

Establishment :

In the year 1926, The commission on Indian currency and finance, which also known as "Hutton young commission" suggested the establishment of RBI. In pursuance of its recommendations, a bill was introduced in the Indian legislative assembly in 1927 and the bill was dropped on constitutional grounds. Again the question assumed importance when the central Banking Enquiry Committee recommended the immediate creation of central bank.

The white paper on Indian constitution reforms, published in 1933, contained a provision that before the federal constitutions operation, a Reserve Bank free from political influences, should be established. The Reserve Bank of India act was passed in September 1934. The Reserve Bank of India started functioning from 1st April, 1935.

started as a shareholder bank with a share capital of Rs 5 crores.

In Jan 1 1949 [The Government of India paid compensation to all the shareholders] the RBI was nationalised under the Reserve Bank of India Act 1948.

Its central office is situated in Mumbai.

Objectives of RBI:

1) primary objectives:

... Addressing the issue of banknotes.

... Maintaining monetary stability in the country.

... To operate the credit system and currency in the country to its own advantage

2) Remain Independent of the political Influence.

In order to maintain financial stability and promote economic growth, RBI should be free from any political pressure and refrain from corrupted activities.

3) Fundamental objectives:

RBI should ~~have~~ serve as a central authority and serve as:

Bank of all other commercial banks.

Only authority who has note issuing powers.

Bank to the Government of India.

4) Promote Economic Growth.

RBI, along with maintaining price stability, should also design policies with promote economic growth within the framework.

Legal framework:

The Reserve Bank of India Act 1934 governs the RBI functions.

The Banking Regulation Act 1949 govern the financial sector.

The Acts governing specific functions:

public dep Act 1944 (Government Securities Act that governs Govt dept. mtd)

Securities contract Regulation Act 1956.
(regulates government securities)

India coinage Act 1906 (Governs currency & coins)

foreign Exchange Regulation Act 1973 /
foreign Exchange management Act 1999.

(Governs foreign Exchange market.

Acts Governing Banking operations:

Indian companies Act 2013. (Governs banks as companies)

Banking companies (Acquisition and transfer of undertakings) Acts 1970 / 1980
(Governs nationalisation of banks).

Bankers Books Evidence Act, Banking
Secretary Act & negotiable Instrument Act 1881.

Acts that Govern Individual Institutions:

State Bank of India Act 1954.

Industrial Development Bank of India Act 1964

Industrial Finance Corporation of India.

National Bank for Agricultural & Rural
Development Act.

National Bank Act.

Deposit Insurance and credit guarantee
corporation Act.

Function of RBI:

1) Monopoly of note Issue:

RBI has the sole Right to issue notes
in the country. It is maintained by two
departments:

Issue department

Banking department

2) Banks to Government: (Sec 20, 21, 21A)

RBI transacts the banking business of
the central and state government.

3) Adviser to the Government:

Advices on banking & financial matters,
resource mobilisation, planning etc are
given by RBI.

4) Controller of credit:

To regulate the money supply and to formulate and administer monetary policy.

- credit control instruments are used.

A) General or quantitative credit control

Bank rate or Discount rate policy

open market operations

variable Reserve Ratio

B) Selective credit control:

Minimum margin for lending against specific securities.

ceiling on the amount of credit for certain purpose.

Discriminatory rates of interest on certain types of advances.

Moral suasion

Regulation of consumer credit

publicity

Direct action

5) Custodian of foreign exchange reserves

RBI has responsibility of maintaining the external value of the rupee for this purpose the Bank holds of the nation's foreign exchange reserve.

6) Banker's Bank and lender of last resort:
The RBI has the responsibility of developing an adequate and sound banking system for catering to the needs of trade, commerce, industry and agriculture.

7) Bank of settlement and clearance:

RBI keeps the cash balance of all commercial banks. It is easy for the bank to act as settlement banks or clearing house for other banks.

8) Information and Research functions:

RBI undertakes collection and dissemination of information and conducts research in the field of banking.

State Bank of India - origin & History:

Establishment of State Bank of India precedes the establishment of Bank of Calcutta on 2nd June, 1806 which was later renamed as Bank of Bengal on 2nd January, 1809.

Bank of Bengal was set up as a Joint stock banking company of British India sponsored by the Government of Bengal.

