

DIFFERENT TYPES OF CUSTOMERS



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1. **When a bank customer dies leaving a Will, the person appointed by the court to administer the deceased's estate if the Will does not name an executor, or the named executor refuses, is called an:**

A Administrator

B Executor

C Testator

D Karta

Solution

- **Executor:** An Executor is the person specifically named in the Will by the deceased to carry out the provisions of the Will.
- **Administrator:** An Administrator is appointed by the court to manage the deceased's estate in the absence of an Executor (or if the Executor is unable/unwilling to act), even when a Will exists.
- **Intestate Death:** If a person dies without a Will (intestate), the court appoints an Administrator to manage the estate and distribute it according to the laws of succession.
- **Proof of Authority:** The Administrator's authority is established by the court's grant of a Letter of Administration.
- **Bank's Requirement:** The bank requires the Letter of Administration to permit the Administrator to deal with the deceased's account.

2. **The primary responsibility of a bank when dealing with a customer who is visually impaired or illiterate is to ensure that the document they are signing is free from:**

A Financial loss

B Fraud and undue influence

C Legal jargon

D Bank charges

Solution

- **Vulnerability:** Both illiterate and visually impaired customers are considered vulnerable to fraudulent practices or pressure (undue influence) from third parties.
- **Duty of Care:** The bank has a heightened common law duty of care to protect these customers, overriding its normal reliance on the signature/mark.
- **Authentication:** This duty necessitates ensuring the document is read over and explained to the customer in a language they understand, and the signature/thumb impression is properly attested.
- **Legal Liability:** Failure to take these precautions could make the bank liable if the transaction is later proved to be fraudulent or against the customer's will.

- **Capacity:** The objective is not to challenge the person's mental capacity, but to confirm their free consent and understanding of the transaction.

3. In the banking context, a Sole Proprietorship account is legally treated as an account opened by:

A A separate legal entity with limited liability.

B An individual operating under a trade name.

C A partnership firm with unlimited liability.

D A company with perpetual succession.

Solution

- Legal Identity: A Sole Proprietorship has no separate legal identity from its owner (the Sole Proprietor).
- Operation: The account, although often styled in the name of the business (e.g., "M/s. ABC Traders"), is legally the Proprietor's personal account.
- Liability: The Proprietor's liability for the business's debt is unlimited, meaning their personal assets are liable for the business debts.
- KYC: The bank's KYC focuses primarily on the individual Proprietor plus supporting documents for the business name/activity.
- Closure on Death: The account's mandate automatically ceases upon the death or insolvency of the Proprietor.

4. **The legal term used for the document that formally confirms the validity of a deceased person's Will and the Executor's authority to deal with the estate is:**

A Succession Certificate

B Letter of Administration

C Probate

D Indemnity Bond

Solution

- **Will's Validation:** Probate is a certificate granted by a competent court, officially confirming the validity and genuineness of the deceased person's Will.
- **Executor's Authority:** It also confirms the appointment and authority of the named Executor to administer the estate as per the Will's terms.
- **Bank's Requirement:** The bank must insist on the production of the Probate to ensure the person claiming the deceased's assets has the legally valid title and authority.
- **Letter of Administration:** A Letter of Administration is issued when there is no valid Will or Executor.

- **Succession Certificate:** A Succession Certificate is generally sought for movable property when the person dies intestate (without a Will).

5. In a Partnership Firm with the operational instruction 'Any Two Partners', if a cheque is signed by one partner who has a personal debt to the bank, and another partner who has no personal debt, the bank's Right of Set-off on the firm's account is generally:

A Allowed, as the partner's liability is joint and several.

B Allowed only up to the amount of the first partner's personal debt.

C **Not allowed, as the firm's account and the partner's personal account are not in the same legal capacity.**

D Allowed only if the debt is above a specified limit.

Solution

- rinciple of Mutuality: The Right of Set-off can only be exercised when the debts are due between the parties in the same legal capacity.
- Distinct Capacity: The bank is a creditor of the partner (individual) for the personal loan, but a debtor of the Partnership Firm (separate entity) for the firm's deposit. These are two different legal capacities.
- Exception: The bank cannot set off the partner's personal debt against the firm's credit balance (unless the firm is declared insolvent and all partners' assets are pooled).

