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Revised Edition

# Banking Awareness

**Banking Awareness • Financial Awareness**
**Indian Economy • Financial & Banking**
**Current Affairs**


*Author*
Rakesh Kumar Roshan



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# PREFACE

Banking industry plays an important role in the social and economic development of any society. For that reason, banking sector is growing day by day. To fulfill the need of banking sector IBPS, SBI, and RBI conduct various competitive examinations every year to recruit PO(s) and Clerk(s).

In these competitive examination, Banking Awareness is included to test the candidate's practical knowledge and his understanding of the banking system. From analysis of the previous years' question papers, it is established that in this section, question comes from Indian economy, banking and finance.

This book is prepared keeping in mind the trend and pattern of these examinations. We have covered both practical as well as technical aspects of economy, banking, national income and finance. In this book, we have provided concise and authentic study material along with ample multiple choice questions for practice.

We have also provided previous years' questions which will help candidate to understand the type and nature of the questions. Candidates will be able to self evaluate themselves on the basis of the 3 practice sets given in the book.

With above mentioned speciality, this book will surely help candidates to succeed in various competitive examinations.

With best wishes…

***Author***

# CONTENTS

CHAPTER

01

# INDIAN BANKING AND ITS HISTORY

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.

## Banking

Under Section 5(b) of Banking Regulation Act, 1949 of RBI, banking is defined as the acceptance of deposits of money from the public for the purpose of lending and/or investment.

Besides providing basic banking services, banks may also provide financial services such as wealth management, currency exchange and consultancy services.

## History of Banking in India

Banking system has been existing in India since ancient times but it was not in organised form before the arrival of Britishers.

### Colonial Era

With the advent of colonial European rule, the modern banking system developed gradually in India. With this, banking facilities were primarily established to support the trading activities of European companies.

The earliest attempt in India to establish a banking institution with some characteristics of Central bank, dates back to January, 1773, when Warren Hastings, the Governor-General of Bengal recommended the establishment of General Bank of Bengal and Bihar.

After the arrival of Britishers in 17th century, foreign banking system started declining. Mayser's Alexander and Company established the first European bank. The **Bank of Hindustan** in 1770 and became defunct in 1832. The first bank in India, the **General Bank of India**, was setup in 1786 and it failed in 1791.

#### Pre-Independence Phase-I

- The first Presidency Bank was the **Bank of Calcutta**, established by East India Company on 2nd June, 1806. The origin of the State Bank of India can be traced back to this bank.
- The second and third Presidency Banks were the **Bank of Bombay** (incorporated on 15th April, 1840) and the **Bank of Madras** (incorporated on 1st July, 1843).

- **Allahabad Bank** was established, exclusively by Indians, in 1865.
- **Awadh** (Oudh) **Commercial Bank**, established in 1881, was the first bank governed exclusively by the Indians on the basis of extending loans. It was the first Commercial Bank having limited liability and an entirely Indian Board of Directors. This bank failed in 1958.
- **Punjab National Bank** was setup in 1894 with headquaters in Lahore.
- Bank of India was setup in 1906 by group of leading businessmen with headquarters in Mumbai.

### Pre-Independence Phase-II

- Between 1906 and 1913, **Bank of India** (1906), **Canara Bank** (1906), **Indian Bank** (1907), **Bank of Baroda** (1909), **Central Bank of India** (1911) and **Bank of Mysore** (1913) were setup.
- Banking crisis during 1913-1917 and failure of 588 banks in various parts of the country underlined the need for regulating and controlling the commercial banks.
- All the three Presidency Banks were amalgamated into a single bank, the **Imperial Bank of India**, in 1921.
- The Reserve Bank of India (RBI) established in 1935, acts as a regulator of banking system of India.
- The head office of RBI was established in Calcutta (now Kolkata) but was moved to Bombay (now Mumbai) in 1937.

### Post Independence Phase

- Reserve Bank of India was nationalised on 1st January, 1949.
- The largest bank-Imperical Bank was nationalised in 1955 on the recommendation of Gorewala Committee and naming as State Bank of India.
- In 1959, 7 regional banks were nationalised and given the status of **Associate Banks of State Bank of India**.
- On 19th July, 1969, 14 big commercial banks and On 15th April, 1980, 6 other commercial banks were nationalised.
- **Regional Rural Banks** (RRBs) were formed on 2nd October, 1975 on the recommendation of the Narasimham Committee.
- Some apex level banking institutions were also setup like National Bank for Agriculture and Rural Development (NABARD), 1982, Export-Import Bank of India (EXIM), 1982, National Housing Bank (NHB), 1988, Small Industrial Development Bank of India (SIDBI), 1990, etc.
- Over the years, banking sector has witnessed many reforms and structural changes such as payment banks, small finance bank, etc., which are covered in the subsequent chapters.

## Types of Banking

There are various types of banking which are given below

1. **Branch Banking** It is the most common type of banking system. The banking operations are carried with the help of branch network. Bank's branches are the face of the banks where customers can visit and talk to the officials for getting various services.
2. **Unit Banking** It originated in USA. It is a limited way of banking where banks operate only from a single branch, taking care of the local community. Unit banking may have few branches but in the same area.
3. **Mixed Banking** When the banks undertake activities of commercial and investment banking together, it is called mixed banking. It promotes rapid industrialisation.
4. **Chain Banking** When a group of persons come together to own and control three or more independently chartered banks, it is called chain banking. Their management can also be established via a board of directors.
5. **Wholesale Banking** It involves banking services for high net-worth clients like corporate, commercial banks, mid-size companies, etc. The services which come under the net of wholesale banking involves wholesaling, underwriting, market making, consultancy, mergers and acquisitions, joint ventures and fund management, etc.

6. **Relationship Banking** It involves going beyond the normal banking services and understanding customer's needs before offering him any special product/ service. The knowledge about existing and potential clients is essential for all banks.
7. **Correspondent Banking** It is an arrangement where one bank hold deposits on behalf of the other bank. It plays a crucial role in supporting international trade.

   The services which come under this type of banking are cash/fund management, international fund transfers, clearance of cheques, drawing of demand drafts, etc.
8. **Rural Banking** It is simply a banking service that serves smaller, rural communities. It has become integral to the Indian financial markets with a majority of Indian population still living in rural or semi-urban areas.
9. **Universal Banking** It is a system of banking under which big banks undertake a variety of banking services like commercial banking, investment banking, mutual funds, merchant banking and insurance, etc.

   In simple words, universal banking means that Financial Institutions (FIs) and banks are allowed to undertake all kinds of activity of banking, financing and related businesses.
10. **Online Banking** It is also known as internet banking. It gives the ability to manage bank account over the internet, using a computer or mobile device. It is an internet-based option offered by regular banks. There is no need to visit a bank branch in this type of banking. Bill payment, fund transfer, viewing account balance, bank statements, etc. are the services provided under this banking. In general, this type of banking have no physical branch location.
11. **Retail Banking** It works with individual customers rather than companies or firms offering basic banking services. It is also known as consumer banking.

    It includes a wide range of banking services that belong to similar categories, such as saving accounts, checking accounts, consumer landing, credit cards, debit cards, e-banking services, etc.
12. **Narrow Banking** It is very much an antonym to the universal banking. Narrow banking means narrow in the sense of engagement of funds and not in activities.

    In India, Tarapore Committee is best known for giving the concept of narrow banking as a solution to the problem of Non-Performing Assets (NPA).
13. **Social Banking** The concept of social banking was to provide banking for the poor population. It works for their development needs, providing them with easy formal credit, minimum requirements to open accounts, ease of access and friendly staff, etc.
14. **Virtual Banking** Virtual banking also known as Direct Bank. It is a bank without any branch network, that offers its services remotely via online banking and telephone banking or through an independent banking agent network and may also provide access via ATMs, Mail and Mobile.

    All transactions of the bank are done only online under this banking. There are no physical branches of virtual banks.

