

# Financial institutions and services SS2-9

## Reserve Bank of India

- The Reserve Bank of India is the apex bank of India.
- It was established in 1935.
- Its headquarters is in Mumbai.

## Functions of Reserve Bank of India

- Printing of currency.
- Controlling credit.
- Banker to government.
- Banker's bank.

## How does the Reserve Bank print notes?

- All currencies except the one rupee note are printed by the Reserve Bank of India.
- The one rupee note and its subsidiary coins are issued by the Central Finance Department.
- The gold or foreign exchange reserves which hold the fixed value of the note hold as security.

## Specify how the Reserve Bank controls credit

- Control of credit is one of the main functions of the Reserve Bank.
- This is made possible by bringing about changes in the rate of interest.
- As rate of interest increases, volume of loans decreases.
- When interest rates fall, the amount of debt increases.
- The Reserve Bank of India increases the money supply in Indian economy through the distribution of printed currency and through credit creation.

## How does the Reserve Bank of India act as a Banker to government?

- Another function of the Reserve Bank of India is to serve as the banker to the central and state governments.
- As a banker to the government, the Reserve Bank of India accepts deposits from the government, sanctions loans and renders other banking services to them.
- The Reserve Bank of India does not charge any fees for these services.

## How does the Reserve Bank of India act as a Banker's bank?

- The Reserve Bank is the apex bank of all banks.
- To advise and assist all banks in their operations is a function of the Reserve Bank.
- It acts as a last resort to all banks in their financial matters.

## Why Reserve Bank of India is known as apex bank bank in India

- The Reserve Bank controls all other banks.
- It controls and gives the necessary directions and advices to the financial institutions in the country
- So Reserve Bank of India is known as apex bank bank in India financial institutions
- Financial institutions are those institutions where financial transactions like deposits, loans etc. take place.

## Banks

- Banks are institutions that accept deposits from the public and grant loans to the needy subject to conditions.

- They operate on the basis of the general guidelines and conditions set by the Reserve Bank of India.
- The bank pays interest on deposits from individuals, institutions and the government.
- Bank levies interest on loans to individuals, institutions and the government.
- The rate of interest on loans will be higher than the rate of interest given for deposits.
- The difference between these interests is the main revenue of the banks.

### **Growth of banks in India**

- The Bank of Hindustan established in 1770 is India's first modern bank.
- The growth of the banking sector since then can be divided into three phases.

#### **First phase**

- The first phase stretches from 1770 to the nationalisation of banks in 1969.
- In this phase, the presidency banks, (Bank of Bengal, Bank of Bombay, and Bank of Madras) were established by the British East India Company.
- The operation and the growth of banks were slow during this phase.

#### **Second phase**

- The second phase stretching from 1969 to 1990, witnessed a speedy development of banks.
- The view that banks should operate with the aim of social progress led to the nationalisation of 14 banks in 1969 and six banks in 1980.
- In 1993, the nationalised bank, New Bank of India was merged with the Punjab National Bank.
- As a result, there are only 19 nationalised banks in India.

#### **Third phase.**

- In the third phase, stretching from 1991 onwards, banks started rendering services, other than their basic functions.
- There were several banking reforms which helped in quick and time saving services, ease of procedure, etc.
- Introduction of Automated Teller Machines (ATM), credit card, phone banking, net banking, core banking, etc. are the results of the third phase of development.
- The private banks which received license during this period introduced new and innovative functions at a much quicker pace.
- Such banks are known as new generation banks.
- The banking sector has undergone many changes by merging public sector banks.
- State Bank of Travancore, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and Bhartiya Mahila Bank merged with State Bank of India on April 1, 2017.

### **How are banks categorized based on performance?**

- Commercial banks,
- Cooperative banks,
- Development banks,
- Specialised banks.

### **Commercial Banks Important Information**

- Commercial banks are the oldest banks and have many branches.
- These banks, which play a major role in the country's financial activities.
- They accept deposits from the public and grant loans to trade, industry, agriculture etc., subject to certain conditions.
- Commercial Banks can be divided into Public Sector Commercial Banks and Private Commercial Banks.

