**RBI and Financial Services**

****

**Submitted by:**

**Ajay Kumar Dhurwe (2K19/SE/004)**

**Submitted to:**

**Dr. Seema Dwivedi**

**Contents**

| **Sr. No.** | **Particulars** | **Page No.** |
| --- | --- | --- |
| **1** | **Executive Summary** | **2** |
| **2** | **Introduction** | **2** |
| **3** | **Industry Profile / Company Profile** | **2** |
| **4** | **Objectives and Scope of the study** | **2** |
| **5** | **Theoretical Background** | **2 - 3** |
| **6** | **Research Methodology** | **3 - 10** |
| **7** | **Analysis & Interpretation of Data** | **10 - 11** |
| **8** | **Findings** | **11** |
| **9** | **Suggestions / Recommendations** | **11 - 12** |
| **10** | **Conclusion** | **12** |
| **11** | **Limitations** | **12** |
| **12** | **Bibliography** | **12 - 13** |
|  |  |  |

**Executive Summary**

1. The Reserve Bank conducted a pilot survey on Indian startup sector during November 2018 to April 2019. A total of 1,246 startups (public/private limited companies, partnership firms, limited liabilities partnerships and others) participated in the survey. Around three-fourths of respondents were from the states of Karnataka, Maharashtra, Telangana, Delhi and Tamil Nadu.
2. Startups in six sectors, viz., agriculture, data & analytics, education, health, IT consulting/solution and manufacturing accounted for nearly 50 per cent of the survey respondents.
3. Respondents cited market/industry demand and team experience as the major enabling factors for setting up the startups. Both domestic markets (mainly semi-urban, urban and metropolitan areas in India) and foreign countries were the target destination of the startups.
4. Almost half of the respondents informed that they were in an early stage of revenue generation while 31 per cent were in a growing stage. Of the remaining startups which were yet to generate any revenue, as high as 86 per cent were aged below three years.
5. The annual turnover for over one-fourths of the respondents was up to ₹ 10 lakhs whereas around 20 per cent startups did not report any revenue generation. Less than one-fifths of the respondents reported that their turnover exceeded ₹ 1 crore.
6. Only 14 per cent of startups had more than 10 employees in the first six months of their operation but as the sector matured, the share increased to 40 per cent at the time of conducting the survey.
7. Around 36 per cent of the startups availed institutional loans (including from banks) to finance their activities.

**Introduction**

In this project my topic is RBI and Financial Services. The Reserve Bank of India (RBI) is the central bank of India, which was established on Apr. 1, 1935, under the Reserve Bank of India Act. The Reserve Bank of India uses monetary policy to create financial stability in India, and it is charged with regulating the country’s currency and credit systems.

**Company Profile**

The Reserve Bank of India (RBI) is India’s central bank, also known as the banker’s bank. The RBI controls the monetary and other banking policies of the Indian government. The Reserve Bank of India (RBI) was established on April 1, 1935, in accordance with the Reserve Bank of India Act, 1934. The Reserve Bank is permanently situated in Mumbai since 1937.

The Reserve Bank of India (RBI) is the central bank of India, The RBI was originally set up as a private entity in 1935, but it was nationalized in 1949. The main purpose of the RBI is to conduct consolidated supervision of the financial sector in India, which is made up of commercial banks, financial institutions, and non-banking finance firms.

**Objectives of the RBI**

The primary goals of the RBI according to the Preamble of the same are as follows. To regulate the issue of Banknotes.

To secure monetary stability in the country.

To meet the economic challenges by modernising the monetary policy framework. The primary focus of the RBI is to supervise and undertake initiatives on behalf of the financial sector which consists of financial institutions, commercial banks, non-banking financial companies. A few critical efforts of the RBI are to restructure bank inspections and fortifying the role of statutory auditors in the banking system.

**Theoretical Background**

The Reserve Bank of India (RBI) is the central bank of India, which was established on Apr. 1, 1935, under the Reserve Bank of India Act. The Reserve Bank of India uses monetary policy to create financial stability in India, and it is charged with regulating the country’s currency and credit systems.

Understanding the Reserve Bank of India (RBI)

Located in Mumbai, the RBI serves the financial market in many ways. The bank sets the overnight interbank lending rate. The Mumbai Interbank Offer Rate (MIBOR) serves as a benchmark for interest rate–related financial instruments in India.

