

Economics of Banking and Finance Markets
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Lecture - 19
Banking Structure and developments - II

Welcome to this session. In this session we will continue our discussion on the development of Banking structure over time and subsequently we will discuss the banking structure in India.

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Restrictions on Branching (leading to unit banking)

- The presence of so many commercial banks in the United States reflects past regulations that restricted the ability of these financial institutions to open branches (additional offices for the conduct of banking operations).
- Each state had its own regulations on the type and number of branches that a bank could open. Regulations on both coasts, for example, tended to allow banks to open branches throughout a state; in the middle part of the country, regulations on branching were more restrictive, in some cases allowing no branches at all.
- The McFadden Act of 1927 effectively prohibited banks from branching across state lines and forced all national banks to conform to the branching regulations of the state in which their headquarters were located.
- India: Branch banking (India has only 36 commercial banks and ⁴⁶ foreign banks but several branches)

So, one of the changes happen in the US is that the restriction on branching; there are two types of banking that we can classify based on the branch; one is called branch banking and the other one is called unit banking. So; obviously, you can guess branch banking means banks are allowed to start branches across the country; within the county or within the state and across the country.

So, for example, in India the State Bank of India, you know that it has a head office. It has started several branches across the country, in each state and each district you can see that there is branch for SBI. Same for other banks as well in India.

But in contrast to this, there is another banking structure called unit banking. In the case of unit banking, they are not allowed to open branches in other sites, in other places, so it is

called unit banking. So, normally we make a classification of branch banking and unit banking.

In the US, there are restriction on branching, they are not allowed to open branches across the country. So, that actually led to the presence of many commercial bank in the United States. Each state had its own regulations on the type and number of branches that a bank could open within a state. Overall there are policy interventions to ensure that banks are not opening branches across the country. and it forced all national banks to conform to the branching regulation of the state in which their headquarters were located.

However, as compared to that, in India we know that we have branch banking. If you visit the Reserve Bank of India website you can see that India has only 36 commercial banks and 46 foreign banks, but all of them have several branches across the country. That means, only few number of banks in India, at the same time you know you can see that there are more than 5000 banks in the US.

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| Assets | Number of Banks | Share of Banks (%) | Share of Assets Held (%) |
|---------------------------|-----------------|--------------------|--------------------------|
| Less than \$100 million | 1,744 | 30.3 | 0.7 |
| \$100 million–\$1 billion | 3,469 | 60.3 | 7.4 |
| \$1 billion–\$10 billion | 451 | 7.8 | 8.5 |
| More than \$10 billion | 93 | 1.6 | 83.4 |
| Total | 5,757 | 100.00 | 100.00 |

Source: <https://www2.fdic.gov/qbp/2014/jun/cb+4.html>

So, this is the number of banks in the US: 5757 this year. So, we can see that actually the huge difference in the number of banks in the country.

If there are large number of banks in a country, that is, a large number of banks in a market; that means, large number of participants you know that is very competitive market. So, let us see that what is the likely implication of the large the number of banks in the financial market

whether it is promoting efficiency, whether is really contributing to the health of the financial system. All this, we will discuss in appropriate context in one of the forthcoming session.

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Response to Branching Restrictions

- Bank Holding Companies ✓
- Automated Teller Machines

So, let us now proceed with the discussion of the structure of the banks. As response to branching restrictions, there was bank holding companies and the other one supported by the IT revolution is the ATM; that means, even with branching restriction they were allowed to start ATMs throughout the country. So, that is practically serving as a branch. It is possible due to the development in IT.

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Thrift Industry: Regulation and Structure

The regulation and structure of the thrift industry (savings and loan associations, mutual savings banks, and credit unions) closely parallel the regulation and structure of the commercial banking industry.

1: Savings and Loan Associations

- Chartered by the federal government or by states ✓
- Most are members of Federal Home Loan Bank System (FHLBS) ✓ ✓
- Deposit insurance provided by Savings Association Insurance Fund (SAIF), Regulated by the Office of Thrift Supervision

2: Mutual Savings Banks

- >50% are chartered by states; regulated by state in which they are located
- Deposit insurance provided by FDIC or state insurance

3: Credit Unions

- Tax-exempt; Chartered by federal government or by states
- Regulated by the National Credit Union Administration (NCUA) ✓
- Deposit insurance by National Credit Union Share Insurance Fund (NCUSIF)

Then there is development of thrift industry overtime. In the thrift industry, they are not banks, they are called savings and loan associations, mutual savings banks and credit unions. The regulation and structure of the thrift industry is closely parallel to the regulation and structure of commercial banking industry.

