Chapter 1

Introduction

# 1.1 Introduction

The banking system is important for the smooth functioning of the economy. The banks exist in various different forms from the ancient period as early as 2000 B.C. Babylonians had developed a system of banks. Traces of credit by compensation and by transfer orders are found in Assyria, Phoenicia and Egypt before the system attained full development in Greece and Rome. In ancient Greece and Rome the practice of granting credit was widely prevalent. The old Sanskrit law book by Manu is full of governing credit. The functions of the banks were changed continuously from the ancient to modern period.

In modern period, all economies in the world are using money for the economic activities. Seventy to Ninety percent money circulated in the modern economies are in the form of bank deposits or bank money. In modern day world, banks provide a variety of services to their customers. Commercial banks facilitate both the flow of goods and services from producers to consumers and the financial activities of the government. They promote savings and channelize them into investments. Banks have a key role to play in the process of economic development by promoting savings, by encouraging investment by developing enterprises, and by inculcating managerial and business skills in men.

# 1.2 Origin of "Bank'

The history regarding the origin of Bank, even after the twelfth century, is not also clear which has been based on guesses. According to some writer the word "Bank" was derived from "Banco", "Bancus," "Banque" or "Banc" all of which mean a bench upon which the

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mediaeval European moneylenders and money changers used to display their coins. The word "Bank" is either derived from old Italian word "banca" or from a french word "banque„ both mean a bench or money exchange table. In olden days, European money lenders or money changers used to display coins of different countries in big heaps on benches or tables for the purpose of lending or exchanging. According to some authorities, the word "Bank" itself is derived from the words "bancus" or "banqee," that is, a bench. The early bankers,.the Jews in Lombardy, transacted their business on benches in the market place. 

Another commonly held view is that the word "bank" is originally derived from the German word "back" meaning a joint stock fund, which was italianized into "banco" when the Germans were masters of a great part of Italy. The Italian word "banco" was the name given to a money exchanger's counter on which he laid out his piles of money.

Another theory posits that bank comes from the italian word "monte" which means a mound or a heap. This word indicates that one require a heap of money for carrying on the banking business.



There is a lot of controversy over the Origin of word "Bank". But our interest is to know the origin of banking and how its functions evolved over the period of time. It remains a fact that the name bank dates back to middle ages of human civilisation.

# •1-3 Meaning and Definitions of Bank

To understand the meaning of term bank, we have to look into the functions performed



by the bank. The functions performed by the bank were continuously evolved over the period of time and they are still evolving. The easiest way to define bank, is by using the functions performed. So in simple word, "A bank is what bank does". Bank is continuously evolving process.

Over the years the nature and scope of services provided by banks have changed and expanded so much that no definition of banking can be comprehensive enough. At the same time, the primary activity of banks continues to be "accepting, for the purpose of lending and investment, deposits of money". Banks started as safe keepers of valuables such as grain and precious metal and the receipts issued by them were trusted so much that they came to be used as money. Perhaps, this fact, combined with their realization that all the depositors will not withdraw their valuables at the same time may have emboldened them to lend a part of the valuables deposited with them to needy persons at a charge or interest. Alternately, they may have issued to borrowers, receipts for deposits of, say, gold coins, without actually receiving any gold coins with the understanding that he will return the receipt or the specified quantity of gold coins after a certain period. Banks perfected the art of lending and over time it became a legitimate activity of banks.

**1-3.1 Important Definitions of Bank The essential**

characteristics of the bank are:

1. They accept deposits from the public.
2. They grant loans, advances and make investments. 
3. The deposits are repayable on demand.
4. The bank deposits are repayable by cheque hence they are like cash which can be used as a means of payment.

1. Macleod: According to Macleod," The essential business of a 'banker' is to buy money and debts, by creating other debts. A banker is, therefore, essentially a dealer in debts  or credit".

By definition a banker can be said to be a person (or an institution) dealing in debt and credit, though it is an important function of a bank, but it is not the only function. Thereforer this definition is too narrow. This definition is not able to distinguish between banker and moneylender.

2. Dr. Herbert L. Hart: According to Dr. Herbert L. Hart, "A banker is one who in the ordinary course of his business, honours cheques drawn upon him by persons from and for whom he receives money on current accounts".

3. Sir John Paget: According to Sir John Paget, "No person or body corporate, or otherwise, can be a banker who does not take deposit accounts, take current accounts, issue and pay cheques drawn upon himself and collect cheques, crossed and uncrossed for his customers ... 

