

## **Banking Act 1949 and History of Banking**

### **Introduction to Banks**

A financial system is an important tool for a country that wants to develop economically. The reason is that it helps in the creation of wealth by a way of investments. That is why there are different types of financial services available to facilitate the requirement. One of the important ways for a country to control financial transactions and services is through banks. Banking in India has been a backbone to so many businesses in the past as well as in the present times. It started in the 18th century and is still going strong. Different types of banks are central banks, commercial banks, investment banks, cooperative banks, postal banks. Let us see the introduction of Banks.

### **Functions of Banks:**

There are basically two categories of services which are performed by the banks.

1. Primary Functions of Banks
2. Secondary Functions of Banks

#### **1) Primary Functions of Banks:**

All banks perform two primary functions as follows.

- Accepting Deposits
- Avail Loan and Advances

#### **Accepting Deposits:**

All banks primarily accept deposits from general public and businesses as we know, however, there are various types of deposits in which form of the banks gather funds from the public or entities.

- **Saving or demand deposits:** The saving deposits also known as demand deposits are the popular and simplest form of deposits encourages savings. It offers a nominal interest rate and guarantees on-demand payment whenever the customers ask. However, there is a standard of minimum account balance which has to be fulfilled.
- **Fixed or Time deposits:** The fixed deposits also known as time/ term deposits refers to a deposit of specific amount for the stipulated period of time at a predetermined rate of interest. The depositor can't withdraw his funds till the completion of the maturity period.

- **Recurring Deposits:** The recurring deposits (RD) are a special account in which the depositor has to deposit money at regular intervals such as monthly, quarterly or weekly for a stipulated time period. The main features of the RD account are that it offers fixed interest rate same as fixed deposits.
- **Current Deposits:** The current deposits/ account are typically used by companies/ firms to facilitate business transactions. In the current account, there are no limitations on the number of transactions performed by the business firms, however, such deposits don't provide any rate of interest as well. The current accounts are frequently used by the businesses for receiving and doing payments among various parties.

#### Avail Loan & Advances:

The funds collected from the depositors through a different form of deposits are allocated among various businesses and individuals in form of loans/ advances. The banks charge a comparatively higher rate of interest on loans/ advances. The banks typically offer the following types of loans or advances to the business enterprises or public.

- **Cash Credit (CC) Facility:** The banks provide cash credit facilities to the businesses against collateral such as tangible assets, inventory or machinery etc. Cash credit (CC) is a short term loan offered by the banks and the interest is charged on excessive/ surplus withdrawal of funds on monthly basis over a certain limit. The CC loans are generally provided to the customers of banks, however, it sometimes offered to non-customers as well in certain scenarios.
- **Overdraft Facilities (OD):** The Bank provides overdraft (OD) facility to their current account holders against security. Overdraft account provides the facility of withdrawal of extra funds but up to granted limit and interest payable on such surplus withdrawal of money.
- **Bill/ Invoice Discounting:** The banks also provide short term advances to the businesses/ firms in form of Bill discounting. The bill/ invoice discounting is nothing but an advance against the company's receivable (due payments) before the maturity date. In simple words, the companies keep their invoices as collateral with the banks to get money less than the actual value of bills. The amount granted by the banks generally depends on the maturity period of bills and creditworthiness of the buyers.
- **Loans:** The banks also provide medium and long term loans to individuals which can be secured or unsecured. Some examples of secured loans are home loan, vehicle loan, gold loan etc whereas an example of unsecured loan is personal loans which are typically provided on the higher interest rate. The duration of such loans is predetermined repayment can be done in monthly instalments.

## 2) Secondary Functions of Bank:

In addition to primary functions, banks also perform other important functions on the behalf of their customers as well as government entities called secondary functions of banks. It can be classified into two parts.

- Agency Functions
- Utility Functions

### Agency Functions of Banks:

The bank acts as an intermediary between its customers and government/ business entities. Hence they work as an agent for their customers to pay bills, collection of payments etc. Some agency functions of the bank are as follows.