What is savings and loan association? These are chartered by federal government or by states and most are members of federal home loan bank system. These are not banks, but almost they serve the role similar to banks.

Then there are mutual savings banks where more than 50 percentages are chartered by states and regulated by state, in which they are located. Then comes credit unions; credit unions are tax exempt. They are tax exempt and chartered by federal governments or by states, and are regulated by the national credit unions.

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Investment Banks Vs. Merchant Banks

In theory, investment banks and merchant banks perform different functions but not in practice

Traditionally, investment banks only participated in underwriting and selling securities in large blocks. Investment banks facilitate mergers and acquisitions through share sales and provide research and financial consulting to companies.

Traditional merchant banks primarily perform international financing activities such as foreign corporate investing, foreign real estate investment, trade finance and international transaction facilitation

- Merchant banks: issuing letters of credit, transferring funds internationally, trade consulting and co-investment in projects involving trade of one form or another.

Then another classification about the banking structure, we can make it as investment banks vis a vis merchant banks. So, by now you are familiar what is meant by investment banks. In theory, investment banks and merchant banks perform different functions, but not always in practice.

Investment banks traditionally only participated in underwriting and selling securities in large blocks. They facilitate mergers and acquisition through share sales and provide research and financial consulting to companies. And merchant banks primarily perform international

financing activities such as foreign corporate investing, foreign real estate investment, trade finance, international transaction facilitation etcetera.

Merchant banks also provide services such as issuing letters of credit, transferring funds internationally, trade consulting and co-investment in projects involving trade of one form or another.

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Now let us see the structure of Indian banking system. You may be familiar with most of the points that we are discussing here, however, let us put it in the context, and see what are the recent developments, what are the overall structure of Indian banks in the forthcoming session. We will be in a better position to compare how Indian banking system is going to affect the financial structure, financing system of the country.

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Banking

- Banking Regulation Act of India, 1949 defines Banking as “accepting, for the purpose of lending or of investment of deposits of money from the public, repayable on demand or otherwise or withdrawable by cheque, draft order or otherwise.” ✓
- The Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949, govern the banking operations in India.
- Banks play a key role in India’s financial system and underpin economic growth.
- During the 2010s, the health of Indian banks deteriorated significantly and a subsequent decline in credit growth contributed to a slowdown in economic activity.

The banking the definition given as per Banking Regulation Act of India, this is actually in line with the normal banking definition. This is the formal definition given by Banking Regulation Act of India. So, the Reserve Bank of India 1934 and the Banking Regulation Act, 1949, and with further amendments, govern the banking operation in India.

You are also aware that banks play a key role in India’s financial system and underpin economic growth. Banks has been playing a key role into ensure financial inclusion and to bring the public into the monetary economy or the financial sector in order to increase the economic level of economic activities, and the savings and investment activities.

You may also aware that the health of Indian banks deteriorated significantly particularly in the past one decade. and especially in terms of non-performing assets and a subsequent decline in credit growth contributed to the slowdown in economic activity.

Before we proceed further I would like to urge you please visit the website of Reserve Bank of India where you will get ample information about the banking structure in India. What are the developments over time, what are the policy measures taken by Reserve Bank of India in order to promote the banking system in India, in order to regulate the banking structure banking system in India, etc.

And you will also get lots of information about the monetary policy and what are the different tools used by Reserve Bank of India to ensure a sound banking system and also to ensure

macroeconomic stability and promote economic growth in India. And, in addition, you will also get in the RBI website that is data bank as well about key economic variables including banking sector as well. And I would suggest you please visit the website and make yourself familiar with various aspects of Indian banking.

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Banking Structure in India

Banks can be broadly categorized as Commercial Banks or Co-operative Banks.

