



Relationship Between Banker And Customer

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The **relationship between banker and customer** is a legal relationship that starts after the **formation of a contract**. When a person opens a **bank account** in the bank and the banker gives his **acceptance** for the account, it binds the banker and customer in the contractual relationship. The person who holds a bank account in the bank and uses its services is called a **bank customer**. The contractual relationship between bank and customer creates more types of banker and customer relationships.

The bank and customer are two different terms that are related to the bank. The **person doing the banking business is called a banker** and the person who is connected with the bank, either depositing his money or taking a loan from the bank is called a bank customer. The relationship between banker and customer can be of various types because it totally depends upon the activities, products and services provided by the banker to the customer. Although the relationship is totally based on contact, trust is an important part of the relationship between bankers and customers.

Section 5 (b) of the Banking Regulations Act 1949 defines the bank as a **financial institution**. According to the section "The bank accepts, lending money or invest the money from the public repayable on demand or otherwise and withdraw through online, cheques, drafts or

any other way.” It is a licensed institution to receive deposits of its costumer and make the loan.

The main work of the bank is depositing and lending money. The bank encourages people to save their money into the bank accounts to earn some interest on the money. The bank uses this money to give loans to needy people with an interest rate. In simple words, the bank works as the intermediary between two people where one wants to save his money and others need money. This process also helps the bank to gain some profit and make the relationship between banker and customer. This process creates different rights and duties of bankers against the customer and rights and duties of customers against the bank which make the banker and customer relationship stronger.

So now, lets us discuss all the legal relationships between banker and customer in detail.

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Relationship Between Banker And Customer

The banker and customer relationship are based on trust. This relationship is divided into two important parts to understand clearly:

- The general relationship between banker and customer
- The special relationship between banker and customer

The General Relationship Between Banker And Customer

The services provided by a banker to its customer comes under a general relationship between banker and customer. The general relationships between banker and customer are:

Relationship As Debtor And Creditor

The opening of a bank account in the bank of a banker by the person who has the **capacity to contract** is the basis of the debtor and creditor relationship between banker and customer. By filling the form for opening a bank account bind the banker and customer in the written contract. The customer when deposits his money into his bank account, becomes a creditor because he is giving his money to the bank indirectly. The money

deposited by the customer in the bank account becomes the bank's property. The bank can use your money as it likes. By using your money, the bank becomes a debtor because he will take that money into his account to make further transactions with other bank customers. The bank is not liable to inform the customer about the utilization of his money.

This relationship gets opposite at the time when a bank customer takes the loan from the bank, the bank becomes the creditor and the customer becomes a debtor. It means the debtor and creditor relationship works both ways depending on the condition of the transfer of money. The bank usually takes the money of customers to use it to provide loans for other bank customers and it is the most important activity of a bank.

How to Resolve an Insolvent Company in India?

Almost in all types of bank accounts, the customer can withdraw his saved money into the bank account at any time because there are no restrictions imposed by the bank on the customer. Some bank accounts like fixed deposits etc. impose minor penalties if a person wants to withdraw his money before the expiration period.

Relationship As Trustee And Beneficiary

The bank performs the relationship as a trustee with his customer when the bank customer deposited his property or other assets. In this case, the bank holds the property of other documents of bank customers in exchange for the loan provided by the bank. The person who is depositing the property or other documents is known as the beneficiary.

It can be done in two conditions:

- When a person deposited his important document in the bank locker.
- The person took the loan and deposited his property document as security.

This relationship is based on trust. The document deposited in the bank is a secured document and the bank never share these document with any other person. Also, the ownership of the property will remain with the person, not the bank. In the situation of bank liquidation, the property secured in the bank by the beneficiary is not subject to distribution to the general creditors of the bank.

Relationship As Principal And Agent

The bankers provide agent services to their customers. The agent is defined under section 182 of the [Indian contract act](#) as the agent is the person who is employed by a person by giving him the [power of attorney](#) to work or deal on his behalf. The banker pay taxes, electricity bills, insurance premium etc. at the command of the bank customer who acts as principal. The bank usually charges for these services provided by the bank to its customer.

