Lesson 1

Overview of Banking System

LESSON OUTLINE

– Indian Banking System -Evolution

– Structure of Banks in India

– Different types of Banks in India

– Constituents of the Indian Banking System

– Commercial Banks

– Co-Operative Banking System

– Development Banks

– LESSON ROUND UP

– SELF TEST QUESTIONS

LEARNING OBJECTIVES

Banks are the important segment in Indian Financial System. An efficient banking system helps the nation's economic development. Various categories of stakeholders of the Society use the banks for their different requirements. Banks are financial intermediaries between the depositors and the borrowers. Apart from accepting deposits and lending money, banks in today's changed global business environment offer many more value added services to their clients. The Reserve Bank of India as the Central Bank of the country plays different roles like the regulator, supervisor and facilitator of the Indian Banking System.

To enable the reader to

– Understand the features of Indian Banking System

– Know the significant contribution of different types of banks

– Appreciate how important banking services for the economy

INDIAN BANKING SYSTEM – EVOLUTION

Genesis

Indian Banking System for the last two centuries has seen many developments. An indigenous banking system was being carried out by the businessmen called Sharoffs, Seths, Sahukars, Mahajans, Chettis, etc. since ancient time. They performed the usual functions of lending moneys to traders and craftsmen and sometimes placed funds at the disposal of kings for financing wars. The indigenous bankers could not, however, develop to any considerable extent the system of obtaining deposits from the public, which today is an important function of a bank.

Modern banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India which started in 1786, and the Bank of Hindustan. Thereafter, three presidency banks namely the Bank of Bengal (this bank was originally started in the year 1806 as Bank of Calcutta and then in the year 1809 became the Bank of Bengal) , the Bank of Bombay and the Bank of Madras, were set up. For many years the Presidency banks acted as quasi-central banks. The three banks merged in 1925 to form the Imperial Bank of India. Indian merchants in Calcutta established the Union Bank in 1839, but it failed in 1848 as a consequence of the economic crisis of 1848-49. Bank of Upper India was established in 1863 but failed in 1913. The Allahabad Bank, established in 1865 , is the oldest survived Joint Stock bank in India . Oudh Commercial Bank, established in 1881 in Faizabad, failed in 1958. The next was the Punjab National Bank, established in Lahore in 1895, which is now one of the largest banks in India. The Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community during 1906 to 1911. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India. A major landmark in Indian banking history took place in 1934 when a decision was taken to establish ‘Reserve Bank of India’ which started functioning in 1935. Since then, RBI, as a central bank of the country, has been regulating banking system.

Reserve Bank of India as a Central Bank of the Country

The Reserve Bank, as the central bank of the country, started their operations as a private shareholder’s bank. RBI replaced the Imperial Bank of India and started issuing the currency notes and acting as the banker to the government. Imperial Bank of India was allowed to act as the agent of the RBI. RBI covered all over the undivided India. In order to have close integration between policies of the Reserve Bank and those of the Government, It was decided to nationalize the Reserve Bank immediately after the independence of the country. From 1st January 1949, the Reserve Bank began functioning as a State-owned and State-controlled Central Bank.. To streamline the functioning of commercial banks, the Government of India enacted the Banking Companies Act,1949 which was later changed as the Banking Regulation Act 1949. RBI acts as a regulator of banks, banker to the Government and banker’s bank. It controls financial system in the country through various measures.

State Bank of India and its Associate (Subsidiaries) Banks - A New Channel of Rural Credit

