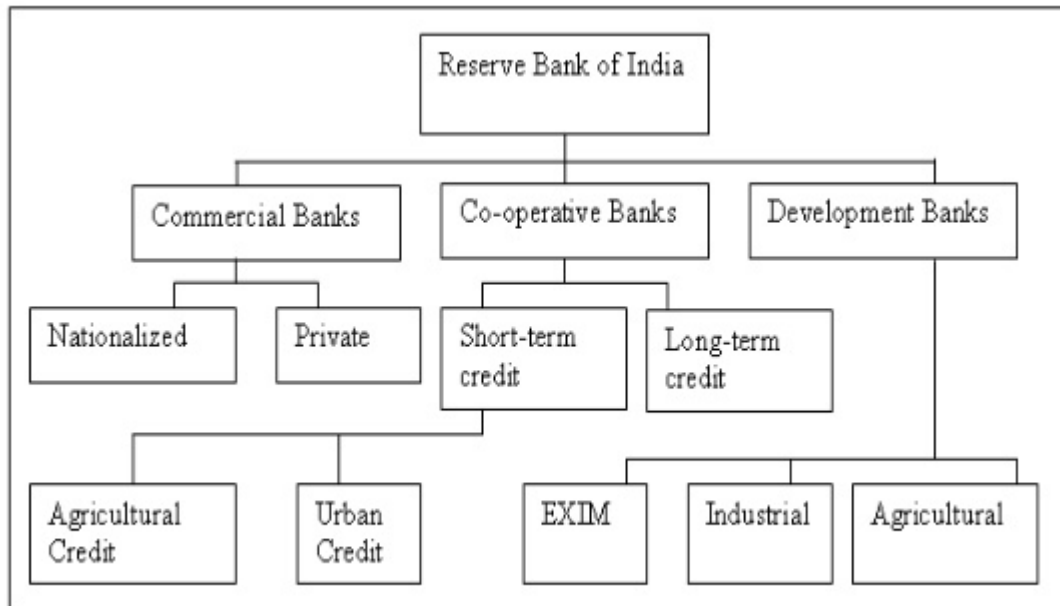


Structure of Indian Banking System

Banking System in India or the Indian Banking System can be segregated into three distinct phases:



A. Early Phase of Indian Banks, from 1786 to 1969

The first bank, namely Bank of Bombay was established in 1720 in Bombay. Later on, Bank of Hindustan was established in Calcutta in 1770. General Bank of India was established in 1786. Bank of Hindustan carried on the business till 1906.

First Joint Stock Bank with limited liability established in India in 1881 was Oudh Commercial Bank Ltd.

East India Company established the three independently functioning banks, also known by the name of “Three Presidency Banks” - The Bank of Bengal in 1806, The Bank of Bombay in 1840, and Bank of Madras in 1843. These three banks were amalgamated in 1921 and given a new name as Imperial Bank of India. After Independence, in 1955, the Imperial Bank of India was given the name "State Bank of India". It was established under State Bank of India Act, 1955.

In the surcharged atmosphere of Swadeshi Movement, a number of

private banks with Indian managements had been established by the businessmen from mid of the 19th century onwards, prominent among them being Punjab National Bank Ltd., Bank of India Ltd., Canara Bank Ltd, and Indian Bank Ltd. The first bank with fully Indian management was Punjab National Bank Ltd. established on 19 May 1894, in Lahore (now in Pakistan).

B. Nationalization of Banks and the Banking Sector Reforms, from 1969 to 1991:

The number of banks in India in 1951 was the highest – 566. In 1960, RBI was empowered to force the compulsory merger of the weak banks with the strong ones. This led to a reduction in the number of banks to 89 in 1969.

On July 19, 1969, 14 major banks were nationalized.

On April 15, 1980, another six banks were nationalized and thus raising the number of nationalized banks to 20.

C. New Phase of Indian Banking System, with the Reforms After 1991:

On the suggestions of Narasimha Committee, the Banking Regulation Act was amended in 1993 and thus the gates for the new private sector banks were opened.