### **Public sector commercial banks**

- Public sector commercial banks are owned by the government.
- Their functions are controlled by the Reserve Bank.
- State Bank of India, nationalised banks and regional rural banks together constitute public sector commercial banks

### **Private Indian commercial banks**

- Private commercial banks can be divided into two
- Private Indian Commercial Banks
- Private Foreign Commercial Banks
- Both are owned by private individuals.
- They operate under the control of the Reserve Bank of India.
- Private foreign commercial banks are those banks which have registered in India but have headquarters in a foreign country.

### **Function of Commercial Banks**

- Accepting deposits,
- Providing loans,
- Provide other facilities,
- Providing other services.

### **Deposits received by commercial banks**

- Savings Deposit,
- Current Deposit,
- Fixed Deposit,
- Recurring Deposit.

### **Savings Deposit**

- This scheme helps the public to deposit their savings.
- Banks provide low interest rate for such deposits.
- The depositor can withdraw the money from the deposit, subject to restrictions.
- Different banks have adopted different regulations regarding the number of times and the amount of money that can be withdrawn during a particular time period.
- The details of the amount deposited and withdrawn are stated in the passbook provided by the bank.

### **Current Deposit**

- This deposit facilitates depositing and withdrawing money many times in a day.
- This deposits are used mainly by traders and industrialists.
- This type of deposits does not receive any interest.

### **Fixed Deposit**

- Fixed deposits are ideal for depositing money in banks by individuals and institutions for a specific period of time.
- The interest rate is calculated on the basis of the time period for which the money is deposited.
- If the amount is withdrawn before the maturity of deposits, then the interest rate will be lower.

### **Recurring deposits**

- Recurring deposits receive a specific amount every month for a specified period of time.

- The interest rate of recurring deposits will be higher than that of saving deposits but less than that of fixed deposits.
  - The interest rate will be less if the deposits are withdrawn before the maturity date.
- Loans provided by commercial banks
- The amount of money accepted as deposit from the public is granted as loans by the banks.
  - The interest rate of loans will be higher than the interest rate of deposits.
  - There will be differences in the interest rate depending on the duration of loan, its purpose, etc.
  - Normally, bank loans are provided by accepting a collateral.

### **Collateral that the banks accept to provide loans.**

- Physical assets - gold, property documents, etc.
- Fixed deposit certificates

### **Loans issued by commercial banks.**

- Cash credit.
- Overdraft. are loans provided by commercial banks.

### **What is Cash credit?**

- The loans given to individuals and institutions by accepting collaterals are called cash credit.

### **What are the purposes for which banks provide cash credit to the public?**

- Agricultural purposes
- Industrial purposes
- Constructing houses
- Purchasing vehicles
- Purchasing home appliances

### **What is overdraft?**

- This is an opportunity for a customer to withdraw money over and above the balance in his/her account.
- This facility is provided to individuals who have frequent transactions with the bank.
- Generally, this opportunity is provided to individuals who maintain current deposits.
- The bank will charge interest on the additional withdrawal amount.

### **Facilities provided by commercial banks**

- Locker facility
- Demand Draft
- Mail Transfer
- Telegraphic Transfer
- ATM facility
- Credit Card facility

### **Locker Facility**

- Majority of the banks provide locker facilities to individuals and institutions for keeping their valuable assets (gold, property documents, etc.).
- One key of the locker will be with the owner and the other will be with the bank.
- The locker can be opened only when both keys are jointly used.
- A certain amount is charged for availing this facility.

### **Demand draft**

- Demand draft is the facility provided by the banks to send money from one place to another.

-It is not necessary to have an account for this

### **Mail transfer**

- Banks provide an opportunity to transfer money from anywhere in the world either to one's own account or to someone else's account.
- This service is called mail transfer.

### **Telegraphic transfer**

- Telegraphic transfer is the mechanism which can transfer money through a message.
- It is faster than mail transfer.

