PREMIUM STUDY EDITION

JAIIB — Junior Associate of the Indian Institute of Bankers

Principles & Practices of Banking

Module A — General Banking Operations

Concept Notes · Practice Questions · Answer Key with Explanations
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Principles & Practices of Banking — Module A: General Banking Operations (Notes)

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Every answer key in this series is programmatically verified, and content is audited unit-by-unit against the examination textbooks. If you spot an error, we will fix it in the next revision — write to **bankingwithswarnakshi@gmail.com** with the book name and page number.

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Corrigenda & Law Updates — July 2026

This page was added after the final pre-print review (July 2026). It records the points where a regulation changed after the underlying textbook was written, and any corrections to the printed text. Where an exam question is phrased 'as per current law/norms', use the positions below.

Unit 3 — Beneficial-owner thresholds (also the practice questions on BO)

The PML (Maintenance of Records) Rules (7-3-2023) and the RBI KYC Master Direction (28-4-2023) lowered the beneficial-owner threshold to **more than 10%** for companies (was 25%) and partnership firms (was 15%); trusts are also 10%. The 25%/15% figures and the related practice answers in this book reflect the textbook; for questions phrased 'as per current KYC/PMLA norms', use 10%.

Unit 5 — Nomination (also the practice questions on nominees)

Under the Banking Laws (Amendment) Act 2025 (Sections 10-13, effective **1-11-2025**), a depositor may appoint **up to FOUR nominees** — simultaneously (shares totalling 100%) or successively — for deposit accounts, articles in safe custody and safety lockers (lockers/safe custody: successive only). The practice questions in this book follow the textbook position (one nominee for a deposit, more than one for a locker); for questions phrased 'as per current law', use up to four nominees.

Spot anything else? Write to bankingwithswarnakshi@gmail.com with the book name and page number — every report is verified and fixed in the next revision.

UNIT 1 ★★★ EXAM WEIGHTAGE — HIGH-YIELD UNIT

Banker-Customer Relationship

Unit 1 · Banker-Customer Relationship In this unit we will understand what a bank is (the legal definition), who is called a customer, and how the various relationships between a bank and a customer (debtor-creditor, trustee, bailee-bailor, agent-principal, lessor-lessee, indemnifier-indemnified) are formed. We will then look at the bank's deposit products (demand, time, hybrid, NRI) and the services offered to customers/investors (merchant banking, lease finance, plastic money, remittance, government schemes, third-party products, safe custody). Throughout the unit we will add, alongside the book, the context of the latest RBI guidelines.

✦ **REMEMBER (Memory Aid)**

Exam angle: every JAIIB attempt brings 2–4 sure questions from this unit — mostly relationship-matching (who is debtor, who is creditor), BR Act definitions, and deposit/remittance products. The relationship table (1.8.1) is a must-memorise.

1.2 Requirements to be Called a 'Bank'

First it is essential to understand whom the law calls a bank. Not every company that takes money is a bank. A clear definition is given in the Banking Regulation Act, 1949.

❖ **DEFINITION — Banking [Sec. 5(b), BR Act 1949]**

'Banking' means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise. In simple terms: a bank takes deposits from the public and uses them for lending/investment — and this deposit can be withdrawn by cheque/draft/order.

Three essentials of the definition 1 Deposits only for lending & investment — a company that takes deposits for trading or manufacturing is not a bank.

2	The deposit must be from the public — therefore Nidhis, multi-benefit societies and
	co-operative societies that take deposits only from their own members do not fall within the ambit of a 'bank'.
3	The deposit must be in the form of money.
As per Sec. 5(c), a 'Banking Company' is a company that carries on the business of banking in	
India. Sec. 7(1) prohibits any non-banking company from using the words	
'bank/banker/banking company', and Sec. 7(2) prohibits any individual or firm from using	
these words too. It may be incorporated under the Companies Act 1956 or 2013.	

Four important judicial / legal points

Point	Explanation / Case
Moneylenders are NOT bankers	Moneylenders lend their own money; they are not a company. Kadiresan Chettiar vs. Ramanathan Chettiar (AIR 1927, Mad 438) — a moneylender lends his OWN money, a banker lends his customers'/depositors' money.
Deposit from the public	Mahalaxmi Bank Ltd. vs. Registrar of Companies — if a company gives loans to the public but does not take deposits from the public, it is not a banking company.
Purpose = lending/investment	An institution that takes deposits without a purpose, or for some other purpose (apart from lending/investment), is not a bank.
Repayable on demand or otherwise	The deposit should be repayable on demand or on expiry of the term — and can be withdrawn by cheque/draft/order.

Sec. 6: Other businesses permitted to a bank Sec. 6 of the BR Act permits banks to carry on certain other businesses besides deposit-lending:

- Discounting of bills; collection of cheques & bills; remittances
- Safe custody of articles; hiring out safe deposit lockers
- Foreign exchange transactions; Central/State Government transactions
- Issuing letters of credit (LC) and guarantees Nowadays banks also carry on these modern activities: Wealth

Management, Project Appraisal, third-party products (Mutual Funds, Life & General Insurance), Executor & Trustee services, Government tax collection, Franking of stamp duty, Securities Trading, Factoring, Venture Capital financing and Demat services.

✦ REMEMBER (Memory Aid)

Remember — the 3 conditions to be a bank (3 D's): Deposit from the public · for Deployment (lending/investment) · in the form of money. And to use the word 'bank' = a Sec. 7 licence is required.

MCQs — Requirements to be Called a Bank

Q1. In which section of which Act is the definition of 'Banking' given?

(a) Sec. 5
(b) of Banking Regulation Act, 1949
(c) Sec. 6 of Banking Regulation Act, 1949
(d) Sec. 2(fa) of PMLA, 2002

Correct Answer: (a) Sec. 5

Why correct: The core definition of banking (accepting deposits for lending/investment, repayable on demand, withdrawable by cheque) is in Sec. 5(b) of the BR Act 1949.
(b) is wrong — Sec. 6 lists a bank's other permitted businesses (discounting, remittance, lockers), not the definition
(c) is wrong — PMLA Sec. 2(fa) defines 'Beneficial Owner'
(d) is wrong — Sec. 5(c) of the BR Act defines 'Banking Company', and it is not a section of the Companies Act

Q2. Which of the following will NOT be treated as a 'bank'?