# QUESTION BANK

**1.** The earliest attempt to set up in India a banking institution with some characteristics of central bank dates back to January, 1773 when Warren Hastings, Governor of Bengal (later Governor General) recommended the establishment of **[RBI Assistant 2013]**
(a) Presidency Bank
(b) Reserve Bank of India
(c) Imperial Bank of India
(d) General Bank of Bengal and Bihar
(e) None of the above

**2.** Which was the first European bank in India?
(a) Presidency Bank
(b) Imperial Bank
(c) Awadh Bank
(d) Bank of Mysore
(e) Bank of Hindustan

**3.** The origin of the State Bank of India goes back to the first decade of the 19th century with the establishment of
(a) Bank of Calcutta (b) Bank of Bengal
(c) Bank of Bombay (d) Bank of Madras
(e) None of these

**4.** Which one of the following was the first bank governed exclusively by the Indians?
(a) Imperial Bank of India
(b) State Bank of India
(c) Awadh Commercial Bank
(d) Reserve Bank of India
(e) National Bank

**5.** In India, the first bank of limited liabilities managed by Indians and founded in 1881 was
(a) Hindustan Commercial Bank
(b) Oudh Commercial Bank
(c) Punjab National Bank
(d) Punjab and Sind Bank
(e) National Bank

**6.** The Bank of India was constituted in
(a) 1906 (b) 1949
(c) 1955 (d) 1956
(e) None of these

**7.** Which bank came into existence in 1921 when three banks namely, Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) were reorganised and amalgamated to form a single banking entity?
(a) Imperial Bank of India
(b) State Bank of India
(c) Reserve Bank of India
(d) Punjab National Bank
(e) None of the above

**8.** Name the committee which recommended nationalisation of Imperial Bank of India in 1955?
(a) Gadgil Committee
(b) Gorewala Committee
(c) Mahalanobis Committee
(d) Santhanam Committee
(e) IG Patel Committee

**9.** The Bank of Baroda was founded in
(a) 1906 (b) 1909 (c) 1911 (d) 1913
(e) 1928

**10.** Which among the following committee recommended the establishment of Regional Rural Banks (RRBs)?
(a) Narasimham Committee
(b) B.N. Shrikrishna Committee
(c) Dantewala Committee
(d) S.R. Hashim Committee
(e) Gadgil Committee

**11.** When was Imperial Bank changed as State Bank of India?
(a) 1st January, 1935 (b) 26th February, 1947
(c) 1st July, 1955 (d) 1st July, 1959
(e) 26th February, 1955

**12.** Imperial Banks were amalgamated and changed as ......
(a) Reserve Bank of India
(b) State Bank of India
(c) Subsidiary Banks
(d) Union Bank of India
(e) Corporation Bank

**13.** Seven regional banks were nationalised and given the status of Associate Banks of State Bank of India in .....
(a) 1959 (b) 1969 (c) 1980 (d) 2001
(e) 2011

**14.** Banks branches are the face of the
(a) Banking system
(b) Financial institute
(c) Fundamental banking
(d) Banks where customers can visit
(e) New policies

**15.** Which one of the following type of banking will have few branches but in the same area?
(a) Unit Banking
(b) Branch Banking
(c) Mixed Banking
(d) Correspondent Banking
(e) None of the above

**16.** Unit banking originated in
(a) India (b) USA
(c) Australia (d) Nepal
(e) USSR

**17.** When the banks undertake activities of commercial and investment banking together, it is called
(a) Mixed Banking
(b) Chain Banking
(c) Wholesale Banking
(d) None of the above
(e) All of the above

**18.** Which is not a type of banking?
(a) Branch Banking
(b) Wholesale Banking
(c) Universal Banking
(d) Social Banking
(e) Drawer Banking

**19.** Which one of the following provides banking or financial services on behalf of other equal or unequal financial institutions?
(a) Relationship Banking
(b) Wholesale Banking
(c) Mixed Banking
(d) Correspondent Banking
(e) Rural Banking

**20.** Which banking have no physical branch location?
(a) Universal banking
(b) Online banking
(c) Retail banking
(d) Mixed banking
(e) Rural banking

**21.** A bank without any branch network that offers its services remotely through online banking, telephone/mobile banking and interbank ATM network alliances is known as **[IBPS Clerk 2013]**
(a) Universal Banking
(b) Indirect Bank
(c) Door Step Bank
(d) Direct Bank
(e) Unit Banking

## Answers

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **1.** (d) | **2.** (e) | **3.** (a) | **4.** (c) | **5.** (b) | **6.** (a) | **7.** (a) | **8.** (b) | **9.** (b) | **10.** (a) |
| **11.** (c) | **12.** (b) | **13.** (a) | **14.** (d) | **15.** (a) | **16.** (b) | **17.** (a) | **18.** (e) | **19.** (d) | **20.** (b) |
| **21.** (d) | | | | | | | | | |

CHAPTER

02

# INDIAN BANKING STRUCTURE

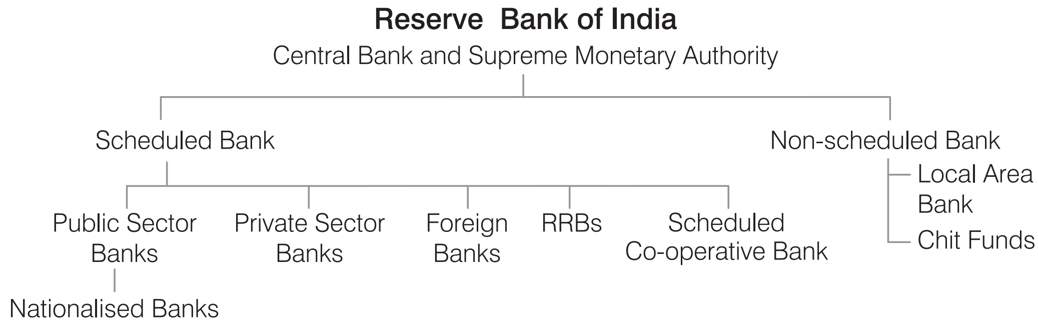
Indian banking structure is a network of institutions that provide financial services within the country. Indian banking industry has been divided into two parts i.e., organised sector and unorganised sector.

1. **Organised Sector** This sector includes the institutions whose parts and activities are systematically coordinated by the monetary authority. It comprises of the following
   (i) **Reserve Bank of India** It is the apex financial and regulatory authority of India and is responsible for the issue and supply of currency and the regulation of the Indian bankings system.
   (ii) **Commercial Bank** This is a financial institution providing banking and financial services for businesses, organisations and individuals. Commercial banks dominate the organised sector.
   It includes Public Sector Banks (SBI + Nationalised Banks + Regional Rural Banks) and Private Sector Banks, all scheduled and non-scheduled banks along with foreign banks.
   (iii) **Co-operative Banks** They are a part of the co-operative credit institutions.
2. **Unorganised Sector** These are the institutions whose activities are not systematically coordinated by the monetary authority.
   This sector consists of indigenous bankers, money lenders, small time borrowings and Nidhis, etc.

## Central Banks

- Central banks are bankers' banks. They guarantee stable monetary and financial policy from country to country and play an important role in the economy of the country.
- Typical functions of Central Banks includes implementing monetary policy, managing foreign exchange and gold reserves, making decisions regarding official interest rates, acting as banker to the government and other banks, and regulating and supervising the banking industry.
- These banks buy government debt, have a monopoly on the issuance of paper money and often act as a lender of last resort to commercial banks.
- It controls and coordinates currency and credit policies of any country.

- The **Reserve Bank of India** is the Central Bank of India.




## 1. Scheduled Banks

Scheduled banks in India are those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934.

Reserve Bank of India (RBI) in turn includes only those banks in this schedule which satisfy the criteria mentioned in Section 42(6) (a) of the Reserve Bank of India Act, 1934.

Criteria for Scheduled Banks are

- Scheduled banks are those banks whose minimum paid up capital and reserve amount is upto ₹ 5 lakh.
- These banks have to submit details of their activities to the Reserve Bank of India every week.

## 2. Non-scheduled Banks

Non-scheduled banks are those which have not been included in the Second Schedule of the RBI Act.

