

## Banking Law and Practice

### Case Study Analysis

#### Unit I: Introduction to Banking

##### Case Study 1: Classification and Licensing

###### Question:

The Reserve Bank of India (RBI) is considering two applications for new banks: one from a Non-Banking Financial Company (NBFC) specializing in microfinance that wishes to convert into a Small Finance Bank (SFB), and another from a large corporate house seeking a license for a new Private Sector Universal Bank.

1. **Analyse** the primary differences in the business objectives, capital requirements, and regulatory restrictions between a **Small Finance Bank** and a **Private Sector Universal Bank**.
2. **Explain** the potential impact of these new banks on financial inclusion and competition within the Indian banking sector.

###### Answer & Explanation:

The case requires an understanding of the structure and function of different **Types of Banks** in India, specifically the distinction between an SFB and a Private Sector Universal Bank.

- 1. Primary Differences:

Feature	Small Finance Bank (SFB)	Private Sector Universal Bank
Objective	Primarily to promote <b>financial inclusion</b> by serving unserved/underserved sections like small businesses, marginal farmers, and the unorganized sector.	Offer a full range of banking, financial, and related services to the general public, corporates, and SMEs, maximizing profit.
Capital	Lower minimum net worth requirement (e.g., ₹200 crore - subject to RBI updates) but must maintain specific Capital to Risk-Weighted Assets Ratio (CRAR).	Significantly higher minimum net worth requirement (e.g., ₹500 crore, subject to RBI updates).
Lending & Priority Sector	Primarily required to fulfil high Priority Sector Lending (PSL) targets, often higher than universal banks. 75% of the Adjusted Net Bank Credit (ANBC) must be PSL.	Required to meet statutory PSL targets (currently 40% of ANBC) covering agriculture, SMEs, etc.
Operations	Restricted to accepting small deposits and offering loans primarily to the target segments. Can also offer basic treasury and FX services.	Offers a wide range of products including retail banking, corporate banking, investment banking, wealth management, and foreign exchange operations.

- 2. Potential Impact:

- SFB's Impact:** An SFB is designed to deepen financial inclusion. By targeting micro-businesses and small borrowers, it helps formalize lending, moving customers away from informal, high-interest money lenders. This increases competition in the niche lending sector and brings specialized expertise in microfinance under stronger RBI regulation.
- Universal Bank's Impact:** The entry of a new large private universal bank increases competition across all banking segments (deposits, loans, technological services). This often leads to better customer service, lower interest rates, and accelerated adoption of digital banking features, benefiting both corporate clients and the affluent retail segment.

### Case Study 2: Banker-Customer Relationship

#### Question:

Mr. Sharma maintains a Current Account with "Axis Bank" and a Savings Account with "HDFC Bank." He frequently issues cheques, and his accounts occasionally face liquidity issues. In February, he issued a cheque for ₹50,000 to a supplier, Mr. Verma, drawn on his Axis Bank account. On the day of presentation, his Axis Bank account balance was ₹48,000. Simultaneously, his HDFC Bank Savings Account had a balance of ₹1,00,000.

- Determine** the nature of the primary relationship between Mr. Sharma and Axis Bank, and Mr. Sharma and HDFC Bank.
- Advise** Axis Bank on its legal obligation regarding the cheque presented by Mr. Verma, considering the balance in the HDFC Bank account. Can Axis Bank use the funds in the HDFC Bank account?
- Define** the term "General Lien" in the context of this relationship.

#### Answer & Explanation:

The case focuses on the fundamental nature of the **Banker and Customer Relationship** and the specific duties of a bank, especially concerning **Dishonour of Cheques**.

