



Bank of India

Credit Officers

Volume - 2

General Banking & Financial Statement Analysis and Management



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CHAPTER

Bank and its development of India

Bank: A **bank** is a financial institution that accepts deposits from the public and lends money at different interest rates.

- Banking activities in India are regulated under the **Banking Regulation Act, 1949 (former name Banking Companies Act, 1949)**.
- As per the **Banking Regulation Act, 1949**, banking is defined as: Accepting deposits from the public for lending or investment purposes, repayable on demand or otherwise, and withdrawable by cheque, draft, order, or otherwise.

History of Banking in India

- The origin of modern banks is considered to have begun in **1157** in **Italy** with the establishment of **the Bank of Venice**.
 - ✓ **1407 AD**– Bank of Barcelona;
 - ✓ **1407 AD** – Bank of Genoa;
 - ✓ **1694 AD** – Bank of England.
- **Stages of Evolution of Banking in India**
 - ✓ Banking history in India is divided into **three major phases**:
 1. **Pre-Independence Phase (Before 1947)**
 2. **Post-Independence Phase (1947–1991)**
 3. **Liberalization Phase (1991 & beyond)**

Pre-Independence Phase (Before 1947)

- More than **600 banks** existed.
- **First bank in India:** India's first bank was established in **1770** in **Calcutta** under the name **Bank of Hindustan**. This bank, which was fully based on the banking system, was founded by **Alexander & Company**.
- Keeping the interests of the **East India Company** in mind, private shareholders established three **Presidency Banks** in India.

- All three banks were under government control, and in **1862 AD** they were granted the right to issue currency notes.
 - ✓ **Bank of Bengal – 1806AD**
 - ✓ **Bank of Bombay – 1840 AD**
 - ✓ **Bank of Madras – 1843 AD**
- These merged in **1921** to form the **Imperial Bank of India**, which later became the **State Bank of India** in **1955**.

Important Banks Established

- **Oudh Commercial Bank – 1881 AD:** It was the first bank in India to be operated by Indians on the basis of limited liability.
- **Allahabad Bank – 1865:** It was also the first bank to be fully established and managed by Indians.
- **Punjab National Bank – 1894:**
- **Bank of India – 1906:**
- **Bank of Baroda – 1908:**
- **Central Bank of India – 1911:**

Post-Independence Phase (1947–1991)

- After Independence, the Government of India enacted the **Banking Companies Act, 1949** (later renamed the **Banking Regulation Act, 1949**). Under this law, the Reserve Bank of India (RBI) was authorized to function as the central banking authority, responsible for supervising and regulating the banking sector in India.
- In **1955**, the largest bank at that time, the **Imperial Bank of India**, was nationalized and renamed the **State Bank of India (SBI)**. Subsequently, in **1959**, seven associate banks were established under its framework.
- **State Bank of Bikaner & Jaipur**, **State Bank of Mysore**, **State Bank of Patiala**, and **State Bank of Travancore** were constituted under the **State Bank of India (Subsidiary Banks) Act, 1959**.

- On 1 February 1969, the Government introduced additional provisions to the Banking Regulation Act, 1949, strengthening its control and regulatory authority over banks.
- In 1969, under the leadership of Prime Minister Indira Gandhi, the Government nationalized 14 major Public Sector Banks (PSBs).

The **Lead Bank Scheme (LBS)** was launched in **1969** by the Reserve Bank of India.

It was introduced on the recommendations of:

- **Gadgil Study Group**

- **Nariman Committee**

These committees observed that **banking services were inadequate in rural areas**, and a coordinated effort was required to promote financial inclusion.

Reforms

- In **2009**, Government of India constituted a committee headed by **Usha Thorat (former RBI Deputy Governor)** to suggest reforms in LBS.
- In 1980, six more banks were brought under government ownership and were granted the status of nationalized banks.
- Between 1982 and 1990, four new financial institutions were established in India:
 - ✓ Export-Import Bank of India (EXIM Bank)
 - ✓ National Housing Bank (NHB)
 - ✓ National Bank for Agriculture and Rural Development (NABARD)
 - ✓ Small Industries Development Bank of India (SIDBI)
- Digital banking in India began in 1988 when the Reserve Bank of India (RBI) formed a Committee on Computerisation of Banks under the chairmanship of Dr. C. Rangarajan.
- Since then, the functioning of banks in India has undergone significant transformation — from MICR-based cheque processing to ATMs, then to e-banking and mobile banking, ultimately leading to the concept of “anywhere banking.”
- The Liberalisation, Privatisation, and Globalisation (LPG) policy introduced in 1991 permitted private entities to establish and operate banks. Over time, interest rates were progressively deregulated.

- In 1998, the Narasimham Committee on Banking Sector Reforms was constituted. The committee recommended granting greater autonomy to banks, introducing a four-tier banking structure, increasing the prescribed capital adequacy norms, and allowing the entry of foreign banks. Although all recommendations were not implemented immediately, the committee marked a significant milestone in India’s banking sector reforms.

Consolidation Among Public Sector Banks (PSBs) Since 2008

- **2008:** State Bank of India (SBI) acquired its associate bank, State Bank of Saurashtra.
- **2010:** SBI acquired State Bank of Indore.
- **2017:** SBI merged with five associate banks:
 1. State Bank of Bikaner & Jaipur
 2. State Bank of Hyderabad
 3. State Bank of Mysore
 4. State Bank of Patiala
 5. State Bank of Travancore
 - ✓ In April 2017, SBI also merged with Bharatiya Mahila Bank.
- **2019:** Dena Bank and Vijaya Bank were merged with Bank of Baroda.
- **2020**
 - ✓ Oriental Bank of Commerce and United Bank of India were merged with Punjab National Bank.
 - ✓ Syndicate Bank was merged with Canara Bank.
 - ✓ Andhra Bank and Corporation Bank were merged with Union Bank of India.
 - ✓ Allahabad Bank was merged with Indian Bank.

Point to Remember:

- The Central Bank of India was the first public sector bank in India to introduce credit cards.
- The Central Bank of India was the first commercial bank in India to be managed by Indians.
- **ICICI** Bank was the first bank in India to introduce a mobile ATM.