(a) A banking company that takes deposits from the public and lends
(b) A co-operative credit society (Nidhi) that takes deposits from its own members
(c) An RBI-licensed scheduled commercial bank
(d) A Small Finance Bank

Correct Answer: (b) A co-operative credit society (Nidhi) that takes deposits from its own members

Why correct: A condition to be a bank is that the deposit must be from the public. A Nidhi/co-operative society that takes deposits only from members falls outside this definition.
(a) is wrong — Taking deposits from the public and lending is the exact definition
(c) is wrong — A scheduled commercial bank is a licensed bank
(d) is wrong — An SFB is also an RBI-licensed bank that takes deposits from the public

Q3. 'A moneylender lends his own money but a banker lends the money of others' — in which case was this principle established?

(a) Mahalaxmi Bank Ltd. vs. Registrar of Companies
(b) Kadiresan Chettiar vs. Ramanathan Chettiar (AIR 1927)
(c) Subramanyan Pillai vs. Palai Central Bank
(d) Traders Bank Ltd. vs. S. Kalyan Singh

Correct Answer: (b) Kadiresan Chettiar vs. Ramanathan Chettiar (AIR 1927)

Why correct: It was in Kadiresan Chettiar vs. Ramanathan Chettiar (AIR 1927, Mad 438) that the court said a moneylender gives his own money while a banker gives the depositors' money.
(a) is wrong — The Mahalaxmi Bank case is about 'deposit from the public'
(c) is wrong — The Subramanyan Pillai case relates to the bank being a trustee (guarantee money)
(d) is wrong — The Traders Bank case relates to treating remittance as debtor-creditor

✓ QUICK CHECK

On which section of which Act is the bailee-bailor relationship based?

(a) Sec. 105 Transfer of Property Act
(b) Sec. 182 Indian Contract Act, 1872
(c) Sec. 148 Indian Contract Act, 1872
(d) Sec. 124 Indian Contract Act, 1872

Ans: (c) Sec. 148 Indian Contract Act, 1872 — Sec. 148 ICA defines bailment; in safe custody the bank is the bailee, the customer the bailor

1.3 Banker-Customer Relationship

What kind of relationship forms between a banker and a customer depends on what kind of service the bank is providing. First let us understand who a 'customer' is. 1.3.2 Who is a Customer? Interestingly, the word 'customer' is not defined in law. Generally, whoever has an account with a bank is a customer. Earlier judgments emphasised 'duration' (how long the dealing has gone on), but that view has now been abandoned.

View / Authority	Gist
	'To constitute a customer there must be some recognizable course
Sir John Paget (Duration	or habit of dealing.' — emphasis on duration. This has now been
Theory)	discarded.
Dr. Hart	'A customer is one who has an account with a banker or for whom a banker habitually undertakes to act as such.'
Central Bank of India vs. V.	A customer is one whose money the bank has accepted on the
Gopinathan Nair (Kerala HC,	footing that it will honour up to the credit balance — whether the
1979)	relation is short or long standing.

For KYC, a 'Customer' is a person or entity that: maintains an account / has a business relationship / undertakes a transaction; on whose behalf an account or transaction is held (i.e. the beneficial owner); the beneficiaries of transactions by professional intermediaries (stock brokers, CAs, solicitors); and any person whose high-value/one-off transaction (such as a wire transfer, a high-value DD) may pose a reputational risk for the bank.

❖ DEFINITION — Beneficial Owner [PMLA 2002, Sec. 2(fa)]

The individual who ultimately owns/controls a client, or on whose behalf a transaction is being conducted, including a person who exercises ultimate effective control over a juridical person.

A customer need not be a natural person — a firm, joint stock company, society, partnership firm or association of persons can also be a customer. As per Sec. 45-Z (Explanation) of the BR Act, 'customer' also includes a Government department and a corporation incorporated under any law. Since the relationship is contractual, any person competent to contract (under the Indian Contract Act) can open an account.

1.3.3 Debtor-Creditor (Bank = Debtor, Customer = Creditor)

When a customer deposits money in the bank, that money becomes the bank's and the bank becomes the debtor; the customer is the lender (creditor). A deposit is a debt. This is the most basic and primary relationship. The main features of this relationship: 1 The bank can use that money in its own way (the most beneficial way). 2 The customer has to make a demand — the bank does not pay voluntarily on its own. 3 The demand must be in the specified manner — through a cheque, draft, withdrawal form or order, during working hours, in writing. 4 The creditor (customer) does not get any security from the debtor (bank). 5 The law of limitation does not start until repayment is demanded — in both demand and fixed deposits.

> ⚠ **NOTE (Important / Caution)**
> Do not be misled: in everyday life a customer does not think of himself as the bank's 'lender', but legally, in the case of a deposit, customer = creditor and bank = debtor. The limitation period begins only after a demand is made — so an old FD/savings balance does not become 'time-barred' merely by the passage of time.

1.3.4 Creditor-Debtor (Bank = Creditor, Customer = Debtor)

When the bank gives a loan/advance to a customer, the roles now reverse: the customer is the borrower (debtor) and the bank is the lender (creditor). Lending is the bank's most important activity — the resources mobilised from deposits are used for lending. The borrower executes documents and offers security to the bank before using the credit facility.

> ✦ **REMEMBER (Memory Aid)**
> Remember (DC ↔ CD trick): 'Deposit → bank Debtor' (D for Deposit, D for Debtor-bank). 'Loan/Credit → bank Creditor' (C for Credit, C for Creditor-bank). Just remember this one line and the rest is clear.

Besides these two primary activities (deposit & loan), under the Sec. 6 services the bank sometimes also becomes a bailee, trustee, principal, agent, lessor or custodian — which we look at next. MCQs — Banker-Customer Relationship Basics

Q4. When you deposit Rs.50,000 into your savings account, which relationship forms between you and the bank?

(a) Bank creditor, customer debtor
(b) Bank debtor, customer creditor
(c) Bank trustee, customer beneficiary
(d) Bank agent, customer principal

Correct Answer: (b) Bank debtor, customer creditor

> **Why correct:** A deposit is a debt the bank has to repay — so the bank is the debtor and the customer is the creditor.
> (a) is wrong — This is the reverse — it forms when the bank gives the customer a loan
> (c) is wrong — A trustee relationship forms in funds/valuables kept for a specific purpose, not in a normal deposit
> (d) is wrong — An agent-principal relationship forms in services such as collection/standing instructions

Q5. When a bank sanctions a term loan to a corporate, the relationship is:

(a) Debtor (bank) – Creditor (customer)
(b) Creditor (bank) – Debtor (customer)
(c) Bailee – Bailor
(d) Trustee – Beneficiary

Correct Answer: (b) Creditor (bank) – Debtor (customer)

> **Why correct:** On giving a loan, the bank is the creditor and the borrower (customer) is the debtor. (Note: in the exam, read the order of 'creditor-debtor' and 'borrower-lender' carefully.)
> (a) is wrong — This is the deposit relationship, not the loan one
> (c) is wrong — Bailee-bailor forms in the safe custody of valuables
> (d) is wrong — Trustee-beneficiary forms in specific-purpose funds

Q6. Which statement about the debtor-creditor relationship (deposit) is WRONG?