The main purpose of the RBI is to conduct consolidated supervision of the financial sector in India, which is made up of commercial banks, financial institutions, and non-banking finance firms. Initiatives adopted by the RBI include restructuring bank inspections, introducing off-site surveillance of banks and financial institutions, and strengthening the role of auditors

First and foremost, the RBI formulates, implements, and monitors India’s monetary policy. The bank’s management objective is to maintain price stability and ensure that credit is flowing to productive economic sectors. The RBI also manages all foreign exchange under the Foreign Exchange Management Act of 1999. This act allows the RBI to facilitate external trade and payments to promote the development and health of the foreign exchange market in India.

The RBI acts as a regulator and supervisor of the overall financial system. This injects public confidence into the national financial system, protects interest rates, and provides positive banking alternatives to the public. Finally, the RBI acts as the issuer of national currency. For India, this means that currency is either issued or destroyed depending on its fit for current circulation. This provides the Indian public with a supply of currency in the form of dependable notes and coins, a lingering issue in India. In 2018 the RBI banned the use of virtual currencies by the financial agencies and banks that it regulates.

**Research Methodology**

To achieve these objectives, the RBI follows the following methods of credit control:

**(i) Open Market Operations:**

Open market operations refer to the sale and purchase of gold related securities and other securities, bills and bonds of Government by the RBI from and to the public and financial institutions. To control inflation and tackle the problem of excess liquidity due to foreign exchange inflows, the RBI sells Government securities. As a result, there is reduction in the cash balances of banks and other deposits of banks held by the RBI.

The opposite happens when the RBI purchases securities from the open market. In Government securities, there were adhoc Treasury Bills which were replaced by Ways and Means Advances from April 1997. They are meant to serve as a means of meeting temporary mismatches between the receipts and expenditure of the Central Government rather than a source of financing fiscal deficit.

This has provided more flexibility to the RBI in operating its monetary policy. Besides, to control fluctuations in call money market rates repos/reverse repo auctions, first on daily basis then with 3-7 day maturity, were introduced under full-fledged liquidity, Adjustment Facility (LAF) effective August 2000. Besides, weekly auctions of 14-day Treasury Bills and 28-days Treasury Bills; fortnightly auctions of 182-day Treasury Bills; and monthly auctions of 364-day Treasury Bills were started from 1997-98.

The RBI has been resorting to open market operations in order to reduce the lending power of commercial banks because its sale of securities have normally exceeded its purchases. But the effectiveness of open market operations as an instrument of credit control in India is limited by a number of factors.

First, except for the gilt- edged market in India, there is the absence of other first class securities.

Second, the market for Government securities is a ‘captive’ market over which the RBI has almost a monopoly and some institutional investors like LIC, UTI, GIC, and commercial banks, etc. are required to invest in them.

Third, open market operation: are being used as an instrument of debt-management rather than to influence the cost and availability of credit. As such, open market operations have not been a success in India.

**(ii) Bank Rate Policy:**

The bank rate is the’ rate fixed by the central bank at which it rediscounts first class bills of exchange and government securities held by commercial banks. But in India, the bank rate policy is limited to give advances to commercial banks against first class bills of exchange by the RBI.

The latter include Government securities and genuine trade bills. Under the Bill Rediscounting Scheme introduced in November 1970, all licensed scheduled commercial banks are eligible to rediscount with the RBI genuine trade bills arising out of sale or despatch of goods.

The objectives of the RBI’s bank rate policy are to influence the availability and cost of credit. The RBI has been unsuccessful in achieving these objectives. From its establishment in 1935 up to 14 November. 1951, the bank rate was stable at 3 per cent.

It was cheap monetary policy which led to an unlimited expansion of credit. Consequently, speculative activities received encouragement and the deficit in balance of payments increased. For the first time, the bank rate was raised to 3.5 per cent in November 1951.

It was raised to 4 per cent in May 1957, to 4.5 per cent in January, 1963; to 5 per cent in September, 1964; to 6 per cent in January, 1971 and to 7 per cent in May 1973. With an unprecedented rise in prices, the RBI resorted to a policy of dear money in July 1974 and raised the bank rate to 9 per cent in 1977, to 10 per cent in July 1981, to 11 per cent in July 1991 and to 12 per cent in October 1991.