- 1. Nature of Relationship:

- The primary, general relationship between a bank and its customer (when the customer has a credit balance) is that of a **Debtor and Creditor**.
  - When Mr. Sharma has money in his account, the bank (Axis/HDFC) is the **Debtor** (owes the money), and Mr. Sharma is the **Creditor** (is entitled to receive the money).
  - When Mr. Sharma takes a loan, the roles reverse: the bank is the Creditor, and Mr. Sharma is the Debtor.
- The relationship is also a **Contractual Relationship** based on implied and express terms, giving rise to other roles like Agent and Principal (for collecting

cheques), Trustee and Beneficiary (for safe-custody), etc.

- **2. Axis Bank's Obligation & Funds:**

- **Obligation:** Axis Bank **must dishonour** the cheque for ₹50,000. The legal duty of a paying banker is to honour a cheque *only* if there are **sufficient funds** in the specific account on which the cheque is drawn. Since the balance in the Axis Bank Current Account (₹48,000) is less than the cheque amount (₹50,000), the reason for dishonour would be "**Insufficient Funds**".
- **Use of HDFC Funds:** Axis Bank **cannot** use the funds in Mr. Sharma's HDFC Bank account. A bank can only operate on accounts held with *itself*. The concept of '**Set-off**' (combining balances of different accounts) can only be applied to accounts held by the **same customer** in the **same capacity** within the **same bank**. Axis Bank has no legal right or operational mechanism to access or 'set-off' funds held by Mr. Sharma at a completely separate entity, HDFC Bank.

- **3. General Lien:**

- **General Lien** is the bank's right to retain movable property (like securities, fixed deposit receipts, etc.) deposited by a customer until the general debt due to the bank by that customer has been paid.
- **Definition:** Section 171 of the Indian Contract Act, 1872, grants bankers the right to a general lien.
- **Relevance:** In this case, if Mr. Sharma owed Axis Bank money on an unrelated loan, the bank could exercise a lien over any securities or other movable assets he may have deposited with them. However, a lien **cannot** be exercised over a **credit balance** in an account, as that is deemed a deposit, not security.

## Unit II: Paying and Collecting Banker

### Case Study 3: Dishonour and Statutory Protection (Paying Banker)

Question:

Mr. Kumar, a customer of "Global Bank," issues a cheque for ₹2,00,000 payable to 'Self' and endorses it to Mr. Das. Before the cheque is presented for payment, Mr. Kumar sends an email to Global Bank instructing them to stop payment on the cheque due to a dispute with Mr. Das over the underlying transaction. A day later, the cheque is presented through clearing. The bank's branch manager, due to an internal oversight, misses the 'Stop Payment' instruction and pays the cheque.

1. **Analyze** the legal position of Global Bank, the **Paying Banker**, after making the payment despite the valid stop-payment instruction.
2. **Explain the Statutory Protection** available to a Paying Banker under the **Negotiable Instruments Act, 1881**, and determine if the bank can claim this protection in this specific scenario.

## Answer & Explanation:

The case deals with the core duties and liabilities of a **Paying Banker**, specifically the obligation to obey the customer's order and the **Statutory Protection** provided for *good faith* payments.

- **1. Legal Position of Global Bank:**

- The paying banker's primary duty is to **obey the customer's mandate**. A valid instruction to **Stop Payment** effectively **revokes the mandate** (Section 72 of the NI Act).
- By paying the cheque after receiving a valid stop-payment order, Global Bank has acted **against its customer's mandate**. The payment is considered **wrongful payment**.
- **Liability:** Global Bank **cannot debit** Mr. Kumar's account for ₹2,00,000. The bank will have to bear the loss. Mr. Kumar's account balance must be restored, and the bank will have to pursue recovery from Mr. Das (the recipient), which is a difficult legal process.

