Reserve Bank of India & Banking Structure in India

- Banking service is the nerve center of Industry and commerce in a country.
- It plays a vital role by providing the money required for their regular functioning and Development.
- The word Bank, normally Refers to commercial bank.
- There are many Types of banks rendering different types of Services. Central Bank is the most important One among them.
- Every nation has one central bank.
- It is owned by the Government of the country.
- The control over the entire banking system of a country is vested with this apex bank.
- Central banks are known by different names in different countries.
- Their functions also vary from country to country.
- A Central Bank is set up as an autonomous or quasi-Autonomous body.
- Stability and growth of the country's economy are the main goals of a Central bank.
- In India the Reserve Bank of India (RBI) is the central bank.

The Historical Development of Banks in India

- Bank of Hindustan was the first bank in India established in 1770 and was closed in 1932 the General Bank of India was established in 1786 and was also Liquidated in 1791.
- Bank of Calcutta was the first joint stock Bank established in 1806.
- It was renamed As the Bank of Bengal in 1809.
- Bank of Bombay in 1840 and Bank of Madras in 1843 were established.
- "These Banks are called Presidential Banks" (Bengal, Bombay and Madras Only) 1881witnessed the birth of 'Audh Bank', which was later renamed into Punjab National Bank in 1894 (19-05-1894).
- These Presidential Banks were amalgamated into the Imperial Bank of India on 27 January 1921.
- It confined its operations to the urban Sector and rural sector was completely neglected in those days.

- Therefore, after Independence, an Act was passed in Parliament to take over the Imperial Bank of India by the Government and State Bank of India came into being on July 1, 1955.
- According to Banking Regulation Act 1949, "Banking means the accepting for the purpose of lending or investment of deposits of money from the public, Repayable on demand or otherwise and Withdrawable by cheque, draft, pay order or otherwise".

Origin of RBI

- The Imperial Bank of India carried out the note issue and other functions of the Central bank.
- In 1926 the Hilton-Young Commission or the Royal Commission on Indian Currency and Finance (J. M. Keynes and Sir Ernest Cable were its members) Made recommendation to create a central Bank.
- As a result, the RBI Act 1934 was passed and RBI launched in operations from April 1, 1935.
- RBI was established with a Share capital of ₹5 crores divided into shares of ₹100 each fully paid up.
- The entire share Capital was owned by private shareholders.
- Its head office was in Calcutta and moved to Mumbai in 1937.
- After independence, the Government of India passed Reserve Bank (Transfer to Public Ownership) Act, 1948 and took over RBI after paying appropriate compensation to the private shareholders.
- From January 1, 1949, RBI started functioning as a government owned central bank of India. It had three departments.
- The RBI was the Central bank of Burma until 1947, and the Central bank of Pakistan until June 1948.

Organisational Structure of RBI

- The head office of the RBI is situated In Mumbai.
- This central office has 33 Departments in 2017.
- It has four zonal Offices in Mumbai, Delhi, Calcutta and Chennai functioning under local boards with deputy governors as their heads.

- It also has 19 regional offices and 11 sub-offices (2017).
- The RBI is governed by a Central Board of Directors.
- The 21-member board is appointed by the Government of India. It Consists of;
  - One governor and four deputy governors Appointed for a period of four years,
  - Ten directors from various fields
  - Two Government officials
  - Four directors – one each from local Board

Functions of RBI

The functions of the RBI can be grouped under three heads.

- Leadership and Supervisory Functions
- Traditional Functions and
- Promotional Functions.

Leadership and Supervisory:

Functions:

- India being the fastest growing economy in the world, India is expected to play a major Role in the world affairs by many countries.
- RBI being the banking institutional head of India has to be a part of global institutions.
- It has to transform the quality and size of banks in India to the level of banks in Developed countries.
- Such functions get Prominence in current scenario.
- India's Representative in World Financial Institutions in order to maintain consistency and Harmony with international banking Standards the RBI is associated with Basel Committee on Banking Supervision (BCBS, Switzerland) since 1997.
- RBI represents Government of India in International Bank for Reconstruction and Development (IBRD i.e. World Bank) and International Monetary Fund (IMF) in which India is a Member since December 27, 1945.

- Regulator and Supervisor of Indian Banking System the broad guidelines for all banking Operations in the country are formulated by the RBI.
- The RBI has power to issue licenses, Control and supervise commercial banks Under the RBI Act, 1934 and the Banking Regulation Act, 1949.
- It conducts inspection of the commercial banks and calls for Returns and other necessary information from them.
- **Monetary Authority**
  - The RBI formulates implements and monitors the monetary policy of the Country in order to maintain price stability, Controlling inflationary trends and Economic growth.
  - It provides advices to the Government concerning agricultural Finance, resource mobilization for Implementing plans and legislation affecting Banking and credit and international Finance.
- Closely Monitoring Economic Parameters Broad economic parameters such as Employment level, price levels and Production levels, trade cycles, foreign Investment flows, balance of payments, Financial markets, etc., are closely monitored By the RBI in order to achieve economic Stability and growth.
- The Board of Financial Supervision (a committee of the Central Board of Directors) of the RBI meets At least once in a month (at times every Day) to closely monitor all these current Developments in the country.
- **Promptly Responding to New Challenges**
  - Whenever challenges arose before Indian Banking System, RBI promptly attend them by issuing Master Circulars and by organising committees to analyse, review and strengthen Indian Banking.
  - A wealth of information can be found in every Master Circular or committee report. **Example:** Gopalakrishnan Committee on "Information security, Electronic Banking", April, 2010

Traditional Functions:

1. **Banker and Financial Advisor to the Government**
   - The RBI accepts money into the Central and State Governments' accounts and Make payments on their behalf.

- It manages Government debt and is responsible for Issue of new loans.
- It advises the government on the quantum, timing and terms of new loans.
- It provides 'ways and means Advances' to the Governments to tide over Temporary financial needs.
- It takes up the Responsibility of investment of the surplus Government funds.
- Inter Government and Inter departmental account adjustments are carried out by the RBI.

2. **Monopoly of Note Issue**
    - The RBI is the sole authority for the printing and issue of all currency notes in India except one rupee note.
    - It is the duty of the RBI to ensure that sufficient number of good quality Currency notes is available to the public.
    - It Exchanges currency and coins not fit for Circulation.
    - One-rupee notes and all coins are issued by the Ministry of Finance.
    - Currency Notes are printed at Nasik, Dewas, Salboni, Mysore and Hoshangabad. (Currency notes are never printed outside India).
    - RBI Maintains MRS – Minimum Reserve System.
    - Value of 200 Crore-
        - 115 Crore rupees of Gold
        - 85 Foreign Currency Assets
3. **Banker's Bank**
    - The relationship between RBI and other Banks in the country is just like the Relationship of a commercial bank with its customers.
    - The RBI maintains the current Accounts of all commercial banks in the Country.
    - All scheduled banks should deposit a percentage of cash reserve with RBI.
    - All banks can receive loans from RBI by Rediscounting of bills and against approved Securities.

