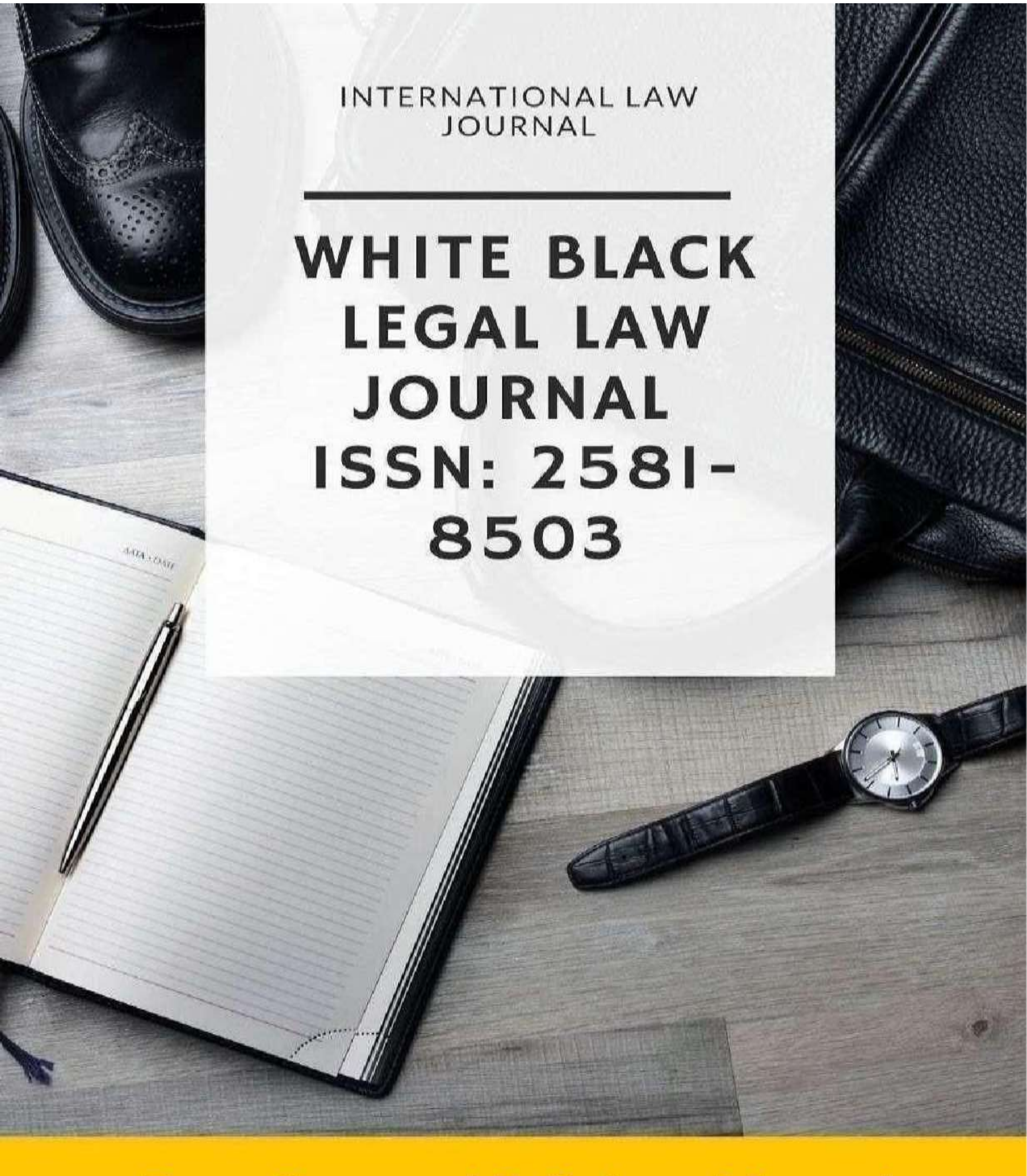

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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

“ROLE OF CONATRACT UNDER INDIAN BANKING SYSTEM”

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Abstract:

