Banking Regulations & Operation BBA 4th Sem

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Chapter- 3 Types of customers

 The banker has certain legal restrictions for having business relations with certain type of people; like minors,lunatics,drunkards,married women,undischarged bankrupts,agents of all kinds,trustees,executors etc.



Precautions to be taken by banker in opening & conduct of account.(trust)

- The banker should thoroughly examine the original trust deed & ascertain the names of the trustees, the powers vested in them, the details of the trust property, etc.
- 2. The banker should obtain a duly certified copy of the trust deed for his future reference.

Precautions to be taken by a banker in opening & conduct of account(contd..)

- 3.The banker should obtain a letter called "partnership letter" duly signed by all the partners stating the name of the firm, nature of the business, etc.
- 4. The banker can open an account in the name of the firm only on the receipt of the application from the partners & the application form must be signed by all the partners.

Precautions to be taken by banker(contd..trust)

- If the trust is a charitable trust the banker should obtain a certified copy of the registration certificate to know the legality of the trust.
- 4. The banker should get the account opening form duly signed by the trustee authorized to open & operate the trust account.

Precautions to be taken by banker(contd..trust)

- 5. The banker should get a certified copy of the resolution passed by the trustees regarding the opening of an account with his bank & the names of the trustee who are authorized to operate the account.
- 6.the banker should also obtain a declaration from all the trustees that they are all willing to act as trustees as per the terms & conditions in trust deed.

Precautions to be taken by banker(contd..trust)

- 7. The trustees are required to act jointly in conducting the affairs of the trust; which they are not to delegate to a third person.
- 8. If the trust deed provides for delegation then the banker should deal with the trustees authorized to operate the account.

Precautions to be taken by a banker in opening & conduct of account

- 9.The banker should see that the funds belonging to the firm are not utilized by any partner for his personal purpose.
- 10. A partner of a firm acts as an agent of the firm as well as the agent of all the other partners for the purpose of carrying business of the firm.
- 11. It is advisable for the banker to get a written consent of all the partners of the firm before granting any loan to the firm.

Precautions to be taken by a banker in opening & conduct of account

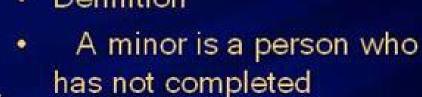
- 12.The implied authority of a partner does not include the right to transfer immovable property of the firm by mortgage.
- 13.No partner can bind his co-partners by giving a guarantee on behalf of the firm.
- 14. the banker should obtain a written consent while granting an overdraft.

Precautions to be taken by a banker in opening & conduct of account

 15. when the banker receives a notice of retirement from the retiring partner, he should examine the position of the firms account & the nature of securities.



1. Accounts of minors



 Any contract entered with minor is void and is not enforceable by law.

eighteen years of age.

 This prevents minor to acquire property, dispose property or enter into ant type of agreement.



Minor & bank accounts

- The negotiable instruments acts provides that a minor can draw, endorse, deliver & negotiate a negotiable instrument.
- A minor can open and operate the bank account without a guardian.
- The overdraft facility is not provided as the account should be in credit and the banker has the risk to recover the

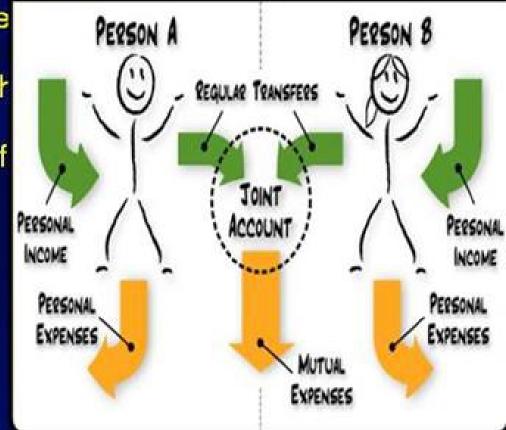
- On attaining majority the account can be continued where the banker obtains a confirmation letter and the balance is credited.
- The banker should close the account when the minor attains majority & open a new account.
- A minor cannot be sued in the court of law.
- A loan can be granted for purchasing the necessities of life against his properties.
- A minor can act as an agent & partner.

Joint account

A joint account is an account which is opened by two or more persons jointly, it is simply a joint debt.such an account is opened by them for the sake of convenience of operation of the account as well as for the withdrawal of money after the death of any one of them.



FINANCES FOR COUPLES



2. Joint account holders

- Insolvency of joint account holder.
- Nomination
- Overdrawing the accounts.
- Survivorship
- Joint accounts of husband and wife.
- Any joint account holder including the one not authorized to operate can stop the payment of a cheque issued on a joint account.
- If any alterations have been made in the cheques drawn & signed by the person authorized to operate the account, such alterations should be attested by these authorized person and no other joint account holder.

2. Joint account holders

- When any joint account holders becomes insane & a notice have been received by the banker, he should immediately suspend the operations of joint account.
- The banker should get clear instructions in writing from all the joint account holders regarding the withdrawal of the securities in the joint account.
- If the banker provides any advance or loan or overdraft to the joint account, the banker should establish separate individual liability in addition to their joint liability.