(a) The bank can use the deposit in its own beneficial way
(b) The customer has to make a demand for payment
(c) The creditor (customer) gets security from the debtor (bank)
(d) Limitation does not start until a demand is made

Correct Answer: (c) The creditor (customer) gets security from the debtor (bank)

> **Why correct:** In the deposit relationship the customer (creditor) gets no security from the bank — so this statement is wrong (and therefore is the correct answer).
> (a) is wrong — Correct — the bank can freely deploy the funds
> (b) is wrong — Correct — the bank does not pay voluntarily; a demand is necessary
> (d) is wrong — Correct — the limitation clock does not start before a demand. 1.4–1.8 Other Special Relationships

✓ QUICK CHECK

Which old remittance product became redundant after the arrival of Core Banking?

(a) Mail Transfer (MT) / Telegraphic Transfer (TT)
(b) UPI
(c) IMPS
(d) NEFT

Ans: (a) Mail Transfer (MT) / Telegraphic Transfer (TT) — Old products such as DD, BC/PO, MT, TT became redundant after CBS; modern: NEFT/RTGS/IMPS/UPI/AePS/NACH

1.4 Bank as a Trustee

A trustee is a person/firm that holds & administers property/assets for the benefit of a third party (the beneficiary). A trustee has a fiduciary responsibility — to act in the best interest of the beneficiary. When a customer keeps valuables/securities with the bank for safe-keeping, or money for a specific purpose, the bank becomes a trustee along with being a bailee.

► EXAMPLE / ILLUSTRATION

Subramanyan Pillai & Others vs. Palai Central Bank Ltd. (AIR 1962 Ker 210): Some people deposited Rs.2,000 each with the bank as guarantee money to buy cars. The bank failed before the cars were delivered. The court held that the bank had acted as a trustee, and therefore this money should be refunded as a preferential debt. Another case: A customer remitted money to buy a company's shares. The bank bought some shares in part, but failed before the purchase was completed. Held — the bank was a trustee, and the remitter would get a refund of the unspent amount.

✓ QUICK CHECK

What does Sec. 5(c) of the BR Act define?

(a) Scheduled bank
(b) Banking
(c) Banking Company
(d) Demand deposit

Ans: (c) Banking Company — Sec. 5(c) defines 'Banking Company' — any company that carries on the business of banking in India

1.5 Bailee-Bailor (Bank = Bailee, Customer = Bailor)

When a customer keeps valuables, bonds, securities or documents with the bank for safe custody, the bank becomes a bailee (besides a trustee) and the customer a bailor. This happens on the terms of Sec. 148 of the Indian Contract Act, 1872. As a bailee, the bank becomes the custodian of the customer's securities and is liable for any loss arising from its negligence.

- Sec. 71 ICA — a finder of lost goods has to return to the true owner any increase in the goods/animals.
- Sec. 164 ICA — a finder has to take care of the goods like an 'ordinary prudent man'.

✓ QUICK CHECK

As per Sec. 45-Z (Explanation) of the BR Act, who is included in 'customer'?

(a) Only individuals
(b) Only partnership firms
(c) A Government department and a corporation incorporated under law
(d) Only NRIs

Ans: (c) A Government department and a corporation incorporated under law — The Explanation to Sec. 45-Z clarifies that a customer also includes a government department and a corporation incorporated under any law

1.6 Agent-Principal (Bank = Agent, Customer = Principal)

As per Sec. 182 of the Indian Contract Act 1872, a principal is one who delegates his authority to another (the agent). When the bank provides ancillary services on behalf of the customer — remittance, collection of cheques/bills, regularly paying electricity bill, telephone bill, insurance premium, club fees — the bank is the agent and the customer the principal. This agency relationship terminates on the customer's death, insolvency or lunacy, or on completion of the assigned work.

⚠ **NOTE (Important / Caution)**

Important exception: in the case of remittance, in theory the relation is one of agency, but in Traders Bank Ltd. vs. S. Kalyan Singh (AIR 1953, Punjab p.195) the High Court treated it as debtor-creditor. Therefore in the relationship table, 'Purchase of a draft' = Debtor (bank)/Creditor (customer).

✓ **QUICK CHECK**

In which NRI account can India income (rent, pension, dividend) be deposited?

(a) FCNR(B)
(b) NRO
(c) NRE
(d) Resident savings

Ans: (b) NRO — In an NRO account the NRI's India-source income is deposited; interest taxable, repatriation restricted

1.7 Lessor-Lessee (Bank = Lessor, Customer = Lessee)

Sec. 105 of the Transfer of Property Act deals with lease, lessor and lessee. A bank gives safe deposit lockers to customers on a lease basis — here the bank is the lessor (or licensor) and the customer the lessee (licensee). The bank is not liable for loss caused by natural calamities / Acts of God (earthquake, floods, lightning, thunderstorm) or by the customer's own fault.

❖ **DEFINITION — Locker liability — 100× annual rent**

If the loss of locker contents is due to fire, theft, burglary, dacoity, robbery, building collapse or the fraud of a bank employee (i.e. the bank's negligence/shortcoming), the bank's liability will be 100 times (100×) the prevailing annual rent of the locker. REMEMBER (Memory Aid) RBI's current rule (revised locker guidelines, w.e.f. 1 Jan 2022): the bank's maximum liability = 100 × the annual locker rent. The bank is not liable for Acts of God / the customer's own negligence. RBI gave banks phased deadlines to renew the new locker agreements (50% by Jun 2023, 75% by Sep 2023, 100% by Dec 2023). This figure is a favourite in the exam!