- **2. Statutory Protection and Applicability:**

- **Statutory Protection** is primarily given to protect the Paying Banker when they pay a cheque *in due course* but the **endorsement is forged**, or the **cheque is not drawn on them**.
- **Section 85 of the NI Act, 1881** protects the paying banker if they pay a bearer cheque or an order cheque (duly endorsed) *in good faith and without negligence* even if the payee or endorsee later turns out to have a defective title.
- **Section 10** defines "Payment in Due Course" as payment made *honestly and without negligence* according to the apparent tenor of the instrument, to the person in possession of it, under circumstances that do not afford a reasonable ground for believing that he is not entitled to receive payment.
- **In this scenario, the bank cannot claim protection.** The issue is not a forged endorsement or defective title; the issue is the bank's **negligence** in failing to obey a direct, prior instruction from the drawer (the customer). This failure breaks the bond of "payment in due course" as the bank did not act "without negligence."

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## Case Study 4: Duties and Liabilities (Collecting Banker)

Question:

A company's clerk, Mr. Sahoo, steals a bearer cheque for ₹1,50,000 made payable to the company, "TechSolutions Ltd." Mr. Sahoo opens a new savings account in his personal name, "Sahoo," at "Capital Bank." He endorses the cheque as "Sahoo, Manager, TechSolutions Ltd." (a forged endorsement) and deposits it into his personal savings account. Capital Bank, the Collecting Banker, collects the funds from the drawee bank without any specific inquiry into the authority or the nature of the transaction. Mr. Sahoo subsequently withdraws the money. TechSolutions Ltd. discovers the fraud and sues Capital Bank for conversion.

1. **Analyze** the primary duty of the **Collecting Banker** and explain why Capital Bank is **prima facie** liable for conversion.
2. **Explain** the statutory protection available to a **Collecting Banker** under **Section 131 of the NI Act, 1881**.
3. **Determine** if Capital Bank can avail the protection of Section 131 in this situation.

#### Answer & Explanation:

This case is a classic example of the **Collecting Banker's** liability for **Conversion** and the requirements to avail **Statutory Protection**.

- **1. Primary Duty and Prima Facie Liability:**
  - The Collecting Banker's primary duty is to act as an **agent** of the customer and exercise **reasonable care and diligence** in collecting the proceeds of cheques.
  - **Conversion** is the wrongful interference with the property of another. By collecting the money for Mr. Sahoo (who had no title) and crediting it to his personal account, Capital Bank has facilitated the conversion of the company's funds, making it **prima facie** liable to the true owner (TechSolutions Ltd.).
- **2. Statutory Protection (Section 131):**
  - **Section 131** of the NI Act protects the collecting banker from liability to the true owner (like TechSolutions Ltd.) if the bank:
    - **Acts in good faith** (honestly).
    - **Acts without negligence**.
    - Collects a **crossed cheque** for a customer.
  - If a bank satisfies these three conditions, it is immune from the charge of conversion, even if the customer's title to the cheque is defective.
- **3. Applicability of Section 131:**
  - Capital Bank **will likely fail** to get the protection of Section 131 because it acted **negligently**.
  - **Key points of negligence:**
    - **Collection for a Personal Account:** The cheque was payable to a **company** ("TechSolutions Ltd.") but was being credited to a **personal savings account** ("Sahoo"). This is a serious red flag that a bank, acting with diligence, should investigate.
    - **Forged Endorsement:** Accepting a cheque payable to a company and endorsed by an employee with an unauthorized designation ("Sahoo, Manager...") is highly suspicious, especially for a new account. The bank had a duty to inquire into the employee's authority.
  - Because the bank failed to make reasonable inquiries concerning the nature of

the transaction and the authority of the person depositing a third-party cheque into a personal account, it acted with **negligence** and thus forfeits the protection of Section 131.

### Unit III: Negotiable Instruments and Endorsement

#### Case Study 5: Promissory Note and Bill of Exchange

Question:

Mr. Rohan urgently needs ₹5,00,000 for his business.

