INNOVATIONS AND REFORMS IN INDIAN BANKING

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PREFACE

Banks and banking services have become an inevitable part of millions of individuals in India. Kerala has achieved near to cent per cent banking literacy. Since the government has already introduced direct transfer system of benefits to citizens, its importance has doubled.

Adherence to innovative technology has turned the phase and face of banking services. The innovative revolution that has begun from the introduction of core-banking facility in the year of 2000, has reached to up to most popular WhatsApp enabled banking in 2022.

This text book on 'Innovations and Reforms in Indian Banking', is a text book as per the BCom Ist Semester 'Banking & Insurance' syllabus of MG University, Kottayam. But it does not cover the entire syllabus. A syllabus oriented book has got its own limitations. The author has referred mainly the websites of Reserve Bank of India. Many other printed and e-resources, especially websites of banks are also used to get inference on the topics covered. It fulfils the minimum requirements for appearing the University examination with confidence.

Additional information is also given as part of references, deviating from the traditional style of reference of a book. Currency system, list of scheduled banks, etc. are not part of syllabus. But it is a topic of general interest of any person who interacts with banks for services. The links for updated results from RBI is also provided.

It is an effort of almost seven years of handling the topic for UG courses. The book needs updates, especially in the chapter 'innovations in banking' since banks in India, comes up with every day innovations.

The E-Book intended for free circulation, though priced. The print version, if required cannot be given without covering the cost of book and distribution. Hope this book will cater your examination requirement in an easy manner.

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I

INDIAN FINANCIAL SYSTEM

The financial system of any country is a complex matrix of markets, institutions, financial instruments and regulatory/governing systems. The system is concerned about money and finance. Where money is the medium of exchange and finance is the credit, debt and ownership funds. Indian financial system is controlled by the ministry of Finance*. Presently it has five departments[1]. A brief structure of the Indian financial system is given below:

Ministry of Finance

↓

Departments

1. Expenditure 2. Revenue

3. DIPAM - Department of Investment and Public Asset Management

4. **Financial Services**[2]

5. Economic Affairs

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* F. Minister : Smt Nirmala Sitharaman (TN) M.A. (Eco.), M.Phil
State Minister: Shri Anurag Singh Thakur (HP) BA

Department of Financial Services

- (a) **Banks**
- (b) **Insurance Companies**
- (c) Financial Institutions
- (d) National Pension System

Regulators of Indian Financial System

There are four regulatory bodies in the Indian financial system. Among these three are statutory bodies and one is non-statutory body.

Statutory bodies:

- Reserve Bank of India[3] formed in1935
- The Insurance Regulatory and Development Authority (IRDA)[4] formed in 1999
- Securities and Exchange Board of India (SEBI)[5] (Est. in 1988, statutory in1992)

Part of the Ministries:

- Pension Fund Regulatory and Development Authority (PFRDA)[6] formed in 2013 Ministry of Finance

II

BANKING

Bank* is a financial institution for deposits and loans. Banks play a vital role in the financial system of every nation. RBI acts as the central bank of India and the regulatory authority of banks in India.

Etymology[7]

In olden days money changing business was conducted by sitting on benches at the marketplaces. This is considered as the origin of banking. Thus, the word ‘bank’ was derived from the Latin word ‘bancus’ or Italian word ‘banca’ or from French word ‘banque’, all means ‘bench, moneylender's table’.

History of Banking

In the early civilisations of Egypt and Mesopotamia people used to deposit gold in

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* Business = Industry + Commerce

Commerce = Trade + Aids to Trade

Aids to trade = Financial services + Transportation + Warehousing + Communication

Financial Services = Banking + Insurance + Stock Broking + Financial Services temples for safe custody. There are records of loan made by the priests in the 18 century BC, Babylon. From the 4th century BC, private entrepreneurs, temples, and public enterprises undertook financial transactions. They took deposits, make loans, change money from one currency to another, coin test for purity, etc. Merchants, Money lenders and Goldsmiths are considered as the ancestors of modern banks.

Origin of Banking in India

In India the first bank was 'Bank of Hindostan' established in 1770 (liquidated in 1829-32)[8]. General Bank of Bengal and Bahar was established in 1773 and liquidated in 1775.

Bank of Culcutta was established in June 2, 1806 (renamed as Bank of Bengal) as a chartered company. Bank of Bombay (1840) and Bank of Madras (1843) were also started as chartered companies. In 1921, 'Imperial Bank of India' was formed by amalgamating all these three banks.

RBI acquired the controlling share of Imperial Bank and in 1955 SBI was created by a special act of Parliament. At present India Government holds 58% shares (with voting rights) of SBI. Its 5 associate banks were merged with SBI in 2017. SBI is the oldest and largest bank in India.

RBI

Reserve Bank of India was established in 1935 through the enactment of The Reserve Bank of India Act. Its HQ is in Mumbai. The Banking Regulation Act, 1949 empowered RBI to regulate, control and inspect the commercial banks in India.

Banking

"Accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise."

Banking Regulation Act, 1949

Classification of Banks

There are several classifications of banks in India. The basis of such classification includes:

- Classification by RBI
- Classification by Function
- Classification by Statute
- Classification by Registration
- Classification by Domicile
- Classification by Ownership

The most important classification is that of RBI[9]. This classification is of more practical use.

I. <u>Classification by RBI</u>

Reports of RBI classify the banks under three major heads. They are:

1. Commercial Banks
2. Cooperative Banks
3. Financial Institutions

1. Commercial Banks (138)

Commercial Banks refer to both scheduled and non-scheduled commercial banks which are regulated under Banking Regulation Act, 1949. They are working with a motive of profit. There are 141 commercial banks as on 1st January 2022. Eg. SBI, UBI, SIB. Commercial banks are broadly categorised into two:

A. Scheduled Commercial Banks (138)

B. Non Scheduled Commercial Banks (3)

A. Scheduled Commercial Banks

As per RBI Act 1934 “scheduled bank” means a bank included in the Second Schedule of RBI. This Schedule is amended by notifications issued under section 42(6) of RBI Act from time to time. In addition to scheduled commercial banks, there are scheduled Cooperative Banks also.

Eg. SBI, UBI, Federal Bank, SIB

Scheduled commercial banks are of 6 categories. They are:

a) Scheduled Public Sector Banks (12)

b) Scheduled Private Sector Banks (22)

c) Scheduled Small Finance Banks (11)

d) Scheduled Payment Banks (4)

e) Scheduled Regional Rural Banks (43)

f) Foreign Banks (46)

B. Non Scheduled Commercial Banks

Local Area Banks (3)

LABs are small private banks, conceptualised in 1996. Their jurisdiction (area of operation) is limited to two or three contiguous districts. They functions in rural and semi-urban areas. There are 3 LABs as on April 2019. They are Coastal LAB, Krishna Bhima Samrudhi Bank, and Subhadra LAB.

Types of Scheduled Banks

a. Public Sector Banks:

Banks owned and controlled by the Government. There are 18 public sector banks in India as on April 2019. Eg. SBI, UBI, Corporation Bank.

b. Private Sector Banks:

Banks which are owned and controlled by private individuals. Government has no controlling share in private banks. There are 22 private sector banks in India as on April 2019. Eg. Federal Bank, SIB, HDFC Bank.

c. Small Finance Banks:

'SFB' is also a new model of scheduled banks conceptualised by the RBI in 2015. The objective is to further financial inclusion by (a) provision of savings, and (ii) supply of credit. The major target customers are small business units, small and marginal farmers, micro and small industries, and other unorganised sector entities. SFBs focus on high technology-low cost operations. There will not be any restriction in the area of operations of small finance banks.

It cannot set up subsidiaries to undertake non-banking financial services activities. The small finance bank will be required to use the words "Small Finance Bank" in its name in order to differentiate it from other banks.

There are 11 Small finance banks as on January 2022. Eg. ESAF Small Finance Bank Ltd.

Objectives of small finance banks:

Objective of SFB is to further financial inclusion by:

(i) provision of savings vehicles primarily to unserved and underserved sections of the population, and

(ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

d. Payment Banks:

Payments bank is a new model of banks conceptualised by the RBI in 2015. The objectives are to further (extent) the financial inclusion by providing (i) small savings accounts and (ii) payments services. The major target customers are migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users. These banks can accept a restricted deposit up to Rs.1 lakh per customer. These banks cannot issue loans and credit cards.

There are 4 Payments Banks as on January 2022. Eg. India Post Payments Bank Ltd.

Objectives of Payment Banks:

(i) To further financial inclusion by providing small savings accounts and

(ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

Payment Banks Vs Small Finance Banks

1. PBs can accept only SB a/c and Current A/c.

   SFB can accept any types of accounts.

2. Maximum limit of deposit in PB is Rs.1 Lakh.

   There is no maximum limit of deposit in SFB.

3. PB cannot issue credit cards.

   SFB can issue credit cards

4. PB cannot provide loans and advances.

   SFB can provide loans and advances

e. Regional Rural Banks: They are local level banks operating in different states. They are established with a view to serve the rural areas of India with basic banking services. There are 43 RRBs in India. Eg. Kerala Gramin Bank, Malappuram.

f. Foreign Banks: Banks which are registered in a foreign country, but has branches in India. There are 46 foreign banks in India as on January 2022. Eg. Bnp Paribas, Standard Chartered Bank, Hsbc Bank Oman S.A.O.G., etc.

2. Cooperative Banks

Banks owned and operated by cooperative societies. They are also called cooperative credit societies. There are scheduled and non-scheduled cooperative banks regulated by RBI. They are of 6 types:

(1) Scheduled State Cooperative Banks

(2) Non Scheduled State Cooperative Banks

(3) Scheduled Urban Cooperative Banks

(4) Non Scheduled Urban Cooperative Banks

(5) State Cooperative Banks (31)

(Eg. The Kerala State Cooperative Bank Ltd)

(6) District Cooperative Banks

3. Financial Institutions (4)

They are FIs under the full-fledged regulation and supervision of RBI. There are 4 FIs as on April 2019: EXIM Bank of India, NABARD, National Housing Bank, and SIDBI.

II. Classification –Basis Ownership

1. Public Sector Banks
2. Private Sector Banks
3. Cooperative Banks
4. Foreign Banks

III. On the basis of Domicile

1. Domestic Banks
2. Foreign Banks

IV. Classification on the basis of function

1. Commercial Banks
2. Industrial Banks
3. Agricultural Banks
4. Exchange Banks
5. Savings Banks
6. Central Bank
7. ExIm Bank
8. World Bank

Domestic Banks:

Banks which are registered within the country are called domestic banks. Eg. SBI, SBT, UBI, Federal Bank, SIB

Agricultural Banks:

They are banks which provide agricultural credit. They provide short term and long term funds to agriculture. All scheduled banks and cooperative banks provide agricultural finance. NABARD (National Bank for Agriculture and Rural Development) specially cater to the needs of agricultural sector.

Exchange Banks:

They are banks which deal with foreign exchange. They specialise in financing foreign trade. Their main function is to facilitate conversion of currencies. Most of the commercial bank performs foreign exchange services.

Saving Bank:

They are banks which promotes saving habit among the public. All the commercial banks and cooperative banks act as saving banks.

Nationalised Banks

Nationalisation is the process of transforming private assets into public assets by bringing them under ownership of a govt. This means converting private sector banks to public sector. Nationalization of banks took place in two phases – in 1969 (14 banks) and 1980 (6 banks[10]). Before the nationalization policy SBI was nationalized in 1955

Industrial Banks:[11]

They are banks which provide long term financial assistance to industries. Financial institutions governed by RBI, such as EXIM Bank of India, NABARD, National Housing Bank, and SIDBI along with SFCs cater specially to the needs of industries.

Central Banks:

The top most banking institution which controls regulates and supervises the monetary and credit system of a country. It has the monopoly of issuing notes. Central bank of India is RBI.

World Bank (IBRD):

International bank which provide financial assistance to member countries. It is also called IBRD- International Bank for Reconstruction and Development.