After the establishment of Bank of Bengal, two or more ^{Bank of Bombay} presidency banks were set up on 15th April 1840 and in Madras called the Bank of Madras set up on 1st July, 1843. Later in January 27, 1921, the three presidency banks were amalgamated.

and the Imperial Bank of India was set up. State Bank of India came into existence with the nationalisation of the Imperial Banks of India on 1st July 1955.

Establishment:

The All India Rural credit Survey committee recommended the creation of a state - partnered and state sponsored bank by taking the Imperial Bank of India and integrating with it, the former State owned or state associated banks. Accordingly an act was passed in parliament in May 1955 and the State Bank of India was constituted on 1 July, 1955.

Later in the year 1959, the State Bank of India act was passed which enables the SBI to take over eight former State - associated banks as its subsidiaries.

Indian Subsidiaries of SBI

The State Bank of India has the following five associate Banks as its Indian Subsidiaries with controlling interest ranging from 75 percent to 100 percent.

1. State Bank of Bikaner and Jaipur
2. State Bank of Hyderabad.
3. State Bank of Mysore
4. State Bank of Patiala
5. State Bank of Travancore.

Foreign Subsidiaries

1. SBI (International)
2. SBI (California)
3. SBI (Canada)
4. INMB Bank Ltd. 1990
5. Banks SBI Indonesia (SBI)

Non-Banking Subsidiaries:

1. SBI Capital Market Ltd.
2. SBI Funds Management Pvt. Ltd.
3. SBI Factors & Commercial Services Pvt. Ltd.
4. SBI Cards & Payment Services Ltd (SBICPSL)
5. SBI DPFI Ltd.
6. SBI General Insurance Company Limited.

Functions:

1) The bank performs the general commercial bank functions such as accepting deposits, giving loans, providing remittances, issuing letters of credit etc.

2) It acts as the agent of the Reserve Bank in places where there are no branches of the RBI.

3) It acts as an agent of the registered co-operative banks.

4) It is authorised to purchase and sell gold and silver.

5) It underwrites the issue of stock, share and other securities.

6) It acts as executor or trustee for the administration of estate on behalf of customer.

7) It is authorised to act as an agent of the central government, any state government or to any corporations for the purpose of housing schemes.

8) It is authorised to grant financial assistance to companies dealing in granting advances on hire purchase basis against the security of book debts.

9) It is allowed to subscribe to the share capital or to buy or sell shares of any banking companies in the capital market.

10) It is also ~~known~~ authorised to form or operate its subsidiary banking companies.

Personal Banking:

State Bank of India offers a wide range of services under the personal Banking segment. SBI offers products and services such as the deposits, recurring deposits, housing loans, car loans, educational loans, loans for pensioners, loans against mortgage of property, loans against shares & debenture etc.

As part of personal banking, SBI offers net-banking services to its customer with seamless facility for fund transfer etc.

International Banking:

SBI offers international banking services for the benefit of its Indian customer, non-resident Indian, foreign entities and banks through a wide network of offices/branches across the globe.

In addition, the bank also augments its network by a cluster of overseas and NRI branches with India and correspondent links the world over.

The list of international banking services includes corporate lending, loans, syndications merchant banking, handling letters of credit and guarantees, short term financing collection of clean and documentary credit & remittances.

The SBI's International Banking division delivers the full range of cross-border finance solutions through its four wings, viz the Domestic division, the foreign office Division, the foreign departments and the International Service Division.

The Domestic wing provides services like merchant banking, shipping finance and project export finance.

The foreign office using offer the entire range of international trade and industrial finance products, while the Kolkata based foreign department undertake treasury and currency operations.

The International services division offers specialized service like correspondent banking, global link services and country and bank risk exposure monitoring.

Trade Financing:

SBI offers the trusted financial solutions to all your complex trade finance related fund needs (Both in Indian Rupee and foreign currencies). As part of trade financing, the bank offer services such as rupee export credit (pre-shipment and post shipment), pre shipment export credit, post shipment export credit, pre shipment credit in foreign currency, export bill rediscounting, letter of credit, Supplier's credit, foreign currency import credit etc.

