose: To encourage long-term savings by offering higher returns.

Aspect	Demand Deposits	Time Deposits
Liquidity	Highly liquid; withdrawable anytime.	Less liquid; withdrawal restricted.
Interest Rates	Lower interest or none.	Higher interest rates.
Purpose	For daily transactions.	For long-term savings/investment.
Examples	Savings, current accounts.	Fixed deposits, recurring deposits.

Hybrid deposits or Flexi deposits

Combination of demand and fixed deposits introduced giving flexibility to the customer



DEPOSIT PRODUCTS FOR NON-RESIDENT INDIANS

NRO

NON-RESIDENT **ORDINARY** RUPEE [NRO] A/C

- This account may be opened or maintained in the form of current, recurring or fixed deposit, savings account
- These will be denominated in Indian rupees
- Normally these are maintained for crediting legitimate dues or earnings or income surcharge dividend, rent, interest.
- Banks are free to determine interest rates
- In case of term deposits non-resident ordinary accounts banks are free to determine the interest rates however interest rates offered by banks cannot be higher than those offered by the banks with domestic rupee deposits

NRE

NON-RESIDENT **EXTERNAL** RUPEE [NRE] A/C CA/SC/RO/TD

- As per the regulations of foreign exchange management act non-resident Indians are permitted to open this account with their resident close relative on former or survivor basis
- These accounts may be in the form of savings or current or recurring or fixed deposit accounts
- Such account can only be opened by the non-resident himself and not through the holder of the power of attorney

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- Accounts will be **maintained in Indian rupee**
- Balances held in the account are **freely repatriable**
- Accrued interest income and balance is held in these account are **exempted from income tax** and wealth tax
- Banks are free to determine the interest rates on savings as well as term deposits

FCNR

(Fixed deposit)

FOREIGN CURRENCY NON-RESIDENT [FCNR] A/C

- Accounts are maintained only in the form of **term deposits** of 1 to 5 years
- Interest rates are stipulated by department of Banking operations and development, Reserve Bank of India
- Debit or credit permissible in respect of NRI accounts including credit of sale proceeds of foreign direct Investments are permissible under these accounts
- Accounts are to be maintained in any **freely convertible** currency
- Loans can be extended against security of funds held in or third-parties subject to usual margin and interest rate requirements

- When an account holder becomes a person resident in India these deposits may be converted into resident foreign currency accounts.

FCNR $\xrightarrow{NR \rightarrow IR}$ [RFD]

MERCHANT BANKING

Merchant banking refers to a specialized segment of banking and financial services that primarily focuses on providing **advisory, capital-raising, and financial management services** to corporations, high-net-worth individuals (HNWIs), and institutions. Unlike traditional banking, merchant banking does not involve general deposit-taking or retail lending. Instead, it deals with complex financial transactions.

Key Services of Merchant Banking:

1. Corporate Advisory Services:


- Advising on mergers, acquisitions, and joint ventures.
- Structuring and negotiating deals.

2. Underwriting of Securities:

- Assisting companies in raising capital through equity or debt issuance.
- Underwriting shares during Initial Public Offerings (IPOs) or rights issues.

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3. **Project Financing:**

- Providing advice on large-scale project funding.
- Arranging for syndicated loans or investments.

4. **Portfolio Management:**

- Managing investment portfolios for HNWIs or institutional clients.
- Offering tailored investment strategies.

5. **Foreign Exchange Management:**

- Assisting businesses in managing foreign currency transactions.
- Advising on forex risk management.

6. **Private Placement of Securities:**

- Helping companies raise capital through private investors or funds.
- Avoiding public markets for quicker and less regulated funding.

7. **Debt Restructuring and Management:**

- Assisting companies in renegotiating or restructuring their debt obligations.

Example:

If a company wants to expand its operations but lacks sufficient funds, a merchant bank can help by:

1. Advising on raising capital.
2. Underwriting a portion of the funds through an IPO or private placement.
3. Structuring the best financing plan while minimizing risks.

Merchant banks like Goldman Sachs, J.P. Morgan, and Morgan Stanley are global leaders in this field.

What is Lease Financing?

(Lessor Lessee)

Lease financing is a financial arrangement where the owner of an asset (the lessor) permits another party (the lessee) to use the asset for a specified period in exchange for periodic payments.

Ownership remains with the lessor, while the lessee gains the right to use the asset.

It is commonly used for acquiring expensive assets like machinery, equipment, or vehicles without making a full upfront payment. In the banking context, banks often act as

lessors, providing assets to customers under lease agreements.

Advantages of Lease Financing

From the Customer's (Lessee's) Perspective:

1. **Reduced Upfront Cost:** No need to invest a large sum upfront; only periodic lease payments are required.
2. **Preserves Working Capital:** Allows businesses to use their funds for other operational needs.
3. **Flexibility:** Can lease assets for a specific time, avoiding long-term commitments.
4. **Tax Benefits:** Lease payments may be tax-deductible as operating expenses.
5. **Access to Latest Technology:** Easier to upgrade to newer equipment at the end of the lease term.

