Snippets of Banking and Finance

- After the advent of British in India**, Agency Houses'** started by them in India paved the way for **establishing joint stock banks in India**.
- The first joint stock bank, the **Bank of Hindustan** was set up at the beginning of 19th century. It was under European management but failed.
- **Three presidency banks viz., Bank of Calcutta (18061, Bank of Bombay (18401, Bank of Madras (1843)** were established. These three banks subsequently merged together to form the **Imperial Bank of India in 1921** (which was later **nationalized in 1955 and named as the State Bank of India**).
- **Imperial bank** carried out **limited central banking functions** (acted as ***quasi-central banks)*** *prior to establishment of RBI.*
- Many other banks like **Allahabad Bank (1865), Punjab National Bank (1894), Bank of India (1906), Indian Bank (1907), Bank of Baroda (1909), Central Bank of India (1911**) came into existence.
- The period between **1906 and 1911,** saw the establishment of banks inspired by the **Swadeshi movement**.
- **Allahabad Bank** established in established in **1865** and still functioning today, is the oldest bank in India now. The next was **Punjab National Bank**, established in **Lahore** in **1895**, which has survived to the present and is now one of the largest banks in India. However, **the first Indian commercial bank which was wholly owned and managed by Indians was Central Bank of India** which was established in **1911**.
- **Dakshina Kannada** where in four **nationalized banks also a leading private sector bank located is known as "Cradle of Indian Banking".**
- **The Reserve Bank of India** was set up on the recommendations of the **Hilton-Young Commission** which was formed **1921.** The **Reserve Bank of India** was established on April 1, 1935 in accordance with the provisions of the **Reserve Bank of India Act, 1934** and was constituted as an apex bank without major government ownership. Sir Osborne Smith the first Governor of the Bank.
- Originally set up as a privately owned Bank, RBI **shared limited central banking functions** with ***Imperial Bank of India*** where as central government retained the **function of printing Currency.**
- The Bank, which was originally set up as a shareholder's bank, was nationalized in 1949, and has been ***fully owned by the Government of India from then***. So from **1949** onwards RBI has become **full fledged central bank/Apex Bank of India.**
- **The Banking Regulation Act, 1949 and** the **Reserve Bank of India Act, 1934** authorize the RBI to regulate the banking sector in India.
- **In 1954**, **All India Rural Credit Survey Committee submitted** its report recommending creation of a strong public sector bank. The ***recommendations*** of this committee led to enactment of **SBI Act 1954** and later **establishment of first Public Sector Bank in the name of State Bank of India on July 01, 1955** (by acquiring the, shares of then **Imperial Bank of India by RBI**). Reserve Bank of India ***took 60% stake***, and renamed it the **State Bank of India**. In **2008, the Government took over the stake held by the Reserve Bank of India in SBI.**
- Similarly during **1956-59,** as a result **of re-organization of princely States (Which were independent states under British rule then**), the **Eight banks** which were formed in those princely states were ***annexed as the associate banks*** of **SBI** under **State Bank of India (Subsidiary Banks) Act 1959.**
- In **1963**, **State bank of Jaipur and State bank of Bikaneer** were amalgamated to form, **State bank of Jaipur and Bikaneer (SBBJ)** reducing the number of associated banks to **seven.**
- **In August 2008**, **State Bank of Saurashtra was** merged **with SBI**, reducing the number of **state banks from seven to six.**
- **State Bank of Indore** with effect from **on 26 August 2010 merged with SBI,** making the current number of **associative banks of SBI to 5.**
- **Bank** is defined as a person who carries on the business of banking. **Banking** is "**accepting, for the purpose of lending** or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by **cheques, draft, and order or otherwise**."
- In the modern age, Banks also enable customer payments via other payment methods such as **NEFT (National Electronic Fund Transfer), RTGS (Real Time Gross Settlement System)** etc. Banks have added new payment channels like Internet banking, Mobile Banking, ATMs etc.
- **Banks** refer to both **scheduled and non-scheduled banks both of** which are regulated under **Banking Regulation Act, 1949.**
- **All banks** which are included in the **Second Schedule to the Reserve Bank of India Act**, 1934 are **Scheduled Banks. Scheduled Commercial Banks in India** are *categorised* into **five different groups** according to their ownership and / or nature of operation. These bank groups are
    - **State Bank of India and its Associates and Nationalised Banks,**
    - **Regional Rural Banks(RRBs),**
    - **Foreign Banks and**
    - **private sector Banks**
    - **Co-operative Banks**

- Under the Banking Regulation Act 1949, only **State Cooperative Banks, District Central Cooperative Banks (DCCBs) and select Urban Credit Cooperatives (UCBs) are qualified to be called as Scheduled Banks in the cooperative sector.**
- **Commercial banks** are primarily concerned with **receiving deposits from the public and lending in turn to other public and make the profit.** Primary functions of a commercial bank include: **a)** Accepting deposits **b)** Granting loans and advances
- **Savings deposit** account is meant for individuals who wish to deposit small amounts out of their current income. The amount thus saved can be withdrawable on demand.