Contract is the soul of banking transaction without contract banking is like body without heart, all banking transaction are depend on Contracts and agreements i.e. DD, Loan Agreements, DP notes, Employees Contracts, OTS etc. Banking was in existence during Vedic period. Money lending is regarded as an old art and was practiced in the early Aryan days. In 1770 Hindustan Bank was established followed by Bengal Bank in 1785 and General Bank of India in 1786. With the use of technology banking at present contracts has become much more user or customer friendly. Banking ombudsmen was established to take care of the grievances of the customers against the services provided to them by the bank. So now there are so many new types of contracts introduced in Indian banking transaction. A contract is always an express or implied agreement which is enforceable by law, in relation to banking contracts are standard form of contract as well as e-contracts and general form of contracts etc. The role of contract law under the Indian banking system. Contract law plays the important role in day to day transactions of Indian banking system/ each and every transaction of bank is based on contract law. There is a need to improve transparency in banking contracts we need to enact the special laws in relation to banking contracts for the purpose of more transparency and these laws are need to be customer friendly. Here in the present research the researcher wants to analyze the role of contract under Indian banking system and how the contract law benefited to the banking system on what ground.

Key Words- Agreements, Banking System, Contract, E-Contracts, General Contracts, Standard form of Contracts.

Introduction:

Banking contracts serve as legal agreements between a financial institution and its clients, outlining the terms and conditions of the financial products and services offered. These contracts define the rights and obligations of both parties, creating a structure for handling the financial partnership. They play a crucial role in providing legal protection, setting clear expectations, and ensuring adherence to regulatory standards. Additionally, banking contracts aid in risk management and enhancing operational effectiveness. Various types of banking contracts exist, such as loan agreements, mortgage deeds, letters of credit, guarantees, service agreements, deposit agreements, foreign exchange contracts, derivative contracts, syndication agreements, and non-disclosure agreements. Loan agreements, for instance, detail the loan terms, including the amount, interest rate, repayment schedule, and collateral requirements. Mortgage deeds establish property as collateral for a loan. Letters of credit secure payment to a seller upon delivery of goods or services[1]. Derivative contracts are utilized for financial risk management, while non-disclosure agreements safeguard confidential information. In essence, banking contracts are indispensable legal documents that establish a foundation for managing the financial relationship between a financial institution and its clients, outlining rights and responsibilities, managing risk, ensuring compliance, and enhancing operational efficiency.

Banking contracts not only protect the interests of both parties involved but also contribute to the establishment of trust between banks and their customers. By providing a clear and concise outline of the transaction's terms, customers can feel confident in their understanding of the agreement and trust that the bank will fulfil its obligations as outlined in the contract[2]. Moreover, banking contracts can be utilized as a tool for managing financial risk. For instance, banks may employ derivative contracts to hedge against fluctuations in interest rates or currency exchange rates, thereby managing their exposure to risk and safeguarding their financial position. Another significant aspect of banking contracts is their role in ensuring compliance with legal and regulatory requirements. Banks are subject to a wide range of laws and regulations, and banking contracts help ensure that the bank is meeting these obligations. Loan agreements, for example, may include clauses that require borrowers to comply with specific regulations or laws, such as those related to the environment or anti-money laundering. Overall, banking contracts play a critical role in the financial system by providing legal

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[1] Banking Law & Practice available at https://www.icsi.edu/media/webmodules/publications/9.1%20Banking%20Law%20-Professional.

[2] What Is a Bank by Jeanne Gobat, Published in Finance & Development, March 2012, Vol. 49, No. 1

protection, managing risk, fostering trust, and ensuring compliance with legal and regulatory requirements. By offering a clear and concise outline of the transaction's terms and conditions, banking contracts facilitate transparent and efficient financial transactions that benefit both banks and their customers.