✓ **QUICK CHECK**

The purpose of an escrow account:

(a) Only NRI
(b) Conditional control over the use of funds in another party's account
(c) Foreign currency holding
(d) High interest

Ans: (b) Conditional control over the use of funds in another party's account — An escrow account is used when one party wants to keep control over the use of funds in an account in another party's name (until conditions are met)

1.8 Indemnifier-Indemnified (Bank = Indemnity Holder / Indemnified, Customer =

Indemnifier) Sec. 124 of the Indian Contract Act 1872 — a contract of indemnity is one in which one party promises to save the other from loss caused by its own conduct or that of someone else. In banking this happens when a duplicate demand draft or a duplicate FD receipt is issued — the customer availing the facility (indemnifier) promises to compensate the bank (indemnified) for any loss from a wrong/excess payment. 1.8.1 Banker-Customer Relationship Summarised This table is the most important exam asset of the whole unit — memorise it. For each transaction, the position of the bank and the customer:

Transaction	Bank	Customer
Deposit in the bank	Debtor	Creditor
Loan from bank	Creditor	Debtor
Safe custody	Bailee	Bailor
Locker	Lessor	Lessee
Collection of cheque	Agent	Principal
Purchase of a draft *	Debtor	Creditor
Payee of a draft	Trustee	Beneficiar y
Pledge	Pawnee (Pledgee)	Pawner (Pledger)
Mortgage	Mortgagee	Mortgagor
Standing instruction	Agent	Principal

Transaction	Bank	Customer
Sale/purchase of securities for customer	Agent	Principal
Money deposited, instructions not given for disposal	Trustee	Beneficiar y
Articles left by mistake	Trustee	Beneficiar y
Shares given for sale	Agent	Principal
Hypothecation	Hypothecatee	Hypothec ator

* As per the Punjab & Haryana High Court judgment in Traders Bank vs. Kalyan Singh, 1953.

✦ REMEMBER (Memory Aid)

Remember — do not confuse the Pledge: the bank (to whom the goods are pledged) = Pawnee / Pledgee; the customer (who gave the goods) = Pawner / Pledger. In a Mortgage the bank = Mortgagee, the customer = Mortgagor. Trick: the word with '-ee' is the receiver (the bank, because the bank receives the security).

MCQs — Special Relationships & Summary Table

Q7. The contents of a bank locker were destroyed by fire (due to the bank's shortcoming). As per RBI's current guidelines, what is the bank's maximum liability?

(a) 50 times the annual locker rent
(b) 100 times the annual locker rent
(c) Actual value of contents
(d) Liability is nil in all cases

Correct Answer: (b) 100 times the annual locker rent

Why correct: As per RBI's revised locker guidelines (w.e.f. 1 Jan 2022), for fire, theft, burglary, dacoity, robbery, building collapse or employee fraud, the bank's liability = 100 times the annual rent.

(a) is wrong — It is 100×, not 50×

(c) is wrong — The bank does not pay the actual value of contents (the bank does not know what was in the locker); the cap is 100× the rent

(d) is wrong — It is nil for Acts of God / customer negligence, but there is liability for the bank's own negligence

Q8. A customer keeps his shares with the bank for safe custody. The bank's role:

(a) Trustee & Bailee
(b) Agent only
(c) Lessor
(d) Debtor

Correct Answer: (a) Trustee & Bailee

Why correct: In safe custody the bank becomes a bailee (Sec.148 ICA), and being a specific-purpose custody also a trustee — the customer is the bailor/beneficiary.

(b) is wrong — An agent role arises in collection/standing-instruction services

(c) is wrong — A lessor role arises in a locker lease, not in safe custody

(d) is wrong — A debtor role arises on taking deposits (money), not in the custody of valuables

Q9. In a pledge transaction, what is the bank's position?

(a) Pawner / Pledger
(b) Pawnee / Pledgee
(c) Mortgagor
(d) Hypothecator

Correct Answer: (b) Pawnee / Pledgee

Why correct: In a pledge the goods are given to the bank as security, so the bank is the Pawnee (Pledgee) and the customer the Pawner (Pledger).

(a) is wrong — The Pawner/Pledger is the customer who gives the goods

(c) is wrong — The Mortgagor is the customer in a mortgage; the bank is the Mortgagee

(d) is wrong — The Hypothecator is the customer in hypothecation; the bank is the Hypothecatee

Q10. The bank collects a cheque in clearing — what relationship forms?

(a) Holder for value
(b) Agent and Principal
(c) Clearing member and principal
(d) Debtor and creditor

Correct Answer: (b) Agent and Principal

Why correct: In cheque collection the bank acts on behalf of the customer, so it is Agent (bank) – Principal (customer). (This is the exact 'Check Your Progress' question.)
(a) is wrong — 'Holder for value' arises when the bank has already given value for the cheque; in mere collection it is only an agent
(c) is wrong — No such standard relationship exists in this context
(d) is wrong — Debtor-creditor arises in deposit/loan, not in mere collection

Q11. When indemnity is given to the bank while issuing a duplicate demand draft, the customer's position is:

(a) Indemnified
(b) Indemnifier
(c) Trustee
(d) Beneficiary

Correct Answer: (b) Indemnifier

Why correct: Under Sec.124 ICA, the customer availing the facility is the indemnifier, who promises to save the bank (indemnified / indemnity-holder) from loss.
(a) is wrong — The indemnified is the bank (the one being protected)
(c) is wrong — A trustee role is not applicable here
(d) is wrong — A beneficiary arises in a draft/trust context, not in an indemnity context

✓ QUICK CHECK

In which section of which Act is the agency relationship defined?

(a) Sec. 5
(b) Sec. 124 ICA
(c) Sec. 182 Indian Contract Act, 1872
(d) Sec. 148 ICA

Ans: (c) Sec. 182 Indian Contract Act, 1872 — Sec. 182 ICA — a principal is one who delegates authority to an agent. In collection/SI/bill-payment the bank is the agent

1.9 Different Deposit Products or Services

Deposit products are financial products in which the client deposits funds (cash/digital) with the bank and earns a return according to the deposit type & duration. Broadly, deposits are of two kinds — Demand Deposits and Time Deposits.

Demand Deposits	Time (Term) Deposits
Payable on demand	Repaid after expiry of the deposit period
Low interest or no interest	Higher interest, varies according to the period
Include current, savings, overdue & unclaimed	Period from 7 days to 120 months (with/without
deposits	reinvestment plans)

1.9.2 Demand Deposits Demand deposits are of two kinds:

- Current Deposits — working funds of businesses; fluctuate widely; no interest is paid on them.
- Savings Deposits — to develop the savings habit and for regular transactions; interest is paid; less volatile than current. 1.9.3 Time (Term) Deposits Term Deposits (TD) are meant to invest surplus funds over the short-to-long term. Their distinguishing parameters: (i) the mode of interest payment — periodical or cumulative; (ii) the mode of investment — lump sum or instalment; (iii) the mode of return of principal — at maturity or in instalments. Types of TD: 1 Fixed Deposits (FD) — periodical interest payment. 2 Short-term Deposits — for less than one year. 3 Reinvestment Deposit Scheme — cumulative interest, paid at maturity. 4 Recurring Deposit (RD) — periodical (monthly) deposits made. 5 Flexi Recurring Deposit — a special flexible type of RD. 1.9.4 Hybrid / Flexi Deposits These are a combination of demand + fixed deposit — introduced to give the customer flexibility (such as an auto-sweep of savings/current into an FD, and an auto-reverse when needed). Best of both: liquidity + higher FD interest. 1.9.5 Deposit Products for Non-Resident Indians (NRIs) Banks offer special accounts for NRIs, Persons of Indian Origin (PIO) and Overseas Citizens of India (OCI). The three main accounts:

	NRE (Non-Resident	NRO (Non-Resident
Feature	External)	FCNR(B) Ordinary)
Currency held in	Indian Rupees	Foreign currency (USD, Indian Rupees GBP, EUR, etc.)
Source of funds	Foreign income only	Indian + foreign income Foreign income only (rent, pension, dividend)
		Restricted
Repatriation		(current-income interest
(taking money	Freely repatriable (P+I)	Freely repatriable (P+I) repatriable; principal up
back)		to USD 1 mn/yr)
Interest taxable in	Tax-free	Taxable Tax-free
India?		
Type of accounts	Savings/Current/RD/FD	Term deposit only (1 to Savings/Current/RD/FD 5 years)
Exchange-rate risk	On account holder (held in INR)	On account holder (held On bank (held in forex) in INR)

✦ REMEMBER (Memory Aid)

Remember (NRE vs NRO vs FCNR): NRE = foreign earnings, in INR, fully repatriable + tax-free. NRO = for India income (rent/pension), repatriation restricted, interest taxable. FCNR(B) = held in foreign currency itself (avoiding exchange-risk), term deposit only 1–5 years. NOTE (Important / Caution) Note: the book does not have detailed rules for NRI deposits (these come in detail in Unit 5). The repatriation/tax/tenure details given above are added from current RBI FEMA practice — for the exam, the difference between NRE (tax-free, repatriable) vs NRO (taxable, restricted) is asked the most.

MCQs — Deposit Products

Q12. What is the period range of term deposits as per the book?

(a) 7 days to 36 months
(b) 15 days to 60 months
(c) 7 days to 120 months
(d) 1 month to 240 months

Correct Answer: (c) 7 days to 120 months

Why correct: As per the book, time deposits are for 7 days to 120 months (10 years), with or without reinvestment plans.
(a) is wrong — The upper limit is 120 months, not 36
(b) is wrong — The lower limit is 7 days, not 15
(d) is wrong — The range is 7 days–120 months

Q13. On which deposit is generally no interest paid?

(a) Savings deposit
(b) Current deposit
(c) Recurring deposit
(d) Fixed deposit

Correct Answer: (b) Current deposit

Why correct: A current deposit is for the working funds of businesses which fluctuate widely — no interest is paid on it.
(a) is wrong — Interest is paid on a savings deposit
(c) is wrong — An RD is a term deposit on which interest is paid
(d) is wrong — Interest is of course paid on an FD

Q14. An NRI wants to keep his foreign salary in India in an account where both principal & interest are fully repatriable and the interest is tax-free. Best option:

(a) NRO Savings Account
(b) NRE Account
(c) Resident Savings Account
(d) Current Account

Correct Answer: (b) NRE Account

Why correct: In an NRE account, foreign income is held in INR, P+I is fully repatriable, and interest is tax-free.
(a) is wrong — In an NRO, interest is taxable and principal repatriation is restricted
(c) is wrong — A resident account is not allowed for an NRI (a FEMA violation)
(d) is wrong — A current account does not give interest and the repatriation/tax benefit is not mentioned

Q15. What is special about the Reinvestment Deposit Scheme?

(a) Interest is paid every month
(b) Cumulative interest is paid at maturity
(c) Principal is returned every month
(d) It is a demand deposit

Correct Answer: (b) Cumulative interest is paid at maturity

Why correct: In the Reinvestment Deposit Scheme the interest is compounded and paid cumulatively at maturity — no payout in between.
(a) is wrong — A periodical (monthly) payout happens in an FD/regular-interest scheme
(c) is wrong — The principal is received at maturity, not monthly
(d) is wrong — This is a time (term) deposit, not a demand deposit

✓ QUICK CHECK

On 'Money deposited but instructions not given for disposal', the bank is:

(a) Trustee
(b) Lessor
(c) Debtor
(d) Agent

Ans: (a) Trustee — On money kept without disposal instructions the bank is the Trustee, the customer the Beneficiary

1.10 Services to Customers and Investors

Besides deposit-loan, banks offer several other financial services that meet the needs of customers/investors and increase fee/commission income for the bank. 1.10.1 Merchant Banking Merchant bankers are financial intermediaries that help transfer capital from owners (investors/bond subscribers) to users (corporates/governments). They help a company in an IPO (Initial Public Offering) or FPO (Follow-on Public Offer) — a public issue or a private placement of debt/equity. The tasks of merchant bankers: obtaining clearances from SEBI/stock exchanges (BSE, NSE)/Registrar of Companies; SEBI approval for the prospectus; planning & timing of the IPO/FPO; underwriting; selecting principal/sub-brokers and lead/sub book-runners; choosing the Registrar to the issue; selecting bankers to the issue; advertising/road shows; printing & distributing the prospectus; the application for listing on the stock exchange; and monitoring & reporting the progress of the offer. 1.10.2 Lease Financing Here an institution (the Lessor — which may be a bank) lets another company (the Lessee) use its capital assets against a monthly rent. The Lessor remains the owner of the asset but does not use it; it can write off depreciation on the asset. The Lessee uses the asset but does not become the owner; the lease charges are a revenue expense for it.

Advantages to the Lessee	Disadvantages to the Lessee
Use of the asset without capital cost — cost of	Ownership of the asset lies with the lessor, not
capital is saved	the lessee
Lease rentals are a business revenue expense —	The asset is only for the agreed business purpose
less profit & tax	— no alternative use
No capital cost, so no impact on the liability side	On breach of terms the lessor can
of the balance sheet	confiscate/repossess the asset
Creditworthiness stays higher — and borrowing is	If the lessor becomes insolvent/liquidated, the
easier	liquidator can attach the asset

1.10.3 Plastic Money Plastic money (cards) has greatly reduced the need for cash. Types:

Card type	Key point
Charge Card	The entire outstanding has to be paid in full on the statement; no interest; usually no preset limit; high annual fee; a late fee on delayed payment.
Credit Card	Purchases up to a sanctioned credit limit; option of part-payment on the due date (in a charge card full payment is compulsory).
Debit Card	The transaction amount is immediately debited from the savings/current account.
ATM Card	For cash withdrawal by savings/current holders; today the debit card itself is used like an ATM card.
Prepaid Card	A pre-loaded amount; can be given to a third person too; from some, ATM cash can also be withdrawn.
Co-branded Card	A partnership of a retailer + a card issuer/network; both logos; rewards/discounts at the sponsoring merchant.

