

Indian Economy #9 | Study Material::General Studies | IAS Help

Category Indian Economy

[ratings]

BANKING IN INDIA

Overview

- Organized banking in India originated in the late 18th century
- **The State Bank of India, headquartered in Mumbai, is the largest bank in India**
- Currently, India has 88 Scheduled Banks – 27 public sector banks, 31 private banks and 38 foreign banks
- The public sector banks hold over 75% of banking assets in the country, followed by private banks (18.2%) and foreign banks (6.5%)
- Central banking in India is the responsibility of the Reserve Bank of India
- **Banking in India is the responsibility of the Department of Financial Services, Ministry of Finance**
- Currently there are 170 scheduled commercial banks, which includes 91 regional rural banks, 19 nationalised banks, 8 banks in the SBI group and the IDBI
- There are 4 non-scheduled commercial banks in the country

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History of banking in India

- **The oldest banks in India were the General Bank of India and the Bank of Hindustan, both founded in 1786.** However both banks are now defunct
- **The oldest existing bank in India is the State Bank of India.** The origins of the SBI go back to the Bank of Calcutta (founded 1806, renamed Bank of Bengal in 1809)
- The Bank of Madras was established in 1843 and the Bank of Bombay in 1868
- **The Bank of Bengal, Bank of Bombay and Bank of Madras merged to form the Imperial Bank of India in 1921. The Imperial Bank of India was renamed the State Bank of India in 1955.** Although a normal commercial bank, the Imperial Bank of India also functioned as a central governmental until 1935
- **The Reserve Bank of India was established in 1935**
- The oldest joint stock bank is the Allahabad Bank, established in 1865.
- The first entirely Indian joint stock bank was the Oudh Commercial Bank (Faizabad, 1881). However, it failed in 1958. The next oldest is the Punjab National Bank (Lahore, 1895)
- **The Dakshina Kannada and Udipi districts of Karnataka (called South Canara), is known as the Cradle of Indian Banking**

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Nationalisation of banks

- **The Government of India nationalised 14 of the largest banks in 1969**
- This achieved by an ordinance to the effect in July 1969. This was formalized by the Banking Companies (Acquisition and Transfer of Undertaking) Bill 1969
- The banks that were nationalized in 1969 were: Allahabad Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Canara Bank, Central Bank of India, Dena Bank, Indian Bank,

Indian Overseas Bank, Punjab National Bank, Syndicate Bank, UCO Bank, Union Bank of India and United Bank of India

- **In 1980, six more banks were nationalized.** The banks that were nationalized in 1980 were: Andhra Bank, Corporation Bank, Oriental Bank of Commerce, Punjab and Sind Bank, New Bank of India and Vijaya Bank
- In 1993, the New Bank of India was merged with Punjab National Bank. **There are 19 nationalized banks in operation today**
- Following this, the GoI controlled about 91% of the banking business in India

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RESERVE BANK OF INDIA

Overview

- The Reserve Bank of India is the central bank of India
- **It was established in 1935 and nationalised in 1949.** Its headquarters was initially Calcutta, but moved to Bombay in 1937. It is currently headquartered in Mumbai.
- **The first Governor of the RBI was Sir Osborne Smith.** The current Governor of the RBI is Dr. Duvvuri Subbarao
- The RBI functions under the provisions of the Reserve Bank of India Act 1934

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Objectives

- Maintain price stability
- **Ensure adequate flow of credit**
- Protect depositor's interests
- Provide cost-effective banking services to the public
- Facilitate external trade and payment
- **Promote development of foreign exchange market in India**
- **Provide supplies of currency notes and coins in the country**

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Functions

- Formulates, implements and monitors monetary policies
- Regulates operations of banking and financial services sector in the country
- **Manages the Foreign Exchange Management Act 1999**
- Issues, exchanges and destroys currency notes and coins
- Perform promotional functions to support national objectives

- Acts as banker to banks by maintaining accounts of all scheduled banks
- Acts as banker to the Central and state governments