3. Partnership accounts

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



4. Trustees Or trust accounts

The Indian trust act, 1882 defines 'trust' as an obligation to the ownership of property & arising out of confidence reposed in & accepted by him for the benefit of another and the owner.

The trustee is a person in whom the confidence is reposed and entrusts the management of his property for benefit of a person or an organization called 'beneficiary'

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5. Executors & administrators

- The executors & administrators are appointed to settle the accounts of person after his death.
- Instead of creating a trust to manage their property, they prepare a "WILL" & specify in it the name of the person to manage their property after their death, such person is

called as " executor"

specified person
refuses to act as an
executor, the court will
appoint a person to
look after the
properties of the
deceased person who
is called as the

If any name is not

specified or if the

The person making the will is called "testator"

"administrator"

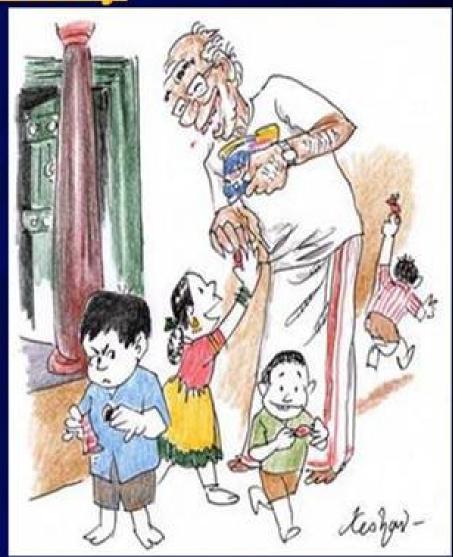
Precautions to be taken in opening & operating the a/c of executors & administrators

- The banker should stop the operation of the testator's account, when he receives the message of the death of testator.
- The banker should insist an official letter issued by the court called" <u>Letter of Administration</u> to ascertain whether he is the person appointed to execute the property of the deceased.
 - A copy of the letter of probate should be filed for future reference

7. Joint Hindu family

- It is an undivided family which comprises of all male members, descended from a common ancestor.
- A "JHF" is a family which consists of more than one member, possesses ancestral property & carries on family business





Joint Hindu family(contd)

- The senior male member is called "<u>Karta</u>" & other male members as "<u>coparceners</u>".
- Karta manages the whole business of the family & the liability is unlimited; whereas coparceners have limited liability.
- Coparceners can be appointed as managers.
- The Karta has the power to mortgage & pledge the property of JHF for raising loan.

8. MARRIED WOMEN

 The married women is treated like any other man or unmarried lady & can enter into contract & bind her property.





I GIVE THEM ALL MY MONEY, AND ALL THEY GIVE ME IS A HARD TIME.

. MARRIED WOMEN

- As per the law of contract she can enter into contract with the banker & open an account ,draw & endorse cheques.
- The banker extends overdraft facilities in current accounts, if they are prompt in their dealings & have sufficient property.

Points to be noted by the banker in opening a/c of married women

- The banker should avoid extending overdraft or granting loan to married women.
- If the loan is granted, the banker should secure sufficient property of hers, which can be freely liquidated.
- 3. The banker cannot judge her as insolvent & imprison her; but should see that he can collect the loan amount.

Points to be noted by the banker in opening a/c of married women (contd)

- 4.When she acts as an agent of her husband, the banker must see that she does not operate beyond the limit.
- 5.When loan is granted to a married women, the banker ascertains her liquid able property; where the husband escapes wife's liability.

9. Joint stock companies

Definition:

A joint stock company has been defined as an artificial person, invisible, intangible & existing only in the contemplation of law.

 It is recognized as separate entity as distinct from its members & enjoys perpetual succession.

1. Examination of documents.

The banker asks for the copies of:
Certificate of incorporation, Memorandum, & Articles of Association, copies of annual a/c.

2.The banker must examine the provisions in memorandum & articles & find out the extent of power that director &other officials have.

- 3. The banker should keep the copies of memorandum & articles which are certified by company secretary; which is again verified with the registrar of joint stock companies.
- 4.The banker should also obtain the copy of "Certificate of commencement of business", which empowers the company to commence its business; issued by the registrar of co's

- 5.The banker should get the copies of balance sheets of previous years, to examine the financial status,credibility,turnover,rate of growth & its functioning with other banks.
- 6.If the company is a new company, the banker should obtain the copy of the prospectus or a statement in lieu of prospectus.

- 7.The copy of statement is taken to examine the extent of public issue, whether it was oversubscribed or not.
- The banker should obtain a copy of the resolution appointing him as banker of the company.
- 9. The resolution specifies the names of persons who have been authorized to operate& execute the bank a/c.

- 10.The banker should obtain the specimen signature of the persons who operate the a/c.
- 11. The Indian companies act lays down that the directors or persons empowered to borrow are allowed to borrow only the amount equal to the paid up capital of the company & its free reserves.

- 12. The maximum borrowing limit mentioned above excludes the short term loans and loans payable on demand are excluded.
- 13.The funds borrowed by the directors or any authorized agency should be utilized for the purpose for which it is borrowed.

End Of Chapter 3