Functions of Commercial Banks

A. Primary Functions -Deposit, Loans

B. Secondary Functions - Agency, General Utility

A. Primary Functions:

(a) Accepting Deposit is the most important primary function of commercial banks. The different types of deposits accepted by commercial banks are: FD, CD, SBD and RD

1) **FD (Fixed/Time Deposit):** The amount deposited for a fixed period of time. It may range from 7 days to 10 years. Premature closing is allowed now a day.

2) **CD (Current/Demand Deposit):** They are accounts maintained generally by businessmen and institutions with large

number of transactions. They are repayable on demand. Generally no interest is paid on CD. Over Draft facility is allowed on CDs.

3) **SB a/c (Savings Deposits):** Mainly intended to encourage saving habit. There are certain restrictions on the number of withdrawals per day. Now a days SB a/c is used for many purposes.

4) **RD (Recurring Deposit)** : Here the customer deposits a fixed amount every month for a fixed period of time. The period may range from one to ten years.

5) **PPF A/c**: Public Provident Fund (Amendment) Scheme, 2016: The Scheme introduced by the National Savings Organization in 1968 to mobilize small savings can be opened at selected scheduled banks. PPF savings a/c. Interest rate is 8%. Income tax benefits are available under Sc.80C and Sec.88. No withdrawal is allowed till the completion of 5th year. After the 5th year, partial withdrawals are allowed. Full withdrawal can only be made after completion of the 15th year. Loans are available after first year of a/c. The minimum amount to open the a/c is Rs.100, (Rs.500p.a.). The maximum investment limit is Rs.1.5lakhs p.a. Generally PPF a/c is

opened for only those who are having SB a/c.

(b) Lending of Money is the second important function of a commercial bank. The following are common forms of lending by commercial banks.

1) **Overdraft**: OD is a temporary financial arrangement given to current account holder. He is allowed to withdraw more than the amount deposited in his account, upto a limit. The limit is agreed between bank and account holder. Generally the bank charges interest for excess drawings only.

2) **Cash Credit**: CC is a type of short term secured loan. The borrower can withdraw up to a certain limit. Interest will be charged only on the amount of actual withdrawal. He can operate the account just like an SB a/c for withdrawal and repayment.

3) **Term Loans**: The loans granted for a period of more than one year. Housing loans, Education loans, etc are examples of term loan.

4) **Bridge Loans**: Bridge loan bridges the gap between more permanent source of financing. This is a short term temporary loan given till he arranges a more comprehensive long term financing.

5) **Discounting of Bills of Exchange:** BE is an instrument under Negotiable Instruments Act. The banker advance cash on Bills Receivables by discounting the bills.

6) **Money at call and short notice:** These are very short term loans given by a bank to another bank. The duration of the loan exceeds from one day to 14 days.

C. **Secondary Functions**:

Agency functions and general utility functions are the secondary functions of commercial banks.

(a) **Agency Functions:**

Here the banks act as an agent of the customer. They include:

1) Transfer of fund from one place to another.
2) Collection of Cheques, Bills and promissory notes.
3) Execution of standing orders such as payment of bills, rent, insurance premium, etc.
4) Purchase and sale of securities.
5) Collection of dividend on shares.
6) Preparation and payment of Income tax
7) Acting as trustees of 'will' and executer after death.

(b) **General Utility services:**

These are other services provided by modern banks.

1) Locker facilities
2) Issue of Travellers cheque
3) Dealing in foreign exchange.
4) Issue of ATM/Debit/Credit cards.
5) Maintenance of DMat accounts
6) Issue of Letter of Credit, to certify the credit worthiness of his customer (used in EXIM trade)
7) Acting as referee to provide information on customer's financial position.
8) Collection and dissemination of information relating to trade, industry and banking.
9) Functions of merchant bankers like lead bank to the public issue.
10) Providing lease finance, housing finance, factoring, etc.

C. Credit Creation by Commercial Banks

It is an important function of commercial banks. Credit creation means the capacity of a bank to create derivative deposit out of the primary deposits.

How banks create credit: Assume a village where all transactions are through the only bank and the CRR is 10%. The bank has a primary deposit of ₹10,000/- Keeping a reserve of ₹1,000/-, it lend ₹ 9,000/- to 'A'. Instead of withdrawing cash, 'A' issues a cheque to his creditor 'B'. 'B' deposits the cheque with bank. Keeping a reserve of 10% bank lends ₹8100/- to 'C'. Instead of withdrawing cash, 'C' issues a cheque to his creditor 'D'. 'D' deposits the cheque with bank. It continues. Thus the BS of the bank will appear as:

Liabilities	₹	Assets	₹
Deposits(Primary)	10000	Cash in hand	10000
Deposit(Primary)	10000	Cash in hand	9000
		Cash Reserve - RBI	1000
Deposit –B (Secondary)	9000	Loan - A	9000
	19000		19000
Deposit(Primary)	10000	Cash in hand	8100
		Cash Reserve - RBI	1900
Deposit -B (Secondary)	9000	Loans - A	9000
Deposit -C (Secondary)	8100	Loans - C	8100
	27100		27100

Primary deposit: The amount deposited by the original depositor. ie. The total legal tender money.

Derivative deposit: Deposit derived from lending the primary deposit.

Thus every loan creates a deposit and every deposit creates a loan. Even if there is more than one bank, the total deposit of the banking system will be same. There will be transfer of deposit from one bank to another.

Limitations of Credit creation:

1. Primary deposit: Higher the amount of primary deposit, higher will be the capacity to create credit.
2. Availability of good borrower affects the credit creation.
3. Availability of Good Securities is a preventing factor for credit creation since banks lends on securities.
4. Success of Credit creation depends on the banking habit of the general public.
5. Attitude of people to hold cash affects the credit creation.
6. Monetary policy of the Central Govt. (SLR, CRR) affects the credit creation of banks.

7. Economic conditions affect the credit creation. During recession and depression, there will be less demand for loan. During boom, there will be high demand for loan.
8. Behaviour of banks in lending, may restricts credit creation.

Role of Commercial banks in a Developing economy

1. Capital formation by mobilisation of scattered savings through various deposit schemes.
2. Generation of both direct and indirect employment opportunities.
3. Development of rural areas by establishing branches in rural areas.
4. Commercial banks act as the facilitator of monetary policy of Central Government, implemented by RBI.
5. They provide credit facilities and employment opportunities to improve the standard of living of the people.

III

RESERVE BANK OF INDIA

The Reserve Bank of India was established on April 1, 1935 as per the provisions of the Reserve Bank of India Act, 1934. The Central Office of the Reserve Bank was initially established in Calcutta. In 1937 CO was permanently moved to Mumbai. The Central Office is where the Governor sits and where policies are formulated. RBI was nationalised in 1949, and is fully owned by the Government of India.

RBI acts as the Central Bank of India. Central banking is regarded as a special category of business, quite distinct from commercial banking.

History of RBI

There were three Presidency Banks: Bank of Bengal, Bank of Bombay and Bank of Madras. They were set up as quasi-Govt institutions. They were incorporated under Charter from the local Govt. Local British Govt. contributed a part of their share capital. All the three banks were permitted to issue notes till 1862, (Under the Paper Currency Act 1862, the sole right to issue notes vested in the Govt of India).

In 1921Presidency Banks were amalgamated into Imperial Bank of India. But it was not entrusted with all the central banking functions. Currency management remained with Govt. In the early twenties of this century, central banking came to be treated as a separate class of business, distinct from commercial banking. It was considered that a single institution could not suitably perform both types of functions. Thus, in 1926, the Hilton Young Commission recommended the setting up of an institution the Reserve Bank of India - with pure central banking functions.[12]

The Hilton Young Commission Report (1926) made detailed recommendations on the set-up of the Reserve Bank. The Reserve Bank of India Bill, 1933, drafted on the recommendations of the London Committee, was passed in the Legislative Assembly. The RBI Bill, 1933, provided for a private shareholders' bank, in consonance with the spirit of the times. RBI was nationalised in 1949.

Organisation Structure of RBI

The organisational structure of RBI consists of:
(a) Central Board and (b) Local Boards

1. Central Board of Directors

Governor-1->Deputy Governors -4 ->Executive Directors-20 ->Principal Chief General Managers

Departments-38 – Chief General Managers

2. **Local Boards** – at 4 Regions of West, East, North and South

1. Central Board of Directors (21)

The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Govt. of India as per the RBI Act. They are appointed/ nominated for a period of four years. The Central Board has:

- **(a) Official Directors (5):** Governor and not more than four Deputy Governors
- **(b) Non-Official Directors (16):** Nominated by Government: 10 Directors from various fields and 2 govt. Official and 4 from four local boards

2. Local Boards (5x4=20)

There are 4 local boards, one each for the four regions of the country in Mumbai, Calcutta, Chennai and New Delhi. Each board consist of 5 members. They are appointed by the Central Govt for a term of 4 years.

Functions of Local Board:

(a) To advise the Central Board on local matters

(b) To represent territorial and economic interests of local cooperative and indigenous banks

(c) To perform such other functions as delegated by Central Board from time to time.

Objectives of RBI

The Reserve Bank of India Act, 1934 sets out the following objectives:

1) To regulate the issue of Bank notes (currency notes).
2) Keeping of reserves with a view to securing monetary stability in India.
3) To operate the currency and credit system of the country to its advantage.
4) To have a modern monetary policy framework to meet the challenge of an increasingly complex economy.
5) To maintain price stability while keeping in mind the objective of growth.
6) Ensuring adequate flow of credit to sustain the growth momentum,
7) Securing financial stability.
8) Regulation, supervision and development of the financial system.
9) To integrate monetary policy (of RBI) with fiscal policy (of Govt.)
10) To communicate in a transparent manner for strengthening accountability and credibility.

Legal Framework of RBI

There are 12 Acts administered by the RBI, and 18 other relevant Acts under the legal frame work of RBI. Eg. Reserve Bank of India Act-1934, Banking Regulation Act-1949, Foreign Exchange Management Act-1999, etc. and Negotiable Instruments Act-1881, SBI Act-1955, Companies Act, 1956/Companies Act-2013, Banking Companies Act-1970, Regional Rural Banks Act-1976

Main Functions of RBI

1. **Formulation of Monetary Policy:**

   RBI formulates, implements and monitors the monetary policy. It acts as the monetary authority. The objective is maintaining price stability while keeping in mind the objective of growth. Inflation targeting is the central focus of monetary policy. RBI strives to keep the inflation between 2-4%

   (CPI inflation- Consumer Price Index1991-14%, 1999-5%, 2000-4%, 2010-12%, 2013-11%, 2016-4.97%, 2017-2.08%, 2017may1.09%)

2. **Regulating and supervising the financial system:**

   RBI Prescribes broad parameters limitation of banking operations. They are constrains within which the country's banking and financial system functions. The objective is to maintain public confidence in the system, to protect depositors' interest and to provide cost-effective banking services to the public. RBI has power to impose penalty for non-compliance on directions issued. Eg. Power to impose moratorium, force merger of nonperforming banks, etc. (Nedungady bank - PNB, Bank of Kerala-Canara Bank, Ganesh Bank-Federal Bank). Board for Financial Supervision (BFS) is in charge of it.

3. **Managing Foreign Exchange**

   RBI Manages the Foreign Exchange Management Act, 1999. The objective is to facilitate external trade and payment. RBI promotes orderly development of foreign exchange market in India. As such it has been given the custody of foreign exchange reserves and sole agency for the administration of exchange controls in India.

4. **Issue of currency:**

   RBI has the monopoly of issuing currency notes in India. One rupee notes and coins are issued by the ministry of finance. RBI issues, exchanges or destroys currency and coins not fit for circulation. The objective is to give the public adequate quantity of supplies of currency notes and coins and in good quality. Department of currency management is in charge of this. RBI has 'currency chests' at various parts of India for the smooth supply of currency notes.

5. **Banker to the Government**:

   Managing the govt's banking transactions is a key RBI role. Like individuals, businesses and banks, govts need a banker to carry out their financial transactions. RBI acts as the banker to Central and State Govts. 'Dept. of Govt. And bank a/cs' is in charge of this central bank function. As a banker to the Govt:

   a. It Maintains and operates deposit accounts.
   b. It accepts receipts for the Govt.
   c. It makes payments for the Govt.
   d. It transfers of funds for the Govt.
   e. It gives short term advances to the Govt. –under WMA (Ways and means advances)

6. **Management of Public Debt**:

   RBI manages public debt for the central and state govts. It involves:

   a. Issue of new rupee loans

b. Payment of interest and repayment of loans

c. Issue and registration of debt certificates.

d. Advising Govt. on financial matters.

