

BANKING Awareness

for SBI, IBPS, RRB, RBI Bank Clerk/ PO
& Insurance Exams with PYQs



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BANKING Awareness

**for SBI, IBPS, RRB, RBI Bank Clerk/ PO
& Insurance Exams with PYQs**



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Evolution and Development of Banking in India

INTRODUCTION

Banking history dates back to 2000 years which involved grain loans to farmers and traders who carried goods between cities in Mesopotamia and Babylonia. Later, it was in ancient Greece and Roman Empire, who added two important innovations: acceptance of deposits and changed money.

Bank - A financial institution which accepts different forms of deposits and lends them to the prospective borrowers as well as allows the depositors to withdraw their money from the accounts by cheque is a bank.

BANKING IN ANCIENT INDIA

Archaeological evidences in India suggest that references to banking and regulations were even found in our scriptures and ancient texts. Debt is even mentioned in our **Vedic literature**. The Vedas (2000-1400 BCE) are earliest Indian texts to mention the concept of usury whereby the lender lends money at excessive rate of interest. It was also found to contain Loan deed forms which are called rinapatra or rinalekhya which also contained the details related to name of the debtor & creditor, amount of loan, rate of interest, condition of repayment and time of repayment.

Later the concept of Modern day banking system was conceptualised by the **people of Italy under the name Banco**.

The period of **Mauryan era** (321-185 BCE) saw an instrument called **adesha**, which was an order on a banker directing him to pay the sum on the note to a third person, which corresponds to the definition of a modern bill of exchange.

Indigenous Banking:

The indigenous bankers lend money; act as money changers and finance internal trade of India by means of hundis or internal bills of exchange. It is certainly one of the oldest banking systems which have been functioning for centuries. However, with the coming of the British, its decline started. Despite the fast growth of modern commercial banks, however, the indigenous banks continue to hold a prominent position in the Indian money market even in the present times. It includes shroffs, seths, mahajans, chettis, etc.

Defects of Indigenous Banking

- (i) Indigenous banking is unorganized and does not sensitize the need and working of the different sectors of the economy, including banking sector.
- (ii) They only do business for trade and commerce and work on commission basis resulting in trade risk in their financial business.
- (iii) They did not distinguish between short term and long term finance purposes.
- (iv) Methods of accounting were based on local practices and hence could not match with modern methods of financial accounting.
- (v) Many of the indigenous bankers charged very high rate of interest.

BANKING IN MEDIEVAL ERA

The use of loan deeds continued into the Mughal era and were called **dastawez**.

Two types of loan deeds have been recorded.

- **Dastawez-e-indultalab** - payable on demand

- **Dastawez-e-miadi** - payable after a stipulated time.

The use of payment orders by royal treasuries, called **barattes** have also been recorded. The evolution of **hundis**, a type of credit instrument, also occurred during this period and remained in use.

BANKING IN MODERN ERA

The period of coming of Europeans (15th Century) till Indian independence in 1947, laid the real foundation of Modern Banking system in India. This period was also characterized by the presence of a large number of banks (more than 600).

First Bank of India

Modern Banking system commenced in India with the foundation of Bank of **Hindustan in Calcutta (now Kolkata) in 1770 by M/s Alexander and co**, which ceased to operate in 1832.

Presidency Banks

The British East India Company had setup various trading posts and factories in India. They needed funds to fulfil their Administrative, Economic needs and also Military ambitions. So they setup Three Presidency Banks under the charters from the British East India Company.

IMPERIAL BANKS		
Date	Bank Name	Features
June 2, 1806	Bank of Bengal in Calcutta (Now Kolkata)	<ul style="list-style-type: none"> • 1st Presidency Bank in collaboration with British East India Company and Government of Bengal. • Total capital was ₹ 50 lakh of which ₹ 10 lakh was share of East India Company. • On January 2, 1809, Bank of Calcutta was renamed as Bank of Bengal. • At Cawnpore in 1862, amalgamation of Dacca Bank (established in 1846) with the Bank of Bengal.
April 15, 1840	Bank of Bombay in Bombay (Now Mumbai)	<ul style="list-style-type: none"> • 2nd Presidency Bank • It undertook all the normal activities which a commercial bank was expected to undertake.
July 1, 1843	Bank of Madras in Madras (Now Chennai)	<ul style="list-style-type: none"> • 3rd Presidency Bank • Established through the amalgamation of a number of existing regional banks and headquartered in Madras.
January 27, 1921	<p>Imperial Bank of India – was formed by amalgamation of the Bank of Bengal, the Bank of Bombay and the Bank of Madras.</p> <ul style="list-style-type: none"> • It was a private entity till that time. • In 1955, this Imperial Bank of India was nationalised and renamed as State Bank of India. • Thus, State Bank of India is the oldest bank of India among the banks that exist today. 	

Joint Stock Banks

A Bank that has many shareholders is called as joint stock Bank. In 1860, concept of limited liability was introduced in India leading to the establishment of Joint Stock Banks. Indian joint stock banks were generally undercapitalised and lacked the experience and maturity to compete with the presidency.

In 1863, the oldest Joint stock Bank called as **Bank of Upper India** was established which became defunct in 1913. On April 24, 1865 a group of British founded Allahabad Bank in Allahabad. The Bank is considered as one of the oldest joint stock bank which is still working and also one of the oldest public sector banks in India.

Other Notable Banks (Still Operating):

1894	Punjab National Bank	<ul style="list-style-type: none"> • Established in Lahore in Punjab province by Lala Lajpat Rai, Babu Purshotam Lal Tandon, S.Dayal Singh and others. • It was the first bank purely managed by Indians. • It was established by Indian nationalist people
1911	Central Bank of India,	<ul style="list-style-type: none"> • First Indian commercial bank wholly owned and managed by Indians. • The bank also known as the First Truly Swadeshi bank of India. • It was founded by Sir Sorabji Pochkhanawala and its First Chairman was Sir Pherozechah Mehta.

Other Notable Banks (Now defunct):

In 1839, Indian merchants established a Bank called Union Bank but it failed within a decade. The Bank of Upper India established in 1863, was the oldest joint stock bank of India but the bank failed in 1913.

In 1881, Oudh Commercial Bank was established at Faizabad. It was the first Bank of India with Limited Liability to be managed by Indian Board. After Independence, in 1958 this bank failed.

First Indian Bank to open a Foreign Branch (London, 1946) was Bank of India. It founded as a private entity in 1906

RESERVE BANK OF INDIA

In 1926, Royal Commission on Indian Currency and Finance popularly known as the Hilton–Young Commission submitted its report and made recommendations to the British Government of India for creation of a central Bank.

Objectives:

- To separate the control of currency and credit from the government
- To augment banking facilities throughout the country

Finally, on April 1, 1935, Reserve Bank of India was established via the RBI Act of 1934 as the banker to the central government.

Post-Independence Period

After independence, in order to serve the economy better, the All India Rural Credit Survey Committee was set up by RBI. This Committee recommended that Imperial Bank of India be taken over and with it are merged/integrated former state-owned and state-associate banks.

The Government of India (GOI) adopted planned economic development which basically aimed at social ownership of the means of production. However, commercial banks were in the private sector those days. It was considered

that banks were controlled by business houses and thus failed in catering to the credit needs of poor sections such as cottage industry, village industry, farmers, craft men, etc. In 1950-51, there were 430 commercial banks.