In the banking industry, the relationship between a banker and a customer can be considered as a principal-agent relationship. In this type of relationship, the customer (the principal) entrusts the bank or the banker (the agent) with their money and other financial assets, and the bank or the banker acts on the customer's behalf to manage and invest those assets.

The customer, as the principal, is the party who has the ultimate control over their assets and makes the final decisions on how they should be managed. The bank or the banker, as

the agent, is the party who is responsible for executing the customer's instructions and managing their assets in accordance with the customer's wishes.

The bank or the banker has a fiduciary duty to act in the best interests of the customer and to use reasonable care, skill, and diligence in managing the customer's assets. This means that the bank or the banker must always act in the customer's best interests, even if it is not in the best interests of the bank or the banker. The bank or the banker must not use their position of trust and confidence to gain any advantage over the customer or to benefit themselves at the customer's expense.

This fiduciary duty is important because it helps to ensure that the customer's assets are managed in a responsible and ethical manner. It also provides a level of protection for the customer, as they can trust that their assets will be managed in a way that is in their best interests.

One of the key responsibilities of the bank or the banker is to invest the customer's assets in a way that will generate a reasonable return, while also balancing the risk of loss. This requires the bank or the banker to have a good understanding of the customer's investment goals and risk tolerance, and to make investment decisions accordingly. The bank or the banker should also be able to provide the customer with regular updates on the performance of their investments, as well as any changes that have been made to the investment portfolio.

Another important aspect of the principal-agent relationship between a banker and a customer is the concept of agency authority. This refers to the authority that the customer has given to the bank or the banker to act on their behalf. This authority can be expressed, where the customer has given the bank or the banker specific instructions on how their assets should be managed, or it can be implied, where the customer's actions have indicated that they have given the bank or the banker permission to act on their behalf.

It's also worth mentioning that this relationship is not one way street, there are certain responsibilities that the customer need to fulfill as well, for instance keeping the bank updated about any important changes such as changes in the assets, liabilities, contact information, regular updation of their tax id number, e.t.c.

The relationship between a banker and a customer can be considered as a principal-agent relationship, in which the customer entrusts the bank or the banker with their money and other financial assets, and the bank or the banker acts on the customer's behalf to manage and invest those assets. The bank or the banker has a fiduciary duty to act in the best interests of the customer and to use reasonable care, skill, and diligence in managing the customer's assets. This relationship is built on trust and mutual understanding and both parties should fulfil their responsibilities effectively in order to make the best out of it.

Relationship As Lesser And Lessee

Section 105 of the transfer of property act deals with the [contract of lease](#). It is a transfer of a right to enjoy the immovable property for a certain time with [consideration](#). This happens in the relationship between banker and customer when the bank provides a safe deposit locker to the customer of the bank to save his important property for a certain period of time. The bank changes its customer who is taking the benefit of the locker for a certain period of time.

The relationship between a banker and a customer can also be understood in terms of a lesser and lessee relationship. In this context, the customer is the lessee and the bank is the lesser.

In a lease agreement, the lessee (customer) is granted the use of an asset (such as a piece of property or equipment) by the lesser (the bank), usually in exchange for rent or a periodic payment. Similarly, when a customer opens an account with a bank, they are essentially leasing the use of the bank's assets, such as its capital and liquidity, in order to access financial services such as borrowing, depositing, and investing.

In this analogy, the bank is the owner of assets that the customer can use and the customer is paying a fee to the bank to use these assets. Like any lease agreement, the terms of this "lease" are outlined in a contract, which defines the rights and responsibilities of both parties. This contract, known as a "banking agreement," outlines the various services that the bank will provide to the customer, as well as the fees, interest rates, and other terms associated with those services.

An important aspect of this relationship is that customer trust the bank to handle their money and other assets responsibly, and to comply with applicable laws and regulations. Similarly, the bank is obligated to manage the customer's assets in a safe and sound manner and to use reasonable care, skill and diligence to meet their customer's needs.

