Quadrant II - Notes

Paper Code: ECC106

Module Name: Composition of Indian Banking Sector

Module No: 13

Notes

OUTLINE

- Brief Introduction of Indian Banking Sector.
- Composition of Indian Banking Sector
- Conclusion.

LEARNING OUTCOMES

The students will be able to:

- Narrate briefly the evolution of banking Sector in India.
- Recall the Composition of Indian Banking Sector.

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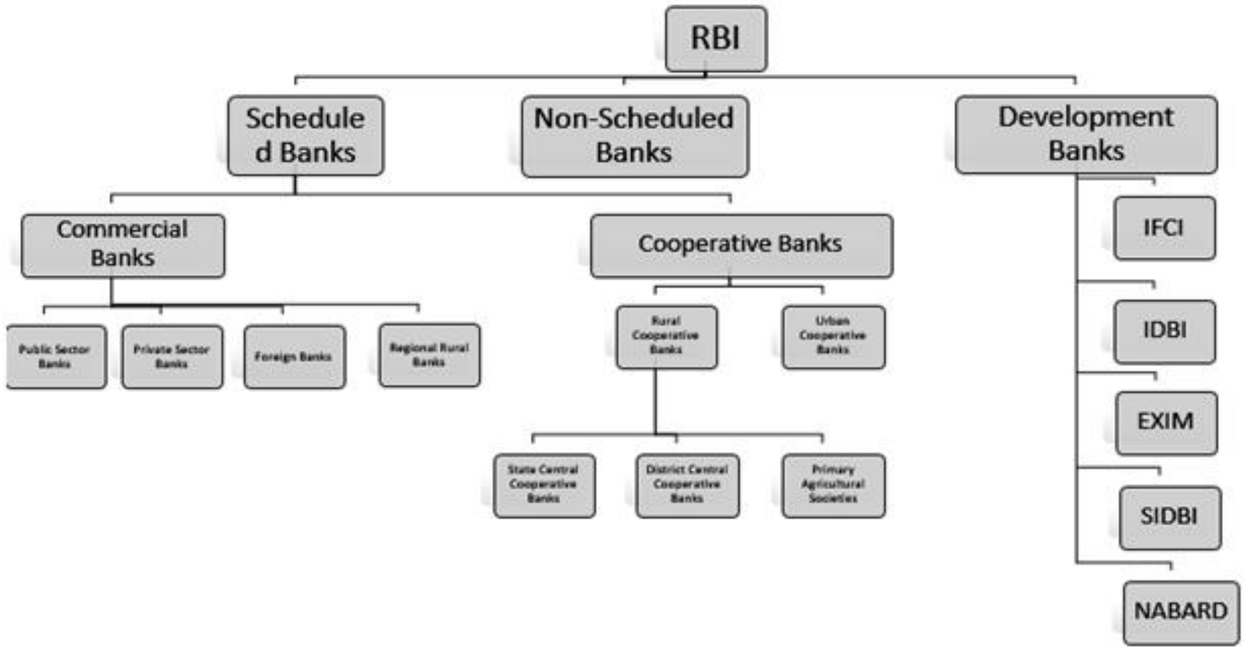
Composition of the Indian Banking Sector

Introduction

- Banking sector is one of the most important sectors among all the service sectors in any country. The development of a country is directly linked with the development of banking sector. In other words, banking system reflects the economic health of the country.
- Banking in India has been evolved over several decades. Indian banking system during independence was totally in private hands. Nationalisation in 1969 and 1980 has transformed the face of banking in India.
- With the introduction of New Economic Policy in 1990s, this sector has permitted private and foreign players to operate in India. Today, Indian banking sector is considered to be strong and well developed with different classes of banks and many banking channels.

The outline of the composition of Indian Banking is presented as follows:



Source: knight fintech

In the organised banking sector in India, the banking channels functioning are**:**

1. The Reserve Bank of India
2. The three types of banks under the RBI they are:
    A. Scheduled Banks
    B. Non-Scheduled banks
    C. Development Banks

<u>1. Reserve Bank of India</u>

- The Reserve Bank of India is India's central bank. It was established on 1st April 1935 in accordance with the Reserve Bank of India Act, 1934. It is the supreme monetary and banking authority in India.
- The Reserve bank of India controls, regulates and is responsible for all the financial aspects of the economy. It performs various developmental and promotional functions along with supervising and controlling the Indian banking system.
- RBI have the authority to issue notes, formulate and implement monetary and credit policies. It is owned by the Government of India.

2. The banks under the Reserve Bank of India (RBI):

Under the Reserve Bank of India Act, 1934, the banks were classified as scheduled banks and non-scheduled banks.

A. Scheduled banks

Scheduled banks are financial institutions that are listed in the second schedule of the Reserve Bank of India Act, 1934. The banks included in this category should fulfil two conditions:

- The paid-up capital and reserves of the bank should not be less than Rs. 5 lacs.
- Any activity of the bank will not adversely affect the interests of the depositors.

Scheduled banks are divided into two categories namely:

i) Commercial banks
ii) Co-operative banks.