4. **Controller of Credit and Liquidity**
   - Controlling the credit money in circulation and the interest rate in the country is a Major function of RBI.
   - For this purpose, The RBI uses quantitative and qualitative Methods of credit control.
   - Ensuring the Availability of sufficient cash and credit (liquidity) for business transactions and Investment purposes in the economy is the Responsibility of RBI.
5. **Quantitative Methods of Credit Control**
   - The methods which influence the total Volume of credit in Indian economy are called quantitative or general methods.
   - An Increase in the first three measures will reduce the volume of money in circulation In India and vice versa.
6. **Bank Rate Policy**
   - Bank rate refers to the rate at which the RBI rediscounts the Bills given by the Scheduled banks.
7. **Cash Reserve Ratio (CRR)**
   - It is the ratio of cash reserves with the RBI kept by Scheduled banks in proportion to the Total Time and Demand Liabilities with Them.
8. **Statutory Liquidity Ratio (SLR)**
   - It is the Ratio of money and money equivalents Kept within the bank in proportion to the Total Time and Demand Liabilities with Them.
9. **Open Market Operations:**
   - The RBI Directly buys or sells the securities and Bills in the money market either to Decrease or to increase the total volume of money.
10. **Qualitative Credit Control Measures:**
    - These methods influence the volume of Money in selected or particular sectors of the economy.
11. **Rationing of credit:**
    - Maximum limit is fixed for lending to certain sectors or Specific purposes.

12.Marginal Requirement:

- It refers to the Percentage of the value of securities Submitted before issue of loans.

13.Direct Action:

- The RBI takes corrective Actions on any bank or banks that do not follow its guidelines. It is called direct Action.

14.Moral Suasion:

- The RBI puts pressure on the banks towards liberal or restricted Lending during certain periods.

15.Lender of the Last Resort

- In times of emergency any bank in India can Approach RBI for financial assistance.
- RBI Provides them credit.
- When other sources of getting credit are exhausted, all banks can obtain loan from RBI and hence it is called Lender of last resort.

16.Clearing House Services

- RBI acts as clearing house and maintains a clearing system for all commercial banks In India.
- The aggregate amount of cheques Presented by a bank on other banks represents the claim by that bank on other Banks.
- Similar claims are made by all the Banks on every other bank in the clearing.
- A net settlement is arrived at the clearing House and accordingly the debit or credit Entry is made in their current accounts.
- The cash reserves kept by the banks with RBI is utilised for this purpose.
- Clearing System saves time and eliminates paperwork and other difficult (otherwise tasks) tasks Involved in inter-bank settlement.
- Though The RBI maintains the clearing house system Only 14 clearing houses are owned by the RBI, 840 are managed by SBI and 6 by Nationalised banks (total 860).

17. Custodian of Foreign Exchange Reserves

- The RBI maintains a reserve of gold and foreign currencies.
- When foreign exchange Reserves are inadequate for meeting balance of payments problem, it borrows from the International Monetary Fund (IMF).
- It also administers exchange control of the Country and enforces the provisions of Foreign Exchange Management Act, 1999.
- Development and maintenance of foreign Exchange market in India is also the function of RBI.

18. Maintenance of Foreign Exchange Rate

- The RBI manages the exchange value of the Rupee in order to facilitate India's foreign Trade and payments.
- It ensures that normal Short-term fluctuations in trade do not affect the exchange rate.

19. Collection and Publication of Authentic Data

- It has also been entrusted with the task of Collection and compilation of statistical Information relating to banking and other financial sectors of the economy.
- RBI Monthly bulletin, annual report and various Committee reports contain treasures of authentic data.

Promotional Functions:

The RBI performs a wide range of Promotional functions to support national Objectives.

1. Nurturing Banking Habits among the Public

- It is the responsibility of RBI to maintain the public confidence in the banking system.
- It Protects the depositors' interest and aim at providing cost-effective banking services in order to include more people to avail Banking services.
- It has also taken up the task of extending the banking system territorially and functionally to the unbanked areas.

2. Grievance Settlement Measures

- RBI has appointed 20 (up to 2017) Banking Ombudsman in 20 state capitals.
- Banking Ombudsman Scheme is a speedy and inexpensive forum for resolution of Customer complaints relating to certain Services rendered by banks in India.

3. Agricultural Development

- Agriculture industry is specified as priority Sector by the RBI.
- The loans of all scheduled Banks should consist of a percentage of Loans to priority sector.
- It works in close Association with NABARD to develop Agriculture in India.

4. Promotion of Small Scale Industries

- Micro Small and Medium Enterprises are Included in the priority sector.
- All scheduled Banks are required to open separate Branches to specialise the financing of these Industries.

5. Facilitates Foreign Trade

- The RBI has simplified the rules for credit to Exporters, through which they can now get long term advance from banks.

6. Supports Cooperative Sector

- It helps cooperative banks by relaxing rules and providing indirect financing.
- The rupee symbol was changed by the Government of India on July 15, 2010.
- This became necessary since other Countries Indonesia, Mauritius, Nepal Pakistan and the Seychelles also called their Currencies rupee.
- Among global currencies Indian rupee is given the code INR (Indian Rupee) by the International Organisation for Standardisation.

Priority Sector Lending (PSL):

- RBI mandates banks to lend a certain portion of their funds to specified sectors: agriculture, Micro, Small and Medium Enterprises (MSMEs), export credit, education, etc.

Objective:

- To ensure adequate institutional credit to reach vulnerable sectors of the economy, which otherwise may not be attractive for banks from the profitability
- point of view.
- RBI Guidelines for PSL for Scheduled Commercial Banks 40% of the total net bank credit should go to a priority sector advance.
- 10% of the priority sector advances or 10% of the total net bank credit, whichever is higher should go to the weaker section.
- 18% of the total net bank credit should go to agricultural advances.
- Within the 18 % target for agriculture, a target of 8 percent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner.
- 5% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher should go to Micro enterprises.

Types of Banks:

Banks can be classified as follows.

- Based on the functions of banks
- Based on the status given by the RBI

Reserve Bank of India

- Based on the ownership pattern
- Based on the functions of banks
    - Central Bank
    - Commercial Banks
- Banks which accept deposits from the public and grant loans to traders, individuals, Agriculture, industries, transport, etc.

- In Order to earn profit.
- Their lending is in comparatively small amounts and mostly for short and medium period.
- They also provide other services like remittance of Funds, safe keeping of valuables, collection of cheques, s, issue of letters of credit, etc.
- They operate with a head office and a Network of branch offices spread throughout the country.
- They also issue guarantees to businessmen.
- When a businessman or Industrialist buy machinery on credit or Apply for a big contract bank guarantees that in case the customer fails the bank will make the payment.

Examples:

- State Bank of India
- Karur Vysa Bank
- Standard Chartered Bank

Development Banks:

- Huge finance required for investment, Expansion and modernisation of big Industries and others are granted by a Separate type of banks called development Banks. They are also called industrial banks.
- The objective of development banks is not Profit.
- Their aim is to develop the country and create employment opportunities.
- Finance is provided by them for medium and long terms ranging from five to twenty Years.
- Development banks do not accept deposits from the public.
- They subscribe the shares and debentures of the industries.
- They provide technical and managerial Consultancy services to industrialists.
- IDBI Bank established as the apex development Bank in I964 and was transformed into public Sector commercial bank in 2004.
- Currently it performs both development bank and Commercial bank functions.