In this analogy, the bank also have a duty to act in good faith and not to take advantage of their customers. They have to use their assets in a way that is beneficial for the customer and not just for themselves.

The lesser-lessee analogy also highlights the distinction between the assets of the bank and the assets of the customer. The customer's assets are held in a separate account and are not commingled with the bank's own assets. This is done to protect the customer's assets in case of bank failure or other financial difficulties, and it also makes it easier to track and reconcile the customer's transactions.

In this analogy, the bank also have an investment role and can suggest the different investment options to their customer based on the customer's financial goals and risk appetite. They can also provide various financial products and services such as savings accounts, loans, credit cards, and insurance, etc.

Overall, the relationship between a banker and a customer can be understood in terms of a lesser and lessee relationship, where the customer leases the use of the bank's assets in exchange for various financial services and access to credit. The bank, as the lesser, has a fiduciary duty to act in the best interests of the customer and to use reasonable care, skill, and diligence in managing the customer's assets.

Relationship As Pledger And Pledgee

The banker performs the relationship of Pledger and Pledgee when the customer took the loan from the bank and deposits some security to the banker. The customer becomes a pledger and the bank is pledgee. The security of the customer will remain in the custody of the bank until the person repays the money from the loan taken by him from the bank.

The relationship between a banker and a customer can also be understood as a pledgee and a pledger. In this context, a pledge is a legal agreement in which a borrower (the pledger) gives the lender (the pledgee) the right to take possession of and sell the specific property (the collateral) if the borrower defaults on the loan. This type of arrangement is commonly used in secured lending, where the borrower is required to provide collateral in order to secure the loan.

In a banking context, the customer may pledge assets such as real estate, vehicles, or stocks as collateral for a loan or line of credit. The bank, as the pledgee, holds the right to take possession of and sell the pledged assets in the event that the customer defaults on the loan. This allows the bank to recover its losses if the borrower is unable to repay the loan.

However, the bank's rights as a pledgee are subject to certain restrictions. For example, it is not usually allowed to take possession of the pledged assets prior to default and can only sell the assets after default and after reasonable efforts have been made to give notice to the pledger and offer the assets for sale to the public or to specific third parties at a reasonable price. The bank also has a duty to exercise reasonable care in protecting and preserving the pledged assets.

Additionally, the pledged assets can be used as security for more than one debt, so one pledge of the assets may have multiple pledgees. In such a case, the pledgee with the highest priority in the pledge takes precedence over the other pledgees in the right to take possession and sell the assets in case of default of the pledger.

The pledge relationship also benefits the pledger. It allows them to obtain the financing they might not have been able to without collateral, and it reduces the risk of lending for the bank and lowers the interest rate for the pledger. But the pledger should be aware of the risks and the possible consequences of a default and the impact on their credit score.



In summary, the relationship between a banker and a customer can be viewed as a pledgee and a pledger when collateral is involved. The pledgee (bank) holds the right to take possession of and sell pledged assets in the event of default while the pledger (customer) has the right to continue to use and enjoy the pledged assets until a default occurs. Both parties have rights and obligations that need to be adhered to maintain the pledge relationship.

Relationship As Bailor And Bailee

The banker can perform the relationship of bailor and bailee with its customer. There are many [types of bailment](#) under which the person delivers his goods to another party for a specific period of time and take the goods back when the purpose of bailment has been done.

The relationship of bailor and bailee between banker and customer arises when the customer gives his security document of any other goods to the bank for a specific period of time for security. The customer is a bailor and the bank becomes bailee.

Relationship As Advisor And Client

The relationship between banker and customer can be as advisor and client in a case when the customer invests in securities. The bank gives advice to its customer for investing. For example, if you are planning to take any kind of loan, but are not sure which loan you should take. Here, the bank can advise you officially or unofficially to take the right decision. In that case, the banker will be your advisor and you will be his client.