- Bank of Baroda has the largest number of overseas branches among Indian banks.
- India's first "Talking" Automated Teller Machine (ATM), designed for visually impaired customers, was launched by Union Bank of India in Ahmedabad, Gujarat.
- **The** National Payments Corporation of India (NPCI) introduced India's first rural bank ATM card in collaboration with a Regional Rural Bank in Varanasi.
- The first Indian bank to receive ISO certification was Canara Bank.
- Punjab National Bank (PNB) was the first Indian bank established entirely with Indian capital. Its founder was Lala Lajpat Rai.
- The Reserve Bank of India (RBI) was established in 1935.
- The first Governor of RBI was Sir Osborne Smith.
- The first Indian Governor of RBI was C. D. Deshmukh.
- The first bank to introduce a savings account in India was the Presidency Bank in 1833.
- The first bank to introduce the cheque system in India was the Bank of Bengal in 1833.
- ICICI Bank was the first bank in India to introduce internet banking.
- State Bank of India was the first bank in India to introduce mutual fund services.
- **The** largest commercial bank in India is the State Bank of India.

- The first bank to introduce credit cards in India was the Central Bank of India.
- Credit cards are commonly referred to as "plastic money."
- **Open** market operations are conducted by the Reserve Bank of India.
- **India's** first Financial Archive was established in Kolkata.
- **The** RBI determines key policy rates and ratios such as CRR, SLR, Repo Rate, and Reverse Repo Rate.
- **Interest** rates on savings accounts, fixed deposits, and loans are determined by individual banks.
- **HDFC** Bank launched mobile bank accounts in association with Vodafone's M-Pesa service.
- The largest public sector bank in India is the State Bank of India (SBI).
- The largest private sector bank in India is ICICI Bank.
- The largest foreign bank operating in India is Standard Chartered Bank.
- Bank of India was the first Indian bank to open a branch outside India, establishing its London branch in 1946.
- The first Regional Rural Bank (RRB), named Prathama Grameen Bank, was established by Syndicate Bank.
- HSBC introduced the first ATM in India in 1987 in Mumbai.
- The capital market regulator in India is the Securities and Exchange Board of India (SEBI).

Reserve Bank of India

The Reserve Bank of India (RBI), the central bank of India, controls the money supply, circulation, and credit, regulates the banking system through monetary and lending policies, and serves as the Banker's Bank, Bank of Last Resort, and Government's Bank.

Establishment

- **Established:** 1 April 1935
- **Act:** Reserve Bank of India Act, 1934
- **Location:** Initially in Calcutta (1935), permanently shifted to **Mumbai in 1937**
- **Ownership:** Originally privately owned; **nationalized in 1949**, now fully owned by **Government of India**
- **Recommendation:** Formed on **Hilton-Young Commission (1926–27)**
- **First Governor:** Sir Osborne Smith (1935–1937)
- **Governor at Nationalization:** C.D. Deshmukh (1949)

Objectives of RBI

1. **Issue and Control Currency:** The RBI is the only institution authorized to issue Indian currency notes (except ₹1, issued by the government). It ensures an adequate supply of cash in all denominations to meet the needs of the public and the economy. The RBI also monitors the quality of notes in circulation, withdrawing unfit or counterfeit currency, thereby maintaining public confidence in the monetary system.
2. **Maintain Monetary Stability:** A key objective of the RBI is to maintain monetary stability by controlling inflation, deflation, and liquidity in the economy. Using tools like the repo rate, reverse repo rate, cash reserve ratio (CRR), and bank rate, RBI influences credit flow and interest rates. Effective monetary management ensures economic growth while keeping price levels stable, supporting both businesses and consumers.

3. **Regulate and Supervise the Financial System:**

RBI regulates banks, NBFCs, and other financial institutions to ensure a sound and stable financial system. It sets rules on capital adequacy, lending practices, risk management, and priority sector lending. By supervising these institutions, RBI reduces systemic risk, prevents financial crises, and protects depositors' interests, strengthening trust in the banking sector.

4. **Act as Banker to Government and Banks:**

RBI acts as a banker to the central and state governments, managing their accounts, public debt, and loans. It also serves as a banker to scheduled banks, maintaining their accounts and offering emergency liquidity through the lender-of-last-resort function. This dual role ensures smooth functioning of government finances and financial stability across the banking sector.

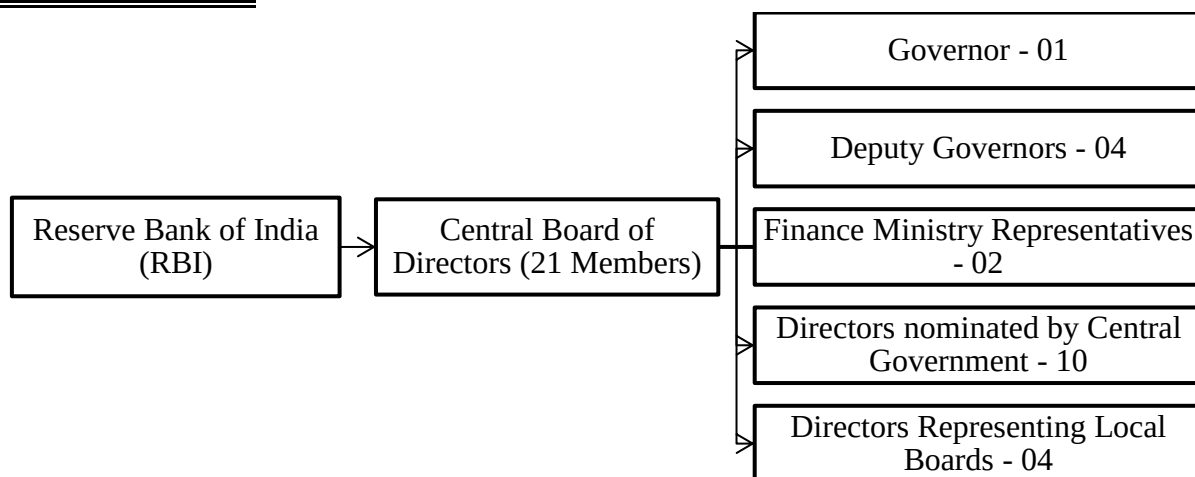
5. **Promote Economic Growth and Development:**

RBI plays a developmental role by promoting economic growth through finance, credit support, and policy initiatives. It supports agriculture, small and medium enterprises, rural development, and infrastructure projects, while promoting financial inclusion and digital banking. These efforts help mobilize savings, expand access to finance, and strengthen the overall economy.

Central Board of Directors

- Governs RBI under **RBI Act, 1934**.
- Members appointed/nominated by **Government of India**, tenure of **4 years**.

Structure of RBI:



1. Governor:

- ✓ Head of RBI
- ✓ CEO of the Central Bank
- ✓ Ex-officio Chairman of the Central Board
- ✓ Appointed by the Government of India
- ✓ Official tenure: 3 years (can be reappointed)
- ✓ RBI currency notes bear the **Governor's signature**

2. Deputy Governors (max 4):

Head various departments (Monetary Policy, Banking Regulation, etc.)