- **Firm's Liability:** While partners have unlimited liability for the firm's debt, the firm is not liable for the personal debts of the partners.
- **Protection:** This rule protects the interests of the other partners in the firm.

6. **For an account held by a Club or Association that is registered under the Societies Registration Act, 1860, the liability of the members for the entity's debt to the bank is generally:**

A Unlimited and joint.

B Limited to the extent provided in the entity's constitution/rules.

C Always zero, as they are non-profit.

D Limited only by the Karta's liability.

Solution

- **Registered Society Status:** A registered society is given a quasi-corporate status and is treated differently from an unregistered association.
- **Liability Rule:** The liability of the members of a registered society for the debts of the society is typically limited by the terms set out in their Memorandum of Association and Rules and Regulations.
- **Bank's Due Diligence:** The bank must examine these documents to ascertain the exact nature and extent of the members' liability and the power of the governing body to borrow.
- **No Unlimited Liability:** Unlike a partnership, the bank generally cannot pursue the unlimited personal assets of the members for the society's debt.

- **Governance:** The bank's mandate must also align with the structure of the Governing Body/Executive Committee.

7. **When a Limited Company is undergoing a court-ordered winding-up process, the bank should ideally deal with the account only after receiving instructions from the:**

A Chairman of the Board

B Shareholder's Representative

C Official Liquidator

D Company Secretary

Solution

- **Winding-up:** Winding-up (liquidation) is the process by which a company's existence is brought to an end, and its assets are realized to pay off its debts.
- **Official Liquidator:** A court-appointed Official Liquidator takes charge of the company's assets, accounts, and affairs.
- **Mandate Revocation:** The authority of the directors and signatories to operate the company's bank account ceases upon the winding-up order/resolution.
- **New Authority:** The bank must only deal with the Official Liquidator, who will issue a new mandate and operate the account to collect the assets.

- **Freeze:** The bank generally freezes the account upon receiving the winding-up notice to prevent unauthorized transactions.

8. If a bank receives an instruction from one of the joint account holders of an 'Either or Survivor' account to 'stop payment' on a cheque, the bank must:

A Insist on the signatures of both holders for the stop payment.

B Comply with the instruction immediately, as the mandate to stop payment can be given by either authorized signatory.

C Dishonour the cheque only if it exceeds the specified limit.

D Refuse the stop payment, as either party can operate.

Solution

- **Joint Authority:** In an 'Either or Survivor' account, both holders have equal and independent authority to operate the account and issue instructions (cheques).
- **Mandate Revocation:** An instruction to stop payment is a revocation of the mandate to pay. Since either party could issue the mandate to pay, either party can revoke it.
- **Bank's Protection:** The bank is obliged to act on the instruction of the authorized signatory to stop payment, provided it is received in time.
- **Unilateral Action:** The bank cannot insist on the other party's consent for a stop payment, as that would contradict the 'Either'

operational mandate.

- **Dispute:** Any dispute between the joint holders is a matter for them to resolve, not the bank.

9. Which of the following is **NOT** a mandatory document for opening an account for a Public Limited Company?

A Certificate of Incorporation

B Memorandum and Articles of Association

C Certificate of Commencement of Business

D Succession Certificate

Solution

- **Succession Certificate:** This document is required for the settlement of the assets of a deceased individual customer, not a corporate entity.
- **Company Documents:** For a company, the bank needs documents establishing its legal existence, purpose, and operational authority:
- **Certificate of Incorporation (CoI):** Proof of legal existence.
- **Memorandum of Association (MOA):** Defines the object/powers of the company.
- **Articles of Association (AOA):** Defines the internal rules/management.
- **Certificate of Commencement of Business (CoCB):** Required for a Public Company to start business operations.

- **Board Resolution:** Required to authorize the banking relationship and signatories.
- **Perpetual Existence:** Since a company has perpetual succession, documents related to death/succession are irrelevant for the entity itself.

10. **When a customer executes a Power of Attorney (PoA) that is irrevocable, the PoA is generally not terminated by which of the following events?**

A The death of the Principal (customer).