Relationship As Mortgagor And Mortgagee

Section 58(a) of the Transfer of Property Act, of 1882 defines the [mortgage](#) as "A mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced by way of loan, etc."

When the banker provides the credit facility to his customer against the security of immovable property, the customer becomes a mortgagor and the bank is a mortgagee.

Relationship As Indemnity Holder And Indemnifier

There are various [types of indemnity](#) given under the Indian contract act. Indemnity is one of the [types of contract](#) in which one person promise to save another party by paying his loss that occurred due to the person who is making the contract or by the act of any other person.

In the relationship between banker and customer, the banker act as an indemnity holder if any wrong transaction is done while making the payment by the customer.

For example, if you make an online transaction with another person but the transaction failed and your money is deducted. The bank will repay the loss that occurred due to fault occurred in the transaction. Though, it requires all the necessary [written evidence](#) to prove this in [litigation](#).

Relationship As Hypothecator And Hypothecatee

The relationship between banker and customer converts into Hypothecator and Hypothecatee when the bank customer hypothecates some movable or immovable property or any other assets into the bank to take the loan from the bank. In this case, the bank customer is a hypothecator and the banker is Hypothecatee.

Special Relationship Between Banker And Customer

The duties and instruction to the banker come under a special Relationship between Banker and Customer.

Maintain Records

It is the duty of the banker to maintain every record of the transaction, loan and investment done by the bank customer. These records must be clear, genuine and authorized. The bank customer has the right to check his transaction details whenever he

needs them. In a case where the transaction details are needed, the banked has the duty to provide the true details to its customer with the stamp and signature of the authorized person. Any mistake in the records can bring the bank into trouble.

Maintain Confidentiality

A banker is responsible for the safety of the documents, records or any other property which is deposited by the bank customer in the bank. The information must remain confidential. Though there are some conditions when the banker can disclose these confidential documents saved in the bank account.

Obligation To Honour Cheques

The bank is responsible to accept the Cheque of the customer that is equivalent to the amount present in the account. There are some necessary conditions which must be fulfilled by the Cheque. Lack of these conditions can lead to the [dishonour of cheques](#). Some important conditions are:

- Proper format of the Cheque
- Correctly signed by the person
- Properly presented in the bank
- There must be an available balance in the bank account.

Termination Of Relationship Between The Banker And The Customer

The relationship between a banker and a customer can come to an end for a variety of reasons. Some of the most common reasons for the termination of this relationship include:

Liquidation Of The Company

The banker and customer relationship can be terminated at the time of:

- Liquidation of bank
- [Winding up of a company.](#)

Death Or Lunacy Of A Customer

If the bank customer dies and becomes a lunatic, the banker and customer relationship will terminate.

Completion Of Contract

It can be done if:

- The loan taken by the bank customer is repaid
- The [bank guarantee](#) has been completed

Closing The Account After Bank Notice

It is the right of the banker that if he found any illegal activity with the account or any other reasonable ground, the bank can close the account after giving proper notice to the customer.

Voluntary Closure Of Account

Customers may choose to close their accounts with a bank for a variety of reasons, such as moving to a different area, dissatisfaction with the bank's services, or finding a better deal elsewhere. Banks are typically obligated to close a customer's account if requested to do so, but they may require the customer to provide proper identification and settle any outstanding debts or fees.

Involuntary Closure Of Account

Banks may choose to close a customer's account if they suspect fraud or illegal activity, if the customer has violated the terms of their account agreement, or if the customer has not maintained the minimum balance required by the bank. Banks may also close accounts that have been inactive for a certain period of time. Customers should be notified of the bank's decision to close their account and given an explanation for the closure.

Termination By The Bank Due To Risk Assessment

Banks may terminate customer relationships in case of higher risk assessment for a customer for instance when the customer is involved in money laundering activities, financing terrorism, other illegal activities, violation of anti-bribery laws, sanctions or other laws, regulations, rules and guidance. Also, if the customer's information provided is inaccurate, false or incomplete, a relationship may be terminated.