3. Official Directors:

Representatives of government and RBI officials

4. Nominee Directors:

Representing banking, finance, and industry sectors

List of RBI Governor

S.No	Governor	Tenure
1	Sir Osborne Smith	1935–1937
2	Sir James Braid Taylor	1937–1943
3	Sir C. D. Deshmukh	1943–1949
4	Sir Benegal Rama Rau	1949–1957
5	K. G. Ambegaonkar	1957
6	H. V. R. Iyengar	1957–1962
7	P. C. Bhattacharya	1962–1967
8	L. K. Jha	1967–1970
9	B. N. Adarkar	1970
10	S. Jagannathan	1970–1975
11	N. C. Sen Gupta	1975
12	K. R. Puri	1975–1977
13	M. Narasimhan	1977
14	I. G. Patel	1977–1982
15	Manmohan Singh	1982–1985
16	Amitav Ghosh	1985

17	R. N. Malhotra	1985–1990
18	S. Venkatraman	1990–1992
19	C. Rangarajan	1992–1997
20	Bimal Jalan	1997–2003
21	Y. V. Reddy	2003–2008
22	D. Subbarao	2008–2013
23	Raghuram Rajan	2013–2016
24	Urjit Patel	2016–2018
25	Shaktikanta Das	2018–2024
26	Sanjay Malhotra	2024–Present

Functions of RBI

- RBI functions can be classified under **core, developmental, and regulatory roles**:

A. Monetary Authority

- ✓ Formulates and implements **monetary policy** to ensure price stability and growth.

✓ Tools:

- **Repo rate** – rate at which banks borrow from RBI
- **Reverse repo rate** – rate at which banks park excess funds with RBI
- **Cash Reserve Ratio (CRR)** – percentage of deposits banks must keep with RBI
- **Bank rate** – long-term lending rate of RBI to banks

- ✓ **Objectives:** Control inflation, regulate liquidity, stabilize currency

B. Regulator and Supervisor of Financial System

- ✓ Ensures **financial stability and soundness** of banks and NBFCs.

- ✓ Prescribes **rules and guidelines** for:
 - Lending and credit norms
 - Capital adequacy
 - Risk management
- ✓ Supervises commercial banks, cooperative banks, NBFCs, and payment banks

C. Manager of Foreign Exchange

- ✓ Implements **Foreign Exchange Management Act (FEMA), 1999**.
- ✓ Maintains **foreign currency reserves** (gold and foreign currency).
- ✓ Stabilizes **exchange rates** and supports international trade.

D. Issuer of Currency

- ✓ Sole authority to **issue Indian banknotes** (except 1 rupee note, issued by government).
- ✓ Withdraws **unfit or damaged currency** from circulation.
- ✓ Ensures adequate supply of currency in all denominations.

E. Development Role

- ✓ Promotes economic growth through **institutional support and finance**.
- ✓ Supports sectors like:
 - Agriculture
 - MSMEs
 - Infrastructure
 - Rural and semi-urban development
- ✓ Encourages financial inclusion, digital banking, and microfinance.

F. Banker to Government

- ✓ Acts as **principal banker to central and state governments**.
- ✓ Functions include:
 - Managing government accounts
 - Issuing loans to governments
 - Managing public debt and securities

G. Banker to Banks

- ✓ Maintains **accounts of all scheduled banks**.
- ✓ Provides **lender-of-last-resort facility** during liquidity crises.
- ✓ Facilitates **clearing and settlement of interbank transactions**.

H. Other Functions

- ✓ **Research and Statistics:** Publishes economic and financial data, reports on monetary policy, inflation, credit, etc.
- ✓ **Regulation of Payment Systems:** Supervises RTGS, NEFT, UPI, and digital payments infrastructure.

RBI's *Utkarsh* - Medium-Term Strategy

- Reserve Bank of India periodically formulates medium-term strategies to strengthen regulation, supervision, and internal governance. One such structured roadmap is **Utkarsh**.
- A **three-year medium-term strategy framework** of RBI
- Designed to:
 - ✓ Improve **regulatory mechanisms**
 - ✓ Strengthen **supervisory systems**
 - ✓ Enhance **internal governance**
 - ✓ Build **institutional capacity**
 - ✓ Promote financial stability and economic growth
- **Utkarsh 2022 (First Phase)**
 - ✓ **Launched:** July 2019
 - ✓ **Period Covered:** 2019–2022
 - ✓ Provided a structured strategic roadmap
 - ✓ Included:
 - **6 Vision Statements**
 - Core Purpose
 - Values
 - Mission
- **Utkarsh 2.0 (Second Phase)**
 - ✓ **Launched:** 30 December 2022
 - ✓ **Period Covered:** 2023–2025
 - ✓ Builds upon Utkarsh 2022
 - ✓ Retains:
 - 6 Vision Statements
 - Core Purpose
 - Values
 - Mission
- **Vision Statements (Guiding 2023–25)**
 1. Excellence in performance of statutory and other functions
 2. Strengthened trust of citizens and institutions
 3. Enhanced relevance in national and global roles
 4. Transparent, accountable and ethics-driven governance
 5. Best-in-class, environment-friendly digital & physical infrastructure
 6. Innovative, dynamic and skilled human resources

Subsidiaries of the Reserve Bank of India (RBI)

Deposit Insurance and Credit Guarantee Corporation (DICGC)

- The Deposit Insurance and Credit Guarantee Corporation (DICGC) is a wholly owned subsidiary of the RBI. It was established on 15 July 1978 under the Deposit Insurance and Credit Guarantee Corporation Act, 1961. Its primary objective is to provide insurance coverage for bank deposits and guarantee certain credit facilities.
- DICGC was formed through the merger of two earlier entities:
 - ✓ Deposit Insurance Corporation (DIC)
 - ✓ Credit Guarantee Corporation of India Ltd. (CGCI)
- The merger was undertaken to integrate the functions of deposit insurance and credit guarantee under one organization.
- DICGC insures various types of bank deposits, including savings, fixed, current, and recurring deposits, up to a specified limit per depositor in a bank.
- If a depositor holds multiple accounts in the same bank, they are treated as a single account for insurance purposes. The insurance premium is paid by the insured banks.
- The functions of DICGC are governed by:
 - ✓ The Deposit Insurance and Credit Guarantee Corporation Act, 1961
 - ✓ The Deposit Insurance and Credit Guarantee Corporation General Regulations, 1961
- The head office of DICGC is located in Mumbai, Maharashtra.

