



NEW CUSTOMER RELATIONSHIP MANAGEMENT OF INDIAN BANKING SYSTEM

Commerce

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ABSTRACT

This paper is purpose of research only. The structure of banking varies widely from country to country. Often a country's banking structure is a consequence of the regulatory regime to which it is subjected. The banking system in India works under the constraints that go with social control and public ownership. Nationalization, for instance, was a structural change in the functioning of commercial banks which was considered essential to better serve the needs of development of the economy in conformation with national policy and objectives. Similarly, to meet the major objectives of banking sector reforms, government stake was reduced up to 51 per cent in public sector banks. New private sector banks were allowed and foreign banks were permitted additional branches. Depending on the activities, products or services provided by the bank to its customers or availed by the customer, the relationship between a banker and a customer emerges. There exist a transactional relationship between a banker and customer. To understand the relationship between them, we must understand the terms, "banker" and "customer" clearly. According to Banking Regulations Act, 1949, Section 5(b), Banking is defined as "accepting for the purpose of lending or investments of deposits of money received from the public and repayable on demand and withdraw able by cheque, draft, and order or otherwise". Thus, the term banker is not defined by B R Act but it defines the term "Banking". This definition highlights two points: The primary function of a banker is accepting of deposits for the purpose of lending or investing the same

KEYWORDS:

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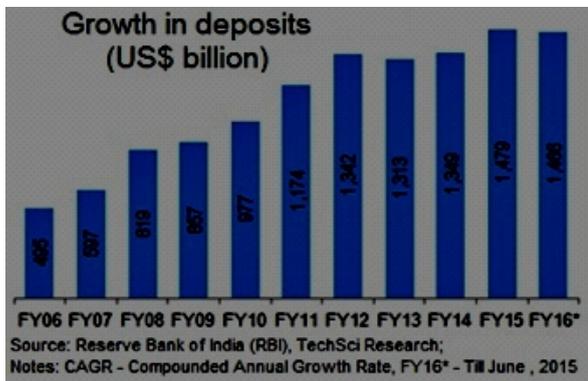
Healthy Growth of Banking

Sector - Deposits

- During FY06–16, deposits grew at a CAGR of 11.47 per cent and reached 1.46 trillion in FY16.
- Strong growth in savings amid rising disposable income levels are the major factors influencing deposit growth.
- Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY), have also increased. As of October 2016, US\$ 6,755.5 million were deposited, while 249.8 million accounts were opened.

- Accepts deposits from public
- Grants loans and advances
- Issue and pay cheques
- Collect cheques for his customers

The word 'public' implies that the banker accepts deposits from anyone who offers money for deposit purpose. For the purpose of receiving deposit, the customer has to open an account with the bank. For both depositing and borrowing funds, customer has to have an account relationship with the bank. The RBI has stipulated "Know Your Customer (KYC) Norms" for opening bank account and the bankers are strictly following the same. Hence, if a customer is not transparent, the banker has the right to rejects his/her application.

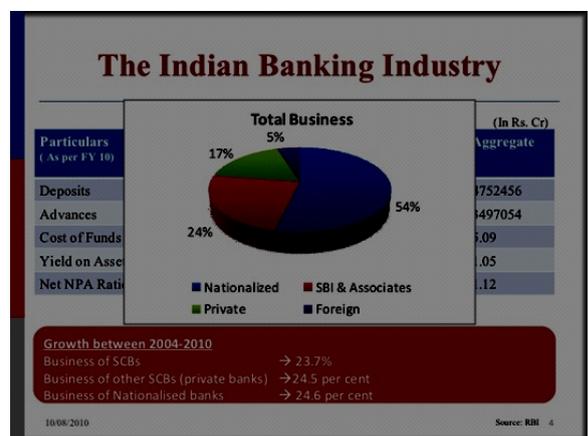


Sources :www.ibef.org

According to Dr. Herbert L. Heart, "A Banker is one who in the ordinary course of business honours cheques drawn upon him by any persons from and for whom he receives money on current accounts".

According to Sec. 2 of the Bill of Exchange Act, 1882, 'banker includes a body of persons, whether incorporated or not who carry on the business of banking.'

From the above definitions, we can derive the meaning of banker as one whom



Sources google images

Customer

The term 'Customer' is not defined by any act either in India or in English Statutes. The word 'customer' has its origin from the word 'custom', which means a 'habit or tendency' to-do certain things in a regular or a particular manner. Generally speaking, a customer is one who has an account with the bank or who utilizes the services of the bank. Account relationship is a contractual relationship. It is generally believed that any individual or an organization, which conducts

banking Transactions with a bank, is the customer of bank. However, there are many persons who do utilize services of banks, but do not maintain any account with the bank. Therefore, bank customers can be conveniently classified into four types. They are

- Existing customers
- Former customers
- Customers for services like Demand Draft purchase, cheque encashment, etc.
- Potential customers

In the past, the customers have to deposit some amount as initial deposit to open a bank account. Later, as per the directions of RBI, "No Frill" accounts were allowed by the banks without any deposit, i.e., with nil balance or with meager balance. Now, all the banks are instructed by RBI to open as many bank accounts as possible without any balance, to channelize the benefits of government schemes to the public through Aadhar Card. In the past, customers can have his transactions only with the branch with which they maintain their account. But, after the implementation of Core Banking Solution (Computerization of branches with interconnectivity), customers can operate their accounts from any branch of the bank and from anywhere. Thus, earlier system of "customer to a branch" is converted into "customer to a bank". However, for any specific claim or action, the customers have to approach the branch with which they maintain account.