To overcome recession in the economy, the RBI started following cheap money policy by reducing the bank rate to 11 per cent in April 1997 and subsequently by stages to 6 per cent on April 29,2003. Thus the bank rate had not been used as an instrument of credit control till 1973. It is only in the 1980s and 1990s that its proper use has been made in the form of cheap or dear monetary policy.

**(iii) Interest Rate Policy:**

Interest rate adjustment is a flexible and potent tool of credit policy. It reinforces restrictive/liberal impact of credit policy. In order to supplement the bank rate policy, the RBI has been following the policy of changing the interest rate structure for different sectors of the economy in the light of evolving economic trends.

**(a) Deposit Rates:**

Since November 1975, the RBI has been following the policy of administered interest rates. This policy has the twin objectives of mobilising savings and providing funds for productive activities in the priority sectors of the economy at concessional rates of interest.

The interest rates on all saving instruments including bank deposits are sometimes reduced to prevent banks from getting locked into longer period maturities. At other times, they are raised to assist the banks in deposit mobilisation and to offer a better rate of savings. Up to 21 April, 1992, the term deposit rates of scheduled commercial banks were prescribed in three slabs of maturities and rates.

Effective 22 April, 1992, the banks were given freedom to determine the term deposits of three maturity slabs of their choice, subject to a choice of interest rate ‘not exceeding 13 per cent. With the fall in inflation rate, the ceiling rate was gradually reduced to ‘not exceeding 10 per cent’ by 2 September 1993. When the inflation rate started rising, the ceiling rate was gradually raised to ‘not exceeding 12 per cent’ effective 18 April, 1995 for 46 days to 3 years and above.

To augment the resources of banks and to impart greater flexibility to term deposit rate structure, the banks have been allowed freedom to fix their own interest rates on domestic term deposits of all categories. The minimum period of term deposits has been gradually reduced from 46 days to 30 days; and subsequently to 15 days. Effective May 2001, the banks had been permitted to pay higher interest rates to senior citizens on their term deposits by 0.5 to 1.0 per cent.

The savings deposit rate has been lowered from to 4.0 per cent to 3.0 per cent effective March 1,2003. Term deposit rates on NRE accounts were also rationalised in accordance with the domestic rates. With a view to maintaining the differential between the interest rates on term deposits and NRE Rupee term deposits, banks were permitted to offer differential rates of interest on NRE deposits on size-group basis subject to the overall ceiling rate effective 27 April, 2000. Effective 4 April, 1996, interest rates on NRE term deposits of over two years had been freed for banks.

**(b) Lending Rates:**

The lending rate structure prescribed for banks since their nationalisation in 1969 had been cumbersome and complicated. It was characterised by a multiplicity of rates relating, to numerous criteria, such as size of loan, priority of a sector, location of activity, specific programmes, income of borrowers, etc. In September 1990, the RBI rationalised the lending rate structure of commercial banks. It is linked to the size of loan granted by the commercial banks. When the inflation rates were high, upward revisions were made in the lending rates of commercial banks. The first upward revision was made on 13 April, 1991, when the minimum rate on advances above Rs.2 lakh was raised from 16 per cent to 17 per cent effective 13 April, 1991 and gradually to 20 per cent on 9 October, 1991.

As the inflation rate declined and the macroeconomic situation improved, the lending rate was reduced gradually from 20 per cent to 14 per cent effective 1 March, 1994. Effective 18 October, 1994, the prescription of a minimum lending rate has been abolished and banks have been given freedom to fix the prime lending rate (PLR) for all advances above Rs.2 lakh. Each bank is required to declare its PLR and made uniformly applicable to all its branches.

In keeping with its policy of rationalisation of the lending rate structure according to the size of credit limit, the RBI reduced the number of categories from six to three by April 1993. The three categories with interest rates effective 18 October, 1994 were – (a) Up to Rs.25,000 at 12 per cent (fixed); (b) Over Rs.25,000 and up to Rs.2 lakh at 13 per cent (fixed); and (c) Over Rs.2 lakh freed.

