



BANKING STRUCTURE IN INDIA

Brief history of banking in India

1) RBI is the central Bank of India and controls the entire money issue, circulation and control by its monetary policies and ending policies. It was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934 & Nationalized in 1949.

Nationalisation of banks

Nationalisation of banks means taking over banks ownership or majority shareholding by Government in larger public interest. Nationalisation of Imperial Bank of India and its conversion into State Bank of India took place in July 1955. Conversion of 8 major State-associated banks into subsidiary banks of SBI in 1959. Nationalisation of 14 Indian scheduled banks in July 1969. Nationalisation of 6 more banks in April 1980 & Indian bank merged into Punjab National Bank.

Banking structure in India

The structure divides the banks into two categories: scheduled banks and non-scheduled banks. However, the Reserve Bank of India is at the center of the banking structure. Scheduled Banks in India The eligibility criteria exist for scheduled banks:

- a) The first of which entails carrying on the business of banking in India.
- b) All scheduled banks must maintain a reserve capital of 5 lakhs rupees in the Reserve Bank of India.
- c) These are registered under the second schedule of RBI Act, 1934.

RBI and its role

- 1) RBI is the central Bank of India and controls the entire money issue, circulation and control by its monetary policies and lending policies.
- 2) It is also known as the lender of last resort.
- 3) It was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934 & nationalized in 1949.

Main Functions

- 1) Monetary Authority: Formulate, implements and monitors the monetary policy.
- 2) Regulator and supervisor of the financial system: Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- 3) Manager of Foreign Exchange: Manages the Foreign Exchange Management Act, 1999.
- 4) Issuer of Currency: Issues and exchanges or destroys currency and coins not fit for circulations.

- 5) Development role: Performs a wide range of promotional functions to support national objectives.
- 6) Bankers to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- 7) Bankers to banks: maintains banking accounts of all scheduled banks.

Basis for Comparison	Commercial Bank	Cooperative Bank
Meaning	offers banking services to individuals and businesses	A bank set up to provide finance to agriculturists, rural industries and to trade.
Governing Act	Banking Regulation Act, 1949	Cooperative Societies Act, 1965
Motive of operation	Profit	Service
Borrowers	Account holders	Member shareholders
Banking service	Offers an array of services.	Comparatively less variety of services.
Interest rate on deposits	Less	Slightly higher

COOPERTIVE BANK STRUCTRE IN INDIA

Cooperative banks –

- 1. registered under the cooperative societies act –
- 2. primary focus on rural & agro sector.
- 3. Banking regulation act 1949 & RBI are partially applicable –
- 4. seek refinance & financial assistance from RBI.

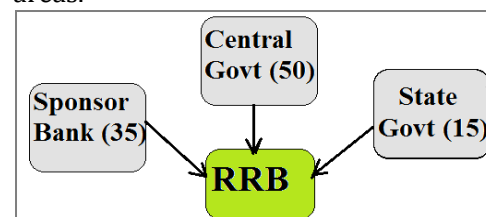
Three tier federal structure

SCB → CCB → PACS.

Though not efficient but highly suited to the socio economic conditions of Indian village and has vast network.

Deficiencies – Lack of organisation weakness – inadequate resources – over dues – inadequate & restricted credit.

RRBs – Established in 1975 – providing credit to agriculture and allied activities in primarily in rural areas.



- 1. **Paid up capital** contributed by central govt, state govt, sponsoring bank in 50:15:35.
- 2. Limited to specific **regions**.
- 3. RRB can accept deposits, credit expansion, remittances etc. They have to comply with CRR/SLR requirements



Non-bank financial companies (NBFCs)

NBFC are financial institutions that provide banking like services without meeting the legal definition of a bank. These institutions typically are restricted from taking Demand deposits from the public. operations covered under a country's.

Principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions.

Basis for Comparison	Bank	NBFC
Meaning	banking services with bank license.	banking services to people without holding a bank license.
Incorporated under	Banking Regulation Act, 1949	Companies Act 1956
Demand Deposit	Accepted	Not Accepted
Foreign Investment	Allowed up to 74% for private sector banks	Allowed up to 100%
Payment and Settlement system	Integral part of the system.	Not a part of system.
Maintenance of Reserve Ratios	Compulsory	Not required
cheques	Can issue cheques	cannot issue cheques drawn on itself;
Deposit insurance facility	Available	Not available

Payment banks & small banks

Payment Banks-type of banks, which are expected to reach customers mainly through use of technology (mobile phones) rather than traditional bank branches. The objectives is to further financial inclusion by providing

- (i) small savings accounts and
- (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

Small banks- almost Same functions as a commercial banks but major focus on MSME sector.

Small banks (credit & loans)	Payment banks (transactions)
accept all types of deposits like a commercial bank (CASA, FDRD)	Take deposit only on (CASA) Cannot accept (FD)
Conditions: 25% <u>branches</u> in rural, 50% loans to MSME.	Condition: Maximum balance per customer: Rs.1 lakh
Focus: Deposit and loans They'll be opened under "Companies Act 2013".	can't give loans and credits. They can invest (G-sec) only - allowed to sell MF, insurance and pension products, accept utility bill payments.