- Its name changed into IDBI Bank Limited in 2008.
- When a development bank is established for the development of agriculture industry it is called agricultural development bank.
- National Bank for Agriculture and Rural Development is such a bank

Examples:

- Industrial Finance Corporation of India - IFCI
- Small Industries Development Bank of India -SIDBI
- MUDRA bank (for the development of Micro industries)

Cooperative Banks:

- All cooperative banks in India are owned by Its customers or members who are farmers, small traders and others.
- Cooperative banks In India are either urban based or rural Based.
- Rural cooperative banking structure In India has three tier structures for short Term loans and two-tier structure for long term loans (refer chart).
- For both these Structures the apex body is National Bank for Agricultural and Rural Development – NABARD.
- All cooperative banks in Tamil Nadu are registered under Tamil Nadu Cooperative Societies Act 1983.
- They are controlled by both RBI and the State Government.
- Their foremost objective is providing service to its members for rural and agricultural development and not Profit earning.
- They are set up in towns and Villages rather than cities.
- Compared to the Commercial banks they offer less variety of services as the bye laws do not permit All commercial bank activities.
- National Cooperative Development Corporation (NCDC) established in 1963 is providing Loans and grants to State Governments For financing cooperative societies.
- NCDC concentrates on projects like water Conservation, irrigation, Agri-insurance, Rural sanitation, etc.

Examples:

- National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) was set up in 1958 and Registered under the Multi State Co-Operative Societies Act.
- Tamil Nadu State Apex Cooperative Bank – Head Office, Chennai
- Madurai District Central Cooperative Bank Ltd.
- Batlagundu Cooperative Urban Bank Ltd. Dindigul District

Foreign Banks

- Banks which have registered office in a foreign country and branches in India are called foreign banks.
- These banks open their offices in big cities and port towns only.
- Mostly they serve the interests of the multinational companies, employees and other business institutions.
- Their Profitability is higher than Indian banks.
- In 2017, there were 42 Foreign Banks in India and all of them were scheduled banks.
- They have to oblige both their home country Banking regulations and the RBI regulations.

Examples:

- Bank of America – The USA
- Barclays Bank – The UK
- Deutsche Bank – Germany

Regional Rural Banks – RRBs

- The RRBs were formed under the Regional Rural Bank Act 1976, jointly by the Central Government, State Government, And a sponsor bank.
- Their share capital is contributed by these sponsors in the ratio of 50:15:35.
- They are established as low cost Institutions in rural areas.
- Their objective is to develop rural economy and play supplementary role to cooperative societies.

- They mobilise deposits from the rural public and provide finance to rural artisans, small Entrepreneurs and farmers and try to avoid their dependency on money lenders.
- As on 31.3.2016, there were 56 RRBs in India with 14,494 branches.
- They are regulated and supervised by NABARD.

Examples:

- Pallavan Grama Bank, Salem, Tamil Nadu
- Pandian Grama Bank, Thirumangalam, Madurai Dirstict, Tamil Nadu
- Vallalar Grama Bank, Chidambaram, Cuddalore District, Tamil Nadu
- Paduvai Bharathiyar Grama Bank, Villiyanur, Puducherry.

Specialised Banks

- Some banks are created for special purposes by the Government.
- Export and Import Bank of India was set up through Export-Import Bank of India Act, 1981.
- Its main Objective is to facilitate international trade of Indian businessmen.
- EXIM Bank provides Finance for import of technology, export Product development, pre-shipment and post-shipment and overseas investment.
- National Housing Bank was established Under the National Housing Bank Act, 1987.
- It is a wholly owned by Government of India.
- The objective of NHB is to promote housing Finance institutions at local and regional Levels in India.

Example:

- Export – Import Bank of India (EXIM Bank)
- National Housing Bank (NHB)

Local Area Banks:

- Local Area Bank (LAB) scheme was introduced by the RBI in August 1996.
- LABs are small private sector banks established in rural and semi-urban areas.
- Each bank serves two or three adjoining districts only.

- Their main objective is to mobilise rural Savings (accept deposits) and invest them in the same areas.
- They have to follow the Priority sector lending targets, including the targets on loans to weaker sections.
- RBI received 227 applications for setting Up LABs.
- 10 were considered for approval and six were given license under Section 22 of the Banking Regulation Act, 1949.

Exmaples:

- Coastal Local Area Bank, Vijayawada, Andhra Pradesh.
- Krishna Bhima Smruddhi Local Area Bank, Mahabubnagar, Telangana.
- Subhadra Local Area Bank Limited, Kolhapur, Maharashtra.

- Deficiencies are found in the original Model of LABs.
- There are practical Difficulties in the operation of these Banks.
- Even after 20 years (1996-2017) LABs could not make an impact in rural Development.
- Therefore, further licensing To LAB has been stopped.

Small Finance Banks:

- Small Finance Banks (SFBs) are private sector Banks set up in unbanked and underbanked Regions of the country to achieve financial Inclusion.
- Their objectives are;

Mobilising rural savings (accepting Deposits):

- Providing credit to Small and marginal farmers to micro and small industries and other unorganised sector entities.
- In September 2015, RBI granted Provisional licenses to 8 Non-Banking Finance Companies (NBFCs) already Engaged in microfinance to be converted Into SFBs and 2 others.
- SFBs are low-cost Structure banks.
- They are formed under Section 22 of the Banking Regulation Act 1949.

Examples:

- ESAF SFB, Thiruvananthapuram, Kerala.
- Ujjivan SFB Limited, Bengaluru, Karnataka, (has 10,000 employees)

- Fincare SFB, Ahmedabad, Gujarat, has 25 branches spread over several states.

Payment Bank:

- Payment banks are formed to widen the spread of payment and financial Services to small businesses, low-income Households, and migrant labourers.
- These Banks should be fully networked from the Beginning.
- They offer doorstep banking Payment for a small fees prescribed on The basis of the amount.
- They issue ATM/Debit cards, internet banking and third Party fund transfers.
- They can't lend Money and issue credit cards.
- In August 2015, the RBI gave 'in principle' licenses To Payment Banks.

Examples:

- Airtel Payment Bank Limited
- Paytm Payment Bank Limited and
- India Post Payment Bank Limited – IPPBs (Public Sector Bank).

Multilateral Development Banks – MDBs

- A Multilateral Development Bank is formed by the Governments of a group of Countries.
- The member countries consist of developed Donor countries and borrower countries.
- International Bank for Reconstruction and Development, Asian Development Bank, African Development Bank, and European Investment Bank are some of the MDBs.
- Based on the Status given by the RBI Scheduled Banks and Non-Scheduled Banks All banks which satisfied the norms and Included in the Second Schedule to the RBI Act, 1934 are called scheduled banks.
- Such Banks are given financial accommodation and remittance facilities at concessional Rates by the RBI.

- There is no non-scheduled commercial bank (private sector, public sector and foreign banks) in India.
- There are five Urban Cooperative Banks and three Local Area Banks which Function as non-scheduled banks in India. Small Finance Banks and Payments Banks Have not been licenses under Section 22 of the Banking Regulation Act, 1949.
- Based on the Ownership Pattern any bank in which not less than 51 percent of shares are owned by the Government are called Government banks or public Sector commercial banks (Total 12-).
- Are public sector commercial Banks.
- All of them are joint stock company Type banks.
- There are corporation type Banks.
- Each corporation type bank is Established by a separate Act of Parliament And is fully owned by Government of India.

Examples:

- IFCI, SIDBI, EXIM Bank, etc.
- All banking companies owned by private People are called private sector commercial Banks.
- All cooperative banks are owned by Its members from the public.
- In 1969, there were 14 private banks which were concentrated in cities and towns.
- Their objective was to earn more profits.
- In order to channelize the funds with these commercial banks towards national Priorities and to develop agricultural and Rural sector nationalization of banks was Undertaken.
- Government paid the share Capital of those banks to the private owners and took over as Government banks.
- This is called nationalization of banks.
- 6 more banks were nationalised in 1980.
- New Bank of India one of the nationalised banks Merged with Punjab National Bank in 1980

- **Nationalised Banks:** Indian bank, Indian Overseas Bank, Oriental Bank of Commerce.
- **Public Sector Banks:** State Bank of India, IDBI Bank Ltd. And all nationalised Banks
- **Private Sector Banks:** Lakshmi Vila Bank, Karur Vysya Bank, Kotak Mahindra bank.

