

# Indian Banking System For B.Com-II Sem

By

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# Objectives of this Module

- “ Understanding Indian Banking System.
- “ History of Banking practices in India.
- “ Recognise the classification of Banking System in India.

# Banking

- “ Banking is an industry that handles finances in a country including cash and credit. Banks are the institutional bodies that accept deposits and grant credit to the people and play a major role in maintaining the economic strength of a country.
- “ As playing important role in the economy of the country banks work under strict supervision of regulatory authorities. In India, the Reserve Bank of India (RBI) is the apex banking institution that regulates the banks with the help of monetary policy in the country.

# History of Banking in India

- “ Banking has existed in some form or another in the ancient and medieval eras but in its modern sense, Banking in India originated in the last decades of 18<sup>th</sup> Century.
- “ Bank of Hindustan and General Bank of India Established in the 1770 and 1786, were among the first banking institutions in the country. Though both the banks could not survive for the long.
- “ State Bank of India is the oldest existing bank in the country. In 1806, it was originated as Bank of Calcutta and was later named Bank of Bengal in 1809. It was among the three banks funded by a presidency government all of which were merged in 1921 to form Imperial Bank of India. After India's independence, the Imperial Bank of India was renamed as State Bank of India in 1955.

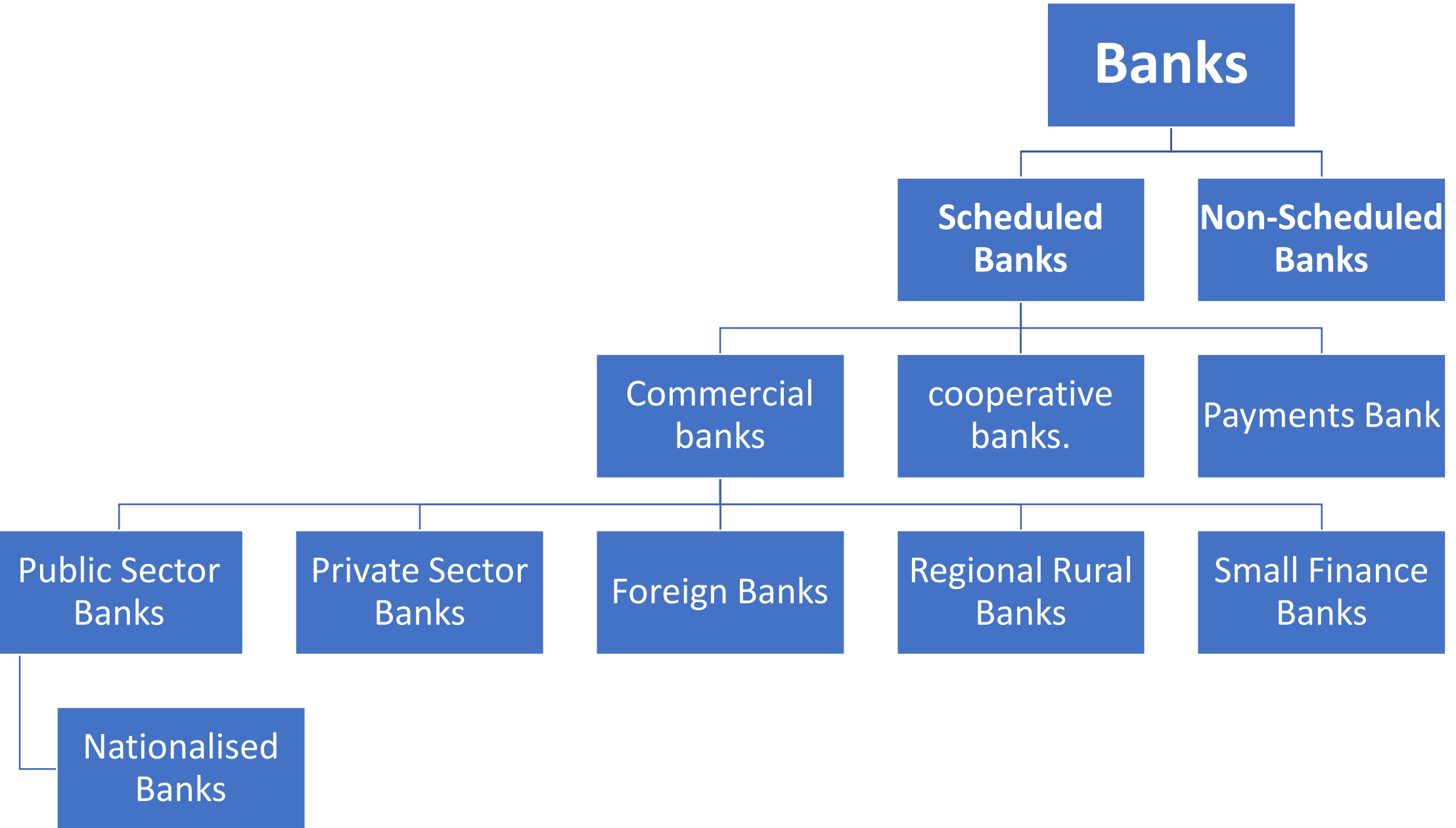
# Classification of Banks in India

- “ Apex institution which regulates all the banks and monetary policy of India is Reserve Bank of India. It was formed in 1935 under the Reserve Bank of India Act, 1934.
- “ The main functions of RBI are to regulate the banks in the country and also provide important financial services like controlling inflation in the country and storing financial exchange reserves.
- “ Banks are classified into **scheduled** and **non-scheduled** banks.
- “ **Scheduled banks** can further be classified into **commercial banks** and **cooperative banks**.