1. **Periodic Payments:** The banks do periodic payment such as electricity bills, water bills, insurance premium, monthly instalments, school fees etc on behalf of their customers. Such regular payment is debited at a fixed date from the customer's account automatically to reduce the burden of the customers.
2. **Periodic Collection:** The banks also receive periodic payments on behalf of their clients such as public entities, corporations or businesses. The banks play a vital role in the collection of payment from huge audiences. For instance salary, pension, collection of fees or security deposit for government entities etc.
3. **Fund Transfer:** The banks facilitate the transfer of funds from one person/ party to another person/ party and from one city to another city using NEFT, RTGS, IMPS etc.
4. **Cheques Negotiation:** The banks act as a clearinghouse agent between two parties for the clearance of the cheque. These days cheque's payment is preferred, safe mode of payment among businesses. Hence cheque negotiation is one of the major functions of banks.
5. **Portfolio Management:** The banks also facilitate stock market investments and trading through portfolio management. The money is debited and credited directly in the customer's account while trading in the stock market. Thus banks help individuals to build their portfolio by purchasing stocks, debentures, mutual funds or other securities.
6. **Advisory Services:** The banks sometimes act as trustee, advisor or representative for their high profile clients. Such services are typically provided by banks in case of foreign deals or other high-value affairs.

## Utility Functions of bank:

In addition to agency functions, banks perform some other general utility functions as well. Such popular services offered by banks are as follows.

1. Issuance of Bankers Cheque, demand drafts, letter of credit, bank guarantee to facilitate the businesses as well as the public.
2. Bank provide **locker services** for valuable property/ documents of the customers.
3. Sometimes banks provide **underwriting services** on behalf of their customers for the purpose of fundraising from the public through its merchant banking dividend.
4. The banks also **deal with foreign exchange** to facilitate cross border transactions during international trade.
5. **Public welfare programs:** The banks also help in the implementation of various government schemes and participate in different social activities, literacy and awareness campaigns.
6. **Other Utility Functions:** The banks help you to pay electricity bills, receiving the gas subsidy, house taxes, insurance premium, KCC loans, pension and AEPS (Aadhar Enabled Payment Service) withdrawal in remote areas.

## History of Banking in India

Banking in India forms the base for the economic development of the country. Major changes in the banking system and management have been seen over the years with the advancement in technology, considering the needs of people.

The History of Banking in India dates back to before India got independence in 1947 and is a key topic in terms of questions asked in various Government exams. In this article, we shall discuss in detail the evolution of the banking sector in India.

The banking sector development can be divided into three phases:

**Phase I:** The Early Phase which lasted from 1770 to 1969

**Phase II:** The Nationalisation Phase which lasted from 1969 to 1991

**Phase III:** The Liberalisation or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date

# **History of SBI**

## **State Bank of India (SBI Bank) history**

The State Bank of India (SBI Bank) was established in 1806, in Kolkata. Three years after that, it acquired its charter and was re-designed as Bank of Bengal in 1809. It was the very first joint-stock bank of India, which the Bengal Government sponsored. Apart from Bank of Bengal, the Bank of Madras and the Bank of Bombay was also part of this joint stock and remained at the centre of the modern banking.

Initially, all three banks were Anglo-Indian creations and they came into play due to the following three reasons-

- Lack of modernization of the Indian economy due to several arbitrary reasons
- Local European commerce needs and requirements
- Compulsions imperial finance

The transformation or evolution of the State Bank of India came about due to the ideas adopted from the same movements happening in England and Europe. Another reason that contributed to this evolution was the changes and modifications in the local trading environment, along with India's economic relationships with that of Europe and the global economic structure.

## **The current position of the State Bank of India (SBI Bank)**

The State Bank of India is a giant in its own right, and there are several reasons that contribute to that. It is the oldest bank in the country currently if you go by the size of its balance sheet.

Additionally, its market capitalization, hundreds of bank branches and the number of profits are helping it give stiff competition to other private sector banks in the country.

