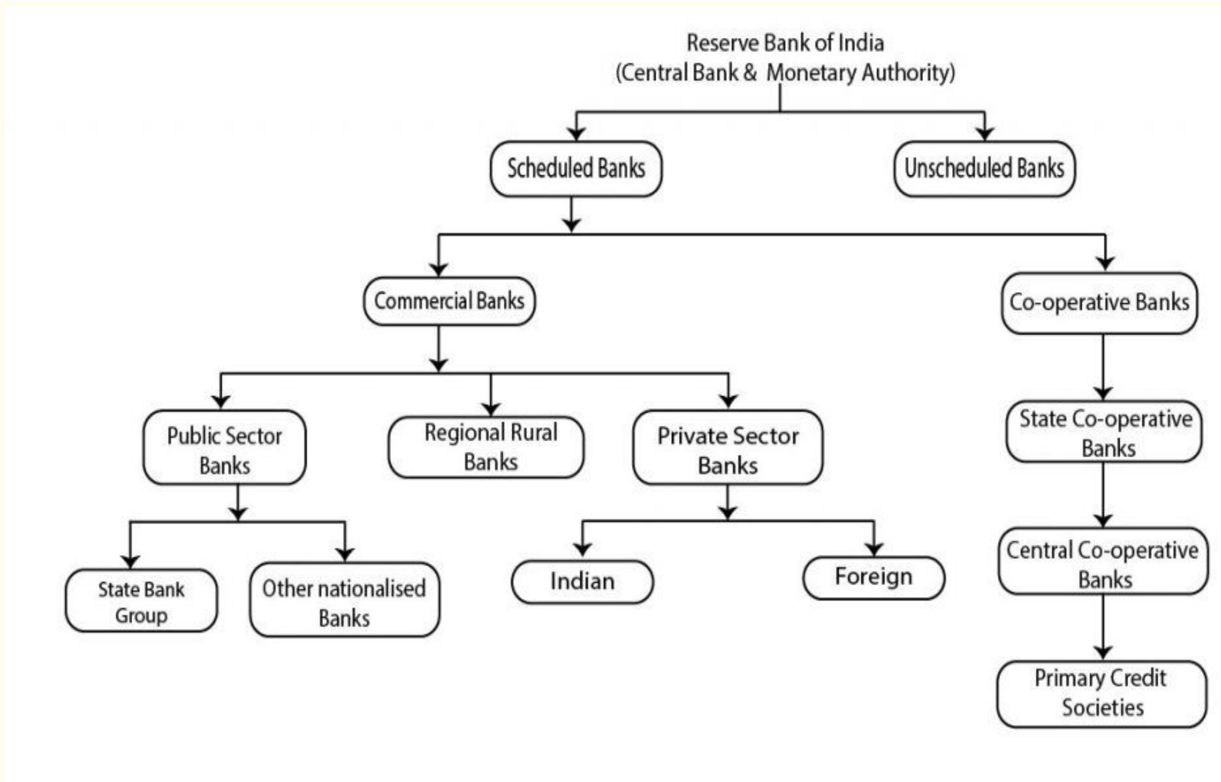
HISTORY & STRUCTURE OF BANKING SYSTEM IN INDIA, RBI, FUNCTIONS OF RBI, POLICY RATES:

BANKING SYSTEM IN INDIA:-

History In Short notes:-

- *The **First bank of India** before pre-independence India 1947 is Bank of Hindustan in Calcutta (now Kolkata) was established under european management in 1770 and was ceased later in 1832.*
- *Three Presidency banks i.e, **Bank of calcutta, Bank of Bombay and Bank of Madras** were set up by **British East India Company** later they were amalgamated to form **Imperial Bank of India**. In 1955, this Imperial bank of India was nationalised and renamed as **State Bank Of India**. Thus, SBI is the oldest bank that exist in India today.*
- *First Indian commercial bank which was wholly owned and managed by Indians was **Central Bank of India- First Truly Swadeshi bank** which was established in 1911.*
- ***Bank of India** was the first Indian bank to open a branch outside India in London in 1946.*
- *The first Bank of India with Limited Liability to be managed by Indian Board was **Oudh Commercial Bank**. It was established in 1881 at Faizabad.*
- ***ICICI** is the first bank to provide mobile ATM.*
- ***Central Bank of India** was the first public bank to introduce Credit card.*
- ***Osborne Smith** was the first governor of the Reserve Bank.*
- ***CD Deshmukh** was the first Indian to be the governor of Reserve Bank.*
- *Savings account system in India was started by **Presidency Bank, 1833**.*
- ***State Bank of India** has the maximum number of overseas branches.*
- ***Allahabad Bank**, established in 1865.It is the oldest Public Sector Bank in India having branches all over India and serving the customers for the last 145 years.*
- ***Union Bank of India** was inaugurated by Mahatma Gandhi in 1919.*
- *India's first bimetallic coins issued in the year 2009 in the denomination of **10** Rs.*