This definition gives more emphasis on the Accepting deposits, -issue cheques as a distinctive functions performed by the bank.

Sir John Paget has further added that a banker must be acknowledged by the public as a  banker. and banking must be his only or main occupation.

1. Prof. Sayers: According to Prof. Sayers," Banks are institutions whose debts usually referred to as 'bank deposits' are commonly accepted in final settlement of other people's debts".

The use of bank credit as money is very significant, and as such, it is rightly stressed by Prof. Sayers. But this definition is not considered fully satisfactory, because it emphasizes only one important aspect of banking. 

1. In 1899, the United States Supreme Court used these words to define a bank: "A bank is an institution, USuälly incorporated with power to issue its promissory notes intended to circulate as money (known as bank notes); or to receive the money of others on general deposit, to form ajoiht fund that shall be used by the institution, for its own benefit/ for one or more of the purposes of making temporary loans and discounts; of dealing in notes, foreign and domestic bills of exchange, coin, bullion, credits, and the remission of money; or with both these powers, and with the privileges, in addition to these basic powerse of receiving special deposits and making collections for the holders of negotiable paper, if the institution sees fit to engage in such business."
2. United States of America (Federal Reserve)• defines bank as: The term "bank" means a bank or trust company incorporated and doing business under the laws of the United States (including laws relating to the District of Columbia) or of any State, a substantial part of the business of which consists of receiving deposits and making loans and discounts, or of exercise fiduciary powers similar to those permitted to national banks under authority of the Comptroller of the Currency, and which is subject by law to supervision and examination by state or federal authority having supervision over banking institutions.
3. Kinley's defined, "A bank is an establishment which makes to individuals such advance of money as may be required and safely made and to which individuals entrust money when not required by them for use".

## 4.4 Evolution of Banking in India

Banking is believed to have existed in the crudest form in India. The Puranas and Smritis mention about money changing and moneylending. Manusmriti contains references regarding deposits, pledges, policy on loans and rates of interest. Kautiliya ts Arthashastra also speaks extensively on banking practices in ancient India also mentioned about the existence of powerful guilds of merchant bankers who received deposits, advanced loans and issued hundis (letters of transfer).

1-4.1 Overview of Evolution of Banking in World Historical Perspective:

As early as 2000 B.C., Babylonians had developed a system of banks. In Babylonia out of the activities of temples and palaces which were preferred places for safekeeping of valuables like grain, agricultural implements, precious metals etc. The receipts issued by the temples and palaces came to be used for transfer of the stored items to third parties. Thus banks started as safe keepers and evolved into banks by offering fund transfer facility and

In India, as early as the vedic period, banking exists in its crude form. The book of Manu has references regarding deposits, pledges, policy of loans and rates of interest.

In Egypt too, the receipts issued by granaries were used for making payments. Later, Greeks captured Egypt in 323 BC. They perfected the "giro't or system of transfer of funds through book entries without the movement of money. The government granaries which acted as banks, developed the system of transfer of grains from person to person and place to place by making entries- in books without moving the grains. The operations were coordinated by a Central Granary or Central Bank at Alexandria.

In Rome, the bankers were called 'Argentarii', 'Mensarii' or 'Callybistoe'. The banks were called 'Tabernoe Argentarioe'. Some of the banks carried business on their own account and others were appointed by the Government to receive the taxes. Credit transactions of the people, government used to settle their accounts with their creditors by giving a cheque or draft on the bank. If the creditor had also an account at the same bank, the account was settled by an order to make the transfer of such money from one name to another. To pay money by a draft was known as "prescribers" and "prescribers" and the draft was known as "attribution". These bankers also received deposits and lent money. Loan banks were also common in Rome. From these loan banks the poor citizens received -loans without paying interest.

The Bank of Venice, established in 1157, is supposed to be the most ancient bank. Originally, it was not a bank in the modern sense, being simply an office for the transfer of the public debt.

The Bank of Amsterdam was established in 1609 to meet the needs of the merchants o the city. It accepted all kinds of deposits. These deposits could be withdrawn on demand transferred from the account of one person to another. The bank also adopted a plan b which a depositor received a kind of certificate entitling him to withdraw his deposit within six months.

