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INDIAN BANKING SYSTEM AND ITS STRUCTURE

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1. Introduction

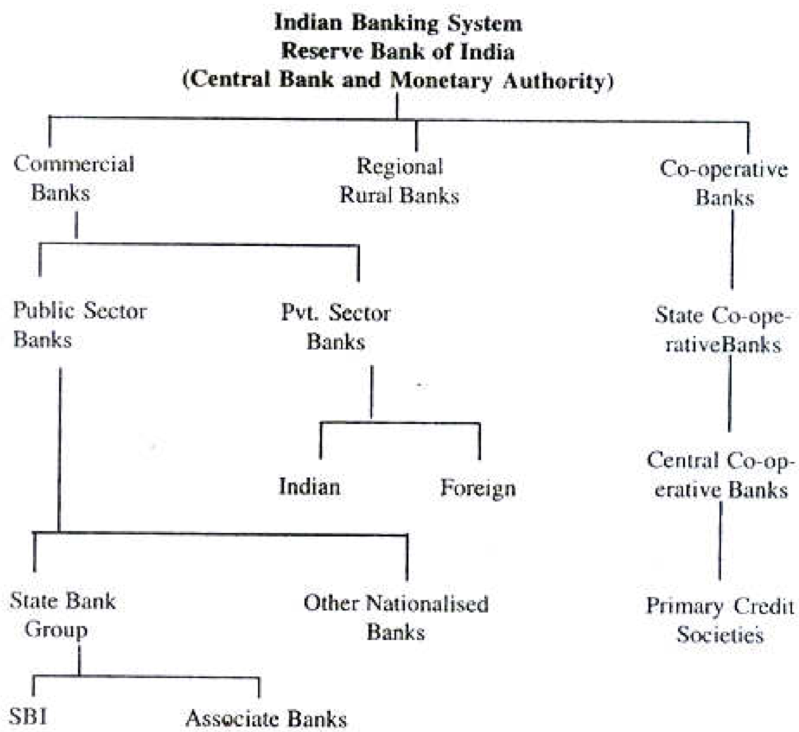
Banking in India in the modern sense originated in the last decades of the 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770 and liquidated in 1829-32; and the General Bank of India, established in 1786 but failed in 1791. The largest bank, and the oldest still in existence, is the State Bank of India (S.B.I). It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government, the other two were the Bank of Bombay and the Bank of Madras. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934. In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969 the Indian government nationalised 14 major private banks. In 1980, 6 more private banks were nationalised. These nationalised banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.

The Indian banking sector is broadly classified into scheduled banks and non-scheduled banks. The scheduled banks are those which are included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalised banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks. The term commercial banks refers to both scheduled and non-scheduled commercial banks which are regulated under the Banking Regulation Act, 1949. Generally banking in India is fairly mature in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State Bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development with facilities like microfinance.

2. Structure of Organised Indian Banking System:

The organised banking system in India can be classified as given below

Figure 1



STRUCTURE OF INDIAN BANKING SYSTEM

2.1. Reserve Bank of India (RBI)

The country had no central bank prior to the establishment of the RBI. The RBI is the supreme monetary and banking authority in the country and controls the banking system in India. It is called the Reserve Bank' as it keeps the reserves of all commercial banks. The Reserve Bank of India is India's central banking institution, which controls the monetary policy of the Indian rupee. It commenced its operations on 1 April 1935 during the British Rule in accordance with the provisions of the Reserve Bank of India Act, 1934. The original share capital was divided into shares of 100 each fully paid, which were initially owned entirely by private shareholders. Following India's independence on 15 August 1947, the RBI was nationalised on 1 January 1949. The RBI plays an important part in the Development Strategy of the Government of India. It is a member bank of the Asian Clearing Union. The general superintendence and direction of the RBI is entrusted with the

21-member Central Board of Directors: the Governor, 4 Deputy Governors, 2 Finance Ministry representatives, 10 government-nominated directors to represent important elements from India's economy, and 4 directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi. Each of these local boards consists of 5 members who represent regional interests, and the interests of co-operative and indigenous banks. The bank is also active in promoting financial inclusion policy and is a leading member of the Alliance for Financial Inclusion (AFI).

2.2. Commercial Banks:

Commercial banks mobilise savings of general public and make them available to large and small industrial and trading units mainly for working capital requirements. Commercial banks in India are largely Indian-public sector and private sector with a few foreign banks. The public sector banks account for more than 92 percent of the entire banking business in India—occupying a dominant position in the commercial banking. The State Bank of India and its 7 associate banks along with another 19 banks are the public sector banks.

2.3. Scheduled and Non-Scheduled Banks:

The scheduled banks are those which are enshrined in the second schedule of the RBI Act, 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs, hey have to satisfy the RBI that their affairs are carried out in the interest of their depositors. All commercial banks (Indian and foreign), regional rural banks, and state cooperative banks are scheduled banks. Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present these are only three such banks in the country.

2.4. Regional Rural Banks

The Regional Rural Banks (RRBs) the newest form of banks, came into existence in the middle of 1970s (sponsored by individual nationalised commercial banks) with the objective of developing rural economy by providing credit and deposit facilities for agriculture and other productive activities of al kinds in rural areas. The emphasis is on providing such facilities to small and marginal farmers, agricultural labourers, rural artisans and other small entrepreneurs in rural areas.

3. Other special features of these banks are:

(i) their area of operation is limited to a specified region, comprising one or more districts in any state; (ii) their lending rates cannot be higher than the prevailing lending rates of cooperative credit societies in any particular state; (iii) the paid-up capital of each rural bank is Rs. 25 lakh, 50 percent of which has been contributed by the Central

Government, 15 percent by State Government and 35 percent by sponsoring public sector commercial banks which are also responsible for actual setting up of the RRBs.

These banks are helped by higher-level agencies: the sponsoring banks lend them funds and advise and train their senior staff, the NABARD (National Bank for Agriculture and Rural Development) gives them short-term and medium, term loans: the RBI has kept CRR (Cash Reserve Requirements) of them at 3% and SLR (Statutory Liquidity Requirement) at 25% of their total net liabilities, whereas for other commercial banks the required minimum ratios have been varied over time.

Cooperative Banks:

Cooperative banks are so-called because they are organised under the provisions of the Cooperative Credit Societies Act of the states. The major beneficiary of the Cooperative Banking is the agricultural sector in particular and the rural sector in general. The cooperative credit institutions operating in the country are mainly of two kinds: agricultural (dominant) and non-agricultural. There are two separate cooperative agencies for the provision of agricultural credit: one for short and medium-term credit, and the other for long-term credit. The former has three tier and federal structure. At the apex is the State Co-operative Bank (SCB) (cooperation being a state subject in India), at the intermediate (district) level are the Central Cooperative Banks (CCBs) and at the village level are Primary Agricultural Credit Societies (PACs).

Long-term agriculture credit is provided by the Land Development Banks. The funds of the RBI meant for the agriculture sector actually pass through SCBs and CCBs. Originally based in rural sector, the cooperative credit movement has now spread to urban areas also and there are many urban cooperative banks coming under SCBs.

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