Correspondent Banking:

SBI develops and maintains relationship with banks and financial institutions across the globe. This network correspondent Bank forms the foundations for all international operations of SBI. The correspondent banking divisions helps the bank to market and distribute its products and services across all categories of customer.

All trade and retail transaction are handled by the vast network of SBI's branches. However, only designated branches handle International Banking activities.

The Rupee vostro accounts of International banks and Institutions are maintained and serviced at SBI's International Service branch (ISBM) at Mumbai and at Overseas Branches at ~~Kolkata~~ Kolkata (Calcutta) Chennai, Cochin, Bangalore.

Co-operative Banks:

Meaning:

The term co-operations means "the idea of living together and working together".

co-operation a form of business organisations. It is the only system of voluntary organisations suitable for poorer people.

In this system the persons voluntarily associate together as human a basis of equality for the promotion of their economic interest.

Definition:

A co-operative Bank is defined as, "an institution established on the co-operative principles and engaged in the normal banking business of accepting deposits from the public for the proper of lending and repay it on demand and otherwise."

Principles:

- 1) Voluntary organisation
- 2) Democratic organisation
- 3) Equitable contribution
- 4) Benefits to members
- 5) Suitable Development

Features

a) Autonomous Institutions:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

b) Value Based Institutions:

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.

c) Relief to farmers:

Co-operative banks were set up to relieve the farmers and agricultural labourers from the clutches of money lenders by providing them agricultural loans comprising of short, medium and long term loans.

d) Objectives:

Co-operative banks are institutions established with principles of co-operations. Their main objectives is to facilitate rural credit and to promote thrift and self-help among the economically weaker

sutions of the society.

e) Basic functions:

co-operative banks also receive deposits and lend money. They lend to their members and make incidental profits, through their sole objective is not profit making co-operative bank does banking business mainly in the agriculture and rural sector.

f) Three-tier structure:

Special feature of co-operative bank is its three-tier structure. At the primary village level co-operative credit societies have been set up to meet the needs of the local population.

At the District level, the central co-operative bank function as a federation and at the state level, the state-co-operative banks act as the apex bank.

g) Non for profit making institution:

co-operative banks are organised and managed on the principle of co-operate self-help, and mutual help.

h) Government support:

co-operative banks are perhaps the first Govt sponsored, support and subsidized financial agency in India.

They get financial and other help from the RBI, NABARD, central Government and State Government.

i) Competition:

co-operative banks are only partially financial intermediaries. The source of their funds are:

- a) central and state Government
- b) Reserve Bank of India & NABARD
- c) Other co-operative institution
- d) deposits or debenture issue
- e) ownership funds

co-operative Banks Vs commercial Banks

Structure:

co-operative banks exist on a federal structure i.e. at the top level state co-operative banks, at the district level, central co-operative banks at the village level, primary co-operative credit societies.

commercial banks function on branches banking system and the branches are located in all areas such as rural, urban etc. The head office controls all branches through the zonal office.

Nature of credit:

co-operative banks generally focus on rural credit and provides credit facilities to agricultural and rural activities.

Commercial banks generally focus on credit requirements of trade and industry.

c) Membership :

In co-operative banks, members who live in a popular area are usually the shareholders and the basic principle is one shareholder has one vote.

In commercial banks the principle of 'one share one vote' is followed.

Sec 19(2) of Banking Regulations Act, restrict the maximum voting rights of a shareholder to 10 percent of total votes.

d) Rate of Interest :

In co-operative banks, the rate of interest for deposits is usually high and for the loan the interest rate is lower.

