Chapter 4

Banker and Customer Relationship

4.1 Introduction

Before we take up relationship that exists between a banker and his customer, let us understand the definitions of the term banker and customer. The definition of the business of banking and a large number of activities permissible for banks are given in the Banking Regulation Act 1949. The relationship between a banker and his customer depends upon the nature of service provided by a banker.

4.2 Definition of Customer

The term customer of a bank is not defined by law. Ordinarily, a person who has an account in a bank is considered its customer. Banking experts and legal judgment in the past, however, used to qualify this statement by laying emphasis on the period for which such account had actually been maintained with the bank.

According to Sir John Paget’s view “to constitute a customer there must be some recognizable course or habit of dealing in the nature of regular banking business.”

This definition of a customer of a bank lays emphasis on the duration of the dealing between the banker and the customer and is, therefore, called the duration theory. According to this view point, a person does not become a customer of the banker on the opening of an account.  

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79 A noted authority of banking
account; he must have been accustomed to deal with the banker before he is designated as a customer.

4.3 Relationship between Banker and Customer

The general relationship between banker and customer is that of debtors and creditors according to the state of the customer’s account i.e. whether the balance in the account is credit or debit, but there are certain additional obligations to be borne in mind and these distinguish the relationship form that of the normal debtors and creditors.

In addition to his primary functions, a banker renders a number of services to his customer. Bankers also act as an agent or trustee of his customer if the latter entrusts the former with agency or trust work. In such cases, the banker acts as a debtor, agent and a trustee simultaneously but in relation to the specified business.\(^{80}\)

Relationship as Debtors and Creditors

On the opening of the account the banker assumes the position of a debtor. He is not a depository or trustee of the customer’s money because the money handed over to the banker becomes a debt due from him to the customer. A depository accepts something for safe custody on the condition that it will not be opened or replaced by similar commodity. A banker does not accept the depositor money on such condition. The money deposited by the customer with the banker is, in legal terms lent by the customer to the banker, who makes use of the same according to his discretion. The creditor has the right to demand

\(^{80}\) Central Bank of India Ltd. Bombay V/S Gopinath Nair and others (A.I.R 1979, Kerala 74)
back his money from the banker, and the banker is under an obligation to repay the debt as and when he is required to do so.

Since the introduction of the deposit insurance in India in 1962, the element of risk to the depositor is minimized as the Deposit Insurance And Credit Guarantee Corporation undertakes to insure the deposits up to a specified amount.

Bankers’ relationship with the customer is reversed as soon as the customer’s account is overdrawn. Banker becomes creditors of the customer who has taken a loan from the banker and continues in that capacity till the loan is repaid. As the loans and advances granted by a banker are usually secured by the tangible assets of the borrower, the banker becomes a secured creditor of his customer.81

Thought the relationship between a banker and his customer is mainly that of a debtor and creditors, this relationship differs from similar relationship arising out of ordinary commercial debts in following respects :-

➢ The creditors must demand payment

In case of ordinary commercial debt, the debtors pay the amount on the specified date or earlier or whenever demanded by the creditor as per the terms of the contract. But in case of a deposit in the bank, the debtors / banker is not required to repay the amount on his own accord.

It is essential that the depositor (creditor) must make a demand for the payment of the deposit in the proper manner. This difference is due to the fact that a banker is not an ordinary debtors, he accepts the deposits with an additional obligation to honors his customers’ cheques. If he returns the deposited amount on his own accord by closing the account, some of the cheques issue by the depositor might be dishonored and his reputation might be adversely affected. Moreover, according to the statutory definition of banking, the deposits are repayable on demand or otherwise. The depositors make the deposit for his convenience, apart from his motive to earn an income (except current account). Demand by the creditor is, therefore, essential for the refund of the deposited money. Thus the deposit made by a customer with his banker differs substantially from an ordinary debt.

**Proper place and time of demand**

The demand by the creditor must be made at the proper place and in proper time. A commercial bank, having a number of branches, is considered to be one entity, but the depositor enters into relationship with only that branch where an account is opened in his name his demand for the repayment of the deposit must be made at the same branch of the bank concerned otherwise the banker is not bound to honor his commitment. However, the customer may make special arrangement with the banker for the repayment of the deposited money at some other branch.\(^{82}\)

Demand must be made in proper manner

The demand for the refund of money deposited must be made through a cheque or on order as per the common usage amongst the banker. In other words, the demand should not be made verbally or through a telephonic message or in any such manner.83

Banker as Trustee

Ordinarily, a banker is a debtor of his customer in respect of the deposits made by the latter, but in certain circumstances he acts as a trustee also. A trustee holds money or assets and performs certain functions for the benefit of some other called the beneficiary. The position of a banker as a trustee or as a debtor is determined according to the circumstances of each case. If he does in ordinary course of his business, without any specific direction from the customer, he acts as a debtors / creditors. In case of money or bills etc., deposited with the bank for specific purpose, the bankers position will be determined by ascertaining whether the amount was actually debited or credited to the customer’s account or not.84

On the other hand, if a customer instructs his bank to purchase certain securities out of his deposit with the latter, but the bank fails before making such purchase, the bank will continue to be a debtor of his customer (and not a trustee) in respect of the amount which was not withdrawn from or debited to his account to carry out his specific. The

83 http://kalyan-city.blogspot.com/2012/04/banker-customer-relationship-explained.html
84 Banking Law and Practice (P. N. Varshney) Sultan Chand &Sons Publication ISBN- 81-7014-607-0
relationship between the banker and his customer as a trustee and beneficiary depends upon the specific instruction given by the latter to the former regarding the purpose of use of the money or documents entrusted to the banker.

Banker as an Agent

A banker acts as an agent of his customer and performs a number of agency functions for the convenience of his customers. For example, he buys or sells securities on behalf of his customer, collects cheques on his behalf and makes payment of various dues of his due customers, e.g. insurance premium, etc. The range of such agency functions has become much wider and the banks are now rendering large number of agency service of diverse nature.85

4.4 Chapter Conclusion

This chapter focuses on customer relationship with the banker that is debtors and creditors. Bankers also act as an agent or trustee of his customer if the latter entrusts the former with agency or trust work. The outcome of this chapter shows that banks can assess dimensions of services and to decide which dimensions need improvement. Hence, efforts of the banks should be not only to equalize the customers’ expectations with what the bank offer but efforts have to be made in to ensure that bank employees should provide a number of services which exceeds the perceived expectations of customers.

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85 http://kalyan-city.blogspot.com/2012/04/banker-customer-relationship-explained.html