Welcome students and welcome to
the DHE's initiative for the development
of Content.

Today we will see,
the paper
titled Banking in India.
This is unit #2 titled as
'Banking Sector Reforms.

Your host for today is Professor
Manoj Kamat, Principal of Shree Mallikarjun College.

We will be discussing Module number
6, called as an
Overview of Banking Reforms in India.

In this module, we will see the
modern / contemporary
overview of the banking structure in India.

We will see how banks are classified
As for the modern structure.
Then we will see what are the
different objectives of banking
reforms.
Before which we will see what
do you mean by banking reforms and
then let us classify and categorize
banking reforms into three phases to
see the specific
the focus of each phase of banking reform.

Finally, we will see four to five keywords
which we would be using constantly,
across this particular unit.

This is the modern structure

of banking business in India, as you see on screen.

Now the entire banks in India could

be classified into five categories.

Commercial banks,

the one who does the activities for

the purpose of earning profits.

Cooperative banks those who work on

the principle of cooperation and

registered under the Cooperatives Act.

3rd is a small finance bank.

This is a new classification.

Because of this classification we have

seen only from the year 2016 onwards.

Then we have something called Payments Bank,

which probably you might have

noticed when you are using some

apps like thereof Jio,

Airtel AAP, PayTM, Phone Pe etc.

So they're called payment banks and the

The last one is the Local area bank which are

Non-scheduled banks but established as.

companies.

This is also a new classification

of the banking structure.

Under the

commercial banks we have public sector

banks and probably now you know or

you might have read that there were

around 27 public sector banks in

India and most of them now have merged.

So the number of public sectors

banks have now been.

Now reduced to 12,

We also have private sector banks.

Now those who are operating

in the private sector.

But these banks can be classified

into all the private.

There are those banks which were

established before 91 and the

new private banks which have

been established very recently.

The commercial banks could also

be classified into RRB which is

called the regional rural banks.

Another word for this is Grameen

banks and as of now we have 43 Grameen

banks also called regional rural banks.

And of course, we have foreign branches.

Our foreign banks under foreign banks,

either we have in foreign

branch of in Foreign Bank,

a branch of in foreign banks,

Representative Office of

Foreign Bank in the country.

In the cooperative bank sector,

banks can be classified into

two.

State cooperative bank.

Under these small finance banks.

there are around 10 final small

finance banks and all these banks

have been established after 2016

onwards and some of the examples

of 2016 onwards established.

Small finance banks are Jana Bank, Equitas, FinCare Bank etc.

Then we have a payments bank which

probably you might have encountered

when you were doing online payment.

These banks emerged in the year 2017,

Which are around six banks

like this called us the Geo Bank,

Airtel Bank, ATM Bank etc.

The last classification is of

the local area bank

and these banks are non-scheduled

banks established as

companies and some of the examples

we have listed here are

Krishna Bhima Bank, Coastal area bank etc

These are all local area banks so

this is the modern structure of

banking business and now you see that

banks could be classified into five

categories.

We have seen commercial banks are

sometimes also known as scheduled banks.

But remember not all commercial

Banks are called scheduled banks.

What is a commercial bank and how is

Did it distinguish it from Schedule Bank?

A commercial bank is a bank which does

business to earn profits.

But all commercial banks are not

scheduled banks because scheduled banks

are only those banks which are included

in the second schedule of the RBI.

Now,

once you are included in the

the second schedule of the RBI,

you have to satisfy the criteria

which is laid in Section 42,

subsection 6A of RBI Act and

If you are a Schedule bank,

you enjoy two important

facilities from the RBI.

First that this particular bank

becomes eligible for debts or loans

at the Bank rate from the RBI second.

This bank acquire membership

of a clearinghouse.

Therefore, all scheduled banks.

Are commercial banks,

but all commercial banks are

not scheduled banks because all

these banks which are earning

or operating for

profits may not necessarily be the

part of the 2nd schedule of RBI.

So we have scheduled

banks and non-scheduled banks.

Now you understand the difference

between the two and then

for the banking business in India could be

classified into five different categories

from Commercial Bank as category number

one till local area bank as category #5.

With this now, let us go to banking reforms.

What do you mean by reforms?

By reforms you mean the

recent changes in the policy,

regulations and when we do

talk about banking reforms,

We're talking about recent changes

in the policy regulations connected

with the Indian banking sector.

What was the basic purpose of reforms?

Now all these reforms have been

going on since last so many years.

Even before 1991 and then we had so

many committees appointed by the

Reserve Bank by the Finance Ministry to

change the structure of banking change,

the banking business changed the

the way how they operate.