Presently, the bank is getting into a couple of new business with strategic tie-ups, which have quite a large growth potential. Some of these tie-ups are General Insurance, Pension Funds, Private Equity, Custodial Services, Mobile Banking, Structured Products, Advisory Services, and Point of Sale Merchant Acquisition etc.

Additionally, it is concentrating on wholesale banking capacities and the top end of the market, in order to offer India's corporate sector with numerous services and products.

Gaining entry in the field of derivative instruments and structured products along with the consolidation of the global treasury operations is also something they are focusing on now.

As of now, the State Bank of India is the biggest arranger responsible for external commercial borrowings in the country and is the biggest provider of infrastructure debt. In addition, it is the sole Indian bank to be a part of the Fortune 500 list.

Apart from banking, State Bank of India was also associated with non-profit ventures since 1973, such as Community Services Banking. In such cases, administrative offices and branches all over the country sponsor and take part in a huge number of social causes and welfare activities.

Additionally, they had also launched three digital banking facilities, in order to make financial transaction an easier affair for their customers.

Two of the digital banking facilities specialize in providing their services at the customers' doorstep by utilizing the method of TAB banking (One for housing loan applicants and the other for customers looking to open a savings account).

The third banking facility specializes in the KYC process (Know Your Customer). The other services, which are offered by the State Bank of India, are the following-

- Personal Banking
- Rural/ Agriculture
- Small and Medium Enterprise (SME)
- Domestic Treasury
- NRI Services
- International Banking
- Corporate Banking
- Government Business

### **Conclusion**

There are several reasons, which have contributed to making the State Bank of India (SBI Bank) the biggest and most popular bank in the country. Getting a job here is a matter of great respect and pride. Hence, if you are someone who wants a job here, make sure that you do your competitive exam preparation properly.

# **Government and Private Bank List**

## **INTRODUCTION**

The Reserve Bank of India was set up in the year 1935 as per the Reserve Bank of India Act, 1934. It is the national bank of India dependent on the multidimensional job. It performs significant money-related capacities from the issue of cash notes to the upkeep of financial stability in the nation. At first, the Reserve Bank of India was a private investor's organization which was nationalized in 1949. Its issues are administered by the Central Board of Directors designated by the Government of India. Since its beginning, the Reserve Bank of India had assumed a significant job in the financial turn of events and money related solidness in the nation.

## **HISTORICAL BACKGROUND**

It all started in 1926 when the Royal Commission on Indian Currency and Finance suggested the production of a national bank for India. Later in 1927, a bill to offer impact to the above suggestion was presented in the Legislative Assembly. However, it was later removed because of the absence of arrangement among different areas of individuals.

The White Paper on Indian Constitutional Reforms suggested the making of a Reserve Bank and a new bill was presented in the Legislative Assembly in the year 1933. After one year the Bill was passed and gotten the Governor General's consent. The Reserve Bank started tasks as India's national bank on April 1, 1935 as a private investors' manage an account with a settled up capital of rupees five crores (rupees fifty million).

In the year 1942, the Reserve Bank stopped to be the money giving authority of Burma (presently Myanmar). Due to which the Bank quit going about as broker to the Government of Burma. In 1948, the Reserve Bank quit delivering focal financial administrations to Pakistan.

Finally in 1949, the Government of India nationalized the Reserve Bank under the Reserve Bank (Transfer of Public Ownership) Act, 1948, and all shares were transferred to the Central Government. This was the period of post-independence and the RBI was comprised for the administration of cash and for conveying the matter of banking as per arrangements of the Act.

## **Schedule Commercial Bank**

The scheduled commercial banks are those banks which are included in the second schedule of RBI Act 1934 and which carry out the normal business of banking such as accepting deposits, giving out loans and other banking services. The major difference between Scheduled Commercial Banks and Scheduled Cooperative Banks is their holding pattern, since cooperatives are registered under the Cooperative Societies Act as cooperative credit institutions.

Scheduled Commercial Banks can be further divided into four groups:

- Public Sector Banks: This includes:
  - SBI & Associates
  - Nationalized Banks
  - Other Public Sector Banks
  - Private Banks
  - Foreign Banks
  - Regional Rural Banks

### **Scheduled Commercial Banks (Public Sector)**

***At present, there are 27 Public Sector Banks in India including SBI (plus its 5 associates) and 19 nationalized banks. Further, there are two banks which have been categorized by RBI as "Other Public Sector Banks". IDBI and Bhartiya Mahila Bank come under this category.***

#### **SBI & Associates**

State Bank of India with its around 17,000 branches and around 200 foreign offices, is India's largest banking and financial services company by assets. With over 2 lakh employees, SBI is banker to millions of Indians. This bank got birth in the British Era. Its first parents were three presidency banks viz. Bank of Calcutta (later Bank of Bengal), Bank of Bombay and the Bank of Madras. In 1921, these three presidency banks were merged in one entity called "Imperial Bank of India". The Imperial Bank of India was nationalized in 1955 and was renamed a State Bank of India. Thus, State bank of India is the oldest Bank of India.

In 1959, there were eight associates of SBI. The current five associate banks of SBI are:

- State Bank of Bikaner & Jaipur
- State Bank of Hyderabad
- State Bank of Mysore



- State Bank of Patiala
- State Bank of Travancore

### **Co-operative Banking in India**

The Co-operative Banks in India are governed as per the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1955.

These Banks have been opened with the motto of 'no-profit-no-loss' and thus, do not seek for profitable ventures and customers only. As the name suggests, the main objective of Co-operative Banks is mutual help.

Given below are a few important features of Co-operative Banking in India:

- They work on the principle of '**one person, one vote**'. Since these banks are owned by the members, a Board of Directors is chosen democratically and then they are responsible for controlling the Organisation
- Farmers can avail agricultural loans on minimum interest rates from the Co-operative Banks
- Providing easy and accessible loans and credit benefits in the rural areas with scarce banking facilities
- The annual profit earned is spent on financial reserves and required resources and a part of it is distributed among the Co-operative members, as per the prescribed limitations

These institutions play a critical role in last-mile credit delivery and in extending financial services across the length and breadth of the country through their geographic and demographic outreach.

## **Nationalisation of Banking in India and HQ**

### **Banking**

Banking is directly or indirectly connected with the trade of a country and the life of each individual. It is an industry that manages credit, cash, and other financial transactions. In banking, the commercial bank is the most influential institution for any country's economy or for providing any credit to its customers.

In India, a banking company is responsible for transacting all the business transactions including withdrawal of cheques, payments, investments, etc. In other words, the bank is involved in the deposit and withdrawal of money, repayable on demand, savings, and earning a decent amount of profits by lending money.

Banks also help to mobilise the savings of an individual, making funds accessible to businesses and help them to start a new venture.

## Types of Banking

Banks are further segregated into four types.

**Commercial banks:** These banks are regulated by Banking Regulation Act, 1949. They accept the public deposit from the public for lending or investment.

**Cooperative banks:** Cooperative banks are undertaken by the State Cooperative Societies Act and give cheap credit to their members. The rural population is dependent on the cooperative banks for its financial backup.

**Specialised banks:** These banks provide financial help to special industries, foreign trade, etc. Few examples of specialised banks are foreign exchange banks, export and import banks, development banks, etc.

**Central banks:** These banks manage, check, and monitor all the activities of the commercial banks of a country.

## Public sector Bank

Banks are the most important financial institutions in the world. Thanks to the banking system, all financial transactions possible without much hassle. People can save their money in banks, take loans, and transfer funds easily through bank accounts. However, all banks are not the same. According to their stakeholders, banks can be classified into two types. These are Public sector banks and private sector banks. Even though both types of banks offer similar services to the public, but there are some major differences in-between them. Let's take a closer look and see what is public sector bank and how does it work.