- **Scenario A:** Mr. Rohan approaches his friend, Mr. Suresh, and receives the money after promising in writing to repay it within 90 days with 10% interest.
  - **Scenario B:** Mr. Rohan purchases goods worth ₹5,00,000 from a supplier, Mr. Deepak. Since Rohan needs time to pay, Deepak draws an unconditional written order to Mr. Rohan, directing him to pay ₹5,00,000 to "Mr. Rajan or order" after 90 days. Rohan accepts the order by signing it.
1. **Identify** the Negotiable Instrument created in **Scenario A** and **Scenario B**, respectively, and **state** the primary characteristics of each.
  2. **Differentiate** between the two instruments based on the number of parties, the nature of the promise/order, and the liability of the maker/drawer.

#### Answer & Explanation:

This case requires the identification and comparison of the two primary Negotiable Instruments under the NI Act, 1881: the **Promissory Note** and the **Bill of Exchange**.

- **1. Identification and Characteristics:**
  - **Scenario A: Promissory Note**
    - **Identification:** The document is a **Promissory Note**. It is an unconditional **undertaking/promise** made by Rohan to pay a certain sum of money (₹5,00,000 plus interest) to Suresh.
    - **Characteristics:** It must be in writing, signed by the maker (Rohan), contain an unconditional promise to pay, and the sum must be certain.
  - **Scenario B: Bill of Exchange**
    - **Identification:** The document is a **Bill of Exchange**. It is an unconditional **order** written by the seller (Deepak) to the buyer (Rohan), directing him to pay a certain sum of money to a third party (Rajan).
    - **Characteristics:** It must be in writing, signed by the drawer (Deepak), contain an unconditional order to pay, the sum must be certain, and it must be accepted by the drawee (Rohan) to become legally binding.
- **2. Differentiation:**

Feature	Promissory Note	Bill of Exchange
No. of Parties	Two parties: <b>Maker</b> (Debtor/Rohan) and <b>Payee</b> (Creditor/Suresh).	Usually Three parties: <b>Drawer</b> (Creditor/Deepak), <b>Drawee</b> (Debtor/Rohan), and <b>Payee</b> (Rajan).
Nature	Contains a <b>promise</b> to pay.	Contains an <b>order</b> to pay.
Liability	The <b>Maker</b> (Rohan) is <b>primarily and absolutely</b> liable.	The <b>Drawer</b> (Deepak) is <b>secondarily and conditionally</b> liable. The <b>Drawee</b> (Rohan) becomes <b>primarily liable</b> only after he <b>Accepts</b> the bill.

### Case Study 6: Endorsement and Negotiation

Question:

Mr. Anil is the payee of a Bill of Exchange for ₹10,00,000. He uses the bill to settle several different obligations:

1. To pay his landlord, he simply signs his name 'Anil' on the back of the bill and hands it over.
2. To pay his supplier, he writes "Pay Mr. Bimal only" and signs 'Anil'.
3. To pay his tax consultant, he writes "Pay Mr. Charles or his order, but only upon presentation of the tax clearance certificate" and signs 'Anil'.
4. Identify and explain the Type of Endorsement used in actions 1 and 2.
5. Evaluate the validity of the statement/condition made in action 3 regarding the negotiation of the instrument.

Answer & Explanation:

This case explores the various methods of **Endorsement** and their legal effect on the negotiability of an instrument.

- 1. Type of Endorsement:
  - Action 1: Blank Endorsement (or General Endorsement)
    - **Explanation:** Anil merely signed his name without specifying the endorsee. This type of endorsement converts an 'order' instrument into a 'bearer' instrument. The instrument can now be negotiated by **mere delivery** (without further endorsement) until it is converted back by a special endorsement.
  - Action 2: Restrictive Endorsement
    - **Explanation:** Anil restricted the right of further negotiation by writing "Pay Mr. Bimal only." This endorsement signifies that Bimal can receive

payment, but he cannot further negotiate (transfer) the instrument to another party. It extinguishes the free negotiability of the instrument.