1951	India implemented its First Five Year Plan for overall development of the nation
1955	State Bank of India (SBI) was constituted in 1955 under the State Bank of India Act (1955)
1959	State Bank of India (subsidiary bank) Act was passed, enabling the SBI to take over five major former state-associate banks as its subsidiaries. These were - <ul style="list-style-type: none"> • State Bank of Patiala • State Bank of Hyderabad • State Bank of Travancore • State Bank of Bikaner & Jaipur • State Bank of Mysore After creating a subsidiary of SBI, arrangement made was that 55 per cent of the capital will be owned by the SBI and rest 45 per cent remain with old shareholders. However, this arrangement also saw some weaknesses like reduced bank profitability, weak capital base, and banks getting / burdened with large amounts of bad loans (unrecovered loans).
1962	Deposit Insurance Corporation of India was established in January, 1962. Deposit Insurance Corporation Act, 1961 was enacted to ensure the safety of deposits of small depositories in banks in India.
1963	Objective of Agricultural Refinance Corporation (ARC) is to refinance central land mortgage banks, state cooperative banks and scheduled commercial banks.

1966	<ul style="list-style-type: none"> • Cooperative Banks came within the regulations of the RBI. • Rupee was devaluated for the first time.
1968	National Credit Council (NCC) set up in feb. 1968 to assist Government and RBI to reallocate credit according to plan priorities.
1969	Lead Bank Scheme was introduced to mobilise deposits on a massive scale throughout the country and also for stepping up lending to the weaker sections.
1969	Fourteen banks with deposits of over Rs.50 crores were nationalized.
1972	In order to cater the needs of the weaker sections of the society and their upliftment, Differential Rate of Interest (DRI) was instituted.
1974	Concept of Priority Sector was set up in Nov 1974 for public sector banks & in Nov 1978 for private sector banks.
1980	6 Banks with demand and time liabilities greater than Rs.200 crores as on 14.03.1980 were nationalized on April 15, 1980.
1994	Board for Financial Supervision (BFS) was set up within RBI to attend exclusively to supervisory functions
1995	Banking Ombudsman Scheme was introduced under the provisions of Banking Regulation Act, 1949.
2006	In order to provide for voluntary registration of banks, BCSBI (Banking Codes and standards Board of India) was set up; committing to provide customer services as per the agreed standards.

MERGER OF BANKS (2017-2020)

The Union Cabinet approves merger of 10 Public Sector Undertaking (PSU) banks will into four banks from 1 April 2020.

In the biggest consolidation exercise in the banking space, the government in August 2019 had announced the merger of 10 public sector lenders into four bigger and stronger banks.

With this, the number of public sector banks in India will come down to 12 from 27 in 2017.

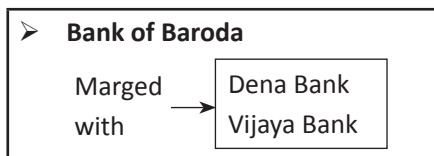
- Oriental Bank of Commerce (OBC) and United Bank of India will be merged into **Punjab National Bank (PNB)**. After the merger, these together will form the 2nd largest public sector bank in the country, after State Bank of India (SBI).
- Syndicate Bank will be merged into **Canara Bank**, which will make it the fourth-largest public sector lender.
- Indian Bank will be merged with Allahabad Bank.
- **Union Bank of India** will be merged with Andhra Bank and Corporation Bank
- Customers of merging banks will be treated as customers of the banks in which these banks have been merged with effect from 1 April 2020.
- After the merger, there will be 12 PSUs - 6 merged banks and 6 independent public sector banks.
- Earlier the Government of India merged 5 associates of SBI and the Bharatiya Mahila Bank (BMB) with the State Bank of India (SBI) with effect from 1 April 2017.

This merger made the SBI, the country’s largest lender among the top 50 banks in the world.

➤ **State Bank of India**

- State Bank of Bikaner and Jaipur (SBBJ),
- State Bank of Hyderabad (SBH),
- State Bank of Mysore (SBM),
- State Bank of Patiala (SBP)
- State Bank of Travancore (SBT) and
- Bharatiya Mahila Bank (BMB),

On 17 September 2018, the Government of India proposed the merger of Dena Bank and Vijaya Bank with the Bank of Baroda. The merger was approved by the Union Cabinet and the boards of the banks on 2 January 2019, creating the third-largest bank by loans in the country.



List of 12 Public Sector banks in India

➤ **Merged banks (6)**

- State Bank of India (SBI)
- Bank of Baroda
- Punjab National Bank (PNB)
- Canara Bank
- Union Bank of India
- Indian Bank

➤ **Independent banks (6)**

- Indian Overseas Bank,
- UCO Bank,
- Bank of Maharashtra,
- Punjab and Sind Bank
- Bank of India
- Central Bank of India.

PAST YEAR MCQs

1. The Reserve Bank of India (RBI) has proposed a four-tier banking structure as opposed to the existing two-tier model in order to enhance competition and finance higher growth in the country. Which of the following will not come under the third tier of the proposed system? **(IBPS RRB Main 2017)**
 - (a) Old private sector banks
 - (b) Regional rural banks
 - (c) Multi-state urban cooperative banks
 - (d) Branches of foreign banks in India
 - (e) None of these
2. The IFSC is an 11-character code with the first four alphabetic characters representing the bank name, and the last six characters (usually numeric, but can be alphabetic) representing the branch. The fifth character is 0 (zero) and reserved for- **(SBI PO Main-2019)**
 - (a) Future use
 - (b) Cash scheme
 - (c) Account Information
 - (d) Balance Rate
 - (e) Cash Withdraw
3. Crypto currencies is verified through which System? **(IBPS Clerk Main 2022)**
 - (a) Centralized
 - (b) Decentralized
 - (c) Financial Transaction
 - (d) None of the Above
 - (e) All of The Above
4. How many Public Sector Bank listed in India? **(SBI Clerk Main 2022)**
 - (a) 12
 - (b) 14
 - (c) 15
 - (d) 17
 - (e) 19
5. Who introduced the Lead Bank Scheme? **(SBI PO Main 2022)**
 - (a) Morarji Ranchhodji Desai
 - (b) Lal Bahadur Shastri
 - (c) Indira Gandhi
 - (d) Gulzari Lal Nanda
 - (e) Charan Singh
6. First Electronic Bank of India? **(IBPS PO Main 2022)**
 - (a) HDFC
 - (b) ICICI Bank
 - (c) State Bank of India
 - (d) Standard Chartered
 - (e) IDFC First
7. Banking Ombudsman is a quasi judicial authority created in 2006, and the authority was created pursuant to a decision made by the Government of India to enable resolution of complaints of **(SBI Clerk Main 2022)**
 - (a) customers
 - (b) Banking Staff
 - (c) Farmer
 - (d) Labour
 - (e) Politician

PRACTICE MCQs

1. In India, the first bank of limited liabilities managed by Indians and founded in 1881 was
 - (a) Hindustan Commercial Bank
 - (b) Oudh Commercial Bank
 - (c) Punjab National Bank
 - (d) Punjab and Sind Bank
 - (e) National Bank
2. Match the following:

List I		List II	
A.	Allahabad Bank	1.	1894
B.	Oriental Bank of Commerce	2.	1943
C.	Punjab National Bank	3.	1943
D.	UCO Bank	4.	1865

Codes:

	A	B	C	D		A	B	C	D
(a)	2	4	3	1	(b)	2	3	4	1
(c)	4	3	1	2	(d)	4	1	3	2
(e)	3	1	4	2					
3. Consider the following statements:
 1. Allahabad Bank was the first bank established exclusively by Indians.
 2. Seven banks forming subsidiary of State Bank of India were nationalised in 1960.

