

# Banking Law in Nepal

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B U D D H A



P U B L I C A T I O N S

# Banking Law in Nepal

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*To my parents*  
*Ganga Devi and Prem Prasad*

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# Preface

Banks to a country's economy are of pivotal importance – they facilitate the flow of money in the economy, like the blood vessels facilitate the flow of blood inside a human body. A lawful operation and regulation of the banking system is necessary for the smooth functioning of the economy. Banking law is the branch of public law which seeks to regulate the establishment, operation and termination of any banking company or financial institution, and contributes in maintaining the trust of the general people towards banking system.

Keeping in view the growing role of banking system in the economy, there have been made a number of laws and rules relating to the operation and regulation of banking business in Nepal. As an academic and a lawyer involved in the teaching and practice of banking and business laws in Nepal, I have strived to fulfill the vacuum of a book on contemporary Nepalese banking law written in English language.

This book provides a general introduction to the range and reach of the law of banking. It also presents a framework of the possibilities and limits of contemporary Nepalese banking law. This book is prepared to meet the requirements of the academic and professional markets, and is believed to be useful to academia, legal practice and banking sectors. Students, professors, bankers and lawyers studying about or practicing in this area of law are the expected beneficiaries of this work. It also fulfills the requirement of the academic courses of banking laws in the management and law schools of Nepal. The enthusiastic responses that my other books on other branches of commercial law have received from the market have encouraged me to prepare this book.

This book has been divided into five units. The first part highlights the general introduction and principles of Banking Law, Establishment and Functions of Bank. The second part deals with Central Bank and Bank Regulation in Nepal. The third part deals with Bank Management (AGM and BoD). The fourth part deals with Bank and Customer Relation, Negotiable Instruments and Int'l Banking Organizations. The fifth part provides a highlight of the major banking laws in force in Nepal. In sum, this book has covered most of the important aspects of the law of banking in the Nepalese context, and has highlighted the recent practices and latest developments in the Nepalese banking law. The dates given in this book are of the *Bikram Sambat* calendar, unless specified as *Anno Domini*. At the end, it contains a subject index.

**Author**

# Acknowledgements

I would like to acknowledge and thank all persons whose supports have been taken in the course of preparation of this book. I must extend my thanks to all the writers whose works have been cited and referenced in this work. I thank all the students, professors, lawyers and professionals who have encouraged me to prepare this book by providing enthusiastic responses to my earlier publications in the field of commercial law.

I would like to thank Dr. Hari Sharan Chakhun, Bidur Dhungana, Ramesh Poudel, Bharat Pant, and also the librarians of Nepal Law Campus Library, Central Law Library and Nepal Bar Association Library for their support.

I express my warm appreciation to Nabaraj Bajgain, Managing Director of Buddha Publications Pvt. Ltd., for his support and cooperation. I would like to thank the efficient staff of the publication house, Dipendra Shrestha and Rajani Shrestha, for their appreciable and tireless computer job.

My heartfelt thanks must go to my wife, *Nirmala*, and son, *Sanitya*, who has worked as my Research Assistant for the preparation of this work, for their encouragement, patience and support. Their love, encouragement and support are of paramount importance to me. My gratitude also goes to my parents who have reared and made me capable to this extent. This book is dedicated to my mother late *Ganga Devi* and my father late *Prem Prasad*.

Despite the care we have taken, there may still be some flaws in this work. Any comments, suggestions or feedback from the readers or corrections of any mistakes are welcome, and will be take care of in the second edition. Thank you.

Kathmandu  
February 12, 2020

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# Table of Some Abbreviations

ACU	- Asian Clearing Union
ADB	- Asian Development Bank
AGM	- Annual General Meeting
BAFIA	- Bank and Financial Institution Act
BFI	- Bank and Financial Institution
BFIs	- Bank and Financial Institutions
BOPA	- Banking offence and Punishment Act
EGM	- Extra-ordinary General Meeting
IMF	- International Monetary Fund
Int'l	- International
KYC	- Know Your Customer
NRB	- Nepal Rastra Bank
NRBA	- Nepal Rastra Bank Act
SEACEN	- South East Asian Central Banks Research and Training Centre
WBG	- World Bank Group
WTO	- World Trade Organization