- **2. Validity of Endorsement in Action 3:**

- The endorsement in action 3 states: *"Pay Mr. Charles or his order, but only upon presentation of the tax clearance certificate"* and is signed.
- **Validity:** This is an **Invalid Endorsement** if the instrument is to remain a true Negotiable Instrument.
- **Reasoning:** A core characteristic of a Negotiable Instrument is that the **promise/order to pay must be unconditional** (Section 5 of the NI Act). The condition added by Anil ("but only upon presentation of the tax clearance certificate") makes the payment conditional/contingent upon an event. An instrument that is made conditional by endorsement **ceases to be a negotiable instrument** and is not legally enforceable under the NI Act.

## Unit IV: Deposit Accounts and Account Holders

### Case Study 7: Opening and Operating of Deposit Account (Partnership Firm)

Question:

Mr. Gopal, Mr. Harish, and Mr. Ijaz decide to start a business together and approach "Trust Bank" to open a Current Account in the name of their new Partnership Firm, "GHI Traders." They submit the application form, the registered partnership deed, and a resolution. The partnership deed contains a clause stating that "any two partners are authorized to operate the bank account jointly."

1. **Outline** the essential **Procedure for Opening** the Current Account for "GHI Traders," emphasizing the key documents and the bank's due diligence regarding the firm's constitution.
2. **Advise** Trust Bank on the appropriate **Operating Instructions** to record for this account based on the partnership deed and its implications for the bank's liability.
3. **Explain** the bank's action if a **notice of dissolution** of the partnership is received from only one partner, Mr. Gopal.

**Answer & Explanation:**

This case focuses on the specific requirements for opening a deposit account for a **Partnership Firm** and the concept of **Mandate** (operating instructions).

- **1. Procedure for Opening and Due Diligence:**

- **Application:** Formal application form signed by all partners.
- **Resolution:** A copy of the **Partners' Resolution** (or a relevant clause in the deed) authorizing the opening of the account and specifying the **mandate** (operating instructions) for the bank.

- **Key Documents:**
  - **Registered Partnership Deed:** This is the most crucial document, detailing the names of partners, the nature of business, capital contribution, and, critically, the **rules for operation and dissolution**.
  - **Certificate of Registration** (if registered).
  - **Power of Attorney** (if one partner is authorized to act for others).
  - **Know Your Customer (KYC)** documents for the firm (e.g., address proof) and **all partners** (ID and address proof).
- **Due Diligence:** The bank must study the Deed to ensure the account operation is in line with the terms, especially to confirm the authority of partners to borrow, pledge assets, and sign cheques.
- **2. Operating Instructions and Bank's Liability:**
  - **Operating Instructions:** Based on the deed's clause, the instruction recorded must be **"Jointly by any two partners."** This means any cheque, withdrawal slip, or instruction must bear the signatures of at least two of the three partners (e.g., Gopal and Harish, Harish and Ijaz, or Gopal and Ijaz).
  - **Liability:** By strictly adhering to this mandate, the bank ensures that it is acting according to the customers' (the firm's) instructions. If the bank pays a cheque signed by only one partner, it would be a **Wrongful Payment** and the bank would be liable to the firm for the loss.
- **3. Notice of Dissolution:**
  - A partnership can be dissolved by agreement, notice, or death/insolvency of a partner.
  - **Bank's Action:** Upon receiving a notice of dissolution from **any one partner** (Mr. Gopal), the bank's **mandate is immediately revoked**. The bank must:
    - **Stop Operations:** Immediately stop all operations (payments/withdrawals) on the firm's current account.
    - **Confirmation:** Acknowledge the notice and inform all other partners (Harish and Ijaz) of the account freeze.
    - **Future Operations:** Only allow future withdrawals/payments after receiving **fresh, unanimous instructions** from all partners or an order from a competent court regarding the settlement of the firm's accounts.