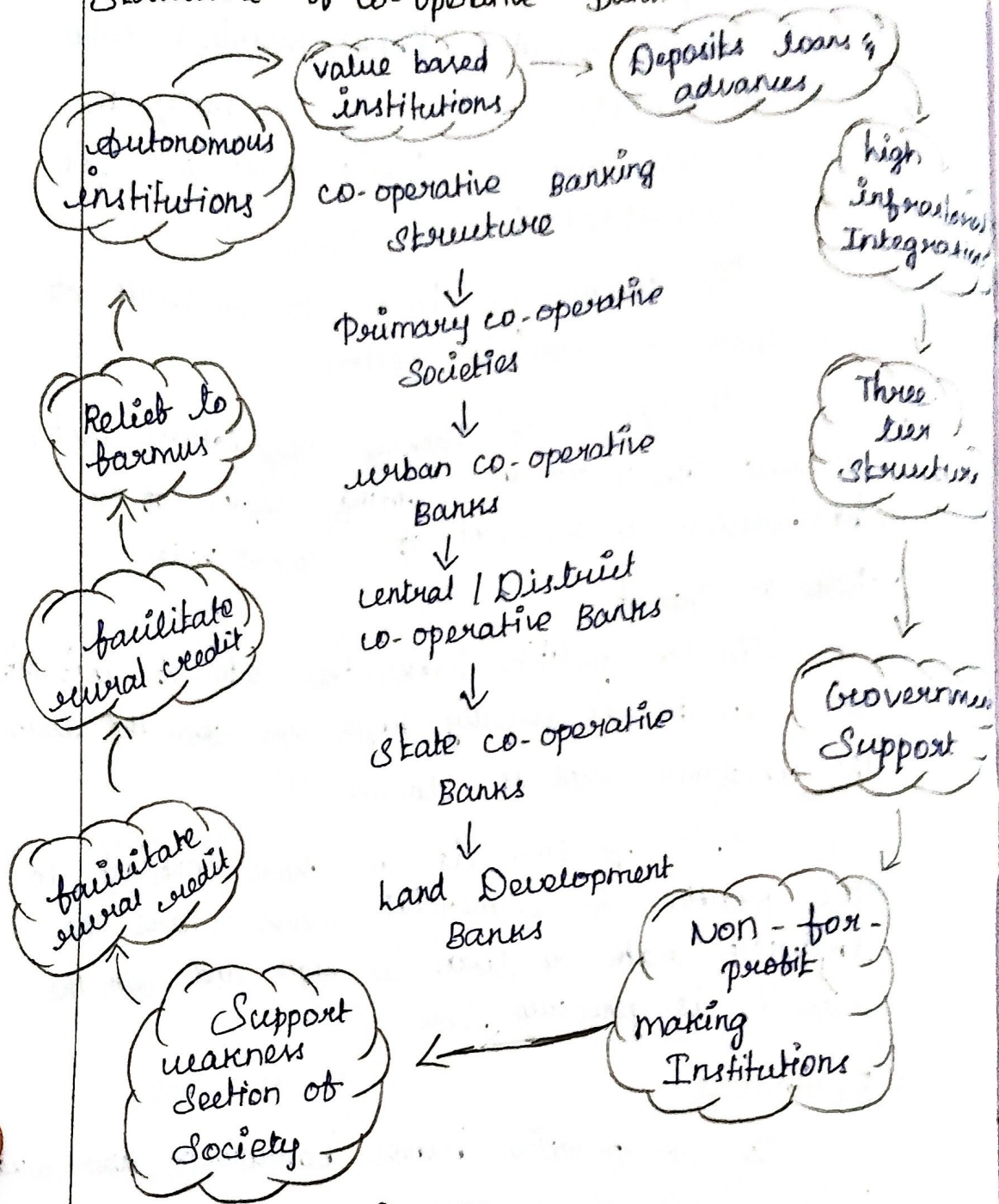
This position is in sharp contrast to the practice of commercial banks where the interest rate on loan is high and for the deposit is generally low.

e) Borrowers :

In co-operative banks, borrowers are usually their members.

In commercial banks, borrowers can be any one including individual & institutions.

Structure of co-operative Bank:



State - co-operative Banks:

State co-operative bank, as the name suggest is organised at a state level. They are regulated by both the RBI and the respective state government. They provide financial services to rural low income population across the country.

central cooperative Banks:

central cooperative banks are co-operative that are established and managed in accordance with the co-operative Societies Act. They are supervised by the RBI. They provide financial service to rural and semi-urban populations across the country.

Primary. Agricultural credit societies

These financial-cooperative are typically organised by farmers and other agricultural professionals to provide credit and other services to farmer.

They are regulated by the RBI and registered under co-operative Societies Act. They are organised in rural area where traditional banking service are limited. They provide loan to members, often at low interest rates, in order to facilitate the purchase of and other necessities.

Non-Banking financial companies:

A non-Banking financial company is a company that provides financial services similar to banks but without holding a banking license.