✦ REMEMBER (Memory Aid)

Remember — Charge vs Credit card: Charge card = full payment compulsory (no part-pay, often no preset limit). Credit card = part-payment allowed (revolving credit). Debit card = immediately deducts money from your own account (no credit).

1.10.4 Electronic Cards / Payment Services The financial sector has become technology-based and smartphones have become common — so electronic payment instruments (mobile wallet, tokenised/virtual cards) have arrived. Now many cards are also issued in electronic form. 1.10.5 Remittance Services Earlier banks used DD, Banker's Cheque / Pay Order, Mail Transfer (MT), Telegraphic Transfer (TT) for funds transfer. With the arrival of the Core Banking System these became largely redundant. Today's technology-based remittance products:

Product	Full form / Use
NEFT	National Electronic Funds Transfer — batch/near-real-time, available 24×7
RTGS	Real Time Gross Settlement — large-value, real-time (generally Rs.2 lakh & above), 24×7
IMPS	Immediate Payment Service — instant, 24×7 (NPCI)
UPI	Unified Payments Interface — instant mobile-based (NPCI)
AePS	Aadhaar Enabled Payment System — Aadhaar + biometric based
NACH	National Automated Clearing House — bulk repetitive (salary, dividend, EMI, subsidy)

⚠ NOTE (Important / Caution)

Current context: NEFT and RTGS are both now available 24×7×365 (NEFT since Dec 2019, RTGS since Dec 2020). RTGS is for large-value (min Rs.2 lakh); NEFT has no minimum/maximum limit. These details are not in the Unit 1 book, but are important for the exam and in practice.

1.10.6 Government Schemes Banks are distribution points for several Government Schemes (financial inclusion + safe investment + commission income). Prominent schemes:

- PPF (Public Provident Fund), NPS (National Pension System)
- Capital Gains Account Scheme 1988 (CGAS), SCSS (Senior Citizens Savings Scheme)
- Sukanya Samriddhi Account Scheme, 2019; RBI Bonds (Floating Rate Savings Bonds)
- Gold Monetisation Scheme 2015; Sovereign Gold Bond (SGB); Nominated Agency for Gold Imports
- Atal Pension Yojana; PM Vaya Vandana Yojana (PMVVY); PM Suraksha Bima Yojana (PMSBY)
- Stand Up India Scheme; Pradhan Mantri Jan Dhan Yojana (PMJDY)

1.10.7 Third Party Products Sale To provide a one-stop service, banks — taking advantage of regulatory relaxations — sell third-party financial products (mostly capital market & insurance) for extra revenue + service to the customer in one place:

- Demat Account — a tie-up with a Depository Participant (DP) (some banks are themselves registered as DPs)
- Trading Account — a tie-up with a stock broker
- Three-in-One Account — Demat + Trading + Savings/Current linked
- Mutual Funds — a tie-up with an AMC; Life Insurance — a tie-up with a life insurer
- Health Insurance & General Insurance (vehicle, house, etc.) — a tie-up with an insurer (bancassurance)

1.10.8 Safe Custody / Trusteeship Services There is a lot of public trust in banks — it is on this confidence that these services are offered:

- Safe Custody of articles/documents
- Hiring out Safe Deposit Lockers for valuables (ornaments, gold, docs)
- Escrow Account — when one party wants to keep control over the use of funds in an account in another party's name
- Escrow Services for Documents — joint control over a document until conditions are met
- Trusteeship — handling certain funds/assets
- Executorship — executing customers' wills

MCQs — Services to Customers & Investors

Q16. Which best describes merchant bankers?

(a) Financial brokers only
(b) Financial intermediaries
(c) Credit appraisers only
(d) Deposit collectors

Correct Answer: (b) Financial intermediaries

> **Why correct:** Merchant bankers are financial intermediaries that transfer capital from owners to users and help in IPO/FPO. (Exact 'Check Your Progress' answer.)
> (a) is wrong — Broking may be one of their tasks, but the definition is that of an intermediary
> (c) is wrong — Credit appraisal is a lending function, not the core identity of merchant banking
> (d) is wrong — Deposit collection is the work of commercial banking, not merchant banking

Q17. What is the basic difference between a charge card and a credit card?

(a) A charge card carries interest, a credit card does not
(b) In a charge card the entire outstanding has to be paid in full; in a credit card part-payment is allowed
(c) A credit card is only for ATM cash
(d) There is no difference between the two

Correct Answer: (b) In a charge card the entire outstanding has to be paid in full; in a credit card part-payment is allowed

> **Why correct:** In a charge card the entire amount must be paid in full on the statement; in a credit card there is an option of part-payment on the due date (revolving credit).
> (a) is wrong — The reverse — in a charge card there is no carry-forward; interest is charged on revolving credit (the credit card)
> (c) is wrong — Cash withdrawal is a feature of some cards; this is not the charge-vs-credit difference
> (d) is wrong — There is a clear difference (the part-payment option)

Q18. Which statement about the lessee in lease financing is correct?

(a) The lessee becomes the owner of the asset
(b) The lessee claims depreciation
(c) The lessee books the lease rentals as a revenue expense
(d) The lessee is free to use the asset for alternative purposes

Correct Answer: (c) The lessee books the lease rentals as a revenue expense

> **Why correct:** The lessee books the lease rentals as a revenue expense (less profit & tax) — and does not become the owner of the asset.
> (a) is wrong — Ownership stays with the lessor; the lessee does not become the owner
> (b) is wrong — Depreciation is claimed by the lessor (owner), not the lessee
> (d) is wrong — The asset can be used only for the agreed business purpose, not for alternative use

Q19. Which of the following is NOT a technology-based remittance product?

(a) NEFT
(b) RTGS
(c) Telegraphic Transfer (TT)
(d) IMPS

Correct Answer: (c) Telegraphic Transfer (TT)

> **Why correct:** TT (Telegraphic Transfer) is an old remittance product that became redundant after the arrival of Core Banking. NEFT/RTGS/IMPS are new technology-based products.
> (a) is wrong — NEFT is a modern electronic transfer
> (b) is wrong — RTGS is a real-time large-value modern system
> (d) is wrong — IMPS is an instant 24×7 NPCI product

Q20. Which combination does a 'Three-in-One Account' link?

(a) Savings + RD + FD
(b) Demat + Trading + Savings/Current
(c) Current + Loan + Locker
(d) PPF + NPS + Insurance

Correct Answer: (b) Demat + Trading + Savings/Current

> **Why correct:** A Three-in-One account links Demat + Trading + Savings/Current — for seamless investing.
> (a) is wrong — These are all deposit products, not three-in-one
> (c) is wrong — This is not the standard three-in-one combination
> (d) is wrong — These are government/insurance schemes, not a brokerage account

Q21. What is the primary purpose of an escrow account?