- Bharatiya Mahila Bank was established on 19, November 2013 to serve exclusively Women members of the public was merged With SBI on 31 March, 2017.
- On the basis of organisation the banking May be unit banking or branch banking.
- On the basis of lending practices, it may Be pure banking or mixed banking.
- On The basis of their products it can be retail Banking or wholesale banking.
- On the basis of activities undertaken it may be narrow Banking or universal banking.
- From the Ownership point of view, it can be chain Banking or group banking.
- There are some peculiar types of banks such as investment Banking, Islamic banking, etc.
- In modern Times virtual banking or internet banking and mobile banking are very popular.
- India needs Large Sized Banks Industrial and Commercial bank of China is the first ranked bank in the world with an Asset size of USD 3,893.23 billion.
- Punjab National Bank, the largest nationalised Bank in India has an asset base of USD 100 billion and its rank is 717.
- SBI a public Sector bank merged with its five associates and Bharatiya Mahila Bank with effect From April 1, 2017 and after merger its Asset size is USD 573 billion (₹37 trillion).
- This will boost it among the top 50 banks (SBI earlier rank 272).
- National Bank of Australia has an asset base of USD 578.46 Billion and it's rank is 49.

- To compete with Large sized banks in the world India needs More large sized banks.
- Therefore, merger of many nationalised banks is under Consideration.

Banking Correspondents:

- Banking Correspondents (BCs) are retail Agents engaged by banks for providing Banking services at low cost in locations Other than a bank branch/ATM.
- They are Not separate banks recognized by the RBI.
- BC model was introduced by the RBI in 2006 to provide services at door steps.
- Non-Governmental Organisations or Individuals like ex-serviceman can apply For BCs.
- The banks engaging BCs are Responsible for their functioning.
- A bank in a country can appoint another bank in a foreign country to act as correspondent Bank.

Functions of Commercial Banks:

- They render many valuable services.
- The Important functions of the Commercial Banks can be explained.

Primary Functions:

The primary functions of a commercial Bank are of three types. They are:

- Accepting Deposits
- Granting Loans and Advances.

Creation of Credit:

Accepting Deposits:

- The basic deposit accounts offered by Commercial banks are listed below.
- In these Days banks compete with each other to Attract customers by adding facilities to these Deposit accounts.
- Broadly deposit accounts can be classified into demand deposits and Time deposits.

Demand Deposits:

- These deposits are repayable on demand on any day.

- This consists of savings deposits and current deposits.

Savings Deposits:

- General public deposit their savings into this account.
- This account can be opened in one individual's name or more than one Name.
- Section 25 companies also can open Savings accounts.
- Business firms are not permitted to open savings account.
- The Rate of interest allowed on this deposit is lower than fixed deposits.
- Interest is paid on the basis of the amount and number of days the amount remains credited in the account.
- The bank provides facilities like cheque book, ATM (Automated Teller Machine) card etc.
- There is limit on number of ATM card withdrawals from other bank ATMs only.
- A minimum Balance should be maintained in this Deposit account.
- Otherwise, penal interest is charged.
- Beyond a number (20 or 60 Leaves) cheque book is available for a fee.
- Nomination can be registered.
- Salary Account is a type of savings account offered to salaried employees in which zero Balance is permitted.
- Some banks offer Overdraft facility.
- An account inactive for a long period will become dormant Account.

Current Deposits:

- This account is suitable for business Institutions.
- Individuals too can open this Account.
- A higher minimum balance should be kept in this account.
- If not, penal interest is charged.
- No interest is paid for the balance in this account.
- Some banks have started offering interest on these account balances.
- Banks may collect bank charges on this Account.

- Overdraft (short term unsecured Loan) facility is available to current account Customers.
- There is no limitation on Deposit of cheques or withdrawals from this account.
- Credit worthiness of current Account business customers are shared among banks.

Time Deposits:

- They include fixed deposits and recurring Deposits which are repayable after a period.

Fixed Deposits (FD):

- Certain amount is deposited for a fixed Period for a fixed rate of interest.
- FDR (fixed Deposit receipt) is given to the depositor.
- Rate of interest is higher than savings account.
- On the date of maturity, the principal along with interest for the fixed period is paid.
- A customer can obtain loan by depositing FDR.
- Pre-mature withdrawal of cash is also allowed for payment of penal charges and it carries no interest.
- Partial withdrawal also allowed.
- Fixed deposit period can be 1 month to 10 years.
- FD is also called term Deposit

Recurring Deposits (RD):

- Certain sum is deposited into the account every month for one year or five years or the agreed period.
- Interest rate is more than savings deposits and almost equal to fixed deposits.
- At the end of the period the Deposited amounts along with interest are returned to the customer.
- Premature closing is allowed with a charge or deduction.
- It is Ideal for persons having regular income to Save and receive a lump sum.

- Any institution can open RD account.
- Minors or students also can open this account.
- Loan against this deposit is also provided by some banks Granting Loans and Advances.
- The second primary function of commercial Banks is lending money in order to earn Interest income.
- Banks provide specific Sums as loans which are repayable along with interest.
- Demand loans should be Repaid whenever demanded.
- Term loans can be repaid after the agreed period.
- Advances are credit facilities provided for short period (within a year) to business community.
- But Both terms are used interchangeably.

Advances:

Overdraft:

- It is a credit facility extended mostly to current account holding business Community customers.
- It is an arrangement Reached between the banker and the credit worthy customers.
- Such customers are allowed to overdraw (when there is no Balance money in the account) up to a certain amount usually for 3 months period.
- It may be extended for further periods.
- Only on the withdrawn amount of credit interest is charged and not on the maximum limit allowed.
- It is an unsecured credit.
- Secured overdraft against the security of financial Instruments is also provided by some banks.
- It is repayable on demand.

Cash Credit:

- It is a secured credit facility given mostly to business institutions.
- Stock in hand, Raw materials, other tangible assets, etc.

- Are provided as collateral.
- A certain sum is allowed as credit for a short period.
- Interest is payable on the actual amount withdrawn and not on the entire credit facility.
- It is Repayable on demand.

Discounting of Bills:

- Business customers approach banks to Discount the commercial bills of exchanges and provide money.
- It is a short-term credit Instrument.
- Banks deduct the discount (interest) for the period mentioned in the Bill and release the balance amount to the Traders.
- If the bill is dishonoured, the bank Can recover the amount from the customer.
- It is a form of unsecured credit.

Loans:

- Short term and medium-term loans are provided by commercial banks against Eligible collaterals to business concerns.
- It is a definite sum of money lent for a definite Period.
- It is repayable in one lump sum or in instalments.
- Interest is payable on the Entire loan amount.
- Every bank in these Days design new methods of advancing Loans to find more ways of learning income.
- Generally commercial banks provide the Following loans.

Housing Loan:

- Taking the title deeds of the house as Collateral security, based on the monthly Income of the borrowing customer, banks Advance medium and long-term loans.
- The Customer repay the loan in equated monthly Instalments (EMI consists of principal and Interest).
- This is a boon to the middle class Salaried employees who cannot afford to Pay the full price of a house in a lump sum.

Consumer Loan:

- Consumer durables like refrigerator, air Conditioner, laptop, washing machine, Television, etc.
- Can be purchased by Customers with consumer loans from banks.
- The product purchased is hypothecated (secured loan arrangement where the Movable asset remains with the borrower)
- As security for the consumer loan amount.
- The customer pays in equated monthly Instalments for a specified period.