They are registered under the Companies and Investment, but they don't accept traditional deposits like banks. NBFCs play a crucial role in the economy by providing credit and financial service to various sectors, including those not traditionally served by

banks.

Role of NBFC

1) Receiving of Deposits:

The primary function of non-banking financial institutions is to receive deposits from the public in various ways such as.

Regulates Deposit -

Exempted Deposit -

Regulates Deposit:

A regulated deposit is one which is subject to certain regulations by the controlling authority.

Exempted deposit:

There are deposit / borrowing which are outside the scope of the regulations of controlling authority.

These are deposits include

a) Borrowing from banks and other financial institutions

b) money received from the Government

c) Inter company borrowings

d) Security Deposits

e) money received from local authorities / directors.

2) Lending of money:

Non Banking financial companies provide financial assistance in various forms - hire purchase finance, leasing finance, consumption finance, finance for social

activities and so on.

3) Investment of money:

These companies also invest their surplus money on various outlets.

RBI Regulation on NBFCs

1) Issue of Directions:

RBI has issued various directions from time to time to control the deposit acceptance activities of these companies.

2) Restrictions on Deposit:

RBI prescribed certain ceiling limits for the acceptance of deposits by these non-banking financial intermediaries.

3) Regulation of Brokerage:

The NBFCs tries to attract more and more deposits by paying attractive rates of brokerage or commission or incentive. RBI prescribed certain limits on the payments of brokerage also.

4) Regulation of liquidity:

RBI has issued direction insisting these companies to maintain 10% of their deposit in liquid assets.

5) Compulsory Registration:

RBI requires all non-banking financial companies with net owned funds of Rs 50 lakh and above to register compulsorily with the RBI by the end of July 1993.

6) Submission of Returns:

All the NBFCs are required to submit periodical returns to the RBI on various matters pertaining to their operations.

7) Designation of Banks:

The RBI has stipulated that these companies must designate a commercial bank of their own.

8) Appointment of committees:

RBI appointed various committees from time to time to go into the working of these companies and to offer suitable suggestions to put them along with the mainstream of the overall financial sector.

9) New Department of RBI:

The RBI has set up a new department to supervise commercial banks, financial institutions and non-banking finance companies.

10) Attachments of assets:

The finance companies Regulation Bill, 2000 empowering the company law Board to issue orders of unconditional attachment of assets of any defaulting NBFCs.

Financial Sector Reforms:

Financial Sector Reforms are policy changes aimed at strengthening a nation's financial system. These reforms often involve deregulation

market liberalization and improvements in regulatory oversight to promote efficiency and stability. The goal is to create a more efficient, competitive, and resilient financial sector that can support economic growth and development.

Key aspects of financial sector reforms:

Deregulation -

liberalisation

Strengthening financial institution

Developing financial market

Improving & Regulatory framework
promoting competition.

Sukhamoy committee 1985:

The Sukhamoy Chakravarty committee was constituted under the chairmanship of prof. Sukhamoy Chakravarty in Dec 1982. The objective was to assess the functioning of the Indian monetary system with a view to improving monetary regulation.

Recommendations:

a) price stability:

The committee laid emphasis on the need for the RBI to maintain an appropriate level of money supply in the economy.

b) Greater freedom for bank:

The committee recommended that banks should have greater freedom in determining their lending rates and that banks should use conventional interest rates as a

redistributive device for the benefits of borrowers.

(1) Discontinuance of cash credit:

The committee recommended that bank should undertake measure to encourage loans and bill finance froms of bank credit with more emphasis on credit delivery system in the area of priority Sector lending.

Narasimham committee - 1-1991:

The Narasimham committee. I was set up on 14th august 1991 and its report was submitted on 17th Dec 1991. The purpose was to suggest measures needed for the efficient functioning of the banking system in order to facilitate the nation's economic development the major recommendations are:

a) Reduction in SLR and CRR:

To reduce Statutory liquidity ratio and cash Reserve Ratio as they were found to be extremely high.

b) Purchasing out Direct credit/Program:

The govt of India, compelled banks to set aside funds for the needy and poorer Sector of the society at decreased rates.

c) Interest rate determination:

The banks shall determine interest rates based on market forces of supply and demand for funds.

d) Establishment of the AREF

Establishment of Asset Reconstruction fund to take over bad and doubtful debts from bank and financial institutions.

e) Removal of Dual control:

Entire banking system should be governed by RBI.

f) more autonomy for Banks:

Banks shall be given more autonomy and they shall use technology to deliver banking services in a professional way.

g) Re-organisation of the Banking Sector:

The committee recommended that the number of public sector banks to be reduced through the process of acquisition and mergers.

