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AN OVERVIEW OF BANKING SYSTEM IN INDIA

Kavita C. Agrawal
Research Scholar, Department of Commerce,
R. T. M. Nagpur University, Nagpur.

ABSTRACT:

India is basically an agricultural country. The natural conditions, the flora & fauna have made agriculture as one of the primary occupation of the masses. Mahatma Gandhi has also said that the real India lives in villages. The village is the basic unit of the Indian economic constitution. Agriculture has been the occupation right from the Vedic Times. Still references to industry are found in the Rig-Veda, Yajur-veda&Atharva-veda the oldest records of mankind. A well-developed system of industry administration is found recorded in the Arthashastra of Kautilya. The country is having the dense population of over 100 crore inhabited by people of different races, religion, castes, faiths, cultures etc. Variety and diversity is the identity of this land. But there is a theme of unity amongst this diversity that gives a sense of oneness. Due to this oneness the flow of Indian culture has stood to the test of history. History records that this land and the people were one of the richest continent the world supplying the needs of rest of the world.

KEYWORDS : Agriculture , religion, castes, faiths, cultures.

INTRODUCTION

There are different definitions of banking given by different authors and regulations. These definitions are studied.

As per Section 5(c) of Banking Regulation Act, 1949, "A Banking Company means any company which transacts the business of banking in India."

Explanation: Any company which is engaged in the manufacture of goods or carries on any trade and which accepts the deposits of money from public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking within the meaning of this clause."

As per Section 5(b) of 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, order or otherwise.

As per Section 5(d) of Banking Regulation Act, 1949, company means any company as defined in Section 3 of the Companies Act, 1956 and includes a foreign company within the meaning of Section 591 of that Act.

As per section 51 of Banking Regulation Act, 1949, certain provisions of the Banking Regulation Act are also applicable to the State Bank of India, any corresponding new bank, a regional rural bank and any subsidiary bank. "According to Prof. Sayers, In this definition Sayers has emphasized the transactions from debts which are raised by a financial institution.

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

Horace White has defined a bank, “as a manufacture of credit and a machine for facilitating exchange.”

TYPES OF BANKS IN INDIA

There are various types of banks working in India. These banks can be divided in four types which are as follows

1. **Commercial Banks**:

Commercial banks form a significant part of the country’s Financial Institution System. Commercial Banks are those profit seeking institutions which accept deposits from general public and advance money to individuals like household, entrepreneurs, businessmen etc. with the prime objective of earning profit in the form of interest, commission etc. The operations of all these banks are regulated by the Reserve Bank of India, which is the central bank and supreme financial authority in India. The main source of income of a commercial bank is the difference between these two rates which they charge to borrowers and pay to depositors. These banks capacity to support the people, business visionaries and organizations. They give money related administrations to these businesspeople like platinum cards, banks accounts, transient stores, and so on with the cash individuals store in such banks. They additionally loan cash to representatives as overdrafts, Visas, verified credits, unbound advances and home loan advances to specialists. The business banks in the nation were nationalized in 1969.

The business banks can be further groups as: open area bank, private segment banks, remote banks and local banks.

a) **The Public Sector Banks:**

The term public sector bank is used commonly in India. This refers to banks that have their shares listed in the stock exchanges NSE and BSE and also the government of India holds majority stake in these banks. The Public Sector Banks are owned and operated by the government. They can also be termed as government owned banks.

b) **The Private Sector Banks**

The Private Sector Banks are owned and operated by private institutes. All those banks where greater parts of stake or equity are held by the private shareholders and not by government are called “private-sector banks”. They have a highly developed organisational structure and are professionally managed. Thus they have grown faster and stronger since past few years.

c) The Foreign Banks

Foreign banks are those banks which are based in the foreign country but have several branches in India.

2. The Regional Rural Banks

The Regional Rural Banks were carried into activity with the goal of giving credit to the rustic and rural locales and were brought into impact in 1975 by The Regional Rural Bank Act. These banks are limited to work just in the territories indicated by legislature of India. These banks are claimed by State Government and a support bank. This sponsorship was to be finished by a nationalized bank and State Co-usable bank. There are 83 Regional Rural Banks in India.

3. Co-operative banks:

These banks are controlled, owned, managed and operated by co-operative societies and came into existence under the Co-operative Societies Act in 1912. These banks are located in the urban as well in the rural areas. Although these banks have the same functions as the commercial banks, they provide finance to farmers, salaried people, small scale industries, etc. and their rates of interest of interest are lower as compared to other banks.

There are three types of co-operative banks in India, namely:

a) Primary credit social orders: These are framed in little region like a community or a town. The individuals utilizing this bank for the most part know one another and the odds of submitting misrepresentation are negligible.

b) Central co-usable banks: These banks have their individuals who have a place with a similar area. They work as other business banks and give advances to their individuals. They go about as a connection between the state co-usable banks and the essential credit social orders. There are 366 co-employable banks in India.

c) State co-employable banks: These banks have a nearness in every one of the conditions of the nation and have their essence all through the state. There are 31 State Co-usable Banks in India,

4. Investment banks:

A fully operating investment bank is usually referred to a financial and banking organization, which provides both financial as well as advisory banking services to their clients. Apart from that, an investment bank even deals with research, marketing and sales of a range of financial products like commodities, currency, credit, equities etc. Their clients can be individuals, businesses, or government organizations.

5. **Specialized Banks**:

Development banks are specialized financial institutions. They provide medium and long-term finance to the industrial and agricultural sector. They provide finance to both private and public sector. Development banks are multipurpose financial institutions. They do term lending, investment in securities and other activities. They even promote saving and investment habit in the public.

Development banks in India are classified into following four groups:

A. Industrial Development Banks: It incorporates, for instance, Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), and Small Industries Development Bank of India (SIDBI).

B. Agricultural Development Banks: It incorporates, for instance, National Bank for Agriculture and Rural Development (NABARD).

C. Export-Import Development Banks: It incorporates, for instance, Export-Import Bank of India (EXIM Bank).

D. Housing Development Banks: It incorporates, for instance, National Housing Bank (NHB).

6. **Central Bank**:

The central bank of the country is the Reserve Bank of India (RBI). It was established in April 1935 with a share capital of ₹ 5 crores on the basis of the recommendations of the Hilton Young Commission. The share capital was divided into shares of ₹ 100 each fully paid which was entirely owned by private shareholders in the beginning. The Government held shares of nominal value of ₹ 2,20,000. Reserve Bank of India was nationalized in the year 1949. The general superintendence and direction of the Bank is entrusted to Central Board of Directors of 20 members, the Governor and four Deputy Governors, one Government official from the Ministry of Finance, ten nominated Directors by the Government to give representation to important elements in the economic life of the country, and four nominated Directors by the Central Government to represent the four local Boards with the headquarters at Mumbai, Kolkata, Chennai and New Delhi. Local Boards consist of five members each Central Government appointed for a term of four years to represent territorial and economic interests and the interests of co-operative and indigenous banks.

The Reserve Bank of India Act, 1934 was commenced on April 1, 1935. The Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank. The Bank was constituted for the need of following:

- To regulate the issue of banknotes
- To maintain reserves with a view to securing monetary stability and
- To operate the credit and currency system of the country to its advantage.

CONCLUSION

The financial framework has seen an enormous development and the rivalries among different banks have expanded nowadays. The blast in web based business industry, globalization, and expanded prevalence of web has made it essential for the banks stay aware of the most recent innovation patterns. With the passage of the private and worldwide banks in the market, the challenge among the banks has expanded in the nation. They give a wide assortment of administrations other than acquiring and loaning cash to individuals.

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