B The customer becoming of unsound mind.

C **The insolvency of the Principal, provided the PoA is given for consideration in respect of a debt.**

D The written revocation by the Principal.

Solution

- **Irrevocable PoA:** An Irrevocable Power of Attorney is usually created when the PoA is coupled with an interest or given as a security for a debt (Section 202, Indian Contract Act).
- **Contractual Protection:** Unlike a simple PoA, which is revoked by the death, insanity, or insolvency of the Principal, an irrevocable PoA is usually protected from these events if it is given for consideration (e.g., to enable a lender/creditor to sell an asset to recover their debt).
- **Termination:** However, an irrevocable PoA is still terminated by the death of the Agent (Attorney) or if the purpose for which it was created is fulfilled.

- **Bank's Caution:** Banks treat all PoAs with caution and require strict adherence to the terms before honoring instructions.
- **Agent's Death:** If the Agent dies, the authority to act, regardless of the PoA's irrevocability, ceases.

11. **Which banking service would most likely create a Licensor and Licensee relationship between the bank and the customer?**

A Granting a term loan.

B

Providing a safe deposit locker (where the bank grants physical space access).

C Accepting a cheque for collection.

D Holding funds in a savings account.

Solution

- **Legal Classification:** The exact legal status of the safe deposit locker service is debated, but many jurisdictions treat it as a Licensor (Bank) and Licensee (Customer) relationship.
- **License to Use:** The bank grants the customer a license to use the physical space (the locker) and access it during specific hours, under the bank's supervision.
- **No Bailment over Contents:** The bank usually does not know the contents, so it is not Bailment (though the container itself might be in the bank's custody).
- **Limited Responsibility:** The bank's responsibility is generally limited to providing security for the room/vault and allowing access only to the authorized customer.

- **No Lien:** Crucially, the bank has no lien over the contents of the locker.

12. **When a Minor operating a savings account independently (age 10-18) attempts to withdraw more money than the balance in their account, the bank must:**

A Honour the withdrawal based on the parent's implied guarantee.

B

Dishonour the withdrawal, as the minor is legally incapable of entering into a valid debt contract (overdraft).

C Consult the Banking Ombudsman for a decision.

D Contact the minor's guardian for immediate funds transfer.

Solution

- **Incapacity to Contract:** A minor is legally incapable of entering into any contract that makes them liable for a debt.
- **Overdraft:** Allowing an overdraft would be extending credit/incurred a debt, which is voidable against the minor.
- **Bank's Protection:** The bank must protect itself from making a payment that it cannot legally enforce against the customer.
- **No Implied Guarantee:** In an independently operated minor's account, there is generally no guarantee from the parent/guardian for overdrafts.
- **Safety Limit:** Minor accounts are therefore strictly operated on a credit-only basis, or with prescribed withdrawal limits that prevent

unauthorized debit.



13. **The bank's right to set off a customer's credit balance against a debit balance is NOT available in the case of a statutory account like a Public Provident Fund (PPF) account primarily because:**

A PPF accounts are too small to be set off.

B **PPF funds are protected by law and held by the bank in a fiduciary capacity, not for the general debt.**

C PPF accounts are often jointly held.

D The bank has a specific lien on PPF accounts.

Solution

- **Statutory Protection:** The PPF Act (and similar acts like EPF, NPS) explicitly protects the funds in the account from attachment or set-off for any debts.
- **Fiduciary Duty:** The bank holds these funds in a fiduciary capacity (as a trustee/custodian for the government/customer) for a specific, mandated purpose.
- **Exclusion from Set-off:** The funds are considered immune from the bank's general right of set-off as they are not available to the customer for the purpose of discharging their general debt to the bank.

- **Purpose:** This protection ensures that the customer's retirement/long-term savings remain intact, even if they default on other loans.
- **Capacity:** This is another instance where the funds are deemed to be held in a different legal capacity than the personal savings account.

14. **When a bank receives a written mandate from a customer, it acts in the capacity of an Agent. A cheque is an example of a mandate. For the bank to be fully protected when honoring a cheque, the cheque must be:**

A

Drawn in accordance with the customer's apparent authority and without any negligence by the bank.