In 1993, New Bank of India was merged with Punjab National Bank. “Industrial Development Bank of India (IDBI)” - was established as a Development Bank in 1964 - by an act of Parliament. It was given the status of a scheduled bank in September 2004 by RBI.

Bharatiya Mahila Bank Ltd – all women’s bank was established in 2013. It is based in New Delhi. Its first branch started its operations on

November 19, 2013. The inauguration was done by former Indian Prime Minister S. Manmohan Singh.

The present structure of Indian Banking System is as follows:-

Reserve Bank of India is the central bank of the nation and all Banks in India are required to follow the guidelines issued by RBI. The present structure includes:

1. PUBLIC SECTOR BANKS:

These include:

Currently, there are 27 Public Sector Banks in India including 19 Nationalized Banks (14+6 – 1 New Bank of India merged with PNB in 1993 + SBI which is not a nationalized bank + Five Subsidiaries of SBI + IDBI + Bharatiya Mahila Bank – established under Parliament of India Acts).

State Bank of India and its 5 Associate Banks, together called State Bank Group (The names of the 5 Associate Banks are: State Bank of Travancore (SBT), State Bank of Patiala (SBP), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM) and State Bank of Bikaner and Jaipur (SBBJ). The Union Cabinet approved the merger of the five subsidiaries; and Bharatiya Mahila Bank Ltd with SBI on June 15, 2016, and the merger is in progress.

Regional Rural Banks (RRBs): Previously these were 196 Regional Rural Banks sponsored by 27 State Cooperative Banks. As on 31st March 2013 due to mergers, their number has come down from 196 to 64. The numbers of branches of RRBs are 17856 as on 31 March 2013 covering 635 districts throughout the country. Notably, currently, there are 664 districts in India.

Development Banks: These include Industrial Finance Corporation of

India (IFCI) established in 1948, Export-Import Bank of India (EXIM Bank) established in 1982, National Bank for Agriculture & Rural Development (NABARD) established in 1982, and Small Industries Development Bank of India (SIDBI) established on 2nd April 1990.

2. PRIVATE SECTOR BANKS:

These include:

1. **Private Banks and Foreign Banks**: These include Private Banks and Foreign Banks in India. Currently, there are 23 banks operating in India in this category.
2. **District Central Co-Operative Banks in India**: As on 01.04.2016, there are 371 District Central Cooperative Banks in India with the maximum number of these located in U.P. (50) and Madhya Pradesh (38).

Scheduled Banks :

Those banks which are included in 2nd Schedule of RBI Act 1934.

These banks should fulfill two conditions:

1. Paid up capital and collected funds should not be less than Rs.5 lacs.
2. Any activity of the Bank should not be detrimental or adversely affect the interests of the customers.

Every Scheduled Bank enjoys two principal facilities

1. It becomes eligible for a Loan from RBI at Bank Rate.
2. It automatically acquires the membership of Clearing House.

Scheduled Banks comprises of:

- Commercial Banks

- Cooperative Banks

Commercial Banks are both Scheduled and Non-scheduled commercial banks regulated Banking Regulations Act 1949.

Commercial Banks work on a 'Profit Basis' and are engaged in the business of accepting deposits for the purpose of advances/loans

4 Types of Scheduled Commercial Banks (SCBs)

- I. Public Sector Banks
- II. Private Sector Banks
- III. Foreign Banks
- IV. Regional Rural Banks

I. PUBLIC SECTOR BANKS:

are those banks where Govt. is the owner or having more than 51% stake in capital.

SBI and all Nationalised Banks are Public Sector Banks.

For Example: SBI1

1. SBI and its Associates (now all the 5 Associates merged with SBI w.e.f. 01.04.2017).

- State Bank of Patiala
- State Bank of Bikaner & Jaipur
- State Bank of Mysore
- State Bank of Hyderabad
- State Bank of Travancore
- Earlier, State Bank of Indore and State Bank of Saurashtra already been merged with SBI.

