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COLLEGE OF ADMINISTRATION &
ECONOMIC
FINANCE & BANKING DEPARTMENT**

Banking Operations

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What is a Bank

- **Bank** is an institution which deals with money and credit. It accepts from the public, makes the funds available to those who need them, and helps in the remittance of money from one place to another.
- **Bank** is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.



How Do Banks Work?



You place your money in a savings account with your bank



The bank uses that money to lend to other people and businesses

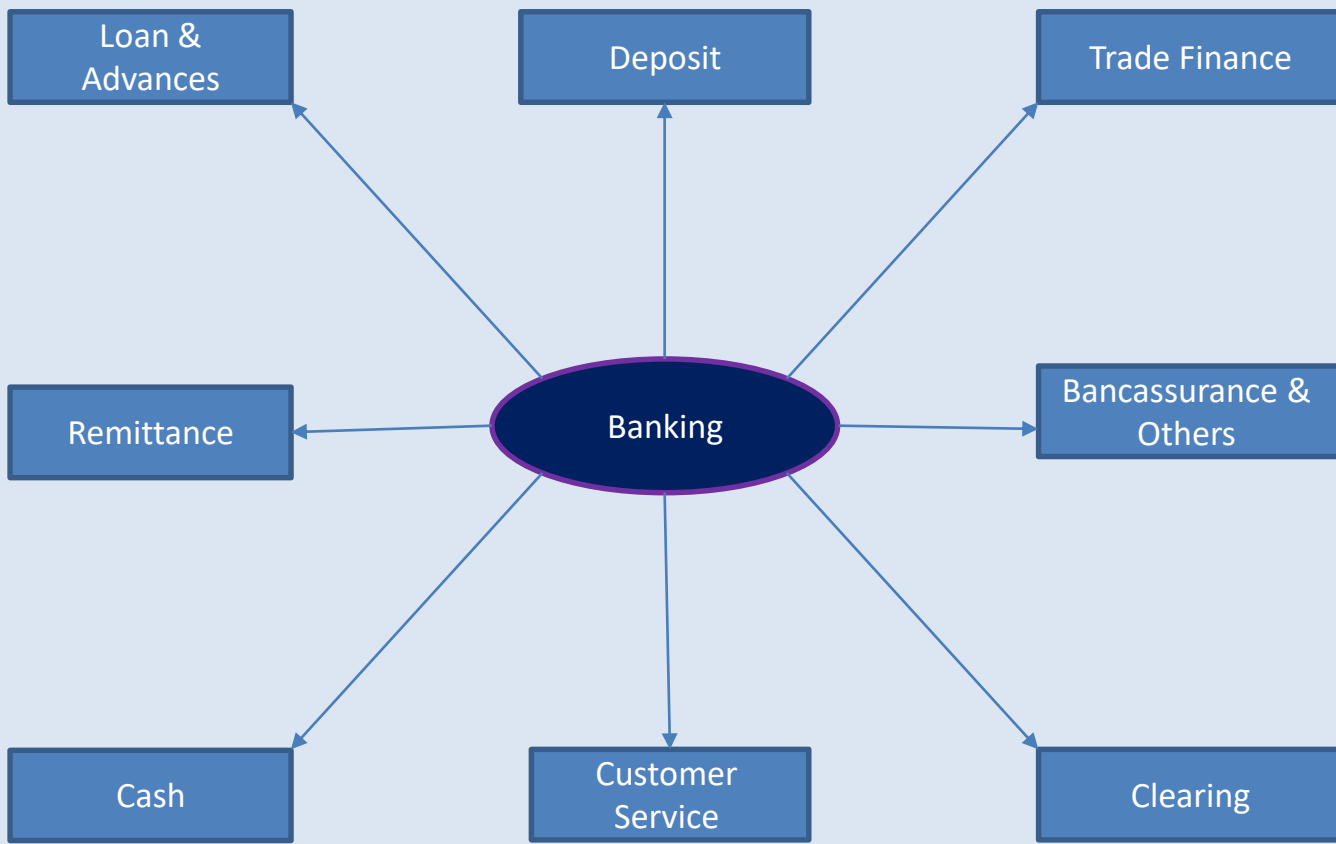


These people and businesses pay the bank interest for borrowing the money



The bank pays you interest for using your money to make the loans and keeps the difference

Pic Source: <https://www.fdic.gov/about/learn/learning/banks.html>



Banker & Customer

- **Banker** is a person doing the banking business is called banker. He must perform following essential functions such as receiving deposits of various kinds, lending money or creating credit, issuing cheques, honouring cheques and collecting cheques.
- **Customer** is a person who utilizes one or more of the services provided by the bank. Through customer the bank gets an opportunity to make earnings and banker provides services.