Before 1640, the modern banking had no existence in England. Up to that date merchants had a habit of depositing their bullion and cash in the Mint in the Tower, under the guardianship of the Crown. Charles I. seized upon the merchants bullion and cash in the Mint before fatal dissolution of the Parliament. After a strong protest by the merchants, Council agreed to let the King have E40,000, upon receiving adequate security for its repayment with interest. Ultimately, whole of the loan was repaid to them with interest.

But due to lack of confidence in the royal honour, merchants decided to keep their cash in their own houses, under the care of their own clerks and apprentices. During the war time, some clerks carried off their master's cash with them. While others lent out funds to the goldsmiths privately, at some 4% per day rate of interest.

The goldsmiths lent out the money which came into their hands in great quantities to merchants and others at high interest, and then began to discount mercantile bills. They began to attract money from the general public by offering them interest at the rate of six per cent and engaging to repay the sums placed with them on demand. Later to reduce demand for the money, Goldsmiths agreed with their customers to make these credits or deposits as transferable as money itself, and to pay any person to whom their customers had transferred their credits, in the same way as to themselves. 

These credits or deposits were transferred by means of paper documents, which were Of two forms:

1. Either the goldsmith gave his customer a written promise to pay to himself, or to his order, or to bearer, on demand, a certain sum of money. These notes were in simple writing, and were called goldsmith's notes.

2. The customer might write a note to the goldsmith directing him to pay a certain sum to any person, or to his order, qr to bearer, on demand, these notes were, at first called cash notes, but in modern language they are termed cheques.

People found it much more convenient to place their money with the goldsmiths earn with interest at six per cent, than to lend it out on real or personal security. By experience the goldsmiths found that they could keep an amount of credit several times exceeding the amount of. cash they kept to meet the demands upon them. Goldsmith were men known to

be so rich and of such good reputation, that all the money in the kingdom would be trusted to their hands. These goldsmiths then came to be called bankers.

## 1.6 Evolution of Banking in India

'1. Banking in Vedic Period: From B.C. 500, India possessed a system of banking which fulfilled the needs of the civilisation. The literature of Buddhist period shows the existence of banking in all important trade centres. The Jain scriptures mention the names of two bankers who built the famous Dilwara Temples of Mount Abu during 1197 and 1247 A.D.

In India our historical, cultural, social and economic factors have resulted ih the Indian money market being characterized by the existence of both the unorganized and the organized sectors.

1. Banking during Mughal Period: During the Mughal period, the indigenous bankers of India were most prominent, in connection with the financing of trade. The most eminent banker is the title of 'Jagat Seth', the 'Banker of the World'. The Mughal period is said to be distinguished for its system of coinage. Though the coins were both of gold and silver, silver coins were in larger use.
2. Banking during 17th century: India had trade relations with most of the countries of the world. To facilitate trade some banking facilities were obviously essential and were provided by traditional Indian bankers. These bankers are known as indigenous bankers and they were the fore runners of modern banking institution because they performed the functions of accepting deposits, giving loans and facilitate trade by dealing in hundis. The indigenous bankers represented proprietorship or joint family firms. They worked with their own funds, though they did accept deposits. For money lending, promissory notes were gave loans to farmers, small businessmen, craftsmen and traders.

The first bank in India was the "Bank of Hindustan" started in 1770 by the well known agency house 'Alexander and Company'. The Bengal Bank established in 1784 was not related to any agency house. In 1786, The General Bank of India got established as the first Joint Stock bank with limited liability. All these banks, however, were short-lived and their business coverage also was limited and unbalanced.

1. Banking during 18th century: The first bank in the modern sense was established in the Bengal Presidency as the Bank of Calcutta, was founded on 2nd June, 1806. The East India Company gave a charter of banking business to this bank in 1809 and it was renamed as Bank of Bengal. The East India Company gave right to -the Bank of Bengal to the issue paper currency in 1823 and was permitted to open branches in 1840. In this year, it was given the status of the Presidency Bank of Bengal, In 1840 and 1843, the Presidency Banks of Bombay and Kolkata respectively were established.

A Charter Act 1813 was passed which removed all restrictions on Europeans settling in India. The Allahabad Bank and the Alliance Bank of Shimla were established in 1865 and 1875 respectively. The Oudh Commercial Bank (also called as Awadh Commercial Bank) was a limited liability to be managed by Indians, was established in 1881. Punjab National Bank was founded in the 1894 at Lahore (presently in Pakistan).