(a) To give high interest
(b) To keep control over the use of funds in an account in another party's name
(c) To hold a deposit in foreign currency
(d) To open an account only for NRIs

Correct Answer: (b) To keep control over the use of funds in an account in another party's name

> **Why correct:** An escrow account is used when one party wants to exercise control over the use of funds in an account in another party's name (until conditions are met).
> (a) is wrong — The purpose of escrow is not interest but conditional control
> (c) is wrong — Holding foreign currency is a feature of FCNR
> (d) is wrong — Escrow can be for any party, not only NRIs. 1.11–1.12 Let Us Sum Up & Keywords Quick recap: 'Banking' was defined by the BR Act — taking deposits from the public for lending/investment. 'Customer' is not defined in law, but for KYC is a person with an account/business-relationship/transaction. The primary relation = debtor-creditor (deposit). Other relations: creditor-debtor (loan), bailee-bailor (safe custody), agent-principal (collection/SI), lessor-lessee (locker),

trustee-beneficiary, indemnifier-indemnified. Deposits = demand (current/savings) + time

(FD/RD/short-term/reinvestment). Services = merchant banking, lease finance, plastic money, e-payments, remittance (NEFT/RTGS/IMPS/AePS), government schemes, third-party products, safe custody.

> **❖ DEFINITION — Keywords**
> Creditor, Debtor, Bailor, Bailee, Lessor, Lessee, Trustee, Principal, Agent, Indemnifier, Indemnified, Demand Deposits, Time Deposits, Hybrid Deposits, TDS, Recurring Deposits, Merchant Banking, IPO, Public Issue, Underwriting, Listing of Shares, Lease Financing, Credit/Debit/ATM/Pre-paid Card, NEFT, RTGS, IMPS, AePS, NPS, SCSS, Gold Monetisation Scheme, Sovereign Gold Bond, Three-in-one account.

Mixed Revision MCQs (Exam-style)

Q22. The principal function(s) of a bank is/are:

(a) Accepting deposits
(b) Lending and investing
(c) Non-fund business & remittance services
(d) All of the above

Correct Answer: (d) All of the above

> **Why correct:** Banks accept deposits, lend/invest, and also provide non-fund + remittance services — therefore all of the above. (Exact CYP answer.)
> (a) is wrong — Correct, but alone it is not complete
> (b) is wrong — Also correct, but alone it is not complete
> (c) is wrong — This too is a function, but alone it is not the complete answer

Q23. Demand deposits are those that can be withdrawn:

(a) On request
(b) On sanction by Manager
(c) On demand
(d) On persuasion

Correct Answer: (c) On demand

> **Why correct:** Demand deposits are by definition payable on demand. (Exact CYP answer — 'on request' is a trap.)
> (a) is wrong — 'On request' is a close distractor, but the technical term is 'on demand'
> (b) is wrong — The Manager's sanction is not required
> (d) is wrong — Persuasion has no role

Q24. When a bank lends money to a corporate person, the relationship is:

(a) Borrower and lender
(b) Creditor-debtor
(c) Debtor-creditor
(d) Customer and client

Correct Answer: (b) Creditor-debtor

> **Why correct:** In lending the bank is the creditor and the customer the debtor — therefore 'creditor-debtor' (bank first). (Exact CYP answer; the order is important.)
> (a) is wrong — The concept is right but the exam treats the 'creditor-debtor' option as correct
> (c) is wrong — 'Debtor-creditor' is the deposit relation, the reverse of a loan
> (d) is wrong — Customer-client is generic, not the specific lending relation

Q25. As per Sec. 45-Z (Explanation) of the BR Act, 'customer' includes:

(a) Only natural persons
(b) A Government department and a corporation incorporated under law
(c) Only companies registered under the Companies Act
(d) Only account holders with a 6-month relationship

Correct Answer: (b) A Government department and a corporation incorporated under law

> **Why correct:** The Explanation to Sec. 45-Z clarifies that 'customer' also includes a Government department and a corporation incorporated under any law — a customer need not be a natural person.
> (a) is wrong — A firm/company/society/AOP can also be a customer — a natural person is not required
> (c) is wrong — Besides companies, government departments and corporations are also included
> (d) is wrong — The duration theory has been discarded — a 6-month relation is not required. Sources & Verification Banking Regulation Act 1949; Indian Contract Act 1872; Transfer of Property Act; PMLA 2002; RBI revised locker guidelines (w.e.f. 1 Jan 2022, banks' liability = 100× annual rent); RBI/NPCI remittance (NEFT/RTGS 24×7) circulars; IIBF JAIIB PPB syllabus. NRI deposit & remittance details supplemented from current RBI/FEMA practice

✓ QUICK CHECK

In the case of 'Payee of a draft', the bank is:

(a) Agent (b) Lessor
(c) Trustee (d) Debtor

Ans: (c) Trustee — In 'payee of a draft' the bank is the Trustee, the customer the Beneficiary

Practice Questions

Q1. Which of the following is a government/small-savings scheme that banks distribute? [Easy]
(a) Sukanya Samriddhi Account Scheme
(b) Co-branded card
(c) Telegraphic Transfer
(d) Hypothecation

Q2. The relationship between a customer taking a car loan and the bank: [Easy]
(a) Debtor (bank) – Creditor (customer)
(b) Bailee – Bailor
(c) Agent – Principal
(d) Creditor (bank) – Debtor (customer)

Q3. What are merchant bankers basically? [Easy]
(a) Financial intermediaries
(b) Moneylenders
(c) Auditors
(d) Financial brokers

Q4. On a deposit in a savings account, the bank's position is: [Easy]
(a) Creditor
(b) Agent
(c) Trustee
(d) Debtor

Q5. With whom does a bank tie up to give a Demat account? [Moderate]
(a) Mutual fund AMC
(b) Stock broker
(c) Insurance company
(d) Depository Participant (DP)

Q6. The correct statement about the lessor (bank) in lease financing: [Moderate]
(a) The lessor is the owner of the asset and can write off depreciation
(b) The lessor is not the owner of the asset
(c) The lessor treats the lease rental as a revenue expense
(d) The lessor uses the asset

Q7. In hypothecation, the bank is: [Moderate]
(a) Hypothecatee
(b) Lessee
(c) Hypothecator
(d) Pledger

Q8. When does the agency relationship terminate? [Moderate]
(a) It never terminates
(b) Only on the bank's decision
(c) On the customer's death, insolvency or lunacy, or on completion of the work
(d) Only on an RBI order