In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank by taking over the Imperial Bank of India, and integrating with it, the former state-owned or state-associate banks. An act was accordingly passed in Parliament in May 1955 and the State Bank of India was constituted on 1 July 1955. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959, enabling the State Bank of India to take over eight former State-associated banks as its subsidiaries (later named Associates). The State Bank of India was thus born with a new sense of social purpose. Associate Banks of State Bank of India viz., State Bank of Hyderabad, State Bank of Mysore, State Bank of Bikaner and Jaipur, State Bank of Travancore, State Bank of Patiala, State Bank of Indore, State Bank of Saurashtra have been working as per the guidance of State Bank of India. Two banks viz. State Bank of Patiala and State Bank of Hyderabad are fully owned by State Bank of India and in other Associate Banks, the majority of shareholdings are with the SBI. Out of these associate banks, two banks viz., State Bank of Indore and State Bank of Saurashtra have been merged with the State Bank of India and merger of the remaining five banks is under process. State Bank of India and its Associate Banks were given preferential treatment by RBI over the other commercial banks, by appointing them as an agent of RBI for transacting Central and State Government business as well as setting up of currency chests for the smoother cash management in the country

Nationalization of Banks for implementing Govt. policies

Indian Banking System witnessed a major revolution in the year 1969 when 14 major commercial banks in the private sector were nationalized on 19th July,1969. Most of these banks having deposits of above ₹ 50 crores were promoted in the past by the industrialists. These banks were:

1. Allahabad Bank
2. Bank of Baroda
3. Bank of India
4. Bank of Maharashtra
5. Canara Bank
6. Central Bank of India
7. Dena Bank
8. Indian Bank
9. Indian Overseas Bank
10. Punjab National Bank
11. Syndicate Bank
12. Union Bank of India
13. United Bank of India
14. United Commercial Bank (now known as UCO bank)

The purpose of nationalization was:

(a) to increase the presence of banks across the nation.

(b) to provide banking services to different segments of the Society.

(c) to change the concept of class banking into mass banking, and

(d) to support priority sector lending and growth.

In 1980, another six more commercial banks with deposits of above ₹ 200 crores were nationalized :

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Punjab and Sind Bank
5. Oriental Bank of Commerce
6. Vijaya Bank

Later on the New Bank of India was merged with Punjab Nationalized Bank.

The nationalization of banks resulted in rapid branch expansion and the number of commercial bank branches have increased many folds in Metro, Urban, Semi – Urban and Rural Areas. The branch network assisted banks to mobilize deposits and lot of economic activities have been started on account of priority sector lending.

Regional Rural Banks

In 1975, a new set of banks called the Regional Rural Banks, were setup based on the recommendations of a working group headed by Shri Narasimham, to serve the rural population in addition to the banking services offered by the co-operative banks and commercial banks in rural areas. Inception of regional rural banks (RRBs) can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. With joint shareholding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. RRBs were expected to play a vital role in mobilizing the savings of the small and marginal farmers, artisans, agricultural labourers and small entrepreneurs and inculcate banking habit among the rural people. These institutions were also expected to plug the gap created in extending the credit to rural areas by largely urban-oriented commercial banks and the rural cooperatives, which have close contact with rural areas but fall short in terms of funds.

Local area banks

Local Area Banks with operations in two or three contiguous districts were conceived in the 1996 Union budget to mobilise rural savings and make them available for investments in local areas. They are expected to bridge the gaps in credit availability and enhance the institutional credit framework in rural and semi-urban areas. Although the geographical area of operation of such banks is limited, they are allowed to perform all functions of a scheduled commercial bank. The Raghuram Rajan Committee had envisaged these local area banks as private, well-governed, deposit-taking small-finance banks. They were to have higher capital adequacy norms, a strict prohibition on related party transactions, and lower concentration norms to offset chances of higher risk from being geographically constrained. Six entities were given licenses to operate LABs by RBI but only four are functioning. . Of these four banks, Capital Local Area Bank accounted for more than 70 per cent of total assets of all four LABs taken together as on 31st March, 2012.

New Private Sector Banks

In 1991, the Narasimham committee recommended that banks should increase operational efficiency, strengthen the supervisory control over banks and the new players should be allowed to create a competitive environment. Based on the recommendations, new private banks were allowed to start functioning.