5. Banking during 19th century; During the period 1906-1911, several commercial banks like the Bank of India, Central Bank of India, Bank of Baroda, and Bank of Mysore etc•

The credit behind establishment of the Indian banks goes to the Swadeshi ovement that began in 1906. The Bank of India established in 1906, had branches largely haround Bombay.

6. The Presidency Banks: The Presidency Bank was called the 'Bank of Bengal'. It started its work on excellent promises, entrusted as it was with the funds of the Government and thereby acquiring a peculiar prestige. The capital of this early bank was  one fifth of which i.e. was contributed by the East India Company.

7. Imperial Bank of India: There was strong demand for unification of the Presidency Banks in the form of one Central Bank for India, so that there could be uniformity of practice and organization, control and also guide the Indian money market. The Imperial Bank of ndia Act was thus passed in 1920 and existence of The Presidency Banks ended. The Act did not give the Imperial Bank the power to issue bank notes. However, the Imperial Bank was permitted to manage the clearing house and to hold Government balances.

The Imperial Bank of India Act of 1920 was amended in the year 1934 on the passing of the Reserve Bank of India Act of 1934. The Reserve Bank became the banker to the

Government in place of the Imperial Bank. The Imperial Bank would act as the sole agent of the Resente Bank of India at all places in India where the Imperial Bank had its branches. Various restrictions which were placed on the Imperial Bank under the Imperial Bank Act of 1920 were removed. The Imperial Bank of India was, primarily, a commercial bank until the establishment of the Reserve Bank of India.

8. Establishment of Reserve Bank of India: The need of Central bank was first felt by

Warren Hastings as early as 1773. But it did not materialise until 1921. In 1926, a Royal Commission on Indian Currency was appointed under the charm of Sir Hilton Young. (Also known as Hilton Young Commission.)

Hilton Young Commission recommended that the responsibility of issuing paper currency and performing the functions of the central bank should be unified and should be entrusted to one single authority.

The Commission recommended the establishment of a central bank, to be named as "Reserve Bank". Before that, the issuing of paper currency was the responsibility of the Central Government. The banking functions of a Government were performed by the Imperial Bank of India.

With the recommendations of the Hilton Young Commission, the Finance Minister introduced a bill in the Indian Legislative Assembly in January 1927. But, bill was dropped due to sharp differences of opinion on the constitution and composition of the Bank and its Board of Directors.

9. The State bank of India (SBI) and Associate Banks: The State Bank of India Act, 1955, came into force on 1st July, 1955 and the undertaking, business and staff of the Imperial Bank were transferred to the "State Bank of India".

The objects of converting Imperial Bank of India into State Bank of India are stated in the preamble of the aforesaid Act as, "the extension of Banking facilities on a large scale, more



particularly in the rural and semiurban areas and for diverse other public purposes",

After 4 years, The State Bank of .1ndia (Subsidiary Banks) Act was passed in 1959 under which the State associated banks were made the subsidiaries of the State Bank of India.

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| 1. The State Bank of Bikaner and Jaipur
2. The State Bank of Indore,
3. The State Bank of Mysore,
4. The State Bank of Patiala,
5. The State Bank of Hyderabad,
6. The State Bank of Saurashtra,
7. The State Bank of Travencore.

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These were:



10. Nationalisation era: The Indian banking system underwent significant changes, when 14 major Indian scheduled Commercial banks were nationalised by the Government of India in July 1969.

Each nationalised banks having minimum aggregate deposits of 50 crore with 85 percent of deposits. According to the Bank Nationalisation Act, 1969, the objective and reason for the nationalisation, were: "To serve better the needs of development of the economy in conformity with national policy objectives like rapid growth in agriculture, small industry and exports, raising employment levels, encouragement of new entrepreneurs and the development of the backward areas".

(Central Bank of India, Bank of India, Punjab National Bank, Bank of Baroda, United Commercial Bank, Canara Bank, United Bank of India, Dena Bank, Syndicate Bank, Union Bank of India, Allahabad Bank, Indian Bank, Bank of Maharashtra and Indian Overseas Bank).

Again in 1980, the Government of India had nationalised another six banks, each having deposits of 200 crore and above. These six banks are Andhra Bank, Corporation Bank, New Bank of India, Oriental Bank of Commerce, Punjab & Sind Bank. And Vijaya Bank.