7. **Banker to banks:**

Like individual consumers, banks need their own mechanism to settle inter-bank transactions. As the banker to banks, the RBI fulfils this role.

a. RBI maintains banking accounts of all scheduled banks.

b. It provides short-term loans and advances to banks.

c. It rediscounts Bills of commercial banks.

d. It acts as a lender of last resort – Gives cash advances to banks in emergency situations.

e. Centralised Funds Management System (CFMS) facilitates centralised transfer of funds across banks.

8. **Credit Control:**

Credit Control means controlling the availability of credit in the economy. It is used by the RBI to control the demand and supply of money (liquidity) in the economy. RBI controls the credit available in the economic system through a number of measures like BRP, CRR, SLR, etc.

9. **Collection and publication of Data:**

   RBI publishes statistical data about the financial system in a transparent manner. 'Department of Economic and Policy Research' is in charge of this. Eg. RBI Bulletin, Report on the Trend and Progress of banking in India.

10. **Developmental role:**

    RBI performs a wide range of promotional functions to support national objectives. a. RBI has 5 training establishments. (College of Agricultural Banking and Reserve Bank of India Staff College, National Institute for Bank Management, Indira Gandhi Institute for Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT)

    b. RBI channelizes credit to the weaker sections of the society through PSL (Priority Sector Lending)

Indian System of Note Issue

Money as a means of payment, consists of coins, paper money and withdrawable bank deposits. It also includes credit cards, debit cards and electronic cash. The Indian currency is called the

Indian Rupee (INR) and the coins are called paise. The notes are called bank notes as they are issued by the Reserve Bank. Coins of 50 paise are called 'small coins' and coins of Rupee one and above are called 'Rupee Coins'.

The Department of Currency Management of RBI has the responsibility of currency management. Currency management includes (a) issue of notes and coins and (b) retrieval of unfit notes from circulation.

Currency Printing Presses[13]

There are 4 currency note printing presses. 2 owned by the Central govt. and 2 by the RBI. The govt. owned presses are at Nasik (Western India) and Dewas (Central India). The Bharatiya Reserve Bank Note Mudran Ltd. (BRBNML), fully owned subsidiary of RBI, has two presses at Mysore (Southern India) and Salboni (Eastern India). The Department through it's 18 offices receives notes from four currency note printing presses. Coins are minted in four mints owned by the Government of India. The mints are located at Mumbai, Hyderabad, Calcutta and NOIDA.

Functions of

Department of Currency Management

1) Designing of banknotes,
2) Forecasting demand for notes and coins,

3) Ensuring smooth distribution of banknotes and coins throughout the country.

4) Retrieval of unfit notes and un-current coins from circulation,

5) Ensuring the integrity of bank notes,

6) Administering the RBI (Note Refund) Rules,

7) Reviewing the work systems at the issue offices on an ongoing basis, and

8) Dissemination of information on currency related matters to the general public.

Currency chest[14] :

Currency chests are storehouses where bank notes and rupee coins are stocked on behalf of the Reserve Bank. They are selected branches of scheduled banks (generally SBI). They facilitate the distribution of notes and rupee coins to other bank branches.

Soiled and mutilated notes:

Soiled notes are notes, which have become dirty and limp due to excessive use. Mutilated notes are notes, which are torn, disfigured, burnt, washed, eaten by white ants, etc. Soiled notes[15] can be tendered at all bank branches for exchange.

Minimum Reserve System[16]

In India, Minimum Reserve System is followed (from 1956 onwards), for the issue of currencies. Under this System, the RBI has to keep a minimum reserve of Rs 200 crore. Reserves comprises of gold and foreign currencies. Out of the total Rs 200 crore, Rs.115 crore should be in the form of gold coins or gold bullion[bar].

The minimum reserve is a token of confidence and doesn't have any practical connection with the amount of new currencies issued by the RBI. Under the Minimum Reserve System, RBI can issue unlimited amount of currency by keeping the reserve. But RBI follows some principle or rule for issuing new currencies based upon economic growth and transaction needs of the people.

Board for Financial Supervision (BFS)[17]

The RBI performs the financial supervision under the guidance of the Board for Financial Supervision (BFS). The Board was constituted as a committee of the Central Board of Directors of the RBI. Primary objective of BFS is the consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies. The functions of BFS include:

(1) Restructuring of the system of bank inspections Introduction of off-site surveillance observation

(2) Strengthening of the role of statutory auditors

(3) Strengthening of the internal protection of supervised institutions.

(4) Supervision of financial institutions

(5) Focus on consolidated accounting

(6) Focus on legal issues in bank frauds

(7) Focus on supervisory rating model for banks.

Monetary Policy

Monetary policy refers to the use of monetary instruments under the control of the RBI to regulate interest rates, money supply and availability of credit. The objective is to achieve the ultimate objective of economic policy. The primary objective of monetary policy is to maintain price stability with the objective of growth. BRP, CRR, SLR, Repo, Reverse Repo, OMO, Liquidity Adjustment Facility (LAF), Marginal Standing Facility (MSF), and Market Stabilisation Scheme (MSS) are the instruments of monetary policy.

Credit Control:

Credit control is one of the most important functions of RBI. It is the part of monetary policy of RBI. By using credit control methods RBI tries to maintain monetary stability.

Credit Control means controlling the availability of credit in the economy. It is used by the RBI to control the demand and supply of money (liquidity) in the economy. The credit control measures of RBI are of two types:

(A) Quantitative/General credit control: BRP, CRR, SLR, Repo, Reverse Repo, OMO

(B) Qualitative/Elective credit control: Margin Requirements, Regulations, Moral suasion, direct action.

Objectives of Credit Control

a) To maintain price stability by controlling the volume of credit.

b) To stabilise the rate of foreign exchange.

c) To control the trade cycle.

d) To assist the economic growth.

Methods of Credit Control[18]

There are two methods of credit control - Quantitative and qualitative

(A) Quantitative/General credit control: BRP, CRR, SLR, Repo, Reverse Repo, OMO

1) **Bank Rate Policy (Discount Rate)**:

Bank Rate refers to the official interest rate at which RBI will provide loans to the banking system. Such loans are given, either by direct lending or by rediscounting (buying back) the bills of commercial banks and treasury bills. Thus, bank rate is also known as discount rate. Bank rates will increase or decrease the cost of credit available in the market. When the RBI feels that there is excess credit in the country, they will raise the rate. The current Bank Rate is 6.25% p.a. (before 6.5)

2) **Cash Reserve Ratio (CRR)**:

In India, banks are required to retain a certain percentage of their deposits as liquid cash. The banks can deposit the reserves with the RBI. The percentage of the deposits that should be kept aside by banks is called Cash Reserve Ratio. CRR is fixed by the RBI. For eg. If the bank deposit amount is Rs.100 and the CRR is 10%, the liquid cash reserve is Rs.10. The remaining funds of Rs.90 can be used for lending and investment purposes. RBI has the power to determine the lending capacity of the banks in India through CRR. They will increase CRR if they want to reduce the amount that the banks can lend and vice versa. At present CRR is 4%. (2013 onwards, before

4.25%). It is also called VRR- Variable Reserve Ratio.

3) **Statutory Liquidity Ratio**:

SLR is the ratio of liquid assets to demand and time liabilities. Every bank is required to maintain a minimum proportion of their Net Demand and Time Liabilities (NDTL) as liquid assets in the form of cash, gold and un-encumbered government securities. Changes in SLR influence the availability of resources in the banking system for lending. At present SLR is 20%. (6/2017 onwards, before 21.5%).

4) **Repo (repurchase rate)**[19]:

Repo is the interest rate at which the Reserve Bank provides short-term loan to banks. These loans are provided against the collateral security of government and other approved securities under the liquidity adjustment facility (LAF). Current rate is 6.25% (from june30 2017).

When the repo rate is raised, banks are compelled to pay higher interest to the RBI which in turn increases the retail interest rate of loan to customers.

5) **Reverse repo rate:**

It is the rate at which the RBI borrows money from commercial banks under the LAF. Current rate is 6% (from April 2016)

6) **Open Market Operations (OMO)**:

This refers to the buying and selling of government securities in the open market. Objective of OMO is to expand or contract the amount of money in the banking system. When RBI sells securities in the market, it will reduce the deposits in the commercial banks. When it purchase securities from the market, it will increase the bank deposit.

(B) Qualitative/Elective credit control:

Margin Requirements, Regulations, Moral suasion, direct action.

It aims at channalising the bank credit to productive and socially useful purpose. It also aims to widen the financial inclusion to the weaker sections of the economy.

1) Margin Requirements:

Margin refers to the difference between the securities offered and amount borrowed by the banks and customers. Eg. Market value of a security is Rs. 1,000. Margin requirement is 10%. Maximum amount of loan is Rs.900.

2) Consumer Credit Regulations:

This refers to issuing rules regarding 'down payments' and maximum maturity period of loan. Down payment means the initial amount to be paid on credit purchase. During depression RBI will reduce the down payment and increase the maturity period of loan, and vice versa.

Eg. The cost of a car is Rs.5 lakhs, minimum down payment is 20% (Rs.1 Lakh), then the maximum amount of loan will be Rs.4 lakh. If the period of loan is 40 months, instalments will be 10,000 per month. If the maturity period is reduced to 20 months his burden will be increased to Rs.20,000 per month. It will reduce his purchasing power.

3) Moral suasion:

Moral Suasion (compulsion) refers to a method adopted by the central bank to persuade or convince the commercial banks to advance credit in the economic interest of the country. RBI induces banks not to advance loan for speculative activities. RBI persuades commercial banks to cooperate with the monetary policy of RBI.

4) **Selective Credit Control:**

Through selective credit control RBI discourages advances against certain commodities. For eg. Sugar, food grains, oil seeds, etc. The objective is to ensure the free supply of these essential commodities in the market.

5) **Direct action:**

It means giving punishment to those banks which do not follow the instructions of RBI. Punishment can involve: penal interest, imposing penalty, refuses to lend them money from LAF[20], declaration of moratorium etc.

Banking Ombudsman Scheme

Banking Ombudsman scheme is introduced in 1995. The objectives are (a) enabling resolution of complaints relating to certain services rendered by banks and (b) to facilitate the satisfaction or settlement of such complaints. Ombudsman is a full time officer appointed by RBI. Generally he is an officer in the rank of chief general manager or general manager. He is appointed for a period of three years. The Banking Ombudsman shall receive and consider complaints relating to the deficiencies in banking services.

Banking Ombudsman Scheme enables speedy and cost effective resolution of complaints of bank customers relating to deficiency in bank services. All scheduled commercial banks, Regional rural Banks and scheduled primary cooperatives banks comes under this scheme. At present there are 20 banking ombudsman.

GROUNDS OF COMPLAINT

1. Non-payment or inordinate delay in the payment or collection of cheques, drafts, bills etc.
2. Failure to issue or delay in issue of drafts, pay orders or bankers' cheques.
3. Non-acceptance (without sufficient cause) of small denomination notes tendered for any purpose, and for charging of commission in respect thereof.
4. Non-acceptance (without sufficient cause) of coins tendered, and for charging of commission thereof.
5. Non-payment or delay in payment of inward remittances.
6. Non-adherence to prescribed working hours.
7. Failure to provide or delay in providing a banking facility (other than loans and advances) promised in writing by a bank.
8. Delays, non-credit of proceeds to parties' accounts, non-payment of deposit

9. Non-observance of the Reserve Bank directions, if any
10. Complaints from Non-Resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank- related matters.
11. Refusal to open deposit accounts without any valid reason for refusal.
12. Levying of charges without adequate prior notice to the customer.
13. Non-adherence to the instructions of Reserve Bank on ATM /Debit Card.
    a. Account debited but cash not dispensed by ATMs
    b. Account debited more than once for one withdrawal in ATMs or for POS transaction
    c. Less/Excess amount of cash dispensed by ATMs
    d. Debit in account without use of the card or details of the card
    e. Use of stolen/cloned cards
    f. Others
14. Wrong Billing/Wrong Debits
15. Wrong reporting of credit information to Credit Information Bureau.