Which of the statements given above is/ are correct?

 - (a) Only 1
 - (b) Only 2
 - (c) Both 1 and 2
 - (d) Neither 1 nor 2
 - (e) Can't say
4. When was the Avadh Commercial Bank established?
 - (a) 1881
 - (b) 1894
 - (c) 1898
 - (d) 1899
 - (e) 1864
5. Imperial Banks were amalgamated and changed as
 - (a) Reserve Bank of India
 - (b) State Bank of India
 - (c) Subsidiary Banks
 - (d) Union Bank of India
 - (e) Corporation Bank
6. _____ was established in 1786.
 - (a) General Bank
 - (b) Reserve Bank of India
 - (c) Bank of Bengal
 - (d) State Bank of India
 - (e) None of these
7. The first wholly Indian Bank was set-up in
 - (a) 1794
 - (b) 1894
 - (c) 1896
 - (d) 1902
 - (e) 1918
8. When was SBI established?
 - (a) 1st April, 1935
 - (b) 31st July, 1969
 - (c) 5th May, 1955
 - (d) 1st July, 1955
 - (e) 5th May, 1960
9. The origin of the State Bank of India goes back to the first decade of the 19th century with the establishment of
 - (a) Bank of Calcutta
 - (b) Bank of Bengal
 - (c) Bank of Bombay
 - (d) Bank of Madras
 - (e) None of these
10. Which bank came into existence in 1921 when three banks namely, Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) were reorganised and amalgamated to form a single banking entity?
 - (a) Imperial Bank of India
 - (b) State Bank of India
 - (c) Reserve Bank of India
 - (d) Punjab National Bank
 - (e) None of the above

11. Which bank became the State Bank of India in 1955?
 - (a) General Bank of India
 - (b) Bank of Hindustan
 - (c) Imperial Bank of India
 - (d) Federal Bank of India
 - (e) None of the above
12. Which of the following banks has acquired the 'Centurion Bank of Punjab'?
 - (a) ICICI Bank
 - (b) IDBI Bank
 - (c) HDFC Bank
 - (d) AXIS Bank
 - (e) None of these
13. Name the premier institution that is taking care of the financial needs of importers and exporters of our country which was established in the year 1981.
 - (a) EXPO Bank
 - (b) Export Import Bank (EXIM)
 - (c) Merchant Bank
 - (d) ECGC
 - (e) None of the above
14. The Largest and Oldest Bank still in existence is
 - (a) Punjab National Bank
 - (b) Reserve Bank of India
 - (c) State Bank of India
 - (d) Punjab National Bank
 - (e) None of The Above
15. Which among the following statements is correct?
 - (a) State Bank of India originated as the Bank of Calcutta in June 1806.
 - (b) "Bank of Calcutta" was renamed as "Bank of Bengal".
 - (c) Both of above
 - (d) None of these
16. Which one of the public sector bank has completed 100 years of its establishment on 21st December, 2011?
 - (a) Central Bank of India
 - (b) State Bank of India
 - (c) Punjab National Bank
 - (d) Bank of Baroda
 - (e) Allahabad Bank
17. Which institution provides long run finance to industries?
 - (a) UTI
 - (b) LIC
 - (c) GIC
 - (d) IFCI
 - (e) All of these
18. Open Added Money Market Scheme was firstly introduced by
 - (a) UTI
 - (b) IDBI
 - (c) ICICI
 - (d) LIC
 - (e) None of these
19. The Export Import Bank of India was set up in
 - (a) July, 1969
 - (b) April, 1970
 - (c) January, 1982
 - (d) April, 1982
 - (e) None of the above
20. Industrial Development Bank of India (IDBI) was established in-
 - (a) 1964
 - (b) 1963
 - (c) 1965
 - (d) 1966
 - (e) None of these
21. Tier-2 banking structure is designed to have
 - (a) 5 to 10 banks
 - (b) 8 to 10 banks
 - (c) 7 to 9 banks
 - (d) 2 to 5 banks
 - (e) None of these
22. Exim Bank extends facility of
 - (a) rediscounting of foreign bills of commercial banks
 - (b) advisory services to the exporters
 - (c) research and market surveys
 - (d) All of the above
 - (e) None of these
23. The branding line of Bank of Baroda is
 - (a) International Bank of India
 - (b) India's International Bank
 - (c) India's Multinational Bank
 - (d) World's Local Bank
 - (e) None of the above
24. Which of the following banks has been included in the second Schedule to the RBI Act, 1934 with effect from 21st August, 2004 and thus, is the latest entrant in Indian banking as a new generation private sector bank?
 - (a) UTI
 - (b) LIC
 - (c) GIC
 - (d) IFCI
 - (e) All of these

- (a) ICICI Bank Limited
 (b) HDFC Bank Limited
 (c) Kotak Mahindra Bank Limited
 (d) Yes Bank Limited
 (e) None of the above
25. Which of the following is/are correct regarding the objectives of bank reforms in the 1990s?
 (a) Greater flexibility in banking operations
 (b) Greater accountability to shareholders
 (c) Greater control over bank functions
 (d) All the above
 (e) None of these
26. The formation of the 15th Finance Commission in India has been finalized. Who has been appointed to head the commission?
 (a) D. Subba Rao
 (b) N. K. Singh
 (c) Montek Singh Ahluwalia
 (d) Raghuram Rajan
 (e) Rakesh Mohan
27. Which of the following was/were suggested by Narasimham Committee-II report on banking?
 (a) Mergers of the **public sector banks** (PSBs) and the financial institutions.
 (b) Creating a 2-tier banking structure
 (c) Strengthening of legal framework of loan recovery
 (d) Both (a) and (c)
 (e) None of these
28. Bank of Upper India was established in
 (a) 1865 (b) 1863
 (c) 1866 (d) 1867
 (e) None of these
29. Which of the following was suggested by Hilton–Young Commission’s report on the creation of a central Bank?
 (a) To separate the control of currency and credit from the government
 (b) To augment banking facilities throughout the country
 (c) Both (a) and (b)
 (d) None of these

Hints & Explanations

PAST YEAR MCQs

1. (d)
 2. (a)
 3. (b) Crypto currencies typically use decentralized control as opposed to a central bank digital currency (CBDC). When a crypto currency is minted, or created prior to issuance, or issued by a single issuer, it is generally considered centralized. When implemented with decentralized control, each crypto currency works through distributed ledger technology, typically a block chain, that serves as a public financial transaction database. Traditional asset classes like currencies, commodities, and stocks, as well as macroeconomic factors, have modest exposures to crypto currency returns.
4. (a) The 12 nationalised banks include Punjab National Bank (PNB), Bank of Baroda (BoB), Bank of India (BoI), Central Bank of India, Canara Bank, Union Bank of India, Indian Overseas Bank (IOB), Punjab, and Sind Bank, Indian Bank, UCO Bank, Bank of Maharashtra, and State Bank of India (SBI).
5. (c) The Lead Bank Scheme is a scheme which aims at providing adequate banking and credit in rural areas through an ‘service area approach’, with one bank assigned for one area. It was introduced in 1969.

6. (a) HDFC Bank, India's largest private sector bank became the first bank in the country to issue an Electronic Bank Guarantee (e-BG) in partnership with National E-Governance Services Limited (NeSL).
7. (a) Banking Ombudsman is a quasi judicial authority created in 2006, and the authority was created pursuant to a decision made by the Government of India to enable resolution of complaints of customers.