Target customers: MSME, unorganized workers, small farmers.	Target customers: poor, migrants, unorganized workers wanting to send remittances home.
Who can apply? MFI, NBFC -individual with 10 years' experience in bank - Large companies can't apply.	Who can apply? Indian Post - Corporate house - Telecom companies- Retail chains

Regulatory institutions

Regulatory institutions - is a governmental body that is created by a legislature to implement and enforce specific laws. An agency has quasi-legislative functions, executive functions, and judicial function. i.e They are statutory bodies established by act of parliament

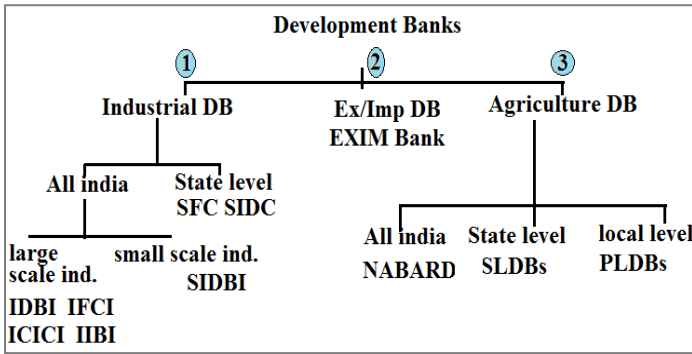
Their roles are —regulation or rulemaking (codifying and enforcing rules and regulations and imposing supervision or oversight for the benefit of the public at large).

Financial sector has various regulatory bodies according to nature of financial activity like banking, insurance etc. some of regulatory bodies are RBI-SEBI-IRDA

REGULATOR	SECTORS	HEADQUARTER
Reserve Bank of India (RBI)	Financial system and monetary policy, Money Market	Mumbai
Securities and Exchange Board of India (SEBI)	Security & Capital Market, stock broking & Merchant Banking, Nidhis, Chit Fund Companies	Mumbai
Insurance Regulatory and Development Authority (IRDA)	Insurance industry	Hyderabad
Telecom Regulatory Authority of India (TRAI)	Telecommunication Industry	New Delhi
Forward Markets Commission	Commodity Market	Mumbai
Pension Fund Regulatory and Development Authority (PFRDA)	Pension sector	New Delhi

Development banks

Development banks - specialised financial institutions to promote investment & industry - provide medium and long term finance needs of industry - financial resources not directly raised by public but from GOI RBI & other financial institutions. Bond issued by IDBI have govt guarantees.



Banks (SCBs), Land Development Bank (LDBs), Regional Rural Banks (RRBs) research and development fund to promote research in agriculture and rural development

As you know, the RBI is responsible for the policy changes in Commercial Banks, in the same way, the NABARD is responsible for the policy changes in RRB's.

Institution and Related sectors				
IFCI	Industrial Finance Corporation of India (IFCI)	1948	Industrial sector	
IDBI	Industrial Development Bank of India Act, 1964	1964	Industrial sector	
SIDBI	Small Industries Development Bank of India (SIDBI)	1989	small-scale industries (MSME sector)	
EXIM	Export-Import Bank of India (EXIM Bank)	1982	Export/	Import sector
NHB	National Housing Bank (NHB), subsidiary of (RBI)	1988	housing sector	

Features of a Development bank –

Doesn't accept deposits – specialised institutions – medium & long term lending – aim to accelerate growth & economic development – objective is to serve public interest & socio economic needs of development rather profits.

Funds of RBI and GOI guarantee backed bonds are the main source of their funds which are available not only at concessional rate but also for long term 10-15 years. Long-term sources-

Capital in form of equity/debts/debentures

Internal accruals out of profits

Long term borrowings from NABARD/SIDBI

Short term sources-

Market linked borrowing from RBI – repos – other financial institutions

Functions of development banks-

Refinance facility- the lending institutions (commercial banks) are provided funds by DB against loans extended to industrial concerns rather direct lending.

Credit guarantee –the small sector is not getting proper finance given the high risk since these units doesn't have sufficient securities. DB provides extend credit guarantee which provide a degree of protection to lending institutions against possible losses.

Securities underwriting refers to the process by which investment banks raise investment capital from investors on behalf of corporations and systematically dis-invest in these securities

NABARD-

National Bank for Agricultural and Rural Development) Apex development bank- established by an act of Parliament in 1982. NABARD is the "Micro Finance Regulatory Authority"

NABARD was set up to provide refinance & the credit needs to banks for all kind of agricultural investment and small scale industries and other allied activities. It provides refinancing facilities to State Co-operative

MUDRA BANK

Micro Units Development Refinance Agency benefit small entrepreneurs and will also act as a regulator for 'Micro-Finance Institutions (MFIs)
Shishu, Kishor and Tarun (50-5-10)

credit rating agency	description
CRISIL (Credit Rating Information Services of India Limited) – Mumbai	Largest= market share 60%. Promoted by ICICI – UTI- others
CIBIL (Credit Information Bureau India Limited) - Mumbai	India's first credit rating agency ,established by SBI and HDFC and other
ICRA (Investment information and credit rating agency) - Gurgaon,	Promoted by IFCI
CARE (Credit Analysis and Research) – Mumbai	Promoted by IDBI
ONICRA - Gurgaon, India	ONIDA group- private -issue ratings for non- corporate consumers
SMERA (Set up for Micro, Small and Medium Enterprises) - Mumbai	
Fitch (India Ratings & Research) - Mumbai	
Standard & Poor's (S&P) – Moody's – Fitch - New York, US	