Non-Compliance With KYC Or AML Regulations

Banks are required to comply with various regulations related to the identification and verification of their customers, as well as to monitor their transactions for any suspicious activity. Failure to comply with these regulations may result in the termination of the customer's account and possible legal consequences for the bank.

Bankruptcy Or Insolvency Of The Customer

If a customer declares bankruptcy or becomes insolvent, their accounts may be frozen and their assets may be used to pay off their debts. Banks may also be required to write off any outstanding loans or debts owed by the customer.

Merger Or Acquisition Of The Bank

If a bank is acquired by another bank, or if two banks merge, the accounts of the customers of the acquired or merged bank may be transferred to the acquiring or surviving bank. In such cases, customers may be given the option to close their accounts or to continue banking with the acquiring or surviving bank.

It's worth noting that, termination of a customer relationship can be initiated by either party, the customer or the bank. The termination process should follow a formal process and adequate notice should be given to the other party. The bank should also have a protocol to handle the customer's funds and assets after the termination of the relationship.

When a bank terminates a customer relationship, it may have an impact on the customer's credit score, and it can also limit the customer's access to banking services and financial products. Therefore, customers should be aware of the reasons why their accounts may be closed, and they should take steps to ensure that they are in compliance with all of the bank's terms and conditions to avoid any potential problems.

From the bank's perspective, the termination of customer relationships may lead to loss of revenue and reputation damage if not handled properly. Therefore, banks should ensure that they have a clear and transparent process for terminating customer relationships and that they follow all relevant laws and regulations related to customer identification, verification, and monitoring.

The relationship between a banker and a customer may come to an end for a variety of reasons, including voluntary or involuntary closure of the account, non-compliance with regulations, bankruptcy or insolvency of the customer

Conclusion

The relationship between a banker and a customer is a crucial one, as it involves the handling of important financial assets and the provision of financial services. The relationship can be understood as a principal-agent relationship, where the customer entrusts the bank or the banker with their money and other financial assets, and the bank or the banker acts on the customer's behalf to manage and invest those assets. Additionally, when collateral is involved, it can be viewed as a pledgee-pledger relationship where the customer pledge assets to secure a loan or line of credit and the bank holds the right to take possession of and sell pledged assets in the event of default.

The customer-banker relationship is built on trust and mutual understanding, and both parties have certain rights and obligations that they must adhere to. Banks have a fiduciary duty to act in the best interests of the customer and to use reasonable care, skill, and diligence in managing the customer's assets. Customers, on the other hand, have the right to access their accounts and financial information, to receive a fair and transparent service, and to be protected against fraud and other financial crimes.

However, the customer-banker relationship may come to an end for a variety of reasons. Customers may choose to close their accounts with a bank for a variety of reasons, such as moving to a different area, dissatisfaction with the bank's services, or finding a better deal elsewhere. Banks, on the other hand, may choose to close a customer's account if they suspect fraud or illegal activity, if the customer has violated the terms of their account agreement, or if the customer has not maintained the minimum balance required by the bank. Banks may also close accounts that have been inactive for a certain period of time. Additionally, termination of customer relationships may occur if the bank is acquired by another bank, if two banks merge, or if the customer declares bankruptcy or becomes insolvent.

It's important that the process of termination of a customer relationship should follow a formal process, adequate notice should be given to the other party, the customer or the bank, and the bank should have a protocol to handle the customer's funds and assets after the termination of the relationship.

In summary, the relationship between a banker and a customer is a vital one that is built on trust, mutual understanding and rights and obligations for both parties. It's a dynamic relationship that may evolve or come to an end. The termination process should be handled with care, transparency and in accordance with the legal requirements, to minimize the negative impact on the customers, banks, and the economy as a whole.

Due to the invasion of the internet, we use our bank accounts to make hundreds of transactions every month. The Internet is making a special bond in the relationship between bankers and customers. Now, we can take the help of an [E-contract](#) to take a loan