CHAPTER II

INDIAN BANKING –A HISTORICAL PERSPECTIVE

2.1. Introduction:

The bank is an artificial person created by law. In this sense, the bank is a lawful organization, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it.

A bank performs a multipurpose functions and services which cannot be explained into a single word or definition. It has different shades of meaning and perception for different people. Therefore, there are various traditional as well as modern meaning of the term bank, banking and bankers. Hence, for a common man, a bank means a storehouse of money, for a businessman it is an institution of finance and for a worker it may depository for his saving.

Generally, the term Bank has a common understanding of an institution which deals with money. The Opinion is divided about the etymology of the word Bank. The word “Bank” is derived from the Italian word ‘Banco’, ‘Banque’ or ‘Bane’ all of these words mean a bench upon which the old fashioned European money-lenders and money chargers used to display their coins. In this way the derivation appears rather strange but it has historical significance.

In England banking as an independent business came into existence in the fourteenth century. The persons who carried on their business were mostly the Jews of Lombardy. When a banker was not able to meet his obligations, his belief was broken into pieces. The word “Bankrupt” comes from these circumstances.

The Banking system occupies a unique place in any nation’s economy as it design and shape the structure of country’s economy and have been established in specialized areas depending upon the needs of sub-sectors. The Banking institutions play a vital and dominating role in the Financial System is absolutely necessary /indispensable in the modern society. Banking system constitutes the core of the financial system and plays a critical and decisive role in transmitting monetary policy that impulse to the entire economic development.
A bank is an institution, which deals with money and credit. It accepts deposits from customer or general public and makes fund available to those who need them. It helps in the movement of money from one place to another. In fact, a modern bank performs such a variety of functions that it is difficult to give a precise and general definition of it. It is because of this reason that different economist give different definition of banks. Some of them are listed below:

(1) According to Crowther a bank “Collects money from those who have it so spare or who are saving it out of their incomes and it lend that money to those who require it.”

(2) In the words of Kinley “A bank is an establishment which makes individuals such advances of money as may be required and safely made and to which individuals entrust money when not required by them for use.”

(3) The quote of Mr. J. W. Albert reads, “A Banking business is one for the carrying one of which a heap of money is necessary.”

(4) According to Horace White, “Bank is a manufacturer of credit and machine for facilitating exchanges.”

(5) Walter Leaf defines, “A bank is a person or corporation which holds itself out to receive from the public deposits payable on demand by cheque.”

(6) Sir John Paget says, “No body can be a banker who does not (i) take deposit accounts, (ii) take current accounts, (iii) issue and pay cheques and (iv) collect cheques – crossed and uncrossed – for its customers.”

(7) Prof. R. S. Sayers presented the definition of bank as “an institution whose debts (bank deposits) are widely accepted in settlement of other people’s debts to each other.”

(8) Dr. Hart defines, “A banker is a person or company carrying on the business of receiving moneys, and collecting drafts, or customers subject to the obligation of honouring cheques drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts.”
(9). According to Kenneth Mackenie, “The business of banking may be defined as dealing in money and instrument of credit”

(10). Oxford Dictionary defined bank as, “an establishment for the custody of money, which it pays out on a customer’s order.”

(11). As per the Agricultural Credits Act, 1928, a bank includes “any firm, incorporated company or society, carrying on banking business and approved by the Minister”

(12). According to Section 3 of the (Indian) Negotiable Instrument Act, 1881, “banker includes persons or corporation or a company acting as banker.”

(13). According to The English Bills of Exchange Act, 1882, “Any body of persons, whether incorporated or not, who carry on the business of banking is a banker.”

(14). In U.S.A. the term “banker” means person, firms or company whose business is dealing in credits. They may be a capitalist, a stock broker or a financer.

(15). The Japanese Bank Act, 1, 1927 defines banks as institutions which perform the activities of giving and receiving credit.

(16). As per the Banking Regulation Act 1949, Section 5(b) banking as acceptance for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque drafts or order or otherwise

In short the term banking in the modern times refers to an institution having the following features and characteristics.

1. It deals with money; it accepts deposits and advanced loans.
2. It also deals with credit it has the ability to create credit i.e. the ability to expand its liabilities as a multiple of its resources.
3. It is a commercial institution, which aims at earning profit.
(4) It is a unique financial institution that creates demand deposits while serves as a medium of exchange and a result the bank manage the payable system of the country.

Bank provides funds for business as well as personal needs of individuals. They play a significant role in the economy of a nation. It encourages saving habits amongst people and thereby makes funds available for productive use. It acts as intermediary between people having surplus money and those requiring Money for various business activities. It facilitates business transactions through receipts and payments by cheque instead of currency. It provides loans and advances to business for short term and long term purposes. It also facilitates imports and exports transactions. It helps in national development by providing credit to farmers, small- scale industries and self employed people as well as to large business houses which leads to balanced economic development in the country. It helps in raising the standard of living of people in general by providing loans for purchase of consumer goods, houses, automobiles etc.

2.2. Role of Banking:-

A well-developed banking system is a necessary for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In the underdeveloped and developing countries not only the banking facilities are limited to a few developed urban areas, but also the banking activities are limited in mostly to trade and commerce, paying little attention to industry and agriculture. In the banking system structural as well as functional reforms are needed to enable the banks to perform decisive and developmental role in underdeveloped countries.

In a modern economy, banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the store houses of the country’s wealth but also are the reservoirs of progress and development. Banks play an important role in the development of a country. It is the growth of commercial banking in the 18th and 19th centuries that facilitated the occurrence of industrial revolution in Europe.
The following chart shows the Central Banking & Monetary Authority of India.

**CHART SHOWING INDIAN BANKING SYSTEM:**

**CENTRAL BANK & MONETARY AUTHORITY**

RESERVE BANK OF INDIA

APEX BANKING INSTITUTION

- Industrial Development
- NABARD
- Exim Bank
- National Housing Bank
- Bank of India

**BANKING INSTITUTIONS**

- Commercial Banks
- Regional Rural Banks
- Cooperative Banks

**Public Sector**

- Private Sector

**Banks**

- Indian
- Foreign

**Old Banks**

**New Banks**

**Local Area Banks**

**State Cooperative Banks**

**Central / District Cooperative Banks**

**Primary Credit Societies**

**STATE BANK GROUP**

**State Bank of India**

**Nationalised Banks**

**Subsidiary Companies**

**DEVELOPMENT BANKS**

**Industrial Development Banks**

- All India
- State Level

- SFCs
- SIDCs

**IFCI LTD.**

**ICICI LTD.**

**SIDBI**

**IIBI**

**Primary Development Banks**

**Land Development Banks**

**State Level Land Development Banks**

**Subsidiary Companies**
2.3. History and Development of Banking in India:-

Indian banking sector has a quite ancient history in India. It began about 200 years or so. The banks have grown over a period of time in size and variety of products and customers. The size ranges from small co-operative banks to Multi National Corporations. The banking system is driving the economy of the country since ancient times.