Non-scheduled banks are also subject to the statutory cash reserve requirement. Contrary to the Scheduled Bank which keep their Cash Reserve Ratio with RBI, the Non-scheduled Banks maintain their Cash Reserve Ratio (CRR) with themselves.

They are not entitled to borrow from the RBI for normal banking purposes, though they may approach the RBI for accommodation under abnormal circumstances.

# Scheduled Banks in India

## Public Sector Banks

Public Sector Banks (PSBs) are the banks in which the government have a major share (51% or above). By default all PSBs are commercial bank. A commercial bank is defined as a bank whose main business is taking deposit and giving loan. The major focus of Public Sector Banks is to serve the people rather than to earn profit.

Following is the list of Public Sector Banks in India

1. State Bank of India (56.92%)
2. Punjab National Bank (85.59%)
3. Bank of Baroda (71.60%)
4. Canara Bank (78.52%)
5. Union Bank of India (89.07%)
6. India Bank (88.06%)
7. Bank of India (89.10%)
8. Central Bank of India (92.39%)
9. Indian Overseas Bank (95.84%)
10. UCO Bank (94.39%)
11. Bank of Maharasthra (92.49%)
12. Punjab and Sind Bank (83.06%)

(* Government Shareholding in %)

*As on 1st January, 2021*

### Nationalisation of Public Sector Banks

- All nationalised bank comes under the public sector banks and all are commercial banks. The nationalisation of commercial banks took place with an aim to achieve social welfare, controlling private monopolies, expansion of banking, reducing regional imbalance, priority sector lending and developing banking habits.

- In order to have more control over banks, on 19th July, 1969, Mrs Indira Gandhi, the then Prime Minister nationalised 14 large commercial banks whose reserves were more than ₹ 50 crore.

Following is the list of banks, which get nationalised in 1969

1. Allahabad Bank
2. Bank of Baroda
3. Bank of India
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank
7. Dena Bank
8. Indian Bank
9. Indian Overseas Bank
10. Punjab National Bank
11. Syndicate Bank
12. UCO Bank
13. Union Bank
14. United Bank of India

On 15th April, 1980 the banks with more than ₹ 200 crore of reserves got nationalised.

The six banks were nationalised to provide better credit control of government over the financial sector of the economy. These banks are

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Commerce
5. Punjab and Sind Bank
6. Vijaya Bank

## Merger of Nationalised Banks

The Indian Government adopted the New Economic Policy in 1991, it envisaged greater role of banking sector for the development of the country. In order to provide better economy of scale, government adopted the policy of merger of nationalised bank which was carried in 1993, 2017, 2019 and 2020.

- Merger of New Bank of India and Punjab National Bank. In 1993, the government merged New Bank of India with Punjab National Bank. It was the first merger between the nationalised banks.

## Associated Banks of SBI and their Mergers

- In 1959, the government passed the State Bank of India (Subsidiary Banks) Act. Under this Act, **8 SBI subsidiaries** were made.
- In 1963, SBI merged State Bank of Jaipur (founded in 1943) and State Bank of Bikaner (founded in 1944) to form State Bank of Bikaner and Jaipur.
- State Bank of Saurshtra merged with SBI in 2008.
- In 2010, the State Bank of Indore (founded in 1920) also merged with SBI leaving the associate banks of SBI to 5 in number.
- On 1st April, 2017, five associate banks of State Bank of India and Mahila Bank merged with SBI.
- The State Bank (Repeal and Amendment) Act, 2018 provided legislative clearance to the merger of five subsidiary banks with SBI.

**Bharatiya Mahila Bank** (BMB) which was merged with SBI in 2017 was founded on 19th November, 2013 by an Act of Parliament. The first branch of this bank was inaugurated by former Prime Minister, Manmohan Singh, with its headquarters in Mumbai. It focused on providing banking facilities exclusively to women. As of January, 2021, it is a fully owned subsidiary of State Bank of India (SBI).

- **Merger of Vijaya Bank and Dena Bank** Vijaya Bank and Dena Bank merged with Bank of Baroda (BoB) on 1st April, 2019. This merger has created BoB as the 3rd largest public sector of India.
- **Merger of Nationalised Banks in 2020** Government of India has merged Allahabad Bank with **Indian Bank**, Oriental Bank of Commerce (OBC) and United Bank of Indian with **Punjab National Bank**, Syndicate Bank with **Canara Bank** and Corporation Bank and Andhra Bank with **Union Bank of India** on 1st April, 2020. After this merger, there are only 12 Nationalised Banks in India.

## Private Banks

Private banks are banks owned by either an individual or a general partner(s) with limited partner(s), but the licence is provided by the Reserve Bank of India.

Recently, Reserve Bank suggested many guidelines for the establishment of Private Sector Banks. They are as follows

- Only Indian Nationals can open a Private Sector Bank.
- The minimum paid up capital for bank should be ₹ 500 million.
- Within 2 years after foundation, bank should be listed in stock exchange.
- Bank cannot be established by companies engaged in stock market and real estate.
- Public sector cannot establish a private bank.

### Types of Private Banks

There are two types of private banks

1. **Old Private Sector Bank** The banks, which were not nationalised at the time of nationalisation of banks that took place during 1969 are known as the old private sector banks. These were not nationalised, because of their small size and regional focus.
2. **New Private Sector Bank** The banks, which came into operation after 1991, with the introduction of economic reforms and financial sector reforms are known as new private sector banks.

   Banking Regulation Act was then amended in 1993, which permitted the entry of new private sector banks in the Indian Banking Sector.

   The Centurion Bank of Punjab was acquired by HDFC in 2008. In 2015, Kotak Mahindra Bank merged with ING Vyasa Bank.

   Bandhan Finance in 2015 was granted Universal Banking Licence by RBI. The punchline of this bank is Apna Bhala, Sabki Bhalai. There are total 21, Indian private banks (as of June, 2021)

**List of Private Banks in India**

| Bank's Name | Established | Headquarters |
|---|---|---|
| City Union Bank | 1904 (New) | Thanjavur, Tamil Nadu |
| Karur Vysya Bank | 1916 | Karur, Tamil Nadu |
| CSB Bank | 1920 | Thrissur, Kerala |
| Tamilnad Mercantile Bank | 1921 | Thoothukudi, Tamil Nadu |
| Nainital Bank | 1922 | Nainital, Uttarakhand |
| Karnataka Bank | 1924 | Mangaluru, Karnataka |
| Dhanlaxmi Bank | 1927 | Thrissur, Kerala |
| South Indian Bank | 1929 | Thrissur, Kerala |
| DCB Bank | 1930 | Mumbai, Maharashtra |
| Federal Bank | 1931 | Kochi, Kerala |
| Jammu and Kashmir Bank | 1938 | Srinagar, Jammu and Kashmir |
| RBL Bank | 1943 | Mumbai, Maharashtra |
| IDBI Bank | 1964 (New) | Mumbai, Maharashtra |
| Axis Bank (formally known as UTI) | 1993 (New) | Mumbai, Maharashtra |
| HDFC Bank | 1994 (New) | Mumbai, Maharashtra |
| ICICI Bank | 1994 (New) | Mumbai, Maharashtra |
| IndusInd Bank | 1994 (New) | Mumbai, Maharashtra |
| Kotak Mahindra Bank | 2003 (New) | Mumbai, Maharashtra |
| Yes Bank | 2004 (New) | Mumbai, Maharashtra |
| Bandhan Bank | 2015 (New) | Kolkata, West Bengal |
| IDFC First Bank | 2015 (New) | Mumbai, Maharashtra |

## Foreign Banks

Foreign banks are allowed to operate in India through branches and representative offices.

A new foreign bank desirous of opening a branch in India, is required to apply to Reserve Bank of India giving relevant information about its shareholders, financial position and the dealings with Indian parties. The largest branch network of foreign banks in India is that of Standard Chartered Bank (96) followed by HSBC Limited (50), Citibank (42) and the Royal Bank of Scotland NV (31).