B

For a sum over ₹5,000.

C

Drawn only in favor of a blood relative.

D

Presented exactly on the date written on it.

Solution

- **Mandate:** The bank's authority to pay comes from the customer's mandate (the cheque).
- **Protection Rule:** The bank is protected if it acts in accordance with the mandate, meaning:
 - The cheque must be apparently correct (proper signature, date, amount).
 - The bank must act without negligence (e.g., verifying the signature against the specimen, not paying on a stale/post-dated cheque).
- **Breach:** If the signature is forged, the bank is paying without a mandate and is liable.

- **Negligence:** If the customer's negligence (e.g., leaving blank spaces) facilitates fraud, the loss may fall on the customer (Rule in London Joint Stock Bank v. Macmillan & Arthur).
- **Due Diligence:** The bank's protection is conditional upon its own due diligence.

15. **When a Government Department opens a bank account, which type of authority is primarily required by the bank?**

A Articles of Association

B Partnership Deed

C **Specific Government Order (GO) or notification authorizing the account opening and operation**

D HUF Declaration

Solution

- **Source of Authority:** Unlike commercial entities, the authority for a Government Department to open and operate a bank account flows from statutory provisions, executive orders, or specific Government Orders (GOs)/Notifications.
- **Financial Rules:** The bank must ensure compliance with the central or state government's General Financial Rules (GFR), which dictate how government money is handled.
- **Mandate:** The GO/Notification will clearly designate the authorized officer(s) (signatories) and the operational rules.
- **Sovereign Immunity:** The bank must recognize that the government acts in a sovereign capacity, which may affect legal procedures like set-off or attachment orders.

- **KYC:** The bank requires the official documents (GO, Office Order) as the equivalent of a corporate resolution and KYC for the authorized signatories.

16. In the case of an Unregistered Association (like a reading club or social group), the liability for an overdraft granted by the bank falls upon:

A The entity's Treasurer only.

B

All members who authorized the transaction, and often the signatories personally.

C The bank only, as the entity is not legally recognized.

D The entity's common fund only.

Solution

- **No Separate Entity:** An Unregistered Association is not a separate legal entity; it's a collection of individuals.
- **Liability:** The overdraft (debt) is legally incurred by the members who expressly or impliedly authorized the transaction, making their liability unlimited and joint.
- **Signatories' Risk:** The office bearers who signed the loan/overdraft documents are often held personally liable by the bank, as they warranted their authority to contract.
- **Account Title:** The account is typically a joint account of the office bearers, making all signatories potentially liable.

- Indemnity: The bank usually obtains an indemnity from the signatories to protect itself.

17. **The key difference in the bank's KYC requirements for a Resident Indian versus a Non-Resident Indian (NRI) is the mandatory requirement for the NRI customer to adhere to the regulations of the:**

A Reserve Bank of India (RBI)

B Prevention of Money Laundering Act (PMLA)

C Foreign Exchange Management Act (FEMA)

D Indian Contract Act

Solution

- **FEMA's Role:** FEMA governs all foreign exchange transactions, including the opening and operation of bank accounts by persons residing outside India (NRIs).
- **Account Types:** FEMA dictates the permissible account types (NRE, NRO, FCNR), the sources of funds, and the repatriation rules.
- **NRI Documentation:** The bank requires additional documentation (e.g., passport copy with visa/residence status, proof of NRI status) to ensure compliance with FEMA.
- **RBI & PMLA:** While RBI guidelines (including PMLA/KYC) apply to all customers, the FEMA compliance is the unique, critical regulatory layer for the NRI segment.

- **Residency Test:** The bank must first determine the customer's residency status based on FEMA's definition (stay of 182 days or more in the preceding financial year).

18. **When a bank receives a cheque for collection, and the cheque is found to have a material alteration (e.g., the amount has been changed without full authentication), the bank must:**

A Allow the customer to collect the funds and then obtain authentication.

B

Dishonour the cheque, with the reason "Material Alteration Requires Drawer's Confirmation," as the mandate is invalid.

C Pay the original, lower amount and notify the customer.