Customer

- A person can become a customer,
 - 1- If he opens any type of account fixed, current or savings with the bank.
 - 2- Such account may be frequently operated or not.
 - 3- The transaction between banker and customer should be of banking nature

Relationship between Bankers and Customer

- **General Relationship**

1- Debtor and Creditor

2- Pledger and Pledgee

3- Licensor and Licensee

4- Bailor and Bailee

5- Relationship of Hypothecator and Hypothecated

6- Trustee and Beneficiary

7- Agent and Principal

8- Advisor and Client

1- Relationship of Debtor and Creditor

- When a customer opens an account with a bank and if the account has a credit balance, then the relationship is that of debtor (banker / bank) and creditor (customer).
- In case of loan / advance accounts, banker is the creditor, and the customer is the debtor.

2- Relationship of Pledger and Pledgee

- This happens when customer pledges (promises) certain assets or security with the bank in order to get a loan. In this case, the customer becomes the Pledger, and the bank becomes the Pledgee.

3- Relationship of Licensor and Licensee

- when the banker gives a safe deposit locker to the customer. So, the banker will become the Licensor, and the customer will become the Licensee.

4- Relationship of Bailor and Bailee

Bailment is a contract for delivering goods by one party to another to be held in trust for a specific period and returned when the purpose is ended.

Bailor is the party that delivers property to another.

Bailee is the party to whom the property is delivered.

- when a customer gives a sealed box to the bank for safe keeping, the customer became the bailor, and the bank became the Bailee.

5- Relationship of Hypothecator and Hypothecatee

The customer hypothecates (pledges) certain movable or non-movable property or assets with the banker in order to get a loan. In this case, the customer became the Hypothecator, and the Banker became the Hypothecated.

6- Relationship of Trustee and Beneficiary

the customer deposits securities or valuables with the banker for safe custody, banker becomes a trustee of his customer. The customer is the beneficiary so the ownership remains with the customer.

7- Relationship of Agent and Principal

The banker acts as an agent of the customer (principal) by providing agency services (Buying and selling securities on his behalf, Collection of cheques, dividends, bills or promissory notes on his behalf) and performs many other functions such as payment of insurance premium, electricity and gas bills, handling tax problems, etc.

8- Relationship of Advisor and Client

the banker is an Advisor, and the customer is a Client

Relationship between Bankers and Customer

- **Special Relationship**

- A. Rights of a Banker**

- 1- Rights to lien

- 2- Rights to set-off

- 3- Rights to appropriate Payment

- 4- Right to charge interest, Commission, incidental charges

- 5- Right not to produce the books of accounts

- 6- Rights under Garnishee order

- A. Obligations of a banker**

1- Banker's right to lien

Lien is the right of one person to retain the property, in his possession, belonging to the other person, until the debt due from the owner of that property is repaid. or, it is the right exercised by the creditor over the property of debtor until the debt is repaid.

- The lien may be a **particular lien** or **general lien**.

2- Right to charge interest, commission, incidental charges, commitment charges.

(i) Interest: The banker has a right to charge interest on customer's loan account

(ii) Commission: the banker has an implied right to charge commission for the service he renders to the customers.

(iii) Incidental Charges: is a levy imposed by the banker on unremunerative current accounts. Again this is an implied right enjoyed by the banker.

iv) Commitment charges: this is a charge made by the banker on overdrafts and cash credit accounts.

3- Right to set off: A bankers' right to set off refers to the right of the banker to adjust the amount due to him from a customer on one account against the amount due from him to the customer on another account.

- **When to exercise the right of set-off**

- (1) By giving a prior notice to the customer

- (2) By obtaining a letter of set off from the customer when the customer opens more than one account.

- (3) By having the right of automatic set-off under certain circumstances.

- The banker gets the right of automatic set off under following circumstances.

- (1) On the death of the customer.

- (2) On the insolvency of the customer

- (3) On the insanity of the customer

- (4) On the receipt of a garnishee order attaching the customer`account.

Automatic set off refers to the right of a banker to adjust the debit and credit balances of two or more accounts held by a customer in the same name and right or capacity without obtaining any letter of set off from the customer or without giving him any previous notice.

Conditions to be satisfied for the exercise of the right of set-off by a banker

- (1) The debts must be mutual i.e., must be due between the same parties.
- (2) The right of set-off can be exercised only if the mutual debts are determined and certain in amount. (3) The right of set-off can be exercised if the customer's accounts are opened in the same name and capacity.
- (4) The right of set-off can be exercised only in respect of debts which are due and recoverable on the date of set-off
- (5) The right of set-off can be exercised by the banker only in the absence of an agreement to the contrary.

4- Right to appropriate Payments: When the customer raises more than one loan account, or holds more than one current account.

5- Right not to Produce Books of Accounts: The banker need not produce the original books of Accounts as evidence in the cases in which the banker is not a party. But when a banker is a party to the suit, the court can force the banker to produce the original records in support of his claim.

6- Right under Garnishee order:

A **garnishee order** is an order issued by the court, at the instance of judgment creditor to the garnishee first attaching the funds of the judgment debtor lying with the garnishee and later directing him to pay the same to the judgment creditor if he does not have any objection to do so.