## Regional Rural Banks (RRBs)

In 1976, the Parliament enacted the Regional Rural Banks Act, 1976 to provide for the incorporation, regulation and winding up of Regional Rural Banks. The Act has been made effective from 26th September, 1975.

The RRBs were established on the recommendations of the **Narsimham Committee**.

Besides the Reserve Bank, which is the regulatory authority for the RRBs in accordance with the provisions of the **Banking Regulations Act, 1949**, the Banking Regulations Act empowers NABARD (National Bank for Agriculture and Rural Development) to undertake the inspection of RRBs.

They can provide remittance facilities, traveller cheques and other instruments to customers by entering into arrangements with sponsor banks. They can also provide locker facility.

The development process of RRBs started on 2nd October, 1975, Gandhi Jayanti with the forming of 5 RRBs. The equity of the RRBs is contributed by the Central Government, concerned State Government and the sponsor bank in the proportion of 50:15:35.

Prathama Bank, with head office in Moradabad (UP) was the first RRB. It was sponsored by Syndicate Bank (now, Canara Bank) and had an authorised of ₹ 5 crore. The states and UTs, where there is no presence of RRBs are Goa, Sikkim, Delhi, Chandigarh, Andaman and Nicobar Islands, Lakshadweep, Dadra and Nagar Haveli, Daman and Diu. There are 43 RRBs in India (March, 2020).

### The Regional Rural Banks (Amendment) Act, 2015

This act was passed to amend the original Act of 1976 to widen the capital base of Regional Rural Banks and strengthen their capabilities. The key amendments are

- Limit of fives years have been removed regarding the financial and managerial support provided by the sponsor banks to RRBs. Now they can support beyond this duration.
- Amount of authorised capital has been raised to ₹ 2000 crore and the same should not be reduced below ₹ 1 crore.
- Now the RRBs can raise capital from sources other than central and state government and sponsor banks.
- RRB's are mandated to fix the combined shareholding of central government and sponsor bank upto 51%.
- The person who is a director of one RRB is not eligible to be on the Board of Directors of another such bank.
- The tenure of such director has been increased to 3 years from 2 years and he hold office during the pleasure of the central government.

**Primary Credit Societies** (PCS) are formed at the village or town level. The borrowing and non-borrowing members are decided in one locality and the operation of it is restricted to that area or locality only.

## Co-operative Banks

Co-operative banks operate in both urban and rural areas. All banks registered under the Co-operative Societies Act, 1912 are considered as co-operative banks.

Commercial banks, are driven by profit while co-operative banks work on a no-profit, no-loss basis. These are regulated by the Reserve Bank of India under the Banking Regulation Act, 1949 and Banking Laws (Application to Co-operative Societies) Act, 1965.

There are two types of co-operative banks.

1. **State Co-operative Banks** (SCBs) mean the principal co-operative society in a state, the primary object of which is the financing of other co-operative societies in the state.

   These are the apex co-operative banks of the state.
2. **District/Central Urban Co-operative Banks** UCBs are registered under the Co-operative Societies Act of the respective State Governments. The Central Co-operative Banks are in direct touch with State Co-operative Banks.

   UCBs having a multi-state presence are registered under the Multi-State Co-operative Societies Act and are regulated by the Central Government. It serve as a link between PCS and SCBs.

# Nationalised Banks of India

**1.**

| | |
|---|---|
| Headquarters | *Baroda* |
| Founded | *20th July, 1908* |
| Nationalisation | *1969* |
| Punch Line | *India's International Bank* |

**2.**

| | |
|---|---|
| Headquarters | *Mumbai* |
| Founded | *7th September, 1906* |
| Nationalisation | *1969* |
| Punch Line | *Relationships Beyond Banking* |

**3.**

| | |
|---|---|
| Headquarters | *Pune* |
| Founded | *16th September, 1935* |
| Nationalisation | *1969* |
| Punch Line | *One Family One Bank* |

**4.**

| | |
|---|---|
| Headquarters | *Bengaluru* |
| Founded | *1906* |
| Nationalisation | *1969* |
| Punch Line | *It's easy to change for those who you love; Together we can* |

**5.**

| | |
|---|---|
| Headquarters | *Mumbai* |
| Founded | *21st December, 1911* |
| Nationalisation | *1969* |
| Punch Line | *Build A Better Life Around Us* |

**6.**

| | |
|---|---|
| Headquarters | *Chennai* |
| Founded | *5th March, 1907* |
| Nationalisation | *1969* |
| Punch Line | *'Taking Banking Technology to* Common man, your tech-friendly bank |

**7.** Indian Overseas Bank

| | |
|---|---|
| Headquarters | *Chennai* |
| Founded | *1937* |
| Nationalisation | *1969* |
| Punch Line | *Good People to Grow with* |

**8.** Punjab & Sind Bank

पी.एस.बी.

| | |
|---|---|
| Headquarters | *New Delhi* |
| Founded | *24th June, 1908* |
| Nationalisation | *1980* |
| Punch Line | *Where Service is a Way of Life* |

**9.** punjab national bank

...the name you can BANK upon!

| | |
|---|---|
| Headquarters | *New Delhi* |
| Founded | *1895* |
| Nationalisation | *1969* |
| Punch Line | *The Name you can Bank Upon* |

**10. State Bank of India**

| | |
|---|---|
| Founded & Nationalisation | 1st July, 1955 |
| Headquarters | Mumbai, Maharashtra, India |
| Area served | Worldwide |
| Punch Line | Pure Banking Nothing Else |

**11.** UCO BANK

| | |
|---|---|
| Headquarters | *Kolkata* |
| Founded | *6th January, 1943* |
| Nationalisation | *1969* |
| Punch Line | *Honors Your Trust* |

**12.** Union Bank of India

| | |
|---|---|
| Headquarters | *Mumbai* |
| Founded | *11th November, 1919* |
| Nationalisation | *1969* |
| Punch Line | *Good People to Bank With* |

# QUESTION BANK

**1.** Which of the following is not a part of organised sector banking of India? **[IBPS Clerk 2020]**
(a) RBI (b) SBI (c) Nidhis (d) PNB
(e) RRB

**2.** Which of the following bank is generally not considered as Commercial bank? **[SBI PO Mains 2017]**
(a) Public Sector Bank (b) Private Sector Bank
(c) Development Bank (d) Foreign Bank
(e) None of these

**3.** Which of the following is not an organised sector in India?
(a) Nationalised Banks
(b) Regional Rural Banks
(c) Cooperative Banks
(d) Chits and Money Lenders
(e) Industrial Bank

**4.** Which one of the following banks can be included in the Scheduled Commercial Banking System of India?
(a) Regional Rural Banks
(b) Private Sector Banks
(c) Foreign Banks in India
(d) All of the above
(e) None of the above

**5.** Bankers of the Bank is
(a) PSC (b) RBI (c) RRB (d) PNB
(e) All of these

**6.** Which of the following statement is correct?
(a) The Central Bank is inspired by the spirit of national welfare
(b) The Central Bank is inspired exclusively by the profit-motive
(c) The Central Bank is inspired by the new technology
(d) All of the above
(e) None of the above

**7.** A scheduled bank is the one which is included in the
(a) II Schedule of Banking Regulation Act
(b) II Schedule of the Constitution
(c) II Schedule of RBI Act
(d) None of the above
(e) All of the above

**8.** Section 42(6) (a) of the RBI Act, 1934 is related to
(a) Organised sector and unorganised sector
(b) Unorganised sector only
(c) Scheduled Bank
(d) Non-scheduled Banks
(e) None of the above

**9.** Scheduled banks have to submit details of their activities to the RBI
(a) every month (b) every year
(c) every day (d) every week
(e) None of these

**10.** Which of the following is not a public sector bank? **[SBI Clerk 2012]**
(a) Corporation Bank (b) United Bank of India
(c) Vijaya Bank (d) Bank of Maharashtra
(e) Federal Bank