- Business people generally open **current accounts with banks**. Current accounts do not carry any interest as the amount deposited in these accounts is repayable on demand without any restriction on Number of transactions per day.
- **Fixed deposit** means deposit repayable only after the expiry of a specified **period.** Since it is repayable only after a fixed period of time, which is to be determined at the time of opening of the account, it is also known as **time/Term deposit**.
- **Recurring Deposit** is a type of deposit where in the depositor is required to deposit a fixed amount of money every month for a specific period of time. Each installment may vary from Rs.5/- to Rs.500/- or more per month and the period of account may vary from 12 months to 10 years.
- An **advance** is a short credit facility provided by the bank to its customers. **A loan** is granted for a specific time period
- **Cash credit** is an arrangement whereby the bank allows the borrower to draw amounts up to a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires.
- **Overdraft** is also a credit facility granted by bank. A customer who **has a current account** with the bank is allowed to **withdraw more than the amount of credit balance in his account**.
- Banks provide **short-term finance by discounting bills**, that is, making payment of the amount before the **due date of the bills after deducting a certain rate of discount**. **The party gets the funds without waiting for the date of maturity of the bills**.
- India has a **two-tier structure of financial institutions with thirteen all India financial institutions and forty-six institutions at the state level**.
- **All-India Financial Institutions (AIFIs) comprise five All-India Development Banks (AIDBs),** viz., Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India Ltd. (IFCI), ICICI Bank Ltd., Infrastructure Development Finance Corporation (IDFC), Small Industries Development Bank of India (SIDBI) and Industrial Investment Bank of India (IIBI, erstwhile Industrial Reconstruction Bank of India or IRBI), **three Specialised Financial Institutions (SFIs**) viz., IVCF (erstwhile Risk Capital and Technology Corporation or RCTC), ICICI Venture (erstwhile TDICI) and Tourism Finance Corporation of India (TFCI) and **three investment institutio**ns viz., Life Insurance Corporation of India (LIC), Unit Trust of India (UTI) and General Insurance Corporation (GIC).
- **Non-banking Financial Institutions (NBFC)** provides loans and hire-purchase finance, mostly for retail assets and are **regulated by RBI.** The Reserve Bank of India Act, 1934, treats a company engaged in acquisition of shares, stock, bonds, debentures or securities as well as a company engaged in the business of loans and advances as a non-banking finance company (NBFC).
- **Chapter 11 B of the Reserve Bank of India Act**, 1934 provides for **such regulatory framework over NBFCs**. A new NBFC cannot operate unless it is registered with Reserve Bank of India and has **minimum owned funds of Rs. 25 lakhs.** Reserve Bank has been vested with the power of enhancing the **minimum Net Owned Funds (NOF)** of NBFCs to Rs. 2 crore in case of companies which are incorporated on or after April 20, 1999.
- NBFCs registered with RBI have been classified as (i) Asset Finance Company (AFC) (ii) Investment Company (IC) (iii) Loan Company (LC)
- **A core investment companies (CIC)** means a non-banking financial company carrying on the business of acquisition of shares and securities and that satisfies the conditions prescribed by RBI
- **RBI** also regulates **foreign exchange under the Foreign Exchange Management Act (FERA).**
- RBI's whole capital is held by the Central Government. The board has one Governor and not more than 4 Deputy Governors.
- **Some 14 commercial banks** were **nationalized** as per 'The Banking Companies (Acquisition and Transfer of Undertakings)Act,1970 in 1969 and **6 more banks** as per the same act passed once gain as 'The Banking Companies (Acquisition and Transfer of Undertakings)Act,1980.
- As per the **BR act 1949 ,** a **foreign bank** operating in India has to deposit and keep deposited with RBI an amount of Rs.15 lacks (for such banks having places of business in Mumbai or Kolkata or both Rs.20 lacks). In addition to the above, 20% of profit to be remitted with RBI.
- RBI is authorized to regulate **interest rates on loans and advances as well as deposits.** The **Usurious Loans Act. 1918** prohibits lending at exorbitant rates.
- Banking Ombudsman is an authority established under the Banking Ombudsman Scheme, 1995 by the RBI. The purpose is to resolve and settle the complaints of banking public against the commercial banks
- The minimum paid up capital and reserves to start banking business by a cooperative bank is not less than Rs.1.00 lac
- **Regional Rural Banks (RRBs)** RRBs are jointly owned by **Government of India, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank**).