STRUCTURE OF BANKS IN INDIA

Banks can be classified into scheduled and non- scheduled banks based on certain factors

(a) Scheduled Banks:

Scheduled Banks in India are the banks which are listed in the Second Schedule of the Reserve Bank of India Act1934. The scheduled banks enjoy several privileges as compared to non- scheduled banks. Scheduled banks are entitled to receive refinance facilities from the Reserve Bank of India. They are also entitled for currency chest facilities. They are entitled to become members of the Clearing House. Besides commercial banks, cooperative banks may also become scheduled banks if they fulfill the criteria stipulated by RBI.

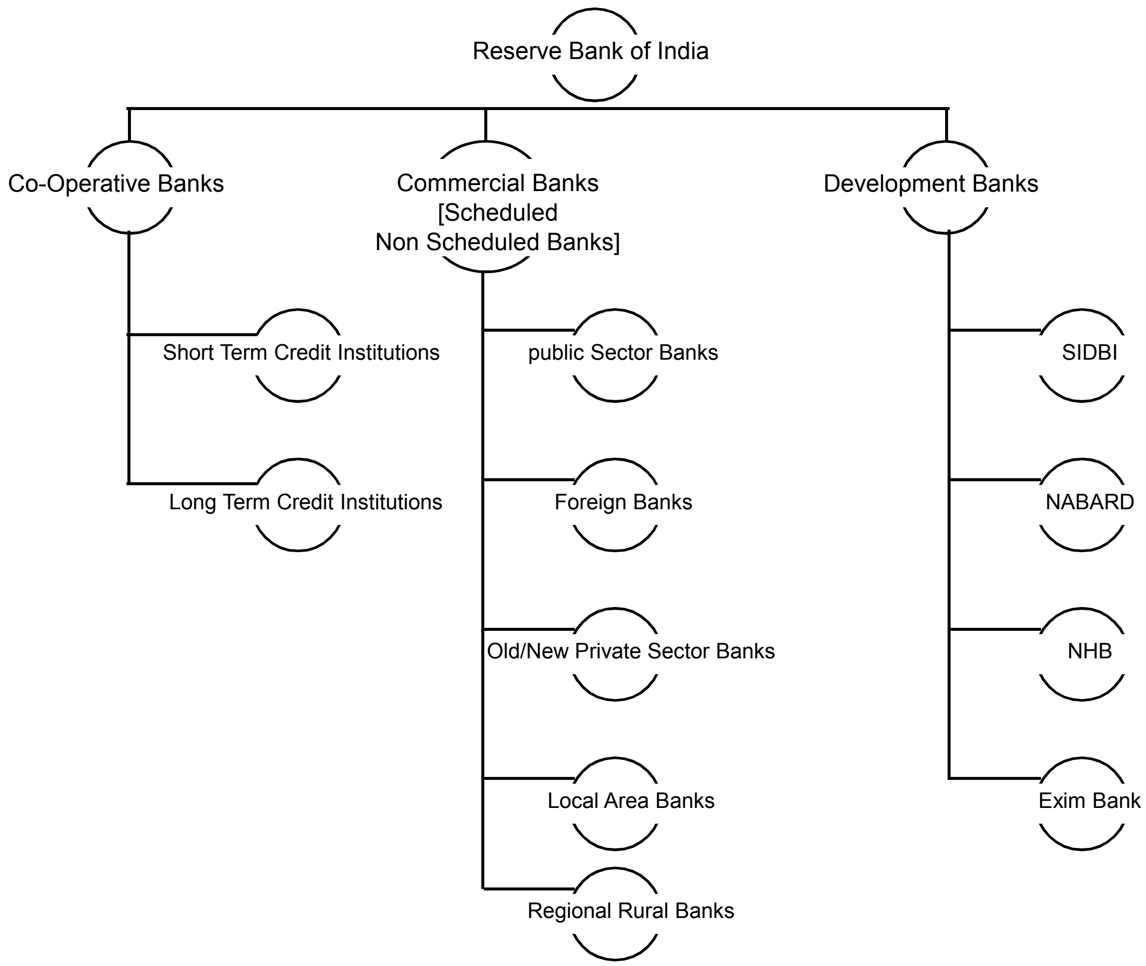
No. of branches of Scheduled Commercial Banks as on 31stMarch, 2013:

Bank Group	Rural	Semi-urban	Urban	Metropolitan	Total
Public Sector Banks	23286	18854	14649	13632	70421
Private Sector Banks	1937	5128	3722	3797	14584
Foreign Banks	8	9	65	249	331
Regional Rural Banks	12722	3228	891	166	17007
Total	**37953**	**27219**	**19327**	**17844**	**102343**

(b) Non-scheduled banks:

These are those banks which are not included in the Second Schedule of the Reserve Bank of India. Usually those banks which do not conform to the norms of the Reserve Bank of India within the meaning of the RBI Act or according to specific functions etc. or according to the judgement of the Reserve Bank, are not capable of serving and protecting the interest of depositors are classified as non-scheduled banks.

Different types of Banks in India



Constituents of the Indian Banking System

The constituents of the Indian Banking System can be broadly listed as under :

(a) Commercial Banks:

(i) Public Sector Banks

(ii) Private Sector Banks

(iii) Foreign Banks

(b) Cooperative Banks:

(i) Short term agricultural institutions

(ii) Long term agricultural credit institutions

(iii) Non-agricultural credit institutions

(c) Development Banks:

(i) National Bank for Agriculture and Rural Development (NABARD)

(ii) Small Industries Development Bank of India (SIDBI)

(iii) EXIM Bank

(iv) National Housing Bank

COMMERCIAL BANKS

1. Public Sector Banks

The term 'public sector banks' by itself connotes a situation where the major/full stake in the banks are held by the Government. Till July,1969, there were only 8 Public Sector Banks (SBI & its 7 associate banks). When 14 commercial banks (total 20 banks) were nationalized in 1969, 100% ownership of these banks were held by the Government of India. Subsequently, six more private banks were nationalized in 1980. However, with the changing in time and environment, these banks were allowed to raise capital through IPOs and there by the share holding pattern has changed. By default the minimum 51% shares would be kept by the Government of India, and the management control of these nationalized banks is only with Central Government. Since all these banks have ownership of Central Government, they can be classified as public sector banks. Apart from the nationalized banks, State Bank of India, and its associate banks, IDBI Bank and Regional Rural Banks are also included in the category of Public Sector banks. The total number of public sector banks as on March, 2013 were 82 as per the following categorization:

(a)	State Bank of India and its Associate Banks	- 6
(b)	Nationalised Banks	- 19
(c)	Regional Rural Banks	- 56
(d)	IDBI Bank	- 1

2. Private Sector Banks

The major stakeholders in the private sector banks are individuals and corporate. When banks were nationalized under two tranches (in 1969 and in 1980), all banks were not included. Those non nationalized banks which continue operations even today are classified as Old Generation Private Sector Banks.. like The Jammu & Kashmir Bank Ltd, The Federal Bank, The Laxmi Vilas Bank etc. In July 1993 on account of banking sector reforms the Reserve Bank of India allowed many new banks to start banking operations. Some of the leading banks which were given licenses are: UTI bank (presently called Axis Bank) ICICI Bank, HDFC Bank, Kotak Mahindra Bank, Yes Bank etc., These banks are recognized as New Generation Private Sector Banks. Ten banks were licensed on the basis of guidelines issued in January 1993. The guidelines were revised in January 2001 based on the experience gained from the functioning of these banks, and fresh applications were invited.

Of the 10 licences issued in 1993, four banks merged with other lenders over a period of time. Times Bank merged with HDFC Bank, while Global Trust Bank was amalgamated with the state-owned Oriental Bank of Commerce. Centurion Bank took over Bank of Punjab to become Centurion Bank of Punjab, which merged with HDFC Bank in 2008. On account of these new generation private sector banks, a new competitive environment was created in the Indian Banking System. These banks were having competitive advantages over their counterparts (of the existing old private banks, public sector banks) in their IT support system, innovative products, and pricing of their products. Private sector banks have been rapidly increasing their presence in the recent times and offering a variety of newer services to the customers and posing a stiff competition to the group of public sector banks. Total private sector banks as on 31st March 2013 were 22. Besides these, four Local Area Banks are also categorized as private banks.