**11.** Presently, the number of the public sector banks in India is
(a) 8 (b) 20 (c) 28 (d) 12
(e) None of these

**12.** First merger of nationalised bank occured in
(a) 1993 (b) 1999 (c) 2000 (d) 2017
(e) 2019

**13.** The first nationalisation of banks exercise was done on
(a) 19th June, 1969 (b) 19th June, 1970
(c) 19th June, 1967 (d) 15th July, 1967
(e) None of these

**14.** How many banks were first nationalised?
(a) 10 (b) 12 (c) 14 (d) 16
(e) 24

**15.** What was the deposits criteria of 14 banks nationalised on 19th July, 1969?
(a) ₹ 1000 crore (b) ₹ 500 crore
(c) ₹ 100 crore (d) ₹ 50 crore
(e) None of these

**16.** Nationalisation of banks aimed at all of the following except **[IBPS PO 2015]**
(a) provision of adequate credit for agriculture, SME and exports
(b) removal of control by a few capitalists

(c) provision of credit to big industries only
(d) access of banking to masses
(e) encouragement of a new class of entrepreneurs

**17.** In the year 1980, the second phase of nationalisation of Indian banks took place. Choose the correct statement.
(a) 6 more banks were nationalised with deposits over ₹ 200 crores
(b) The Government of India held a control over 91% of the banking industry in India
(c) After the nationalisation of banks there was a huge jump in the deposits and advances with the banks
(d) All of the above
(e) None of the above

**18.** The second phase of bank nationalisation took place in 1980 during the prime ministerial tenure of Indira Gandhi. Which bank was nationalised in this period?
(a) Indian Overseas Bank
(b) Central Bank of India
(c) Canara Bank
(d) Vijaya Bank
(e) Dena Bank

**19.** How many banks were nationalised in 1980?
(a) 4 (b) 5 (c) 6 (d) 7
(e) 9

**20.** When was the second phase of nationalisation done?
(a) 9th July, 1969 (b) 10th July, 1968
(c) 16th August, 1985 (d) 15th April, 1980
(e) None of these

**21.** How many banks which were nationalised in 1980's are currently working?
(a) 4 (b) 5 (c) 6 (d) 8
(e) 9

**22.** The five associate banks of State Bank of India and Mahila Bank merged with SBI on
(a) 1st January, 2017 (b) 1st March, 2017
(c) 1st April, 2017 (d) 1st April, 2018
(e) 1st January, 2018

**23.** Who inaugurated the Bharatiya Mahila Bank? **[SBI Clerk 2014]**
(a) Sonia Gandhi (b) P Chidambaram
(c) Manmohan Singh (d) D Subbarao
(e) None of these

**24.** Vijaya Bank and Dena Bank merged with
(a) PNB **[SBI PO 2020]**
(b) Union Bank of India
(c) Oriental Bank of Commerce
(d) State Bank of India
(e) Bank of Baroda

**25.** Merger of two nationalised banks with BOB occured in
(a) 2016 (b) 2017 (c) 2018 (d) 2019
(e) 2020

**26.** Government has merged Allahabad Bank with
(a) Indian Bank (b) Dena Bank
(c) Canara Bank (d) PNB
(e) Union Bank of India

**27.** Presently, the number of the Nationalised banks in India is
(a) 10 (b) 12 (c) 16 (d) 20
(e) 21

**28.** Which of the following banks has acquired the title 'Centurion Bank of Punjab'?
(a) ICICI Bank (b) IDBI Bank
(c) HDFC Bank (d) AXIS Bank
(e) None of these

**29.** IDBI headquarter is established in **[IBPS Clerk 2015; SBI Clerk 2016]**
(a) Hyderabad (b) Chennai
(c) Bengaluru (d) Kolkata
(e) Mumbai

**30.** AXIS Bank was formerly known as **[SBI Clerk 2014]**
(a) YES Bank (b) UTI Bank
(c) City Union Bank (d) HDFC Bank
(e) Centurian Bank

**31.** When was HDFC bank established?
(a) 1935 (b) 1969 (c) 1975 (d) 1995
(e) 2014

**32.** Regional Rural Banks are classified under
(a) Land Development Banks
(b) Co-operative Banks (c) Commercial Banks
(d) Public Sector Banks (e) None of these

**33.** RRBs are owned by
(a) Central Government
(b) State Government
(c) Sponsor Bank
(d) All of the above
(e) None of the above

**34.** In which of the following States there is no Regional Rural Bank? **[SBI Clerk 2014]**
(a) Karnataka (b) Goa
(c) Uttarakhand (d) Himachal Pradesh
(e) Punjab

**35.** Regional Rural Banks are empowered to transact business of banking as defined under **[IBPS Clerk 2015]**
(a) Regional Rural Banks Act, 1976
(b) Negotiable Instruments Act, 1881
(c) Banking Regulation Act, 1949
(d) The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
(e) None of the above

**36.** Which of the following statements about Regional Rural Banks (RRBs) are correct?
(a) Sponsor banks travellers cheques can be issued by RRBs
(b) RRBs can enter into arrangements with the sponsor banks for providing remittance facilities to its customers
(c) Where RRBs can afford the investment, they can install lockers also
(d) Both (a) and (b)
(e) All of the above

**37.** Paid-up share capital of Regional Rural Bank is contributed by **[IBPS Clerk 2015]**
(a) Central government only
(b) State government only
(c) Central government, State government and the sponsor commercial bank in the ratio of 50 : 15 : 35 respectively
(d) Department of Rural Development
(e) None of the above

**38.** The central co-operative banks are in direct touch with
(a) farmers
(b) state co-operative banks
(c) land development banks
(d) Central Government
(e) None of the above

**39.** What are the co-operative banks at the village level known as?
(a) Central co-operative banks
(b) Primary agricultural co-operative societies
(c) Village co-operative banks
(d) State co-operative banks
(e) None of the above

**40.** Punjab National Bank is an Indian Financial Services company based in which city? **[RBI Assistant 2015]**
(a) New Delhi (b) Mumbai
(c) Chandigarh (d) Jaipur
(e) None of these

**41.** Where is the headquarters of Central Bank of India located? **[IBPS PO Main 2015]**
(a) New Delhi (b) Mumbai
(c) Pune (d) Bangalore
(e) None of these

**42.** Union Bank of India is one of the major public sector banks in India. It is headquartered in **[RRB Grade B 2015]**
(a) Mumbai (b) Bengaluru
(c) New Delhi (d) Chennai
(e) Kolkata

**43.** India got its first private bank in 11 years as the Bandhan Bank commenced operations on 23 August with 501 branches. What is the punch line of the bank? **[IBPS PO Main 2015]**
(a) Apna Bhala, Aapki Bhalai
(b) Aapka Bhala, Sabki Bhalai
(c) Banking the Unbanked
(d) Khayal Aapka
(e) None of the above

## Answers

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **1.** (c) | **2.** (c) | **3.** (d) | **4.** (d) | **5.** (b) | **6.** (d) | **7.** (c) | **8.** (c) | **9.** (d) | **10.** (e) |
| **11.** (d) | **12.** (a) | **13.** (a) | **14.** (c) | **15.** (d) | **16.** (c) | **17.** (a) | **18.** (c) | **19.** (c) | **20.** (d) |
| **21.** (b) | **22.** (c) | **23.** (c) | **24.** (e) | **25.** (d) | **26.** (a) | **27.** (b) | **28.** (c) | **29.** (e) | **30.** (b) |
| **31.** (d) | **32.** (d) | **33.** (d) | **34.** (b) | **35.** (c) | **36.** (e) | **37.** (c) | **38.** (b) | **39.** (b) | **40.** (a) |
| **41.** (b) | **42.** (a) | **43.** (b) | | | | | | | |

CHAPTER

03

# RESERVE BANK OF INDIA

Reserve Bank of India is the **Central Bank** of India. It is responsible for the issue and supply of the Indian currency and the regulation of the Indian Banking System.

## History of RBI

The formation of RBI was proposed for the first time by **John Hilton Young Commission** also known as Royal Commission of Indian Currency and Finance in 1927.