The earliest efforts were made in the year 1773, by Warren Hasting, the Governor General in British period. He felt the need for a Central Bank in the country. He recommended that a “General Bank in Bengal and Bihar” be established. The British Rulers in India were experiencing the need of such an institution, which can support the transactions pertaining to trade and commerce. In those days India was known as ‘Golden Sparrow’.

Swadeshi Movement included the establishment of number of banks with Indian management during the last decade of 19th century and early phase of 20th century, such as Punjab National Bank Ltd. in 1895, The Bank of India in 1906, The Canara Bank Ltd. in 1906, The Indian Bank Ltd. 1907, The bank of Baroda in 1908, The Central Bank of India Ltd. in 1911 and so many other banks established on the same line. But most of the banks became bankrupt due to wrong policy decisions taken by the management and severe banking crises during the year 1913-1918, the period of First World War.
The British Rulers too wanted to establish their rule firmly in India. An institution like a bank was badly needed to spread their trade and to control the Indian markets. Efforts were made to establish the banking system but all in vain.

The reports of the Chamberlin Commission raised the issue of establishing a Central Bank in India in 1913. Acting on this report and to supplement this report Professor J. M. Keynes chalked out the first comprehensive plan for an Indian Central Bank. The efforts of Professor J. M. Keynes went in vain because of the First World War and Indian Central Bank could not come into existence.

In the year 1921, The Imperial bank of India was set-up by the amalgamation of three presidency banks. The Imperial Bank primarily remained a commercial bank although it was performing central banking functions. The Imperial Bank specially served as a banker to the government and in some capacity as the banker’s bank till the establishment of the Reserve Bank of India in 1935. “The Reserve Bank of India is the central bank of our country. It was established as a body corporate under the Reserve Bank of India Act 1934, which came into the effect from 1st April, 1935. The bank was nationalized in 1949”.17

The question of starting central bank in the country again received serious attention with the publication of a “White Paper” on Indian Constitutional Reforms. It insisted that the British Ruler should make the transfer of the responsibility from the central Government to Indian hands, provided a Reserve Bank, free from political influence is to be founded and it should operate successfully. Eventually, a fresh bill to this effect was introduced in the Indian Legislative Assembly on 8th September, 1933. The bill was passed and received the consents of the Governor General on 6th March 1934 and became the Reserve Bank of Indian Act 1934 and accordingly operations began from 1st April 1935.

Originally, the Reserve Bank of India was constituted as shareholders bank, based on the model leading foreign central banks of those days. The banks share capital was Rs. 5 crores divided into shares of Rs. 100/- each fully paid up. Out of these Rs. 5 crores, Rs.4,97,80,000/- were subscribed by the private share holders and only a meager
A contribution of Rs.2,20,000/- was made by the Central Government. The share capital of the bank has remained unchanged until today.

However, realizing the need for a close integration of the monetary and credit policies of the bank and macro-economic policies of the Government, the notion of state ownership of the bank was raised and justified from time-to-time. The private subscribers were paid of @ Rs.118/- per share to take over the full possession and control over the Reserve Bank. After independence, the Government of India took decision to nationalize the Reserve bank. The Reserve Bank (Transferred to public ownership) Act 1948 was passed and the Government took over the Reserve bank of India from private shareholders by paying adequate compensation to them on 1st January 1949, the Reserve Bank of India started functioning as a state owned central banking institution. Prior to the establishment of the RBI, the Indian Financial system was totally inadequate on account of the inherit weakness of the dual control of currency by the central government and of credit by the Imperial bank of India. The Hilton-Young Commission therefore recommended that the dichotomy of functions and division of responsibility for control of currency and credit and divergent policies in this respect must be ended by setting up of a central bank-called Reserve bank of India, which would regulate the financial policy and develop banking facilities throughout the country. Hence the RBI was established.

The RBI is managed well by a organised and well-structured administrative machinery. The organisation structure of RBI can be easily understood with the help of the following chart:
Organisation of Reserve Bank of India

- Central Board of Directors
  - Governor
  - Deputy Governor
  - Executive Director
    - Principal Chief General Manager
      - Chief General Managers
        - General Managers
          - Deputy General Managers
            - Assistant General Managers
              - Managers
                - Assistant Managers
                  - Supporting Staff

The management of the RBI is entrusted to the central and local boards. The Central Board consists of the following members.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Board Members</th>
<th>Maximum Numbers</th>
<th>Position in November, 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Governor (appointed by the Central Government)</td>
<td>01</td>
<td>01</td>
</tr>
<tr>
<td>(ii)</td>
<td>Deputy Governor (appointed by the Central Government)</td>
<td>04</td>
<td>04</td>
</tr>
<tr>
<td>(iii)</td>
<td>Directors (Nominated by the Central Government—one each from the 4 local boards.)</td>
<td>04</td>
<td>04</td>
</tr>
<tr>
<td>(iv)</td>
<td>Directors from various fields (Nominated by the Central Government)</td>
<td>10</td>
<td>09</td>
</tr>
<tr>
<td>(v)</td>
<td>Government Officials from the “Ministry of Finance” (Nominated by the Central Government)</td>
<td>01</td>
<td>01</td>
</tr>
<tr>
<td></td>
<td><strong>Total Members</strong></td>
<td><strong>20</strong></td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>


Financial system plays a significant role in supplementing economy of any country. Financial system means orderly mechanism and structure that is available in an economy to mobilize the minatory resources from various sectors of economy and allocate the same to the various needy sectors. The transaction of “saving” into “Investments and consumption” is thus facilitated by the active role played financial system. The financial system is bifurcated into two broad categories a) organized sector b) unorganized sector. The constituents of organized are nationalized banking structure, co-operative banks, development banks as well as private sector banks. These organizations play a very vital and dominating role in the Indian Financial System. The unorganised sector includes private finance, personal advances, micro finance etc.
The Banking System of a country occupies a pivotal role in the functioning of development of a country’s economy. The Indian Banking System has been evolved over a period of time. These banking institutes have been established in specialized areas depending upon the needs for catering to the specific need of a sub-sector. For example, in order to pay greater and closer attention to the needs of all small scale sector industries, small industries, development banks and then some other banks like, NABARD, IDBI, EXIM bank, & NHB etc was established. “Financial institutions can be specialized finance institutions like the Export Import Banks of India (EXIM), Tourism Finance Corporation of India (TFCI), ICICI Venture, Infrastructure Development Finance Company (IDFC) and sectoral such as the financial institutions National Bank for Agricultural and Rural Development (NABRD) and National Housing Bank (NHB).”