- Regional Rural Banks have the **shares holding** pattern such as **Central Government 50% , Sponsor Bank 35% and State Government 15%/** The total authorised capital was fixed at ***Rs. 1 crore*** which has since been raised to ***Rs. 5 Crore.***
- **Under RRB Act 1975, NABARD** oversees the provisions regarding the set up, regulatory frame work and functions of RRBS.
- Initially, five **RRBs were set up in 1975**, at **Moradabad and Gorkhpur in Uttar Pradesh; Bhiwani in Haryana; Jaipur in Rajasthan and Malda in West Bengal** which were sponsored by **Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India**.
- **National Bank for Agriculture and Rural Development** (**NABARD**) is an **apex development bank** in India based in **Mumbai.**
- **NABARD** was established on the recommendations of **Shivaraman Committee**, by an act of Parliament on 12 July 1982 to implement the ***National Bank for Agriculture and Rural Development Act 1981.***
- NABARD is set up as an apex Development Bank with a mandate for **facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts**.
- **'SHG Bank Linkage Programme', Rural Infrastructure Development Fund (RIFD), 'Umbrella Programme for Natural Resource Management' (UPNRM, Watershed Development Fund (WDF), Kissan Credit Cards** are some of the ambitious projects of NABARD.
- **Export-Import Bank of India having Head quarters at Mumbai and founded in 1982** is the premier export finance institution of the country.
- **Small Industries Development Bank of India (SIDBI)** was established under **SIDBI Act 1988** and commenced its operations from April **02, 1990** with **head quarters in Lucknow** and as a **subsidiary of IDBI** to meet the financial **requirement of small scale Industries (SSI) and tiny industries.**
- **National Housing Bank (NHB) is the apex bank for Housing** was established on **July 09, 1988** under **NHB Act 1987, as a wholly owned subsidiary of RBI** with head quarters in **New Delhi.**
- **Industrial Finance Corporation of India Ltd (IFCI) was established during July 1948 as India's first development bank.**
- **IDBI** is the **apex Bank in the area of long term industrial finance**. It was established under **the IDBI Act 1964** as a **wholly owned subsidiary of RBI** and started functioning on **July 01, 1964.** Under **Public Financial Institutions Laws (Amendment) Act 1976**, it **was de linked** from RBI.
- As per the recommendations of the **Ganguly Committee on Corporate Governance,** guidelines have been provided in respect of 'Fit and Proper' criteria for directors of banks by RBI
- **SARFAESI Act 2002** extends to whole of India including the State of Jammu & Kashmir. The act is effective from 21.06.2002 and seeks to give powers to **banks recover their loans** (**Non performing Assets (NPAs).**
- **Money Market** is the **market for short-term funds, generally ranging from overnight to a year**. It helps in meeting the **short-term and very short-term requirements of banks, financial institutions, firms, companies and also the Government**. These include Commercial paper/ Certficate of Deposits/Commercial bills/Treasury bills/Government securities having an unexpired maturity up to one year/Collaterilsed Borrowing & Lending Obligations (CBLO)/Certificate of deposit/Usance bills/Permitted securities under a repo / reverse repo agreement/Any other like instruments as may be permitted by RBI / SEBI from time to time.
- The **call money market is the market for borrowing and lending for short-term periods usually up to 1 Day.** If the maturity of borrowing (or lending) **is more than 1 day but up to 14 days**, then it is known as **Notice Money. Term Money** refers to money borrowed (or lent) **for more than 14 days but less than one year.** In this market, commercial banks and primary dealers ***can both borrow and lend***, but financial institutions (LIC, UTI, GIC, IDBI, NABARD, ICICI) and mutual funds ***can only lend***.
- Treasury bills are **short-term securities (up to 364 days) issued by the Central Government**. Currently, treasury bills are issued with three maturities – **91 days, 182 days and 364 days**.
- **A Certificate of Deposit** is a receipt for a deposit of money with a bank or a financial institution. It differs from a **fixed Deposit Receipt in two respects**. First, it is issued for a big amount and second, **it is freely negotiable or transferable where as Fixed deposit is not transferable.**
- Commercial Paper is a **short-term promissory note with fixed maturity, issued by creditworthy and highly rated corporations** in order to raise some money or liquidity from market.
- **Repo (Repurchase option)** is a method of borrowing against certain securities for a short period. The borrower undertakes a commitment **to purchase back (or to take back)** the same securities after the **specified period at a pre-determined price**.
- **Reserve Repo is** the opposite practice wherein the lender lends against the securities with the commitment to take back the securities from the borrower against payment at a specified price. Thus by **Reverse Repos** the Reserve Bank, absorbs **or contracts** liquidity from the system.