From the Bank's (Lessor's) Perspective:

1. **Steady Income Stream:** Periodic lease payments ensure predictable and consistent revenue.
2. **Asset Ownership:** Bank retains ownership, reducing the risk of default.

3. **Market Expansion** Attracts customers who may not qualify for traditional loans.

4. **Tax Benefits** Depreciation of leased assets can provide tax savings for the bank.

Disadvantages of Lease Financing

From the Customer's (Lessee's) Perspective:

- ✓ **Higher Long-term Cost:** Total payments over the lease term may exceed the asset's purchase cost.
- ✓ **Lack of Ownership:** The lessee doesn't own the asset, even after making payments.
- ✓ **Usage Restrictions:** Certain leases impose limits on usage or require maintenance as per the agreement.
- ✓ **Early Termination Penalties:** Ending the lease before the term can incur significant fees.

From the Bank's (Lessor's) Perspective:

- ✓ **Asset Depreciation Risk:** The asset's value may decline faster than anticipated, leading to losses.
- ✓ **Default Risk:** Lessee might fail to make payments, causing revenue disruptions.

- ✓ 3. **Administrative Costs:** Managing leased assets involves maintenance, monitoring, and legal costs.
- ✓ 4. **Limited Profitability:** If lease terms are not favorable or competitive, profits can be lower than loans.

Example: A customer leases a piece of machinery from a bank for 5 years. The bank retains ownership while the customer makes monthly payments and uses the machinery for business. At the end of the term, the customer may return the machinery, renew the lease, or purchase it.

This arrangement benefits both parties: the customer gets access to the machinery without heavy upfront costs, and the bank earns a stable income while retaining asset control.

Concept of Plastic Money

Plastic money refers to **payment cards made of plastic** that facilitate **non-cash transactions**.

It **provides a convenient, secure, and cashless way** to make payments, withdraw money, or access financial services.

Types of Plastic Money

1. Charge Cards:

- **Definition:** Charge cards allow the cardholder to make purchases with the condition of repaying the full balance at the end of the billing cycle. They do not have a pre-set spending limit.
- **Example:** American Express Green Card.
- **Features:**
 - No interest is charged since the balance must be cleared monthly.
 - Often come with membership fees and rewards.
- **Advantage:** Promotes financial discipline by requiring full payment.
- **Disadvantage:** No option for partial payments; high penalties for delayed payments.

2. Credit Cards:

Buy Now Pay Later

- **Definition:** Credit cards allow users to borrow money from the issuing bank within a set credit limit and repay later, either in full or in installments.
- **Example:** Visa, Mastercard, or American Express credit cards.
- **Features:**
 - Interest-free period (typically 20–50 days).

MAD

- Reward points, cashback, or other benefits.
- Minimum payment option available.

- **Advantage:** Provides financial flexibility and purchasing power.
- **Disadvantage:** (High-interest rates if payments are delayed.)

3. Debit Cards:

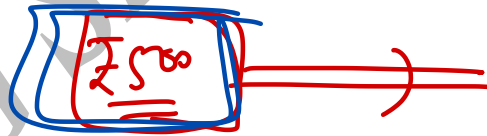
Buy Now Pay Now

Cum ATM

- **Definition:** Debit cards allow users to spend money directly from their bank account without borrowing.
- **Example:** Visa Debit, Mastercard Debit, RuPay Debit.
- **Features:**
 - Funds are directly debited from the linked account.
 - No interest charges as there is no borrowing.
 - Can be used for online and offline purchases, as well as cash withdrawals.
- **Advantage:** No debt accumulation.
- **Disadvantage:** Limited to the available account balance.

4. ATM Cards:

- **Definition:** ATM cards are primarily used for withdrawing cash or checking account balances at ATMs.
- **Example:** Basic bank ATM cards.
- **Features:**
 - Limited to ATM transactions (some may support POS or online payments if linked to debit card functionality).
- **Advantage:** Easy access to cash anytime.
- **Disadvantage:** Limited functionality compared to debit or credit cards.



5. Prepaid Cards:

- **Definition:** Prepaid cards are loaded with a specific amount of money that can be used for transactions until the balance is depleted.
- **Example:** Gift cards, travel cards, or wallets like Paytm or Amazon Pay.
- **Features:**
 - Not linked to a bank account.
 - Reloadable or non-reloadable, depending on the card type.



- **Advantage:** Ideal for controlled spending and gifting.
- **Disadvantage:** Limited by the preloaded balance.

6. Co-branded Cards:

SB2

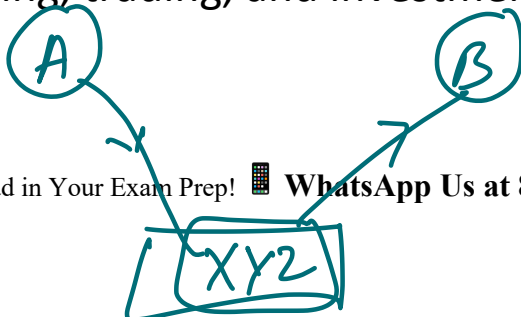
- **Definition:** Co-branded cards are issued in partnership between a bank and another organization (e.g., airlines, retail stores, or fuel companies) to offer specialized benefits.
- **Example:** HDFC Bank IndiGo 6E Rewards Card (for travel benefits).
- **Features:**
 - Rewards specific to the co-branding partner (e.g., travel miles, discounts, or loyalty points).
- **Advantage:** Tailored benefits for frequent users of the partner's services.
- **Disadvantage:** Limited utility outside the partner's ecosystem.