NARASIMHAM committee - II (1998)

The constitution of the committee on Banking Sector reform in 1998 under Narasimham the second generation of financial sector reforms.

Recommendations:

a) Capital adequacy requirement

The banks and financial institutions shall take into account market risks in addition to the credit risks.

b) Additional capital adequacy requirement

Additional capital requirement of 5% of the foreign exchange open position limit and that such risks should be integrated into the calculation of risks weighted assets.

foreign exchange open position limits should carry a 100% risks weight.

c) NPA recognition:

The committee recommended the introduction of the norm of 90 days for income recognition for ~~NPAs~~ NPAs.

d) Issuance of bonds:

The committee recommended that banks shall be permitted to issue bonds for augmenting their tier II capital & guarantee of the Government was not necessary for such bonds.

e) open recruitment policy:

The committee recommended that ~~banks~~ public sector banks shall be permitted to recruit from the open market or by way of campus recruitment, skilled personnel in area like information technology, risk management, treasury operation etc.

classification of assets and provisioning
assets classification and provisioning
is a crucial process in banking and
finance, where assets are categorised based
on their risk profile and the likelihood of
default. This classification helps banks
determine the amount of provisions they need
to allocate for specific types of assets.

Asset classification:

Standard assets:

These assets are considered healthy
and have a low risk of default. They are
typically current in their repayments and
have a good track record.

Sub-standard asset

These assets are showing signs of
weakness and may be struggling to meet
their repayment obligations. They are
classified as non-performing assets (NPAs)
for a period of ten, then or equal to 12
months.

Doubtful assets:

These are in a more serious state of
default and the recovery of the principal
is questionable. They are classified as NPAs
for more than 12 months.

Non Assets:

These assets are considered unrecoverable and the loss has been identified by the bank or auditor.

Provisioning

Provisioning involves setting aside funds to cover potential losses on assets that are not performing as expected. The amount of provisioning required depends on the asset's classification.

Standard Assets:

May require a small percentage provision, often around 0.4%.

Sub-standard Asset:

Require a higher percentage provision typically between 20% and 25% of the loan amount.

Doubtful Assets:

Require a substantial provision, often 100% of the unsecured position and a percentage of a realisable value of assets.

Loss Assets:

Require a provision equal to the full value of the assets, as it is considered unrecoverable.

Structure of Interest Rates:

The term structure of interest rates refers to the relationship between interest rates and the time to maturity of debt securities, essentially the difference between short term and long term rates.

Longer term rates are generally higher than shorter-term rates, a phenomenon often visualised as an upward-sloping curve.

Short term rates:

These are interest rates for loans or investment with maturities of less than one year or often representing the current cost of borrowing or lending.

Long term rates:

These are the interest rates for loans or investment with maturities of one year or more, reflecting expectations about future interest rate movements.

Impacts of Savings and Borrowings

Savings, when used for investment can drive economic growth by increasing available capital and reducing interest rates, making borrowing more affordable.

Borrowing of managed responsibly can facilitate investment and Entrepreneurship boosting productivity and income.

Impact of Savings

Economic Growth

Increased Savings lead to higher investment rates.

Financial Security:

Savings act as a safety net for individual and household, providing a buffer against unexpected expenses and emergencies.

Lower Interest Rates

Increased Savings can lead to greater supply of available capital.

Investment and Innovations

Savings can be channeled into investment that support innovation, technological advancement and overall economic progress.

Impact of Borrowing:

Investment and Entrepreneurship:

Borrowing can enable individual and business with ~~an~~ access to funds when they lack significant Savings, allowing them to invest.

Economic Activity :

It can stimulate economic activity & consumer spending and investment.

Debt Burdens

Excessive borrowing increase debt burden.

Interest rate impact

changes in interest rates can significantly affect the cost of borrowing.

Potential for Default.

If borrowing is not managed carefully it can lead to default and negative consequences.