11. After Economic Reforms of 1991: Since liberalization policy of 1991, major reforms have been introduced by the Government in the banking sector in India. The aim of these reforms is to make banks more efficient and competitive. New commercial banks have been set up in the private sector. Other many foreign banks have opened branches in India. There freedom and autonomy in the banking sector.

Local Area Banks (LABS) were set up as per a Government of India Scheme announced in August 1996. The intention of the government was to set up new private local banks with jurisdiction over two or three contiguous (sharing a common border) districts. The objective was to enable for mobilization of the rural savings by local institutions and make them available for investments in local areas. Thus, to bridge the gaps in the credit availability in the rural and semiurban areas, thereby strengthening the institutional credit mechanism in rural areas.

After the success of LABS, RBI had decided to licence new "Small Finance Banks" in the private sector. Realization came that small finance banks can play an important role in the supply of credit to micro and small enterprises, agriculture and banking services in unbanked and underbanked regions in the country. The objectives of setting up of small finance banks will be to further financial inclusion by provision of savings vehicles, and supply of credit to small business units, small and marginal farmers, micro and small industries and other unorganised sector entities, through high technology low cost operations. The minimum paidup equity capital for small finance banks shall be 100 crore.

Recent Trend in Merger of Public Sector Banks:

Government of India is working on the plans to build "next-gen banks".

In the First Phase:

1. On 2nd January 2019 a notification issue by Government of India states Amalgamatiof Vijaya Bank and Dena Bank with Bank of Baroda with effect from 1st April, 2019. The plan was called the Amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda scheme'



In the Second Phase:

A notification issue by Government of India on the 4th March, 2020 stating amalgamation of various public sector banks,

I. Amalgamation of Oriental Bank of Commerce and (Jnited Bank of India into Punjab National Bank Scheme, 2020. It shall come into force on the 1st April, 2020. It will create a bank with a business of 17.95 lakh crore and have 11,437 branches.

1. Amalgamation of Syndicate Bank into Canara Bank to create India's fourth largest public sector bank (PSB) with a business of 15.2 lakh crore.
2. Amalgamation of Andhra Bank and Corporation Bank into Union Bank of India Scheme, 2020. This Amalgamation will create India's fifth largest PSB, The merged entity will have deposits of 14.6 lakh crore.
3. Amalgamation of Allahabad Bank into Indian Bank Scheme, 2020. This Amalgamation will create the seventh largest PSB with 8 lakh crore.

## 1.7 Structure of Indian Banking System

The Banking system plays a vital role in economic development of the country. The structure of the banking and financial system is not created at one point. This structure is developed over the period of time through a smooth and continuous process. So it is very important to look at the structure of Indian banking system. How various apex institutions come into existence? How Indian commercial banking evolved through various reform process.

The diagram 1.1 gives the structure of Indian banking system right from central bank, apex institution and banking Institution and development banks. IQ the structure, banking \*institutions are the core of the entire system, both, functionally as well as coveragewise.

### A. Reserve Bank of India

The Reserve Bank of India (RBI) is the apex institution of the Indian banking system. was established on 1st April, 1935 under the Reserve Bank of India Act, 1934. According to Reserve Bank (Transfer to Public Ownership) Act, 1948 the entire share capital of the bé was acquired by the central government. The Reserve Bank of India started functioning a: central bank from 1st January, 1949. The Reserve Bank performs all functions of a cent bank. The Reserve Bank of India Act, 1934, gives it a special status in the banking syste of our county while the Banking Regulation Act, 1949, this act confers wide powers supervision and control over the banking system. 

B. The Apex Banking Institutions

Under the mentorship and overall control of the Reserve Bank of India various ape: banking institutions have been established during the post-independence era.

(1) Industrial Development Bank of India (IDBI):

In the field of long term industrial finance, The Industrial Development Bank of India (IDBI) is the apex banking institution was incorporated on ISt July 1964, headquarter at Mumbai as a subsidiary of the RBI. The bank was established as a wholly owned subsidiary Of the Reserve Bank of India on ISt July, 1964 under a special statute, viz., Industrial Development Bank of India Act. The objective is to provide direct assistance to large and medium industries and indirect assistance to tiny and small enterprises. IDBI provides assistance to small, medium and large scale industries in public, private, joint and co-

In 1976, the IDBI was delinked from the RBI and its share capital was transferred to the central government. This resulted in enlargement of its role in functioning as a coordinator ofall term lending institutions and public sector banks in the country.