### **ATM facility**

- The facility to withdraw money any time without going to the bank is made possible through Automated Teller Machine (ATM).
- Today majority of the banks have this facility.
- Now Automated Teller Machines of some banks provide the opportunity to deposit and withdraw money.
- For this, banks provide ATM debit cards.

### **What are the information included in an ATM card?**

- Card number
- The name of the bank
- Bank's Emblem
- Duration of the card
- Chip
- CCV number.

### **What are the precautions to follow when using an ATM card?**

- Make sure that there is no one at the counter.
- Do not share the ATM Personal Identification Number (PIN).
- Assure the balance amount on receiving the receipt of money withdrawal.
- Do not carelessly throw away the receipt.
- Block the card immediately if the ATM card is lost.

**Credit card facility.**-Banks provide credit card facility which helps in purchasing products without having to keep money on person.

- Credit card is also a plastic card.
- Using this, goods and services can be purchased even without having sufficient cash in one's account.
- The money has to be remitted to the bank later within a specific period.

### **Other services provided by commercial banks**

- Services like the payment of insurance premium, telephone and electricity bills, and rendering services like mobile recharging, booking journey tickets, etc.
- Some of the transactions of the government which were once operated only through the treasuries are now done through banks.
- Service pension is also disbursed through banks.

### **Modern trends in banking sector**

- Electronic Banking and
- Core Banking are the modern trends in banking.

### **What is Electronic Banking?(E- Banking)**

- Electronic banking is a method by which all transaction can be carried out through net banking and tele banking.
- Any time banking,
- Anywhere banking,
- Net banking,
- Mobile phone banking, etc. are part of electronic banking.
- For this, the assistance of the bank employees is not required.
- Bank account and net banking facility alone are required for this.

### **Benefits (merits) of Net Banking?**

- Money can be sent and bills can be paid anywhere in the world from home
- Saves time
- Low service charge

### **What is Core banking (Centralised Online Real-time Exchange Banking)?**

- Core banking is the facility which is arranged in such a way that the branches of all banks are brought under a central server so that banking services from one bank to another is made Possible.
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### **Advantages of Core banking**

- As a result, ATM, debit card, credit card, net banking, ele banking, mobile banking, etc have been brought together.
- Transactions have become simple.
- By using this facility, an individual can send money from his bank account to his friend's account elsewhere.

### **Co-operative Banks**

- Co-operation, self help and mutual help are the working principles of co-operative banks.
- The main aim of co-operative banks is to provide monetary help to common people especially the villagers.
- Provide loans to the public.
- Protect the villagers from private money lenders
- Provide loans at low interest rate
- Encourage saving habit among people - these are all the main aims of co-operative banks.
- Farmers, artisans, small scale entrepreneurs, etc. chiefly avail the services of co-operative banks.

### **Different levels of cooperative banks.**

#### **State Cooperative banks**

- Apex body in the state cooperative sector
- Provides financial assistance to district cooperative banks and primary cooperative banks.

#### **District Cooperative banks**

- Operate at district centres
- Provide assistance and guidance to primary co-operative banks.

#### **Primary Cooperative banks**

- Function in villages

- Area of functioning is limited
- Encourage saving habit in villagers
- Provide loans to villagers at low interest rate

### **Development banks - features and functions**

- Development banks provide long term loans for various needs such as modernisation of industries.
- Now, these banks provide loans to agriculture and trade sectors.
- Work as an agent that helps in the development of different sectors (agriculture, industry, trade, ...).
- Provides loans for construction of house, small scale industry, and basic infrastructure development.
- The Industrial Finance Corporation of India (IFCI) is a development bank in India.

#### **Specialised Banks**

- Specialised banks provide financial help for the development of certain specific sectors.
- They provide help to start new enterprises.

### **Specialised banks specialised banks and their feature**

#### **EXIM Bank of India (Export Import Bank of India)**

- Provides loans for exporting and importing products.
- Provides instructions to individuals who come into this sector.

#### **Small Industries Development Bank of India (SIDBI)**

- Provides help to establish new small scale industries and to modernise existing industries.
- Aim is to vitalize village industries.