Vehicle Loan:

- Two wheelers, cars, buses and other vehicles can be purchased by individuals as well as institutions obtaining vehicle loans from the banks.
- Vehicles are hypothecated to the Bank until the entire loan amount is repaid.
- Vehicle registration book is deposited with the bank and on full payment of loan amount it will be handed over to the customer.

Educational Loan:

- Loan is provided by banks to students for Studying undergraduate, post graduate or Professional courses.
- Loan may be received in instalments to pay the educational fees Every year.
- After completion of the course.
- One year is allowed for the student to get Employed.
- Afterwards, the student should Repay the loan with interest for the entire Period.
- Interest is charged from the date of First instalment of loan amount payment.

Jewel Loan:

- Customers pledge their gold jewels and Obtain loans from banks.
- The margin (percentage of value per gram that can be Given as credit) requirement is fixed by the RBI.
- Interest should be paid every month.
- Otherwise, interest on interest is charged.

- Within 12 months the customer can redeem or else can re-pledge.
- Jewels not redeemed Even after reminders are sold in auction by Banks to recover their dues.

Creation of Credit:

- Apart from the currency money issued by the RBI, the credit money in circulation Created by commercial banks influence Economic activities of a country to a large Extent.
- Credit money of commercial banks is far greater in volume than the currency Money.
- The volume, the purposes and the Sector to which this credit money is to be channelised – all these are implemented by Commercial banks under the guidance of the RBI.

Secondary Functions:

- Apart from the basic or primary functions Commercial banks render various other Services which are known as secondary Functions.
- These services can be broadly Classified into agency services and general Utility services.

Agency Functions:

- Banks act as agents of customers and provide certain services.
- They are called Agency Functions which are as follows:

Transfer of Funds:

- Banks issue demand drafts, bankers' cheques, Travellers' cheques, etc. And help in transfer of Funds from one place to another.
- Customers Need not carry cash.
- They can just forward the draft issued by the bank to the receiving Institution.
- A small commission is collected by banks for this service.
- Periodic Payment of Premiums, Rent, etc.
- After instruction from the customers, Banks undertake the monthly payment of Insurance premium, rent, telephone bill, Etc.
- From the accounts of customers.

- Now A days these payments are made through electronic clearing system facility offered by the banks.
- Collection and Payment of Cheques on behalf of customers bank collect the Cheques deposited into the accounts of Customers from other banks and deposit cash in the customers' accounts.
- Similarly, cheques Issued by a customer is honoured and the Amount paid as directed by the customer.

Acting as Executors, Trustees and Attorneys:

- Banks act as executors of will of the Customers and implement their will after their death.
- As a trustee a bank takes care of the funds of the customers.
- Banker Signs transfer deed of the properties of the Customers in the capacity of attorney to Customers.

Conduct Share Market Transactions:

- A Demat account should be opened with Depository Participant and that
- Demat Account should be linked with savings Bank account by the customer.
- Then the Customer can ask the bank to conduct online purchase or sale of securities, on Behalf him.

Preparation of Income Tax Return:

- Banks prepare the annual income tax return on behalf of the customers and provide Income tax related advices to them.

Dealing in Foreign Exchange:

- Banks buy and sell foreign currencies on Behalf of customers.

Acting as Correspondent:

- Banks act as correspondent of customers and receive travel ticket, passport, etc.

General utility functions:

- In addition to primary, secondary and Agency functions, commercial banks offer some services for the general Welfare of the customers.
- They are Called general utility services. They are as follows.

Issue of demand drafts and Bankers' cheques:

- Demand drafts and Bankers Cheques Are issued to public and customers as Well.
- Instead of sending money they can Attach these instruments for payment of educational fees, etc.

Accepting Bills of Exchange on Behalf of Customers:

- Banks accept bills on behalf of customers and make payments to the foreign exporter.
- Afterwards, the banks collect from the Customers.

Safety lockers:

- Valuable documents, jewels, etc.
- Can be kept Safely in a vault provided by bank for a rent.
- These vaults room is called 'Strong Room".

Letters of credit:

- This document is given by bank on behalf of importing customer to the exporter Guaranteeing payment for the imported Goods.
- It is a very important document in international trade.

Traveller's cheques:

- Customers need not carry cash during travel in India or abroad.
- The denomination and words are printed in the cheque.
- It is accepted as money in shops, hotels, travel Agencies, etc.

Gift cheques:

- These denomination printed cheques are available in attractive design so that it can be presented during wedding, birthday Functions, etc.

Reference service:

- Business firms can give their bank's name as Reference to the new business institution with which they want to establish commercial Relationship.
- Banks willingly act as referees and provide information about the financial Standing of their customers.

Diversified Banking Functions:

- Competition in the banking industry has reduced their profits.

- Therefore, the Commercial banks started identifying and offering new and diversified financial Services.
- They are purely other than banking Services.
- Providing all such banking and other financial services is also called Universal banking. Such services are as Follows:
  - **Bank Assurance:**
    - It refers to the offering of insurance policies or products by a bank in association with another insurance company.
    - Banks should follow Insurance Regulatory and Development Authority of India (IRDA) regulations in addition to RBI Regulations.
    - Corporation Bank, Oriental Bank of Commerce and Vijaya Bank has tied up with Life Insurance Corporation of India.
    - SBI has joined hands with BNP Paribas Cardif – a French company to sell Insurance products.
  - **Merchant Banking:**
    - Merchant banks do not provide regular Banking services.
    - A commercial bank or its subsidiary merchant bank may Offer services like project counselling, Underwriting, etc.
    - Required for starting a Company.
    - It is called merchant banking.
    - They are mostly stock market related Services.
    - Merchant Banks are controlled By Stock Exchange Board of India (SEBI) Regulations also.
  - **Retail Banking (Personal Banking):**
    - It refers to mass market banking which Reaches out to large number of individual End customers.
    - Apart from accepting Deposits, their services include personal Loans, vehicle loans, consumer durable Loans, loans against equity shares, debit and Credit cards, mortgages, etc.

- **Housing Finance:**
  - Housing finance is provided against the Security of immovable property of land and Buildings.
  - Many banks such as SBI, Bank of India, etc, have set up housing finance Subsidiaries.
- **Mutual Fund:**
  - It is a financial intermediary that pools the Savings of investors for collective investment in diversified portfolio securities in the Capital market and money market.
  - Many Banks like SBI, Indian Bank, etc, have set up Mutual fund subsidiaries.
- **Venture Capital Fund:**
  - Venture capital fund provides start-up Share capital to new ventures of little Known, unregistered, risky, young and small Private business, especially in technology Oriented and knowledge intensive business.
  - Many commercial banks like SBI, Canara Bank, etc. Have set up venture capital fund Subsidiaries.
- **Factoring:**
  - Factoring is a continuing arrangement Between a financial intermediary (factor) and a business concern (client) whereby the factor purchase the clients' accounts Receivable.
  - Banks like SBI and Canara Bank Have established subsidiaries to provide Factoring services.

Electronic Banking Functions:

- This reduces cost and time and makes Banking service convenient to the customers.
- It is operated through internet.
- This service Is a substitute for drafts, cheques and other Paper based transfer of funds.