# Classification.....

- “ **Scheduled banks** can further be classified into **commercial banks** and **cooperative banks**.
- “ **Commercial Banks** can be further classified into **public sector banks**, **private sector banks**, **foreign banks** and **Regional Rural Banks (RRB)**.
- “ On the other hand, **cooperative banks** are classified into **urban and rural**. Apart from these, a fairly new addition to the structure is **payments bank**.

# Classification of Indian Banking System



# Scheduled Banks

“ Schedules banks are those that are covered under the 2nd Schedule of the Reserve Bank of India Act, 1934. A bank that has a paid-up capital of Rs. 25 Lakh and above qualifies for the schedule bank category. These banks are eligible to take loans from RBI at bank rate.

“ Types of Scheduled Banks

- I. Commercial Banks
- II. Co-operative Banks
- III. Payments Bank



# I. Commercial Banks

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# Functions of Commercial Banks

1. Accepting deposits
  2. Providing loans
  3. Credit Creation
  4. Transfer of funds
  5. Agency functions
  6. Other functions
- “ Payment of credit letters and travellers cheques, gift cheques, bank draft etc.
  - “ Dealing in foreign exchange.
  - “ Locker services.
  - “ Provision of tax assistance and investment advice etc.





# Public Sector Banks

” These are the nationalised banks and account for more than 75 per cent of the total banking business in the country. Majority of stakes in these banks are held by the government. In terms of volume, SBI is the largest public sector bank in India and after its merger with its 5 associate banks (as on 1<sup>st</sup> April 2017) it has got a position among the top 50 banks of the world.

# Public Sector Banks..... ( Nationalized Independent Banks )

” There are following **Nationalised** banks in the country namely below:

1. Indian Overseas Bank
2. UCO Bank
3. Bank of Maharashtra
4. Punjab & Sindh Bank
5. Bank of India
6. Central Bank of India

# Public Sector Banks..... ( Nationalized Banks After Merger)

“ There are following **Nationalised** banks in the country after Merger namely below:

1. State Bank of India
2. Punjab National Bank (Oriental Bank of Commerce, United Bank of India)
3. Bank of Baroda (Dena Bank, Vijaya Bank)
4. Canara Bank (Syndicate Bank)
5. Union Bank of India (Andhra Bank, Corporation Bank)
6. Indian Bank (Allahabad Bank)

# Public Sector Banks..... ( Nationalized Banks After Amalgamation)

“ **IDBI Bank** (Owned by Life insurance Corporation) w.e.f. from 21st January 2019 this nationalised bank was recategorized as private sector bank for regulatory purposes.



# Private Sector Banks

” These include banks in which major stake or equity is held by private shareholders. All the banking rules and regulations laid down by the RBI will be applicable on private sector banks as well. Given below is the list of private-sector banks in India-

# Private Sector Banks

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HDFC Bank	Dhanlaxmi Bank	Jammu & Kashmir Bank	RBL Bank
Axis Bank	Federal Bank	Karnataka Bank	South Indian Bank
Bandhan Bank	ICICI Bank	Karur Vysya Bank	Tamilnad Mercantile Bank Limited
CSB Bank	IDBI Bank	Kotak Mahindra Bank	Yes Bank
City Union Bank	IDFC First Bank	Lakshmi Vilas Bank	
DCB Bank	IndusInd Bank	Nainital Bank	





# Foreign Banks

” A foreign bank is one that has its headquarters in a foreign country but operates in India as a private entity. These banks are under the obligation to follow the regulations of its home country as well as the country in which they are operating.

” Citi Bank

” Standard Chartered Bank and


” HSBC

are some leading foreign banks in India.



# Regional Rural Banks

- “ These are also scheduled commercial banks but they are established with the main objective of providing credit to weaker sections of the society like agricultural labourers, marginal farmers and small enterprises. They usually operate at regional levels in different states of India and may have branches in selected urban areas as well. Other important functions carried out by RRBs include-
- “ Providing banking and financial services to rural and semi-urban areas
- “ Government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.
- “ Para-Banking facilities like debit cards, credit cards and locker facilities



# Small Finance Banks

” This is a niche banking segment in the country and is aimed to provide financial inclusion to sections of the society that are not served by other banks. The main customers of small finance banks include micro industries, small and marginal farmers, unorganized sector entities and small business units. These are licensed under Section 22 of the Banking Regulation Act, 1949 and are governed by the provisions of RBI Act, 1934 and FEMA.

## II. Co- operative Banks

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# III. Payments Bank

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