Meaning:

A banking contract is a legally binding agreement between a bank and its customer that sets out the terms and conditions of a financial transaction. These contracts can come in different forms, such as loan agreements, mortgage deeds, letters of credit, or derivative contracts, depending on the nature of the transaction. The main purpose of banking contracts is to provide legal protection and minimize risks associated with financial transactions. They ensure that both parties have a clear understanding of their rights and responsibilities, manage financial risks and obligations, and establish a framework for customers to comprehend the terms and conditions of the transaction. In general, banking contracts specify the amount of money involved, repayment terms, interest rates, and any collateral or security requirements. They may also include clauses that outline the consequences of non-payment, the rights of both parties to terminate the contract, and any penalties for early repayment[3]. It is important to note that banking contracts are governed by contract law and specific banking laws and regulations applicable in a particular jurisdiction. Seeking advice from qualified professionals is recommended to fully understand the specific requirements of banking contracts in a given context.

Definition:

Under the Banking Regulation Act, 1949, banking is defined as 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, or otherwise[4].

This definition also includes various activities such as borrowing, issuing and circulating notes, buying and selling bullion, and the collection of cheques and other instruments.

In India, the Reserve Bank of India Act, 1934 defines banking as "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."

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[3]OFF-BALANCE SHEET ACTIVITIES, available at https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/section3-8.pdf

[4] Sec 5 (b) Banking Regulation Act, 1949

Objectives:

- **Defining Terms and Conditions:** Banking contracts provide a comprehensive framework for the terms and conditions that govern the relationship between a bank and its customers. These agreements cover important details such as interest rates applicable to savings or loan products, fees associated with services like overdrafts or wire transfers, and the procedures for closing or modifying an account. By ensuring clarity in these terms, both the bank and its customers can have a clear understanding of their responsibilities, thereby minimizing the chances of misunderstandings or disputes in the future.
- **Defining Rights and Obligations:** Banking contracts provide a comprehensive framework for the terms and conditions that govern the relationship between a bank and its customers. These agreements cover important details such as interest rates applicable to savings or loan products, fees associated with services like overdrafts or wire transfers, and the procedures for closing or modifying an account. By ensuring clarity in these terms, both the bank and its customers can have a clear understanding of their responsibilities, thereby minimizing the chances of misunderstandings or disputes in the future.
- **Maintaining Legal Compliance:** Banking agreements must comply with various laws and regulations, such as consumer protection laws, banking regulations, and contract law. Adhering to compliance guarantees that customers are safeguarded from unjust practices and that banks function lawfully, fostering trust and assurance in the financial sector.
- **Managing Risks:** Effectively managing risks is crucial for banks to address potential issues in banking operations, including fraud, default, and operational errors. These contracts outline protocols for verifying customer identity, monitoring transactions for suspicious activity, and promptly resolving disputes. By proactively managing risks, banks can uphold the integrity of their services and safeguard both their own interests and those of their customers from financial harm.
- **Protecting Consumer Interests:** Banking agreements are designed to safeguard the welfare of customers by offering explicit information regarding their entitlements and choices. This encompasses instructions on how to report unauthorized transactions, challenge inaccuracies in their accounts, or seek redress in instances of unjust treatment by the bank. Open and honest communication cultivates confidence and enables customers to make well-informed choices regarding their monetary matters.

- **Enabling Business Operations:** These contracts simplify banking operations by implementing standardized procedures for managing accounts, conducting transactions, and interacting with customers. By offering explicit instructions, they guarantee efficiency and uniformity in delivering services, thereby improving the overall customer experience. Additionally, these contracts assist banks in adhering to regulatory obligations and reducing operational risks, ultimately fostering the stability and longevity of their business[5].

Types of Banking Contracts

1. **Account Opening Contract :** A bank's account opening contract with a customer is a written document outlining the terms and conditions of creating and maintaining a bank account. This agreement is subject to a number of laws and rules in India, including the Reserve Bank of India (RBI) regulations and the Indian Contract Act, 1872 etc[6].

Usually, the account opening contract includes the following details:

- The kind of the new account (savings, current, etc.)
- Personal information, including name, address, and phone number, of the account holder.
- The conditions of the account, including as fees, interest rates, and required minimum balances.
- Rights and obligations of both the account holder and the bank.
- The method for ending the account.