NEFT – National Electronic Funds Transfer:

- This was launched by the RBI in 2005.
- Under this electronic fund transfer System, bulk transfer of transactions are Settled in batches during specific timings Across India.
- Individuals and institutions Which maintain accounts with a NEFT Enabled bank branch are eligible for Using NEFT.
- Transactions do not occur Under real time basis on 24 × 7.
- Both NEFT and RTGS use IFSC (Indian Financial System Code) – a 11-digit alphanumeric code, to identify a Bank branch.
- IFSC is provided by IDRBT (Institute for Development & Research on Banking Technology), Hyderabad.

RTGS – Real Time Gross Settlement Systems:

- It was launched by the RBI in 2013.
- The Transactions are settled on real time basis.
- Gross settlement means the transaction is settled between one bank and another bank Without adding any other transactions.
- RTGS facility is available on 24 ×7.
- In one day the RTGS routes about 60,000 transactions worth about ₹2,700 billion and covers over 52,000 bank Branches located in 10,000 cities and towns.
- Minimum limit for RTGS transaction is 2 lakhs.

Electronic Clearing Services (ECS):

- ECS was launched by the RBI in 1995.
- It is an electronic method of fund transfer from a Bank to another bank.
- ECS credit can be used to credit salary, dividend, interest, pension Etc.
- ECS debit is used to debit monthly Telephone bills, electricity bills, equated Monthly instalments (EMI) payments.
- For this purpose, the account holding individuals and institutions concerned should fill up Certain forms and submit to the banks.
- ECS Transactions between banks are settled in the Current account maintained in the clearing House.

CORE Banking Solutions:

- 'CORE' stands for 'Centralized Online Real time Exchange'.
- In the centralized Server of the bank, all the details of all the Accounts of all the branches of the bank are available.
- A customer can withdraw Money through cheque at any branch of that bank throughout the world.
- Similarly, anyone can deposit money into the account.
- Entry of the transactions is recorded in the centralized server of the Bank in real time and can be seen in all the Branches of the bank.
- This facility is called Core banking solutions.

Internet Banking or Virtual Banking:

- Internet banking refers to performing Banking operations through internet, using Computers and mobile phone.
- This can be done by a customer from home or office or any part of the world and all 24 hours of 7 Days.

Mobile Banking:

- Most of the commercial banks have designed computer programs called apps which can be downloaded in smartphones.
- With this app in the smartphone a customer can operate his account transactions from anywhere.
- This service is known as mobile Banking.

Automated Teller Machine (ATM) and CDM Facilities:

- A customer can withdraw money anytime, anywhere in India from the ATM machine using the ATM card given by his/her Bank.
- The machine also shows the balance Available in the customers' account, provides Statement print of the few past transactions, Etc.
- Withdrawal of money in other bank ATMs is restricted and will be charged beyond the specified number of usage.
- Cash Deposit Machine Facility is useful to the Public as well as customers to deposit cash into the account anytime.

- Similarly, there are cheque deposit machines which receive Cheques at any time.
- IMPS – Immediate Payment Service IMPS was launched by the National Payments Corporation of India in November 2010.
- IMPS allows funds transfer through mobile phone or internet banking by banking customers and approved non-Banking partners.
- Its transactions are on Real time basis.
- The current maximum limit is Rs. 2 lakhs.
- It made India a leading country in the world in real time payments in retail Sector.

Funds transfer through SMS:

- *99# is the number for the funds transfer from any mobile phone.
- It was launched in 2014.
- Every common man in India can Transact banking transactions from any Corner of India.

Debit Cards:

- ATM card is also called debit card.
- This Card is more useful in purchase of goods and services anywhere in India, if the shop Maintains a swiping machine facility.
- VISA Card and Maestro card services are offered By Visa Corporation and Mastercard both from the USA.
- RuPay cards services were Launched in March 2012 by the National Payments Corporation of India.

Credit Cards:

- Banks issue credit cards to customers and Other eligible persons.
- With this card, the Holder can purchase goods and services on Credit at any shop in India.
- If the dues are Paid within the stipulated time no interest is charged.
- The credit limit is fixed by the issuing bank based on the income of the Cardholder.

Functions of All Commercial Banks in Totality:

- All commercial banks put together perform Certain functions to the development of the Country's economy.
- More production and economic Growth these banks supply the vitamin money.
- To all sectors of the economy including Manufacturing sector.
- As a result, all the Sectors produce more.

Capital formation:

- Banks encourage savings habit among People and accumulate their small dormant Savings.
- These funds can be fruitfully channelized for productive purposes of the Economy.

Consortium finance:

- Thousands of crores required to establish a Mega factory is not available from a single Source.
- Banks join together and provide Consortium finance in such cases.

Service coverage to non-Monetised sector:

- Branches of the banks are opened in rural and village areas so that the non-banking Areas are provided banking services.

Balanced regional development:

- Banks transfer funds from surplus areas and make them available in scarce districts or areas for the formation and operation of business institutions.
- Even growth of Different regions can be achieved through this function.

Smoothing of trade and commerce:

- For the efficient functioning of all traders and business institutions in a country, safe Keeping of their funds, transfer of funds, Payment and collection of funds when and where needed is very much necessary.
- Banks Perform this function.

Development of industry:

- Agriculture, MSMEs and SHGs Banks design methods and instruments of financing each sector differently.

- They Provide finance for small farmers, medium Traders as well as industries.
- **For example**, Banks allow micro credit to SHGs, overdraft to traders and issue Certificate of Deposits To finance industries.

Implementation of monetary policy:

- Banks have established customer relationship with all public and business institutions Through the network of branches.
- Broad Guidelines or rules of the Government for the monetary sector of a country cannot be applied without such banks.

Encourages export and international trade:

- Banks open foreign branches or establish Correspondent relationship with banks in foreign countries to help exporters.
- Instruments like letters of credit and international factoring services are undertaken to help exporters and importers.

New entrepreneurs and Employment opportunities:

- Entrepreneurs obtain project loans and establish new business houses.
- By providing the required credit banks generate more Economic activities and new employment Opportunities.

NACH, BBPS, BHIM:

- National Automated Clearing House Founded in 2008 is a web-based solution to Facilitate interbank high volume electronic Transactions which are repetitive and Periodic in nature.
- It will be helpful for Banks, financial institutions, Corporates and Governments.
- It is a centralised System that aims at consolidating multiple ECS systems running across the country and removing local barriers.
- Bharat Bill Payment System is a RBI guided System operated by National Payments Corporation of India from August 2016.
- It is a one stop payment platform for all Bills providing anytime anywhere bill Payment service to all customers across India with certainty, reliability and safety of transactions.

- Bharat Interface for Money is an app that lets a bank customer make simple, easy and quick payment transactions using Unified Payments Interface (UPI).
- A bank Customer can make instant bank to bank Payments and pay and collect money Using just mobile number or virtual Payment address (VPA).
- It was launched In December 2016.

Money and Its Functions:

- Money is anything that is generally accepted as payment for goods and Services and repayment of debts and that serves as a medium of exchange.
- A Medium of exchange is anything that is widely accepted as a means of payments.
- In recent years, the importance of credit has increased in all the countries of the World.
- Credit instruments are used on an Extensive scale.
- The use of cheques, bills of exchange, etc.
- Has gone up. It should However, be remembered that money is the basis of credit.
- Bank Note is legally tradeable for discharge of debt or obligation.

Evolution of Money:

Barter System:

- The introduction of money as a Medium of exchange was one of the greatest inventions of mankind.
- Before Money was invented, exchange took Place by Barter, that is, commodities and services were directly exchanged for other commodities and services.
- Under the barter system, buyers and sellers of Commodities had to face a number of Difficulties.
- Surplus goods were exchanged for money which in turn was exchanged for other needed goods.
- Goods like furs, Skins, salt, rice, wheat, utensils, weapons, Etc.
- Were commonly used as money.