On the recommendations of Banking Enquiry Committee, the Reserve Bank of India Act 1934 was passed and accordingly Reserve Bank of India was constituted in 1935 to regulate the issue of bank notes, securing monetary stability in India and operate the currency credit system of the country to its economic development. On 1st January, 1949, The Reserve bank Of India was nationalized in the larger interest of the country.

The post-independence period was witnessed a vibrant revolution in industrial sector which made the country very noticeable in global context. Growth in industry resulted in growth in trade, which in turn has compelled the financial sector to both broaden and deepen itself.

The first and foremost banks duty of the banking sector is to satisfy different variety of customers and leveraging technological wants to increase their earnings by volume. Similarly, the banks adopt different strategies for their growth and profitability. The banks have social obligations also to be fulfilled. The banks have to take different decisions at different levels for meeting various business situations.

The financial position and performance of the banks is reflected by the multi faced effects of the Non- performing assets and hence the NPAs have become a performance indicator of the banking sector.

The banking system in India can be categorized as Phase I, Phase II and Phase III.
2.4. Phase-I

In India, The General Bank of India was set up in the year 1786, then Bank of Hindustan and Bengal Bank were come into being. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and popularly known as Presidency Banks. These three banks were combined together in 1920 and Imperial Bank of India was established which started as private shareholders banks and most of the shareholders were Europeans. In 1865 Allahabad Bank was established exclusively by Indians for the first time, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Some major banks were established during the period 1906 and 1913. These banks were Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore. The Apex Bank i. e. Reserve Bank of India came into existence in 1935. During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. The Government of India came up with The Banking Companies Act, 1949 to streamline the functioning and activities of commercial banks. This act was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with wide-ranging powers for the supervision of banking in India as the Central Banking Authority. During those day’s public has lesser confidence in the banks. As a result the deposit mobilisation was very slow. On the other the savings bank facility provided by the Postal department was comparatively safer. Moreover, funds were largely given to traders.

2.5. Phase-II

Government took major steps in this Indian Banking Sector Reform after independence. The first major step was the nationalisation of Reserve bank of India in 1949 and enforcement of The Banking Regulation Act. In 1955, it nationalised Imperial Bank of India with extensive banking facilities on a large scale particularly in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India was nationalised in 1959. “In 1959, the State Bank of India (Subsidiary Banks) Act was passed by which the public
sector banking was further extended. The following banks were made subsidiaries of State Bank of India:

(i) The State Bank of Bikaner
(ii) The State Bank of Jaipur
(iii) The State Bank of Indore
(iv) The State Bank of Mysore
(v) The State Bank of Patiala
(vi) The State Bank of Hyderabad
(vii) The State Bank of Saurashtra
(viii) The State Bank of Travancore

In 1963, the first two banks were amalgamated the name of State Bank of Bikaner and Jaipur.\textsuperscript{19}

The New Phase of India of Indian Banking System began with the advent of the Indian Financial & Banking Sector Reforms after 1999. This was the third phase of Indian Banking. In this phase, the Indian Banks have introduced many more products and facilities in the banking sector in its reforms measure. The major process of nationalisation was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi who took major initiative to nationalise 14 major commercial banks in the country on 19th July, 1969. The nationalization of 14 major banks in 1969 and 6 more banks in 1980 proved mile stone and that not only lead to expansion of banks but also paved the way to social, political and economic growth and development.

The names of the banks nationalised on July 19, 1969 under Banking Companies (Acquisition and Transfer of Undertakings) Ordinance of 1969 are:

1. The Central Bank of India Ltd.,
2. The Bank of India Ltd.,
3. The Punjab National Bank Ltd.,
4. The Bank of Baroda Ltd.,
5. The United Commercial Bank Ltd.,
6. Canara Bank Ltd.,
7. United Bank of India Ltd.,
8. Dena Bank Ltd.,
9. Syndicate Bank Ltd.,
10. The Union Bank of India Ltd.,
11. Allahabad Bank India Ltd.,
12. The India Bank Ltd.,
13. The Bank of Maharashtra Ltd.,
14. The Indian Overseas Bank Ltd.,

It was observed that the resource mobilised by nationalisation of banks would be applied to push the speed of development and at the same time filling or reducing the gap between the developed and undeveloped areas.

The Government of India undertook a second phase of nationalisation on April 15, 1980 in which following six were nationalised:

1. Andhra Bank,
2. Corporation Bank,
3. New Bank of India,
4. Oriental Bank of Commerce,
5. Punjab and Sind Bank,

The main reason of nationalisation of the commercial banks by the Central Government was to achieve following objectives:

i) To remove the concentrated economic power vested in few hands.

ii) To channelise the credit towards the priority sector like agriculture, small industries, transport and export.

iii) To give a professional touch to the bank management.

iv) To encourage new generation of entrepreneurs.

v) To make provision of adequate training and reasonable terms of service to bank staff members.

vi) To extend the banking facilities in the rural areas.

In the year 1980, the second phase of nationalisation of Indian Banking Sector Reform was carried out with seven more banks. Because of this step 80% of the banking sector
came under Government ownership in India. The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country:

II) The Enactment of Banking Regulation Act in 1949.
V) The Insurance cover extended to deposits in 1961.

After the nationalisation of these banks, the branches of the public sector bank in India rose to approximately 800% in deposits and advances took a huge jump by 11,000%. The banking in the glare and glimpse of Government ownership gave the public greater faith and immense confidence about the sustainability of these institutions.

2.6. Phase-III
This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M. Narasimham, a committee was set up by his name which worked for the liberalisation of banking practices. The country is flooded with foreign banks and their ATM stations. The efforts are being made to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money. The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate system, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.
The importance of banking institutions in the process of economic development has been recognized by all. The Banks by and large deal in money by accepting deposits (liabilities) and amount of such deposits are lent as loans and thus credit creation process takes place in the form of assets. If the assets created do not generates income or become sticky, the financial position of the banks weakens. The slow process of recovery of loans accumulates the losses. These assets are sub-standard and non-performing assets.

The structure of the banking system is determined by two basic factors – economic and legal. The Development of the economy and the spread of banking habit call for increasing banking services. The demand for these banking services affects the banks’ structure and organisation. National objectives and aspirations result in government regulations, which have a profound influence on the banking structure. These regulations are basically of two types:

a) Regulations which result in the formation of new banks to meet the specific needs of a group of economic activities.

b) Legislation that affects the structure by means of nationalisation, mergers or liquidation.