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### Case Study 8: Accounts of Minor and HUF

Question:

Two customers approach "State Bank":

- **Case A:** Mrs. Preeti wants to open a **Savings Account** in the name of her 15-year-old son, **Aryan (Minor)**, to teach him financial management.
  - **Case B:** The Karta, Mr. Rajesh, approaches the bank to open a **Savings Account** for his **Hindu Undivided Family (HUF)**.
1. **Explain** the procedure for opening and operating the Minor's Account (Case A) and state the key distinction between an account opened "in the name of the minor" and an account opened "by a guardian on behalf of a minor."
  2. **Outline** the process for opening the HUF Account (Case B), clarifying the legal position of the **Karta** and who holds the power to operate the account.

### Answer & Explanation:

This case requires knowledge of the banking rules for opening accounts for legally restricted entities: a **Minor** and a **Hindu Undivided Family (HUF)**.

- **1. Minor's Account (Case A):**
  - **Procedure:** Aryan is 15 (a minor). A bank can allow a minor to operate a Savings Account provided the minor has attained the age of 10 (as per RBI guidelines).
  - **Types of Minor Accounts:**
    - **Account operated by Guardian on behalf of the Minor:** The guardian (Mrs. Preeti) operates the account till the minor attains majority (18 years). The bank deals only with the guardian. The minor is generally not allowed to draw cheques.
    - **Account operated by the Minor:** If the minor is judged capable of operating the account and is above a certain age (usually 10), the bank may allow the minor to operate it solely. **Mrs. Preeti's goal suggests this type.**
  - **Key Distinction:** The bank **should not grant overdraft facility** to any minor's account. Upon the minor attaining majority, the account mandate changes, and the bank must get the **minor's fresh consent** and KYC to continue the account in the adult's name.
- **2. HUF Account (Case B):**
  - **Process for Opening:**
    - Application in the name of the HUF (e.g., "Rajesh & Sons HUF").
    - KYC of the HUF (e.g., PAN Card) and KYC of the **Karta** (Mr. Rajesh).
    - A formal **HUF Declaration** is required, signed by all adult coparceners, stating the names of all members and confirming Mr. Rajesh as the current **Karta**.
  - **Legal Position of Karta:** The **Karta** (usually the eldest male member) is the **manager and trustee** of the HUF's property and business. Legally, the Karta is the **sole operating authority** of the bank account. He is considered the

representative of the HUF, and his actions bind the HUF.

- **Operation:** The account will be operated **solely by the Karta**, Mr. Rajesh, unless he delegates the authority to a coparcener/member via a Power of Attorney (which is rare for a Savings Account). The Karta's signature is the only one required for all transactions.

## Unit V: Digital Banking Services

### Case Study 9: Digital Fund Transfer (NEFT, RTGS, IMPS)

Question:

A Corporate Customer, "TechCorp," needs to make three urgent payments on the same day:

1. **Payment 1:** A single, high-value payment of **₹12 Crores** to a vendor in a different city. The recipient must receive the funds **immediately** for a crucial tender submission.
2. **Payment 2:** A payment of **₹1,50,000** to a new employee who needs the funds within the **hour** for an immediate personal emergency.
3. **Payment 3:** A bulk payment of **50 salaries** ranging from ₹30,000 to ₹1,00,000 each, which can be processed in a **batch** with a 2-hour delay being acceptable.
4. **Recommend** the most suitable digital fund transfer mechanism (RTGS, NEFT, or IMPS) for each of the three payments, justifying your choice based on the features and transfer limits of each system.
5. **Differentiate** between the processing methodology of RTGS and NEFT.

#### Answer & Explanation:

The case requires a practical understanding and application of the different **Digital Fund Transfer** systems in India: RTGS, NEFT, and IMPS.