Q9. On 'Shares given for sale', the bank is: [Moderate]
(a) Bailee
(b) Agent
(c) Trustee
(d) Debtor

Q10. The correct statement about an NRE account: [Moderate]

(a) Only for residents
(b) Only in foreign currency
(c) Foreign income, in INR, fully repatriable and interest tax-free
(d) Interest is taxable and repatriation restricted

Q11. The period range of time deposits as per the book: [Moderate]

(a) 1 year – 10 years
(b) 7 days – 120 months
(c) 1 month – 60 months
(d) 15 days – 36 months

Q12. When does a bank become a trustee? [Moderate]

(a) When it takes a normal savings deposit
(b) When it gives a loan
(c) When it keeps money/valuables for a specific purpose (such as guarantee money)
(d) When it gives a locker

Q13. As per Traders Bank Ltd. vs. S. Kalyan Singh (1953), the relationship in a remittance (draft purchase) is: [Hard]

(a) Debtor-Creditor
(b) Lessor-Lessee
(c) Trustee-Beneficiary
(d) Agent-Principal

Q14. The Subramanyan Pillai vs. Palai Central Bank case relates to which relationship? [Hard]

(a) Lessor-Lessee
(b) Debtor-Creditor
(c) Trustee-Beneficiary
(d) Agent-Principal

Q15. The basic difference between safe custody and a locker: [Hard]

(a) Both are the same
(b) In a locker the bank is the bailee
(c) In safe custody there is a lessor-lessee relation
(d) Safe custody = the bank is the custodian/bailee of articles; a locker = space on a lease basis (lessor-lessee), contents unknown to the bank

Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	A	2	D	3	A	4	D	5	D	6	A	7	A	8	C
9	B	10	C	11	B	12	C	13	A	14	C	15	D		

Answers & Explanations

Q1. Ans: (a) Sukanya Samriddhi Account Scheme

Why: Sukanya Samriddhi, PPF, NPS, SCSS, SGB, APY, PMJDY, etc. are government schemes that banks distribute
(b) — A co-branded card is a plastic-money product
(c) — TT is an old remittance product
(d) — Hypothecation is a charge/security

Q2. Ans: (d) Creditor (bank) – Debtor (customer)

Why: On giving a loan the bank is the creditor, the customer the debtor — the borrower executes documents and gives security
(a) — This is the deposit relationship
(b) — Bailee-bailor is in safe custody
(c) — Agent-principal is in collection

Q3. Ans: (a) Financial intermediaries
Why: Merchant bankers are financial intermediaries — transferring capital from owners to users; helping in IPO/FPO
(b) — Not moneylenders
(c) — Not auditors
(d) — Broking may be one task, but the identity is that of an intermediary

Q4. Ans: (d) Debtor
Why: A deposit is a debt — the bank is the debtor, the customer the creditor
(a) — The creditor is the customer in a deposit
(b) — An agent role is in collection/SI services
(c) — A trustee role is in specific-purpose funds

Q5. Ans: (d) Depository Participant (DP)
Why: For a Demat account the bank ties up with a Depository Participant (DP) (some banks are themselves registered as DPs)
(a) — An AMC is for a mutual fund
(b) — A stock broker is for a trading account
(c) — An insurance company is for insurance

Q6. Ans: (a) The lessor is the owner of the asset and can write off depreciation
Why: The lessor is the owner of the asset (does not use it) and can claim depreciation
(b) — The lessor is the owner
(c) — The lease rental is a revenue expense for the lessee
(d) — The asset is used by the lessee

Q7. Ans: (a) Hypothecatee
Why: In hypothecation the bank is the Hypothecatee, the customer the Hypothecator (movable goods, possession with the customer)
(b) — The Lessee is the customer in a locker
(c) — The Hypothecator is the customer
(d) — The Pledger is the customer in a pledge

Q8. Ans: (c) On the customer's death, insolvency or lunacy, or on completion of the work
Why: Agency terminates on the customer's death/insolvency/lunacy or on completion of the assigned work
(a) — It can terminate
(b) — Not only on the bank's decision
(d) — An RBI order is not relevant in this context

Q9. Ans: (b) Agent
Why: On giving shares for sale the bank is the Agent, the customer the Principal
(a) — Bailee is in mere custody
(c) — Trustee is in specific funds/mistake
(d) — Debtor is in a deposit

Q10. Ans: (c) Foreign income, in INR, fully repatriable and interest tax-free
Why: NRE = foreign income in INR, P+I fully repatriable, interest tax-free
(a) — For NRIs, not for residents
(b) — Foreign currency is in FCNR
(d) — This is a feature of NRO

Q11. Ans: (b) 7 days – 120 months
Why: Book: time deposits from 7 days to 120 months (10 years)
(a) — The lower limit is 7 days, not 1 year
(c) — The lower is 7 days
(d) — The upper is 120 months

Q12. Ans: (c) When it keeps money/valuables for a specific purpose (such as guarantee money)
Why: In funds/valuables kept for a specific purpose, the bank becomes a trustee and the customer a beneficiary
(a) — A normal deposit is debtor-creditor
(b) — A loan is creditor-debtor
(d) — A locker is lessor-lessee

Q13. Ans: (a) Debtor-Creditor
Why: In theory agency, but the court treated remittance/draft-purchase as debtor-creditor — so in the table 'Purchase of a draft' = Debtor(bank)/Creditor(customer)
(b) — Lessor-lessee is in a locker
(c) — Trustee-beneficiary is in 'payee of a draft'
(d) — Theoretically agency, but the judgment treated it as debtor-creditor

Q14. Ans: (c) Trustee-Beneficiary

Why: On keeping car-purchase guarantee money, the bank was treated as a trustee; on the bank's failure this is refundable as a preferential debt

(a) — Lessor-lessee is in a locker

(b) — Debtor-creditor is in a normal deposit

(d) — Agent-principal is in collection/SI

Q15. Ans: (d) Safe custody = the bank is the custodian/bailee of articles; a locker = space on a lease basis (lessor-lessee), contents unknown to the bank

Why: In safe custody the bank is the custodian (bailee/trustee) of articles. In a locker the bank only gives space on a lease (lessor-lessee); the contents are not known to the bank

(a) — Not the same

(b) — In a locker it is lessor-lessee, not a bailee

(c) — In safe custody it is a bailee/trustee, not lessor-lessee. Verification All topics covered with an Easy/Moderate/Hard mix.
Verification: BR Act 1949; Indian Contract Act 1872; Transfer of Property Act; PMLA 2002; RBI revised locker guidelines (100× annual rent, w.e.f. 1 Jan 2022); RBI/NPCI remittance circulars; IIBF JAIIB PPB syllabus

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