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List of RBI Governors

S. No.	Governor	Tenure	Notes
1	Sir Osborne Smith	1935-1937	First Governor of the RBI Did not sign any bank notes
2	Sir James Taylor	1937-1943	Governor during WWII Started the practice of signing bank notes
3	Sir C D Deshmukh	1943-1949	First Indian Governor of RBI Oversaw Independence & Partition Represented India at the Bretton Woods Conference 1944 Served as Minister of Finance 1950-1956
4	Sir Benegal Rama Rao	1949-1957	Longest serving Governor Was Indian Ambassador to USA prior to RBI Witnessed commencement of Five Year Plans, and transformation of Imperial Bank of India to SBI
5	K G Ambegaonkar	Jan 1957 – Feb 1957	Did not sign any bank notes
6	H V R Iyengar	1957-1962	Witnessed introduction of decimal coinage Variable cash reserve ration (CRR) introduced
7	P C Bhattacharya	1962-1967	
8	L K Jha	1967-1970	Witnessed nationalization of banks (1969) Appointed as Ambassador to US in 1970
9	B N Adarkar	May 1970 – June 1970	Served as India's Executive Director at the IMF
10	S Jagannathan	1970-1975	Witnessed oil shock, expansion of banking services, shift to floating rates Relinquished office to serve as Executive Director at IMF
11	N C Sen Gupta	May 1975 – Aug 1975	
12	K R Puri	1975-1977	
13	M Narasimhan	May 1977 – Nov 1977	Only Governor to be appointed from the Reserve Bank cadre Chairperson of Committee on Financial System (1991) and Committee on Banking Sector Reforms (1998) Served as Executive Director for India at the World Bank and the IMF
14	Dr. I G Patel	1977-1982	Served as Secretary at the United Nations Development Programme (UNDP) Witnessed demonetisation of high denomination bank notes and "gold auctions" Witnessed nationalization of six banks (1980) Secured IMF's Extended Fund Facility (1981). This was the largest arrangement of the IMF at the time
15	Dr. Manmohan Singh	1982-1985	Witnessed comprehensive legal reforms in banking sector

16	A Ghosh	Jan 1985 – Feb 1985	
17	R N Malhotra	1985-1990	Served as Executive Director of IMF prior to RBI Made efforts to develop money markets
18	S Venkitaraman	1990-1992	Managed balance of payments crisis Adopted IMF's stabilisation programme Supervised devaluation of the Rupee Witnessed launch of economic reforms
19	Dr. C Rangarajan	1992-1997	Ushered in unprecedented central bank activism Introduced comprehensive measures to strengthen and improve efficiency of banking sector Establishment of unified exchange rate Cap on automatic finance by the Bank to the Government
20	Dr. Bimal Jalan	1997-2003	Represented India on the Executive Boards of the IMF and World Bank prior to RBI
21	Dr Y V Reddy	2003-2008	Executive Director to IMF prior to RBI
22	Dr. D Subbarao	2008-Present	Prior to RBI, he has been <ul style="list-style-type: none"> • Secretary to the PM's Economic Advisory Council (2005-2007) • Lead economist in the World Bank (1999-2004) • Finance Secretary to the Government of Andhra Pradesh (1993-1998) • Joint Secretary, Dept. of Economic Affairs (1988-1993)

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STATE BANK OF INDIA

- **The State Bank of India is derived from the Imperial Bank of India (1921), which was nationalised in 1955**
- **The State Bank of India is the oldest bank in India.** It traces its ancestry to the Bank of Calcutta, founded in 1806.
- It is headquartered in Mumbai
- **The State Bank of India is also the largest bank in India.** It has a market share of about 20% in deposits and advances
- The State Bank Group consists of the SBI and its subsidiary banks viz. State Bank of Indore, State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore
- The SBI is one of the Big Four Banks in India, along with ICICI Bank, Axis Bank and HDFC Bank
- **The SBI was ranked as the 29th most reputable company in the world by Forbes in 2009**

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CATEGORIES OF BANKS IN INDIA

1. Commercial Banks

- Commercial banks are those that cater to the regular banking and financial needs of the public

- **Commercial banks include public sector banks and private sector banks.** Public sector banks include the State Bank Group and other nationalised banks, while private sector banks include Indian banks and foreign banks

2. Cooperative Banks

- Cooperative banking is retail and commercial banking organised on a cooperative basis. Cooperative banks include credit unions, savings and loans associations and building societies and cooperatives
- Cooperative banks operate on the principles of cooperation – mutual help, democratic decision making and open membership
- **They are governed by controls of the RBI as well as state governments.** Cooperative banks in general operate under the Cooperative Credit Societies Act 1904, but large Urban Cooperative Banks operate under the Banking Regulation Act 1949
- Cooperative banks in India are the primary financiers of agricultural activities, small scale industries and self-employed workers
- Cooperative banks in India were first established in the late 19th century, following the success of such banks in Britain and Germany
- **The Anyonya Cooperative Bank Ltd. (ABCL) was the first cooperative bank in India.** It was established Vithal Laxman (aka Bhausahab Kavthekar) in 1889 under the name Anyonya Sahayakari Mandali Cooperative Bank Ltd. The bank closed functioning in March 2008 following an order by the RBI. Re-opening is under consideration