Banking Structure of India:-



- *As per the Reserve Bank of India Act, 1934, banks in India are classified into scheduled and non-scheduled banks.* ***Scheduled banks*** *are those which are entered into the second schedule of the RBI Act, 1934 and* ***Non Scheduled banks*** *are those banks which are not included in the scheduled banks category as per the guidelines laid by Reserve Bank of India.*
- *Scheduled banks are mainly divided into commercial banks both Public and Private, Regional rural banks, Cooperative banks. To promote financial inclusion in India, RBI allowed other two categories of banks payment banks and small finance banks in India.*
- ***Commercial Banks:-*** *A commercial bank is a financial institution that provides services such as accepting deposits, making business loans and offering basic investment products to the general public and to companies.They are required to be registered under Banking Regulation Act,1949.*

Total Number of banks in India:-

1. *Public sector banks:- 22*
   Note:IPPB(India Post Payments Bank) is 100% equity of GOI.
2. *Private Sector Banks: 24, including payment and small banks 7, then they are 31.*
3. *RRB’s: 56*
4. *Foreign Banks: 46*
5. *Cooperative Banks: 42*

➢ ***Banking Regulation Act, 1949:-*** *The Banking Regulation Act, 1949 is a legislation in India that regulates all banking firms in India.Initially the law is applicable to only banking companies and is not applicable for primary agricultural credit societies, cooperative land mortgage banks and non-agricultural primary credit societies.*

➢ ***Public Sector Banks (PSBs)*** *are banks where a majority stake (i.e. more than 50%) is held by a government.*

➢History of Nationalization of Banks:-

- *Mrs. Indira Gandhi’s taking over as the Prime Minister of India, the Indian National Congress rallied for a state takeover of some of the major banks in the country. In what can be deemed a rather hasty move, the government promulgated an ordinance - the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 - thereby nationalising all the 14 banks that were under consideration with effect from the midnight of 19 July 1969. As a follow-up to passing the ordinance, the Banking Companies (Acquisition and Transfer of Undertaking) Bill was taken up by the Parliament for discussion. It received a clear majority as well as the assent of the President within a month of issuing the ordinance.*
- *In 1980, when Mrs. Gandhi was re-elected as the Prime Minister for her third term at the PMO, she initiated the second spate of bank nationalization. This time about six banks were nationalised and the Government of India controlled over 90 percent of the banking business in the country. Of the 20 banks that were nationalised, New Bank of India was later (in 1993) merged with Punjab National Bank.*

➢ *Currently there are following 19 nationalised banks and their headquarters in India.*

- *Allahabad Bank*
- *Andhra Bank*
- *Bank of Baroda*
- *Bank of India*
- *Bank of Maharashtra*
- *Canara Bank*
- *Central Bank of India*
- *Corporation Bank*
- *Dena Bank*
- *Indian Bank*
- *Indian Overseas Bank*
- *Oriental Bank of Commerce*
- *Punjab & Sind Bank*
- *Punjab National Bank*
- *Syndicate Bank*
- *UCO Bank*
- *Union Bank of India*
- *United Bank of India*
- *Vijaya Bank*

➢ *While IDBI - Industrial Development Bank of India, BMB(Bharatiya Mahila Bank) and SBI(State bank of India) and their associates do not come under nationalized banks because they were not nationalised under banking companies act in 1969 and 1980.*

- *State Bank Of India*

- *Industrial Development Bank of India*
- *BMB(Bharatiya Mahila Bank)*

➢ *Five associates **State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT)**, besides **Bharatiya Mahila Bank (BMB)**, merged with **State Bank of India (SBI)**, catapulting the country's largest lender to catapulting among the top 50 banks in the world recently.The total customer base of the bank will reach 37 crores with a branch network of around 24,000 and nearly 59,000 ATMs across the country.The merged entity will have a deposit base of more than Rs 26 lakh crore and advances level of ₹18.50 lakh crore.*