3. Foreign Banks

The other important segment of the commercial banking is that of foreign banks. Foreign banks have their registered offices outside India, and through their branches they operate in India. Foreign banks are allowed on reciprocal basis. They are allowed to operate through branches or wholly owned subsidiaries. These foreign banks are very active in Treasury (forex) and Trade Finance and Corporate Banking activities. These banks assist their clients in raising External Commercial Borrowings through their branches outside India or foreign correspondents. They are active in loan syndication as well. Foreign banks have to adhere to all local laws as well as guidelines and directives of Indian Regulators such as Reserve Bank of India, Insurance and Regulatory Development Authority, Securities Exchange Board of India. The foreign banks have to comply with the requirements of the Reserve Bank of India in respect to Priority Sector lending, and Capital Adequacy ratio and other norms. Total foreign banks as on 31st March 2013 were 43 having 331 branches. Besides these, 46 foreign banks have their representative offices in India as on 31st March 2013.

CO-OPERATIVE BANKING SYSTEM

Cooperative banks play an important role in the Indian Financial System, especially at the village level. The growth of Cooperative Movement commenced with the passing of the Act of 1904. A cooperative bank is a cooperative society registered or deemed to have been registered under any State or Central Act. If a cooperative bank is operating in more than one State, the Central Cooperative Societies Act is applicable. In other cases the State laws are applicable. Apart from various other laws like the Banking Laws (Application to Co-operative Societies) Act, 1965 and Banking Regulation (Amendment) and Miscellaneous Provisions Act, 2004, the provisions of the RBI Act, 1934 and the BR Act, 1949 would also be applicable for governing the banking activities.

These cooperative banks cater to the needs of agriculture, retail trade, small and medium industry and self-employed businessmen usually in urban, semi urban and rural areas. In case of co-operative banks, the shareholders should be members of the co-operative banks. The share linkage to borrowing is a distinctive feature of a co-operative bank. Rural cooperative sector in India plays a vital role in fulfilling the credit requirements of rural agricultural sector of India. At recent times, the rural credit flow through rural cooperative sector has risen substantially in order to keep pace with the growing demand for credit in the rural parts of India. The Cooperative rural Credit Structure in our country are of following types:

1. Short Term Agricultural Credit institutions

The short term credit structure consists of the Primary Agricultural Credit Societies at the base level, which are affiliated at the district level into the District Central Cooperative bank and further into the State Cooperative Bank at the State level. Being federal structures, the membership of the DCCB comprises all the affiliated PACS and other functional societies and for the SCB, the members are the affiliated DCCBs.

The DCCB being the middle tier of the Cooperative Credit Structure, is functionally positioned to deal with the concerns of both the upper and lower tiers. This very often puts the DCCB in a position of balancing competing concerns. While the SCB may managing District Central Cooperative wish the DCCB to prioritize its task in a particular manner, the PACs may have their own demands on the DCCB. Balancing these competing concerns could often be a dilemma for the DCCBs.

There are 30 State Cooperative Banks. These banks support and guide 372 District Central Cooperative Banks (DCCBs) in India which have 13478 branches as on March, 2013. These DCCBs are providing finance to more than 35 lakhs farmers through about 1.15 lacs Primary Agricultural Cooperative Societies (PACS).

