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Classification of Banking Industry In India

By

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Indian banking industry has been divided into two parts, organized and unorganized sectors. The organized sector consists of Reserve Bank of India, Commercial Banks and Co-operative Banks, and Specialized Financial Institutions (IDBI, ICICI, IFC etc). The unorganized sector, which is not homogeneous, is largely made up of money lenders and indigenous bankers. An outline of the Indian Banking structure may be presented as follows:-

1. Reserve banks of India.
2. Indian Scheduled Commercial Banks.
   A. State Bank of India and its associate banks.
   B. Twenty nationalized banks.
   C. Regional rural banks.
   D. Other scheduled commercial banks.
3. Foreign Banks
4. Non-scheduled banks.
5. Co-operative banks.

RESERVE BANK OF INDIA:

The reserve bank of India is a central bank and was established in April 1, 1935 in accordance with the provisions of reserve bank of India act 1934. The central office of RBI is located at Mumbai since inception. Though originally the reserve bank of India was privately owned, since nationalization in 1949, RBI is fully owned by the Government of India. It was inaugurated with share capital of Rs. 5 Crores divided into shares of Rs. 100 each fully paid up.

RBI is governed by a central board (headed by a governor) appointed by the central government of India. RBI has 22 regional offices across India. The reserve bank of India was nationalized in the year 1949. The general superintendence and direction of the bank is entrusted to central board of directors of 20 members, the Governor and four deputy Governors, one Governmental official from the ministry of Finance, ten nominated directors by the government to give representation to important elements in the economic life of the country, and the four nominated director by the Central Government to represent the four local boards with the headquarters at Mumbai, Kolkata, Chennai and New Delhi. Local Board consists of five members each central government appointed for a term of four years to represent territorial and economic interests and the interests of cooperative and indigenous banks.

The RBI Act 1934 was commenced on April 1, 1935. The Act, 1934 provides the statutory basis of the functioning of the bank. The bank was constituted for the need of following:

- To regulate the issues of banknotes.
- To maintain reserves with a view to securing monetary stability
- To operate the credit and currency system of the country to its advantage.

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Functions of RBI as a central bank of India are explained briefly as follows:

Bank of Issue:

The RBI formulates, implements, and monitors the monitory policy. Its main objective is maintaining price stability and ensuring adequate flow of credit to productive sector.

Regulator-Supervisor of the financial system:

RBI prescribes broad parameters of banking operations within which the country's banking and financial system functions. Their main objective is to maintain public confidence in the system, protect depositor's interest and provide cost effective banking services to the public.

Manager of exchange control:

The manager of exchange control department manages the foreign exchange, according to the foreign exchange management act, 1999. The manager's main objective is to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency:

A person who works as an issuer, issues and exchanges or destroys the currency and coins that are not fit for circulation. His main objective is to give the public adequate quantity of supplies of currency notes and coins and in good quality.

Developmental role:

The RBI performs the wide range of promotional functions to support national objectives such as contests, coupons maintaining good public relations and many more.

Related functions:

There are also some of the related functions to the above mentioned main functions. They are such as, banker to the government, banker to banks etc….

- Banker to government performs merchant banking function for the central and the state
- Governments; also acts as their banker.
- Banker to banks maintains banking accounts to all scheduled banks.

Controller of Credit: RBI performs the following tasks:

- It holds the cash reserves of all the scheduled banks.
- It controls the credit operations of banks through quantitative and qualitative controls.
- It controls the banking system through the system of licensing, inspection and calling for information.
- It acts as the lender of the last resort by providing rediscount facilities to scheduled banks.

Supervisory Functions:

In addition to its traditional central banking functions, the Reserve Bank performs certain non-monetary functions of the nature of supervision of banks and promotion of sound banking in

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India. The Reserve Bank Act 1934 and the banking regulation act 1949 have given the RBI wide powers of supervision and control over commercial and co-operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction and liquidation. The RBI is authorized to carry out periodical inspections of the banks and to call for returns and necessary information from them. The nationalization of 14 major Indian scheduled banks in July 1969 has imposed new responsibilities on the RBI for directing the growth of banking and credit policies towards more rapid development of the economy and realization of certain desired social objectives. The supervisory functions of the RBI have helped a great deal in improving the standard of banking in India to develop on sound lines and to improve the methods of their operation.

Promotional Functions:

With economic growth assuming a new urgency since independence, the range of the Reserve Bank's functions has steadily widened. The bank now performs a variety of developmental and promotional functions, which, at one time, were regarded as outside the normal scope of central banking. The Reserve bank was asked to promote banking habit, extend banking facilities to rural and semi-urban areas, and establish and promote new specialized financing agencies.

INDIAN SCHEDULED COMMERCIAL BANKS:

The commercial banking structure in India consists of scheduled commercial banks, and unscheduled banks.

Scheduled Banks:

Scheduled Banks in India constitute those banks which have been included in the second schedule of RBI act 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42(6a) of the Act. "Scheduled banks in India" means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a subsidiary bank as defined in the s State Bank of India (subsidiary banks) Act, 1959 (38 of 1959), a corresponding new bank constituted under section 3 of the Banking companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank being a bank included in the Second Schedule to the Reserve bank of India Act, 1934 (2 of 1934), but does not include a co-operative bank". For the purpose of assessment of performance of banks, the Reserve Bank of India categories those banks as public sector banks, old private sector banks, new private sector banks and foreign banks, i.e. private sector, public sector, and foreign banks come under the umbrella of scheduled commercial banks.