Banker-Customer Relationship

The relationship between a banker and customers can be broadly classified into

- a) General Relationship
- b) Special Relationship.

As per Sec 5(b) of Banking Regulation Act, the bank's business is to accept deposits for the purpose of lending. Thus, the relationship emerging out of these two main activities is called as General Relationship. As per Sec 6 of Banking Regulation Act, the banker undertakes other activities on behalf of the customer and provides lot of services to them. Thus, the relationship emerging out of the provision of these activities and services is called as Special Relationship.



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General Relationship

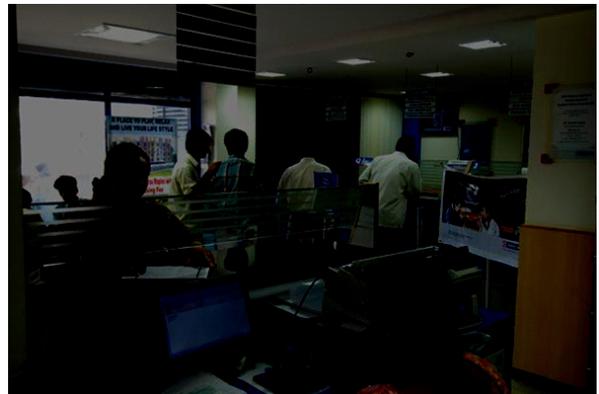
Under general relationship, the banker and customer may have two types of relationships, viz., debtor-creditor relationship and creditor-debtor relationship.

- **Debtor-Creditor Relationship:** While opening a bank account, customers fill and sign the account opening form to enter into an agreement/contract with the banker. When the customers deposit money in their account, the relationship between banker and customer becomes that of debtor and creditor. The amount deposited becomes the banks' liability towards the customer and hence, he becomes debtor to the depositor (Customers). The banker can use that amount for any purpose, of course, with the information as to the use of money to the depositors. Normally, banks do not give any security to the depositors. However, when it is demanded by the deposits, the banks have to pay (Joachimson

vs. Swiss Bank Corporation). Thus, the banker is completely different from normal debtors who voluntarily repay the debts. The rate of interest on the loan is normally decided by the creditor but in the banker-customer relationship the interest is decided by the banker who as a debtor pays interest once in six months on the deposits.

- **Creditor-Debtor:** When banks grant loans and advances to the customers, the relationship between banker and customer is that of creditor-debtor relationship. Customers borrow money from bank by executing a contract with terms and conditions and by offering collateral (security). The customers (as debtors) are obliged to repay the loans and advances as per the terms of the contract.

Special Relationship



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In addition to opening of a deposit/loan account banks provide variety of services, which makes the relationship more wide and complex. Depending upon the type of services rendered and the nature of transaction, the banker acts as a bailee, trustee, principal, agent, lessor, custodian etc.

- **Banker as a Trustee:** As per Sec. 3 of Indian Trust Act, 1882 'A "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner.' Thus trustee is the holder of property on behalf of a beneficiary. As per Sec. 15 of the 'Indian Trust Act, 1882 'A trustee is bound to deal with the trust-property as carefully as a man of ordinary prudence would deal with such property if it were his own; and, in the absence of a contract to the contrary, a trustee so dealing is not responsible for the loss, destruction or deterioration of the trust-property.' A trustee has the right to reimbursement of expenses (Sec.32 of Indian Trust Act.). In case of trust, banker-customer relationship is a special contract. When a customer entrusts valuable items with bank with an intention that such items would be returned on demand to the customer, the relationship becomes of a trustee and trustier.

Banker as a Bailee: Sec.148 of Indian Contract Act, 1872, defines "Bailment" "bailor" and "bailee". A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor".

Banker as a Lessor: Sec.105 of 'Transfer of property Act 1882' defines lease, Lessor, lessee, premium and rent. As per the section "A lease of immovable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms." "The transferor is called the lessor, the transferee is called the lessee, the price is called the premium, and the money, share, service or other thing to be so rendered is called the rent." Providing safe deposit lockers is as an ancillary service provided

by banks to customers. While providing Safe Deposit Vault/locker facility to their customers, bank enters into an agreement with the customer. The agreement is known as “Memorandum of letting” and attracts stamp duty. The relationship between the bank and the customer is that of lessor and lessee. Banks lease (let lockers for hire to their customers) their immovable property to the customer and give them the right to enjoy such property during the specified period i.e. during the office/ banking hours and charge rentals. Bank has the right to break-open the locker in case the locker holder defaults in payment of rent.

- Banker as an Agent: Sec.182of 'The Indian Contract Act, 1872' defines “an agent” as a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done or who is so represented is called “the Principal”. Thus an agent is a person, who acts for and on behalf of the principal and under the latter's express or implied authority and the acts done within such authority are binding on his principal and, the principal is liable to the party for the acts of the agent.

Banker as a Custodian: A custodian a caretaker of something. Banks take customer's securities. While opening becomes a custodian. is a person who acts as legal responsibility for a DMAT account bank

- Banker as a Guarantor: Banks give guarantee on behalf of their customers. Guarantee is a contingent contract. As per sec 31, of Indian contract Act guarantee is a “contingent contract”. Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen. It would thus be observed that banker customer relationship is transactional relationship.

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