2. Long Term Agricultural Credit Institutions

The long term cooperative credit structure consists of the State Cooperative Agriculture & Rural Development Banks (SCARDBs) and Primary Cooperative Agriculture & Rural Development Banks (PCARDBs) which are affiliated to the SCARDBs. The total No. of SCARDB's are 19; of which 10 have Federal Structure, 7 have Unitary Structure and 2 have Mixed Structure (i.e. operating through PCARDBs as well as its own branches).Loans are given to members on the mortgages of their land usually up to 50% of their value in some states or up to 30 times the land revenue payable in other states, duly taking into account their need and repayment capacity. The performance of these banks as on 31st March 2012 has been as under:

No. of SCARDBs	19
No. of PCARDBs	714
No. of Branches of PCARDBs	1,056
No. of Branches of Unitary SCARDBs	761
Annual Lending	₹ 17,603.42 Cr
Total Membership	13.65 Million

3. Urban Cooperative Banks

The term Urban Cooperative Banks (UCBs), although not formally defined, refers to the primary cooperative banks located in urban and semi-urban areas. These banks, until 1996, were allowed to lend money only to non-agricultural purposes. This distinction remains today. These banks have traditionally been around communities, localities working out in essence, loans to small borrowers and businesses. Today their scope of operation has expanded considerably. The urban co-operative banks can spread operations to other States and such banks are called as multi state cooperative banks. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965. The total number of UCBs stood at 1,618 as on 31st March 2012. Scheduled UCBs are banks included in the Second Schedule of the RBI Act, 1934 and include banks that have paid-up capital and reserves of not less than ₹5 lacs and carry out their business in the interest of depositors to the satisfaction of the Reserve Bank.

DEVELOPMENT BANKS

History of development Banking in India can be traced to the establishment of the Industrial Finance Corporation of India in 1948. Subsequently, with the passing of State Financial Corporation Act,1951, several SFCs came into being. With the introduction of financial sector reforms, many changes have been witnessed in the domain of development banking. There are more than 60 Development Banking Institutions at both Central and State level. We are discussing here below the major four development banks which assist in extending long term lending and re-finance facilities to different areas of economy for the economic development pertaining to Small Scale and Medium industries, Agricultural Sector and Housing Sector. These financial institutions plays crucial role in assisting different segments including the rural economic development.

National Bank for Agriculture and Rural Development (NABARD)

National Bank for Agriculture and Rural Development (NABARD) was established in July 1982 by an Act of Parliament based on the recommendations of CRAFICARD. It is the apex institution concerned with the policy, planning and operations in the field of agriculture and other rural economic activities. NABARD has evolved several refinance and promotional schemes over the years and has been making constant efforts to liberalize, broad base and refine/ rationalize the schemes in response to the field level needs. The refinance provided by NABARD has two basic objectives:

(i) Supplementing the resources of the cooperatives banks and RRBs for meeting the credit needs of its clientele, and

(ii) Ensuring simultaneously the buildup of a sound, efficient, effective and viable cooperative credit structure and RRBs for purveying credit.

NABARD undertakes a number of inter-related activities/services which fall under three broad categories

(a) Credit Dispensation :

NABARD prepares for each district annually a potential linked credit plan which forms the basis for district credit plans. It participates in finalization of Annual Action Plan at block, district and state levels and monitors implementation of credit plans at above levels. It also provides guidance in evolving the credit discipline to be followed by the credit institutions in financing production, marketing and investment activities of rural farm and non- farm sectors.

(b) Developmental & Promotional

The developmental role of NABARD can be broadly classified as:-

– Nurturing and strengthening of - the Rural Financial Institutions (RFIs) like SCBs/SCARDBs, CCBs, RRBs etc. by various institutional strengthening initiatives.

– Fostering the growth of the SHG Bank linkage programme and extending essential support to SHPIs NGOs/VAs/ Development Agencies and client banks.

– Development and promotional initiatives in farm and non-farm sector.

– Extending assistance for Research and Development.

– Acting as a catalyst for Agriculture and rural development in rural areas.

(c) A Supervisory Activities

As the Apex Development Bank, NABARD shares with the Central Bank of the country (Reserve Bank of India) some of the supervisory functions in respect of Cooperative Banks and RRBs.

Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) was established in October 1989 and commenced its operation from April 1990 with its Head Office at Lucknow as a development bank. It is the principal and exclusive financial institution for the promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector and for co-ordination of the functions of the institutions engaged in similar activities. It is a central government undertaking. The prime aim of SIDBI is to support MSMEs by providing them the valuable factor of production finance. Many institutions and commercial banks supply finance, both long-term and short-term, to small entrepreneurs. SIDBI coordinates the work of all of them.

SIDBI has evolved a strategy to analyze the problems faced by MSMEs and come out with tailor-made solutions. It has covered around 600 MSME clusters, through a pan-India network of 85 branches, 50 Credit Advisory Centres, and partnerships with cluster-level industry associations as on January 31, 2013. A unique scheme of the credit guarantee for Micro and Small Enterprises called CGTMSE has provided coverage to about 1 million with guarantee covers for an aggregate loan amount of over ₹ 48,000 crore.

Functions of Small Industries Development Bank of India (SIDBI):

Over the years, the scope of promotional and developmental activities of SIDBI has been enlarged to encompass several new activities. It performs a series of functions in collaboration with voluntary organisations, non-governmental organisations, consultancy firms and multinational agencies to enhance the overall performance of the small scale sector. The important functions of SIDBI are discussed as follows:

(i) Initiates steps for technology adoption, technology exchange, transfer and up gradation and modernisation of existing units.

(ii) SIDBI participates in the equity type of loans on soft terms, term loan, working capital both in rupee and foreign currencies, venture capital support, and different forms of resource support to banks and other institutions.

(iii) SIDBI facilitates timely flow of credit for both term loans and working capital to MSMEs in collaboration with commercial banks.

(iv) SIDBI enlarges marketing capabilities of the products of MSMEs in both domestic and international markets.

(v) SIDB1 directly discounts and rediscounts bills with a view to encourage bills culture and helping the SSI units to realise their sale proceeds of capital goods / equipments and components etc.

(vi) SIDBI promotes employment oriented industries especially in semi-urban areas to create more employment opportunities so that rural-urban migration of people can be checked.

National Housing Bank (NHB)

National Housing Bank was set up in July, 1988 as the apex financing institution for the housing sector with the mandate to promote efficient, viable and sound Housing Finance Companies (HFCs). Its functions aim at to augment the flow of institutional credit for the housing sector and regulate HFCs. NHB mobilizes resources and channelizes them to various schemes of housing infrastructure development. It provides refinance for direct housing loans given by commercial banks and non-banking financial institutions. The NHB also provides refinance to Housing Finance Institutions for direct lending for construction/purchase of new housing/dwelling units, public agencies for land development and shelter projects, primary cooperative housing societies, property developers. At present, it is a wholly owned subsidiary of Reserve Bank of India which contributed the entire paid-up capital. RBI has proposed to transfer its entire shareholding to Government of India to avoid conflict of ownership and regulatory role. For this transfer, the central bank will pay RBI, in cash, an amount equal to the face value of the subscribed capital issued by the RBI. The outstanding portfolio of NHB at ₹ 33,083 crores as on 31st December 2012 is almost equally divided between the commercial banks and the HFCs.

Export Import Bank of India (EXIM Bank)

Export-Import Bank of India was set up in 1982 by an Act of Parliament for the purpose of financing, facilitating and promoting India's foreign trade. It is the principal financial institution in the country for coordinating the working of institutions engaged in financing exports and imports. Exim Bank is fully owned by the Government of India and the Bank's authorized and paid up capital are ' 10,000 crore and ' 2,300 crore respectively.

Exim Bank lays special emphasis on extension of Lines of Credit (LOCs) to overseas entities, national governments, regional financial institutions and commercial banks. Exim Bank also extends Buyer's credit and Supplier's credit to finance and promote country's exports. The Bank also provides financial assistance to export-oriented Indian companies by way of term loans in Indian rupees or foreign currencies for setting up new production facility, expansion/modernization or up gradation of existing facilities and for acquisition of production equipment or technology. Exim Bank helps Indian companies in their globalization efforts through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment.