Regional Rural Bank:

The government of India set up Regional Rural Banks (RRBs) on October 2, 1975 [10]. The banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural labourers, and small enterpreneurs. Initially, five RRBs were set up on October 2, 1975 which was sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The total authorized capital was fixed at Rs. 1 Crore which has since been raised to Rs. 5 Crores. There are several concessions enjoyed

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by the RRBs by Reserve Bank of India such as lower interest rates and refinancing facilities from NABARD like lower cash ratio, lower statutory liquidity ratio, lower rate of interest on loans taken from sponsoring banks, managerial and staff assistance from the sponsoring bank and reimbursement of the expenses on staff training. The RRBs are under the control of NABARD. NABARD has the responsibility of laying down the policies for the RRBs, to oversee their operations, provide refinance facilities, to monitor their performance and to attend their problems.

Unscheduled Banks:

"Unscheduled Bank in India" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank".

NABARD:

NABARD is an apex development bank with an authorization for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity, NABARD is entrusted with:

1. Providing refinance to lending institutions in rural areas
2. Bringing about or promoting institutions development and
3. Evaluating, monitoring and inspecting the client banks

Besides this fundamental role, NABARD also:

- Act as a coordinator in the operations of rural credit institutions
- To help sectors of the economy that they have special credit needs for e.g. Housing, small business and agricultural loans etc.

Co-OPERATIVE BANKS:

Co-operative banks are explained in detail in Section- II of this chapter

SERVICES PROVIDED BY BANKING ORGANIZATIONS:

Banking Regulation Act in India, 1949 defines banking as "Accepting" for the purpose of lending or investment of deposits of money from the public, repayable on demand and withdrawal by cheques, drafts, orders etc. as per the above definition a bank essentially performs the following functions:-

1. Accepting Deposits or savings functions from customers or public by providing bank account, current account, fixed deposit account, recurring accounts etc.
2. The payment transactions like lending money to the public. Bank provides an effective credit delivery system for loanable transactions.
3. Provide the facility of transferring of money from one place to another place. For

performing this operation, bank issues demand drafts, banker's cheques, money orders etc. for transferring the money. Bank also provides the facility of Telegraphic transfer or tele-cash orders for quick transfer of money.

4. A bank performs a trustworthy business for various purposes.
5. A bank also provides the safe custody facility to the money and valuables of the general public. Bank offers various types of deposit schemes for security of money. For keeping valuables bank provides locker facility. The lockers are small compartments with dual locking system built into strong cupboards. These are stored in the bank's strong room and are fully secured.
6. Banks act on behalf of the Govt. to accept its tax and non-tax receipt. Most of the government disbursements like pension payments and tax refunds also take place through banks.

There are several types of banks, which differ in the number of services they provide and the clientele (Customers) they serve. Although some of the differences between these types of banks have lessened as they have begun to expand the range of products and services they offer, there are still key distinguishing traits. These banks are as follows:

Commercial banks, which dominate this industry, offer a full range of services for individuals, businesses, and governments. These banks come in a wide range of sizes, from large global banks to regional and community banks.

Global banks are involved in international lending and foreign currency trading, in addition to the more typical banking services.

Regional banks have numerous branches and automated teller machine (ATM) locations throughout a multi-state area that provide banking services to individuals. Banks have become more oriented toward marketing and sales. As a result, employees need to know about all types of products and services offered by banks.

Community banks are based locally and offer more personal attention, which many individuals and small businesses prefer. In recent years, online banks—which provide all services entirely over the Internet—have entered the market, with some success.
However, many traditional banks have also expanded to offer online banking, and some formerly Internet-only banks are opting to open branches.

Savings banks and **savings and loan associations**, sometimes called thrift institutions, are the second largest group of depository institutions. They were first established as community-based institutions to finance mortgages for people to buy homes and still cater mostly to the savings and lending needs of individuals.

Credit unions are another kind of depository institution. Most credit unions are formed by people with a common bond, such as those who work for the same company or belong to the same labour union or church. Members pool their savings and, when they need money, they may borrow from the credit union, often at a lower interest rate than that demanded by other financial institutions.

Federal Reserve banks are Government agencies that perform many financial services for the Government. Their chief responsibilities are to regulate the banking industry and to help implement our Nation's monetary policy so our economy can run more efficiently by controlling the Nation's money supply—the total quantity of money in the country, including cash and bank deposits. For example, during slower periods of economic activity, the Federal Reserve may purchase government securities from commercial banks, giving them more money to lend, thus expanding the economy. Federal Reserve banks also perform a variety of services for other banks. For example, they may make emergency loans to banks that are short of cash, and clear checks that are drawn and paid out by different banks.

The money banks lend, comes primarily from deposits in checking and savings accounts, certificates of deposit, money market accounts, and other deposit accounts that consumers and businesses set up with the bank. These deposits often earn interest for their owners, and accounts that offer checking, provide owners with an easy method for making payments safely without using cash. Deposits in many banks are insured by the Federal Deposit Insurance Corporation, which guarantees that depositors will get their money back, up to a stated limit, if a bank should fail.

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