BANKING System of India

Bank: It is a financial institution which accept different form of deposit and lend them to the borrower as well as allow depositor to withdraw their money from the account by cheque.

Non bank institution : The financial institution has all the same function. But does not allow depositor to issue cheque and withdraw their money from deposit.

Non bank financial company : NBFC is Registered under Company's Act 1956.It cannot accept demand deposit like saving and current account. It cannot issue cheque to it's customer.

Reserve Bank of India : RBI was formed in 1935,1st April.

RBI was nationalised on 1st January, 1949.

1st RBI Governor : Osborn Smith

First Indian Governor of RBI : CD Deshmukh

Function of RBI :

1. It announces the monetary policy.

2. It stabilises the rate of Inflation.

3. It keeps the foreign currency rescue.

4. It is the agent of Government of India in IMF and World

Bank.

5. It is the issuing agency of the currency and coins.

6. It is the Banker's bank.

Monetary Policy :

1. CRR (cash reserve ratio): It is the ratio of total deposit of a bank which is kept with RBI in cash form.

2. SLR (statutory liquidity ratio) : It is the ratio of total deposit of a bank which is to be maintained by the bank with itself in non cash form.

3. Bank Rate : The interest rate which RBI charges on commercial bank for long term lending.

4. Repo Rate : It is the rate of interest which the RBI charges from its commercial bank for short term borrowing.

Repo rate was introduced in the year 1992.

5. Reverse Repo Rate: It is the rate of interest which the RBI pays to commercial bank who offer short term loan to it.

6. MSF (Marginal Standing Facility) (2011): It is a very short borrowing scheme for scheduled commercial bank MSF is a rate at which these banks can borrow funds

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overnight from RBI against government securities. The minimum amount to be borrowed is 1 crore and in multiple of 1 crore. MSF is always 1% higher than rapo rate.

MSF rate is realigned with bank rate from 2012.

Why Bank was nationalised?

1. Bank at that time was in private sector and mass of people had no access to banking services.

2. The planned development of the economy requires a certain degree of Government control on the capital generated by the economy.

On 19th July, 1969,14 banks were nationalised which was having a minimum asset of 50 crores.

On 15th April, 1980,6 banks were nationalised which were having a minimum asset of 200 crores.

In 1993, new bank of India merged with Punjab National Bank and the nationalisation of banks came down to 19 from 20.

State Bank of India :

The earlier name of SBI was Imperial Bank of India which was established in 1921 by margins of Bank of Madras (1843),Bank of Bombay (1840) and Bank of Bengal (1809).

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The **Godewala Committee** in 1955 recommended for the Nationalisation of SBI which occurred subsequently.

In 1991,**Committee of Financial System under M. Narshimham.**

1. CRR came 3-5% from 15%
2. Opening of private banks
3. Internal autonomy for Private Sector Bank in decision making.

In 1997, under M. Narshimham, Financial Sector Reforms to strengthen Indian Financial System and make it Internationally Competitive.

Recommendations :

1. Rationalisation of staff of branches of PSB.
2. Legal framework for loan recovery.

SARFAESI ACT, 2002 : (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest)

Banks having 75% of dues owed by the borrower can take possession of security over the management of the borrowing cobcee.

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Minimum Reserve System (1957): minimum amount of 200 crores should be maintained (115 crore of gold and 85 crore of cash)

RRB : 2nd October, 1975. Headquarter : Kolkata

Functions : 1. To provide credit to weaker section of society at low interest rate.

2. To mobilise rural saving and channelise them for supporting productive activities in rural area.

NABARD : Headquarter : Mumbai (1982)

For providing credit for promotion of agriculture and small scale industry, cottage and village industry. It is an apex institution in rural credit structure.

SIDBI : headquarter : Lucknow (2nd April, 1990)

Small industrial Development Bank of India

Function : It is a financial institution for promotion, financing and development of industries in small scale sector.

EXIM Bank : 1st January, 1982. Headquarter : Mumbai

Function : For facilitating, financing and promotion of

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foreign trade in India.

Co-operative Bank : 1904. It is created by different states under various Acts. Co-operative banks can be divided into three types :

1. State Co-operative Bank: Apex co-operative institution in the state.

2. Central or District Co-operative Bank : Operates at district level.

3. Primary Credit Agency : Which works at village level to provide short term credit facility to Agriculture Sector.

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