- Following the recommendations of the **Malhotra Committee report, in 1999**, the **Insurance Regulatory and Development Authority (IRDA)** was constituted as an autonomous **body to regulate and develop the insurance industry**.

- **Insurance Development and Regulatory Authority (IRDA)** is the regulatory authority in the insurance sector under the Insurance Development and Regulatory Authority Act, 1999. Government of India has now allowed FDI in insurance sector up to 26%.
- On **19th January, 1956 Government nationalized the Life Insurance sector and Life Insurance Corporation came into existence in the same year.**
- **In 1972** with the passing of the **General Insurance Business (Nationalisation) Act**, **general insurance business was nationalized with effect from 1st January, 1973.**
- **107 private** insurers were **amalgamated and** grouped into **four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., and the Oriental Insurance Company Ltd and the United India Insurance Company Ltd.**
- **In December, 2000,** the **subsidiaries of the General Insurance Corporation of India (GIC) were restructured as independent companies** and at the same time **GIC was** converted into a **national 'Re-insurer'.**
- A **ULIP is a life insurance policy** which provides a **combination of risk cover and investment in a mutual Fund**. In a ULIP the **Investment Risk is** generally borne by the Investor
- **The Export Credit Guarantee Corporation of India Limited (ECGC**) is a company wholly owned by the **Government of India** based in Mumbai, which provides **export credit insurance support to Indian exporters** and is **controlled by the Ministry of Commerce.**
- **The Deposit Insurance Corporation** commenced functioning on **January 1, 1962** under the aegis of the **Reserve Bank of India (RBI**) to give insurance cover on the DEPOSITS held with a bank. The Head Office of the Corporation is at **Mumbai.**
- Under the provisions of Section **16(1) of the DICGC Act,** the insurance cover was limited to **Rs. 1, 00,000/-** with effect from 1st May 1993 onwards.
- **Agriculture Insurance Company Of India Ltd (AIC)** is promoted by **General Insurance Corporation of India (GIC), NABARD and the 4 Public Sector General Insurance companies.**
- **AIC** has taken over the implementation of **National Agricultural Insurance Scheme (NAIS) which until Financial Year 2002 – 03** was implemented by GIC.
- **A primary dealer** is a **bank or securities broker-dealer** that may **trade directly with the government securities** in **open market operations.**
- RBI regulates and licenses primary Dealers and governs all rules pertaining to **securities Market. Currently 21 primary dealers are permitted by RBI to work in securities Market.**
- **Securities and Exchange Board of India (SEBI)** established under the Securities and **Exchange aboard of India Act, 1992** is the **regulatory authority for capital/Share/Stock markets in India.** SEBI is headquartered at Mumbai. India has now 21 **recognized stock exchanges and 4 exchanges were derecognized.**
- **Competition Commission of India** is a body of the Government of India responsible for enforcing **The Competition Act, 2002.** Established in **1953** under the provisions of **the Forward Contracts (Regulation) Act, 1952**, it consists of two to four members, all appointed by the Indian Government.
- A **forward contract** is a **non-standardized contract** between two parties to buy or sell an asset at a specified future time at a price agreed today.
- A **futures contract** is a **standardized contract between two parties** to exchange a specified asset of standardized quantity and quality for a price agreed today (the futures price or the strike price) with delivery occurring at a specified future date, the delivery date.
- **Pension Fund Regulatory and Development Authority (PFRDA)** is the prudential regulator for the **New Pension Scheme** (**NPS**). Government of India **moved from a defined benefit pension to a defined contribution based pension system by making it mandatory for its new recruits (except armed forces) with effect from 1st January, 2004.**
- **Since 1st April, 2008**, the pension contributions of **Central Government employees** covered by the **New Pension System (NPS)** are being invested by **professional Pension Fund Managers**
- All Indian citizens between the age of **18 and 55 can join the NPS.**
- **Central administration and recordkeeping system (CRA) is a licensed entity which is** responsible for **opening and maintenance of personal retirement accounts** of the subscribers under the NPS
- The era mutual fund was started in India in 1964 with the inception of the UTI or **The Unit Trust of India**.
- In February 2003, following the **repeal of the Unit Trust of India Act 1963, UTI** was **bifurcated into two separate entities.** The Specified Undertaking of Unit Trust of India, functions under an administrator and under the rules framed by **Government of India and does not come under the purview of the Mutual Fund Regulations.**
- The first private sector fund to operate in India was **Kothari Pioneer which was later merged with Franklin Templeton.**
- There are around **200 mutual funds Schemes in India as on end October 2010**.
- **Net Asset Value (NAV)** is the term used in mutual funds and represents the market value of the assets of the scheme minus its liabilities.
- **Systematic Investment Plan (SIP)** is a scheme offered by mutual funds to help customer invest regularly on monthly basis.