D Contact the drawee bank for verification.

Solution

- **Mandate Invalidity:** A material alteration (changing the date, sum payable, or time of payment) renders the cheque void as a mandate unless the drawer authenticates it with their full signature.
- **Bank's Protection:** The bank's protection is lost if it pays an altered instrument without the drawer's consent.
- **Collecting Bank:** Even as a Collecting Banker, the bank must identify the defect and dishonour the instrument (return it to the customer).
- **Drawee Bank's Duty:** If the cheque were presented to the drawee bank, the drawee bank would be liable if it paid the altered amount, as it would be paying without a valid mandate.

- **NI Act: This principle is enshrined in the Negotiable Instruments Act, 1881.**

19. A customer who provides assets (securities, inventory, etc.) as specific security for a particular loan is known as a:

A Guarantor

B Agent

C Pledgor / Mortgagor / Hypothecator

D Trustee

Solution

- Secured Loan: This refers to a customer who secures their loan with collateral.
- Pledgor: A customer who transfers possession of movable assets (e.g., gold, stock certificates) to the bank is the Pledgor.
- Mortgagor/Hypothecator: A customer who transfers an interest in immovable property (Mortgage) or movable property (Hypothecation, where possession remains with the customer) to the bank is the Mortgagor/Hypothecator.
- Relationship: In these cases, the bank is the Pledgee/Mortgagee/Hypothecatee, and the relationship is one of Creditor and Debtor regarding the loan, and a security relationship regarding the asset.

- **Specific Security:** The assets provided are called specific security, as they secure only the associated loan.

20. In the case of a Joint Account where the operating instruction is simply 'Jointly', what is the immediate effect of the death of one account holder on the account?

A The entire balance is paid to the survivor under the survivorship clause.

B

The survivor can operate the account until the deceased's legal representative objects.

C

The account must be frozen, as the joint mandate is revoked, and the survivor cannot operate it alone.

D

The bank must split the balance and pay one half to the survivor.

Solution

- **Joint Mandate:** 'Jointly' means all operations require the signature of all account holders.
- **Mandate Revocation:** The death of any one joint holder revokes the mandate to pay/operate, as the essential condition (all signatures) can no longer be met.
- **Freezing:** The bank must immediately freeze the account upon notice of death.
- **Settlement:** The balance does not automatically go to the survivor (as there is no 'survivor' clause); the amount must be settled with the

surviving holder(s) jointly with the legal representatives of the deceased.

- Contrast: This is the key distinguishing feature from 'Either or Survivor' accounts.

21. **A bank receives a Stop Payment instruction on a cheque that has already been certified/marked by the bank. What is the bank's action?**

A The bank must still stop payment, as the customer is the final authority.

B **The bank must refuse to stop payment, as certification/marketing makes the bank primarily liable on the instrument.**

C The bank must immediately contact the payee to return the cheque.

D The bank can only stop payment if the customer provides a full indemnity.

Solution

- **Cheque Certification: Certification or Marking** (often done for banker's cheques) means the bank has accepted the instrument and undertaken a primary, unconditional liability to pay it. The bank usually earmarks or sets aside the funds.
- **Mandate Irrevocable:** By certifying, the bank's mandate to pay becomes irrevocable from the customer. The customer can no longer stop payment.
- **Bank's Protection:** Refusing to stop payment protects the bank from liability to a subsequent holder in due course who relied on the certification.

- **Discharge:** The bank becomes the principal debtor on the instrument upon certification.
- **Risk Mitigation:** This is why banks use practices like Demand Drafts (Banker's Cheques) where the bank is the drawer and drawee.

22. If a customer loses their passbook or statement of account, their contractual relationship with the bank is:

A Terminated, as the passbook is the proof of the contract.

B

Unaffected, as the passbook is only prima facie evidence of the debt, and the bank's records are the final authority.

C Temporarily suspended until the document is found.

D Only valid for electronic transactions thereafter.