Banks Covered Under the Deposit Insurance Scheme

1. All commercial banks, including branches of foreign banks operating in India, Local Area Banks, and Regional Rural Banks.
2. Eligible cooperative banks as defined under Section 2(gg) of the DICGC Act.

Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)

- Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL) is a wholly owned subsidiary of the RBI. It was established in 1995 to meet the growing demand for Indian banknotes.
- BRBNMPL is responsible for printing Indian currency notes for the RBI. Its headquarters is located in Bengaluru, Karnataka. The company operates two printing presses located in Mysuru (Karnataka) and Salboni (West Bengal).
- BRBNMPL meets a major portion of the country's banknote requirements. The remaining demand is fulfilled by Security Printing and Minting Corporation of India Limited (SPMCIL), a Government of India undertaking.
- In the financial year 2016–17, BRBNMPL printed more than 20,000 million banknotes, setting a world record. The company has its own design facility and has the capacity to print all denominations of Indian currency notes.
- **Under SPMCIL:**
 - ✓ Currency Note Press, Nashik
 - ✓ Bank Note Press, Dewas
- Security Paper Mill (SPM), Hoshangabad, established in 1968 under the Ministry of Finance, manufactures various types of security paper.
- Government mints located at Mumbai, Hyderabad, Kolkata, and Noida are responsible for minting coins circulated in India.

National Housing Bank (NHB)

- National Housing Bank (NHB) was established on 9 July 1988 under the National Housing Bank Act, 1987. It is a wholly owned subsidiary of the RBI.
- NHB serves as an apex financial institution for housing finance in India. Its main objective is to promote housing finance institutions at local and regional levels and to provide financial and other support to such institutions.

- The proposal to establish NHB was examined under the chairmanship of Dr. C. Rangarajan, then Deputy Governor of the RBI, who recommended setting up NHB as an autonomous housing finance institution.
- NHB launched NHB RESIDEX, India's first official residential housing price index.
- The headquarters of NHB is located in New Delhi, India.

Important Facts about RBI

- **Emblem:** Panther and Palm Tree
- **First woman Deputy Governor:** K.J. Udeshi
- **RBI does not accept deposits from the general public**
- **RBI is the sole issuer of banknotes in India**
- **Key historical points:**
 - ✓ Hilton-Young Commission recommended its formation
 - ✓ Nationalized in 1949
 - ✓ Promotes economic growth through financial inclusion and development functions

Ways and Means Advances (WMA)

- Ways and Means Advances (WMA) is a facility provided by the Reserve Bank of India (RBI) under its credit policy to assist the Central and State Governments in managing temporary mismatches between receipts and payments.
- This provision is governed by Section 17(5) of the RBI Act, 1934. The advances must be repaid within three months from the date on which they are granted.

Types of WMA

- There are two types of Ways and Means Advances:
 1. **Normal WMA** – These are clean advances, meaning they are not backed by any collateral.
 2. **Special WMA** – These are secured advances granted against the pledge of Government of India dated securities.

Objective of WMA

- Section 17(5) of the RBI Act authorizes the RBI to extend WMA to both the Central and State Governments.
- The primary objective of WMA is to bridge the gap between government expenditure and receipts. It is not a permanent source of finance but a short-term arrangement intended to address temporary cash flow problems arising from revenue shortfalls or timing mismatches in receipts.

Minimum Reserve System (MRS)

- For the issuance of currency, the RBI currently follows the Minimum Reserve System (MRS), which has been in operation since 1956.
- Under the Minimum Reserve System, the RBI is required to maintain a minimum reserve of ₹200 crore, consisting of:
 - ✓ Gold coin and gold bullion
 - ✓ Foreign currency assets
- Out of the total ₹200 crore, at least ₹115 crore must be maintained in the form of gold coins or gold bullion.
- The shift to the Minimum Reserve System was intended to enable expansion of the money supply in order to meet the growing volume of transactions in the economy.

Banking Ombudsman

- An **Ombudsman** is an official appointed to resolve complaints made by customers against service providers. The Ombudsman provides an alternate dispute resolution mechanism that is simple, cost-effective, and accessible. The proceedings under the Ombudsman system are summary in nature and are not bound by strict rules of evidence.
- Issued under **Section 35A of the Banking Regulation Act, 1949.**
- Reserve Bank of India has launched the revised **Integrated Ombudsman Scheme, 2026**, which will come into force on 1 July 2026 and will replace the existing Integrated Ombudsman Scheme, 2021.
- Total Banking Ombudsman in India: 22

Evolution of the Scheme

- **Integrated Ombudsman Scheme, 2021**
 - ✓ Introduced the “**One Nation One Ombudsman**” approach.
 - ✓ Integrated three earlier schemes:
 - Banking Ombudsman Scheme, 2006
 - Ombudsman Scheme for NBFCs, 2018
 - Ombudsman Scheme for Digital Transactions, 2019

- The objective of the Scheme is to provide a speedy and cost-effective grievance redressal mechanism, improve the efficiency of complaint resolution, and strengthen consumer protection in financial services.

Coverage (Who is Covered?)

- The Scheme covers Commercial Banks, Regional Rural Banks, State and Central Co-operative Banks, Urban Co-operative Banks with deposits of ₹50 crore or more, NBFCs that accept deposits or have assets of ₹100 crore or more, non-bank prepaid payment issuers such as digital wallets, and Credit Information Companies, while Housing Finance Companies and Core Investment Companies are excluded.

Types of Complaints Allowed

- Customers can file complaints related to deficiency in service, delays, non-compliance with RBI directions, or poor customer service; however, matters involving commercial decisions, employer–employee disputes, inter-entity disputes, or cases pending before courts or tribunals are not covered, and the customer must first approach the concerned entity before escalating the matter to the Ombudsman if there is no response within 30 days or the reply is unsatisfactory.

Compensation (2026 Scheme)

- Under the 2026 Scheme, there is no limit on the value of the dispute, and the Ombudsman can award compensation of up to ₹30 lakh for financial loss and up to ₹3 lakh for non-financial loss such as harassment, mental anguish, or loss of time.

Complaint Filing Process

- Complaints can be filed through the RBI's Complaint Management System (CMS) portal, by email, or by post to the Centralised Receipt and Processing Centre.

Appeals

- If a party is dissatisfied with the Ombudsman's decision, an appeal can be filed before the RBI's Executive Director within 30 days, and the appellate authority may uphold, modify, or remand the case.