- **Scheduled banks:** All banks which meet specific criteria are included in the Second Schedule to the Reserve Bank of India Act, 1934 are Scheduled Banks. These banks comprise Scheduled Commercial Banks and Scheduled Co-operative Banks.
 - Entitled to special facilities like re-finance from RBI.
 - Inclusion in the schedule also comes with its responsibilities of reporting to RBI and maintaining a percentage of its demand and time liabilities as Cash Reserve Ratio (CRR) with RBI.
- **Non-scheduled banks:** Not mentioned in the Second Schedule of the RBI Act, 1934. Non-Scheduled State Co-operative Banks & Non-Scheduled Urban Co-operative Banks

So, coming to the banking structure in India, the Indian banks can be broadly characterized categorized as commercial banks or cooperative banks. Within that there are another broad categorisation called scheduled banks, you might have heard about it, scheduled bank and non-scheduled banks.

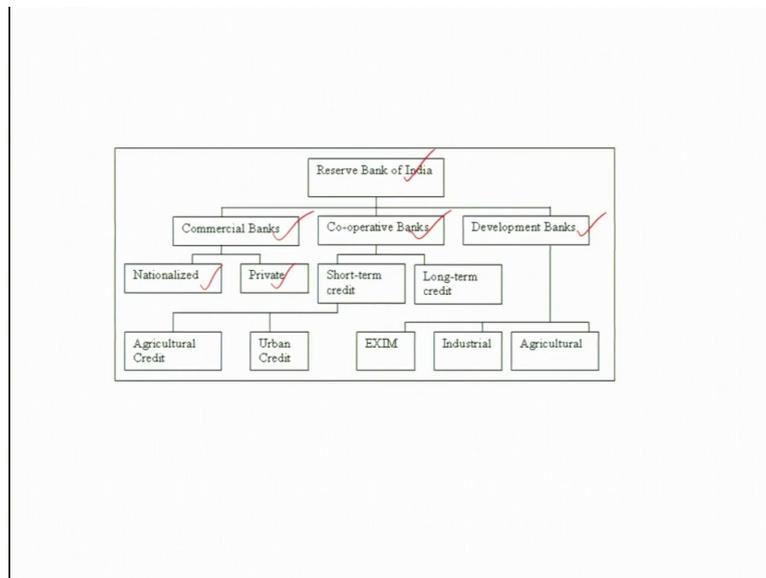
So, all banks which meet specific criteria are included in the second schedule to the RBI act 1934 and these are called scheduled banks. These banks comprise scheduled commercial banks and scheduled cooperative banks. The scheduled banks are entitled to special facilities like refinance from RBI. At the same time, inclusion in the schedule also comes with the responsibilities of reporting to RBI and maintaining certain percentage of its demand and time deposits as cash reserve ratio.

So, most of the regulations and some of the tools used for the monetary policy as part of monetary policy are actually been implemented through the scheduled banks.

The non-scheduled banks are not mentioned in the second schedule of the RBI act. There are many non-scheduled state cooperative banks and urban cooperative banks as well.

The scheduled banks are prime pillar of the Indian major pillar of Indian banking system, through which the reserve bank of India influence the money market. And a tools of monetary policies are also implemented through the scheduled banks.

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This is a screenshot summary of structure of Indian banks; the RBI is the banker's bank or apex bank. Then, commercial banks, cooperative banks, and development banks, and these are all that the nationalized private etcetera. So, these are, I am sure, you are familiar with the structure of this content.

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Broad Classification of Banks in India

- 1) **The RBI:** supreme monetary and banking authority in the country. It keeps the reserves of all scheduled banks and hence is known as the "Reserve Bank".
- 2) **Public Sector Banks:** India's banking system is dominated by government-owned 'public sector banks' (PSBs), which account for around 60 per cent of commercial banking system assets.
 - Nationalized Banks
 - Regional Rural Banks
- 3) **Private Sector Banks:**

Just to summarize, this is RBI, public sector banks and private sector bank. You know that Indian banking system is dominated by government owned public sector banks which account for around 60 percent of commercial banking system.

In one of the session, we have seen that the banking system is dominated by public sector banks in most of the low and middle income countries. And, you know that, public sector banks are forced to invest in government bonds and that may not be, for example, the best way of the use of their funds.

So, there are often asked the public sector bank will be often asked to make prioritized sector-wise loans. For example, agriculture loan or small scale industry loan, etcetera that may not be the right or efficient investment decision for a bank if you look from a efficiency point of view. But maybe justified from an equity point of view.

These are all actually important when we look at the financial health of a country. So, in this context, we need to see Indian public bank is primarily dominated by public sector banks.