The last decade has seen many positive developments in the Indian banking sector. The policy makers comprising the Reserve Bank of India (RBI), Ministry of Finance and related government and financial sector regulatory entities, have made several prominent efforts to improve regulation in the sector. The sector now compares favourably with banking sectors in the region on parameters like growth, profitability and non-performing assets (NPAs). A few banks have established an outstanding track record of innovation, growth and value creation. This is reflected in their market valuation. However, improved regulations, innovation, growth and value creation in the sector remain limited to a small part of it. The cost of banking intermediation in India is higher and bank penetration is far lower than in other markets. India’s banking industry must strengthen itself significantly if it has to support the modern and vibrant economy which India aspires to be. While the responsibility for this change lies mainly with bank managements, an enabling policy and regulatory framework will also be critical to their success. The failure to respond to changing market realities has stunted the development of the financial sector in many
developing countries. A weak banking structure has been unable to increase continued growth, which has harmed the long-term health of their economies.

2.7. Banking Development in Modern Era:

The traditional function of banking is limited to accept deposits and to make loans and advances. Today’s banking is known as Innovative Banking or e-banking. The financial reforms were initiated in 1990s. E-banking is a product of different generations of electronic transactions. The current web-based internet or e-banking is the latest example of several generation systems. Automated Teller Machines (ATMs) were the first known machines to provide electronic access to the customers. The globalisation and liberalisation measures have brought a completely new operating environment to the banking services and products like ‘anywhere banking’, ‘telebanking’, ‘internet banking’ and so on. The e-banking is not a new concept in the history of banking. “It began in the year 1871, when the western union telegram company, headquartered in Rochester, New York, began to offer a nation wide money transfer services.”

The coming together of information technology, communication and entertainment has given rise to new innovative directions in the product design and their delivery in the banking and financial industry. Today’s banking is driven by new technologies; changing customer preferences, and increased competition. The banks have revised their patterns, formats and teams of sales agents. They adopted electronic channels like advance automated teller machines, telephone systems, and on-line banking. The reasons for internet application not have been picked so far is a matter of grave concern and also about the security and lack of the illegal framework related to such transactions. This hurdle has been reduced to a larger extent in the recent past by framing cyber laws that enabled financial transactions through electronic media safely, quickly and conveniently. The corporate governance and electronic banking (e-banking) is the result of such an innovative development. The Indian banking industry has started making progress in e-banking with corporate governance. The most of the private and nationalized banks have entered in the technology age and providing various types of electronic products and services to their customer. “The corporate governance has tremendous impact on
managing the earning qualities through credit operations and deposits mobilization for public sector bank. It also increased that growth and spread of banks. It plays a vital role in total asset increase in public sector banks."

It was the development of the year 1951 in which Magnetic Ink Character Recognition (MICR) used in connection with sorting of cheques both by human and machine, the first credit card was issued by Franklin National Bank of New York. All the major banks in the developed countries were using computer technologies by 1958. “In mid sixties ‘FIRST GENERATION’ of on-line system (GOLS) was introduced in the banking industry, particularly in Japan, United States of America (USA), Switzerland”.  

The use of first GOLS tried to correct defects of data processing system particularly related to delay and errors. As the numbers of jobs for the first GOLS increased, the machines were no longer able to handle the work load. Therefore, during, “The years 1975-80 second GOLS machines helped to enlarge the range of application. Data Base Management System (DBMS) was also developed. The network communication software “data line” was replaced with new network communication software “X. 25 protocol”. Branch level computers were connected to Local Area Network (LAN)”

“In the present day the higher penetration of internet and changes on consumer attitudes, electronic commerce is making rapid strides in the near future. E-banking to help the bankers in many ways. For instance, to reduce the cost of transaction and cost of administration and to provide better and efficient services. The e-banking is more than money. The banks are interested to retain their customers, to offer different alternatives and they must adopt new technologies.”

**2.8.1 Grouping of Banking in India:**

The banks in India are of different forms and shapes. They might be categorized on the basis of ownership, functions and operations. In India, banking system is regulated by RBI which comprises of scheduled and non-scheduled banks. They further sub-categorized as follows: “Scheduled Banks are those banks which are listed in the Second
Schedule to the Reserve Bank of India Act, 1934. The Banks satisfying the following conditions are only included in the Second Schedule.

(a) That the Bank’s paid up capital plus free reserves are not less than Rs. 5.00 lakhs, and

(b) That the affairs of the bank are not conducted to the detrimental interest of the depositors.

The Reserve Bank of India also has the powers to deschedule a bank, when the abovementioned conditions are not satisfied. It may be noted that presently, the RBI has prescribed a minimum capital of Rs. 100 crores for starting a new commercial bank.”

2.8.2 SCHEDULED BANKS:

There are 81 scheduled commercial banks, of which 26 in public sector, 21 in private sector and 34 foreign banks. The schedule banks in India are shown in the following figure:

The network of the banks in India is very wide and spread all over the country.
“Amongst the public sector banks the State Bank of India and Associates had 13,684 branches as on June 30, 2005. The nineteen nationalised banks had 33,865 offices all over the country. In recent years in order to meet the credit requirements of the weaker sections, small and marginal farmers, landless labourers, artisans and small entrepreneurs, the regional rural banks have set up in different parts of the country. On June 30, 2005 their branches numbered 14,496. The foreign scheduled banks operate mostly in big cities and their number of branches in the whole country is just 251. Other scheduled commercial banks are private sector banks and their branches numbered 6,181 as on June 30, 2005”

2.9.1. 1) Public Sector Banks in India: 
Public Sector plays a major role in the development of the country. In the same way, the public sector banks are also shouldering the burden and working hard to establish sound banking and financial system in the country. The growth and pace of development of these banks are shown below:

2.9.2 i) The State Bank of India: The State Bank of India is a statutory institution just like RBI. It is governed by the SBI Act 1955. The history of the State Bank of India is divided in four phases as shown in the following diagram:

Phases State Bank of India

1. Before 1921
2. From 1921 to 1934
3. From 1934 to 1955
4. After 1955

Source: Indian Banking by S. Natarajan and R. Parameswaran
In the year 1921 the three Presidency Banks namely Bombay, Calcutta and Madras were amalgamated to establish the Commercial Imperial Bank which was governed by Imperial Bank of India Act 1920. Though it was owned by private shareholders, simultaneously it was carrying out some of such functions which usually carried by the Central Bank like banker to government, bankers’ bank and national clearing house without the power to issue notes or to engage in a foreign business till 1934 before the formation of RBI. The Imperial Bank of India was converted into State Bank of India on July 1, 1955 on the recommendation of Rural Credit Survey Committee. Initially, the RBI had acquired 92% of its shares. It became the first State owned commercial bank of the country.

The State Bank of India (Associate banks) Act was passed in the year 1956 and state Bank Group was formed with seven banks. This group succeeded in expanding its business on large scale. The State Bank of India and its Associate banks were having almost 20% of total branches of all commercial banks in the country on June 30, 2005 and their share in banking business was roughly around 30%. Considering the pace of growth The State Bank of India (Associate banks) Act was amended in the year 1993 to provide access to the capital market.

The State Bank of India has a very wide management. The head office is situated in Mumbai and local offices at New Delhi, Chennai, Calcutta, Lucknow, Ahmadabad, Patna, Bhopal Bhubaneswar, Bangalore, Chandigarh and Guwahati. The bank is administered by a central board of directors consisting of the following members as shown in the table:
Table - Members of State Bank of India

<table>
<thead>
<tr>
<th>Members</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Chairman (appointed by the Central Government in consultation with RBI)</td>
<td>1</td>
</tr>
<tr>
<td>(b) Vice-Chairman (appointed by the Central Government in consultation with RBI)</td>
<td>1</td>
</tr>
<tr>
<td>(c) Managing Director ((appointed by the Central Board with the approval of Central Government)</td>
<td>2</td>
</tr>
<tr>
<td>(d) Directors (Elected) (elected by shareholders other than RBI)</td>
<td>6</td>
</tr>
<tr>
<td>(e) Directors (Nominated) (nominated by central government in consultation with RBI to represent territorial and economic interest having commerce, industry, banking or finance)</td>
<td>8</td>
</tr>
<tr>
<td>(f) Directors (Nominated) (nominated by central government)</td>
<td>1</td>
</tr>
<tr>
<td>(g) Directors (Nominated) (nominated by RBI)</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Members</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

(Source: Indian Banking by S. Natarajan and R. Parameswaran)

2.9.3. Functions of State Bank of India: The functions of State Bank of India are as follows:

(A) Central Banking Functions and (B) General Banking functions.

(A) **Central Banking Functions:** The State Bank of India performs numerous functions as an agent of RBI which are given below:

(i) Banker to Government
(ii) Banker’s Bank
(iii) Currency Chest Maintenance
(iv) Acts as Clearing House
(v) Renders Promotional Functions

2.9.4. (i) **Banker to Government:** The State Bank of India acts as the banker of central as well as state governments by receiving and paying money on behalf of the governments. On the directives of RBI it renders following functions:
(a) Collection of charges on behalf of the government such as tax collection and other payments.
(b) Granting loans and advances to the governments.
(c) Advices regarding economic condition to the government.

2.9.5. (ii) Banker’s Bank: Commercial banks have their accounts with the State bank of India. In case of shortage of funds with the State bank of India assists to them. It also used to discounts the bills of commercial banks. It has a good reputation in the banking industry and hence considered as banker’s bank.

2.9.6. (iii) Currency Chest maintenance: Currency chest is maintained by RBI at its own offices. The offices of RBI are located in big cities only. But the State bank of India has a wide spread network and branches operating both in urban and in rural areas. Therefore RBI makes use of widened network and keeps money at currency chests with State bank of India. The currency is withdrawn from such chests whenever the need arises under the proper accounting and reporting to RBI. Nowadays, considering the bulky financial operation in the banking sector, RBI has entrusted currency chests to some other public sector as well as to few private banks.

2.9.7. (iv) Acts as Clearing House: The State bank of India renders the function of clearing house in the places where RBI has no branch. It facilitates inter bank settlement. It is easy for State bank of India to act as clearing house as all the banks in such places have their accounts with State bank of India.

2.9.8. (v) Renders Promotional Functions: The State bank of India undertakes various promotional functions by providing facilities to the priority sectors such as agriculture, small scale industries, weaker section of the society, co-operative sectors, small traders, unemployed youth and others.
2.10.1. B) General Banking Functions:

(i) Under section 33 of the State bank of India, it performs the following functions:
1. It accepts deposits from general public under saving, current, fixed and recurring deposits accounts.
2. It advances and lends money and also provides cash credit against the security of stocks and other securities.
3. It used to draw, accept, discount, buy and sell the bill of exchange and other negotiable instruments.
4. It invests the funds in specified types of funds.

2.10.2. (ii) Nationalisation of Banks in India: The fourteen commercial banks having their deposits more than Rs. 50 crore were nationalised on July 19, 1969 by which the complexion of banking structure changed to a greater extent. The government of India justified the nationalisation of banks on the grounds that major banks could not remain captive organisation of big business. The policies of the banks should inspire by the larger social purpose and be in accordance with the nations’ priorities and objectives. The banking system of this period became the developmental instrument. The Lead Bank Scheme formulated in December 1969 played a significant role in transforming these profit maximising institutions of yester years into catalysts of local development and serving all the sections of the society.

2.11. 2) Private Sector Commercial Banks in India:
The private sector banks with a network of 6,181 branches were operating in the private sector. Private Schedule Banks were functioning in same fashion as the other public sector banks in various respect. Since, these banks were included in the second schedule of RBI, they were enjoying the status and privilege as that of other scheduled banks. The important privilege includes a) refinance from RBI and b) participation in money market activities. “The joint stock banks in the private sector in India numbered 35 at present out of which 34 are scheduled banks and one non-scheduled bank. Of the 34 private sector banks, 9 are newly set up under liberalized policy. These banks together accounted for 103 percent of total assets of all commercial banks in India as on 31st March, 1998.The
have made net profit of Rs. 841.88 crores during 1997-98 as compared to Rs. 685.77 crores in 1996-97. In 2004-05 new private sector banks accounted for 12.9 percent of total banking assets.

2.12. 3) Foreign Banks:
The foreign banks have their Head Offices in their respective countries transacting banking business in India. The foreign banks mostly transact in currency exchange, so they are called as “Exchange Banks”. Exchange banks were essentially mean for financing the foreign trade of the country, but they also conducted banking activities in competition with the Indian banks. These banks are located in big cities. The number of branches of foreign banks as on June 30, 2004 was 218 in the country.

2.13. 4) Regional Rural Banks:
The basic objective of establishing the Regional Rural Banks is to promote regional development in general and rural development in particular in the form of developing agriculture, trade, commerce and industry and other productive activities in rural areas. “The Regional Rural Banks were set up by the Government by promulgating an ordinance in September, 1975. The Ordinance was replaced by Regional Rural bank Act, 1976. The Regional Rural banks were set up on the recommendation of a working group headed by Mr. Narsimham. To start with, there were only 5 Regional Rural Banks on October 2, 1975, with an authorised capital of Rs 1 crore each. Every rural bank is expected to cover a population of one crore through about 100 branches.”