Under the DIR (Differential Interest Rate) scheme, term loans are provided to small and water transport operators, professionals and self-employed in the priority sector at the concessional rate of 4 per cent by both the commercial banks and urban co-operative banks. They are required to lend 40 per cent of their total advances to the priority sector.

Along with the above measures, interest rates on export credit are reviewed from time to time with a view to providing an incentive to exporters for repatriating the proceeds as well as discouraging them from delaying repatriation of export proceeds.

On pre-shipment export credit, banks have been allowed to charge 10 per cent interest up to 180 days and 13 per cent beyond 180 days to 270 days since 1 April, 1999. On post-shipment export credit upto 90 days, the interest rate has been 10 per cent since 1 April, 1999, beyond 90 days to 6 months, and beyond six months the banks are free to charge interest rates decided by them.

**(iv) Changes in Variable Reserve Ratio:**

The variable reserve ratio is a very effective instrument of monetary control with the RBI.

In India, the variable reserve ratio is of the following types:

**(a) Cash Reserve Ratio (CRR):**

Since the establishment of RBI till 1956, the commercial banks were required to keep 2 per cent of their time deposits and 5 per cent of their demand deposits with the RBI in the form of reserves. Thus this tool of monetary policy was not used for more than 20 years in India.

With the RBI Amendment Act, 1956, the RBI was empowered to raise the time deposits of commercial banks from 2 to 8 per cent and the demand deposits from 5 to 20 per cent. By the RBI Amendment Act, 1962 the distinction between time and demand deposits was abolished and the provision was made to keep the CRR between 3 to 15 per cent. After this, the RBI had been making changes in the CRR in keeping with the monetary and economic conditions.

Effective 1 July, 1989, instead of separate ratios for different types of liabilities, there is a uniform CRR of 15 per cent of the entire net demand and time liabilities (NDTL) of banks, including FCNR and NRE accounts. The CRR was reduced to 14 per cent effective 15 May, 1993 and again raised to 15 per cent effective 6 August, 1994.

This was to meet monetary pressure arising from large capital inflows. For the same reason, the CRR on FCNR accounts was raised to 15 per cent and on NRNR deposits to 7.5 per cent. When these conditions reversed and money growth slowed, the CRR was reduced from 15 per cent to 14 per cent effective 9 December 1995 and that on FCRR and NRNR deposited removed.

To augment the lendable resources of banks, the CRR was further reduced from 14 per cent to 13 per cent effective 11 May, 1996, and to 12 per cent effective 6 July, 1996 and in subsequent years gradually to 8 per cent on 1 April, 2000 and to7.5 per cent on 14 May, 2001.

The reduction in CRR to 7.5 per cent has been done to enable banks to reduce their PLR and to release more liquidity into the monetary system. As a policy measure, the variations in CRR has been more successful in controlling credit than open market operations and bank rate policy.

**(b) Statutory Liquidity Ratio (SLR):**

Another important tool of monetary policy with the RBI is the Statutory Liquidity Ratio (SLR) which supplements the CRR. Under the Banking Regulation Act, 1949, the commercial banks are required to keep 20 per cent of their net demand and time liabilities (NDTL) deposits with them in the form of liquidity ratio.

In this liquidity ratio are included excess reserves, current account balances of the commercial banks with the RBI and other banks, gold and unencumbered approved securities. But whenever the RBI raised the CRR, the commercial banks would make this unsuccessful by increasing their liquidity power through the sale of government securities. In order to overcome this weakness, the SLR was raised to 25 per cent by the Banking Amendment Act of 1962.

But the cash reserves kept with the RBI were not included in this ratio. In order to contain the liquidity growth in the banking system and consequent monetary expansion, the SLR was raised to 30 per cent in November, 1972. Since then it had been revised upward regularly so that with effect from 22 September, 1990 it had been 38.5 per cent.

To make more funds available for commercial bank lending, the base SLR on NDTL was reduced gradually and by the end of 1996, it was brought down to 25 per cent as per the recommendations of the Narasimhan Committee.

The incremental SLR is 25 per cent. This refers to the ratio, the banks are required to keep if there NDTL increase over the base SLR. The advantages of SLR are that by implementing it along with CRR, it controls the liquidity of banks and thereby limits their power to make advances to trade and industry. Thus the quantitative monetary policy is successful in reducing inflationary pressures. Second, more financial resources are available to the government for its use.