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|---|
| <p>4) State Co-operative Banks</p> <ul style="list-style-type: none">• State Co-operative Banks (31)• Central Co-operative Banks• Primary Agricultural Credit Societies• Land Development Banks• State Land Development Banks <p>5) Development Banks (financial institutions): Development Banks mostly provide long term finance. They also provide short-term finance (for export and import activities)</p> <ul style="list-style-type: none">• Industrial Finance Co-operation of India (IFCI)• Industrial Development of India (IDBI)• Industrial Investment Bank of India (IIBI)• Small Industries Development Bank of India (SIDBI)• National Bank for Agriculture and Rural Development (NABARD)• Export-Import Bank of India (EXIM bank) |
|---|

Then, there are state cooperative banks, then development banks, these are all the development banks in India.

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| List of Scheduled Public Sector Banks | | List of Scheduled Private Sector Banks | |
|---------------------------------------|-----------------------|--|-------------------------------|
| Sr.No. | Name of the Bank | Sr.No. | Name of the Bank |
| 1. | Bank of Baroda | 1. | Axis Bank Ltd. |
| 2. | Bank of India | 2. | Bandhan Bank Ltd. |
| 3. | Bank of Maharashtra | 3. | CSB Bank Ltd. |
| 4. | Canara Bank | 4. | City Union Bank Ltd. |
| 5. | Central Bank of India | 5. | DCB Bank Ltd. |
| 6. | Indian Bank | 6. | Dhanlaxmi Bank Ltd. |
| 7. | Indian Overseas Bank | 7. | Federal Bank Ltd. |
| 8. | Punjab & Sind Bank | 8. | HDFC Bank Ltd. |
| 9. | Punjab National Bank | 9. | ICICI Bank Ltd. |
| 10. | State Bank of India | 10. | IndusInd Bank Ltd. |
| 11. | UCO Bank | 11. | IDFC First Bank Ltd. |
| 12. | Union Bank of India | 12. | Jammu & Kashmir Bank Ltd. |
| | | 13. | Karnataka Bank Ltd. |
| | | 14. | Karur Vysya Bank Ltd. |
| | | 15. | Kotak Mahindra Bank Ltd. |
| | | 16. | Lakshmi Vilas Bank Ltd. |
| | | 17. | Nainital Bank Ltd. |
| | | 18. | RBL Bank Ltd. |
| | | 19. | South Indian Bank Ltd. |
| | | 20. | Tamilnad Mercantile Bank Ltd. |
| | | 21. | YES Bank Ltd. |
| | | 22. | IDBI Bank Ltd. |

So, let me show you the list of scheduled commercial banks. So, these are the public sector scheduled, at present 12 scheduled public sector banks and 22 scheduled private sector banks in India.

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| List of Scheduled Small Finance Banks | |
|---------------------------------------|---------------------------------------|
| Sr.No. | Name of the Bank |
| 1. | Au Small Finance Bank Limited |
| 2. | Capital Small Finance Bank Limited |
| 3. | Equitas Small Finance Bank Limited |
| 4. | Suryoday Small Finance Bank Limited |
| 5. | Ujjivan Small Finance Bank Limited |
| 6. | Utkarsh Small Finance Bank Limited |
| 7. | ESAF Small Finance Bank Limited |
| 8. | Fincare Small Finance Bank Limited |
| 9. | Jana Small Finance Bank Limited |
| 10. | North East Small Finance Bank Limited |
| 11. | Shivalik Small Finance Bank Limited |
| 12. | Unity Small Finance Bank Limited |

| List of Scheduled Payments Banks | |
|----------------------------------|----------------------------------|
| Sr.No. | Name of the Bank |
| 1. | India Post Payments Bank Limited |
| 2. | Fino Payments Bank Limited |
| 3. | Paytm Payments Bank Limited |

And these are the scheduled small financial banks, you can see there are 12 scheduled small finance banks. And these are the scheduled payment banks, that I think again you are familiar, that the Paytm, India Post Payment Banks, Fino Payments Banks Limited.