PRACTICE MCQs

1. (b) 2. (c) 3. (b) 4. (a)
 5. (b) 6. (a) 7. (b) 8. (d)
 9. (a) 10. (a) 11. (c) 12. (c)
 13. (b) 14. (c) 15. (c) 16. (a)
 17. (d) 18. (b) 19. (c) 20. (a)
 21. (b) 22. (d) 23. (b) 24. (d)
 25. (d) 26. (b) 27. (d) 28. (b)
 29. (c)

TYPES OF BANKING

Branch Banking: It is the most common type of banking system. The banking operations are carried with the help of branch network. Bank's branches are the face of the banks where customers can visit and talk to the officials for getting various services.

Unit Banking: It originated in USA. It is a limited way of banking where banks operate only from a single branch, taking care of the local community. Unit banking may have few branches but in the same area.

Mixed Banking: When the banks undertake activities of commercial and investment banking together, it is called mixed banking.

Chain Banking: When a group of persons come together to own and control three or more independently chartered banks, it is called chain banking.

Relationship Banking: It involves going beyond the normal banking services and understanding customer's needs before offering him any special product service. The knowledge about existing and potential clients essential for all banks.

Rural Banking: it is simply a banking service that serves smaller, rural communities. It has become integral to the Indian financial markets with a majority of Indian population still living in rural or semi-urban areas

Universal Banking: It is a system of banking under which big banks undertake a variety of banking services like commercial banking investment banking, mutual funds, merchant banking and insurance, etc.

Narrow Banking: It is very much an antonym to the universal banking. Narrow banking means narrow in the sense of engagement of funds and not in activities.

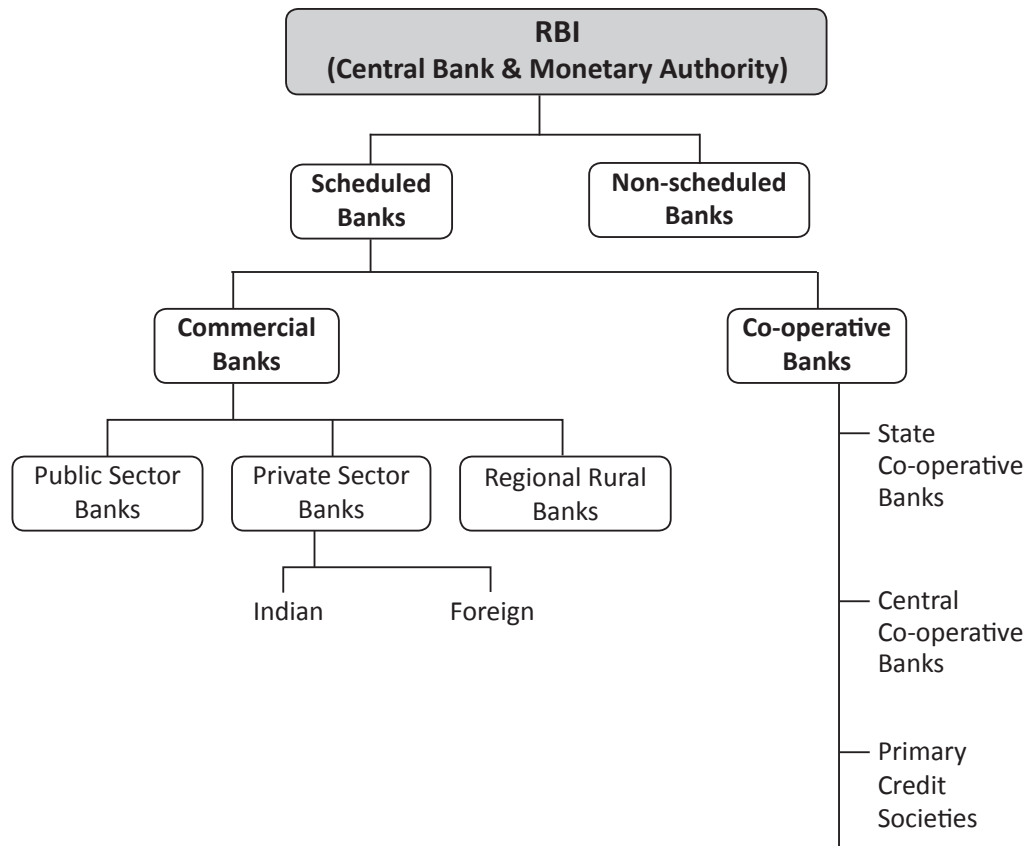
In India, Tarapore Committee is best known for giving the concept of narrow banking as a solution to the problem of Non-Performing Assets (NPA).

Social Banking: The concept of social banking was to provide banking for the poor population. It works for their development needs providing them with easy formal credit, minimum requirements to open accounts, ease of access and friendly stall, etc.

Virtual Banking: Virtual banking also known as Direct Bank. It is a bank without any branch network, that offers its services remotely via online banking and telephone banking or through an independent banking agent network and may also provide access via ATMs. Mail and Mobile.

INDIAN BANKING SYSTEM

The organized banking system in India can be broadly divided into three categories viz., the central bank of the country known as the Reserve Bank of India, the commercial banks and the co-operative banks. Another and more common classification of banks in India is between scheduled and non-scheduled banks. The Reserve Bank of India is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country. It keeps the cash reserves of all scheduled banks and hence is known as the "Reserve Bank".



Scheduled and Non-Scheduled banks

A bank is said to be a scheduled bank when it has a paid up capital and reserves as per the prescription of RBI and is included in the second schedule of RBI Act 1934.

Non-scheduled banks are those commercial banks which are not included in the second schedule of RBI Act 1934.

Commercial Banks

NAME	ESTABLISHED	HEADQUARTER
City Union Bank	1904	Tamil Nadu
KarurVysya Bank	1916	Tamil Nadu
Dhanlaxmi Bank	1927	Thrissur (Kerala)
DCB Bank	1930	Mumbai (Maharashtra)
Federal Bank	1931	Kochi (Kerala)
J & K Bank	1938	Srinagar (J & K)
RBL Bank	1943	Mumbai (Maharashtra)

IDBI Bank	1964	Mumbai (Maharashtra)
Axis Bank	1993	Mumbai (Maharashtra)
HDFC Bank	1994	Mumbai (Maharashtra)
ICICI Bank	1994	Mumbai (Maharashtra)
IndusInd Bank	1994	Mumbai (Maharashtra)
Kotak Mahindra Bank	2003	Mumbai (Maharashtra)
Yes Bank	2004	Mumbai (Maharashtra)
Bandhan Bank	2015	Kolkata (West Bengal)
IDFC First Bank	2015	Mumbai (Maharashtra)

Commercial bank is an institution that accepts deposits, makes business loans and offers related services to general public and businessmen. Commercial banks in India are largely Indian public sector and private sector with a few foreign banks. The public sector banks account for more than 80 percent of the entire banking business in India occupying a dominant position in the commercial banking. These are a profit making institution owned by government or private or both.

a. Public sector banks

- Owned and operated by the government, who has a major share in them.
- Major focus of these banks is to serve the people rather earn profits.
- Examples include State Bank of India, Punjab National Bank etc.

The public sector accounts for 80 percent of total banking business in India and State Bank of India is the largest commercial bank in terms of volume of all commercial banks.

b. Private sector banks

Private sector banks are those whose equity is held by private shareholders. For example, ICICI, HDFC etc. Private sector banks play a major role in the development of Indian banking industry. "Mumbai-based Axis Bank on 30th March, 2022 announced to acquire Citigroup's consumer business in a \$1.6 billion (Rs.12,325crore) deal.

c. Foreign Banks

Foreign banks are those banks which have their head offices abroad. These banks have their registered head offices in a foreign country, while they operate their branches in India. They can operate in India either through wholly-owned subsidiaries or through branches. CITI bank, HSBC, Standard Chartered etc. are the examples of foreign banks in India.