Important to keep in mind is that the account opening contract is a contract that is legally enforceable, and both the bank and the account holder are obliged to abide by its terms. Any of the contract's clauses can be broken with fines or even legal consequences. The RBI in India has provided instructions to banks on how to create new accounts. These rules make guarantee that all consumers may create accounts in an open, equitable, and accessible manner. In accordance with the recommendations, banks must also use official papers like Aadhaar cards, PAN cards, and passports to confirm the account holder's identity and residence. Furthermore, the RBI mandates that banks give consumers a copy of the account opening contract when an account is opened. This copy must include all pertinent information about the account and the contract's

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[5] Banking Contracts Role, available at https://vakilsearch.com/blog/banking-contracts-role

[6] CUSTOMER SERVICE GUIDELINES IN THE YEAR 2006-07 available at https://www.rbi.org.in/commonman/English/Scripts/CustomerServiceGuidelines.aspx

terms and conditions.

2. **Loan Contract:** A loan contract is a formal agreement outlining the terms and conditions of a loan between a bank and a borrower. The Indian Contract Act, 1872 and Reserve Bank of India (RBI) rules are just two of the laws and regulations that apply to loan contracts in India.

The following details are frequently included in the loan contract:

- There are some types of loans i.e. personal loan, housing loan, agricultural loan, vehicle loan, business loan etc.
- The loan's principal and interest rate.
- The terms of repayment, such as the length of the loan and the size and timing of the installment payments.
- Any extra costs or expenses related to the loan, such processing fees or prepayment penalties.
- The borrower's and the bank's obligations, including provisions for default and foreclosure.
- The method used to resolve conflicts.

The loan agreement must be regarded as a legally enforceable contract, and both the bank and the borrower are required to abide by its provisions. Any of the contract's clauses can be broken with fines or even legal consequences.

The RBI in India has provided banks with guidelines on loan contracts. These rules guarantee that loan agreements are open, equitable, and reachable to all borrowers. In accordance with the regulations, banks must also inform borrowers of all fees and charges upfront and acquire their permission before imposing any more expenses. At the time of loan disbursal, banks must also give borrowers a copy of the loan contract, per RBI regulations.[7] This document should include all pertinent information about the loan as well as the contract's terms and conditions.

The loan contract is a crucial component of Indian banking transactions. It clarifies the obligations of the bank and the borrower and promotes an equitable and transparent loan distribution procedure.

[7] Reserve Bank of India. (2021). Fair Practices Code for lenders. https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=11856 last seen on 26.03.2023

3. **Bank Guarantee Contracts**:

In a contract of guarantee, three parties primarily the banker, beneficiary, and applicant agree to something, but in a bank guarantee, the bank or another financial institution serves as the applicant's surety. The recipient receives the bank's guarantee once the applicant requests it from the bank. It is referred to be a tripartite agreement but is really just the bank guaranteeing to pay whenever the guarantee holder requests it.

Unconditional guarantees are another name for bank guarantees, which means that in the event of a dispute, the bank is obligated to make the payment without the creditor's need to provide evidence of their loss. "In the event that the debtor is at fault, the creditor may demand performance and the bank is obligated to reimburse the creditor without requiring the creditor to provide evidence of the debtor's default, indicating that the bank guarantee is absolute or unconditional."

Because of this, bank guarantees are inflexible or unconditional by design. It has nothing to do with the relationship between the debtor (applicant) or the person for whose benefit the guarantee is given and the creditor (beneficiary) or guarantee-holder. It has nothing to do with how close or distant the beneficiary and debtor are to one another.

- MS Adani Agri Fresh Ltd v. Mahaboob Sharif & Others[8] "The Supreme Court of India said that bank guarantee is unconditional and hence the respondent cannot raise dispute and prevent the appellant from converting the bank guarantee."
- UP State Sugar Corporation v. Sumac International[9] It was held that in case of an unconditional bank guarantee the beneficiary is entitled to realize bank guarantee even if there are pending disputes and the creditor was required to pay the amount.