The Regional Rural banks raise their resources through owned capital, deposits from public, borrowing from sponsor banks and refinance from NABARD. In the country, there were 196 Regional Rural Banks with a network of 14,496 branches as on June 30, 2005.

2.14. NON- SCHEDULED BANKS:
Non-Scheduled Banks are those which are not included in the second schedule of Reserve Bank of India Act. These banks are also known as non-banking financial banking financial companies. “The non-bank financial companies (NBFCs) are financial
institutions that provide banking services without meeting legal definition of bank, i.e. one does not hold banking licenses. Operations are regardless to this, still exercised under banking regulation.\textsuperscript{29}

The functions of non-banking financial institution include:

\begin{itemize}
\item[i)] supply of loans and credit facilities
\item[ii)] supporting investments in property
\item[iii)] trading money market instruments
\item[iv)] Funding private education
\item[v)] Wealth management
\end{itemize}

Wealth management deals with managing portfolios of stock and share, underwrite stock and shares, retirement planning, advising companies in case of merger and acquisition and discounting services.

The non-banking financial companies can be classified into various on the basis of activities performed by them such as leasing company, development financing institution, investments company, venture capital company, housing finance company discount and guarantee houses.

\textbf{2.15. Functions of Modern Banks:} Modern banks not only deal in money and credit but they also perform various functions, namely, agency functions, management of foreign trade, finance, etc. The meaning of modern banks is used in narrow sense of the term as commercial banks. The various functions of commercial banks can be seen from the following chart:
The commercial banks generally perform the following functions:

(A) Primary Functions
(B) Agency Functions
(C) General Utility Functions
(D) Foreign Trading
(E) Credit Creation

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### Functions of Commercial Banks

<table>
<thead>
<tr>
<th>Primary Function</th>
<th>Agency Functions</th>
<th>General Utility Function</th>
<th>Foreign Trade Management</th>
<th>Credit Creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Loan and Advances</td>
<td>2. Payments of Cheques, Bills of Exchange etc.</td>
<td>2. Traveler’s Cheques &amp; Letter of Credit</td>
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<td></td>
<td>3. Receiving Payments of Customers.</td>
<td>3. Information Relating to Economics Position</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>5. Transfer of Money</td>
<td>5. Publication</td>
<td></td>
<td></td>
</tr>
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<td></td>
<td>7. Manager, Trustee &amp; Executor.</td>
<td>7. Personal Credit</td>
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<td></td>
<td><strong>Documentary Credit</strong></td>
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</tbody>
</table>

(Source: Banking and Finance by C.M. Chaudhary)
2.16.1 (A) Primary or Traditional Functions:

These functions are performed by banks from their very inception. They are classified into two categories, namely:

1. Accepting Deposits
2. Advancing of Loans.

2.16.2 (1) Accepting Deposit:

The primary functions of banks is accepting and creating assets by advancing loans. Banks need money to provide loans and advances. Their share capital does not create adequate funds for advancing loans. Hence they accept deposit from individuals and institutions and make payments for deposit as interest. The people and institutions deposit their money with the banks for the safety purpose and they get interest out of it. For this purpose banks operate various types of accounts in which the deposits are attracted. Commercial banks operate various types of accounts as given under:

(i) Fixed Deposit Account: In this type of accounts money is deposited for a fixed period of time. Therefore, it is also called as time deposit account. The depositor get principal amount along with interests for that given period.

(ii) Current Account: This type of account is generally operated by traders, businessman and industrialist. In this account, there is no restriction on deposits and withdrawal from such accounts.

(iii) Savings account: This account is specially meant for middle and lower income class group. Such accounts can be opened by depositing a meager amount in all types of banks. There are restrictions on the withdrawal but not on deposits. The small savings used in capital formation in the country.

(iv) Recurring Deposits Account: In this type of account, the account holder deposits a certain given amount for a certain given period. The principal amount along with interest is paid at the time of maturity. The rate of interests on such accounts is more than savings account and less than fixed deposits account.
(v) Daily Saving Deposit Scheme: This scheme is specially designed for daily wage earners and small shopkeepers. The bank employees used to go to the residence of account holders and savings is collected daily.

(vi) This is another type of scheme which aims at promoting saving habits among the people. In this scheme a safe is provided to the depositor to keep it at home and put his small savings in it. At frequent intervals the safe taken to the bank and the amount is credited to his account.

(vii) Retirement Scheme: Under this scheme saver saves a given amount for given period. After maturity, the amount is repaid in installments with interest. It helps pensioners in their old age.

Apart from these schemes, some other schemes are in practice such as monthly interest deposit scheme, minor’s saving scheme, home deposit scheme, insurance benefit saving account etc. The objective of such scheme is to cultivate the habit of savings among the general public.

2.16.3. (2) Advancing of Loans:

It is another important and basic function of commercial banks. After keeping certain cash reserves, the banks lend their deposits to the needy borrowers. Advancing loan is a major activity of the banks as the banks generate major portion of their revenue. The banks collect small savings from account holders and make use of such savings for advancing loans. The banks advance loan to individuals, traders, businessman, industrialists and charge higher rate of interest. Usually, commercial banks advance loans for the productive purposes which are given below:

(i) Money at Call: These types of loans are given for a very short period of time say one day to fourteen days. The banks can call back their deposits from the borrowers, usually the other banks or financial institutions.

(ii) Cash Credit: Under this scheme the bank advances the bank used to advance loans for a particular period of time on security of shares, debentures movable and immovable properties. The bank charges interest on the amount withdrawn by the borrowers who withdraw money from the bank as per his requirement from time to time.
(iii) Loans and Advances: The banks provide loans and advances to its customers on adequate security. The sanctioned amount of loans and advances is transferred to account of the borrower. The borrower can withdraw the amount as and when he requires. This facility is given for a limited period. The borrower requires to repay the amount of loans and advances along with interest. In case, the borrower fails to pay the amount, the bank is empowered to sell the security and recover the amount advanced.

(iv) Overdraft: This facility is available to current account holders of the bank. The bank allows the customers to withdraw the amount more than the deposits in the account for a short period of time and case of emergency. This facility is made available by the bank to the customers on the basis of good performance shown by them in operating their accounts.

(v) Discounting of Bills of Exchange: It is also one of the popular method of borrowing from the bank. The seller draws the bill and the buyer accepts it. The bank provides credit against the dated bills of exchange before its maturity. The bank discounts the bill and payment is made to the holder of the bill. In case of dishonor of the bill on due date, the bank recovers the amount with interest.