Feature	RB-IOs 2021	Revised Scheme 2026
Approach	One Nation One Ombudsman	Continuation with enhanced efficiency
Compensation	₹20L + ₹1L	₹30L + ₹3L
Coverage	Banks, NBFCs, PPIs, CICs	Expanded & clarified coverage
Nature	Jurisdiction neutral	Centralised & strengthened

Note:

- Non-Deposit Taking Non-Banking Financial Companies (ND-NBFCs) with an asset size of **₹5,000 crore or more** are required to appoint an **Internal Ombudsman (IO)** as mandated by the Reserve Bank of India.
- This requirement is aimed at strengthening the internal grievance redress mechanism before complaints escalate to the RBI's Integrated Ombudsman.

Central Bank Digital Currency

- A CBDC is a **digital form** of a country's **fiat currency, issued and backed** directly by its central bank. It represents a **liability** of the central bank, similar to **physical cash** (banknotes and coins) or **reserves** held by **commercial banks** at the central bank.
- **Functioning:** CBDCs use **cryptography** for **security, integrity, and authentication**.

Techniques include **encryption** for **data protection** and **digital signatures** to authorize transactions.

Privacy-enhancing methods like **zero-knowledge proofs** balance anonymity with regulation.

- **Objective:** It aims to modernize payment systems amid the rise of **private digital currencies** (e.g., stablecoins) and **declining cash**, focusing on efficient and inclusive financial systems.

Benefits CBDC

Supporting a resilient payments landscape	Avoiding the risks of new forms of private money creation	Supporting competition, efficiency and innovation in payments	Meeting future payment needs in a digital economy	Improving the availability and usability of central bank money	Addressing the consequences of a decline in cash	As a building block for better cross-border payments
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- **Types:** A **retail CBDC (rCBDC)** is for the general public's daily payments like transfers and purchases. A **wholesale CBDC (wCBDC)** is limited to banks and institutions for interbank settlements and large transactions.
- **Distinction from Existing Digital Money:** While most money today is already **digital** (e.g., bank account balances or mobile payments), those are **liabilities of commercial banks**. A CBDC is a **direct claim on the central bank**, offering the highest level of safety and liquidity comparable to cash.
- **Global Context:** The **Bahamas** became the **first country** to launch a **nationwide CBDC** named **Sand Dollar** in **2020**, followed by **Nigeria's eNaira**, also launched in **2020**. Over **90% of the world's central banks** are exploring CBDCs, and around **60%** are already conducting **tests or proofs of concept**.
 - ✓ While **no BRICS member** has fully launched a **digital currency**, all five are running **pilot projects**.

- ✓ The main national CBDCs are **Brazil's Drex** (advanced pilot), **Russia's Digital Ruble** (ongoing pilot with limited commercial use), **India's e-Rupee** (**7 million retail users**), and **China's e-CNY** (most widespread pilot), while **South Africa** remains in the **research stage**.

Digital Rupee

- The **Digital Rupee** is the digital version of the Indian Rupee issued and regulated by the RBI. It is also known as **₹ (e-Rupee)** or **Central Bank Digital Currency (CBDC)**. Unlike privately issued cryptocurrencies, it is a **centrally owned and sovereign currency**.
 - ✓ It is designed with **proposed offline functionality**, allowing transactions even without internet access.

Digital Currency

- **Digital Currency:** Digital currency is a form of currency that exists only in **electronic form**, also referred to as **digital money, electronic money, or cybercash**, with transactions conducted via computers or internet-connected wallets.
 - ✓ It is possible to make payments in a **digital currency** without using the **US dollar or SWIFT**. A digital currency can also be programmed with conditions, such as a **time-frame for spending**.

Act Related to Banking System

Banking Acts refer to the set of legislative frameworks enacted by the Indian Parliament to regulate, supervise, and govern the functioning of banks and financial institutions in India. These laws provide the legal foundation for the operations of banks, the protection of depositors' interests, and the smooth functioning of the financial system. They also empower the RBI and other regulators to maintain monetary stability, control credit, and oversee banking practices.

The major banking-related acts in India include:

- **The Reserve Bank of India Act, 1934:** This Act establishes the Reserve Bank of India as the central bank and defines its powers, functions, and responsibilities, including the issuance of currency, regulation of credit, and control of monetary policy. It also outlines the governance structure, capital requirements, and regulatory mechanisms for RBI.
- **The Banking Regulation Act, 1949:** This Act provides a comprehensive framework for the licensing, operations, management, and supervision of commercial banks in India. It lays down the legal obligations of banking companies regarding reserves, liquidity, statutory compliance, and restrictions on trading. It also empowers RBI to regulate and intervene in bank operations to protect the stability of the financial system.
- **The Negotiable Instruments Act, 1881:** This Act governs the law related to negotiable instruments such as promissory notes, bills of exchange, and cheques. It defines key concepts, prescribes the rights and duties of parties, and provides remedies in case of dishonour or default. It also plays a critical role in ensuring trust and reliability in financial transactions.

Reserve Bank of India Act, 1934

- **Capital and Governance**
 - ✓ **Section 4:** The Reserve Bank of India (RBI) is authorized to have a capital of ₹5 crores.
 - ✓ **Section 7:** The Central Government can issue directions to RBI in the public interest, after consulting the Governor.
 - ✓ **Section 8:** Defines the composition of the Central Board of Directors of RBI.
- **Functions and Powers**
 - ✓ **Section 17:** Specifies the types of business the RBI is allowed to undertake.
 - ✓ **Section 21:** RBI has the right to conduct government business in India.
 - ✓ **Section 21A:** RBI can transact state government business under a formal agreement.
 - ✓ **Section 22:** Grants RBI the exclusive right to issue banknotes.
 - ✓ **Section 24:** Defines denominations of notes, up to ₹10,000.
 - ✓ **Section 26(1):** Defines what constitutes a legal tender.
 - ✓ **Section 26(2):** Provisions for the withdrawal of legal tender notes.
- **Regulatory and Supervisory Function**
 - ✓ **Section 42:** Scheduled banks must maintain cash reserves with RBI (Cash Reserve Ratio or CRR).
 - ✓ **Section 45E:** RBI can prohibit disclosure of certain information.
 - ✓ **Section 45ZB:** Constitution of the Monetary Policy Committee (MPC).
 - ✓ **Section 45U:** Defines key financial instruments, including repo, reverse repo, derivatives, money market instruments, and securities.
 - ✓ **Section 49:** RBI must publish the bank rate, the standard rate at which it will buy or re-discount eligible bills of exchange or commercial papers.
 - ✓ **Section 58G:** RBI has the authority to impose fines on banks for violations.

- **Schedules**
 - ✓ **First Schedule:** Divides Indian states into four regions, Western, Eastern, Northern, and Southern.
 - ✓ **Second Schedule:** Lists all Scheduled Banks in India.