4. **Deposit Contracts :**

Deposit contracts are an important type of banking contract in India, where banks accept deposits from customers and pay interest on them. These contracts are governed by the Reserve Bank of India (RBI) and the Banking Regulation Act, 1949. Let's look at the key features of deposit contracts and the regulations governing them in more detail.[10]

[8] MS Adani Agri Fresh Ltd v. Mahaboob Sharif & Others, AIR 2016 14 SCC

[9] UP State Sugar Corporation v. Sumac International [1997 (1) SCC 568]

[10] Banking Regulation Act, 1949: https://www.rbi.org.in/Scripts/BS_ViewMasActs.aspx?id=115 last seen on 30.04.2023.

- **Different deposit account:** types are available from Indian banks, including savings accounts, current accounts, fixed deposit accounts, recurring deposit accounts, and others. The minimum deposit amount, interest rate, permitted withdrawals, and other terms and conditions vary depending on the type of account. For various types of deposit accounts, the RBI issues guidelines on interest rates, minimum deposit requirements, and other terms and conditions.
- **Interest Rates:** Indian banks are permitted to choose their own interest rates for deposit accounts as long as they follow the rules established by the RBI. Deposit account interest rates can change depending on the type and length of the account and are typically correlated with the current market rates. Periodically, the RBI releases guidelines on interest rates for various deposit account types that banks must adhere to.
- **Deposit Insurance:** The Deposit Insurance and Credit Guarantee Corporation (DICGC), which offers deposit insurance up to a specific limit for each depositor in the event of bank failure or closure, was established by the RBI to safeguard depositors' interests. In India, the maximum deposit insurance amount is currently Rs. 5 lakh per depositor and per bank. This gives depositors a modicum of security and motivates them to keep their money in the banking system.
- **Withdrawal Rules:** Banks in India have different rules for withdrawals from deposit accounts, depending on the type of account. Savings accounts generally allow a certain number of free withdrawals per month, while fixed deposit accounts have a fixed term and penalty for premature withdrawals. The RBI issues guidelines on the withdrawal rules for different types of deposit accounts, which banks are required to follow.
- **Reserve Requirements:** Banks in India are required to maintain a certain percentage of their deposits as reserves with the RBI. This reserve requirement is a tool used by the RBI to control the money supply and manage inflation in the economy. The reserve requirement varies depending on the type of deposit, and can be changed by the RBI from time to time[11].
- **Deposit contracts:** are an important type of banking contract in India, which are governed by the RBI and the Banking Regulation Act. These contracts define the terms

[11] Reserve Bank of India - Guidelines on Deposits: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=4177&Mode=0

and conditions under which banks accept deposits from customers and pay interest on them. The regulations governing deposit contracts ensure that banks maintain adequate reserves, provide deposit insurance, and follow guidelines on interest rates and withdrawal rules, to protect depositors' interests and maintain the stability of the banking system[12].

5. Credit Card Contracts:

A credit card agreement is legal document between a credit card company and a customer that sets the terms for the credit card being offered to the customer. This agreement may also be referred to as a charge card agreement or bankcard agreement, depending on what type of institution has agreed to provide them.

A person or company can apply for a credit card by filling out applications and meeting certain criteria such as having sufficient capital and not being involved in any illegal activities. Credit cards are usually issued by banks but other institutions like airlines and retailers may issue them too.

Credit card agreements outlines the responsibilities of both parties, such as how much you can charge for an item, when your payment is due, what happens if there are late payments or non-payments at all, and more.

6. Mortgage contracts:

Mortgage contracts are another important type of banking contract in India. Let's look at the key features of mortgage contracts and the regulations governing them, along with some references for further reading.

- **Definition:** A mortgage contract is a legal agreement between a borrower and a lender, where the borrower pledges an asset (usually a property) as collateral for a loan. The lender has the right to seize the property if the borrower defaults on the loan.
- **Types of Mortgage Loans:** Banks in India offer different types of mortgage loans, such as home loans, loan against property, and so on. Each type of loan has its own terms and conditions, interest rates, repayment schedules, and other features. The Reserve Bank of India

[12] Report of the Working Group on Resolution Regime for Financial Institutions, available at https://dea.gov.in/sites/default/files/Report%20of%20the%20Working%20Group%20on%20Resolution%20Regime%20for%20Financial%20Institutions%20