- Such Exchange of goods for goods was known as "Barter Exchange" or "Barter System".

Metallic Standard:

- After the barter system and Commodity money system, modern money Systems evolved.
- Among these, metallic Standard is the premier one.
- Under Metallic standard, some kind of metal either gold or silver is used to determine the standard value of the money and Currency.
- Standard coins made out of the Metal are the principal coins used under the metallic standard.
- These standard Coins are full bodied or full weighted legal Tender.
- Their face value is equal to their intrinsic metal value.

Gold Standard:

- Gold Standard is a system in which the value of the monetary unit or the Standard currency is directly linked with Gold.
- The monetary unit is defined in Terms of a certain weight of gold.
- The Purchasing power of a unit of money is Maintained equal to the value of a fixed Weight of gold

Silver Standard:

- The silver standard is a monetary System in which the standard economic Unit of account is a fixed weight of Silver.
- The silver standard is a monetary Arrangement in which a country's Government allows conversion of its Currency into fixed amount of silver

Paper Currency Standard:

- The paper currency standard refers to the monetary system in which the paper Currency notes issued by the Treasury or the Central Bank or both circulate as unlimited legal tender.
- Paper currency is not convertible into any metal.
- Its value is determined independent of the value of gold or any other commodity.
- The Paper standard is also known as managed Currency standard.

- The quantity of money in circulation is controlled by the monetary Authority to maintain price stability.

Plastic Money:

- The latest type of money is plastic Money.
- Plastic money is one of the most Evolved forms of financial products.
- Plastic money is an alternative to the cash or the standard "money".
- Plastic money is a term that is used predominantly in Reference to the hard plastic cards used every day in place of actual bank notes.
- Plastic money can come in many different Forms such as Cash cards, Credit cards, Debit cards, Pre-paid Cash cards, Store Cards, Forex cards and Smart cards.
- They Aim at removing the need for carrying Cash to make transactions.

Crypto Currency:

- A digital currency in which Encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating Independently of a Central Bank.
- Decentralised crypto currencies Such as Bitcoin now provide an outlet for Personal Wealth that is beyond restriction and confiscation.

Functions of Money:

The main functions of money can be classified into four categories:

1. Primary Functions:

- **Money as a medium of exchange:**
    - This is considered as the basic function of Money.
    - Money has the quality of general Acceptability, and all exchanges take Place in terms of money.
    - On account of the use of money, the transaction has now come to be divided into two parts.
    - **First,** money is obtained through sale of Goods or services. This is known as sale.
    - **Second,** money is obtained to buy goods and services. This is known as purchase.

- Thus, in the modern exchange system Money acts as the intermediary in sales and purchases.

- **Money as a measure of value:**
  - The Second important function of money is that it measures the value of goods and Services. In other words, the prices of
  - All goods and services are expressed in Terms of money.
  - Money is thus looked upon as a collective measure of value.
  - Since all the values are expressed in terms of money, it is easier to determine the rate of exchange between various types of goods in the community.

2. Secondary Functions:

- **Money as a Store of value:**
  - Savings Done in terms of commodities were not permanent.
  - But, with the invention of money, this difficulty has now disappeared and savings are now done in terms of money.
  - Money also serves as an excellent store of wealth, as it can be easily converted into other marketable Assets, such as, land, machinery, plant Etc.
- **Money as a Standard of Deferred:**
  - **Payments:**
    - Borrowing and lending were difficult problems under the barter System.
    - In the absence of money, the Borrowed amount could be returned only in terms of goods and services.
    - But the modern money-economy has greatly facilitated the borrowing and Lending processes.
    - In other words, Money now acts as the standard of deferred payments.

- **Money as a Means of Transferring:**
  - **Purchasing Power:**
    - The field of Exchange also went on extending with Growing economic development.
    - The Exchange of goods is now extended to distant lands.
    - It is therefore, felt Necessary to transfer purchasing power from one place to another.

3. Contingent Functions

- **Basis of the Credit System:**
  - Money is the basis of the Credit System.
  - Business Transactions are either in cash or on Credit.
  - **For example,** a depositor can make use of cheques only when there are sufficient funds in his account. The Commercial banks create credit on the Basis of adequate cash reserves. But Money is at the back of all credit.
- **Money facilitates distribution of National Income:**
  - The task of Distribution of national income was exceedingly complex under the barter System.
  - But the invention of money has now facilitated the distribution of income as rent, wage, interest and Profit.
- **Money helps to Equalize Marginal Utilities and Marginal Productivities:**
  - Consumer can obtain maximum utility only if he incurs expenditure on various Commodities in such a manner as to equalize marginal utilities accruing from them.
  - Now in equalizing these Marginal utilities, money plays an important role, because the prices of all commodities are expressed in Money.
  - Money also helps to equalize Marginal productivities of various Factors of production.
- **Money Increases Productivity of Capital:**
  - Money is the most liquid Form of capital.

- In other words, capital in the form of money can be put to any use.
- It is on account of this liquidity of Money that capital can be transferred from the less productive to the more Productive uses.

4. Other Functions

- **Money helps to maintain Repayment Capacity:**
  - Money possesses the quality of general acceptability.
  - To maintain its Repayment capacity, every firm has to keep assets in the form of liquid cash.
  - The firm ensures its repayment capacity with money.
  - Likewise, banks, insurance Companies and even governments have to keep some liquid money (i.e., cash) to maintain their repayment capacity.
- **Money represents Generalized Purchasing Power:**
  - Purchasing power Kept in terms of money can be put to any use.
  - It is not necessary that money should be used only for the purpose for which it has been served.
- **Money gives liquidity to Capital:**
  - Money is the most liquid form of Capital.
  - It can be put to any use Supply of Money
- Money supply means the total Amount of money in an economy.
- It refers to the amount of money which is in circulation in an economy at any given time.
- Money supply plays a crucial role in the determination of price level and Interest rates.
- Money supply viewed at a given point of time is a stock and over a Period of time it is a flow meaning of Money Supply
- In India, currency notes are issued by The Reserve Bank of India (RBI) and coins are issued by the Ministry of Finance,
- Government of India (GOI). Besides these, the balance is savings, or current Account deposits, held by the public in Commercial banks is also considered Money.

- The currency notes are also called Fiat money and legal tenders.
- Money supply is a stock variable.
- RBI publishes information for four Alternative measures of Money supply, Namely M1, M2, M3 and M4
- M1 = Currency, coins and demand deposits
- M2 = M1 + Savings deposits with post Office savings banks
- M3 = M2 + Time deposits of all commercial and cooperative banks
- M4 = M3 + Total deposits with Post offices
- M1 and M2 Are known as narrow money
- M3 and M4 Are known as broad money
- The gradations are in decreasing Order of liquidity.

Determinants of Money Supply:

- **Currency Deposit Ratio (CDR);** It is the ratio of money held by the public in currency to that they hold in bank Deposits.
- **Reserve deposit Ratio (RDR);** Reserve Money consists of two things (a) vault Cash in banks and (b) deposits of Commercial banks with RBI.
- **Cash Reserve Ratio (CRR);** It is the Fraction of the deposits the banks must Keep with RBI.
- **Statutory Liquidity Ratio (SLR);** It is the Fraction of the total demand and time Deposits of the commercial banks in the Form of specified liquid assets.