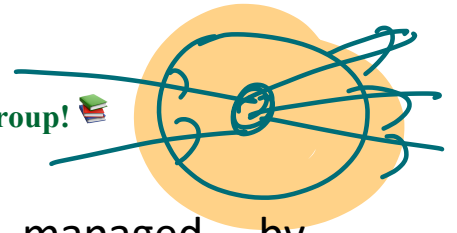
Card Type	Source of Funds	Repayment	Key Use	Associated Costs
Charge Card	Credit	Full payment monthly	High-value purchases	<u>Annual fee, late payment fees</u>

Credit Card	Credit	Full/partial payment allowed	Everyday transactions, borrowing	Interest on balances, annual fee
Debit Card	Bank account balance	Immediate deduction	Daily spending, cash withdrawals	None or minimal fees
ATM Card	Bank account balance	Immediate deduction	Cash withdrawals	Transaction fees for non-linked ATMs
Prepaid Card	Preloaded balance	No repayment (one-time load)	Controlled spending	Reload fee, inactivity fee
Co-branded Card	Credit or balance	Depends on card type	Rewards with a specific partner	Annual fee, interest on balances

Other important concepts

- 1. Demat Account:** A digital account to hold securities like shares, bonds, and mutual funds in electronic form.
- 2. Trading Account:** An account used to buy and sell securities on stock exchanges.
- 3. Three-in-One Account:** A combination of a savings account, demat account, and trading account, offering seamless banking, trading, and investment services.





4. **Mutual Funds:** Pooled investments managed by professionals, where investors buy units to gain diversified exposure to stocks, bonds, or other assets.
5. **Escrow Account:** A temporary, secure account where funds or assets are held by a neutral third party until predefined conditions are met.
6. **Escrow Services for Document:** involve a neutral third party (the bank) securely holding important documents until specific contractual conditions are met.
7. **Trusteeship:** A fiduciary service where a bank or individual manages assets or rights for the benefit of a third party.
8. **Executorship:** A service where a bank or individual executes the terms of a deceased person's will, including asset distribution and debt settlement.

1	When a customer deposits money in a bank account, the relationship is _____.	Debtor-Creditor
2	True or False: The bank is a lessor when renting out lockers to customers.	FALSE
3	An account opened in the name of a non-resident Indian for repatriable funds is _____.	NRE Account
4	A duplicate demand draft issued with indemnity bond establishes a relationship of _____.	Indemnified-Indemnifier
5	True or False: Current accounts fall under demand deposits.	TRUE

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6	The maturity period of a term deposit typically ranges from _____ to _____.	7 days to 120 months
7	A customer keeping valuables in a locker forms a _____ relationship with the bank.	Bailee-Bailor
8	The entity responsible for issuing KYC guidelines in India is _____.	RBI
9	True or False: NRE account balances are exempt from income tax in India.	TRUE
10	A cheque collection by the bank creates a _____ relationship.	Agent-Principal
11	The _____ Act regulates foreign exchange management in India.	FEMA
12	True or False: Co-branded cards are issued in partnership with another organization.	TRUE
13	The primary risk for banks in lease financing is _____.	Asset Depreciation Risk
14	A bailee-bailor relationship occurs when _____.	Customer deposits valuables
15	True or False: The penalty under PMLA can go up to ,₹1,00,000 per violation.	TRUE
16	Foreign Currency Non-Resident accounts must be maintained in _____.	Freely Convertible Foreign Currency
17	The party that indemnifies the other in an indemnity bond is the _____.	Customer
18	True or False: A customer is anyone who transacts with a bank.	TRUE
19	Plastic money refers to _____.	Payment cards like credit or debit cards
20	Escrow services for documents involve a _____.	Neutral third party holding documents
21	True or False: Banks act as custodians in demat accounts.	TRUE
22	The risk weightage for credit cards for capital adequacy purposes is _____.	125%

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23	Time deposits are typically used for _____ savings.	Long-term
24	True or False: Hybrid deposits combine features of demand and time deposits.	TRUE
25	The primary purpose of merchant banking is _____.	Advisory and capital raising
26	True or False: Demand deposits are always interest-bearing.	FALSE
27	In lease financing, the ownership of the asset remains with the _____.	Lessor
28	The maximum amount allowed for an OTP-based e-KYC account annually is _____.	2,00,000
29	Banks offer executorship services for _____.	Executing wills and asset distribution
30	True or False: Trading accounts are primarily used for purchasing securities.	TRUE

LEARNING SESSIONS

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