(RBI) issues guidelines on the interest rates, minimum down payments, and other terms and conditions for different types of mortgage loans.[13]

- **Interest Rates:** Banks in India are free to set their own interest rates on mortgage loans, subject to the guidelines issued by the RBI. The interest rates on mortgage loans are generally linked to the prevailing market rates and can vary depending on the type and duration of the loan. The RBI issues periodic guidelines on interest rates for different types of loans, which banks are required to follow.
- **Collateral Requirements:** Mortgage loans require collateral, which is typically the property being purchased or an existing property owned by the borrower. The value of the collateral is used to determine the loan amount, and the lender has the right to seize the property if the borrower defaults on the loan. The RBI issues guidelines on the collateral requirements for different types of mortgage loans.
- **Repayment:** Mortgage loans have a fixed repayment schedule, usually ranging from 5 to 30 years. The borrower must make regular payments of principal and interest, as per the terms of the loan agreement. The RBI issues guidelines on the repayment schedules for different types of loans[14].

Mortgage contracts are an important type of banking contract in India, which are governed by the RBI and the Banking Regulation Act. These contracts define the terms and conditions under which banks lend money to borrowers against collateral, usually in the form of property. The regulations governing mortgage contracts ensure that banks follow guidelines on interest rates, collateral requirements, and repayment schedules, to protect the interests of both borrowers and lenders[15].

7. **Safe Deposit Box Contracts:** The RBI, the Banking Regulation Act, and the Indian Contract Act all regulate contracts for safe deposit boxes. The size, security, and cost of safe deposit boxes are regulated by the RBI. Banks are required by the Banking Regulation Act to maintain sufficient security measures for safe deposit boxes. The Indian Contract Act outlines the fundamental

[13] Reserve Bank of India - Guidelines on Housing Finance: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11043&Mode=0 last seen on 10.4.2023

[14] Mortgage loan: What is it? Understand types and processes, available at https://www.idfcfirstbank.com/finfirst-blogs/home-loan/what-is-mortgage-loan

[15] Banking Regulation Act, 1949: https://www.rbi.org.in/Scripts/BS_ViewMasActs.aspx?id=115 last seen on 10.04.2023

principles of contract law, including what constitutes a valid contract, what the parties' responsibilities are, and what happens when a contract is broken.

8. **Overdraft Contracts:** Overdraft contracts are governed by the RBI, the Banking Regulation Act, and the Indian Contract Act. The RBI issues guidelines on the interest rates, fees, and conditions of overdrafts that banks can provide. The Banking Regulation Act requires banks to maintain adequate capital and reserves to cover their overdraft portfolios[16]. The Indian Contract Act lays down the general principles of contract law, including the requirements for a valid contract, the duties and obligations of the parties, and the consequences of breach of contract.

9. **Foreign Exchange Contracts:** Foreign exchange contracts are governed by the RBI, the Foreign Exchange Management Act, 1999, and the Indian Contract Act. The RBI issues guidelines on the exchange rates, amounts, and conditions of foreign exchange transactions that banks can undertake. The Foreign Exchange Management Act regulates the foreign exchange transactions and holdings of residents and non-residents in India[17]. The Indian Contract Act lays down the general principles of contract law, including the requirements for a valid contract, the duties and obligations of the parties, and the consequences.

10. Other Banking Transactions :

NEFT : (National Electronic Funds Transfer) is a popular electronic payment system in India. It is a nation-wide electronic funds transfer system that enables fund transfers between bank accounts across India. The NEFT system is operated by the Reserve Bank of India (RBI) and is available to all individuals and businesses in India.

NEFT is a real-time payment system that allows funds to be transferred from one bank account to another bank account in India. The system operates in batches, with transactions settled in hourly batches. NEFT transfers are processed between 8:00 am to 7:00 pm on all working days of the week, except for the 2nd and 4th Saturdays of the month, Sundays, and public holidays.