3. Regional Rural Banks

- Regional Rural Banks (RRBs) were first established in 1975
- Initially five RRBs were established at Moradabad (UP), Gorakhpur (UP), Bhiwani (Haryana), Jaipur (Rajasthan), Malda (WB). Currently there are 91 RRBs
- **RRBs exist in all states except Goa and Sikkim**
- The share of RRBs in agricultural credit is around 5%

4. Scheduled Banks

- Scheduled Banks are those banks that have been included in Second Schedule of the RBI Act 1934
- Scheduled Banks must fulfil two conditions
 - i. The paid up capital and collected funds of the bank must not be less than Rs 5 lakhs
 - ii. Any activity of the bank should not adversely affect the interest of deposition
- Scheduled Banks enjoy the following benefits
 - i. They are eligible for obtaining loans on Bank Rate from the RBI
 - ii. They acquire membership of the clearing house
- Scheduled Banks include commercial banks, cooperative banks and regional rural banks
- There are around 302 Scheduled Banks in operation

5. Non-Scheduled Banks

- Non-Scheduled Banks are those that are not included in the list of Scheduled Banks
- They have to follow the Cash Reserve Ratio (CRR) condition. However, they are not compelled to deposit these funds with the RBI
- **They can avail loans from the RBI only under emergencies, and not for daily activities**
- There are only 4 Non-Scheduled Banks in operation

- 1. Small Industries Development Bank of India (SIDBI)**
 - a. Established in 1990, headquarters Lucknow
 - b. The main objective of the SIDBI is to aid the growth and development of micro, small and medium scale industries in India
 - c. It provides direct credit to micro, small and medium enterprises, supports microfinance institutions and refinancing to state level finance bodies
- 2. Industrial Development Bank of India (IDBI)**
 - a. Established in 1964, headquarters Mumbai
 - b. The IDBI is the tenth largest development bank in the world. It is one of India's largest public sector bank
 - c. Its main objective is to provide credit and other banking facilities to industries in India
 - d. However, in 2004 the IDBI was re-designated as a commercial bank, following the Industrial Development Bank (Transfer of Undertaking and Repeal) Act 2003, and renamed IDBI Ltd
 - e. Following this, the commercial banking division, IDBI Bank was merged into IDBI
- 3. Industrial Finance Corporation of India (IFCI)**
 - a. The IFCI is the first development finance institution in the country to cater to the needs of Indian industry
 - b. Established 1948, headquarters New Delhi
 - c. The IFCI was established to provide long term low interest credit to corporate borrowers
 - d. In 1993, the IFCI was re-registered as a commercial company under the Indian Companies Act 1956, and renamed IFCI Ltd
- 4. National Bank for Agricultural and Rural Development (NABARD)**
 - a. Partly owned by the RBI
 - b. Established 1982, headquarters Mumbai
 - c. **NABARD serves as the apex development bank in India for economic activities in rural areas**
 - d. **The main objective of NABARD is to facilitate credit flow for agriculture and small scale industries**
 - e. NABARD provides refinance to State Cooperative Agriculture and Rural Development Banks (SCARDBs), State Cooperative Banks (SCBs), Regional Rural Banks (RRBs), Commercial Banks and other financial institutions approved by the RBI
 - f. NABARD coordinates the rural financing activities of all institutions engaged in developmental work
 - g. NABARD has 28 regional offices (state capitals), one Sub Office (in Port Blair) and one Special Cell (in Srinagar)
 - h. **NABARD is famous for its Self Help Group (SHG) Bank Linkage Programme, which serves as an important tool for microfinance**
- 5. National Housing Bank (NHB)**
 - a. Wholly owned subsidiary of the RBI
 - b. Established in 1987, headquarters New Delhi
 - c. Established mainly to provide long term finance to individual households
- 6. Export-Import Bank of India (EXIM Bank)**
 - a. Established 1981, headquarters Mumbai
 - b. The main objective of the EXIM Bank is to provide financial assistance to exporters and importers with a view to promoting the country's international trade
 - c. It acts as the apex financial institution for financing foreign trade in India
- 7. Bharatiya Reserve Bank Note Mudran Private Ltd (BRBNMPL)**
 - a. Wholly owned subsidiary of the RBI

- b. Established in 1995, headquarters Bangalore
- c. Main function is to augment the product of bank notes to meet demand
- d. The company manages two presses: Mysore and Salboni (West Bengal)

8. Deposit Insurance and Credit Guarantee Corporation (DICGC)

- a. Wholly owned subsidiary of the RBI
- b. Established in 1962, headquarters Mumbai
- c. India was one of the first countries to provide deposit insurance
- d. Main objective is to provide insurance to depositors against collapse and bankruptcy of banks
- e. Provides deposit insurance coverage up to Rs 100,000

Sources: [Reserve Bank of India](#), [Government of India](#), [Ministry of Finance](#), [Wikipedia](#)

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