In 1933, George Schuster framed a new bill which was placed in the Legislative Assembly and approved accordingly.

In 1934, contents of the bill of George Schuster was given a legal shape in the name **The Reserve Bank of India Act, 1934**.

RBI was constituted on that basis on 1st April, 1935. It functioned as a private institution till January, 1949. After January, 1949, RBI became state owned under Reserve Bank (Transfer of Public Ownership) of India Act, 1948.

Now, the entire share of RBI is owned by Central Government. Banking Regulation Act, 1949 has given profound power to RBI.

## Organisation and Management of RBI

- Reserve Bank of India is managed by the Central Board of Directors. Presently (June, 2021), this board consists of **21 members**.
- Besides, Governor and four Deputy Governors, four directors are nominated, each by the four Local Boards of RBI for **4 years term**.
- Besides, ten directors and two government officers are nominated by the Government of India in Central Board of Directors.
- These boards have been established, in Mumbai, Kolkata, Chennai and New Delhi.
- According to the Reserve Bank of India Act, the term period of all nominated members is 4 years only.
- Head office of RBI is located in **Mumbai**.
- Governor and Deputy Governors are appointed by the government for a period of not more than 5 years.
- The bank has **31 regional offices** (including 4 sub-offices), most of which are in state capitals.
- The financial year of RBI starts from 1st April to 31st March (from Financial Year 2020-2021). The annual report is released in August each year.

## Governor of RBI

First Governor of RBI was **Sir Osborne Smith**. RBI was nationalised on 1st January, 1949 and its first Indian Governor was **CD Deshmukh**.

The term of Governor office typically runs for 3 years and in some cases can be extended for another 2 years only.

**Governors of RBI and their Time-Period**

| Governors | Tenure |
|---|---|
| Sir Osborne Smith | 01 April,1935 to 30 June 1937 |
| Sir James Taylor | 01 July, 1937 to 17 February, 1943 |
| CD Deshmukh | 11th August, 1943 to 30 June, 1949 |
| Benegal Rama Rau | 01 July, 1949 to 14 January, 1957 |
| KG Ambegaonkar | 14 January, 1957 to 28 February 1957 |
| HVR Lengar | 01 March, 1957 to 28 February, 1962 |
| PC Bhattacharya | 01 March 1962 to 30 June, 1967 |
| LK Jha | 01 July, 1967 to 03 May 1970 |
| BN Adarkar | 04 May, 1970 to 05 June 1970 |
| S Jagannathan | 16 June, 1970 to 19 May, 1975 |
| NC Sen Gupta | 19 May, 1975 to 19 August 1975 |
| KR Puri | 20 August 1975 to 02 May, 1977 |
| M Narasimham | 02 May, 1977 to 30 November, 1977 |
| Dr. IG Patel | 01 December, 1977 to 15 September, 1982 |
| Dr. Manmohan Singh | 16 September, 1982 to 14 January 1985 |
| A Ghosh | 15 January 1985 to 04 February 1985 |
| RN Malhotra | 04 February 1985 to 22 December 1990 |
| S Venkitaramanan | 22 December 1990 to 21 November 1992 |
| Dr C Rangarajan | 22 December, 1992 to 21 November, 1997 |
| Dr Bimal Jalan | 22 November, 1997 to 06 September, 2003 |
| Dr YV Reddy | 06 September, 2003 to 05 September, 2008 |
| Dr D Subbarao | 05 September, 2008 to 04 September, 2013 |
| Dr Raghuram Govind Rajan | 04 September, 2013 to 05 September, 2016 |
| Urjit Patel | 06 September, 2016 to 11 December, 2018 |
| Shaktikanta Das | 12 December, 2018 to Till Date |

** As on 1st June, 2021*

## Central Board of RBI

RBI is wholly owned by the government of India. Central Board of directors oversees the Reserve Bank's business. It heads and conducts the affairs of RBI. It delegates specific functions through its committees and sub-committees.

The Central Board of Directors is the apex body in the governance structure of RBI. It governs all the important functions of the RBI. Its composition is enshrined under Section 8(1) of the RBI Act, 1934. It is assisted by three committees as given below

1. **Committee of the Central Board** (CCB) It is the most important committee of RBI. It meets every Wednesday to discuss and take decisions on issues surrounding the regulation of banking sectors and monetary policies.
2. **Board for Financial Supervision** It regulates and supervises Commercial Banks, Non-Banking Finance Companies (NBFCs), development finance institutions, urban co-operative banks and primary dealers.
3. **Board for Payment and Settlement Systems** It regulates and supervises the payment and settlement systems. Objective of this is to maintain public confidence in payment and settlement system. In addition, the Central Board also have five Sub-Committees
   - The Audit and Risk Management Sub-Committee (ARMS)
   - The Human Resource Management Sub-Committee (HRM-SC)
   - The Building Sub-Committee (BSC)
   - The Information Technology Sub-Committee (IT-SC)
   - The Strategy Sub-Committee

## Subsidiaries of RBI

Full-owned subsidiaries of RBI includes

- Reserve Bank Information Technology Private Limited (ReBIT)
- Deposit Insurance and Credit Guarantee Corporation (DICGC)
- Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)
- Indian Financial Technology and Allied Services (IFTAS)

### Research Institutes of RBI

There are various RBI funded institutions for advance training and research on banking issues, economic growth and banking technology, such as

- National Institute of Bank Management (NIBM) at Pune
- Indira Gandhi Institute of Development Research (IGIDR) at Mumbai
- Institute for Development and Research in Banking Technology (IDRBT) at Hyderabad

**Training Institutes of RBI**

- RBI Academy is set up in 2016 by the RBI for imparting trainings on topics of relevance to Central Bankers,Regulators and Supervisors around the globe.
- Reserve Bank Staff College (RBSC), established on 03 July, 1963 in Chennai, is the apex training college of the RBI.
- RBI established the Cooperative Banker's Training College (CBTC) at Pune on 29 September, 1969. In 1974, the College was renamed as the College of Agricultural Banking (CAB).

## Major Functions of RBI

Central banking functions of RBI are as follow

- **Monetary Authority** formulates, implements and monitor the monetary policy. Objective of this is to maintain price stability while keeping in mind the objective of growth.
- **Issue of Paper Currency** The Reserve Bank is nation's sole note issuing authority, except one rupee notes which are issued by Ministry of Finance. It issues notes in the denomination of ₹ 2, ₹ 5, ₹ 10, ₹ 20, ₹ 50, ₹ 100, ₹ 200, ₹ 500 and ₹ 2000. The bank has a separate department for note issuing. This is known as **Issue Department.**
- **Banker of the Government** The RBI has to work as an agent of the Central and State Governments. It performs various banking functions such as to accept deposits, taxes and make payments on behalf of the government.

  It works as a representative of the government even at the international level. It provides ways and means for meeting day to day receipt and expenditure mismatch to both central and state government. It provides overdraft facility to the government in case of financial crunch.
- **Regulator and Supervisor of the Financial System** Prescribes broad parameters of banking operations within which the country's banking and financial system functions. In order to safeguard the interest of depositing public, it can refuse or cancel the licence, merge, reconstruct and amalgamate any bank.
- **Banker of Banks and Lender of the Last Resort** RBI acts as a banker for all commercial banks. All scheduled banks come under the direct control of RBI. As RBI meets directly or indirectly all the reasonable demands of banks for financial accommodation subject to certain terms and conditions, it is also referred as Lender of the Last Resort.

**Ways and Means Advances (WMA)**

WMA is the temporary facility for both the centre and states to borrow for the RBI. It helps them to tide over temporary mismatches in cash flows of their receipts and expenditure.

All commercial as well as schedule banks have to keep a minimum reserve (3%) with the RBI. They have to submit weekly reports to RBI about their transactions.

By performing 3 functions, the RBI helps the member banks significantly. They are given below

(i) It acts as the lender of the last resort.
(ii) It is the custodian of cash reserves of Commercial Banks.
(iii) It clears and transfers the transaction and acts as the central clearing house.

## Monetary Policy

Monetary policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the goals specified in the Act.