**(v) Selective Credit Controls:**

Selective credit controls are meant to regulate and control the supply of credit. They aim at channelising the flow of bank credit from speculative and other undesirable purposes to socially desirable and economically useful uses. Thus they help in curtailing the rise in prices of commodities.

The method of selective credit controls was introduced in India by the RBI in May 1956.

Under this:

(i) It fixes minimum margins for advances against securities for banks. These margins are from 20 to 100 per cent;

(ii) It fixes ceilings on maximum advances against stocks of certain commodities to traders;

(iii) It fixes minimum discriminatory rates of interest for certain kinds of advances by banks;

(iv) It prohibits advances for financing hoarding of certain commodities; and

(v) Prohibits the discounting of bills of exchange relating to the sale of some selected commodities.

Selective credit controls relate to such commodities as cotton, wheat, paddy/ rice, pulses, oilseeds, vegetable oils, sugar, gur and khandsari, man-made fibres and cloth. The rate of interest charged on advances by banks against the security of such commodities is higher than on other securities.

If the RBI wants to control speculation on the prices of such commodities, it raises the minimum margins. In case it wants to liberalise credit facilities for them, it lowers the minimum margins. It does so in keeping with changing market conditions.

For instance, to curb inflationary pressures, the RBI had fixed the ceiling of 45 per cent on the incremental net non-food credit deposit ratio for banks from October 1989. Further, restrictions had been placed on loans for purchase of consumer durables and other non-priority sector personal loans. The minimum margin for loans against shares and debentures/bonds was fixed at 75 per cent.

When in early 1992, the inflation rate started declining, the banks were advised to support the revival of productive activity. At the same time, effective 22 April, 1992, all restrictions on credit or purchase of consumer durables, other non-priority sector personal loans and stipulation on net non-food credit-deposit ratio were removed.

Effective 21 October, 1996, selective credit controls on pulses, coarse grains, oil seeds, vanaspati, sugar, gur, khandsari, cotton, kapas had been abolished, except buffer stocks. Banks were given freedom to fix margins on advances against sensitive commodities, except unreleased stocks of sugar for which 15 per cent margin had been fixed. Effective 2 December, 1996, the banks were granted freedom to advance loans against shares/debentures with the maximum limit of Rs. 10 lakh. It has since been raised to Rs.20 lakh.

**Credit Monitoring Arrangement (CMA):**

With effect from 10 October 1988, the RBI dispensed with the Credit Authorisation Scheme (CAS) and introduced the Credit Monitoring Arrangement (CMA) for bank lending for working capital purposes. Under the revised scheme effective 30 October, 1996 all sanctions/ renewals of credit limits to borrowers enjoying fund-based working capital limits of Rs. 10 crores and above and term loans in excess of Rs. 5 crores were required to be reported by the banks to the RBI for post-sanction scrutiny.

All sanctions/renewals of credit limits were required to be reported to the RBI. In this way, the RBI regulated the sanctioning of loans by banks through CMA. The CMA was discontinued from 8 December, 1997.

In recent years, the Reserve Bank has announced several steps to facilitate the flow of credit to the commercial sector, particularly for exports, information technology, infrastructure, agriculture, small scale industries, etc.

The coverage of the priority sector credit has been widened considerably. Bank credit to NBFCs (non-bank financial companies) for on-lending to small road and water transport operators, software industry having credit limit up to Rs.1 crore, to the food and agro-based sector, to NBFCs and financial institutions for on-lending to the tiny sector, and to both public and private sector undertaking for financing infrastructure projects is now being treated as priority sector lending. Besides, bank lending to sensitive sectors comprising capital market, real estate (housing) and commodities is regulated in keeping with the trends in the economy.

**Their Effectiveness:**

Selective credit controls have been more effective in controlling credit than the quantitative methods. They have been instrumental in channelising the flow of credit from speculative and other undesirable purposes to socially desirable and economically useful purposes.

They have helped in restricting the demand for money by laying down certain conditions for borrowers by fixing minimum margin requirements and other limits. Thus they have been successful in regulating credit for different uses in various sectors of the economy according to plan priorities.