Since 1986, the authorised capital of IDBI has been raised to 1,000 crores which can be further increased to 2,000 crores. It mobilises funds through borrowings from the

Government of India, the RBI, by way of bonds/debentures, by selling capital bonds, through investment deposit account scheme, foreign currency borrowings etc,

(2)' Small Industries Development Bank of India (SIDBI):

In April 1990, 'The Small Industries Development Bank of India (SIDBT) came into existence. The SIDBI is a fully owned subsidiary of the Industrial Development Bank of India. The authorised capital of the Bank is 250 crores which can be increased up to

1,000 crores.

It is concerned mainly with the needs of small scale industrial units.

The objectives of the SIDBI are as follows (a) refinancing after loans granted by other

financial institutions, (b) discounting as well as rediscounting of bills arising out of sale of capital goods produced by small manufacturers, (c) equity assistance by way of seed capital,  (d) rediscounting of short-term trade bills in the small-scale sector and resource support to institutions concerned with the development of 551 units.



(3) National Bank for Agricultural and Rural Development (NABARD):

National Bank for Agricultural and Rural Development was established on 12th July, 1982. NABARD came into existence by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). NABARD was set up with an initial capital of 100 crore, its' paid up capital stood at 10,580 crore as on 31st March, 2018. As per the revision in the composition of share capital between Government of India and RBI, NABARD today is fully owned by Government of India.

This bank caters to the three types of needs of agriculture and rural development by performing: (a) credit functions, (b) developmental functions, (c) regulatory functions. The State Co-operative . Banks, Regional Rural Banks, State Land Development Banks and Commercial Banks get refinance facility from the NABARD.

NABARD acts as an agent of the Government and the RBI and coordinates operations of the rural credit agencies

(4) Export-Import Bank of India (EXIM Bank):

The Export-Import Bank of India was established in January, '1982 as a statutory corporation wholly owned by the Government of India. EXIM bank was established under Export-Import Bank of India Act, 1981. Export-Import Bank of India is the premier export finance institution of the country that seeks to build value by integrating foreign trade and investment with the economic rise of India,



5) Industrial Investment Bank of India (IIBI):

The Industrial Reconstruction Corporation of India (IRBI) setup in 1971, with a view to  provide an agency for rehabilitation of sick industrial units was renamed as Industrial  Reconstruction Bank of India (IRBI), with effect from March, 1985. Industrial Investment Bank  of India Ltd (IIBI) was set up as a company under the Companies Act, 1956, in March, 1997. It  came into being by converting the erstwhile Industrial Reconstruction Bank of India. IIBI is a  company, which is fully owned by the Government of India.

leis the principal credit and reconstruction institution for rehabilitation of sick and closed  industrial units in the public, joint and cooperative sectors and those units in the private sector Whose management has been taken over under the Industrial (Development & Regulation) Act.

Major functions of IIBI are:

(a) Provide financial assistance in the form of short, medium, and long-term loans,  demand loans, working capital facilities, equity participation, assets credit, equipment finance.

 (b) Investing in capital market •instruments like shares, debentures, bonds and also money market instruments.

(c) Underwriting and extending guarantees.

1. Providing leasing and hire purchase finance. 
2. Providing consultancy and merchant banking services.
3. Guarantees loans and deferred payments on behalf of the industrial concerns.
4. National Housing Bank (NHB):

National Housing Bank was set up on the recommendation of the High Level Group under the chairmanship of Dr. C. Rangarajan, the then Deputy Governor. Later RBI examined the proposal and recommended to setup the National Housing Bank as an autonomous housing finance institution. NHB was established under the National Housing Bank Act, 1987, as a wholly owned subsidiary of the RBI. National Housing Bank is an apex banking institution in the area of housing finance. It started functioning on July 9, 1988 under the National Housing Bank Act, 1987.

The basic functions of the NHB is to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions.

NHB has been established to achieve following objectives:

* 1. To promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
	2. To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
	3. To augment resources for the sector and channelize them for housing.
	4. To make housing credit more affordable.
	5. To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
	6. To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
	7. To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.
1. Micro Units Development and Refinance Agency Bank (MUDRA):

MUDRA was registered as a Company in March 2015 under the Companies Act, 2013 and as a Non Banking Finance Institution (NBFI) with the RBI on 7th Aprilt 2015. MUDRA was launched on 8th April, 2015.MUDRA has been initially formed as a wholly owned subsidiary of Small Industries Development Bank of India (SIDBI) with 100% capital being contributed by it.