In India, monetary policy of the RBI is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth. This responsibility is explicitly mandated under the **Reserve Bank of India Act, 1934**.

The Financial Stability Report published biannually by RBI provides detailed analysis of financial stability and the resilience of the financial system of the country.

### Goals of Monetary Policy

- The primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth.
- Price stability is a necessary pre-condition to sustainable growth.
- In May 2016, the RBI Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.
- The amended RBI Act also provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years.

### Monetary Policy Committee (MPC)

This committee is constituted by the Government of India and it helps in determining the monetary policy which in turn adds value and transparency to monetary policy decisions. The meetings of the MPC will be held at least 4 times a year and it will publish its decision after each such meeting.

As per the provision of RBI Act, Governor of RBI, (ex-officio Chairperson), Deputy Governor of RBI, in-charge of Monetary Policy (Member), one officer of RBI (Member) and 3 members appointed by Central Government.

An expansionist monetary policy includes reducing taxes or increasing government spending. It aims to increase money supply to boost the economy. An expansionist policy from RBI will include the following

(i) Reducing statutory liquidity ratio.
(ii) Reducing the marginal standing facility rate.
(iii) Reducing bank rate and repo rate.

## Regulatory Functions of RBI under Monetary Policy

- Control of credit is the principal function of the Reserve Bank of India.
- Control of credit means expansion or contraction of credit.
- Reserve Bank of India makes use of all those methods of credit control that are adopted by other Central Banks in the world.
- The methods adopted by the Reserve Bank to control credit can be studied under two parts i.e. Quantitative credit control and Qualitative credit control.

### Quantitative Credit Control

To control the flow of quantum of credit, Reserve Bank adopts the following instruments of the monetary policy.

#### Repo Rate

- The rate at which the RBI lends money to commercial banks is called repo rate. It is an instrument of monetary policy.
- Whenever banks have any shortage of funds, they can borrow from the RBI. Repo operations inject liquidity into the system.
- Reduction in repo rate helps the commercial banks to get money at a cheaper rate and increase in repo rate discourages the commercial banks to get money as the rate increases and becomes expensive.

#### Reverse Repo Rate (RRR)

- Reverse repo rate operation is when RBI borrows money from banks by lending securities. The interest rate paid by RBI in this case is called the reverse repo rate.
- Reverse repo operations absorb the liquidity in the system. The reverse repo will be 100 basis points below repo rate.

#### Base Rate

- It is the minimum rate set by the RBI below which banks are not allowed to lend to its customers.
- Base rate is decided in order to enhance transparency in the credit market and ensure that banks pass on the lower cost of fund to their customers.

#### Bank Rate

- RBI also uses bank rate to control the value of the reserve deposit ratio.
- Bank rate refers to the rate at which the RBI lends to the commercial banks, in case they run short of reserves.

- A high bank rate makes borrowings for the banks costlier, which forces the banks to cut off their lending operations.
- While, a cut in the bank rate encourages the banks to borrow more and subsequently lend more.

### Liquidity Adjustment Facility (LAF)

- It is a monetary policy tool which allows banks to borrow money through repurchase agreements.
- LAF is used to aid banks in adjusting the day-to-day mismatches in liquidity.
- LAF was introduced for the first time in June, 2000. LAF consists of repo and reverse repo operations.

### Open Market Operations (OMOs)

- It refers to sale and purchase of government securities in the open market by the RBI. Using this method the RBI can control the liquidity in the financial system, influence interest rates and inflation.
- When the RBI purchases government securities from the open market, it increases supply of money in the system, reduces interest rates and increases inflation.
- When the RBI sells government securities in the market, it reduces money supply in the economy, increases interest rates and reduces inflation.

### Marginal Standing Facility (MSF)

- It was announced by the Reserve Bank of India (RBI) in its Monetary Policy (2011-12) and refers to the penal rate at which banks can borrow money from the Central Bank.
- MSF is always 1% greater than RRR. MSF came into effect from 9th May, 2014.

### Cash Reserve Ratio (CRR)

- It is the amount of funds that the banks have to keep with RBI. If RBI decides to increase this rate the available amount with the banks comes down.
- RBI uses this method (increase of CRR rate), to drain out the excessive money from the banks.

### Statutory Liquidity Ratio (SLR)

- It is the ratio of liquid asset, which all Commercial Banks have to keep in the form of cash, gold and unencumbered approved securities equal to not more than 40% of their total demand and time deposits liabilities.
- In the case of SLR, the securities are kept with bank themselves, which they need to maintain in the form of liquid assets.

### Market Stabilisation Scheme

- It is used by the RBI in times of volatility in exchange rate. Here, the RBI might release or buy foreign exchange in the market to stabilise the exchange rate.
- Under MSS, RBI issues bonds on behalf of the government and the money raised is impounded in a separate account (not government account). Auction method is used in this scheme.

### Priority Sector Lending

- RBI introduced the system of Priority Sector Lending to ensure that banks increase their involvement in the financing of priority sectors like agriculture, small industries, etc.
- On 25th August, 2011, RBI set-up a new committee under MV Nair to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending.

### Marginal Cost of Funds based Lender Rate

- The RBI has issued new guidelines for setting lending rate by commercial banks under the name Marginal Cost of Funds based Lending Rate (MCLR).
- It has replaced the Base Rate system from April, 2016 onwards.
- The MCLR regime is applicable on floating rate home loans and term loans to small and medium sized enterprises and middle level corporates.

## Qualitative or Selective Credit Control

This refers to the control of specific credit meant for certain specific objectives. For example, if the government wants to check the rising prices of wheat in India, the Reserve Bank may instruct the member banks not to give loans against the security of wheat. Traders will not get credit for the purchase of wheat and therefore, they will not be able to buy large quantities of wheat. This would bring down wheat prices as the credit squeeze is directed towards wheat alone. It is thus called selective credit control.

These measures are as follow

- **Change in Margin Requirements on Loans** Reserve Bank directs the member banks to change their margin requirements from time to time.
- **Rationing of Credit** It is yet another technique of selective credit control.
- Under this programme, the Reserve Bank fixed credit quota for member banks as well as their limits for the payment of bills.
- **Discriminatory Interest Rate** (DIR) Through DIR, RBI makes credit flow to certain priority or weaker sectors by charging concessional rate of interest.
- **Direct Action** It is too severe and is therefore rarely followed. It may involve refusal by RBI to rediscount bill or cancellation of license, if the bank has failed to comply with the directives of RBI.
- **Moral Persuasion** From time to time, Reserve Bank holds meetings with the member banks to seek their cooperation in effectively controlling the monetary system of the country. It advises against the expansion of credit, except to priority sector i.e. agriculture, small industries, etc.

## Other Functions of RBI

Besides the above stated specific functions, the Reserve Bank of India performs the following other functions

- **Export Assistance** Reserve Bank gives loans to export industries. These loans are given indirectly by refinancing the loans given by Export Import Bank and other banks.
- **Clearing House Functions** Being Central Bank of the country, the Reserve Bank also functions as clearing house. Interbanking obligations are conveniently settled through this house.
- **Change of Currency** The bank changes big notes into small ones and small notes into coins.
- **Transfer of Currency** The bank also facilitates the transfer of currency. It also issues Demand Hundies on its branches.

**Foreign Exchange Management**

It is an essential function of the RBI. Being the Central Bank of the Country, Reserve Bank of India also regulates exchange rate of rupee in terms of foreign currencies. It tries to maintain stability of exchange rate. In order to maintain the exchange rate stability, it has to bring demand and supply of the foreign currency close to each other. Reserve Bank deals with the currencies of only those countries which are members of IMF.

### Limitations of RBI

- It has certain limitations as the RBI. It cannot function as the commercial banks. It cannot give loans against the fixed assets. RBI cannot give unsecured loans to others.
- Percentage ratio of a financial institution's primary capital to its assets (loans and investment), used as a measure of its financial strength and stability.