The Bank has introduced a new lending programme to finance research and development activities of export-oriented companies. R&D finance by Exim Bank is in the form of term loan to the extent of 80 per cent of the R&D cost. In order to assist in the creation and enhancement of export capabilities and international competitiveness of Indian companies, the Bank has put in place an Export Marketing Services (EMS) Programme. Through EMS, the Bank proactively assists companies in identification of prospective business partners to facilitating placement of final orders. Under EMS, the Bank also assists in identification of opportunities for setting up plants or projects or for acquisition of companies overseas. The service is provided on a success fee basis.

Exim Bank supplements its financing programmes with a wide range of value-added information, advisory and support services, which enable exporters to evaluate international risks, exploit export opportunities and improve competitiveness, thereby helping them in their globalisation efforts.

FUNCTIONS OF COMMERCIAL BANKS

Sections 5 & 6 of Banking Regulation Act, 1949 contain the functions which a commercial banks can transact. These functions can be divided into two parts:

(a) Major functions

(b) Other functions/ancillary services

(a) Major functions:

(i) Accepting Deposits

(ii) Granting Advances

(b)Other functions:

(i) Discounting of bills and cheques

(ii) Collection of bills and cheques

(iii) Remittances

(iv) Safe custody of articles

(v) Safe Deposit Lockers

(vi) Issue of Letter of Credit

(vii) Issue of Guarantees

Besides the above functions, Banks now-a-days associate themselves in the following activities also either by opening separate departments or through separately floated independent subsidiaries:

(i) Investment Counseling

(ii) Investment Banking

(iii) Mutual Fund

(iv) Project Appraisal

(v) Merchant Banking Services

(vi) Taxation Advisory Services

(vii) Executor Trustee Services

(viii) Credit Card Services

(ix) Forex Consultancy

(x) Transactions of Government Business

(xi) Securities Trading

(xii) Factoring

(xiii) Gold/Silver/Platinum Trading

(xiv) Venture Capital Financing

(xv) Bankassurance - Selling of Life and General Insurance policies as Corporate Agent

LESSON ROUND UP

– A strong banking system is an indicator for the economic development of any nation. Banks are important segment in Indian Financial System. An efficient and vibrant banking system is the back bone of the financial sector. The major functions of banks are to accept deposits from public and provide lending to the needy sectors. Besides commercial banks, cooperative credit institutions also plays important role in the rural economy of the country. Development banks line NABARD, SIDBI, NHB and EXIM Bank are providing refinance facilities to commercial banks and other financial institutions.

– The Reserve Bank of India as the Central Bank of the country plays different roles like the regulator, supervisor and facilitator of the Indian Banking System.

SELF TEST QUESTIONS

1. State whether the following statements are 'True' or 'False'

   (a) The Reserve Bank was nationalized in the year 1949

   (b) In India private sector banks started banking operations after 1991

   (c) The minimum government stake in the nationalized banks is 70%

   (d) RBI is a banker to the Government

2. TERMINAL QUESTIONS (MCQs):

   A. Banks with deposits above —————were nationalized on 19th July,1969.

      (a) ₹ 500 crores (b) ₹200 crores (c) ₹ 100 crores (d) ₹ 50 crores

   B. In the 2nd tranche of nationalization, how many banks were nationalized?

      (a) 5 banks (b) 6 banks (c) 10 banks (d) 14 banks

   C. As regards development banks identify the exception.

      (a) IDBI Bank

      (b) The Small Industries Development Bank of India

(c) The National Housing Bank

(d) The National Bank for Agricultural and Rural Development

D. In 1921, three Presidency banks were merged and a new entity was created as

(a) State Bank of India (b) Imperial Bank of India

(c) Central Bank of India (d) Reserve Bank of India

3. Write a short Note on

   (a) NABARD

   (b) SIDBI

   (c) State Bank of India and Its associates

4. What do you mean by Commercial Banks? What are the main functions of Commercial Banks?
5. Write a short note on the evolution of banking system in India.