Despite all these successes, selective credit controls have failed to control the demand for and supply of money in the country. They have, therefore, failed to control inflationary pressures. With the introduction of commercial paper by the large organised sector, the RBI’s control over credit through the CMA had become less effective. Now large industries can raise money directly from the market at cheaper rates than bank credit.

Moreover, trade and industry can get funds from non-bank financial institutions, mutual fund’s, etc. which have made selective credit controls less effective. Above all, selective credit controls alone are not effective in controlling credit. They must be combined with general (or quantitative) control measures like bank rate, open market operation, CRR, SLR, etc.

**(vi) Direct Action:**

The Banking Companies Act, 1949 empowers the RBI to caution or prohibit banks generally or any individual bank in particular, from entering into any particular transaction or class of transactions. The RBI has also the power to inspect any bank and its books accounts. On a report from the RBI, the Central Government may prohibit any bank from receiving fresh deposits or direct the RBI to order for the winding up of the bank or its merger with some other bank.

**(vii) Moral Suasion:**

Besides, the above noted quantitative and qualitative measures of credit control, the RBI also follows the method of moral suasion. By this method of persuasion, suggestion and advice, the RBI asks the banks to follow its declared monetary policy from time to time.

By sending circular letters or calling meetings of directors of banks, it persuades them not to give credit for speculative activities and/or to give more credit facilities to priority sectors of the economy. Before the nationalisation of 20 banks in India, the method of moral suasion was not successful but now all banks follow the RBI guidelines. As a matter of fact, the RBI is so powerful that no bank dares to ignore its circulars and suggestions.

**Analysis & Interpretation of Data**

In our day-to-day life, data is reported in the newspapers, on television, and in magazines. The data involves business, government, sports and many other topics. It is represented in an organized fashion, making it easy to interpret what you hear and read in the media. Those set of problems is being asked in a different kind of form like Pie Chart di, Bar Chart di, Table Chart di, line chart di and info chart etc.

Now come back to the point data interpretation, Data has to be well organized for it to be useful. This process of interpreting and analysing data to extract meaningful information from it is Data Interpretation. Solving DI problems involves the use of basic formulas and manipulation of numbers.

[Data Interpretation](https://www.smartkeeda.com/Quantitative_Aptitude/Arithmetic/Bar_Charts/newest/RBI%20Assistant/passage/DI_Bar_Chart_No_36/) is calculation-intensive. It consists of a myriad of graphs, charts and tables form which you have to glean and analyse data. The key to cracking this area is to quickly identify the key pieces of data that you require to work on the questions asked.

Problems in High Level Data Interpretation are probably the closest in resemblance to the kind of problems you will be dealing with as a manager. They test your decision-making ability and speed using the minimum possible data. They help you to draw conclusions from collected data, support decision making and contribute to the better process, product, and quality models.

Data Sufficiency problems involve testing your quantitative concepts. They usually take the form of a logical puzzle. Instead of solving a data sufficiency problem, all you need to do is determine if the given information is enough to solve the problem. To solve DI Questions & Answers for RBI Assistant Banking and Insurance Exams like IBPS, NABARD & RBI Grade B, NIACL, and LIC, you need to brush up your calculation skills; you need to perform calculations faster and accurately than others. Difficult Data interpretations should be solved within 10-12 minutes. The DI of moderate level should not consume more than 7-9 minutes of the time and easy DI's should be finished within 3.5-4 minutes.

In these, Data Interpretation Quizzes and PDF, you familiarized yourself with the key concepts and improved your problem-solving abilities. At Smartkeeda you will get Easy level data interpretation to High-level data interpretation at low cost. Practice and tests are important to optimize your preparation. First, take the quizzes regarding your exams and take a full mock test at Testzone to improve your problem-solving skills. Questions that have appeared in the previous RBI Assistant exams are also a part of these quizzes. Go through them you can understand where the focus lies in an examination environment. The detailed solutions of the questions may provide some alternative strategies that can help you improve your speed and accuracy.

**Findings**

Keeping in view the objectives, the pilot survey collected information on certain important aspects such as profiles of the startups and their founders, nature of products, sources of funds and future plans. Salient observations on these aspects are presented below.

Findings from a pilot survey on Indian startup sector conducted by the Reserve Bank are presented in this document. It presents the feedback received from the survey respondents and does not reflect the views of the Bank. Comments/suggestions are solicited from stakeholders on the findings of the survey as well as on methodology, usefulness of information and scope for improvement in the survey. The same may be forwarded to - The Director, E-Commerce and New Age Survey Division, Department of Statistics and Information Management, Reserve Bank of India, C-8, 2nd floor, Bandra-Kurla Complex, Bandra (East), Mumbai-400051

**Suggestions/Recommendations**

Today, banks play an important role in the payment and settlement system of financial transactions. The introduction of liberalisation measures in the banking sector and the emergence of new private sector and foreign banks equipped with latest technology, led to an increase in competition in the banking sector. Technology up gradation is taking place in public sector banks PSBs in a phased manner.

Computerisation is increasingly being applied in day to day deposits and loan operations, but the pace at which it has moved so far, has been somewhat limited. Moreover, there is a need for computerisation in a large number of areas of operations of banks, with customer service as the main focus.

To further upgrade the existing technology in the banking sector and also to suggest measures for implementation, the Reserve Bank appointed a Committee on Technology Up gradation in the Banking Sector. The Committee in its report, submitted in July 1999, recommended a new legislation on electronic-funds- transfer system to facilitate multiple payment systems to be set up by banks and financial institutions.

**Conclusion**

Every authority concerned with Co-operative sector will have to play its part in ensuring that the aspirations of the Urban Co-operative Banking sector are nurtured in a manner that depositor interest and the public interest at large is protected. The role of RBI could, thus, be to frame a regulatory and supervisory regime that is multi-layered to capture the heterogeneity of the sector and implement policies that would provide adequate elbowroom for the sector to grow in a non-disruptive manner. The State and Central Governments could recognize that the UCBs are not just co-operative societies but they are essentially banking entities whose management structure is that of a co-operative. They should recognize the systemic impact that inefficient functioning of the entities in the sector could have. Consequently, it would be in the interest of the sector if they support, facilitate and empower the RBI to put in place mechanisms and

systems that would enable these UCBs to perform their banking functions in a manner that is in the overall interest of the depositor and the public at large.

**Limitations of RBI**

1. Restricted Scope of Monetary Policy in Economic Development

2. Limited Role in Controlling Prices

3. Unfavourable Banking Habits

4. Underdeveloped Money Market

5. Existence of Black Money

6. Conflicting Objectives

7. Influence of Non-Monetary Factors

8. Limitations of Monetary Instruments

9. Not Proper Implementation of the Monetary Policy

**Bibliography**

1. 'The Gazetteer of India Volume II - History and Culture', Edited by Dr.P.N.Chopra, Ministry of Education and Social Welfare, 1973.

2. 'Indigenous Banking in Ancient and Medieval India', Brijkishore Bhargave, 1935.

3. 'Commercial Banks in India : Profitability, Growth and Development', Kishore C.Raut & Santosh K.Das, 1996.

4. 'The Evolution of the State Bank of India', A.K.Bagchi, 1987.

5. 'A Study of the Indian Money Market', Bimal C.Ghose, 1943.

6. Report of the 'Working Group to consider feasibility of introducing MICR/OCR Technology for Cheque Processing', Reserve Bank of India, 1982.

7. Report of the 'Committee on Mechanisation in the Banking Industry', Reserve Bank of India, 1984.

8. Report of the 'Committees on Communication Network for Banks and SWIFT implementation', Reserve Bank of India, 1987.

9. Report of the 'Committee on Computerisation in Banks', Reserve Bank of India, 1988.

10. Report of the 'Committee on Technology Issues relating to Payments System, Cheque Clearing and Securities Settlement in the Banking Industry', Reserve Bank of India, 1994. 11. Report of the 'Committee for proposing Legislation On Electronic Funds Transfer and other Electronic Payments', Reserve Bank of India, 1995.

12. 'Uniform Regulations and Rules for Bankers' Clearing Houses', Reserve Bank of India, 1986.

13. 'Payment Systems in the Group of Ten Countries', Bank for International Settlements, 1993.

14. Reports on Currency and Finance, 1970 - 1997, Reserve Bank of India.

15. Banking Statistics Quarterly Review, 1997, Reserve Bank of India.