Regional Rural Bank (RRB)

These are state sponsored regional rural oriented banks. They provide credit for agricultural and rural development. The main objective of RRB is to develop rural economy. Their borrowers include small and marginal farmers, agricultural labourers, artisans etc. NABARD holds the apex position in the agricultural and rural development.

After nationalization of banks in 1960, there were problems which made it difficult for commercial banks even under government ownership to lend to farmers. 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.

First RRB: Prathama Grameen Bank sponsored by Syndicate Bank established on 2nd October 1975 with its Head Office at Moradabad.

The RRBs are owned by three entities with their respective shares as follows:

Central Government-50%

State Government -15%

Sponsor bank-35%

Regional Rural Banks (amendment) Act, 2015

This act was passed to amend the original Act of 1976 to widen the capital base of Regional Rural Banks and strengthen their capabilities. The key amendments are

- Limit of five years have been removed regarding the financial and managerial support provided by the sponsor banks to RRBs.
- Amount of authorised capital has been raised to **2000 crore** and the same should not be reduced below **1 crore**.
- Now capital can be raised from sources other than central and state government and sponsor banks.
- RRBs are mandated to fix the combined shareholding of central government and sponsor bank upto **51%**.
- The person who is a director of one RRB is not eligible to be on the Board of Directors of another such bank.
- The tenure of such director has been increased to 3 years and he hold office during the pleasure of the central government.

Primary Credit Societies (PCS) are formed at the village or town level. The borrowing and non-borrowing members are decided in one locality and the operation of it is restricted to that area or locality only.

Recapitalization of RRBs

In order to strengthen the institutions, In March 2020, the Union government approved a 1340 crore recapitalisation plan for Regional Rural Banks (RRBs) to improve their Capital-to-Risk Weighted Assets Ratio (CRAR).

The government gave its nod for an outlay as the central share for the scheme condition that the release of the future contingent upon the release of the proper share by the sponsor bank.

Co-operative Banks

Cooperative banks are so called because they are organised under the provisions of the Cooperative Credit Societies Act 1912 of the states. The major beneficiary of the Cooperative Banking is the agricultural sector in particular and the rural sector in general.

The cooperative credit institutions operating in the country are mainly of two kinds: agricultural (dominant) and non-agricultural. There are two separate cooperative agencies for the provision of agricultural credit: one for short and medium-term credit, and the other for long-term credit. The former has three tier and federal structure.

Three tier structures exist in the cooperative banking:

- i. State cooperative banks (SCB) at the apex level.
- ii. Central cooperative banks (CCB) at the district level.
- iii. Primary cooperative banks (PCB) at the base or local level.

PAST YEAR MCQs

1. India got its first private bank in 11 years as the Bandhan Bank commenced operations on 23 Aug with 501 branches. What is the punch line of the bank? **(IBPS PO Main 2015)**
 - (a) Apna Bhala, Aapki Bhalai
 - (b) Aapka Bhala, Sabki Bhalai
 - (c) Banking the Unbanked
 - (d) Khayal Aapka
 - (e) None of these
2. Which agency in India provides refinance of export credit? **(IBPS PO Main 2016)**
 - (a) SIDBI
 - (b) NABARD
 - (c) RBI
 - (d) EXIM Bank
 - (e) Government of India
3. Which bank has launched India's first internationally-listed certified green bond to finance climate change solutions around the world at London Stock Exchange (LSE)? **(SBI PO Main 2017)**
 - (a) Yes Bank
 - (b) ICICI Bank
 - (c) Axis Bank
 - (d) HDFC Bank
 - (e) None of these
4. As we know commercial banks accept deposits from the public. What do banks do with this money? **(SBI PO Main 2017)**
 - (a) This is a type of credit creation. Bank gives this on loan
 - (b) This is an income for the bank
 - (c) Banks give this money directly to the Govt. for developmental projects
 - (d) This money is deposited with the RBI who in turn gives some interest on it banks
 - (e) None of these
5. Which of the following bank is generally not considered as Commercial bank? **(SBI PO Main 2017)**
 - (a) Public Sector Bank
 - (b) Private Sector Bank
 - (c) Development Bank
 - (d) Foreign Bank
 - (e) None of these
6. Refinance facility is provided by NABARD. Which institution can avail this facility? **(IBPS RRB Main 2017)**
 - (a) Commercial Banks
 - (b) State Co-operative Banks
 - (c) Regional rural Banks
 - (d) State agricultural Development Finance Companies
 - (e) All of the above
7. All Regional Rural Banks (RRBs) are advised to achieve and maintain a minimum CRAR of _____ on an ongoing basis. **(SBI PO Main 2018)**
 - (a) 15%
 - (b) 11%
 - (c) 5%
 - (d) 9%
 - (e) 7%
8. The government has identified how many Regional Rural Banks (RRBs) for listing on stock exchanges in line with the Union Budget 2018-19. **(SBI PO Main 2018)**
 - (a) five
 - (b) two
 - (c) four
 - (d) three
 - (e) one
9. YONO (You Only Need One) app is launched by which of the following? **(SBI PO Main 2018)**
 - (a) ICICI Bank
 - (b) Bank of Baroda
 - (c) PNB
 - (d) SBI
 - (e) HDFC Bank
10. Which of the following fund transfer mechanisms, can be moved from one bank to another and where transaction is settled instantly without being bunched with any other transaction? **(IBPS PO 2015)**
 - (a) RTGS
 - (b) NEFT
 - (c) TT
 - (d) EFT
 - (e) MT

11. Which of the following is not a primary function of a bank? **(IBPS PO 2016)**
- Facilitating import of goods
 - Remittance facility
 - Safe custody of articles
 - Foreign Exchange
 - Purchase and Sale of Foreign Exchange
12. Bandhan bank deals mainly in **(IBPS PO RRB Main 2017)**
- Customer credit
 - Microfinance
 - Control of Money supply
 - Both (a) and (b) are correct
 - None of these
13. Who pays the Rural Area Business Correspondents for their services? **(IBPS PO RRB Main 2017)**
- Banks
 - Ministry of Finance
 - Ministry of Labour & Employment
 - Ministry of Rural Development (India)
 - None of these
14. Which of the following State-owned Bank has partnered with M1Xchange Trade Receivables Discounting System (TReDS) platform for MSME bill discounting? **(SBI PO Main-2019)**
- Canara Bank
 - Bank of Maharashtra
 - Bank of Baroda
 - Indian Bank
 - Central Bank of India
15. What is Nominal Capital? **[RBI Asst. Main 2020]**
- The amount available to shareholders
 - The amount available to market
 - The amount available to customers
 - The amount available to banks
 - None of these
16. What is the total number of Small Finance Bank in India? **(SBI PO Main 2022)**
- 10
 - 11
 - 1
 - 15
 - 17
17. Which of the following feature is not feature of the commercial Bank? **(RRB Office Asst. Main 2022)**
- Commercial Bank accepts deposits
 - Commercial Bank makes Various Loans.
 - Commercial Bank offers the Financial Products.
 - Commercial Bank should be owned privately.
 - Commercial Bank should be owned publically.
18. _____ are retail agents engaged by banks for providing banking services at locations other than a bank Branch/ATM is called **(IBPS Clerk Main 2022)**
- Banking Correspondent
 - Business Correspondent
 - Retail Correspondent
 - None of The Above
 - All of The Above
19. Saving Bank account in Union Commercial Bank is generally not opened by any individual for ? **(IBPS PO Main 2022)**
- saving
 - Paying debt
 - Doing Business
 - All of the above
 - None of the Above
20. Financial influencers regulated by whom? **(SBI PO Main 2022)**
- RBI
 - SEBI
 - NSE
 - FSSAI
 - Ministry of Finance
21. NABARD was established on July 12, 1982, as a central regulatory body for agricultural financing and the rural sector. Which of the following is not the function of NABARD? **(SBI PO Main 2022)**
- NABARD as the leading provider of credit lines in rural areas.
 - NABARD will lend to these client banks, craft factories, food parks, processing units, artisans, and other institutions by fulfilling its financial function.

