STRUCTURE OF INDIAN BANKING SYSTEM

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Introduction

• Banking in India in the modern sense originated in the last decades of the 18th century. The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established 1786 and since defunct. The largest bank, and the oldest still in existence, is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal.
• This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company.
• The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955.
• For many years the presidency banks acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935.
Reserve Bank Of India

- Established in 1935
- Apex body of Indian banking system
- Headquarters is in Mumbai

**RBI Functions**

- Financial supervision
- Regulator and supervisor of the financial system
- Regulator and supervisor of the payment and settlement systems
- Banker and debt manager to government
- Managing foreign exchange
- Issue of currency
- Banker's bank
- Regulator of the Banking System
- Detection of fake currency
- Developmental role
- Custodian to foreign exchange
SCHEDULED BANKS

• Scheduled Banks in India refer to those banks which have been included in the Second Schedule of Reserve Bank of India Act 1934. RBI in turn includes only those banks in this Schedule which satisfy the criteria laid down vide section 42(6)(a) of the said Act.

• Every Scheduled bank enjoys two types of principal facilities: it becomes eligible for debts/loans at the bank rate from the RBI; and, it automatically acquires the membership of clearing house.

NON-SCHEDULED BANKS

• Non-scheduled banks are those banks whose name doesn’t appear in the 2nd schedule of Reserve Bank Of India Act, 1934. are mainly the local area banks, and there are very few of them.

• These banks are not under any obligation to fulfill CRAR norms or keep reserves. They work on the lines of a cooperative society and help people in need with mutual aspirations. **Subhadra Local Area Bank Ltd (Kolhapur)** and a few others.
A) Commercial Banks

• Commercial banks in India are the backbone of all major economic activities in the country, whether it is for the citizens to keep their hard-earned money safely or get loans whenever they need funds for important things like a home, wedding, a car or for business.

• **Primary functions**
  • Accepting deposits
  • Advancing loans

• **Secondary functions**
  • Overdraft Facility
  • Discounting bills of exchange
  • Agency functions
  • General utility functions
1) PUBLIC SECTOR BANKS

- Public sector banks are those banks which are owned and controlled by the government.
- All the nationalized banks and regional rural banks are public sector banks. These banks are the nationalized banks undertaken by the Government of India in a way or the other.
- Nationalized banks account for over 75% of the overall business transactions that happen in the country. Out of all these public sector banks, we all know the State Bank of India, which is now amongst the top 50 banks in the world.
- As per the recent reports, after the amalgamation of smaller banks with larger banks, there are 12 public sector banks in India as of now.

Examples:
- State Bank of India
- Bank Of Baroda
- Bank of Maharashtra
- Union Bank of India.
2) PRIVATE SECTOR BANKS

- These banks are owned and controlled by private institutions or individuals and not by the government.
- Private sector banks are the ones that work on similar lines as the nationalized banks do, the only difference is that the majority stakes in these banks are privately owned, as in the major stakes in the equity are owned by private stakeholders or business houses.
- These banks majorly work on the lines of profit-making by keeping deposits providing loans and other products related to financial activities.

Examples:
- IndusInd Bank
- ICICI
- HDFC
- Yes Bank etc.
3) FOREIGN BANKS

- A foreign bank is a bank having its head-quarter outside the country but run its offices as a private entity at any other location outside the country. The bank may have as many branches and offices they find suitable, they are under an obligation to operate under the regulations provided by the central bank of the country as well as the rule prescribed by the parent organization located outside India.

Examples:
- JP Morgan Chase Bank
- Citi Bank
- HSBC
- Deutsche Bank etc.
4) REGIONAL RURAL BANKS

• Regional Rural Banks (RRBs) were established by Regional Rural Banks Act, 1976 with a view to satisfy the banking facilities and credit needs of the rural people.

• The main objective behind the formation of such banks is to provide credit support to economically weaker sections of the society like farmers, rural traders and small business owners.

• These rural banks work on specific lines and serve major functions like providing financial credit support to rural and semi-urban areas, provide support for government schemes by processing payments for the national pension scheme and MGNREGA beneficiaries.