Therefore, all reforms were

categorically aiming at two things.

First, solving the chronic earnings

and performance problems of banks.

They want they wanted these banks

to be self-sustainable,

if not profitable.

Second to strengthen the overall

The health of the banks so that

they don't get into risky areas,

and they can face

international competition.

So these are the two aims.

First, solving the earnings problem

or performance management problems.

Second,

strengthening the overall health of the bank.

To enable them to face.

International competition.

Now let us see what could be the other

other objectives of banking sector reforms.

As I said to make banks international

competitive to change the structure

to bring structural changes

in the banking industry.

3rd to bring instability to see that

the banks are stable and they operated

in higher efficiency level and

4th one
is to remove the rigidities,
which I say operational problems
or operational rigidities of the credit delivery system in the country,

so, these are the objectives of banking
sector reforms in the country.
Now all these banking sector reforms
which we will be talking about have
emerged from different committees
which were appointed by the Government
of India from time to time.

And what were the different committees?
The first committee was appointed in
the year 1991, which we will say the
ML Narasimham committee and since our seamen
The committee was appointed twice
in the yeyears991 and 1998,
we classify them as Narsimhan,
1st and the 2nd committee.

Of course,
the first committee was appointed
in the year 1991.

Subsequently,
in 1996,
there was another committee called
Jayant Verma Committee,
popularly known as the Verma Committee.

Professor Verma was the professor
of Finance at Indian Institute
of Ahmedabad, teaching Banking and

and this committee was appointed
to bring in some kind of reforms.

The third one was MY Khan committee
which was bought in the year 1997.

In 1998 we have the Narsimhan committee
which is called a second banking
reforms committee in the country.

In 2013 we had Nachiket Mor
Committee on banking sector reforms.

And in 2014 we had PJ Nayak
committe.

So essentially these six committees where
the fountainheads of banking sector
reforms for our syllabus,
we will concentrate on two committees
0ut of this, the 1991 Committee,
the 1st, The first Narsimhan Committee,
as well as the second Narsimhan Committee
which was appointed in the year
1998 and we will see all the reforms
which are connected with this two.

Now, if you see various committees
which were appointed from 1991 to 2014
and probably now it's almost 2020,
so from 1991 to 2020,
whatever changes have happened in
the banking industry is classified
into three phases.

1st generation reforms,
second generation reforms and
3rd generation reforms.

The first generation reforms start
from the year 1991, we talked about
in our Narsimhan First Committee,

the second Committee,

the second generation reform,
started in the year 1998.

As you see this year in which Narsimhan's
second committee was appointed and
the third generation reforms emerged.
From Nachiket Mor committee and PG.
Nyack committee,
which were appointed after 2013.

So all these committees and the subsequent
changes came in the banking sector.
Are classified into three phases.
First-generation banking reforms
Post-1991 second generation
banking reforms post 1998 and 3rd
generation banking reforms post-2013.

Now let us see what was the focus.

We have seen three different phases and
now let us see what was the specific
of the first phase or first
generation second phase which is also
called as a second generation and the
the third phase in the first generation.

The entire focus was on structural
and financial operations of the bank.
So we say structural changes,
financial changes,
an operational change the second
part, we had prudential norms.
We will see what is prudential
norms and the type of changes which
happen in this banking sector.
Where in terms of innovation,
so therefore we use the but you know,
a tree and regulatory.
So regulations change and
then innovations came.
The third generation reforms.

That is after 2013 we talked
about 3 important things,
inclusion, financial inclusion,
corporate governance and
corporate consolidations.

So these are the three phases now to
end this particular module we will just
see what are the important keywords
which will be used throughout this unit.

The first ratio called is the SLR.
Which is called a statutory liquidity
The ratio is nothing but the bank deposits,
which should essentially go
into government securities.
Every bank is supposed to keep some
money out of the total deposits
received into government securities,
which we call the SLR, which is called a statutory liquidity ratio.

Investments in bank deposits meant it
in mandated in government securities
divided by the total deposits.

The next one is CRR.
CRR is the capital reserve ratio.
That portion of total bank deposits
with the commercial banks have
to keep with the RBI.
That is called a CRR,

The third one is the capital
adequacy ratio which is also
called CAR or capital adequacy norms.
CN is the ratio of the bank
deposits in about risk.
Then we will see prudential norms.
Prudential norms are for accountability,
bringing in accountability in the banking,
and there is the word called
deregulation of interest rates,

which would mean allowing the banks
to fix their rates.

We will understand and use these
keywords constantly in all our
modules for the second unit,
and therefore we have seen a glimpse of this.

Thank you.