OBLIGATIONS OF A BANKER (DUTIES)

- **Obligation to honour customer's cheques:**
- there is an obligation on the banker to honour the customer`s cheques as long as there are sufficient funds available in the customer`s account for meeting the cheques.
- **Conditions to be satisfied to honour the cheques of the customers:**
 - 1-Sufficient funds must be available.
 - 2-Funds must be properly applicable to the payment of the cheque.
 - 3-Banker must be duly required to pay the cheque.
 - 4-There must be no legal ban preventing the payment of cheque.
 - 5-No obligation to honour cheques drawn against the uncleared cheques or bills.

- **Obligation to maintain secrecy of customers account:**

the banker must not disclose the state of his customer of his affairs except on reasonable and proper occasion

- **Circumstances the banker is justified in disclosure:**

1-When there is an express consent of the customer

2-When he is compelled by the laws of the country

3-When he is under a public duty to disclose

4-When his own interest requires disclosure

5-When an enquiry is received from a fellow banker

KNOW YOUR CUSTOMER (KYC) GUIDELINES

These guidelines with the objectives of:

- Identifying depositors.
- controlling financial frauds.
- identifying money laundering and suspicious activities.
- monitoring of large value cash transactions.
- preventing misuse of banking system for committing frauds.

KYC Guidelines for new accounts:

- The banker must verify the identity of a customer while opening an account. The new customer while opening an account in a bank may give reference of an existing account holder or the person known to the bank as reference for his identification.
- The banker can also verify the identity of the customer on the basis of the documents, such as – passport, driving license etc. supplied by the new customer.

Bank Services

Services that a bank can offer to its customers are:

- savings and investment accounts
- lending facilities
- money transmission
- payment services
- share dealing and investment advice
 - executor and trustee services
- insurance and assurance
- travel facilities
- safe custody services.

Savings and investment accounts

- The rates of interest paid by banks will vary depending on:
 - 1-the balance maintained in the account
 - 2-how much notice the customer must give of their intention to withdraw their funds

Different between saving and investment account

1-Saving involves no risk to the capital that has been set aside by the saver, while investment carries the risk of loss of some or all of the capital

2-Savings pay interest, whereas investment returns are based on a number of factors, such as capital growth and dividends payable to shareholders.

Current Accounts

- The current account is a traditional type of account.
- Funds can easily be deposited into a current account and withdrawn just as easily.
- There is no minimum sum required to open an account and there are no limits on the amount that can be deposited or withdrawn at any time
- Funds were withdrawn from a current account by means of a cheque drawn by the customer.

Benefit of Current Account

- A major benefit of a current account is that it provides customers with a useful means of settling bills and accounts and allows the customer to go shopping, pay bills, purchase petrol, pay for holidays and large household or electrical items.
- Another feature of a current account is that it is possible to have an overdraft on the account.
- The main benefits of a current account are:
 - 1- ease of access
 - 2- a convenient method of payment
 - 3- security.

Current Accounts

Some of the services offered on a current account are:

- cash withdrawal card
- standing orders
- direct debits
- debit/payment card, such as Switch
- telephone banking
- internet banking

Other Accounts

- Fixed Deposit or time deposit account
- Demat Account
- Non-Resident External (NRE) account
- Non-Resident Ordinary (NRO) account
- Interest bearing current accounts
- Basic accounts
- High interest cheque accounts
- Individual savings accounts

Lending facilities

- Banks “borrow” funds from depositors which are then advanced to other customers.
- Some of the lending products are:
 - 1- Overdrafts
 - 2- Personal loans
 - 3- House purchase loans
 - 4- Equity release or capital release loans

Money transmission and payment services

- Money transmission is the transfer of money from one party to another by physical transfer of cash or by cheques
- the banks provide a number of payment services, which are:
 - 1- standing orders
 - 2- direct debits
 - 3- bank giro credits
 - 4- banker's drafts
 - 5- credit cards
 - 6- charge cards
 - 7- debit cards
 - 8- telephone banking
 - 9- internet services.

Share dealing services and advice

- banks have provided a range of services and **advice relating to investments** in products not offered by them. The buying and selling of shares, government stocks and unit trust units, and local authority loans, can all be arranged through branches. Banks may also offer **investment advice and manage portfolios** of investments through specialist departments and/or through subsidiaries.

Executor and trustee services

- An **executor** is someone who is appointed to ensure that the wishes of a deceased person, as set out in his or her will, are carried out.
- A **trustee** is a person who has been trusted to hold and administer property or assets for the benefit of others.

Insurance and assurance

- A number of banks have been associated with insurance and life assurance companies acting as agents for these companies.
- From the insurance company, in respect of loss or of damage to property, personal accident, loss of business profits, etc suffered by the insured.

Safe custody services

- It was the acceptance of items of value for safe keeping.
- Such items can be deposited in open envelopes, sealed packages or locked boxes, or safe deposit boxes or lockers may be available in some branches.

Thank You