- (c) NABARD performs oversight functions that need to manage all client banks, institutions, credit and non-credit companies as part of the rural development task.
- (d) NABARD provides loan to Agricultural Farmers.
- (e) NABARD helps local banks develop action plans for development activities as part of their development capabilities.
22. A bank will generally be placed under the PCA framework based on the audited annual financial results and the ongoing supervisory assessment made by _____
(SBI PO Main 2022)
- (a) RBI
(b) Commercial Bank
(c) Non Banking Financial Companies
(d) SEBI
(e) World Bank
23. Regional Rural Banks (RRBs) located in which of the following Union Territory (UTs)
(SBI Clerk Mains-2023)
- (a) Punjab, Jammu & Kashmir and Ladakh.
(b) Delhi, Jammu & Kashmir and Ladakh.
(c) Puducherry, Jammu & Kashmir and Ladakh.
(d) Madhya pradesh, Jammu & Kashmir and Ladakh.
(e) Jammu & Kashmir and Ladakh.
24. State Bank of India (SBI) had raised Rs. _____ through its second Basel III compliant Additional Tier 1 bond issuance for the current financial year.
(SBI Clerk Mains-2023)
- (a) ₹4,000 crore
(b) ₹ 5,000 crore
(c) ₹6,000 crore
(d) ₹7,000 crore
(e) ₹8,000 crore

PRACTICE MCQs

1. Consider the following statements:
1. In Indian Commercial Banking System, the number of the Non-scheduled Bank is more than the Scheduled Banks.
 2. The Non-scheduled Banks in Indian Commercial Banking Systems are even less than a dozen in number.
- Which of the statements given above is/are correct?
- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2
(e) Can't say
2. Which one of the following banks can be included in the Scheduled Commercial Banking System of India?
- (a) Regional Rural Banks
(b) Private Sector Banks
(c) Foreign Banks in India
(d) All of the above
(e) None of these
3. Consider the following statements:
1. Scheduled Commercial Banks are those which have been included in the First Scheduled of RBI Act, 1934.
 2. Non-scheduled Commercial Banks are those which have been included in the Second Scheduled of RBI act, 1934.
- Which of the statements given above is/are correct?
- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2
(e) Can't say
4. A scheduled bank is the one which is included in the
- (a) II Schedule of Banking Regulation Act
(b) II Schedule of Constitution
(c) II Schedule of RBI Act
(d) All of these
(e) None of these

5. Presently, the number of the public sector banks in India is
 (a) 8 (b) 20
 (c) 21 (d) 14
 (e) None of these
6. Which of the following is popular 'saving bank' among the poor children?
 (a) Core banking
 (b) Credit banking
 (c) Debit banking
 (d) Merchant banking
 (e) Piggy banking
7. When banks accept fixed sum of money from an individual for a definite term and pay on maturity with interest, the deposit is known?
 (a) Term deposit
 (b) Demand deposit
 (c) Bond
 (d) Mortgage
 (e) Advance
8. Which one of the following whose activities are not systematically coordinated by the monetary authority?
 I. Organised sector
 II. Unorganised sector
 III. Co-operative sector
 Select the correct answer using the codes given below
 (a) Only II (b) I and III
 (c) Only I (d) II and III
 (e) Only III
9. Which one of the following dominates the organised sector?
 (a) RBI
 (b) Commercial Bank
 (c) Co-operative Bank
 (d) RRBs
 (e) SBI
10. A scheduled bank is one
 (a) which conforms to the requirements of Schedule III of the Banking Regulation Act, 1949
 (b) which has been declared as a scheduled bank by the Government of India
 (c) which has deposits exceeding ₹ 10 crore
 (d) which has its name added to the second schedule of the Reserve Bank of India Act, 1934
 (e) None of the above
11. Which of the following can be identified as a demat account?
 (a) Accounts which can have zero balance
 (b) Accounts opened to facilitate repayment of loan
 (c) Accounts in which shares of companies are traded in electronic form
 (d) Accounts maintained by mutual fund companies for investors
 (e) None of the above
12. How many banks are presently associates of State Bank of India?
 (a) 8 (b) 7
 (c) 6 (d) 5
 (e) None of these
13. The paid-up capital of non-scheduled bank is less than
 (a) ₹ 5 lakh
 (b) ₹ 10 lakh
 (c) ₹ 12 lakh
 (d) ₹ 15 lakh
 (e) None of these
14. Which financial entities can issue Certificate of Deposits (CDs)?
 (a) Scheduled Commercial Banks, excluding RRBs
 (b) Financial Institutions permitted by RBI
 (c) Both (a) and (b)
 (d) None of the above
 (e) None of these
15. Which of the following is not the part of the scheduled banking structure in India?
 (a) Money lenders
 (b) Public sector banks
 (c) Private sector banks
 (d) Regional rural banks
 (e) State co-operative banks

16. BCSBI stands for
- (a) Banking Codes and Standards Board of India
 - (b) Banking Credit and Standards Board of India
 - (c) Banking Codes and Service Board of India
 - (d) Banking Credit and Service Board of India
 - (e) None of the above
17. Banking has been defined under _____
- (a) Banking Regulation Act Section 5(b)
 - (b) Banking Regulation Act Section 17
 - (c) RBI Act Section 2 (2)
 - (d) Negotiable Instruments Act Section 1
 - (e) None of these
18. 'Unit Banking System' is that system where an individual bank undertakes the banking business
- (a) through a single office
 - (b) through a few branches operating within a limited area
 - (c) All of the above
 - (d) through a few branches
 - (e) None of these
19. Kisan Credit Card is an effective way of reaching out to the farmers by the banks. What assistance does the farmer receive in this way?
- (a) Credit facility for crops etc against an approved limit
 - (b) Short-term credit facility against value of his crops
 - (c) Long-term credit is provided against his land holdings
 - (d) Loan is permissible against crops sold, but payment yet to be received by the farmer
 - (e) None of these
20. Which of the following cannot be endorsed?
- (a) A fixed deposit receipt
 - (b) A bank draft
 - (c) A Promissory note
 - (d) A usance bill of exchange
 - (e) None of these
21. In economics, it is generally believed that the main objective of a public sector financial company like bank is to
- (a) employ more and more people
 - (b) maximise total profits
 - (c) maximise total production
 - (d) sell the goods at subsidised cost
 - (e) All of these
22. Which of the following is not required for opening a bank account?
- (a) Identity proof
 - (b) Address proof
 - (c) Recent photographs
 - (d) Domicile certificate
 - (e) None of the above
23. Which of the following is a primary function of banks?
- (a) Collection and payment of cheques, rent, interest etc on behalf of their customers
 - (b) Buying, selling and keeping in safe custody, the securities on behalf of their customers
 - (c) Acting as trustee and executors of the property of their customers on their advice
 - (d) Remitting money from one place to the other through bank drafts or mail or telegraphic transfers
 - (e) Accepting deposits
24. The banker is under an obligation to take utmost care in keeping secrecy of the details of the customer. However, the obligation of secrecy is not considered essential when
- (a) a banker is required to give evidence in the court
 - (b) there is national emergency and disclosure is essential in the public interest
 - (c) there are clear proofs of reason to the state and when consent is given by the customer to provide information for the preparation of balance sheet
 - (d) All of the above
 - (e) None of the above