I) COMMERCIAL BANKS

- The banks that accept deposits from the general public and advance loans with the purpose of earning profits are known as Commercial Banks**.** They offer various facilities like a bank account, loans, overdraft, deposits, interests, cheques, etc.
- Commercial banks have been in existence for many decades. They mobilise savings and make them available to large and small industrial and trading units mainly for working capital requirements.
- The commercial banks are further divided into four categories, they are:

a) Public sector banks

b) Private sector banks

c) Foreign banks

d) Regional Rural Banks

a) Public Sector Banks

- Public sectors banks are those where more than 50% of the stake is held by the government. The shares of public sector banks are listed on stock exchanges and they are held privately by bodies or individuals. Public Sector Banks can also be categorized as under:
  i) State Bank of India and its Associates
  ii) Nationalized Banks
  iii) Other Commercial Banks.
- After the recent amalgamation of smaller banks with larger banks, at present there are 12 public sector banks in India. Examples of Public Sector Bank is State Bank of India, Bank of Baroda, Canara bank etc.

b) Private Sector Banks:

- Private Sector Banks are those banks where the majority of the ownership and share capital is held by the private individuals and not by the government.
- The private banks are further classified into two types such as Indian Banks and Foreign banks.
- Banks with their head offices situated in India are categorized as Indian banks.
- Examples of privatsector banks in India are HDFC Bank, Kotak Mahindra Bank, ICICI Bank, Yes Bank etc. Foreign banks are those banks, which have their head offices abroad. Such as CITI bank, HSBC etc.

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c) Foreign Bank

- Foreign Bank is a bank that has its headquarters outside the country but runs its offices as a private entity at any other location outside the country.
- Foreign banks are under an obligation to operate under the regulations provided by the central bank of the country as well as follows the rules prescribed by the parent organization located outside India.
- Currently in India there are 46 foreign banks.
- Examples of Foreign Bank in India is Citi Bank, Chartered Bank, HSBC, Deutsche Bank, bank or America, ANZ Banking Group Ltd, Bank of America, Bank of Bahrain & Kuwait etc

d) Regional Rural Banks

- Regional Rural Banks were established in 1975 under the provisions of the Ordinance promulgated on 26th September,1975and the RRB Act of 1976. The specific objective is to provide credit and deposit facilities particularly to the small and marginal farmers, agricultural labourers and artisans and small entrepreneurs. The RRBs are essentially commercial banks but their area of operation is generally limited to a district.
- The Regional Rural Banks (RRBs) are owned jointly by the Government of India, the State Government and Sponsor Banks. Generally RRBs are sponsored by any of the Public Sector Bank. It is the duty of a sponsor bank to provide aid and assist the sponsored RRB.
- At present, there are 43 regional and rural banks in India which are sponsored by the Indian Government, State Government and Sponsor Bank. An example of RRB in India is Arunachal Pradesh Rural Bank.

II) COOPERATIVE BANKS

- A Cooperative Bank is a financial entity that belongs to its members, who are also the owners as well as the customers of their bank. The cooperative banks are set up as per the Co-operative Act 1904 and follow the principle of mutual help and co-operation. Co-operative banks have a crucial role in rural financing and promoting savings and investments habits among individuals.

- Cooperative banks are the primary supporters of agricultural activities, small- scale industries and self-employed workers.
- An example of a Cooperative Bank in India is Mehsana Urban Co-operative Bank.
- Cooperative banks are into two categories - urban and rural. Rural cooperative Banks are either short-term or long-term. Short-term cooperative banks can be subdivided into State Co-operative Banks, District Central Co-operative Banks, Primary Agricultural Credit Societies.

III) DEVELOPMENT BANKS

- Development Banks are financial institutions that provide long-term credit in order to support capital-intensive investments spread over a long period and it yields low rates of return with considerable social benefits.
- These are banks engage themselves in some specific area or activity. They cater to the requirements and provide overall support people to setup firms, agriculture, exports, imports etc.
- The major development banks in India are; Industrial Finance Corporation of India (IFCI Ltd), 1948, Industrial Development Bank of India' (IDBI) 1964, Export-Import Banks of India (EXIM) 1982, Small Industries Development Bank of India (SIDBI) 1989, National Bank for Agriculture and Rural Development (NABARD) 1982.

B. Non-scheduled banks

- All banks which are not included in the second section of the Reserve Bank of India Act, 1934 are non-scheduled banks**.**
- The examples are the commercial banks and cooperative banks that do not comply with the norms or requirements stated out by Reserve Bank of India.
- Private owners run these banks with their resources but they cannot borrow money from Reserve Bank of India for regular banking purposes. The reserve capital of these banks is less than 5 lakh rupees.
- At present, there are only 03 Non-Scheduled local Area banks, 11 Non- Scheduled Cooperative banks and 1500 Non- Scheduled Urban Cooperative banks in the country.

Conclusion

The Indian banking system has been playing a major role in mobilization of savings and meeting credit needs of the country. The performance and strength of the Indian banking structure has improved distinctively. The Indian banking Sector is significantly contributing in promoting economic growth and economic equality in the country.

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