➢ ***Regional Rural Banks** were established under the provisions of an Ordinance passed in 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors.*

- *RRBs are basically sponsored banks. They are sponsored by scheduled commercial banks. At present, the authorized capital of an RRB is Rs. 500 Crores. The centre holds 50% stake in RRBs, while 35% and 15% are with the sponsor banks and state governments, respectively.*

➢ ***Co-operative Banks** are the banks that holds deposits makes loans and provides other financial services to cooperatives and member-owned organizations.They are required to be registered under the Co-operative Societies Act, of the concerned state. None of the co-operative banks are nationalized.*

RBI AND ITS FUNCTIONS:-

RBI

➢ *The **Reserve Bank of India** is India's central banking institution, which controls the monetary policy of the Indian rupee.It is established on April 1st 1935 under RBI Act 1934 under recommendations of **John Hilton Young Commission** 1926(Royal commission on Indian currency and finance).*

➢ *Later it was nationalised with effect from 1st January, 1949 on the basis of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948.*

➢ *The bank is headed by the Governor **DR Urjit Patel**. There are 4 Deputy Governors BP Kanungo, S S Mundra, N S Vishwanathan and Viral Acharya.*

Functions of RBI:-

- ***Monetary Authority:*** *Formulates, implements and monitors the monetary policy for maintaining price stability, keeping inflation in check, ensuring adequate flow of credit to productive sectors.*
- ***Manager of Foreign Exchange:*** *RBI manages forex under the FEMA- Foreign Exchange Management Act, 1999. in order to facilitate external trade and payment and promote the development of foreign exchange market in India.*
- ***Regulator and supervisor of the financial system:*** *lays out parameters of banking operations within which the country"s banking and financial system functions for- maintaining public confidence in the system, protecting depositors' interest, providing cost-effective banking services to the general public.*
- ***Issuer of currency:*** *RBI issues and exchanges currency as well as destroys currency & coins not fit for circulation to ensure that the public has an adequate quantity of supplies of currency notes and in good quality.*
- ***Regulator and supervisor of the payment systems:*** *Authorises setting up of payment systems,Lays down standards for working of the payment system, lays down policies for encouraging the movement from paper-based payment systems to electronic modes of payments, Setting up of the regulatory framework of newer payment methods, Enhancement of customer convenience in payment systems, Improving security and efficiency in modes of payment.*
- ***Developmental role:*** *RBI performs a wide range of promotional functions to support national objectives. Under this it setup institutions like NABARD, IDBI, SIDBI, NHB, etc.*
- ***Banker to the Government:*** *performs merchant banking function for the central and the state governments; also acts as their banker.*
- ***Banker to banks:*** *An important role and function of RBI is to maintain the banking accounts of all scheduled banks and acts as the banker of last resort.*
- *An **agent** of Government of India in the IMF.*

POLICY RATES AND CURRENT RESERVE RATIOS AS ON 13TH JANUARY 2018.

BANK RATE	***6.25%***
REPO RATE	***6.00%***
REVERSE REPO RATE	***5.75%***
CRR	***4%***
SLR	***19.5%***
MSF	***6.25%***

- ***BANK RATE:****-Bank Rate refers to the official interest rate at which RBI will provide loans to the banking system which includes commercial / cooperative banks, development banks etc.*
- ***REPO RATE:****- Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks when the they have any shortage of funds.*
- ***REVERSE REPO RATE:****-Reverse Repo rate is the short term borrowing rate at which RBI borrows money from banks. The Reserve bank uses this tool when it feels there is too much money floating in the banking system.*
- ***CRR RATE:****-Cash Reserve Ratio (CRR) is a certain minimum amount of deposit that the commercial banks have to hold as reserves with the central bank. CRR is set according to the guidelines of the central bank of a country.*
- ***SLR RATE:****-SLR (Statutory Liquidity Ratio) is the amount a commercial bank needs to maintain in the form of cash, or gold or government approved securities(bond) before providing credit to its customers.*
- ***MSF RATE:****-MSF (Marginal Standing Facility Rate) is the commercial banks able to borrow overnight funds against the government securities its mainly in emergency situations. Banks can sell the government securities from its SLR quota also. Bank can maximum borrow upto 2% of its NDTL. MSF lending rate is always higher than repo rate.*