Non-Banking Financial Institutions (NBFI)

- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956.
- Insurance Companies - IRDA, Merchant Banks - SEBI, Micro Finance Institutions - State Government, RBI and NABARD

Activities

- Business of loans and advances, acquisition of shares / stocks / bonds / debentures /securities, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity etc

Excludes

- Any institution whose principal business is that of: Agriculture Activity, Industrial Activity, Purchase or Sale of any goods (other than securities), Providing any services and sale/purchase/construction of Immovable Property.

Features

- NBFC cannot accept demand deposits;
- Cannot issue cheque drawn on itself;
- Deposit insurance facility of DICGC is not available to depositors of NBFCs;
- Norm of Public Sector Lending does not apply to NBFCs;
- Cash Reserve Requirement also does not apply to NBFCs;
- Regulated by multiple regulators.

Systemically Important NBFC

- NBFCs whose asset size is of Rs ₹ 500 cr or more are considered as systemically important NBFCs.
- **E.g:** Power Finance Corporation Limited (PFCL), Rural Electrification Corporation Limited (RECL), IL&FS, etc.
- **Mission Indradhanush** – Recapitalisation in public sector banks

Banking issues

Non - Performing Assets (NPA)

- NPA is a loan/advance for which the principal or interest payment remains overdue for a period of 90 days.
- For Agricultural loans, the NPA is if the loan instalment/ interest is not paid for:
    - **Short duration crop loan:** Crop seasons
    - **Long Duration Crops:** 1 Crop season from the due date.

SMA Classification

- Special Mention Accounts (SMA)- 2014
- SMA are those accounts that show symptoms of bad asset quality in the first 90 days itself.
- The identification is an effort for early stress discovery of bank loans.
- **SMA 0:** Loan principal or interest is unpaid for 0 - 30 days from its due date.
- **SMA 1:** Loan principal or interest is unpaid for 31 - 60 days

- **SMA 2:** Unpaid for 61–90 days
- **NPA:** Unpaid for more than 90 days.

Measures for NPA Resolution:

Sustainable Structuring of Stressed Assets (S4A)

- It is an optional framework for the resolution of largely stressed accounts and a tool for financial restructuring.
- **Process:** bank hires an independent agency to evaluate how much of the stressed asset is sustainable and how much is unsustainable - it will convert the unsustainable debt into equity - no change of ownership of the company, unlike in strategic debt restructuring - helps in financial restructuring

Prompt Corrective Action (PCA)

- The PCA framework considers banks as risky if they fall below certain norms on three parameters i.e. capital ratios, asset quality and profitability.
- Certain restrictions such as halting branch expansion and stopping dividend payment, restrictions in branch expansion, higher provisions etc are put in place

Asset Reconstruction Companies (ARC)

- Narasimham Committee (1998) recommended setting up an ARC.
- It is a specialized financial institution that buys the NPAs or bad assets from banks and financial institutions so that the latter can clean up their balance sheets.

SARFAESI Act, 2002

- It provides the legal basis for the setting up ARCs in India to tackle wilful defaulters.
- Under this, a lender can take possession of the property or mortgaged assets after giving the borrower a 60 - day notice.
- It is not applicable to unsecured creditors.
- Not applicable on Farm Loans.

Debt Recovery Tribunal (DRT)

- Lenders can recover their dues by approaching a DRT and get a recovery certificate.

- It allows lenders to take possession of properties of borrowers anywhere in the country and sell them to recover dues.
- Appeals against orders passed by DRTs lie before Debts Recovery Appellate Tribunal (DRAT).
- It can go beyond the Civil procedure Code.

Insolvency and Bankruptcy Code

- For reorganization and insolvency resolution of corporate persons, partnership firms and individuals.
- Minimum default of Rs 1 crore is needed to trigger IBC. (In March this year, the government raised the threshold for invoking insolvency under the IBC to Rs 1 crore from Rs 1 lakh).
- Time bound process - 180 days, some cases 270 days maximum.
- No Deadlock - if resolution is not done, assets are to be sold to pay debtors.
- It is not applicable for Willful Defaulters.
- IBC proposes a new institutional set - up comprising following four critical pillars:
    - The National Company Law Tribunal (NCLT) as the adjudicating authority.
    - Insolvency professionals (IPs) to manage the insolvency and bankruptcy cases.
    - Information utilities (IUs) to reduce information asymmetries.
    - Insolvency and Bankruptcy Board of India (IBBI), a regulator.

Insolvency

- Insolvency is a state where the liabilities of an individual or an organization exceeds its asset and that entity is unable to raise enough cash to meet its obligations or debts as they become due for payment.

Bankruptcy

- When an individual is unable to pay off his liabilities and debts then he generally files for bankruptcy. Here he/she asks for help from the government to pay off his debts to his creditors.

Automated Teller Machine (ATM)

- ATM enables withdrawal of cash and checking of balance without going to branch

- The ATM network operates on NPCI - National Financial Switch.
- National Financial Switch (NFS) is the largest network of shared Automated Teller Machines (ATMs) in India facilitating interoperable cash withdrawal, card to card funds transfer and interoperable cash deposit transactions etc
- Bank ATMs owned, managed and installed by banks.
- Brown label ATMs Owned by banks and banks outsourced the ATM operations to a third party (a nonbanking firm).
- The concerned banks only handle part of the process that is cash handling and back - end server connectivity.
- They carry logo of the bank which outsources their service.

White label ATMs

- Owned and operated by a third party (a non - banking firm).
- They do not bear the logo of the banks they serve (that is why such a name).
- In place, they carry the logo of the firm which owns them.

Digital Payments

- NPCI - National Payment Corporation of India
- NPCI, an umbrella organization for operating retail payments and settlement systems in India.
- Initiative of RBI and Indian Banks Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India
- Not for Profit Company under the provisions of Section 25 of Companies Act 1956 (now Section 8 of Companies Act, 2013).

NPCI Operated System

- BHIM-UPI BHIM is based on Unified Payment Interface (UPI) to facilitate e-payments directly through banks.
- It is interoperable with other UPI applications, and bank accounts.
- Also caters to the Peer to Peer collect request which can be scheduled and paid as per requirement and convenience.

Aadhaar Enabled Payment System (AePS)

- It allows people to carry out financial transactions on a Micro-ATM by furnishing just their Aadhaar number and verifying it with the help of their fingerprint / iris scan.

National Electronic Toll Collection (NETC)

- It helps in electronic toll collection at toll plazas using FASTag.

National Automated Clearing House (NACH)

- It is a service offered by NPCI to banks which aims at facilitating interbank high volume, low value debit/ credit transactions, which are repetitive and electronic in nature.

Immediate Payment Service (IMPS)

- It offers an instant 24*7 interbank electronic fund transfer service through mobile phones.

Bharat Bill Payment System (BBPS)

- Function as entities facilitating collection of repetitive payments for everyday utility services, such as, electricity, water, gas, telephone and Direct-to Home (DTH).

Rupay

- The name, derived from the words Rupee and Payment, emphasizes that it is India's very own initiative for card payments.
- It is an indigenously developed Payment System.
- It supports the issuance of debit, credit and prepaid cards by banks in India.

Banking Sector Reforms

- Consolidation of the Public Sector Banks
- **Narasimham committee (1991 and 1998):** suggested merger of strong banks both in the public & private sector.
- **Verma committee:** viewed consolidation will lead to pooling of strengths and lead to overall reduction in cost of operations.

Bank Board Bureau:

- The appointments Board of the Public Sector Banks would be replaced by the Bank Boards Bureau (BBB).
- The BBB separates the functioning of the PSBs from the government by acting as a middleman.