Banking Regulation Act, 1949

- **Banking Operations and Restrictions**
 - ✓ **Section 6:** Specifies the forms of business banking companies can engage in.
 - ✓ **Section 7:** Regulates the use of the terms “bank,” “banker,” “banking,” or “banking company.”
 - ✓ **Section 8:** Prohibits trading activities by banks.
- **Regulatory Requirements**
 - ✓ **Section 18:** Non-scheduled banks must maintain a cash reserve (CRR).
 - ✓ **Section 20:** Section 20 of the Banking Regulation Act 1949 prohibits banks from granting loans or advances to their directors or firms in which they are interested.
 - ✓ **Section 22:** Licensing requirements for banking companies.
 - ✓ **Section 24:** Banks must maintain a Statutory Liquidity Ratio (SLR), a specified percentage of net demand and time liabilities in approved forms
 - ✓ **Section 35A:** RBI’s power to issue directions to banks.
 - ✓ **Section 36ACA:** RBI can supersede a bank’s board of directors in certain situations.

The Banking Regulation (Amendment) Act, 2020

- The Banking Regulation (Amendment) Act, 2020 introduced changes to the Banking Regulation Act, 1949, particularly in relation to cooperative banks.
- The principal Act governs the functioning of banks and lays down provisions regarding licensing, management, supervision, and overall operations.
- Under the Amendment Act, the Reserve Bank of India (RBI) is empowered to implement a scheme of amalgamation or reconstruction of a bank without first placing it under a moratorium.

- The amendment also permits cooperative banks to raise capital through public issues and private placements of equity shares, preference shares, and unsecured debentures, subject to prior approval from the RBI.
- **Exclusions:** The provisions of the Act do not apply to certain cooperative societies, including:
 1. Primary Agricultural Credit Societies (PACS)
 2. Cooperative Land Mortgage Banks
 3. Any other cooperative societies not specifically covered under the Act.

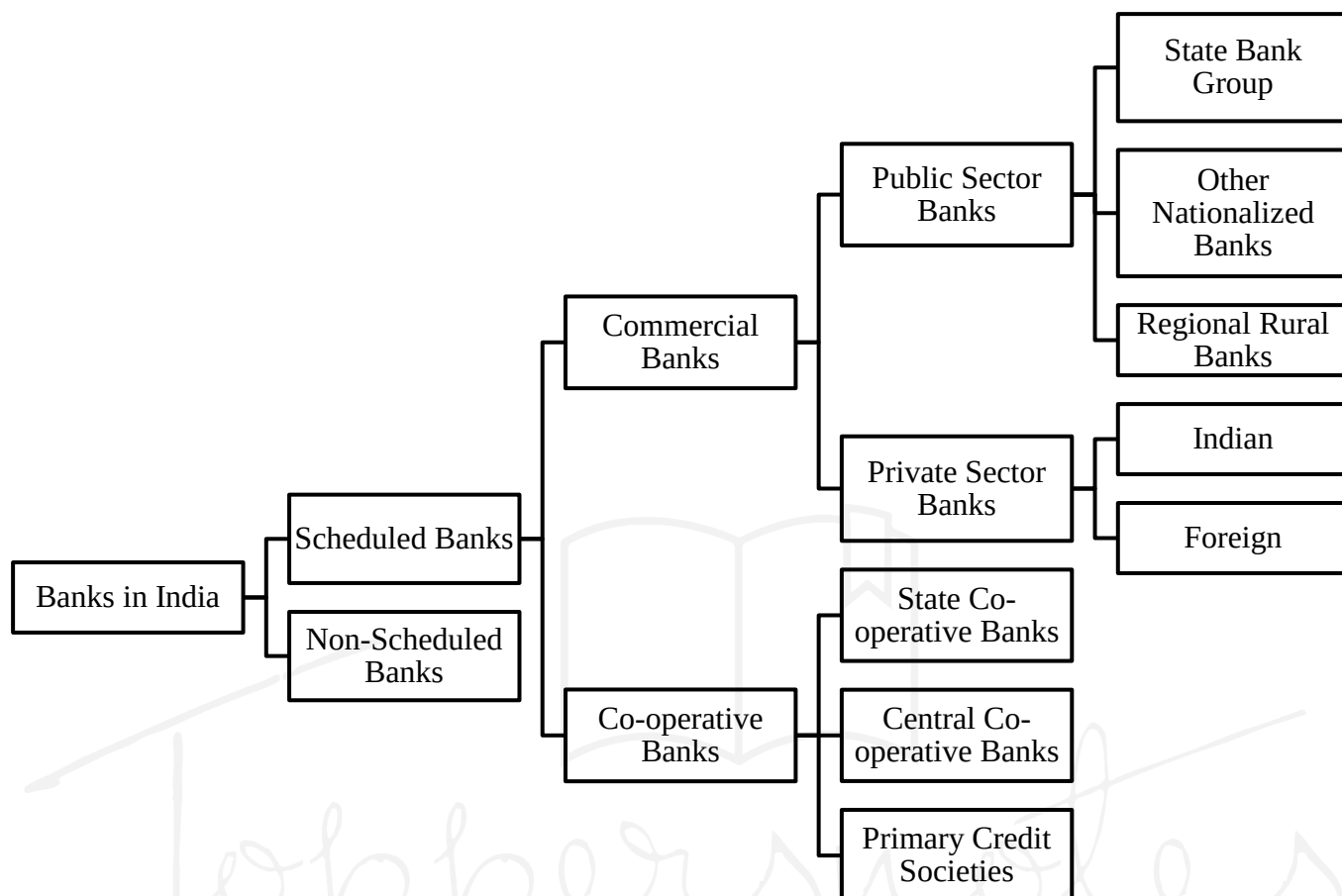
Negotiable Instruments Act, 1881

- **Definitions**
 - ✓ **Section 4: Promissory Note:** A written instrument containing an unconditional promise by the maker to pay a fixed sum to a person or bearer.
 - ✓ **Section 5: Bill of Exchange:** A written instrument containing an unconditional order directing a person to pay a specified sum to another person or bearer.
 - ✓ **Section 6: Cheque:** A bill of exchange drawn on a specified banker, payable on demand.
 - **6(a):** Defines cheque in electronic form.
 - **6(b):** Defines truncated cheque.
- **Parties to Instruments**
 - ✓ **Section 7:** Defines drawer (maker of the cheque or bill) and drawee (person directed to pay).
 - ✓ **Section 13:** A negotiable instrument is payable either to order or to bearer.
- **Payment and Maturity**
 - ✓ **Section 18:** If figures and words differ, the amount in words prevails.
 - ✓ **Section 25:** If maturity falls on a holiday, the instrument is payable on the preceding business day.
 - ✓ **Section 138:** Deals with dishonour of cheques due to insufficient funds.
- **Bank Holidays**
 - ✓ Declared by Central or State Governments and Union Territories under the NI Act.