Settlement of complaints by Ombudsman

Banking Ombudsman is a quasi-judicial authority. The complaints received by an ombudsman can be redressed in three ways:

1. **Settlement by agreement**:

   Under this method, ombudsman acts as a mediator between the complainant and the bank branch. He facilitates the amicable settlement of complaints.

2. **Settlement by recommendation**:

   If complaint is not settled within a period of one month, ombudsman can make a fair and impartial recommendation to the parties concerned. If it is accepted by the complainant (within 2 weeks), he will send a copy of the acceptance to the concerned bank. If it is accepted by the bank (within 2 weeks), the complaint is dismissed.

3. **Settlement by award:**

   If the complaint is not settled by agreement or recommendation (within 2 months), the ombudsman will inform the parties his intention to pass an award. He will pass an award after hearing both the parties. If any of the parties are not satisfied with the award, he can approach the appellate authority within 30 days. If the award is accepted by the complainant, he should give it in writing to the bank (within 30 days). The bank should comply with the award within 14days and, it should be reported to the ombudsman.

Appellate Authority

of Banking Ombudsman Scheme.

Bank customers can now (2017) appeal against the decision of the Banking Ombudsman where he has rejected the customer's complaint or against the awards given by the Banking Ombudsman. The appellate authority for the Banking Ombudsman Scheme is the Deputy Governor of Reserve Bank of India.

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Departments of RBI

1. Consumer Education and Protection Dept.
2. Corporate Strategy and Budget Department
3. Department of Banking Regulation
4. Department of Banking Supervision
5. Department of Communication
6. Department of Cooperative Bank Regulation
7. Department of Cooperative Bank Supervision
8. Department of Corporate Services

9. Department of Currency Management
10. Department of Economic and Policy Research
11. Department of External Investments and Operations
12. Department of Government and Bank A/cs
13. Department of Information Technology
14. Department of Non-Banking Regulation
15. Department of Non-Banking Supervision
16. Department of Payment and Settlement Systems
17. Department of Statistics and Information Management
18. Enforcement Department
19. Financial Inclusion and Development Dept
20. Financial Markets Operation Department
21. Financial Markets Regulation Department
22. Financial Stability Unit
23. Foreign Exchange Department
24. Human Resource Management Department
25. Inspection Department
26. Internal Debt Management Department
27. International Department

28. Legal Department
29. Monetary Policy Department
30. Premises Department
31. Rajbhasha Department
32. Risk Monitoring Department
33. Secretary's Department
34. Central Vigilance Cell

***Legal Frame work**

I. Acts administered by Reserve Bank of India

1. Reserve Bank of India Act, 1934
2. Public Debt Act, 1944/Government Securities Act, 2006
3. Government Securities Regulations, 2007
4. Banking Regulation Act, 1949
5. Foreign Exchange Management Act, 1999
6. Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Chapter II)
7. Credit Information Companies(Regulation) Act, 2005
8. Payment and Settlement Systems Act, 2007

9. Payment and Settlement Systems Regulations, 2008 and Amended up to 2011 and BPSS Regulations, 2008
10. The Payment and Settlement Systems (Amendment) Act, 2015 - No. 18 of 2015
11. Factoring Regulation Act, 2011

II. Other relevant Acts

1. Negotiable Instruments Act, 1881
2. Bankers' Books Evidence Act, 1891
3. State Bank of India Act, 1955
4. Companies Act, 1956/ Companies Act, 2013
5. Securities Contract (Regulation) Act, 1956
6. State Bank of India (Subsidiary Banks) Act, 1959
7. Deposit Insurance and Credit Guarantee Corporation Act, 1961
8. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
9. Regional Rural Banks Act, 1976
10. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980
11. National Bank for Agriculture and Rural Development Act, 1981
12. National Housing Bank Act, 1987

13. Recovery of Debts Due to Banks and Financial Institutions Act, 1993
14. Competition Act, 2002
15. Indian Coinage Act, 2011 : Governs currency and coins
16. Banking Secrecy Act
17. The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003
18. The Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993

Training Establishments:

RBI has five training establishments.

- College of Agricultural Banking
- Reserve Bank of India Staff College

These two are part of the RBI. The other three are autonomous institutions.

- National Institute for Bank Management
- Indira Gandhi Institute for Development Research (IGIDR)
- Institute for Development and Research in Banking Technology (IDRBT)

Subsidiaries of RBI

There are three fully owned subsidiaries:

- Deposit Insurance and Credit Guarantee Corporation of India (DICGC)
- Bharatiya Reserve Bank Note Mudran Private Ltd (BRBNMPL)
- National Housing Bank (NHB)

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[5] https://www.sebi.gov.in
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https://rbidocs.rbi.org.in/rdocs/content/pdfs/BANKL13042020_I.pdf
https://rbidocs.rbi.org.in/rdocs/Content/PDFs/LSCBSC925ABF8A7E04824BA04596DF5C44006.PDF

[10] New Bank was merged with Panjab National Bank
[11] IDBI and ICICI were financial institutions to cater the industry needs. ICICI was merged with ICICI bank in 2002 (icici bank). IDBI was transferred to IDBI Bank in 2004 (idbi bank)

[12] **Hilton Young Commission**

Its recommendation was to take over the central banking functions from the Imperial Bank and the Imperial Bank was to be left free to do only commercial banking business. In the main the controversy on proposals for a central bank related to:

(a) the questions of ownership - State versus private ownership.
(b) management of such a bank.

In 1836, another proposal for a 'Great Banking Establishment for British India' was submitted to the Court of Directors of the East India Company by a body of merchants in England having trade relations with India. Mr. James Wilson, India's first Financial Member and 'the greatest of India's Financial Members in the nineteenth century', in his speech in the Indian Legislative Council on March 3,1860, on the Bill for the establishment of a Paper Currency in India, remarked a national Banking establishment.

The Presidency Banks were reconstituted by the Presidency Banks Act of 1876. Mr. Keynes and later Mr. L. Abrahams proposed a scheme based on the amalgamation of the three Presidency Banks. The Imperial Bank of India Bill, providing for the amalgamation of these three Banks, came into effect in January 1921. The Imperial Bank was primarily a commercial bank, transacting all the business formerly carried on by the Presidency Banks; however, the bank was also entrusted with certain central banking functions.

[13] Currency System Printing Presses

For a common person, money means currency and coins. This is so because in India, the payment system, for retail transactions still revolves around currency and coins. The first "rupee" is believed to have been introduced by Sher Shah Suri (1486–1545), based on a ratio of 40 copper pieces (paisa) per rupee. At present, notes in India are issued in the denomination of Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.2000. The Reserve Bank can issue notes in any denomination up to Rs.10'000/- that the Central Government may specify. There cannot be notes in denominations higher than ten thousand rupees as per the current provisions of the RBI Act, 1934. Coins can be issued up to the denomination of Rs.1000, as per the Coinage Act, 1906.

Currency Printing Presses

This work is performed through 18 issue offices (incl. Tvm) of the RBI and a wide network of 4195 currency chests, 488 repositories and 3562 small coin depots managed by banks and Government treasuries. These 18 offices receive fresh notes from the note presses. Similarly, the Reserve Bank offices located at Kolkata, Hyderabad, Mumbai and New Delhi initially receive the coins from the mints. These offices then send them to the other offices of the Reserve Bank. The notes and rupee coins are stocked at the currency chests and small coins at the small coin depots. The bank branches receive the bank notes and coins from the currency chests and small coin depots for further distribution among the public.

[14] At present (2016), there are over 4422 currency chests.

[15] A double numbered note cut into two pieces but on which both the numbers are intact is now being treated as soiled note.

[16] There is a relationship between note issue and its reserve backing system by the central banks across the world. The reserve system provides guidelines for the issue of new currencies.

[17] https://www.rbi.org.in/Scripts/AboutusDisplay.aspx#FS

[18] https://www.rbi.org.in/scripts/FS_Overview.aspx?fn=2752 Monetary policy

[19] **Where does Repo figure in this?**

Let's suppose that a bank has only received Rs. 100 worth of deposits. The bank gives the RBI Rs. 25 by way of maintaining the CRR and SLR. Slowly, the bank lends out the remaining Rs. 75 to its customers. Now, the bank figures out that there is still some demand for loans. It's out of money though. So the bank tells the RBI "Hey, lend me Rs. 50. I'll give you back Rs. 12.5 by way of CRR and SLR. Let me utilize the remaining Rs. 37.50 for my business." Remember, the RBI prints money. The RBI can never run out of money to lend, unlike the banks. The RBI replies "Fine, take this Rs. 50. But for your SLR requirements, you will have to purchase government bonds from me. So, at a given date in the future, you will repurchase your agreement from me at Rs. 50 plus 6.50% interest per annum and I will repurchase

my government bonds from you at 6.00% per annum." The first part of the agreement, where the bank repurchases its agreement from the RBI is called the **Repo Agreement**. The second part of the agreement, where the RBI repurchases its government bonds from the bank is called the **Reverse Repo Agreement**. You might have noticed that the Reverse Repo Rate is always lesser than the Repo Rate. That's one of the perks of being the controller of the banking system of the country.
https://www.quora.com/What-is-the-significance-of-Repo-and-Reverse-Repo-rates

When the repo rate is raised, banks are compelled to pay higher interest to the RBI which in turn prompts them to raise the interest rates on loans they offer to customers. The customers then are dissuaded in taking credit from banks, leading to a shortage of money in the economy and less liquidity. So, while on the one hand, inflation is under controlled as there is less money to spend, growth suffers as companies avoid taking loans at high rates, leading to a shortfall in production and expansion. For instance, if the availability of funds is scarce, and banks are not able to borrow at repo rate, they may have to increase the deposits rates upwards to attract depositors. Hence, any rate hike in repo rate increases the probability of higher deposit rates, which is good news for depositors.

An increase in reverse repo rate can prompt banks to park more funds with the RBI to earn higher returns on idle cash. It is also a tool which can be used by the RBI to drain excess money out of the banking system.

Reverse Repo Rate Effect on Inflation

If RBI increases this Reverse Repo rate, it means RBI wants to contraction of credit. When RBI gets loan from banks at high rate of interest, more and more banks will supply to central bank because it is safe and earning is more. Effect of this will on financial market. Supply of money in financial market will decrease. Due to decrease in the supply of credit in the market, inflation rate will decrease.

https://sandeepkaseruwala.wordpress.com/2013/07/16/what-is-repo-and-reverse-repo-rate-how-it-affects-inflation/

[2020] Liquidity Adjustment Facility

LAF is used to aid banks in adjusting the day to day mismatches in liquidity. LAF helps banks to quickly borrow money in case of any emergency or for adjusting in their SLR/CRR requirements. LAF consists of repo and reverse repo operations. Repo or repurchase option is a collaterised lending i.e. banks borrow money from Reserve bank of India to meet short term needs by selling securities to RBI with an agreement to repurchase the same at predetermined rate and date. The rate charged by RBI for this transaction is called the repo rate.

List of Scheduled Commercial Banks (SCBs)

List of Scheduled Public Sector Banks

1. Bank of Baroda
2. Bank of India
3. Bank of Maharashtra
4. Canara Bank
5. Central Bank of India
6. Indian Bank
7. Indian Overseas Bank
8. Punjab & Sind Bank
9. Punjab National Bank
10. State Bank of India
11. UCO Bank
12. Union Bank of India

List of Scheduled Private Sector Banks

1. Axis Bank Ltd.
2. Bandhan Bank Ltd.
3. CSB Bank Ltd.
4. City Union Bank Ltd.
5. DCB Bank Ltd.
6. Dhanlaxmi Bank Ltd.
7. Federal Bank Ltd.
8. HDFC Bank Ltd
9. ICICI Bank Ltd.
10. Induslnd Bank Ltd
11. IDFC First Bank Ltd.
12. Jammu & Kashmir Bank Ltd.
13. Karnataka Bank Ltd.
14. Karur Vysya Bank Ltd.