25. Regional Rural Bank was promulgated in
 (a) 1975 (b) 1974
 (c) 1970 (d) 1976
 (e) 1973
26. The first regional rural bank was
 (a) Prathama Grameen Bank
 (b) Allahabad UP Gramin Bank
 (c) Arunachal Pradesh Rural Bank
 (d) Assam Gramin Vikash Bank
 (e) None of these
27. Which of the following is/are correct about Cooperative Banks?
 (a) They are organised under the provisions of the Cooperative Credit Societies Act.
 (b) The major beneficiary of the Cooperative Banking is the agricultural sector.
 (c) The cooperative credit institutions are of agricultural and non-agricultural type.
 (d) All of these

Hints & Explanations

PAST YEAR MCQs

1. (b) 2. (d) 3. (c) 4. (a) 5. (c)
 6. (e) 7. (d) 8. (c) 9. (d) 10. (a)
 11. (a) 12. (a) 13. (c) 14. (b)
15. (a) Nominal capital simply refers to the amount of capital—in shares—a company is legally authorized to make available to shareholders. Within the U.S., the nominal capital is generally provided within the company's legal documentation.
16. (c) As of 2022, there are 12 small finance Bank. SFBs in India primarily carry out basic banking activities to serve unserved and underserved sections in the country. They can offer deposits as well as loan products but cannot set up any subsidiaries to offer any non-banking financial services.
17. (d) The Commercial Bank are regulated by the Banking Regulation Act, 1949. The Central Bank is a publicly owned institution while the Commercial Bank can be publicly or privately owned institution.
18. (b) Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. Business correspondents are bank representatives. They help villagers to open bank accounts. Business Correspondents get commission from bank for every new account opening, every transaction made via them, every loan-application processed etc.
19. (c) Savings Bank (SB) accounts are opened in the bank mainly for saving purpose. Customers cannot open an SB account for business purpose.
20. (b) A set of regulations for financial influencers, who offer unauthorized financial assistance on social media platforms like Twitter, Youtube, Instagram, and Facebook is being developed by the Securities and Exchange Board of India (Sebi).
21. (d) The major functions of NABARD include promotion and development, refinancing, financing, planning, monitoring and supervision. NABARD provides Co-operative Banks and Regional Rural Banks loans and advances, repayable on demand or on the expiry of fixed periods not exceeding 12 months, by way of refinance for production, marketing and procurement activities. NABARD did not provides loan to Agricultural Farmers.

22. (a) A bank will generally be placed under the PCA framework based on the audited annual financial results and the ongoing supervisory assessment made by the RBI.
23. (c) RRBs are sponsored by Public Sector Banks (PSBs). There are currently 43 RRBs supported by 12 public sector banks with 21,856 branches across 26 states and 3 Union Territories — Puducherry, Jammu & Kashmir and Ladakh.
24. (b) State Bank of India (SBI) said it had raised ₹5,000 crore through its second Basel III compliant Additional Tier 1 bond issuance for the current financial year at a coupon rate of 8.34%

PRACTICE MCQs

1. (b) 2. (d) 3. (d) 4. (c) 5. (c)
6. (e) 7. (a) 8. (a) 9. (b) 10. (d)
11. (c) 12. (e) 13. (a) 14. (d) 15. (a)
16. (a) 17. (a) 18. (c) 19. (a) 20. (a)
21. (b) 22. (d) 23. (e) 24. (d) 25. (a)
26. (a) 27. (d)

3

RBI and its Functions

RESERVE BANK OF INDIA

RBI was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

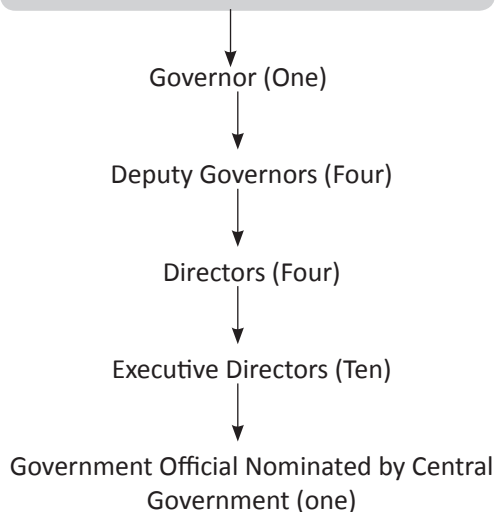
- The Central bank was formed under the recommendations from John Hilton Young Commission 1926, also called Royal Commission of Indian Currency and Finance.
- The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937.

Though originally privately owned, since nationalization in 1949, the Reserve Bank is fully owned by the Government of India.

CONSTITUTION

The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

Central Board of Directors (20 Members)



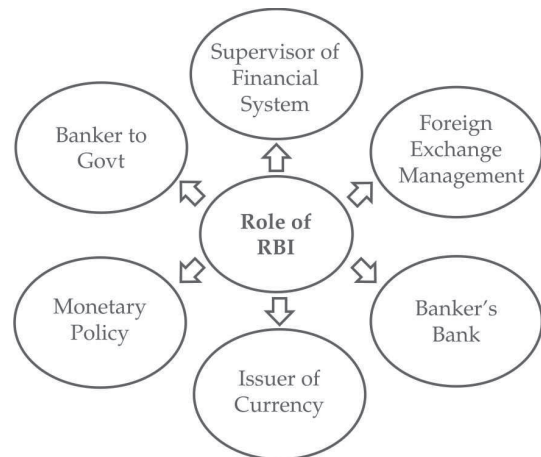
First Governor of RBI - Sir Osborne Smith
First Indian Governor of RBI - C. D. Deshmukh

Current Office Holders in RBI

Shri Shaktikanta Das	Governor
Shri T.Rabi Sankar	Deputy Governor
Shri M.Rajeshwar Rao	Deputy Governor
Mahesh Kumar Jain	Deputy Governor
Dr. M.D. Patra	Deputy Governor

* **Fast Fact:** The current Governor is Shri Shaktikanta Das, and he has four Deputy Governors that report to him directly.

FUNCTIONS OF RESERVE BANK OF INDIA



(a) Monetary Authority:

Formulates, implements and monitors the monetary policy.

Objective: maintaining price stability and ensuring adequate flow of credit to productive sectors.

(b) Regulator and Supervisor of the Financial System:

Prescribes broad parameters of banking operations within which the country’s banking and financial system functions.

Objective: maintain public confidence in the system, protect depositors’ interest and provide cost-effective banking services to the public.

(c) Manager of Foreign Exchange:

Manages the Foreign Exchange Management Act, 1999.

Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

(d) Issuer of Currency:

Issues and exchanges or destroys currency and coins not fit for circulation.

Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality.

(e) Developmental Role:

Performs a wide range of promotional functions to support national objectives.