To use NEFT, the sender needs to provide the following details to the bank:

➢ The name of the beneficiary account holder

[16] Government of India Ministry of Finance, available at https://pib.gov.in/newsite/PrintRelease.aspx?relid=113826

[17] Guide to International Banking – Foreign Exchange & Role of RBI available at https://www.taxmann.com/post/blog/guide-to-international-banking-foreign-exchange-role-of-rbi

- The beneficiary account number
- The name and IFSC code of the beneficiary bank branch
- The amount to be transferred

The IFSC (Indian Financial System Code) is a unique 11-digit code assigned by the RBI to each bank branch in India. It is used to identify the bank and branch where the beneficiary account is held.

The NEFT system is a safe and secure method of transferring funds. All NEFT transactions are settled on a deferred net settlement (DNS) basis. This means that the transactions are settled in batches, and the funds are transferred only after the settlement process is completed.

NEFT transfers are subject to certain transaction limits. The minimum transaction amount is Rs. 1 and the maximum transaction amount is Rs. 10 lakh per transaction. However, there is no limit on the number of NEFT transactions that can be performed in a day. NEFT is a popular electronic payment system in India that enables individuals and businesses to transfer funds between bank accounts across the country. It is safe, secure, and convenient and can be used to transfer funds between different banks in India[18].

RTGS: Real Time Gross Settlement, also known as RTGS, is a system that allows for the continuous and real-time settlement of fund transfers on a transaction-by-transaction basis (without netting). 'Real Time' refers to processing instructions as soon as they are received; 'Gross Settlement' denotes that each funds transfer instruction is settled separately. Considering that the funds settlement takes place in the books of the Reserve Bank of India (RBI), the payments are final and irrevocable[19].

IMPS: Through mobile devices, IMPS provides a real-time, round-the-clock interbank electronic fund transfer service. IMPS is a powerful tool for transferring money instantly between banks in India via mobile, internet, and ATMs. It is economical from both a financial and non-financial standpoints. The Immediate Payment Service (IMPS) was officially launched on November 22, 2010, in Mumbai by Smt. Shyamala Gopinath, DG RBI. The Indian public can now use this service.

Some Judicial Pronouncements Relating to Banking Contracts:

Contracts in Indian banking transactions are governed by various laws and regulations such as the Indian Contract Act, 1872, the Reserve Bank of India Act, 1934, and the Negotiable Instruments Act,

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[18] NEFT, available at, https://www.indiafilings.com/learn/neft

[19] Real Time Gross Settlement, available at https://www.pnbindia.in/rtgsneftecs-real-time-gros.html

1881, among others. In addition to these laws, several court cases have provided important precedents and interpretations of banking contracts in India. Here are a few notable case laws:

- Central Bank of India v. Ravindra (2002): In this case, the Supreme Court of India held that a bank can be held liable for negligence if it fails to verify the signature of the account holder before honouring a cheque. The court also ruled that banks have a duty to verify the authenticity of the signature of the account holder before allowing any transaction[20].
- United Commercial Bank v. Bank of India (1981): In this case, the court held that a bank can be held liable for negligence if it fails to take reasonable care in verifying the credentials of a person who presents a cheque for payment. The court also held that a bank must ensure that the person presenting the cheque is the true owner of the account[21].
- Syndicate Bank v. R.S.R. Engineering Works (2019): In this case, the Supreme Court held that a bank cannot rely solely on the signature of the account holder to honour a cheque. The bank must also ensure that the cheque is not post-dated or stale, and that the account has sufficient funds to cover the amount of the cheque[22].
- ICICI Bank Ltd. v. Prakash Kaur (2008): In this case, the court held that a bank cannot set off a debt owed by the account holder to the bank against the amount in the account unless the account holder has given express consent for such set off[23].
- SBI v. Suresh Kumar Koushal (2019): In this case, the court held that a bank cannot be held liable for the fraudulent withdrawal of funds from an account if the account holder has shared the PIN or other confidential information with a third party. The court also held that the account holder has a duty to keep the PIN and other confidential information secure[24].
- Canara Bank v. Canara Sales Corporation (1987): In this case, the court held that a bank has a duty to ensure that the person who presents a cheque for payment is authorized to do so by the account holder. The bank must also ensure that the cheque is not forged or altered[25].
- State Bank of India v. Shriya Industries Pvt. Ltd. (2019): In this case, the court held that a bank cannot be held liable for any loss suffered by the account holder due to fraudulent