2.17. (B) Agency Functions:

Usually, the commercial bank plays the role of an agent towards their customers by providing multiple services. While serving, the banks levy some charge and also provide services free of charge as well. The agency functions of the commercial banks are listed below:

(i) Collection of Payment of Cheques, Bills of Exchange and other letters of credit: The banks used to collect payments of cheques, bills of exchange, hundis and other letters of credit deposited by the customers with the bank. In providing these services, the bank acts as an agent on behalf of the customers. The outstation collection levied with some charge while local collections are free of charge.

(ii) Payment of Cheques, Bills of Exchange and other letters of credit: The banks make payment to the customers and debit the amount in their account on the basis of various instruments written by them.
Receiving Payment and for Customers: The bank receives rent, interest, installment of loans, pension and dividend on behalf of the customers and deposits the amount in their accounts.

Payment on behalf of Customers: The banks makes payment in the form of rent, interest, dividends, loan installments, insurance premium on behalf of customers and charge commission for carrying out these functions.

Transfer of Money: As per the directives of the customers, the bank transfers money from one place to another. Such transfers take place in the form of bank draft, postal and telegraphic transfer. A commission is charged against these services.

Purchase and sales of Shares and Securities: The banks have more knowledge about these activities. The banks undertake sale and purchase of shares and securities on their customer behalf and in larger interest advices on certain occasions. A meager amount is charged as commission on these services.

Underwriters Function: Large industrial unites and big business houses raise capital from the market. Debentures are underwritten by the banks. It facilitates the companies to collect minimum capital on their guarantee. In case, if the shares and debentures are not purchased in required quantity then the bank itself purchases all these shares and debentures. It builds the trust of the general public in the concerned company. For these services banks charge underwriting commission.

2.18. (3) General Utility Functions: The useful general utility functions carried out by the banks are given below:

(i) Wealth and Asset security: The bank provides locker facility to customer for keeping safe their valuables, important documents, gold and other ornaments, shares and debentures. For this service bank charge some amount on yearly basis.

(ii) Traveler’s Cheque and Letter of Credit: The bank makes arrangement to issues traveler’s cheque and letter of credit for the customers. The risk is involved in carrying cash while on tour. This function of bank safeguards the customers.

(iii) Financial Advisor: The bank acts as an adviser by advising on economic and financial matters that enables the customers to take correct decisions.
(iv) Security of Loans: The large banks undertakes guarantee on the loans taken by the industrial units and business houses from national and international sources. The bank facilitates the industrial units and business houses in getting loans from these sources.

(v) Management of Public Debt: The Commercial Banks manages public debt on behalf of central bank when central and state governments raise loans through debentures or bonds.

(vi) Share Market Function: The bank used to settle accounts of their customers in case they purchase or sell shares and debentures in the share market.

(vii) Foreign Exchange Management: The commercial banks are the authorised dealers in foreign exchange. These banks provide foreign exchange to the customers who need it.

2.19. (4) Foreign Trading:
The foreign trade is expanded because of the dominant role played by the commercial banks. They accept and discount the commercial bills, hundis and letter of credit. They help in international transactions. The importers and exporters are contacted by the bank and helps in finalizing the transactions between these two parties.

2.20. (5) Credit Creation:
It is the basic function of the bank. The banks attract the general public by luring them by promising higher rate of interest on their deposits. The general public deposits huge amount with the bank. The banks advance loans from these deposits. In this way loans from deposits and deposits from loan is encouraged. This process is called credit creation.

2.21.1. Provisions and Important Sections of Banking Regulation Act, 1949:
The Reserve bank of India is the central banking authority in India. The banking system in India is regulated by the Reserve bank of India with Reserve bank of India
Act, 1934 and Banking Regulation Act, 1949. The main provisions and sections of the act are summarised below:

**2.21.2. Section 5(i) (b):**
This section defines banking as “accepting for the purpose of lending or investment, deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft and order or otherwise”.

**2.21.3. Section 6:**
Banking Business Company may consist of the following:
(a) Acting as pension fund manager
(b) Acting as an agent for any government or local authority.
(c) Contracting for public and private loans and also negotiating and issuing the same.
(d) Transacting every kind of guarantee and indemnity business.
(e) The borrowing, lending or advancing money with or without guarantee
(f) Discounting, buying, selling, collecting and dealing in the bills of exchange, hundis, promissory notes, drafts, scripts and other investments and securities.
(g) Insuring, guaranteeing, underwriting, participating in management and carrying out of any issue of public or private, of state, municipal or other loans or shares, stocks, debentures and lending of money for the purpose of any such issue.

**2.21.4. Section 8: Prohibition of Trading**
As per the provisions of section 8 of the Act, any banking company cannot directly or indirectly deal in the buying or selling or bartering of goods except in connection with the realization of security given to or held by it or engage in any trade or buy, sell or barter for others or otherwise than in connection with the bills of exchange.

**2.21.5. Section 10: Prohibition on Managing Agents and Certain Employment**
A banking company cannot have any managing agent and it cannot be engaged by any person.
2.21.6. Section 12: Capital and Voting Rights:
As per the provisions of this section authorised, subscribed and paid-up capital of banking companies incorporated on or after January 15, 1973 has been regulated as under:
(a) Subscribed Capital of the banking company should not be less than half of its authorised capital and the paid-up capital should be less than half of the subscribed capital.
(b) The capital should consists of Ordinary Shares only or preference shares, if any, issued before July 1, 1944.

2.21.7. Section 13: Prohibition on Commission and Brokerage on Shares
The provisions of this section prohibits the banking company from paying directly or indirectly any commission, brokerage, discount or remuneration in any kind in respect of shares issued by it, any amount exceeding in the aggregate 2.5% of the paid-up value of said shares.

2.21.8. Section 14: Prohibition of Charge on Paid-up Capital
As per the provisions of this section, no banking company is permitted to create any charge upon its unpaid capital, and such charge, if created, shall be invalid and inappropriate. Also no banking company can create a floating charge on the undertaking or any property of the company or any part thereof without a certificate in writing from RBI that such floating charge is not detrimental to the interests of the depositors.

2.21.9. Section 15(2): Dividends of its Shares
The Amendment Act of 1959 permits a banking company to pay dividends on its shares without writing off:
(1) The depreciation in the value of its investment in approved securities where such depreciation has not actually been capitalized or otherwise accounted for a loss;
(2) Depreciation in the value of its investments in share, debentures or bonds where adequate provision for such depreciation has been made to the satisfaction of the auditor of the banking company; and
(3) Bad-debts, if any, where adequate provision for such bad-debts has been made to the satisfaction of its auditors.