#### **National Bank for Agricultural and Rural Development (NABARD)**

- Apex bank in India which functions for the Rural Development (NABARD) development of villages and agriculture.
- Unites all the banks which operate for the development of villages.
- Provides financial assistance to agriculture, handicraft, small scale industries, etc.

### **New banks emerged in the banking sector with certain specific aims.**

- Mahila banks
- Payment banks
- Micro Units Development and Refinance Agency(MUDRA) Bank

#### **Bharathiya Manilla Bank**

- Bharathiya Mahila Bank was started in November 2013.
- The slogan of this bank is ' Women empowerment is India's empowerment'.
- Today, this bank has branches in various states.
- Though the bank accepts deposits from all, it provides loans mainly to women.
- Mahila Bank has now merged with SBI

#### **Payment banks (On 19 August 2015)**

- Payment banks have been established to help the low income groups, small scale industrialists and migrated employees.
- They do not provide all facilities provided by banks

#### **Features of Payment Banks.**

- Accept deposits up to only one lakh rupees from individuals.
- Provide interest on deposits as specified by the Reserve Bank of India.
- Do not provide loans.

- Charge a specific fee as commission for bank transactions.
- Only debit cards will be provided.

### **MUDRA Bank Launched by Prime Minister on 8 April 2015**

- A recently introduced bank for providing short term loans is MUDRA Bank.
- Mudra Bank provides financial help to small scale entrepreneurs and micro finances.

### **Non Banking Financial Institutions? Features?**

- These institutions work in the financial sector but do not perform all the functions of a bank.

### **Features or Functions**

- Accepting deposits,
- Lending loans
- Whereas some services like withdrawal of cash by cheque, mail transfer, lockers are not provided.

### **Which are the non-bank financial institutions in India?**

- Non Banking Financial Companies
- Mutual Fund Institutions
- Insurance companies

### **Non Banking Financial Companies**

- These are non banking financial institutions that operate under the supervision of the Reserve Bank of India.
- They are registered under the Company Act, 1936 and carry out the basic functions of the banks.

### **Main services provided by non-bank finance companies**

- Provide loans for hire purchases.
- Provide loan for construction of house.
- Provide gold loan.
- Provide loan on the basis of fixed deposits.
- Running chitty.
- Kerala State Financial Enterprises (KSFE) is the major non banking financial company operating in Kerala.

### **Mutual Fund Institutions**

- Mutual fund is a mode of investment.
- Common man is not always able to invest in the share market directly.
- This limitation can be overcome through mutual fund.
- Money is collected from various investors and is invested in share markets, debentures, etc.
- The profit or loss from this is distributed among the investors.
- Such institutions operate in both private and public sectors.

### **Mutual Fund institutions working in public sector in India.**

- Unit Trust of India (UTI),
- Life Insurance Corporation Mutual Fund (LIC MF),
- SBI mutual fund.

### **Insurance companies**

- Insurance companies are institutions that provide financial protection to individuals' life and wealth.
- They assure social security and personal welfare.



- The first insurance company of India was established in Kolkata in 1818.
- Today, insurance companies operate in public and private sectors.
- A major institution in India working for the protection of individual's life and health is the

### **Life Insurance Corporation of India (LIC).**

- Non life insurance companies that protect individuals from loss due to accidents, natural calamities etc. also operate in India.
- The General Insurance Company and four related companies are the non life insurance companies operating in the public sector. They are:-
- New India Assurance Company Limited
- United India Insurance Company Limited.
- Original Insurance Company Limited.
- National Insurance Company Limited.

### **Micro finance**

- The aim of micro finance is to provide different financial services including micro credit to common people.
- This helps in encouraging saving habit among the low income groups in the society and to seek self employment.
- The Kudumbasree and men self-help groups operating in Kerala and are examples of this.

### **Major goals of micro finance.**

- Helps in collective development by mobilising money from individuals.
- Helps to increase the standard of living of the poor.
- Encourages saving habit.
- Makes use of the individual potential for group development.
- Provides loans to members in need.
- Starts small scale enterprises.

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