Solution

- **Contractual Basis:** The banker-customer contract is primarily defined by the Account Opening Form (AOF) and the implied/statutory duties, not the physical passbook.
- **Passbook Status:** The passbook is a memorandum or prima facie evidence of the transactions and balance.
- **Bank's Records:** The bank's ledger and official records (Digital Core Banking System) are the ultimate and final evidence of the transactions and account balance.
- **Replacement:** The customer can obtain a duplicate passbook or statement after completing the bank's formal procedures (e.g., signing a declaration and paying a fee).

- **Duty of Care:** The customer has a duty to report the loss to prevent misuse.

23. For a Co-operative Society opening an account, the bank must examine the documents, including the Bye-laws, to ensure compliance with the relevant:

A Securities and Exchange Board of India (SEBI) Act

B Indian Contract Act

C Co-operative Societies Act (State or Central)

D Companies Act

Solution

- **Legal Framework:** A Co-operative Society is formed and governed by the specific Co-operative Societies Act of the state or the Multi-State Co-operative Societies Act, 2002.
- **Bye-laws:** The Bye-laws are the internal rules of the society, derived from the Act, defining its objectives, membership, management, and powers (including borrowing and banking operations).
- **Compliance:** The bank must ensure that the society's account opening, borrowing, and operational mandate align with the powers granted under the Bye-laws and the Act.
- **Resolution:** As with companies, a Board Resolution (from the Managing Committee/Board) is required, but its validity is checked against the Bye-laws.

- **Liability:** The liability of members is usually limited by the Act.

24. **The special precaution a bank must take when opening an account for a Blind Person is to:**

A Restrict the account to credit transactions only.

B

Ensure the account opening form is read out and explained fully, and the signature/mark is duly attested.

C Insist on the use of Braille cheques.

D Only allow the account to be operated jointly with a sighted person.

Solution

- **Vulnerability:** A blind person is legally competent to contract but requires special assistance to fully comprehend documents they sign.
- **Duty of Care:** The bank's duty of care necessitates that the contents of the Account Opening Form and the terms and conditions are fully read out and explained to the customer.
- **Attestation:** The execution of the documents (signature or thumb impression) must be done in the presence of a bank official and/or a reliable witness, and attested.
- **No Restriction on Operation:** The bank is generally not allowed to restrict the operation of the account (like insisting on a joint holder) unless the customer consents.

- **Accessibility:** Banks are mandated to provide reasonable accommodation for such customers.

25. **When the bank opens a new account for a customer who has been recently discharged from insolvency, the bank must primarily ensure the customer is not using the account to:**

A Re-establish their former partnership.

B Conduct illegal transactions or conceal assets from creditors.

C **Incur new debts without disclosing their past insolvency (if required by law).**

D Engage in foreign exchange trading.

Solution

- **Discharged Insolvent:** A discharged insolvent is legally restored to the capacity to contract and can open a new bank account.
- **Credit Risk:** The bank treats them as a high credit risk. The primary concern is that the customer might incur new debts (like an overdraft or loan) without disclosing their history, which may be a legal requirement for certain transactions.
- **KYC and Disclosure:** Banks must perform due diligence (enhanced if required) and may require the customer to acknowledge their past insolvency if any credit facility is provided.
- **Monitoring:** The bank should exercise extra caution in monitoring the account to prevent misuse.

- **Rehabilitation:** The goal of discharge is rehabilitation, but the bank must manage its risk carefully.

26. **In the case of a Deceased Customer with a nominee, the bank is discharged from its liability upon payment to the nominee. This protection is granted to the bank under the provisions of the:**

A Indian Contract Act

B Banking Ombudsman Scheme

C Banking Regulation Act (Section 45ZA)

D Negotiable Instruments Act

Solution

- **Statutory Mandate:** The provisions relating to nomination (and payment to the nominee) are primarily enshrined in Section 45ZA of the Banking Regulation Act, 1949 (for deposits) and similar sections for safe custody and locker facilities.
- **Discharge:** This section explicitly states that payment by the bank to the nominee shall constitute a full discharge of the bank's liability in respect of the deposit.
- **Purpose:** This provision streamlines the settlement process, providing legal immunity to the bank against subsequent claims by legal heirs.
- **Trustee Status:** While the nominee receives the funds, they hold them as a trustee for the legal heirs, but the bank's duty ends upon

payment.