Others

- Other Nationalised Banks.....19
- Other Public Sector Banks.....1
- IDBI and Bhartiya Mahila Bank.....1

- (BMB also now merged with SBI)

Total Public Sector Banks 21

After merger of 5 Associate Banks and BMB with SBI there will be 21 Public Sector Banks.

Total commercial Banks87 (before merger93)

Public Sector Banks (21):

1. SBI
2. Allahabad Bank
3. Bank of India
4. Bank of Baroda
5. Bank of Maharashtra
6. Canara Bank
7. Central Bank of India
8. Corporation Bank
9. Dena Bank
10. Indian Bank
11. Indian Overseas Bank
12. OBC
13. Punjab & Sind Bank
14. Punjab National Bank
15. Syndicate Bank
16. UCO Bank
17. Union Bank of India
18. United Bank of India
19. Vijaya Bank

Other Public Sector Bank

1. IDBI
2. BMB (merged with SBI)

II.PRIVATE SECTOR BANKS

- Private Banks are owned by private individuals/institutions. These are registered under the Companies Act 1956 as Limited Companies. For example :

New Generation Private Banks

- HDFC Bank
- ICICI Bank
- AXIS Bank
- Yes Bank

Old Private Sector Banks:

- Karur Vysaya Bank
- South Indian Bank etc.

III.FOREIGN BANKS :

Which are incorporated outside India and are operating branches in India also. For example:

- UK Banks : HSBC, Barclays Banks Standard Chartered Bank Royal Bank of Scotland
 - US Banks: Bank of America Citi Bank American Express
- Some foreign banks are also having their representative offices in India

IV.REGIONAL RURAL BANKS :

- RRBs were established in 1975 under RRB Act 1976.
- Main focus : Rural Area Development and elimination of money lenders.

RRBs are jointly owned by :

- Govt. Of India 50%
- State Govt. 15%
- Sponsored Bank 35%
- Recommendations : Narsimham Committee
- First RRB : Pratham Gramin Bank by Syndicate Bank in Moradabad (UP).
- Regulated By : NABARD
- Minimum Capital : Rs. 5 crore

PS Lending Target of RRBs:

75% of total outstanding advances should be to Priority Sector :

- Agriculture incl. Small & Marginal - 18%
- Weaker Sector - 15%
- MSME - 7.5%
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others

Cooperative Banks :

Cooperative Banks are small sized banks operating in rural and urban areas. They also perform fundamental banking activities but they are different from commercial banks.

- **Coop.** Banks are registered under Coop. Societies Act 1965 with RCS of the State.
- **Coop.** Banks are regulated by RBI under Banking Regulations Act 1949.
- **Coop.** Banks have limited products like – No ATM, Internet / Mobile Apps. Banking, RTGS/NEFT , Lesser Network of Branches etc.

Coop. Banking Structure is divided into 5 categories:

1. **Primary Coop. Credit Society** – Association of borrowers and non-borrowers. Funds of society are derived from members.
2. **District Central Coop. Bank** – Functions at District level only
3. **State Coop. Bank** – Apex Body the State Govt.
4. **Land Development Bank** – Long term loans to farmers. No deposits from public.
5. **Urban Coop. Bank** – general banking activities at State level.

DEVELOPMENT BANKS:

- **IFCI** : To cater to the long term financial needs of the Industrial Sector/Big projects.
- **IDBI** : for Industrial Sector now merged with IDBI Bank.
- **SIDBI** : Loan assistance to MFIs (Micro Finance Institutions) for onward lending to individuals/ SHG, subject to Min.Rs.50 lacs.
- Finance by MFI per borrower should not be more than Rs.60000/- and per SHG Rs.100000.

EXIM BANK

Govt. owned institution to finance and support exports and import of goods. Planning, Promoting & Developing Exports and Imports.



NABARD:

Promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities.