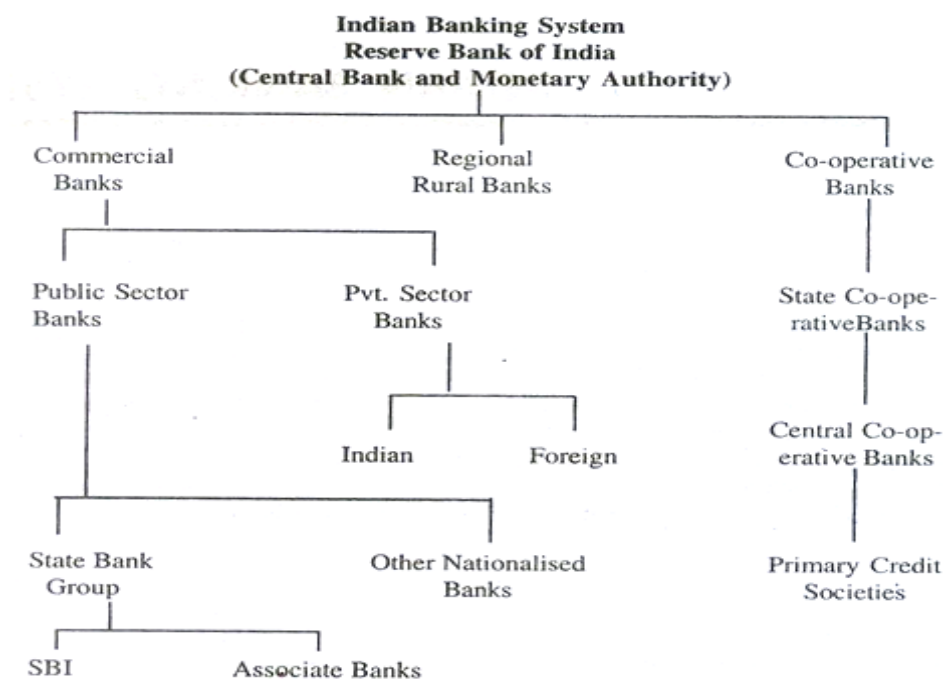


BANKING SECTOR

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also non-banking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry.

A banking system also referred as a system provided by the bank which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day. The banking system in India should not only be hassle free but it should be able to meet the new challenges posed by the technology and any other external and internal factors. For the past three decades, India's banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguards the money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products. As a variety of models for cooperation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role—accepting deposits and lending funds from these deposits.

STRUCTURE OF BANKING SECTOR



STRUCTURE OF INDIAN BANKING SYSTEM

Reserve Bank of India (RBI):

The country had no central bank prior to the establishment of the RBI. The RBI is the supreme monetary and banking authority in the country and controls the banking system in India. It is called the Reserve Bank' as it keeps the reserves of all commercial banks.

Commercial Banks:

Commercial banks mobilise savings of general public and make them available to large and small industrial and trading units mainly for working capital requirements.

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 92 percent of the entire banking business in India—occupying a dominant position in the commercial banking. The State Bank of India and its 7 associate banks along with another 19 banks are the public sector banks.

Scheduled and Non-Scheduled Banks:

The scheduled banks are those which are enshrined in the second schedule of the RBI Act, 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs, they have to satisfy the RBI that their affairs are carried out in the interest of their depositors.

All commercial banks (Indian and foreign), regional rural banks, and state cooperative banks are scheduled banks. Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present these are only three such banks in the country.

Regional Rural Banks:

The Regional Rural Banks (RRBs) the newest form of banks, came into existence in the middle of 1970s (sponsored by individual nationalised commercial banks) with the objective of developing rural economy by providing credit and deposit facilities for agriculture and other productive activities of all kinds in rural areas.

The emphasis is on providing such facilities to small and marginal farmers, agricultural labourers, rural artisans and other small entrepreneurs in rural areas.

Cooperative Banks:

Cooperative banks are so-called because they are organised under the provisions of the Cooperative Credit Societies Act 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.

At the apex is the State Co-operative Bank (SCB) (cooperation being a state subject in India), at the intermediate (district) level are the Central Cooperative Banks (CCBs) and at the village level are Primary Agricultural Credit Societies (PACs).

Long-term agriculture credit is provided by the Land Development Banks. The funds of the RBI meant for the agriculture sector actually pass through SCBs and CCBs. Originally based in rural sector, the cooperative credit movement has now spread to urban areas also and there are many urban cooperative banks coming under SCBs.

GROWTH OF BANKING SECTOR

Indian banking sector credit growth has grown at a healthy pace:

- Total credit extended went up to US\$ 1,089 billion by FY15
- Credit to non-food industries increased 9.75 per cent to US\$ 1,073.4 billion in FY15, from the previous financial year
- Demand has grown for both corporate and retail loans

Market Size:

- The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control nearly 80 percent of the market, thereby leaving comparatively much smaller shares for its private peers.
- As of February 12, 2020, 38.06 crore accounts had been opened under Pradhan Mantri Jan Dhan Yojna (PMJDY) and 29.08 crore RuPay debit cards were issued. These new accounts have mustered deposits worth Rs 115276.69 crore (US\$ 4 billion).

Growth in Investments/Developments:

- The Reserve Bank of India (RBI) has granted in-principle licenses to 10 applicants to open small finance banks, which will help expanding access to financial services in rural and semi-urban areas.

- IDFC Bank has become the latest new bank to start operations with 23 branches, including 15 branches in rural areas of Madhya Pradesh.
- The RBI has given in-principle approval to 11 applicants to establish payment banks. These banks can accept deposits and remittances, but are not allowed to extend any loans.
- The Bank of Tokyo-Mitsubishi (BTMU), a Japanese financial services group, aims to double its branch count in India to 10 over the next three years and also target a 10 per cent credit growth during FY16. State Bank of India has tied up with e-commerce portal Snap deal and payment gateway PayPal to finance MSME businesses, etc.

Government Initiatives:

- The Government of India is looking to set up a special fund, as a part of National Investment and Infrastructure Fund (NIIF), to deal with stressed assets of banks.
- The Reserve Bank of India (RBI), the Department of Industrial Policy & Promotion (DIPP) and the Finance Ministry are planning to raise the Foreign Direct Investment (FDI) limit in private banks sector to 100 per cent from 74 percent.
- Government of India aims to extend insurance, pension and credit facilities to those excluded from these benefits under the Pradhan Mantri Jan Dhan Yojana (PMJDY), etc.

Conclusion: The banking sector is growing continuously by laying greater emphasis on providing improved services to their clients and also upgrading their technology infrastructure, (mobile banking, internet banking, and digitalization) in order to enhance the customer's overall experience as well as give banks a competitive edge.