• These banks are considered no less as compared to the nationalized banks, as they also provide card and locker facilities to their customers.

Examples:

▪ Andhra Pradesh Grameen Vikas Bank
▪ Chaitanya Godavari Grameen Bank,
▪ Kerala Grameen Bank etc.
B) CO-OPERATIVE BANKS

• Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans.

• These are banks where co-operative societies that are formed at a state or district level have a share of more than 51%. These are primarily set-up for the purpose of services the farming community or to aid in land or infrastructure development at the state or district level.

• **Brief history**
  - The problem of rural credit was the key reason behind the advent of the co-operative movement in India, which began with the passage of the Co-operative Societies Act in 1904.
  - Rural cooperative credit institutions could either be short-term or long-term in nature. Further, short-term cooperative credit institutions are further sub-divided into State Co-operative Banks, District Central Co-operative Banks, Primary Agricultural Credit Societies.

• **Function**
  - They function with the rule of “one member, one vote” and function on “no profit, no loss” basis.
  - It performs all the main banking functions of deposit mobilization, the supply of credit and provision of remittance facilities.
  - It provides financial assistance to the people with small means to protect them from the debt trap of the moneylenders.
  - Advance loans to the members
  - Rural financing for farming, cattle, milk, hatchery, personal finance, etc.
  - Urban financing for Self – employment, Industries Small scale units, Home finance, Consumer finance, Personal finance
1) State Co-operative Banks

- It is a federation of central Co-operative bank and acts as a watchdog. They obtain their funds from share capital, deposits, loans and overdrafts from the Reserve Bank of India and can lend money to central co-operative banks and primary societies and not directly to the farmers.
- They provide a link through which the Reserve Bank of India provides credit to the cooperatives and thus participates in the rural finance.

**Function**
- They function as balancing centers for the central cooperative banks by making available the surplus funds of some central cooperative banks. The central cooperative banks are not permitted to borrow or lend among themselves,
- They finance, control and supervise the central cooperative banks, and, through them, the primary credit societies.

Examples:-
- Kerala state co-operative bank
- Orissa state co-operative bank
2) District Co-operative bank

- A District Co-operative Central Bank (DCCB) is a cooperative bank operating at the district level in various parts of India. It was established to provide banking to the rural hinterland for the agricultural sector with the branches primarily established in rural and semi-urban areas.
- These are the federations of primary credit societies in a district and are of two types—those having a membership of primary societies only and those having a membership of societies as well as individuals.
- The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.
- Examples:-
  - Pune District Central Cooperative Bank
  - Nasik District Central Co-operative Bank Ltd.
3) Primary Credit Societies

- The primary cooperative credit society is an association of borrowers and non-borrowers residing in a locality.
- The funds of the society are derived from the share capital and deposits of members and loans from central cooperative banks.
- The borrowing powers of the members as well as of the society are fixed.
- The loans are given to members for the purchase of cattle, fodder, fertilizers, pesticides, etc
Development Bank

- Industrial Development Bank
- EXIM (Export-Import) Bank
- National bank for agriculture and rural development (NABARD)
- National Hosing Bank
Development Bank

• **Industrial Development Bank**-
  • Established **1 July 1964**
  • To provide financial assistance to industrial enterprises.
  • To promote institutions engaged in industrial development.
  • To provide technical and administrative assistance for promotion management or expansion of industry.
  • To undertake market and investment research and surveys in connection with development of industry.

• **EXIM(Export-Import) Bank**
  • Established in **1 January 1982**
  • Planning, promoting and developing exports and imports.
  • Providing technical, administrative and managerial assistance for promotion, management and expansion of exports.
  • Undertaking market and investment surveys and techno-economic studies related to development of exports of goods and services.
National bank for agriculture and rural development (NABARD)


**Credit Functions:**
- Framing policy and guidelines for rural financial institutions.
- Providing credit facilities to issuing organizations
- Monitoring the flow of ground level rural credit.
- Preparation of credit plans annually for all districts for identification of credit potential.