15. Kotak Mahindra Bank Ltd
16. Lakshmi Vilas Bank Ltd.
17. Nainital Bank Ltd.
18. RBL Bank Ltd.
19. South Indian Bank Ltd.
20. Tamilnad Mercantile Bank Ltd.
21. YES Bank Ltd.
22. IDBI Bank Ltd.

List of Scheduled Small Finance Banks

1. Au Small Finance Bank Limited
2. Capital Small Finance Bank Limited
3. Equitas Small Finance Bank Limited
4. Suryoday Small Finance Bank Limited
5. Ujjivan Small Finance Bank Limited
6. Utkarsh Small Finance Bank Limited
7. ESAF Small Finance Bank Limited
8. Fincare Small Finance Bank Limited
9. Jana Small Finance Bank Limited
10. North East Small Finance Bank Limited
11. Shivalik Small Finance Bank Limited

List of Scheduled Payments Banks

1. India Post Payments Bank Limited
2. Fino Payments Bank Limited
3. Paytm Payments Bank Limited
4. Airtel Payments Bank Limited

List of Scheduled Regional Rural Banks

1. Andhra Pragathi Grameena Bank
2. Andhra Pradesh Grameena Vikas Bank

3. Arunachal Pradesh Rural Bank
4. Aryavart Bank
5. Assam Gramin Vikash Bank
6. Bangiya Gramin Vikas Bank
7. Baroda Gujarat Gramin Bank
8. Baroda Rajasthan Kshetriya Gramin Bank
9. Baroda UP Bank
10. Chaitanya Godavari Grameena Bank
11. Chhattisgarh Rajya Gramin Bank
12. Dakshin Bihar Gramin Bank
13. Ellaquai Dehati Bank
14. Himachal Pradesh Gramin Bank
15. J&K Grameen Bank
16. Jharkhand Rajya Gramin Bank
17. Karnataka Gramin Bank
18. Karnataka Vikas Grameena Bank
19. Kerala Gramin Bank
20. Madhya Pradesh Gramin Bank
21. Madhyanchal Gramin Bank
22. Maharashtra Gramin Bank
23. Manipur Rural Bank
24. Meghalaya Rural Bank
25. Mizoram Rural Bank
26. Nagaland Rural Bank
27. Odisha Gramya Bank
28. Paschim Banga Gramin Bank
29. Prathama UP Gramin Bank
30. Puduvai Bharathiar Grama Bank
31. Punjab Gramin Bank
32. Rajasthan Marudhara Gramin Bank
33. Saptagiri Grameena Bank

34. Sarva Haryana Gramin Bank
35. Saurashtra Gramin Bank
36. Tamil Nadu Grama Bank
37. Telangana Grameena Bank
38. Tripura Gramin Bank
39. Utkal Grameen bank
40. Uttar Bihar Gramin Bank
41. Uttarakhand Gramin Bank
42. Uttarbanga Kshetriya Gramin Bank
43. Vidharbha Konkan Gramin Bank

List of Scheduled Foreign Banks in India

1. Australia and New Zealand Banking Group Ltd.
2. Westpac Banking Corporation
3. Bank of Bahrain & Kuwait BSC
4. AB Bank Ltd.
5. Sonali Bank Ltd.
6. Bank of Nova Scotia
7. Industrial & Commercial Bank of China Ltd.
8. BNP Paribas
9. Credit Agricole Corporate & Investment Bank
10. Societe Generale
11. Deutsche Bank
12. HSBC Ltd
13. PT Bank Maybank Indonesia TBK
14. Mizuho Bank Ltd.
15. Sumitomo Mitsui Banking Corporation
16. MUFG Bank, Ltd.
17. Cooperatieve Rabobank U.A.
18. Doha Bank
19. Qatar National Bank

20. JSC VTB Bank
21. Sberbank
22. United Overseas Bank Ltd
23. FirstRand Bank Ltd
24. Shinhan Bank
25. Woori Bank
26. KEB Hana Bank
27. Industrial Bank of Korea
28. Kookmin Bank
29. Bank of Ceylon
30. Credit Suisse A.G
31. CTBC Bank Co., Ltd.
32. Krung Thai Bank Public Co. Ltd.
33. Abu Dhabi Commercial Bank Ltd.
34. Mashreq Bank PSC
35. First Abu Dhabi Bank PJSC
36. Emirates Bank NBD
37. Barclays Bank Plc.
38. Standard Chartered Bank
39. NatWest Markets Plc
40. American Express Banking Corporation
41. Bank of America
42. Citibank N.A.
43. J.P. Morgan Chase Bank N.A.
44. SBM Bank (India) Limited
45. DBS Bank India Limited
46. Bank of China Ltd.

*https://m.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3657

Local Area Banks

1. Coastal Local Area Bank Ltd., Vijayawada, AP
2. Krishna Bhima Samruddhi Local Area Bank Limited, Telengana.
3. Subhadra Local Area Bank Limited, Kolhapur, Maharashtra

Urban Cooperative Banks

UCBs are registered as cooperative societies under the provisions of, either the State Cooperative Societies Act of the State concerned or the Multi State Cooperative Societies Act, 2002. They are regulated and supervised by the Registrar of Cooperative Societies (RCS) of State concerned or by the Central Registrar of Cooperative Societies. The Reserve Bank regulates and supervises the banking functions of UCBs under the provisions of Banking regulation Act, 1949. There are 53 scheduled and 1474 non-scheduled urban cooperative banks in India (as on 1.1.2022)*.

* https://www.rbi.org.in/Upload/AboutUs/89735.pdf
https://www.rbi.org.in/commonman/English/scripts/urbanbankdept.aspx
https://rbidocs.rbi.org.in/rdocs/Content/pdfs/nonschedulecoop.pdf
https://rbidocs.rbi.org.in/rdocs/Content/pdfs/schedulecoop.pdf

V

Innovations in Banking

Banking sector shows a rapid growth after liberalisation. Information Technology is the base of innovations and reforms in the Indian banking sector. Technology based innovations improved the quality and speed of the banking services. The concept of conventional banking was totally changed due to these modifications (reforms). These innovations were mainly initiated by the RBI. These innovative reforms are collectively called 'Electronic Banking'.

CORE Banking

Centralised Online Realtime Electronic Banking

Core Banking is the networking (through intra net) of all the branches of a bank. It enables customers to avail banking services from any branch of the bank. Previously an account holder was the customer of the branch. However, with core banking facility he becomes the customer of the bank.

E-Banking (Electronic Banking)

E-Banking refers to during banking transactions electronically through various e-channels like-ATM, credit/debit cards, internet banking, mobile banking, telebanking, EFTs, etc. E-Banking is in effect, delivery of banking services at customers' location.

<u>Merits</u>

a) 24 hours access on 365 days.

b) It is convenient as there is no need to visit branch.

c) It reduces cost of banking services.

d) It increases efficiency of banking services.

e) There is more accuracy of transactions.

f) It facilitates anywhere and anytime banking.

<u>Demerits</u>

a) Technical expertise is required.

b) Power and network failure may interrupt transactions.

c) Increased chances of frauds, due to the ignorance of customers.

Conventional Banking Vs Innovative Banking

1. CB is also called traditional banking, bricks & mortar banking.
   IB is also called E-Banking, Anywhere banking and Any time banking.
2. There is face to face interaction in CB.
   There is no face to face interaction in IB.

3. In CB transactions are initiated by the bank employee as per the written request of the customer.
   In IB transactions are initiated by electronically by the customer himself.
4. In CB Service is available within a geographical location only.
   There are no geographical barriers in IB, it is accessible from anywhere.
5. Customer has to visit the branch office for availing conventional banking service.
   Personal visit to branch is not required for availing innovative banking service.
6. CB Services are available during fixed time schedule on working days.
   IB services are available 24 hours a day for 365 days an year.
7. CB is based on manual work.
   IB is based on electronic work.
8. In CB, customer is verified through signature, Id-card and passbook.
   In IB, customer (User) is verified through user id, password and OTP.
9. CB is time consuming and costly.
   IB is speedy and cheap
10. CB is less accurate and less convenient.
    IB is accurate and convenient
11. Transaction alert is not possible in CB.
    Immediate transaction alert is possible through SMS & Email, in IB

Automated (Automatic) Teller Machine

ATM is a computerised banking terminal operated by the customer himself. This electronic device enables the customers to perform financial transactions, without the help of an employee. ATMs are also called automated banking machine (ABM), cash point (British English), cash-line, mini-bank, cash machine, time-machine, cash dispenser, bankomat/bancomat, etc.

Uses of ATM (Services available)

a) Cash withdrawal

b) Balance enquiry

c) Transfer of funds

d) Printed mini statement of last 10 transactions

e) PIN change

f) Withdrawal of foreign currency in local currency

Working of an ATM:

The customer is identified by inserting a plastic ATM card with a magnetic stripe. The card contains a unique card number and some security information such as an expiration date or CVVC/CVV (Card Verification Value Code). Authentication is provided by the customer entering a personal identification number (PIN). ATM has a dispensing mechanism (to provide cash or other items of value), Locks (to ensure controlled access to the contents of the vault), Journaling systems and a computer device exclusively designed for this purpose.

Merits

a) 24 hours access on 365 days.

b) ATMS are placed at easy accessible locations.

c) Debit cards are accessible at any banks ATM.

d) No need to carry cash.

e) No threat of loss in carrying.

Demerits

a) Cannot depend fully, because the system may interrupt at any time.

b) Generally only high value currencies are dispensed.

c) Anyone can withdraw money with card and PIN.

d) There are incidents of fraud through fake cards.

e) Some degree of technical skill and literacy is required for the operation.

CDM (Cash Deposit Machine)

CDM is a computerised banking terminal operated by the customer himself, to deposit liquid currency. Cash validator (acceptor) device enables the customers to deposit, without the help of an employee. Generally CDMs provide all facilities of ATM. In other words, CDMs are ATMs with cash deposit facility. Deposits can be made with and without the help of card.

Working of CDM

1) Insert the debit card or enter the bank a/c number
2) Type the pin, in case of debit card.
3) Select the a/c type
4) Place the currency notes in the deposit slot opened
5) Press continue to close the deposit slot
6) Machine will sort all the currency notes.
7) The slot will be opened to reject the unaccepted currencies, if any.
8) Confirm the amount of deposit displayed
9) The machine will record the transaction in your account and gives you a printout of the transaction.

Merits

a) 24 hours access on 365 days.
b) CDMS are placed at easy accessible locations.
c) Makes easy fund transfer.

d) Makes possible instant deposit of cash.

e) No threat of loss in carrying.

Demerits

a) Some degree of technical skill and literacy is required for the operation.

b) CDMs are not as common as ATM.

c) System may interrupt due to technical reasons.

d) There is restriction for maximum deposit.

Debit Card:

Debit card is an ATM card which can be used for shopping. It can also be used to withdraw money from other banks ATM. The customer uses the deposit balance in his account (SB ac or Current a/c) for withdrawal and shopping. Now a day, debit cards are issued to all SB and Current a/c holders on request. PIN number is the security code used to identify the card holder. The details of debit card with OTP can be used for online transactions.

Credit Card:

Credit card is a payment card which offers a line of credit including payment less purchases, balance transfers and/or cash advances. It requires the card holder to pay back the loan amount in the future. The cardholder can use the credit facility up to the sanctioned limit. Generally, periodical bill system (billing cycle) is followed and the customer has to make prompt repayment of his amount of withdrawal. Penal interest will be charged on delayed payment. Sometimes card holders are provided with special discounts in selected shops. The details of credit card with OTP can be used for online transactions.

PIN: Personal identification number is a 4 digit security code used in ATM/Credit/Debit cards to identify the card holder.

Kissan Card (KCC):

Kisan Credit card is a credit card issued to farmers in India. It aims at providing need based and timely credit to the farmers. This credit scheme was introduced in August 1998 by Indian banks. It is offered with &without plastic card and/or with a traditional passbook.