## Nationalised Banks in India

The history of nationalization of Indian banks dates back to the year 1955 when the Imperial Bank of India was nationalized and re-christened as State Bank of India (under the SBI Act, 1955). Later on July 19, 1960, the 7 subsidiaries of SBI viz. State Bank of Hyderabad (SBH), State Bank of Indore, State Bank of Saurashtra (SBS), State Bank of Mysore (SBM), State Bank of Bikaner and Jaipur (SBBJ), State Bank of Patiala (SBP), and State Bank of Travancore (SBT) were also nationalized with deposits more than 200 crores.

In the Indian banking scenario, most public sector banks are referred to as Nationalised Banks. This classification is, however, inaccurate. According to the IMF (International Monetary Fund), “**Nationalisation**” is defined as “**government taking control over assets and over a corporation, usually by acquiring the majority stake or the whole stake in the corporation**”. In 1949, during the early years of the country’s independence, India’s central bank, the RBI (Reserve Bank of India) became the first bank to be nationalised. This was an important move since the RBI would soon become the regulatory authority for banking in India. Most Indian banks at that time were privately owned. Thus, the Indian government then recognized the need to bring them under some form of government control to be able to finance India’s growing financial needs.

S.No.	Bank Name	Year of Nationalisation	Head Offices of Indian Nationalized Banks
1	Allahabad Bank	1969	The Chairman Allahabad Bank Head Office, 2, Netaji Subhas Road Calcutta-700 001.
2	Andhra Bank	1980	The Chairman Andhra Bank, Andhra Bank Building Sultan Bazar, P.B.No.161 Hyderabad-500 001.
3	Bank of Baroda	1969	The Chairman Bank of Baroda, Baroda Corporate Centre, C-26, G-Block, Bandra-Kurla Complex, Bandra (East), Mumbai-400 051.
4	Bank of India	1969	The Chairman Bank of India, Head Office Express Towers, Nariman Point Mumbai-400 021.
5	Bank of Maharashtra	1969	The Chairman Bank of Maharashtra, Lok Mangal 1501, Shivaji Nagar, Post Box No.919 Pune-411 005.
6	Canara Bank	1969	The Chairman Canara Bank, 112, Jayachamarajendra Road Post Box No.6648 Bangalore-560 002.
7	Central Bank of India	1969	The Chairman Central Bank of India, Central Office Chander Mukhi, Nariman Point

			Mumbai-400 021.
8	Corporation Bank	1980	The Chairman Corporation Bank, Bharath Building G.H.S. Road, Post Box No.88 Mangalore-575 001.
9	Dena Bank	1969	The Chairman Dena Corporate Centre C-10 G Block Bandra Kurla Complex Bandra East Mumbai 400 051.
10	Indian Bank	1969	The Chairman Indian Bank Building P.B.No.1384, 31, Rajaji Road Chennai-600 001.
11	Indian Overseas Bank	1969	The Chairman Indian Overseas Bank, Central Office 762, Anna Salai, P.B.No.3765 Chennai-600 002.
12	Oriental Bank of Commerce	1980	The Chairman Oriental Bank of Commerce E-Block, Connaught Place, P.B.No.329 New Delhi-110 001.
13	Punjab & Sind Bank	1969	The Chairman Punjab & Sind Bank, Bank House 4th floor , 21, Rajendra Place New Delhi-110 008.
14	Punjab National Bank	1969	The Chairman Punjab National Bank 7, Bhikaji Cama Place, Africa Avenue New Delhi-110 066.
15	Syndicate Bank	1969	The Chairman Syndicate Bank Post Box No.1, Manipal-576 119 Karnataka State.
16	UCO Bank	1969	The Chairman UCO Bank, Head Office 10, Biplabi Trailokya Maharaj , Sarani Calcutta-700 001.
17	Union Bank of India	1980	The Chairman Union Bank of India, Union Bank Building Central Office, 239, Backbay Reclamation Post Box No.93A, Nariman Point, Mumbai-400 021.
18	United Bank of India	1969	The Chairman United Bank of India 16, Old Court House Street Calcutta-700 001.