Presently, the authorized capital of MUDRA is 1000 crores and paid up capital is 750 core, fully subscribed by SIDBI. 

Commercial banks have evolved over a period of some centuries. In fact, asa result of the history of modern banking in India, only the commercial banks came into existence and developed through deposit mobilisation and branch expansion programme.

Commercial banks initially functioned in the area of trade and commerce, but subsequently diversified their activities into industrial and even agricultural sectors.

Other organised sector banks in India can be broadly categorised into three parts the commercial banks, the regional rural banks and the cooperative Banks. The commercial banks are divided into two scheduled commercial banks and non scheduled commercial banks.

1. Scheduled commercial banks:

Scheduled banks are those which are included in the second schedule in the Reserve



Bank of India Act, 1934. The conditions to be fulfilled by banks are laid down in section 42 (6) (a) of the Act.

These are:

 (1) The bank must have a paid-up capital and reserve of an aggregate amount of not less than 5 lakhs,

1. It must satisfy the Reserve Bank that its affairs are-not being conducted in a manner detrimental to the interests of its depositors, and 
2. It must be a company defined in the Companies Act, 1956; or a State Cooperative Bank or an institution notified by the central government in this behalf or a corporation or company incorporated by or under any law in force in any place outside India.

1.1 Public Sector Bank

The organised sector banking system in India consists of the Reserve Bank of India as the apex 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.

At present, there are 20 Public Sector Banks in India including SBI, and 19 nationalized banks. There are IDBI and Bhartiya Mahila Bank which have been categorized by RBI as UOther Public Sector Banks". The list of public sector banks become 22, but Bhartiya Mahila Bank (BMB) will be merged with the country's largest lender State Bank -from April 1 taking the number of public sector banks down to 21 to ensure greater banking outreach to women. Public sector banks further divided into State Bank Group and Nationalised Group.

In further amalgamation process of public sector banks, a notification issued on 2nd January, 2019 states merger of Vijaya Bank and Dena Bank with Bank of Baroda came with effect from 1st day of April, 2019. 

In another, notification issued by Government of India on the 4th March, 2020 stating amalgamation of various public sector banks stated as follows w.e.f. 1st April, 2020:

1. Oriental Bank of Commerce and United Bank of India into Punjab National Bank.
2. Syndicate Bank into Canara Bank.
3. Andhra Bank and Corporation Bank into Union Bank of India.
4. Allahabad Bank into Indian Bank.

Now these 10 Public Sector Banks merge together into 4 Banks. Now After the merger, there will be 12 PSUs - six merged banks and six independent public sector banks.

**State Bank of India and its Associate bank Group:**

The Reserve Bank of India acquired a controlling interest in the Imperial Bank of India. On 15t July, 1955, the Imperial Bank of India became the State Bank of India. In 2008, the Government of India acquired remaining stake in SBI from the Reserve Bank of Indials so as to remove any conflict of interest.

The objects of converting Imperial Bank of India into State Bank of India are stated in the preamble of the aforesaid Act as, "the extension of banking facilities on a large scale, more particularly in the rural and semi urban areas and for diverse other public purposes".

The State Bank of India (Subsidiary Banks) Act was passed in 1959 under which the state associated banks were made the subsidiaries of the State Bank of India. 

These were:

1. The State Bank of Bikaner and Jaipur, 2. The State Bank of Indore,

3. The State Bank of Mysore, 4. The State Bank of Patiala,

5. The State Bank of Hyderabad, 6. The State Bank of Saurashtra,

7. The State Bank of Travencore. 

The first step towards unification occurred on 13th August, 2008 when State Bank of Saurashtra merged with SBI, reducing the number of associate state banks from seven to six. On 19th June, 2009, the SBI board approved the absorption of State Bank of Indore. SBI holds 98.3% in State Bank of Indore.

**SBI Subsidiaries:**

SBI has the following Non-Banking Subsidiaries in India: SBI Capital Markets Ltd, SBI Funds Management Pvt. Ltd, SBI Global Factors Ltd., SBI Cards & Payments Services Pvt. Ltd. (SBICPSL), SBI DFHI Ltd, SBI General Insurance Company Limited, SBI Pension Funds Pvt. Ltd (SBIPFPL).