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| List of Scheduled Foreign Banks in India | |
|--|--|
| Sr.No. | Name of the Bank |
| 1. | Australia and New Zealand Banking Group Ltd. |
| 2. | Westpac Banking Corporation |
| 3. | Bank of Bahrain & Kuwait BSC |
| 4. | AB Bank Ltd. |
| 5. | Sonali Bank Ltd. |
| 6. | Bank of Nova Scotia |
| 7. | Industrial & Commercial Bank of China Ltd. |
| 8. | BNP Paribas |
| 9. | Credit Agricole Corporate & Investment Bank |
| 10. | Societe Generale |
| 11. | Deutsche Bank |
| 12. | HSBC Ltd |
| 13. | PT Bank Maybank Indonesia TBK |
| 14. | Mizuho Bank Ltd. |
| 15. | Sumitomo Mitsui Banking Corporation |
| 16. | MUFG Bank, Ltd. |
| 17. | Cooperatieve Rabobank U.A. |
| 18. | Doha Bank |
| 19. | Qatar National Bank |
| 20. | JSC VTB Bank |
| 21. | Sberbank |
| 22. | United Overseas Bank Ltd |
| 23. | FirstRand Bank Ltd |
| 24. | Shinhan Bank |
| 25. | Woori Bank |
| 26. | KEB Hana Bank |
| 27. | Industrial Bank of Korea |
| 28. | Kookmin Bank |
| 29. | Bank of Ceylon |
| 30. | Credit Suisse A.G |
| 31. | CTBC Bank Co., Ltd. |
| 32. | Krung Thai Bank Public Co. Ltd. |
| 33. | Abu Dhabi Commercial Bank Ltd. |
| 34. | Mashreq Bank PSC |
| 35. | First Abu Dhabi Bank PJSC |
| 36. | Emirates Bank NBD |
| 37. | Barclays Bank Plc. |
| 38. | Standard Chartered Bank |
| 39. | NatWest Markets Plc |
| 40. | American Express Banking Corporation |
| 41. | Bank of America |
| 42. | Citibank N.A. |
| 43. | J.P. Morgan Chase Bank N.A. |
| 44. | SBI Bank (India) Limited* |
| 45. | DBS Bank India Limited* |
| 46. | Bank of China Ltd. |

Also I am showing you the list of scheduled foreign banks in India. Nearly there are 46 foreign banks scheduled foreign banks in India at present.

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Commercial Banks

Commercial banks comprising public sector banks, foreign banks, and private sector banks represent the most important financial intermediary in the Indian financial system.

The largest commercial Banks in India is SBI

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Most of our discussion is confined to commercial banks. The commercial banks comprising public sector banks, private sector banks, foreign banks, they represent the most important financial intermediary in the Indian commercial financial system. The largest commercial banks in India is the State Bank of India, you are familiar with it.

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Main function of commercial banks

- 1) Primary functions ✓
- A) Acceptance of deposits ✓
 - A.i) Demand Deposits ✓
 - Saving bank account ✓
 - Current account (Checking account in other countries) ✓
 - A.ii) Time deposit ✓
 - Fixed deposit account (1 year, 2 years, 10 years etc) ✓
 - Recurring deposit account (invest in a regular interval, say, monthly) ✓

So, let us see what is commercial bank? By now you are familiar with it, but let us put it in Indian context; what are the main functions of a commercial banks. So, the primary functions: they accept deposits. You know, there are two broad category of deposit; one is called demand deposit or demand liabilities, and another one is time deposit or time liabilities.

So, coming to the demand deposit, you are familiar again with it, it includes the savings bank account and current account. So, in other countries, it has been called as checking account, where the current account holder is entitled to issue a cheque. But, in India, you know that the savings bank account holder also, if they maintain minimum amount in the bank, they are allowed to issue cheques.

Then, coming to fixed deposit account, I am sure we already discussed this point in one of the previous session, it has a time period in the investment. And, recurring deposit account where deposit is made in a regular interval, say, monthly.

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B. Loans and Advances

i) Loans (loan account)

ii) Advances: credit facility

➤ **Cash credit:** an arrangement whereby the bank allows the borrower to draw amount up to a specified limit **(with collateral)**

➤ **Overdraft: to current account holders** (allowed to withdraw more than the amount of credit balance in his account. temporary arrangement):

Standard overdraft (no Collateral) &

Secured overdrafts (collateral)

➤ **Bills discounting:** making payment of the amount before the due date of the bills after deducting a certain rate of discount

Then, loans and advances: banks give loans through loan account, that is, by opening a loan account. Then also give advances, this is a credit facility that cash credit with collateral. Banks also give overdraft facility to current account holder who will be allowed to withdraw more than the amount of credit balance in his or her account. It is a temporary arrangement; that means, they are allowed to draw over than what they are having with their account.