Features of KCC

a) The farmers are allowed for any number of withdrawals and repayment within the limit.

b) Interest is charged on actual amount of advance.

c) Generally KCCs are supported by subsidised interest.

d) Revolving Cash Credit after Annual Review.

e) It is issued for a period of three years.

f) The review may result in continuation of the facility, enhancement of the limit or cancellation of the limit / withdrawal of the facility.

g) KCC is issued by all public sector, many private sector, RRBs and co-operative societies.

h) It can be used to purchase agricultural inputs such as seeds, fertilisers, etc.

Plastic Currency:

Debit cards and credit cards can be used for shopping. They can also be used for online transactions. Thus they are used as a substitute of liquid currency. Hence they are called plastic currency.

Internet Banking (Home banking):

Internet banking portal provides personal banking services that gives complete control over all your banking demands online. It is a convenient way to do banking from the comfort of our home or office. Avoid the queue or delays and try our simple and secure Internet Banking facility. The services includes Check account statement, All types of Transfer of funds, Open a fixed deposit, Pay utility bills, Recharge prepaid mobile/DTH and a lot more.

Innovative Banking: Innovative banking means the use of innovative products like, online banking, mobile banking, mobile application banking, etc in banking services.

Hi-Tech Banking:

Hi-tech banks are new generation banks. Hi tech banking services includes ATMs, CDMs, mobile banking, mobile application banking, internet banking, anytime banking, EFTs, credit cards, etc. Hi-Tech Banking helps the customer to do much more of their day-to-day banking without visiting branches. For eg. mobile phone recharge, payment of bills, fund transfer, ticket booking, bank statement, bank passbook, etc.

Tele Banking (Telephone banking):

Telephone banking is a service provided by a bank enables customers to perform a wide range of financial transactions over the telephone, without visiting a branch or ATM. Telebanking facility can be availed from any land line or mobile connection. The tele banking services include:

a) Check the balance in your Account

b) Check the last 5 transactions in your account

c) Check Status enquiry on payment of Cheques issued by you

d) Verify details like Amount, Interest Rate, Maturity Amount etc, about your term deposit accounts

e) Verify details like Amount, Instalment Amount, Instalment due date etc, about loan accounts

f) Limited transfer funds between own accounts and to third party accounts.

g) Request Cheque Books

h) Make Telephone Bill payments through Telephone.

Mobile banking:

Mobile banking is the act of doing financial transactions on a mobile device. It facilitates anywhere and anytime banking. Mobile Applications, SMS, and unique number dialling are used for mobile banking. A wide range of services like banking transaction details, viewing of Account Balance, Mini Statement, Statement, Self Transfers, Third Party Transfer of funds, Utility Bill payments, Immediate Payment Service (IMPS), Ticket booking features etc. are available in mobile banking. Mobile banking services are mainly three types: Mobile Banking Apps, Unique number dialling and SMS Banking

a. **Mobile Banking Apps**: They are special internet based applications designed for the smart phones. It facilitates almost all the banking services in the smart phone. Balance enquiry, pass book, fund transfer, card blocking, etc.

b. **Unique number dialling**: *99# : Banking customers can avail this service by dialing *99#, from their mobile phone. *99# provides the following services- Account balance, Last 5 transacions, Sending Money using either Mobile No, UPI ID, Aadhaar No., Account No. + IFSC. It is a common technology platform developed by NPCI.

c. **SMS Banking**: It is a mobile banking service which allows the customer to avail few banking services through SMS (small messaging service). For eg. Customers can send an SMS in a specified format for making a funds transfer.

For eg. < IMPS >< Mobile No >< MMID >< amount > < User ID >< MPIN >< Purpose(Optional- 20 Char)>

Sms the above format to 9223440000 for an SBI customer.

d. **Cardless Banking:** Cardless Banking allows users to withdraw cash from ATMs without using any card. This enables transfer cash from bank accounts to anyone with a mobile number across India.

MMID-Mobile Money Identifier

One Time Password (OTP): OTP is a password generated by the bank as a security code for initiating a single EFT. OTP is send to the registered mobile number of the customer at the very moment of initiating electronic transaction. This password is valid for that particular single transaction only.

Electronic Fund Transfer (EFT):

Transfer of funds from one account to another with the help of electronic device is called EFT. It helps to transfer funds without the exchange of physical paper currency. EFT can be initiated with the help of debit card, credit card, internet banking, mobile banking, mobile bank application, etc. EFT is also called paperless banking. EFT can be used to transfer funds to:

a) Other accounts of the same customer.

b) Accounts of other customers of the same bank.

c) Accounts of other bank customers.

d) Accounts of a foreign customer in a foreign bank (International transfer)

e) EFT is also used in electronic cheque clearing.

f) EFT is also used in online shopping.

Types of Inter Bank Funds Transfer

On the basis of time and nature of settlement, there are three systems of interbank funds transfer- RTGS, NEFT and IMPS. Both RTGS and NEFT are initiated by RBI, IMPS is initiated by NPCI.

1. **Real Time Gross Settlement (RTGS):**

RTGS is defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Gross Settlement' means the settlement of funds transfer instructions occurs individually. The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is ₹ 2 lakh. There is no upper ceiling for RTGS transactions. Transaction timing is from 8:00 am to 4:30 pm on working days.

2. **National Electronic Funds Transfer (NEFT):**

NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. In DNS, the settlement takes place with all transactions received till the particular cut-off time. Currently NEFT operates in hourly batches. Transaction timing is from 8:00 am to 6:30 pm on working days.

3. **IMPS-** Immediate Payment Service:

IMPS provides robust & real time fund transfer which offers an instant, 24X7, interbank electronic fund transfer service. IMPS can be accessed on multiple channels like Mobile, Internet, ATM, SMS, Branch and USSD(*99#). IMPS service allows transferring of funds instantly within banks across India. It is safe and economical. IMPS is a product of NPCI.

National Payments Corporation of India

NPCI is an umbrella organisation for operating retail payments and settlement systems in India, is an initiative of Reserve Bank of India (RBI) and Indian Banks' Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India.

SWIFT:

SWIFT stands for the **S**ociety for **W**orldwide **I**nterbank **F**inancial **T**elecommunications. SWIFT is a cooperative society owned by its members. It provides a network that enables worldwide financial transactions in a secure, standardized and reliable environment. SWIFT is only a messaging system, it does not transfer any fund. SWIFT assigns each financial organization a unique code called SWIFT code. SWIFT codes are unique codes allotted to each bank (and other institutions) in the world, used in international transfer funds. The eight digit code includes (a) First four characters: the institute code (UNCR for Uni Credit Banca), (b) Next two characters: the country code (IT for the country Italy), (c) Next two characters: the location/city code (MM for Milan), (d) Last three characters: optional, but organizations use it to assign codes to individual branches.

The Indian Financial System Code

(IFS Code or IFSC) is an alphanumeric code that facilitates electronic funds transfer in India.

Eg. SIBL0000239 (SIB Murickassery)

Electronic Clearing Service (ECS):

ECS is an electronic mode of funds transfer from one bank account to another. It is used for making bulk payments such as distribution of dividend interest, salary, pension, among others. It can also be used to pay bills and other charges such as telephone, electricity, water, etc. ECS can be used for both credit and debit purposes.

ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. ECS includes transactions processed under National Automated Clearing House (NACH) operated by National Payments Corporation of India (NPCI). There are two variants of ECS - ECS Credit and ECS Debit.

ECS Credit:

ECS Credit is used by an institution for affording credit to a large number of beneficiaries (for instance, employees, investors etc.) having accounts with bank branches at various locations. ECS facilitates transfer by raising a single debit to the bank account of the user institution. ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.

ECS Debit:

ECS Debit is used by an institution for raising debits to a large number of accounts (for instance, consumers of utility services, borrowers, investors in mutual funds etc.) maintained with bank branches at various locations. ECS facilitates single credit to the bank account of the user institution. ECS Debit is useful for payment of telephone / electricity / water bills, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc., that are periodic or repetitive in nature and payable to the user institution by large number of customers etc.

Cheque Truncation System (CTS) or

Image based Clearing System (**ICS**):

CTS is a project undertaken by RBI in 2010 for faster clearing of cheques. It speed up the collection of cheques. Under this system electronic image of the cheque is transmitted to the paying branch, through the clearing house. Other informations relating to the cheque are also electronically transmitted. Thus cheque truncation eliminates the physical movement of cheque. Thus it reduces delay and cost.

Under this system the entire cheque volume in the country which was earlier cleared through 66 MICR Cheque Processing locations is consolidated into the three grids in New Delhi, Chennai and Mumbai. The entire essence of CTS technology lies in the use of images of cheques (instead of the physical cheques) for payment processing.

Benefits of CTS

a) This effectively eliminates the associated cost of movement of the physical cheques

b) It reduces the time required for their collection

c) It brings elegance to the entire activity of cheque processing

d) Shorter clearing cycle

e) Superior verification and reconciliation process

f) No geographical restrictions as to jurisdiction

g) Operational efficiency for banks and customers alike

h) Reduction in operational risk and risks associated with paper clearing

i) No collection charges for collection of cheque drawn on a bank located within the grid.

Process flow in CTS

1. The presenting bank (or its branch) captures the data and the images of a cheque.
2. The collecting bank (presenting bank) sends the data and captured images duly signed digitally and encrypted to the central processing location (Clearing House) for onward transmission to the paying bank (destination or drawee bank).
3. The Clearing House processes the data, arrives at the settlement figure and routes the images and requisite data to the paying banks. This is called the presentation clearing. The paying banks receive the images and data from the Clearing House for payment processing.
4. The clearing cycle is treated as complete once the presentation clearing and the associated return clearing sessions are successfully processed.

Electronic Cheque:

E cheque is a scanned copy of real cheque, transferred by email. It performs the same functions of a conventional cheque.

E-Purse:

It is the store of value on a card, which can be used for small scale transactions. Its advanced form is a wallet service to host mobile based payments. Eg. 'Corp E-Purse' introduced by corporation bank.

MICR code:

MICR (Magnetic Ink Character Recognition) code is a character-recognition technology used mainly by the banking industry to ease the processing and clearance of cheques and other documents. MICR code is a 9 digit code, which is printed at the bottom of a cheque.

WhatsApp Banking

Recently TMB has introduced this innovative banking service. This facility helps to get many of the banking services as WhatsApp message of the customer.

RuPay Card

It is an Indian version of credit/debit card. It is very similar to international cards such as Visa/Master (two most dominant market transaction processing players in the world). RuPay is India's own domestic card with its own payment gateway. National Payments Corporation of India (NPCI) initiated the launch of RuPay card in India. It was done with the intention of integration of payment systems in the country.

VI

Banking Sector Reforms in India

Banking sector reforms in India are basically the recommendations of 'Narasimham Committee'[1] which are implemented in 1991-92. Some of the recommendations of the committee includes the following.

1) Prudential Accounting Standards:

a) **Income recognition**: Asset classification into Performing and non performing assets (NPA). Interest on NPA should not be carried to P&L a/c. Interest already credited on accrual basis should be cancelled.

b) **Asset classification**: Standard assets, Sub-standard assets, doubtful assets, loss assets.

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[1] M Narasimham, Native of Guntur, Andra Predesh) was the first and so far the only Governor to be appointed from the Reserve Bank cadre, having joined the Bank as a Research Officer in the Economic Department. He later joined the Government and prior to his appointment as Governor he served as Additional Secretary, Department of Economic Affairs.
He had a short tenure of seven months (02-05-1977 to 30-11-1977). He later served as Executive Director for India at the World Bank and thereafter at the IMF after which he served in the Ministry of Finance as Secretary. He was chairperson of the Committee on the Financial System, 1991 and the Committee of Banking Sector Reforms, 1998.

c) **Requirements of provision**: Differential rate of provision for each type of assets. Eg. Standard assets , Sub-standard assets (10%), doubtful assets (100% over the value of security), loss assets (100% of outstanding amount).