2.21.10. Section 16: Prohibition of Common Director

A banking company has been prohibited to appoint a director who is a director of:

(1) Any other banking company; or
(2) Of companies which among themselves are entitled to exercise voting rights in excess of 20 percent of the total voting rights of all the shareholders of the banking company.

2.21.11. Section 17: Reserve Fund

The provisions of this section say that every Indian Banking company must maintain a reserve fund and transfer at least 20 percent of its net profit every year. Central government can exempt the company on the recommendation of RBI provided at the time of relaxing, the amount in the Reserve Fund together with the amount in the share premium account is not less than the paid-up capital of the banking company.

2.21.12. Section 18: Cash Reserve

According to this section every banking company other than a scheduled bank is required to maintain in India, a cash reserve either with itself or in a current account with RBI or State bank of India (SBI) or any other bank notified by the central government in this behalf partly in cash or partly in such accounts a sum equivalent to at least 3 percent of the total of its time and demand liabilities in India.

2.21.13. Section 20: Restrictions on Loans and Advances

Under the section a banking company is prevented to:

(1) Advance any loan or advance on the security of its own share; or
(2) Enter into any commitment for granting any loan or advance to or on behalf; of
(i) Any of its directors,
(ii) Any firm, partner, manager, employee or guarantor, or
(iii) Any company of which any of this directors of the banking company is a
director, manager, employee or guarantor or in which he holds substantial
interest, or
(iv) Individual.

Companies
As per this section RBI is empowered to control the advances by banking companies in
the public interest or in the interest of depositors or if necessitated by the banking policy.
RBI may direct regarding the purposes, margins, maximum amount and rates of interest
for such advances.

2.21.15. Section 22: Licensing of Banking Companies
Under this section every banking company is required to obtain license from RBI. The
bank should fulfill the following conditions before granting the license:

(1) The company is or will be in a position to pay its present or future depositors in
full as their claims accrue;
(2) The affair of the company are not detrimental to the interest of its present or
future depositors; and
(3) In case of foreign companies, they should work in the public interest and they
should not discriminate, in any way, against banking companies and they comply
with the provision of the act.

RBI is also empowered to cancel such lines in case:

(1) Where the company does not carry out banking business; or
(2) At any time fails to comply with or fulfill the conditions mentioned above.
2.21.16. Section 24: Statutory Liquidity Ratio (SLR)
Under this section every banking company is required to maintain in cash, gold or unencumbered approved securities, values at price not exceeding current market price, an amount equal to at least 25 percent to a maximum of 40% of its total demand and time liabilities. It ensures the liquidity of assets of the banks.

2.21.17. Section 26: Return of Unclaimed Deposits
As per the norms of this section every banking company is required to submit within 30 days after the close of each calendar year, a return in the prescribed form and manner to RBI of all accounts which have been operated upon for ten years.

2.21.18. Section 27: Return of Assets and Liabilities
According to the provisions of this section, every banking company is required to submit to RBI a return in the prescribed form and manner showing its assets and liabilities in India at the close of business on last Friday of every month.

2.21.19. Section 28: Power to Publish Information
This section empowered the RBI to publish any information obtain by it under the Act in the larger interest of public.

2.21.20. Section 29 to 34: Accounts and Balance Sheet
Under these sections every banking company is required to prepare accounts, balance sheet, profit and loss accounts and they should be audited by a competent and qualified auditor.

2.21.21. Section 35: Inspection of banking companies
The provisions of this section empowered RBI to inspect the books and accounts of a banking company at any time. But such powers should be exercised when asked for by the central government.
2.21.22. **Section 36: 36-AE to 36-AJ: Acquisition of the Banking Companies**

The central government is empowered under section 36 AE to 36 AJ to take over the business of any banking company where:

1. A particular bank has failed to comply with the directions of RBI as the directions relate to banking policy, or
2. Where the bank is being managed in a manner detrimental to the interest of its depositors; or
3. Where it is necessary to acquire the undertaking in the interest of depositors or banking policy.

2.21.23. **Section 37: Suspension of Business**

If RBI is satisfied that the affairs of the banking company are being conducted in a manner detrimental to the interest of the depositors, it may apply to the High Court for the winding-up of the company.

2.21.24. **Section 38 to 44: Winding-up by High Court**

RBI is empowered to apply for winding-up if the banking company:

1. Fails to comply with the requirement of section 11 (minimum paid-up capital and reserves); or
2. Has become disentitled by reason of section 22 to carry on banking business in India; or
3. Has been prohibited from receiving fresh deposits by Central Government or RBI either under section 35(4)(a) or section 42(3A)(b) of the RBI Act of 1934; or
4. Has failed to comply with any requirements of the Act.

2.21.25. **Section 44A: Amalgamation of Banking Companies**

No banking company can be amalgamated with any other banking company without the prior written section of RBI under the Act.
2.21.26. Section 46: Penalties
RBI is empowered to impose penalties in the following cases:

(1) For submission of false or inaccurate return the penalty is important up to three to five years;
(2) For failure to furnish documents, account or information during inspection, penalty is a fine up to Rs. 2,000 and if default persists, Rs. 100 per day during the default period;
(3) For receiving deposits in contravention of an order by RBI, the penalty is twice the amount of deposits so received, and
(4) For default in complying with the provisions of the Act, the penalty is a fin up to Rs. 2,000 and if continued, a further fine up to Rs. 100 per day.

2.21.27. Section 46A: Public Servant
Every chairman, director, auditor, liquidator, manager and other employee of a banking company will be regarded as a public servant for the purpose of chapter IX of the Indian Penal Code.

2.21.28. Section 47 and 48: Powers and Procedures Relating to Cognizance of Offences and Fines
RBI has been empowered to take cognizance of offence and to impose fines under the Act.

2.21.29. Section 56: Cooperative Banks
The cooperative banks have been brought under the banking regulation Act by passing an Amending Act of 1956 which is called Banking Laws (Application to Cooperative Societies) Act of 1965.
2.21.30. Provisions not Applicable to Cooperative Banks

The following section of the Banking Regulation Act of 1949 will not apply to cooperative banks:

1. Section 10: Employment of managing agents and certain forms of employment.
2. Section 10A: Constitution of the Board of Directors.
3. Section 10B: The whole time chairman.
4. Section 10C: Chairman or Director appointed by RBI not to hold qualification shares.
5. Section 17: Reserve funds.
7. Section 37 and 38 – 45: Suspension of business and winding up of banking companies.
8. Section 45 A to 45X in part III: Special provisions for speedy winding-up.
References:

CHAPTER - II


