

CHAPTER- 24

BANKS

In India the modern banking system was initiated with the establishment of the Presidency Bank of Bengal in 1806, and the Presidency bank of Madras in 1840. However, the post independence period witnessed the massive growth in the Indian banking sector. Reserve Bank of India, was nationalized on January 1, 1949 under the terms of the Reserve Bank of India Act, 1948. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India to regularize, control and inspect the banks in India. The Banking Regulation Act also provided the number of new banks or branches of an existing bank would be opened with a license from the Reserve Bank of India.

The RBI acts as banker, both to the central government and state governments. It manages all the banking transactions of the government involving the receipt and payment of money. In addition, RBI remits exchange and performs other banking operations. RBI provides short-term credit to the central government. Such credit helps the government to meet any shortfalls in its receipts over its disbursements. RBI also provides short term credit to state governments as advances.

The issue department of RBI is dedicated to issuing currency. All the currency issued is the monetary liability of RBI that is backed by assets of equal value held by this department. Assets consist of gold, coin, bullion, foreign securities, rupee coins, and the government's rupee securities.

Before Nationalization of Banks, despite control and regulation by Reserve Bank of India, banks in India except the State Bank of India continued to be owned and operated by private personnel. But by that time the Indian Banking Industry had grown in size and employed a large number of people thus became an important tool for the development of Indian economy. In order to ensure more equitable and purposeful distribution of credit on July 19, 1969 the Government of India issued an ordinance and nationalized 14 largest commercial Banks. In April 1980 six more commercial banks were nationalized. With nationalization of these banks the Government of India controlled an overwhelming majority of the banking business in India.

Besides the above developments, financial institutions were established for meeting the specialized needs. These include Industrial Development Bank of India (IDBI), Industrial Credit and Investment Bank of India for meeting the long – term financial needs of the large scale operations. Similarly for meeting the requirements of the Small Scale Industries (SSIs), State Financial Corporation (SFC), Small Industries Development (SIDC) and Small Industries Development Bank of India (SIDBI) have been established. The National Bank for Agriculture and Rural Development (NABARD), Land

Development Bank (LDB), Regional Rural Bank (RRB) etc. has been established for taking care of the credit needs in the agriculture sector.

The Indian Business environment has altered radically since 1991 with the changes in the economic policies and introduction of new institutional mechanisms of economic liberalization and financial sector reforms. The move from old to new business environment has created the demands on Indian bank like enhanced work flow, full customer access to banking transactions through electronic mode etc. In the emerging scenario of fierce competition backed by twin force of deregulation and technology, the degree of competition in the Indian financial Sector has increased to unprecedented level. Hence the operational efficiency of banks has achieved immense significance for their survival in the present scenario. Moreover branches have been opened in rural areas with offer of financial assistance along with advice and guidance on several critical problems which transforms the life of rural people.

Scheduled Commercial Banks: The banks, which carry on business of banking in India and which are included in the second schedule to the Reserve Bank of India Act, 1934 are known as Scheduled Banks.

These include the State Bank of India, other Indian Banks and Foreign Banks.

- (i) **State Bank of India:** The State Bank of India was formed in July, 1955 after the nationalization of the Imperial Bank of India. Figures in this table relate to the business of the Bank in India and abroad.
- (ii) **Other Indian Banks:** Indian banks are those who have their registered offices in India. These include Private Sector Banks, Associates of State Bank of India, 19 nationalized and Regional Rural Banks. The data presented in the subsequent tables relate to the business both in India and abroad.
- (iii) **Foreign Banks:** Foreign banks are those who have their registered offices outside India. The data relate to their business in the Indian Union.

Highlights

- Total assets of banking department of Reserve Bank of India increased from ` 1.8 lakh crores in 2001 to ` 7.1 lakh crores in 2010.
- Total assets of Issue Department of Reserve bank of India grew from ` 2.3 lakh crores in 2001 to ` 8.4 lakh crores in 2010.
- Note in circulation has increased from ` 2.2 lakh crores in 2001 to ` 8.4 lakh crores in 2010.
- Loan and Advances of State Bank of India including bills discounted has increased from ` 1.1 lakh crores in 2001 to ` 6.3 lakh crores in 2010.

- Loan and Advances of other Scheduled Commercial Banks (Other than SBI) has increased from ` 3.8 lakh crores in 2001 to ` 27.0 lakh crores in 2010.
- Loan and Advances of Foreign Banks including bills discounted has increased from ` 0.4 lakh crores in 2001 to ` 1.6 lakh crores in 2010.
- Number and amount of cheques cleared from Mumbai is largest among all the Centers in India. This is true for all the years from 2002-03 to 2010 -11.
- Total Assets of IFCI has marginally increased from ` 0.22 lakh crores to ` 0.26 lakh crores in 2010-11.
- The assets of State Finance Corporation marginally decreased from ` 16622 crores in 2000-01 to ` 16555 crores in 2009-10. During 2009-10 the maximum asset of State Finance Corporation is from Karnatka.

This chapter contains the following tables:

Table 24.1(A)-Liabilities and assets of the Reserve Bank of India (Banking Department)

Table 24.1(B)-Liabilities and assets of the Reserve Bank of India (Issue Department)

Table 24.2 -Liabilities and assets of different classes of Banks

Table 24.3- Cheque clearances-by Centres

Table 24.4- Cash deposit ratio by class of Banks

Table 24.5- Liabilities and assets of IFCI limited

Table 24.6- Liabilities and assets of State Financial Corporations

Table 24.7-Industrial Development Bank of India - liabilities and assets

Table 24.8-Money rates in India