2) Capital adequacy norms:

Capital adequacy ratio =

$$\frac{Share\ capital}{Risk\ adjusted\ value\ of\ assets} \text{ X } 100$$

CAR @9% has to be maintained by all scheduled banks. For eg. If the risk adjusted value of assets of a bank is 1000 crore, then the bank requires a minimum capital of 90 Crore (1000*9%). Risk adjusted value means 'Asset value* risk weight'. For eg. Investment in shares and debentures have 100% risk value, but investment in govt bonds, NSC, etc have 0% risk value.

3) **Privatisation of public sector banks:**

Public sector banks are allowed to raise share capital from the general public. Thereby shareholdings in SBI was reduced to 67%

4) **Debt Recovery Tribunals** (DRTs): established in 1993, for the recovery of debts due to banks.

5) **Norms for the Entry** of private sector banks: Clear guidelines are issued for the setting up of

new scheduled banks. Foreign banks are also allowed to open branches in India.

6) **Branch rationalization**: Banks are given freedom to open branches anywhere in India.
7) **Bank consortium**: Banks are permitted to form a consortium of scheduled banks to satisfy the needs of large borrowers.
8) **Board for financial Supervision** (BFS): Established in 1994 to exercise supervision and external control over banks, financial institutions and financial companies.
9) **Internal Control**: RBI directed individual banks to strengthen their internal control system.
10) **Disclosure of defaulting borrowers**: All the banks and financial institutions are directed by RBI to disclose information regarding defaulting borrowers with an aggregate outstanding above one crore.
11) **Department of supervision**: DS was setup by RBI to supervise the working of all commercial banks.
12) **Entry of banks into insurance sector**: Banks are permitted to enter into insurance sector subject to certain conditions. Eg. SBI, UBI, ICICI Bank, etc have insurance division.

13) **Banking Ombudsman:** The Banking Ombudsman is a senior official appointed by the RBI to redress customer complaints against deficiency in certain banking services. It was introduced in 1995.

Consortium Banking

(Participation loans or joint financing):

Consortium or group banking is joining to finance big projects. Consortiums of scheduled banks are formed to satisfy the financial needs of large borrowers. One of the participating bank will act as the lead bank. It reduces the risk of financing a huge project by a single bank.

Management of NPA

Non-Performing Asset (NPA) is an asset of a bank that has failed to produce any income to the bank. The most important asset of any bank is 'Loans and Advances' given to borrowers. An asset becomes NPA if the borrower does not pay the dues for a period of 90 days. If any advance given to a borrower becomes NPA, all other advances given to the same borrower deemed to become NPA (irrespective of the status).

Bank Asset Classification (categories of NPA)

Standard Asset: Those assets which are not NPA. They generate regular income to the bank.

Sub-standard Asset: Those assets which are classified as NPA for a period less than or equal to12 months.

Doubtful Asset: Those assets which are classified as NPA for a period exceeding 12 months. In other words an asset would be classified as doubtful if it has remained in the sub-standard category for a period of 12 months.

Loss Asset: Those assets which are identifies as loss by the bank or internal auditor or RBI inspector. The amount has not been written off, but has no reliable security. A loss asset is considered as irrecoverable.

Government guaranteed advances

The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates (denies) its guarantee when invoked (appealed).

Reasons for NPA

Reasons for NPA includes both internal and external factors.

A. Internal Factors (from the part of banks):

1) Noncompliance with the norms of lending such as liquidity, profitability, security and character.
2) Poor credit appraisal system
3) Negligence on the purpose of the loan.

4) Absence of qualified person for post and pre credit analysis.
5) Absence of qualified person for project appraisal.
6) Poor post-credit follow up.
7) Failure to ensure that the loan amount is utilized for the specific purpose.

B. External Factors (Beyond the control of bank)

1) Industrial sickness of the units which borrowed funds.
2) Diversion of funds by business men for unproductive and speculative activities.
3) Willful default by borrowers, especially business tycoons.
4) Economic recession.

Impact of NPA

1) It paralyses economic growth.
2) It reduces profitability of banks.
3) Banks may become reluctant to lend.
4) It increases the cost of fund.
5) It increases the cost of banking services.

Remedies for NPA

1) Compliance with the norms of lending such as liquidity, profitability, security and character.
2) Establishing proper credit appraisal system
3) Extending need based financing
4) Ensuring post-credit follow up.
5) Ensuring the loan amount is utilized for the specific purpose.
6) Appointing qualified and trained person for post and pre credit analysis.
7) Appointing qualified and trained person for project appraisal.
8) Assessing credit rating of applicants for loan.

Non-Banking Assets (NBA)

Non-banking assets are assets acquired by the banks in satisfaction of claims. It should be shown in the Balance Sheet under the separate head "Non-banking assets acquired in satisfaction of claims". They should be disposed of within a period of seven years. The loss on such sale, if any should be shown in the P&L a/c as "Loss from sale of or dealing with non-banking assets"

Basel norms

The **Bank for International Settlements** (BIS) is an international financial organisation owned by 63 member central banks (including RBI), representing

63 countries. Its head office is in Basel, Switzerland. It was established in 1930. The customers of the BIS are central banks and international organisations. The mission of the BIS is: (a) to serve central banks in their monetary and financial stability, (b) to foster international cooperation and (c) to act as a bank for central banks.

Basel Committee on Banking Supervision (BCBS) is one of the standing committees of BIS. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. Basel guidelines/norms refer to broad supervisory standards formulated by this BCBS. The set of agreement by the BCBS, are called Basel accord. There are three sets of accord- Basel I, Basel II and Basel III.

(1) Basel I (1988):

It provides for minimum capital requirement for banks to face credit risk. Credit risk is the risk of default on a debt. Accordingly Basel I classifies bank assets into 5 risk categories: 0%, 10%, 20%, 50%, and 100%. Risk based capital ratio = Capital/ Risk adjusted assets.

(2) Basel II (2004):

It expanded the rules for minimum capital requirement. The three main pillars of Basel II are (a) Minimum capital requirement

(b) Supervisory review process and

(c) Market discipline.

Risk based capital ratio = Capital/ (Risk adjusted assets, ie Credit Risk + Market Risk + Operational Risk)

Market Risk is the risk due to volatility in the banks' investment portfolio.

Operational Risk is the risk of loss due to failed internal system and from external events.

(3) Basel III (2010):

"Basel III" is a comprehensive set of reform measures, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

a. improve the banking sector's ability to absorb shocks arising from financial and economic stress.
b. improve risk management and governance
c. strengthen banks' transparency and disclosures.

Financial Inclusion

“Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan)

Financial Inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include banking products, insurance and equity products. The essence of financial inclusion is to ensure delivery of financial services. Financial service includes bank accounts, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc.

Financial exclusion is the inability of individuals, households or groups to access financial services in an appropriate form. People without any bank account are referred to as '**unbanked**'.

Financial Inclusion Initiatives by RBI

RBI has adopted a bank-led model for achieving financial inclusion. They removed all regulatory bottle necks in achieving greater financial inclusion in the country.

1. Basic Saving Bank Deposit (BSBD) a/cs: They are a/cs with minimum common facilities, ATM cards and e-banking facility and with no minimum balance requirement.
2. Relaxed and simplified KYC norms to facilitate easy opening of bank a/cs for small accounts.

3. No need for the introduction for opening bank accounts of customers.
4. Use of Aadhar Card as a proof of both identity and address.
5. Simplified Branch Authorization Policy - domestic SCBs are permitted to freely open branches in centers with population of less than 1 lakh.
6. Compulsory Requirement of Opening Branches in Un-banked Villages. (At least 25% of the branches opened during the year must be in un-banked areas)
7. Licensing of New Banks is essentially aimed at giving further boost to financial inclusion efforts.
8. Innovative business models aimed at furthering financial inclusion efforts.
9. Financial inclusion plan as an important criterion for procuring new bank licenses.
10. Introduction of Small Finance Banks and Payment Banks.

Micro Finance (Microcredit)

"Microcredit, or microfinance, is banking the unbankables. It brings credit, savings, insurance and other essential financial services within the reach of people who are too poor to be served by regular banks. In most cases poor people are unable to offer sufficient collateral."

Traditional banks do not usually reach the rural population and are not interested in giving small loans to low-income families. In general, banks are for people with money, not for people without. Micro finance is to serve the people without money. SHGs (Self Help Groups) shows a successful story in the area of micro finance.

Main features of Micro Finance are:

1. Microfinance is generally small in volume.
2. MF responds directly to the specific needs of low-income communities.
3. MF refers to microloans, micro-credits or small loans that are given to individuals, households, groups or small business owners

Pradhan Mantri Jan-Dhan Yojana –PMJDY

PMJDY is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. PMJDY is an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities. Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet.

Special Benefits under **PMJDY Scheme**

Features of PMJDY

1. Interest on deposit.
2. Accidental insurance cover of Rs.1 lac
3. No minimum balance required.
4. The scheme provide life cover of Rs.30,000/- payable on death of the beneficiary, subject to fulfillment of the eligibility condition.
5. Easy Transfer of money across India.
6. Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.
7. After satisfactory operation of the account for 6 months, an overdraft facility will be permitted.
8. Access to Pension, insurance products.
9. The Claim under Personal Accidental Insurance under PMJDY shall be payable if the Rupay Card holder have performed minimum one successful financial or non-financial customer induced transaction at any Bank Branch, Bank Mitra, ATM, POS, E-COM etc.
10. Overdraft facility upto Rs.5000/- is available in only one a/c per household, preferably lady of the household.
11. Free RuPay Debit card without any renewal charge.
12. Free mobile banking and sms alert facility.

VII

Banker and Customer

Banker :

The Banking Regulations Act (B R Act) 1949 does not define the term 'banker.' But defines the term banking. As per Sec.5 (b) of the B R Act "Banking' means accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise."

Sec.5(c) of BR Act defines 'banking company' as "a company that transacts the business of banking in India."

The term 'Banker' is used as a synonym of 'bank' in the Banking Regulation Act 1949. The Act make it compulsory to use the words 'bank' or 'banker' or 'banking' with the name of a banking company. Only a banking company is allowed to use these words with it's name (Sec.7). Thus as per law, banker is the banking company which carry on the business of banking.

Customer[i]

The term 'customer' has not been defined by any Act. The word 'customer' has been derived from the word 'custom', which means a 'habit or tendency' to-do certain things in a regular or a particular manner.

The BR Act 1949 does not define a customer. RBI defines a customer for the purpose of KYC policy as:

1. A person or entity that maintains an account with the bank.
2. A person or entity that has a business relationship with the bank.
3. The beneficial owner of the Account - One on whose behalf the account is maintained.[1]
4. Beneficiaries of transactions conducted by professional intermediaries - Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law
5. Any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank. Say, a wire transfer[2] or issue of a high value demand draft.

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[1] As per PMLA (Prevention of Money Laundering Act, 2002) Rules: 'Beneficial Owner' means the natural person who ultimately owns or controls a client and or the person on whose behalf a transaction is being conducted. 'BO' includes a person who exercises ultimate effective control over a juridical person.

[2] SWIFT mode of making international payment is called wire transfer. SWIFT mode takes one to three days for reaching money.

Banker-Customer Relationship:

Nature of Banker –Customer Relationship

1. Banking is a trust-based relationship.
2. There are numerous kinds of relationship between the bank and the customer.
3. The relationship between a banker and a customer depends on the type of transaction.
4. Thus the relationship is based on contract, and on certain terms and conditions.
5. These relationships confer certain rights and obligations to both on the parties- banker and customer.
6. The personal relationship between the bank and its customers is a long lasting relationship.
7. It is a fiducially relationship.
8. The terms and conditions governing the relationship should not be leaked by the banker to a third party.

Classification of Relationship:

The relationship between a bank and its customers can be broadly categorized in to General Relationship and Special Relationship. Some authors are in the opinion that all these relationships

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'SBI Rupee Instant Flash' mode fund reaches within 10 minutes from selected nations.

are basically derived from the banking transactions and can be considered as general relationship. Special relationships arise out of the banker's duties and obligations. Hence the banker-customer relationships can be broadly classified into three[ii].