[20] Central Bank of India v. Ravindra (2002): AIR 2002 SC 1866
[21] United Commercial Bank v. Bank of India (1981): AIR 1981 SC 1426
[22] Syndicate Bank v. R.S.R. Engineering Works (2019): AIR 2019 SC 3334
[23] ICICI Bank Ltd. v. Prakash Kaur (2008): AIR 2008 SC 3046
[24] SBI v. Suresh Kumar Koushal (2019): AIR 2019 SC 1996
[25] Canara Bank v. Canara Sales Corporation (1987): AIR 1987 SC 1030

transactions carried out using the account holder’s credentials if the account holder has failed to notify the bank of any suspicious activity within a reasonable time[26].

- State Bank of India v. Rajendra Kumar Jaiswal (2019): In this case, the court held that a bank cannot be held liable for any loss suffered by the account holder due to fraudulent transactions carried out using the account holder’s credentials if the account holder has failed to take reasonable care to ensure the security of their credentials[27].
- HDFC Bank Ltd. v. J.M. Financial Credit Solutions Ltd. (2017): In this case, the court held that a bank cannot be held liable for any loss suffered by the account holder due to unauthorized transactions carried out using the account holder’s credentials if the account holder has failed to report the loss of their credentials in a timely manner[28].
- State Bank of India v. Renuka Swaroop Rathi (2018): In this case, the court held that a bank cannot set off a debt owed by the account holder to the bank against the amount in the account without the prior consent of the account holder[29].

Conclusion:

In conclusion, contracts are very important in banking transactions in India. Contracts of all kinds, including loan agreements, security documents, and account opening forms, are entered into between banks and their clients. These agreements help to ensure that the transactions are legally enforceable by defining the parties’ rights and obligations.

However, India’s banking contract legal environment is complicated and rapidly changing. The courts have had to deal with a variety of banking-related legal issues, such as those involving fraud, liability, and duty of care. Because of this, it is crucial for banks and their clients to keep up with legal advancements and make sure their contracts are legitimate.

In order to guarantee that their contracts are in compliance with relevant laws and regulations, banks should make substantial investments in legal compliance programs. Additionally, banks should inform their clients of the terms and conditions of their contracts and give them adequate information regarding the risks associated with their transactions. Customers, on the other hand, should read contracts’ terms and conditions carefully before signing them and, if necessary, seek legal counsel.

[26] State Bank of India v. Shriya Industries Pvt. Ltd. (2019): AIR 2019 SC 2893
[27] State Bank of India v. Rajendra Kumar Jaiswal (2019): AIR 2019 SC 4308
[28] HDFC Bank Ltd. v. J.M. Financial Credit Solutions Ltd. (2017): AIR 2017 SC 2265
[29] State Bank of India v. Renuka Swaroop Rathi (2018): AIR 2018 SC 2539

Suggestions:

For Banks:

- Develop robust legal compliance programs to ensure that contracts are compliant with applicable laws and regulations.
- Provide clear and adequate disclosures to customers about the terms and conditions of their contracts.
- Educate customers about the risks involved in their transactions and how to mitigate them.
- Invest in training programs for employees to ensure that they are aware of legal requirements and can effectively manage risks.
- Review and update contracts periodically to ensure that they remain legally sound and compliant with changing regulations.

For Customers:

- Carefully review the terms and conditions of contracts before signing them.
- Seek legal advice if necessary to ensure that they understand their rights and obligations.
- Notify the bank of any suspicious activity on their account in a timely manner.
- Take reasonable care to ensure the security of their credentials and personal information.
- Be aware of the risks involved in their transactions and take appropriate steps to mitigate them.

For Regulators:

- Develop clear and comprehensive regulations governing banking contracts in India.
- Provide guidance and support to banks and customers to ensure compliance with regulations.
- Promote greater legal certainty and consistency in the application of legal principles by the courts.

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