(f) Banker to the Government:

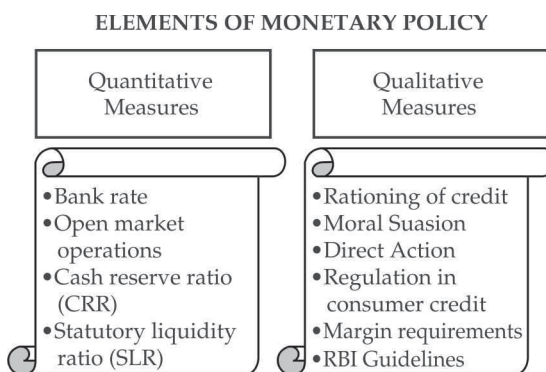
Performs merchant banking functions for the central and the state governments; also acts as their banker.

(g) Banker to Banks:

Maintains banking accounts of all scheduled banks.

INSTRUMENTS OF MONETARY POLICY – QUANTITATIVE & QUALITATIVE TOOLS

The instruments of monetary policy are tools or devices which are used by the monetary authority in order to attain some predetermined objectives.



REPO AND REVERSE REPO RATE

Repo is a transaction wherein securities are sold by the RBI and simultaneously repurchased at a fixed price. This fixed price is determined in context of an interest rate called the repo rate. The higher the repo rate, more costly are the funds for banks and hence, higher will be the rate that banks pass on to customers. A high rate signals that access to money is expensive for banks; lesser credit will flow into the system that helps bring down liquidity in the economy. Reverse repo rate is the rate of interest at which the RBI borrows funds from other banks in the short term. This is done by RBI selling government bonds/securities to banks with the commitment to purchase them at a future date. RBI can reduce the liquidity in the banking system by increasing the rate at which it borrows from banks.

CASH RESERVE RATIO (CRR)

This is the percentage of a bank’s total deposit that needs to be kept as cash with the RBI. The central bank can change the ratio to a limit. A high percentage means banks have less to lend, which curbs liquidity; a low CRR does the opposite. The RBI can reduce or raise CRR to tighten or ease liquidity as the situation demands.

OPEN MARKET OPERATIONS (OMO)

This refers to buying and selling of government securities by RBI to regulate short-term money

supply. If RBI wants to induce liquidity or more funds into the system, it will buy government securities and inject funds, and if it wants to curb the amount of money out there, it will sell these to banks, thereby reducing the amount of cash that banks have. RBI uses this tool actively even outside of its monetary policy review to manage liquidity on a regular basis.

STATUTORY LIQUIDITY RATIO (SLR)

This is the percentage of banks' total deposits that they are needed to invest in government approved securities. The lesser the amount of SLR, the more banks have to lend outside. The ratio of liquid assets to net demand and time liabilities (NDTL) is called statutory liquidity ratio (SLR). It is in the form of liquid assets like cash, gold and unencumbered securities. Banks have to report to the RBI every alternate Friday their SLR maintenance, and pay penalties for failing to maintain SLR as mandated.

BANK RATE

This is the re-discounting rate that RBI extends to banks against securities such as bills of exchange, commercial papers and any other approved securities. In recent years, it has been the repo rather than the bank rate that has acted as a guideline for banks to set their interest rates. Directionally, bank rate follows repo.

In addition to these measures, RBI also uses many qualitative tools to regulate credit flow and cost of credit to the economy and specific sectors within it.

Current Rates:

CRR –4.50%
SLR – 18%
REPO –6.50%
REVERSE REPO – 3.35%
MSF AND BANK RATE – 6.75%

QUALITATIVE TOOLS

Qualitative credit is used by the RBI for selective purposes. Some of them are

1. **Margin requirements:** This refers to difference between the securities offered and amount borrowed by the banks.
2. **Consumer Credit Regulation:** This refers to issuing rules regarding down payments and maximum maturities of installment credit for purchase of goods.
3. **RBI Guidelines:** RBI issues oral, written statements, appeals, guidelines, warnings, etc. to the banks.
4. **Rationing of credit:** The RBI controls the Credit granted / allocated by commercial banks.
5. **Moral Suasion:** psychological means and informal means of selective credit control.
6. **Direct Action:** This step is taken by the RBI against banks that don't fulfill conditions and requirements. RBI may refuse to rediscount their papers or may give excess credits or charge a penal rate of interest over and above the Bank rate, for credit demanded beyond a limit.

More Quantitative tools, viz. Marginal Standing Facility (MSF), Liquidity Adjustment Facility (LAF), Priority Sector Lending (PSL), Marginal Cost of funds based Lender Rate (MCLR) etc.

Liquidity Adjustment Facility (LAF)

- It is a monetary policy tool which allows banks to borrow money through repurchase agreements.
- LAF was introduced for the first time in June, 2000.
- LAF is used to aid banks in adjusting the day-to-day mismatches in liquidity.
- LAF = Repo + Reverse repo rate

Marginal Standing Facility (MSF)

- It refers to the penal rate at which banks can borrow money from the Central Bank.
- It was announced by the Reserve Bank of India (RBI) in its Monetary Policy (2011-12) and;

- MSF is always 1% greater than Reverse Repo Rate. MSF came into effect from 9th May, 2014.

Priority Sector Lending (PSL)

- In order to ensure that banks increase their involvement in the financing of priority sectors like agriculture, small industries, etc. RBI introduced the system of Priority Sector Lending.
- On 25th August, 2011, RBI set-up a new committee under MV Nair to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending.

Marginal Cost of Funds based Lender Rate (MCLR)

- The RBI has issued new guidelines for setting lending rate by commercial banks under the name Marginal Cost of Funds based Lending Rate (MCLR).
- The MCLR regime is applicable on floating rate home loans and term loans to small and medium sized enterprises and middle level corporates.
- It has replaced the Base Rate system from April 2016 onwards.

Demonetisation and RBI

- The government had “advised” the Reserve Bank to junk ₹500/1000 notes on November 7, 2016.
- The RBI’s Central Board met the very next day to consider the government’s advice.
- After “deliberations,” RBI decided to “recommend that the legal tender status of the banknotes in the high denominations of ₹500 and ₹1000 be withdrawn.

RBI under the Section 20 of the RBI Act 1934 has the obligation to undertake the receipts and payments of the Central Government and to carry out the exchange, remittance and other banking operations, including the management of the public debt of the Union.

State Government transactions are carried out by RBI in terms of the agreement entered into with the State Governments in terms of section 21 A of the Act. As of now, such agreements exist between RBI and all the State Governments **except Government of Sikkim**.

Recently the Reserve Bank of India has said that 99.3% of demonetized currency or 15.31 lakh of 15.41 lakh crore demonetized has been returned. Also, household financial savings in currency touched a high 2.8 % of gross national disposable income- the highest in 6 years.

RBI Offices

RBI – 27 Regional offices.
– 04 Sub-offices

Training Establishments

06 training establishments

- RBI Academy,
- College of Agricultural Banking and
- Reserve Bank of India Staff College.
- National Institute for Bank Management,
- Indira Gandhi Institute for Development Research (IGIDR)
- Institute for Development and Research in Banking Technology (IDRBT)

Fully owned subsidiaries of Reserve Bank of India

- Deposit Insurance and Credit Guarantee Corporation of India (DICGC)
- Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)
- Reserve Bank Information Technology Private Limited (ReBIT)
- Indian Financial Technology and Allied Services (IFTAS)

MONETARY POLICY COMMITTEE

The **Monetary Policy Committee** of India is a committee of Reserve Bank of India that is responsible for fixing the benchmark interest rate in India. The committee was created in 2015 after amending the RBI Act, to bring transparency and accountability in fixing India's Monetary Policy.