- **No Legal Certificate:** This provision allows the bank to avoid insisting on legal documents like a Succession Certificate.

27. **A Non-Resident Ordinary (NRO) Account is primarily used by an NRI customer for the purpose of:**

A Repatriating funds freely from India to their country of residence.

B Parking and managing income earned in India (e.g., rent, dividends, pension).

C Holding foreign currency deposits for investment.

D Facilitating trade transactions between two foreign countries.

Solution

- **NRO Purpose:** The NRO Account is designed to manage a Non-Resident Indian's income generated in India (e.g., rent from property, dividends from shares, pension, etc.).
- **Taxation:** The interest earned on NRO accounts is taxable in India.
- **Repatriation:** Repatriation of funds from an NRO account is generally restricted and requires specific documentation/limits as per FEMA guidelines.
- **Contrast (NRE):** The NRE Account (Non-Resident External) is for funds transferred into India from abroad, and both principal and interest are freely repatriable and tax-free in India.
- **Conversion:** A resident's account is automatically converted to an NRO account when they move abroad.

28. **The legal document that authorizes the manager of a Hindu Undivided Family (HUF) (the Karta) to sell or mortgage HUF property must demonstrate that the transaction is for:**

A Personal benefit of the Karta.

B Investment in speculative stocks.

C Legal necessity or benefit of the estate (family).

D Repaying the Karta's personal loan.

Solution

- **Karta's Power:** The Karta has extensive powers to manage and represent the HUF. However, their power to alienate (sell, mortgage, gift) joint family property is not absolute.
- **Justification:** Such alienation is legally valid and binding on the coparceners (family members) only if it is for:
- **Legal Necessity** (e.g., paying off mandatory debts, meeting unavoidable family expenses).
- **Benefit of the Estate** (e.g., selling non-productive land to buy income-generating property).
- **Bank's Due Diligence:** When sanctioning a loan secured by HUF property, the bank must ensure that the borrowing (and the security)

is for a "legal necessity" or the "benefit of the family" to make the debt binding on all members.

- **Liability:** The other coparceners are not personally liable for debts not incurred for the HUF's benefit.
- **Documentation:** The bank requires a declaration from the Karta justifying the necessity.

29. **In the context of the banking relationship, a Testator is a customer who has:**

A Nominated a third party to operate their account.

B Been declared of unsound mind by a court.

C Established a trust for their children.

D Drawn up and executed a legally valid Will.

Solution

- **Definition:** A Testator (or Testatrix for a female) is the legal term for a person who makes or executes a Will (a testament).
- **Will's Purpose:** The Will documents their final wishes regarding the distribution of their assets and the settlement of their affairs after death.
- **Banking Relevance:** If the deceased was a Testator, the bank must eventually deal with the person named as the Executor in the Will (after they obtain Probate), rather than an Administrator or legal heirs under intestacy rules.
- **No Immediate Effect:** The mere act of being a Testator has no effect on the operation of the bank account during the customer's lifetime.
- **Intestacy:** A person who dies without a Will is said to have died intestate.

30. Which of the following is a primary duty the bank owes to its Trustee customers?

A To guarantee the success of the trust's investments.

B To allow the Trustee to use the funds for their personal expenses.

C To avoid knowingly assisting the Trustee in any unauthorized use or breach of the Trust Deed.

D To provide free safe deposit locker facilities to the Trustee.

Solution

- **Bank's Knowledge:** When a bank is aware that an account is held in a trust capacity (by examining the Trust Deed or the account title), it is put on inquiry.
- **Duty to the Trust:** The bank owes a duty to the beneficiaries (the Trust) to ensure the Trustee acts within their powers.
- **Breach of Trust:** The bank must avoid participating in a breach of trust. If the bank knows or has reasonable grounds to suspect that the Trustee is misusing the funds (e.g., transferring funds to their personal account to clear a personal overdraft), the bank can be held liable.
- **Due Diligence:** The bank must exercise reasonable care to ensure the mandate of the Trust is followed.

- **Set-off Barred:** As previously noted, the bank cannot set off the Trustee's personal debt against the Trust's funds.



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