A. General Relationship: As pert Sec 5(b) of Banking Regulation Act, bank's business floats around accepting of deposits for the purposes of lending. The relationships arising out of these two main activities (sec5b) are known as General Relationship. They are (a) Debtor and Creditor (b) Creditor and Debtor

B. Special Relationship: In addition to the two basic activities, banks also undertake other activities mentioned in Sec.6 of Banking Regulation Act. Relationship arising out of the activities mentioned in Sec.6 of the act is termed as special relationship. They are (1) Agent and Principal and (2) Trustee and beneficiary, (3) Lessor and Lessee, (4) Bailee – Bailor, (5) Custodian, (6) Guarantor.

C. Bankers Rights and Obligations: These are bankers rights and obligations with its customer. Bank has several rights and obligations.

1. General Relationship:

(1) Debtor and Creditor (2) Creditor and Debtor

1. Debtor-Creditor:

When customer deposits money in his account the bank becomes a debtor of the customer and customer a creditor. The money so deposited by customer becomes bank's property and bank has a right to use the money as it likes. Banker has to repay the money only when the depositor demands.

Bank's position is quite different from normal debtors. Banker is not required to repay the debt voluntarily. The demand is to be made at the specific branch, in a proper manner and during working days and working hours.

While issuing Demand Draft, Mail / Telegraphic Transfer, bank becomes a debtor as it owns money to the payee/ beneficiary.

2. Creditor–Debtor:

Lending money is the most important activities of a bank. Customer who borrows money from bank owns money to the bank. In the case of any loan/advances account, the banker is the creditor and the customer is the debtor. Borrower executes documents and offer security to the bank before utilizing the credit facility.

General Debt Vs Debt due from Bank

Major difference between commercial debt and debt due from bank is given below.

General (Commercial) Debt	Debt due from Bank
1. Amount due is called 'debt'	1. Amount due is called 'deposit'
2. Repayable on 'due date'	2. Repayable on 'demand'
3. Repayment can be initiated by the debtor.	3. Bank will not initiate repayment.
4. No fixed place of repayment.	4. Repayment is made at the branch of deposit.
5. There is no fixed time of repayment.	5. Repayment is made only on banking hours.
6. The debt can be secured or unsecured.	6. Deposits are always unsecured.
7. No proper manner for demanding repayment.	7. There is proper manner for demanding repayment (withdrawal form, cheque)
8. Creditor has no right to request repayment as and when he wants.	8. Depositor has the right to request repayment as and when he wants.

B. Special Relationship:

Special relationship between the banker and the customer includes the following:

(1) Agent and Principal (2) Trustee and beneficiary
(3) Lessor and Lessee (4) Bailee – Bailor
(5) Custodian (6) Guarantor.

(1) Trustee and Beneficiary:

As per Sec. 3 of Indian Trust Act, 1882, a "trust" is an obligation annexed to the ownership of property. Thus trustee is the holder of property on behalf of a beneficiary. A trustee is bound to deal with the 'trust-property' as carefully as a man of ordinary prudence would deal with such property if it were his own. A trustee has the right to reimbursement of expenses (Sec.32 of Indian Trust Act.).

When a person entrusts valuable items with bank, with an intention that such items would be returned on demand to the keeper, the relationship becomes of a trustee and trustier. When valuables or securities kept with the bank for safekeeping or deposits (Escrow accounts), the banker acts as a trustee. Banks charge fee for safekeeping valuables

(2) Agent and Principal[3]:

Sec.182 of 'The Indian Contract Act, 1872' defines "an agent" as a person employed to do any act for another or to represent another in dealings with third persons. The person for

[3] Sec.182 of 'The Indian Contract Act, 1872' defines "an agent" as a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done or who is so represented is called "the Principal".

whom such act is done or who is so represented is called “the Principal”. Thus an agent is a person, who acts for and on behalf of the principal. The acts done as an agent, are binding on his principal and, the principal is liable to the party for the acts of the agent.

Collection of cheques, drafts and bills, collection of interests and dividends, payment of bills, purchase and sales of securities, etc. are done by the banker on behalf of the customer. Banks also abides (accepts) by the standing instructions given by its customers. In all these cases bank acts as an agent of its customer, and charges for these services.

(3) Lessor and Lessee:[4]

Sec.105 of ‘Transfer of property Act 1882’ defines “A lease of immovable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or

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[4] [Banks lease (hire lockers to their customers) their immovable property to the customer and give them the right to enjoy such property during the specified period i.e. during the office/ banking hours and charge rentals. Bank has the right to break-open the locker in case the locker holder defaults in payment of rent. Banks do not assume any liability or responsibility in case of any damage to the contents kept in the locker. Banks do not insure the contents kept in the lockers by customers.]

promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms."

The transferor is called the lessor, and the transferee is called the lessee.

Providing safe deposit lockers is as an ancillary service provided by banks to customers. Here the relationship between the bank and the customer is that of lessor and lessee. This relationship also arises when banks offer lease finance, the banker is the lessor and customer is the lessee. For eg SBI offers financial lease. (A Financial Lease is a means of financing capital equipments.)

(4) As a Custodian:

A custodian is a person who acts as a caretaker of something. Banks take legal responsibility for a customer's securities. While opening a demat account bank becomes a custodian.

(5) As a Guarantor:

Guarantee is a contingent contract. Banks gives guarantee for their customers. It is a promise from a bank that the liabilities of a debtor will be met in case if he fails to fulfill the contractual obligations. It is common in international trade.

Contingency is an event which may or may not happen.

(6) Bailee – Bailor:

According to sec.148 of Indian Contract Act, 1872, a "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

Banks secure their loans & advances by obtaining tangible securities. In some cases physical possession of securities goods- gold, valuables, bonds etc. While taking physical possession of securities, the bank becomes bailee and the customer bailor. As a bailee the bank is required to take care of the goods bailed.

C. Obligation and Rights of Bankers

Bankers obligations: A banker has the following obligations to his customer.

a. To honour the cheques drawn on him subject to: (1) sufficient balance in his account as deposit or OD facility availed (b)Cheque is complete in all respects and (c) If cheque is presented during banking hours (d) If cheque is presented within a reasonable time (3months) (e) If the payment is not prohibited by order.

b. Banker has the obligation to maintain the secrecy of the customer's account- balance, transaction details, etc. But disclosure of account details are permitted:

   i) if it is demanded by any authorities under the Income Tax Act, Companies Act, RBI Act, BR Act, or Bankers Book Evidence Act.

   ii) if the disclosure is requested by the customer in writing.

   iii) If disclose of the account details are made in public interest (eg. if customer is involved in anti-national activities),

   iv) To protect banker's own interest (eg. to the guarantor)

   v) Disclosure in response to enquiries from other banks (regarding financial position or integrity of customer)

   vi) Disclosure of credit information to credit information companies.

Bankers Rights: A banker has the following rights from his customer.

(a) **Rights of general lien**: It is the right of the banker to retain possession of any properties of a customer, until all debts are repaid.

(b) **Rights to combine accounts** or rights to set-off: Banker has the right to combine two a/cs opened by the same person. A debit balance in one a/c can be used to set-off the credit balance in another a/c of the same person.

(c) **Right of appropriation**: This right arises where a customer has a number of debts to a banker and where he makes an insufficient payment. The customer has the right to appropriate payment to any debt. In the absence of customer's direction, the banker can apply the payment to any debt. But it should inform the customer about the manner of appropriation.

<u>Clayton's case:</u> If both the parties have not made any appropriation, then the amount must be used to pay off the oldest debt first, ie in the order of date. If all debts are of the same date, the amount should be applied proportionately.

(d) **Right to charge interest** and incidental charges: Every banker has the right to get interest on all amounts due, commission for all services rendered and incidental charges on un-remunerative a/cs. Un-remunerative a/cs are a/cs with small amount of balances.

General Lien of bankers

a. General lien is not applicable on amount of deposit. The ownership of the deposited money passes from the depositor to the banker. Lien can be exercised on the property of someone else.

b. General lien is not applicable on the valuables entrusted to the bank for safe custody. Here the relationship is that of bailor and bailee and not banker and customer.

c. General lien is not applicable on the valuables left in the hands of the banker by mistake.

d. General lien is not applicable to money or instruments entrusted for a specific purpose. Eg. cheque deposited for honouring Bill of Exchange.

e. General lien is not applicable if there is an agreement to the contrary.

f. General lien can be applied only if the property is acquired lawfully in his capacity as a banker.

g. Lien can be exercised only on those debts which are due. Lien cannot be exercised on those debts which are not yet due.

Particular Lien	General Lien
1) Creditor can retain only a particular property	1) Creditor can retain any property
2) Can retain the property only on the non-payment of a specific debt	2) Can retain the property on the non-payment of any debt
3) Particular lien is obtained by a person, who has spent time, labour and money on the property.	3) General lien is obtained by special agreement.

Termination of relationship between a banker and a customer:

The relationship between a bank and a customer ceases on:

(a) The death, insolvency, lunacy of the customer.

(b) The customer closing the account i.e. Voluntary termination

(c) Liquidation of the company

(d) The closing of the account by the bank after giving due notice.

(e) The completion of the contract or the specific transaction

Different Types of Accounts

1. Fixed/Time Deposit
2. Savings deposits (Savings Bank Account)
3. Current/Demand deposits
4. Recurring/Cumulative deposits (RD A/c).
5. Savings Plus Account: Savings Plus Account is a Savings Bank Account linked to MODS, wherein surplus fund above a threshold limit from the Savings Bank Account is transferred automatically to Term Deposits opened in multiples of Rs. 1000.
6. Basic Banking 'No frills Account: They are special deposits schemes for a specific purposes. It helps to invest surplus funds or to create a fund for your childrens' education, marriage, etc
7. Special Term Deposits : This deposit is a variant of Term Deposits. Interest being paid out at a regular frequency during the period of deposit. Interest is paid out only at the time of maturity. Regular interest is added to the principal and compound interest calculated and paid thereon.
8. Multi Option Deposit Scheme: MODS are Term Deposits linked to the Savings or Current Account (individual). Unlike normal Term Deposits which are fully liquidated anytime. Customer can withdraw from a MODS account

in multiples of 1000 as per need. The balance amount in your MODS account will continue to earn the Term Deposit rates applicable at time of initial deposit.

9. SBI Tax Savings Scheme, 2006: They are Term Deposits Tax with benefits under section 80C of Income Tax Act, 1961. Premature withdrawal is not permitted. They are withdrawable only after the expiry of five years from the date of issue.
10. Resident Foreign Currency (Domestic) Account: This account permits to maintain Account in USD, GBP and EURO currency.

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[i] In terms of Sec.131 of Negotiable Instrument Act, to become a customer, account relationship is must. Account relationship is a contractual relationship. However, there are many persons who do utilize services of banks, but do not maintain any account with the bank.

Thus bank customers can be categorized in to four broad categories as under:

- Existing customers: Those who maintain account relationship with banks i.e.
- Former Customers: Those who had account relationship with bank i.e.

- Guest customer: Those who do not maintain any account. But they frequently visit the branch of a bank for availing banking facilities. (eg. Purchase of draft, encash a cheque, make remittance etc.)
- Prospective/ Potential customers: A person will be deemed to be a 'customer', if he had handed over the duly filled in account opening form to the bank and if the bank has accepted it. Even if no account has actually been opened by the bank in its books or record.

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Nationalisation of Banks in India

There are four phases of bank nationalization in India.

I. 1949 – Nationalisation of RBI – Objective was to free RBI from the interest of private shareholders.
II. 1955 – Nationalisation of SBI
 1959 – Nationalisation of 7 Associates of SBI
III. 1969 - Nationalisation of 14 Major Commercial Banks
IV. 1980 – Nationalisation of 6 major Commercial Banks

Objectives of Nationalisation of Commercial Banks

1. To eliminate concentration of economic power in few hands.
2. To diverse the flow of bank credit towards priority sector. Priority sector consists of agriculture and allied activities, small scale industries and small businesses, etc.

3. To foster a new class of entrepreneur to create, sustain and accelerate economic growth.
4. To professionalize bank managements.
5. To impart adequate training and reasonable terms of service to bank staff.
6. To extend banking facilities to unbanked rural areas.
7. To ensure prompt operations of the bank-ing system for a larger social purpose.
8. To stop the use of the bank credit for speculative and other unproductive purposes.

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