4

CHAPTER

Banking Systems of India



Scheduled Commercial Banks

- Banks listed in the Second Schedule of the Reserve Bank of India Act, 1934 are known as Scheduled Banks.
- Scheduled Banks include:
 - ✓ Scheduled Commercial Banks
 - ✓ Scheduled Co-operative Banks
- To qualify as a Scheduled Bank, the institution must have a minimum paid-up capital and reserves of not less than ₹5 lakh.
- Scheduled Banks are entitled to borrow funds from the Reserve Bank of India (RBI) at the prescribed bank rate.
- They are also eligible for the facility of rediscounting first-class bills of exchange with the RBI.

As per banking norms of the Reserve Bank of India:

Savings Bank Accounts are meant for:

- Individuals

- Joint account holders
 - Minors
 - Certain eligible institutions (like educational or charitable institutions)
- The following are government/local statutory bodies and therefore **cannot open savings accounts** in Scheduled Commercial Banks:
1. Municipal Corporations/Committees
 2. Panchayat Samities
 3. Metropolitan Development Authorities
- These bodies must maintain **Current Accounts**, not Savings Accounts.

Public Sector Bank

- A Public Sector Bank (PSB) is a type of commercial bank in which the majority stake is held by the Government. These banks are either nationalized banks or banks in which the Government of India holds more than 50% ownership.

- In India, Public Sector Banks function under the regulatory supervision and guidelines of the Reserve Bank of India (RBI).
- At present, there are 12 Public Sector Banks in India.

List of Public Sector bank in India

Sl. No.	Bank Name	Headquarters
1	State Bank of India (SBI)	Mumbai, Maharashtra
2	Punjab National Bank (PNB)	New Delhi, Delhi
3	Indian Bank	Chennai, Tamil Nadu
4	Bank of Baroda	Vadodara, Gujarat
5	Canara Bank	Bengaluru, Karnataka
6	Union Bank of India	Mumbai, Maharashtra
7	Bank of India	Mumbai, Maharashtra
8	Central Bank of India	Mumbai, Maharashtra
9	Indian Overseas Bank (IOB)	Chennai, Tamil Nadu
10	UCO Bank	Kolkata, West Bengal
11	Bank of Maharashtra	Pune, Maharashtra
12	Punjab & Sind Bank	New Delhi, Delhi

State Bank of India:

- Calcutta Bank was established in 1806.
- In 1809, after receiving a Royal Charter, it was renamed the Bank of Bengal.
- The Bank of Bombay was established in 1840 and the Bank of Madras in 1843.

- These three banks were recognized as Presidency Banks, which were granted exclusive rights to issue currency by the Government of India in 1861.
- In 1921, these three banks were merged to form the Imperial Bank of India.
- The State Bank of India Act was passed in 1955, and on July 1, 1955 the Imperial Bank of India became the State Bank of India.
- In 2007-08, the Government of India purchased all of SBI's shares from the RBI, making it 100% government-owned.

Private Sector Bank

- A Private Sector Bank is a type of commercial bank in which the majority of share capital is held by private individuals, corporate entities, or business groups. These banks operate as companies with limited liability and function under the regulatory framework of the Reserve Bank of India (RBI).
- Examples include Axis Bank Ltd., Bandhan Bank Ltd., CSB Bank Ltd., and City Union Bank Ltd.
- RBI increased the **cap on promoter shareholding** in private sector banks to **26%** of paid-up voting equity capital.

- Universal **Banks:** Minimum **10 years** track record
- Small **Finance Banks (SFBs):** Minimum **5 years**
- Payments **Bank (PB) converting to SFB:** Minimum **3 years'** experience as PB

List of Private Sector Banks in India

S. N.	Bank Name	Established	Headquarters
1	City Union Bank	1904	Thanjavur, Tamil Nadu
2	Karur Vysya Bank	1916	Karur, Tamil Nadu
3	CSB Bank	1920	Thrissur, Kerala
4	Tamilnad Mercantile Bank	1921	Thoothukudi, Tamil Nadu
5	Nainital Bank	1922	Nainital, Uttarakhand
6	Karnataka Bank	1924	Mangaluru, Karnataka
7	Lakshmi Vilas Bank	1926	Chennai, Tamil Nadu
8	Dhanlaxmi Bank	1927	Thrissur, Kerala

9	South Indian Bank	1929	Thrissur, Kerala
10	DCB Bank	1930	Mumbai, Maharashtra
11	Federal Bank	1931	Aluva, Kerala
12	Jammu & Kashmir Bank	1938	Srinagar, Jammu & Kashmir
13	RBL Bank	1943	Mumbai, Maharashtra
14	IDBI Bank	1964	Mumbai, Maharashtra Life Insurance Corporation of India acquired a 51% stake in IDBI Bank, thereby becoming the majority owner of the bank. The Government of India held a 45.48% stake in IDBI Bank.
15	IndusInd Bank	1964	Mumbai, Maharashtra
16	Axis Bank	1993	Mumbai, Maharashtra
17	HDFC Bank	1994	Mumbai, Maharashtra
18	ICICI Bank	1994	Mumbai, Maharashtra
19	Kotak Mahindra Bank	2003	Mumbai, Maharashtra
20	YES Bank	2004	Mumbai, Maharashtra
21	IDFC FIRST Bank	2015	Mumbai, Maharashtra
22	Bandhan Bank	2015	Kolkata, West Bengal

Neo Bank

- A **Neo Bank** is a **fully digital bank** that operates **without physical branches**.
- It delivers complete banking services through **mobile apps and online platforms**.
 - ✓ No traditional brick-and-mortar branches
 - ✓ Entirely technology-driven
 - ✓ Provides seamless digital banking experience
- **Key Features**
 - ✓ 100% online operations
 - ✓ Account opening through digital KYC
 - ✓ App-based banking interface
 - ✓ Paperless transactions

Advantages of Neo Banks

- **Enhanced Customer Experience**
 - ✓ Faster account opening
 - ✓ 24×7 chatbot support
 - ✓ Near real-time cross-border payments
 - ✓ AI & ML-powered budgeting and treasury tools
- **Automated Services**
 - ✓ Real-time bookkeeping
 - ✓ Automated balance sheets & P/L statements
 - ✓ GST-compliant invoicing
 - ✓ Tax payment record management
 - ✓ Affordable accounting solutions