So, there are standard overdraft with no collateral and others with a collateral. Then banks also engage in bills discounting, the concept by now you are familiar already, which we had discussed in previous session.

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Main function of commercial banks (cont-)

2) Secondary Functions ✓

C) Agency functions ✓

- Collecting receipts ✓
- Making payments ✓
- Buy and sell securities ✓
- Trustee and executor

D) General utility function

- Issuing letters of credit, travelers cheques ✓
- Underwriting share and debentures ✓
- Safe custody of valuables (locker facilities) ✓
- Electronic Banking: Providing ATM and credit/debit cards ✓
- Providing credit information ✓

(3) Other Functions

- Creating Money

So, in addition to the main functions of commercial banks they also do perform several secondary functions as well. This includes agency function; that means, collecting receipts, making payments, buy and sell securities, and act as the trustee and executor of the customers perform. These are all the agency function done on behalf of their customers.

So, in addition, banks also perform several general utility functions that includes issuing letters of credit, travellers cheques, underwriting shares and debentures, safe custody of valuable that is locker facilities, ATM, providing credit information's etcetera. Other function that we will be studying in the context of when we discuss central banking, then we can also see that banks play, especially the scheduled banks play, a key role in the process of money supply.

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Bank nationalization

- Nationalization of the Imperial Bank of India in 1955 via SBI India Act.
- SBI was made to act as the principal agent of RBI and handle banking transactions of the Union and State Governments.
- SBI associates: 7 subsidiaries of the SBI were nationalized via the SBI (Subsidiary Banks) Act, 1959.
- **In 1969, fourteen major private commercial banks were nationalized.**

| | |
|-----------------------|----------------------|
| Central Bank of India | Indian Overseas Bank |
| Bank of Maharashtra | Bank of Baroda |
| Dena Bank | Union Bank |
| Punjab National Bank | Allahabad Bank |
| Syndicate Bank | United Bank of India |
| Canara Bank | UCO Bank |
| Indian Bank | Bank of India |

1980: Six more banks nationalized
(1. Andhra Bank, 2. Corporation Bank, 3. New Bank of India, 4. Oriental Bank of Commerce, 5. Punjab and Sindh Bank, 6. Vijaya Bank)

And one of the development happened in India in 1969 was the bank nationalization. So, prior to that, the nationalization of the Imperial Bank of India in 1955 by SBI India Act was happened. The SBI was made to act as the principal agent of RBI and handle banking transaction of the union and state governments.

And, in 1959, the 7 subsidiaries of the SBI were nationalized by the SBI Subsidiary Banks Act of 1959. So, in 1969; 14 major private commercial banks were also nationalized. These are the banks nationalized in 1969.

One of the main objective of bank nationalization was to ensure the wide outreach of banking services across the country, that is, to ensure the outreach at the grass root level at the even the remote village level. the nationalized banks were encouraged to open branch in rural areas and remote areas. In 1980, 6 more banks nationalized, these are the banks nationalized in 1980.

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Cooperative Bank

The rural co-operative credit system in India is primarily mandated to ensure flow of credit to the agriculture sector. These banks play a vital role in mobilizing savings and stimulating agricultural investment. It comprises short-term and long-term co-operative credit structures.

The short-term co-operative credit structure operates with a three-tier system

- ✓ Primary Agriculture Credit Societies
- ✓ Central co-operative banks (at the district level)
- ✓ State co-operative Banks (at the State level.)

- Primary Cooperative Banks (PCBs), also referred to as Urban Cooperative Banks (UCBs), cater to the financial needs of customers in urban and semi-urban areas.

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Another structure, in addition to commercial banks, we have cooperative banks. The rural cooperative credit system in India is primarily mandated to ensure flow of credit to the agriculture sector. These banks play a vital role in mobilizing savings, savings from the ground level that are the village level, mobilizing savings and stimulating agricultural investments. It comprises short term and long term cooperative credit structure.

So, the short term cooperative credit structure operates with a three tier system; one is called primary agriculture credit society, also called as primary banks or primary cooperative bank. This is at the bottom level.