**Nationalised Group Banks:**

In July 1969, Indian government nationalised 14 Indian banks. Each of the nationalised banks having minimum aggregate deposits of 50 crore with 85 percent of deposits. According to the Bank Nationalisation Act, 1969, the objective and reason for the nationalisation, were: "To serve better the needs of development of the economy in 

conformity with national policy objectives like rapid growth in agriculture, small industry and exports, raising employment levels, encouragement of new entrepreneurs and the development of the backward areas".

The objects of convening Imperial Bank of India into State Bank of India are stated in the preamble of the aforesaid Act as, 'the extension of banking facilities on a large scale, more particularly in the rural and semi urban areas and for diverse other public purposes"

The State Bank of India (Subsidiary Banks) Act was passed in 1959 under which the state associated banks were made the subsidiaries of the State Bank of India. 

These were:

1. The State Bank of Bikaner and Jaipur, 2. The State Bank of Indore,

3. The State Bank of Mysore, 4. The State Bank of Patiala,

5. The State Bank of Hyderabad, 6. The State Bank of Saurashtra,

7. The State Bank of Travencore.

**1.2 Private Sector Bank**

Private bank refers to those banks where most of the capital is in private hands. In India, there are two types of private sector banks. Indian private sector and foreign private sector banks.

Private sector banks are of two types old private sector banks and new private sector banks. Old private sector banks are those which existed in India at the time of nationalization of major banks but were not nationalized due to their small size or some other reason. After the banking reforms, these banks got license to continue and have existed in India along with new private banks and government banks. At present, there ar\_e 12 old private sector banks in India.

The new private sector banks were incorporated as per the Narasimham Committee Report (1991). The RBI issued guidelines for the setting up of new private sector banks in January, 1993. At present, there are nine new private sector banks in India.

These guidelines have the following important features: 

1. Any new bank shall be registered as a Public Ltd. Company under the Company's Act,

1956.

1. Preference for giving a licence shall be given to a bank intending to locate its headquarters at a centre having no headquarters of any other bank.
2. Voting rights of individual shareholders will be subjected to the usual ceiling of 10% though public financial institutions can be made an exception.
3. The minimum paid-up capital for such banks shall be 100 crores with the promoter's contribution of 25%. For the NRI participation in primary equity the limit is 40%.
4. It was obligatory to list the shares on the stock exchanges. 
5. For a period of 3 years after establishment, the bank is not permitted to setup a subsidiary or a mutual fund,

Recently IDFC and Bandhan Financial Services received license to function as a bank. Bandhan Financial Services is now known as Bandhan Bank.

#### **1.3 Local Area Banks**

Local Area Banks received a green signal from the Government of India in 1996. These banks could be established as Public Ltd. Companies in the private sector and could be promoted by individuals, companies, trusts and societies, with a minimum paid up capital of  5 crores with promoter's contribution of 2 crores. The area of operation of such banks has ceiling of three geographically contiguous districts. Local Area Banks were established with



**1.4 Small Finance Banks (SFBs) and Payments Banks **

Small Finance Banks (SFBs) and. Payments Banks (PBS) are new entrants to the banking system. In 2015, RBI issued in principle approval for setting up of 10 SFBs and 11 PBS and six SFBs and two PBS have since commenced business.

#### **1.5 Foreign Banks**

At present, foreign banks have presence in India only through branches. A foreign branch  bank is a type of foreign bank that is obligated to follow the regulations of both the home and host countries. Because the foreign branch banks' loan limits are based on the parent bank's capital, foreign banks can provide more loans than subsidiary banks. This is because the foreign branch bank, while possibly small in one market, is technically part of a larger bank.

After the economic reforms of 1991, Indian economy globalised the financial sector, around 46 international banks of different countries are having branches in India. A total of 286 foreign bank branches exist in India as per RBI report.



**(D) Regional Rural Banks:**

Public sector banks are not able lend money to farmers due to various issues. To solve this problem the government set up Narasimham Working Group in 1975. On the basis of this committee's recommendations, a Regional Rural Banks Ordinance was promulgated in September, 1975, which was replaced by the Regional Rural Banks Act, 1976.Their objective was to provide banking facilities especially to marginal and small farmers, agricultural labourers, rural artisans and other small entrepreneurs.

The distinctive feature of the RRBs is that, they are in essence commercial banks, but their area of operation is one district and their clients are people of small means, living in rura areas.