- **Transparency**
 - ✓ Real-time alerts for charges
 - ✓ Clear breakdown of fees and penalties
 - ✓ No hidden costs
- **Easy-to-Use APIs**
 - ✓ Banking services integrated into payment & accounting platforms
 - ✓ Useful for startups & businesses
- **Deep Financial Insights**
 - ✓ Smart dashboards
 - ✓ Expense tracking
 - ✓ Payables & receivables management
 - ✓ Productivity-enhancing analytics

Foreign Banks

- A **Foreign Bank** is a bank incorporated outside India that operates within India by establishing branches or representative offices. These banks expand their operations in India to serve customers, facilitate international trade, and strengthen global financial linkages.
- Currently, Standard Chartered Bank is one of the largest foreign banks operating in India, with a significant presence across major cities.
- Foreign banks are permitted to operate in India through:
 - ✓ Branch offices
 - ✓ Representative offices
 - ✓ Wholly owned subsidiaries (subject to RBI approval)

- Any foreign bank intending to open a branch in India must apply to the Reserve Bank of India (RBI) and provide detailed information regarding its ownership structure, financial position, and existing business relationships in India.
- Foreign banks first began operations in India during the 1850s under British rule. Among the earliest were HSBC (established in India in 1853) and Standard Chartered Bank (1858).

Benefits of Foreign Banks

- Promote globalization of the Indian economy
- Introduce advanced technology, modern banking practices, and financial innovations
- Increase competition in the Indian banking sector
- Facilitate foreign exchange transactions and international trade

List of Foreign Banks Operating in India

S. No.	Name of Bank	Country of Incorporation
1	AB Bank Ltd.	Bangladesh
2	Abu Dhabi Commercial Bank Ltd.	UAE
3	American Express Banking Corporation	USA
4	Australia and New Zealand Banking Group Ltd.	Australia
5	Barclays Bank Plc.	UK
6	Bank of America	USA
7	Bank of Bahrain & Kuwait BSC	Bahrain
8	Bank of Ceylon	Sri Lanka
9	Bank of China	China
10	Bank of Nova Scotia	Canada
11	BNP Paribas	France
12	Citibank N.A.	USA
13	Cooperative Rabobank U.A.	Netherlands
14	Crédit Agricole Corporate & Investment Bank	France
15	Credit Suisse A.G.	Switzerland

16	CTBC Bank Co. Ltd.	Taiwan
17	DBS Bank India Limited	Singapore
18	Deutsche Bank	Germany
19	Doha Bank Q.P.S.C.	Qatar
20	Emirates NBD	UAE
21	First Abu Dhabi Bank PJSC	UAE
22	FirstRand Bank Ltd.	South Africa
23	HSBC Ltd.	Hong Kong
24	Industrial and Commercial Bank of China	China
25	Industrial Bank of Korea	South Korea
26	J.P. Morgan Chase Bank, N.A.	USA
27	VTB Bank	Russia
28	KEB Hana Bank	South Korea
29	Kookmin Bank	South Korea
30	Krung Thai Bank Public Co. Ltd.	Thailand
31	Mashreq Bank PSC	UAE
32	Mizuho Bank Ltd.	Japan
33	MUFG Bank, Ltd.	Japan
34	NatWest Markets Plc.	UK
35	PT Bank Maybank Indonesia TBK	Indonesia
36	Qatar National Bank (Q.P.S.C.)	Qatar
37	Sberbank	Russia
38	SBM Bank (India) Limited	Mauritius
39	Shinhan Bank	South Korea
40	Société Générale	France
41	Sonali Bank Ltd.	Bangladesh
42	Standard Chartered Bank	UK
43	Sumitomo Mitsui Banking Corporation	Japan
44	United Overseas Bank Ltd.	Singapore
45	Westpac Banking Corporation	Australia
46	Woori Bank	South Korea

How Indian Banks Operate Abroad

- Indian banks expand their international presence through multiple operational structures.
- They can operate abroad through:
 - 1. Representative Offices**
 - ✓ Used mainly for liaison and promotional activities.
 - ✓ Cannot undertake full-fledged banking business.
 - ✓ Help in market research and relationship building.
 - 2. Branches**
 - ✓ Full banking operations allowed.
 - ✓ Directly controlled by the parent bank in India.
 - ✓ Offer deposit, lending, and other banking services.
 - 3. Wholly Owned Subsidiaries**
 - ✓ Separate legal entity incorporated in the host country.
 - ✓ Provides operational flexibility and local compliance.
 - ✓ Better suited for large-scale international operations.
 - 4. Correspondent Banking Relationships**
 - ✓ Tie-ups with foreign banks.
 - ✓ Facilitate trade finance, remittances, and cross-border transactions.
 - ✓ No physical presence required.

Co-operative Banks

- Co-operative Banks are financial institutions registered under the Co-operative Societies Act, 1912 (or the respective State Co-operative Societies Acts).
- They are regulated by the Reserve Bank of India (RBI) under the Banking Regulation Act, 1949 and the Banking Laws (Application to Co-operative Societies) Act, 1965.
- Unlike commercial banks, which primarily operate on a profit-oriented model, co-operative banks function on the principle of “no profit, no loss.” Their main objective is mutual assistance and member welfare rather than profit maximization.

- These banks operate on the principle of cooperation among members and are considered significant contributors to financial inclusion, especially in rural and semi-urban areas.
- The **Reserve Bank of India (RBI)** has permitted certain co-operative banks to issue **Prepaid Payment Instruments (PPIs)** such as mobile wallets, provided they already have permission to install ATMs and issue debit cards.

Structure of Co-operative Banks

- Co-operative banks function at three levels:
 1. State Co-operative Banks
 2. District (Central) Co-operative Banks
 3. Primary Agricultural Credit Societies (PACS)

Functions of Co-operative Banks

- **In Urban Areas**
 - ✓ Provide finance to small businesses and urban entrepreneurs
 - ✓ Support small-scale industries
 - ✓ Promote self-employment
 - ✓ Offer housing and education loans
- **In Rural Areas**
 - ✓ Finance agricultural activities such as farming
 - ✓ Provide support for livestock and dairy farming
 - ✓ Fund allied activities like fisheries (pisciculture)

Non-Scheduled Banks

- Non-Scheduled Banks are those banks that are not included in the Second Schedule of the Reserve Bank of India (RBI) Act, 1934.
- Banks with paid-up capital and reserves of less than ₹5 lakh typically fall under the category of Non-Scheduled Banks.
- Unlike Scheduled Banks, Non-Scheduled Banks are not eligible to obtain regular financial assistance from the RBI. They may receive support from the RBI only in exceptional or emergency situations.