Then, at the district level they are linked to the district banks. This is called central cooperative banks, and the district banks are connected to the state cooperative banks that is at the state level.

So, the primary cooperative banks are also referred to as the urban cooperative banks, which cater to the financial needs of customers in urban and semi urban areas. That means, in addition to cooperative banks in the rural area, we have cooperative banks in the urban area as well.

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Regional Rural banks ✓

- Commercial banks: Efficient but poor outreach ✓
- Co-operative banks: Better outreach but less efficient ✓

- RRBs were born: RRB Act 1976
- Under the RRB Act, 50% stake in a RRB would be with the central government, 15% with the state government concerned and the remaining with the sponsor bank.

Then another development in Indian banking system is the setting up of regional rural banks. You know, one of the thing about the commercial banks, you know that commercial banks have better efficiency because of the managerial and technical expertise that they are having.

So, they are considered as efficient, but at the same time, you know that they have very poor outreach. Especially, we cannot see the branch of big banks in rural areas and the remote areas. Because when going with efficiency, they prefer towns and cities.

So, at the same time, cooperative banks are every nook and corner of the country, everywhere there is cooperative banks. So, they have better outreach, but you know that they are less efficient. For example, most cooperative banks do not have the ATM facilities.

They do not have the electronic banking facilities, and they are working at a very small scale basis. They actually miss the economics of scale and economics of scope. So, because of all these, they are less efficient.

As commercial banks have the advantage of being efficient where as cooperative banks have the advantage of having better outreach. To make use of the efficiency of commercial banks and the outreach of co-operative banks, it was decided to bring both qualities together, and as a result, RRBs were born through Regional Rural Banks Act of 1976.

So, under the RRB Act, 50 percentage stake in Regional Rural Banks would be with the central government and 15 percentages with the state government concerned and remaining

with remaining 35 percentages is with the remaining the sponsor banks. That means, one of the commercial bank will be sponsoring their respective Regional Rural Bank.

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| List of Scheduled Regional Rural Banks | |
|--|--|
| Sr No | Name of the RRB |
| 1. | Andhra Pragathi Grameena Bank |
| 2. | Chaitanya Godavari Grameena Bank |
| 3. | Saptagiri Grameena Bank |
| 4. | Andhra Pradesh Grameena Vikas Bank |
| 5. | Telangana Grameena Bank |
| 6. | Arunachal Pradesh Rural Bank |
| 7. | Uttar Bihar Gramin Bank |
| 8. | Chhattisgarh Rajya Gramin Bank |
| 9. | Saurashtra Gramin Bank |
| 10. | Sarva Haryana Gramin Bank |
| 11. | Himachal Pradesh Gramin Bank |
| 12. | Ellaipattai Dehathi Bank |
| 13. | J&K Grameen Bank |
| 14. | Karnataka Vikas Grameena Bank |
| 15. | Madhyanchal Gramin Bank |
| 16. | Vidharbha Konkan Gramin Bank |
| 17. | Maharashtra Gramin Bank |
| 18. | Manipur Rural Bank |
| 19. | Meghalaya Rural Bank |
| 20. | Mizoram Rural Bank |
| 21. | Nagaland Rural Bank |
| 22. | Utkal Grameen bank |
| 23. | Odisha Gramya Bank |
| 24. | Puduvai Bharathiar Grama Bank |
| 25. | Baroda Rajasthan Kshetriya Gramin Bank |
| 26. | Rajasthan Marudhara Gramin Bank |
| 27. | Tripura Gramin Bank |
| 28. | Uttarakhand Gramin Bank |
| 29. | Bangiya Gramin Vikas Bank |
| 30. | Paschim Banga Gramin Bank |
| 31. | Uttarbanga Kshetriya Gramin Bank |
| 32. | Kerala Gramin Bank |
| 33. | Assam Gramin Vikash Bank |
| 34. | Baroda Gujarat Gramin Bank |
| 35. | Dakshin Bihar Gramin Bank |
| 36. | Punjab Gramin Bank |
| 37. | Jharkhand Rajya Gramin Bank |
| 38. | Karnataka Gramin Bank |
| 39. | Madhya Pradesh Gramin Bank |
| 40. | Tamil Nadu Grama Bank |
| 41. | Aryavart Bank |
| 42. | Prathama UP Gramin Bank |
| 43. | Baroda UP Bank* |

So, these are the list of Regional Rural Banks.