- **1. Recommendation and Justification:**

Payment	Amount / Need	Mechanism	Justification
1	₹12 Crores (High Value, Immediate)	RTGS (Real-Time Gross Settlement)	RTGS is designed for <b>large-value</b> transactions (Minimum ₹2 Lakh). Crucially, the transfer is settled <b>individually (Gross)</b> and in <b>Real-Time</b> (continuous, immediate), meeting the urgent, high-value requirement.
2	₹50,000 (Medium Value, Immediate)	IMPS (Immediate Payment Service)	IMPS is available <b>24x7x365</b> and facilitates <b>immediate, interbank</b> fund transfer. Unlike RTGS, there is no minimum value, and unlike NEFT, the settlement is instantaneous (real-time).
3	Bulk Salaries (Medium Value, Batch)	NEFT (National Electronic Funds)	NEFT settles transactions in <b> batches</b> at specific intervals throughout the day. This batch-wise, deferred settlement (not real-time) makes it suitable for bulk transfers like salaries, where a short delay (e.g., a 2-hour batch cycle) is acceptable. There is no minimum or maximum limit for NEFT.

	Transfer)	NEFT.
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- 2. Differentiation of RTGS and NEFT Methodology:

Feature	RTGS (Real-Time Gross Settlement)	NEFT (National Electronic Funds Transfer)
Settlement Basis	<b>Gross Settlement</b> (Transactions are settled individually and one-to-one).	<b>Deferred Net Settlement (DNS)</b> Transactions are grouped into <b>batches</b> and settled at a fixed time, netting off payments and receipts between banks).
Timeliness	<b>Real-Time</b> (Settlement is continuous and immediate upon processing).	<b>Time-Bound</b> Settlement occurs after a time-lag, based on pre-defined batch timings).
Value	Primarily for <b>High Value</b> transactions (Minimum ₹2 Lakh).	or <b>Any Value</b> transactions (No minimum/maximum limits).

### Case Study 10: Artificial Intelligence (AI) and Digital Channels

Question:

"Zenith Bank" is undergoing a major digital transformation and plans to integrate Artificial Intelligence (AI) across its service channels.

1. Identify and explain two distinct applications of AI in **Digital Banking Services** (e.g., customer service, risk management, or operations) that Zenith Bank could implement.
2. Discuss the key **Advantages of Digital Banking Services** (Mobile Banking, Internet Banking) over traditional physical banking for a customer, focusing on **Convenience, Cost, and Accessibility**.

Answer & Explanation:

This case examines the emerging role of **Artificial Intelligence in Banking** and the overarching **Advantages of Digital Banking**.

- 1. Applications of AI in Digital Banking:
  - Application A: AI-Powered Chatbots/Virtual Assistants (Customer Service)
    - Explanation: Zenith Bank can deploy AI-powered chatbots on its website and mobile app. These bots use **Natural Language Processing (NLP)** to understand customer queries (balance check, transaction history, general FAQs) and provide instant, 24/7/365 responses. This reduces the load on human call centers, cuts costs, and improves customer

experience by offering immediate resolution for common issues.

- **Application B: Fraud Detection and Risk Management (Risk Management)**

- **Explanation:** AI uses **Machine Learning (ML) algorithms** to analyze vast amounts of transactional data in real-time. It establishes a "normal" behavior pattern for each customer. When a transaction deviates significantly from this pattern (e.g., a large purchase made from a new country/device), the AI flags it as high-risk, potentially blocking the transaction or alerting the customer instantly. This proactive system significantly reduces financial losses from credit card and digital fraud compared to rule-based legacy systems.

- **2. Advantages of Digital Banking Services:**

Advantage	Explanation for Customer
Convenience (24/7 Access)	Digital Banking (Mobile/Internet) eliminates the dependency on branch working hours. Customers can perform transactions (transfers, bill payments, check balances) anytime, anywhere, significantly saving time and effort.
Cost (Lower Transaction Costs)	Many digital transactions (NEFT, IMPS, UPI) are offered free of charge or at a much lower cost than physical transactions (like demand drafts or cheque processing). This translates to overall cost savings for the customer.
Accessibility	Digital platforms allow banking access in remote areas without a physical branch and provide services to the physically challenged. For instance, a customer can open an account or get a loan approved digitally without ever visiting a bank office.

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