**Development Functions:**
- Help cooperative banks and Regional Rural Banks to prepare development actions plans for themselves.
- Help Regional Rural Banks and the sponsor banks to enter into Mou's with state governments and cooperative banks to improve the affairs of the Regional Rural Banks.
- Monitor implementation of development action plans of banks.
• Provide financial support for the training institutes of cooperative banks, commercial banks and Regional Rural Banks.
• Provide financial assistance to cooperative banks for building improved management information system, computerization of operations and development of human resources.
• **Supervisory Functions:**
  • Undertakes inspection of Regional Rural Banks (RRBs) and Cooperative Banks (other than urban/primary cooperative banks) under the provisions of Banking Regulation Act, 1949.
  • Undertakes inspection of State Cooperative Agriculture and Rural Development Banks (SCARDBs) and apex non-credit cooperative societies on a voluntary basis.
  • Provides recommendations to Reserve Bank of India on issue of licenses to Cooperative Banks, opening of new branches by State Cooperative Banks and Regional Rural Banks (RRBs).
  • Undertakes portfolio inspections besides off-site surveillance of Cooperative Banks and Regional Rural Banks (RRBs).
• **National Hosing Bank**
  - Established in **9 July 1988**
  - To promote and develop specialized housing finance institutions for mobilizing resources and extending credit for housing
  - To provide refinance facilities to housing finance institutions and scheduled banks
  - To provide guarantee and underwriting facilities to housing finance institutions
  - To formulate schemes for mobilization of resources and extension of credit for housing, especially catering to the needs of economically weaker sections of society
  - To provide guidelines to housing finance institutions to ensure their healthy growth
  - To co-ordinate the working of all agencies connected with housing
Financial Institutions

- Industrial Finance Corporation of India (IFCI)
- Life Insurance Corporation Of India (LIC)
- Industrial Credit and Investment Corporation of India (ICICI)
Financial Institutions

- **Industrial Finance Corporation of India (IFCI)**
  - Established in 1948
  - The main function of the IFCI is to provide medium and long-term loans and advances to industrial and manufacturing concerns.
  - The IFCI also provides guarantees to the loans taken by such industrial companies.
  - When a company is issuing shares or debentures the Industrial Finance Corporation of India can choose to underwrite such securities.
  - It also guarantees deferred payments in case of loans taken from foreign banks in foreign currency.
  - There is a special department the Merchant Banking & Allied Services Department. They look after matters such as capital restructuring, mergers, amalgamations, loan syndication, etc.
  - It the process of promoting industrialization the Industrial Finance Corporation of India has also promoted three subsidiaries of its own, namely the IFCI Financial Services Ltd, IFCI Insurance Services Ltd and IF-Fin. It looks after the functioning and regulation of these three companies.
Life Insurance Corporation Of India

- Established: **1 September 1956**
- To carry on capital redemption business, annuity certain business or reinsurance business in so far as such reinsurance business relating to life insurance business;
- To invest the funds of the Corporation in such manner as the Corporation may think fit and to take all such steps as may be necessary or expedient for the protection or realization of any investment; including the taking over of and administering any property offered as security for the investment until a suitable opportunity arises for its disposal;
- To advance or lend money upon the security of any movable or immovable property or otherwise;
- To borrow or raise any money in such manner and upon such security, as the Corporation may think fit;
- To carry on any other business which may seem to the Corporation to be capable of being conveniently carried on in connection with its business and calculated directly or indirectly to render profitable the business of the Corporation; and to do all such things as may be incidental or conducive to the proper exercise of any of the powers of the Corporation.
Industrial Credit and Investment Corporation of India (ICICI)

• Established in 1 January 1955

1. Providing finance in the form of long-term or medium-term loans or equity participation.
2. Sponsoring and underwriting new issues of shares and other securities,
3. Guaranteeing Loans from other private investment sources.
4. Making funds available for reinvestment by revolving investment as rapidly as possible.
5. Providing project advisory services i.e. offering advice – to private sector companies in the pre-investment stages on Government policies and procedures, feasibility studies and joint venture search, and to Central and State Governments on specific policy related issues.
Thank you