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Development Banks

- A development bank may be defined as a financial institution concerned with providing all types of financial assistance to business units in the form of loans, underwriting, investment and guarantee operations and promotional activities-economic development in general and industrial development in particular
- A development bank is basically a term lending institution.
- It is a multipurpose financial institution with a broad development outlook.

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And in addition to RRBs, there is development banks. Development banks may be defined as a financial institution concerned with providing all types of financial assistance to business

unit in the form of loans, underwriting, investment and guarantee operation in the industry and in the manufacturing and in agriculture sector.

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Functions of Development Banks

- Fostering industrial growth
- Providing Long term assistant
- Balanced development
- Providing Promotional services
- Infrastructure building
- Entrepreneur Development
- Fulfilling Socio economic objectives

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So, these are specialized institution as compared to commercial banks. They actually serve several purposes, several functions, I have listed all of these things here for your understanding.

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- The industrial finance corporation of India, the first development bank was established in 1948.
- Subsequently many other institutions were set-up. Ex. IDBI, IFCI, SIDBI etc.
 - Industrial Finance Co-operation of India (IFCI) ✓
 - Industrial Development of India (IDBI) ✓
 - Industrial Investment Bank of India (IIBI)
 - Small Industries Development Bank of India (SIDBI) ✓
 - National Bank for Agriculture and Rural Development (NABARD)
 - Export-Import Bank of India (EXIM bank) ✓

So, these are the list of development banks in India. For example, IFI, IFCI, IDBI and NABARD and EXIM bank, that is for export import bank, that is to support fund export and import business in India.

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Non-Banking Financial Companies (NBFCs)

- NBFCs are financial institutions which are not banks but which accept deposits and extend credit like banks.
- NBFCs in India include not just the finance companies that the general public is largely familiar with; the term also entails wider group of companies that are engaged in investment business, insurance, chit fund, nidhi, merchant banking, stock broking, alternative investments, etc., as their principal business. All are though not under the direct regulatory purview of the Reserve Bank.
- At end-March 2017, there were 11,522 NBFCs registered with the Reserve Bank, of which 178 were NBFCs-D and 220 were NBFCs-ND-SI. The share of NBFCs in terms of assets in total financial sector is 8.3 per cent as on 2016-17
- Being financial intermediaries, NBFCs are engaged in the activity of bringing the saving and the investing community together, thus, playing a complimentary role to banks rather than competitors, as majority population in the country does not yet have access to mainstream financial products and services including a bank account. NBFCs especially NBFC-MFIs (Micro Finance Institutions) and Asset Finance Companies thus have a complimentary role in the financial inclusion agenda of the country.

In addition, you might have heard that heard about non-banking financial companies which are not banks. But it accepts deposits and extend credit like banks. They are actually not just the finance companies, the general public is largely familiar with it, these are wider group of companies engaged in investment business, insurance, chit funds, nidhi, merchant banking etcetera. They not under the direct regulatory purview of Reserve Bank of India. You can see there are large number of NBFCs working in India.

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Non Performing Assets

An asset of a bank (such as a loan given by the bank) turns into a non-performing asset (NPA) when it ceases to generate regular income such as interest etc for the bank. In other words, when a bank which lends a loan does not get back its principal and interest on time, the loan is said to have turned into an NPA

Banks have to classify their assets as performing and non-performing in accordance with RBI's guidelines. Under these guidelines, an asset is classified as non-performing if any amount of interest or principal installments remains overdue for more than 90 days, in respect of term loans.

So, one of the concern with the Indian banking system, recently, is the non-performing assets. That means, an asset of a bank turns into non-performing asset when it ceases to generate regular income such as interest etcetera for the bank. Banks have to classify their assets as performing and non-performing assets in accordance with the RBI guidelines.

Recently, you might have seen that, there are lots of discussion with regard to the non-performing assets in India. For the classification of NPAs, recently RBI has come up with lots of guidelines.

So, in this session our discussion was confined to the banking structure in India where we discussed in terms of commercial banks, cooperative banks, Regional Rural Banks and development banks. And then also we discuss some of the non banking financial companies as well.

Thank you.

Keywords: Indian banks, scheduled banks, non-scheduled banks, commercial banks, cooperative banks, Regional Rural Banks, development banks, non-banking financial companies