# Major Efforts of International Banking

## Basel Norms

Basel norms are set by Bank of International Settlement (BIS) in **Basel, Switzerland**. Central Banks of **63 countries** are members of the BIS.

Basel guidelines refers to broad supervisory standards formulated by this group of central banks called the Basel Committee on Banking Supervision.

It was in 1988 that the central banking bodies of the developed economies agreed upon the provision of Capital Adequacy Ratio (CAR), also known as the Basel Accord.

This accord provides recommendations on banking regulations with regard to capital risk, market risk and operational risk. Its objective was to ensure that financial institutions have enough capital to meet obligations and absorb unexpected losses.

### Basel I Norms

Basel I primarily focused on credit risk. In 1988, this ratio of capital was decided to be 8%. The **Capital Assets Ratio** (CAR) is the percentage of the total capital to the total weighted assets.

Thus, CAR is also known as **Capital to Risk Weighted Assets Ratio** (CRAR). It is used to protect the depositors and promote the stability and efficiency of the financial system.

## Basel II Norms

It is a guide to capital adequacy standards for lenders. The aim of Basel II is to better align the minimum capital required by Regulators (so called regulatory capital) with risk.

Banks were guided to monitor all types of risks i.e., credit and increased disclosure requirements and depositors in the bank. And to mandatorily disclose their risk exposure to central banks.

## Basel III Norms

It become operational from 1st January, 2013 in a phased manner. It was to be fully implemented by 31st March, 2019 but in the view of COVID-19 the implementation of Basel III norms for banking services has been deferred till January, 2023.

The main provisions under Basel III norms are as follows

- Banks to increase their core **tier 1 capital ratio** to 4.5%.
- Provision for a counter-cyclical capital conservation buffer of 2.5% by 2019 (now 2023).
- The total Capital to Risk Assets Ratio (CRAR) required Basel III is proposed at 10.5%.

### Principles for Basel III

RBI released its guidelines on Basel III capital regulation on 2nd May, 2012 that

- Indian banks have to maintain tier 1 capital or core capital atleast 7% of their risk weightage assets or ongoing basis.
- The total capital ratio including tier 1 and tier 2 must be atleast 9%.
- From financial year ending 31st March, 2013, banks will have to disclose capital ratio computed under existing guidelines.

### Challenges for Basel III

The following are some problems in the successful implementation of Basel III

- Higher capital is required by the banks which is not feasible for the Private Sector Banks.
- Heavy upgradation in technology and management styles will impose huge costs on banks of can effect their profitability in the coming years.
- Further, banks would need to invest in liquid assets, which would reduce their operating profit margin.
- Higher deployment in liquid assets may crowd out good private sector investment and effect economic growth.

# QUESTION BANK

**1.** The Reserve Bank of India, which was established under the Reserve Bank of India Act, 1934, started functioning from
(a) 1st April, 1934 **[RBI Assistant 2013]**
(b) 1st April, 1935
(c) 1st September, 1934
(d) 1st July, 1934
(e) 1st April, 1936

**2.** Where is the headquarer of Reserve Bank of India?
(a) Mumbai (b) Delhi
(c) Kolkata (d) Ahmedabad
(e) Noida

**3.** How many members are there in Central Board of Directors of RBI?
(a) 12 (b) 15 (c) 18 (d) 21
(e) 14

**4.** The annual report of the RBI is released in month of .......... every year.
(a) March (b) April (c) August (d) June
(e) January

**5.** The Reserve Bank of India is
**[RBI Assistant 2018]**
(a) a department of Central Government under Ministry of Finance

(b) a body corporate, having perpetual succession and a common seal
(c) an institution owned by Indian Banks' Association
(d) All of the above
(e) None of the above

**6.** Reserve Bank of India is the lender of the last resort to scheduled commercial banks because
(a) the parties can approach RBI when their limits are exhausted
(b) they are not able to get loans from other banks
(c) RBI meets directly or indirectly all their reasonable demands for financial accommodation subject to certain terms and conditions which constitute its discount rate policy
(d) All of the above
(e) None of the above

**7.** Which of the following former Governors of the Reserve Bank of India has also served as the Union Finance Minister? **[RBI Grade B 2015]**
(a) Dr C Rangarajan (b) LK Jha
(c) B Venkitaraman (d) Dr IG Patel
(e) CD Deshmukh

**8.** Who amongst the following persons is a Former Governor of RBI? **[SBI Clerk 2012]**
(a) Shri P Chidambaram
(b) Shri Yashwant Sinha
(c) Shri Pranab Mukherjee
(d) Shri Manmohan Singh
(e) None of the above

**9.** First Indian appointed as the Governor of Reserve bank of India .........
(a) Sir C D Deshmukh
(b) Sir Senegal Rama Rau
(c) M Narasimham
(d) Dr C Rangarajan
(e) Shanmugam Chettiar

**10.** The RBI is known as lender of last resort because **[IBPS Clerk 2015]**
(a) it has to meet the credit needs of citizens to whom no one else is willing to lend
(b) banks lend to go to RBI as a last resort
(c) it comes to help banks in times of crisis
(d) All of the above
(e) None of the above

**11.** ....... heads and conducts the affairs of RBI. **[IBPS Clerk 2015]**
(a) Central Board (b) Local Board
(c) Regional Board (d) All of these
(e) None of these

**12.** The RBI provides ....... for meeting day-to-day receipt and expenditure mismatch to both Central and State governments. **[IBPS Clerk 2015]**
(a) treasury bills
(b) ways and means advance
(c) date and securities
(d) All of the above
(e) None of the above

**13.** Which of the following extreme measures may be resorted by the Reserve Bank of India (RBI), in order to safeguard the interest of the depositing public when the affairs of a bank are observed to be beyond redemption? **[IBPS Clerk 2015]**
(a) Refusal of a licence or cancellation of an existing licence
(b) Merge the bank with any public sector bank
(c) Applying to the Central government for an order of moratorium and thereafter reconstructing or amalgamating the bank with another bank
(d) All of the above
(e) None of the above

**14.** Which of the following is one of the main function of the Reserve Bank of India? **[SBI Clerk 2015]**
(a) Regulation of the stock markets
(b) Regulation of life insurance
(c) Regulation of general insurance
(d) Regulation of mutual funds in India
(e) Banker's bank

**15.** Consider the following measures.
I. Repo Rate
II. Cash Reserve Requirement
III. Reverse Repo Rate
Which of the measures given above is/are major instrument(s) used in the Liquidity Adjustment Facility (LAF)?
(a) I and II (b) I and III
(c) II and III (d) All of these
(e) None of these

**16.** Which of the following functions are not being performed by the Reserve Bank of India?
(a) Regulation of banks in India
(b) Regulation of Foreign Direct Investment in India
(c) Foreign currency management in India
(d) Control and supervision of money supply
(e) Currency management in India

**17.** Which of the following training establishment is operated by Reserve Bank of India?
(a) National Institute of Securities Market
(b) Rural Self Employment Training Institutes
(c) National Institute of Bank Management
(d) All of the above
(e) None of the above

**18.** 'National Institute of Bank Management' is the institution meant for **[SBI Clerk 2014]**
(a) All those given as options
(b) providing management personnel to the banks
(c) training of bank employees in banking
(d) providing consultancy on best practices in bank management
(e) recruitment of bank employees at all levels

**19.** Which of the following do not fall within the functions of the Reserve Bank of India?
(a) Regulation of currency
(b) Control of currency
(c) Banker to the government, banker's bank and lender of the last resort
(d) Accepting deposits and making loans and advances to public
(e) None of the above

**20.** The term 'Ways and Means' advances refers to
(a) the advances allowed under DRI Scheme by commercial banks
(b) the advances allowed by commercial banks under Twenty Point Economic Programme
(c) the temporary advances made to the government by RBI to bridge the interval between expenditure and the flow of receipts of revenues
(d) All of the above
(e) None of the above

**21.** The instance of RBI monetary policy is
(a) inflation control with adequate liquidity for growth
(b) improving credit quality of the banks
(c) strengthening credit delivery mechanism
(d) supporting investment demand in the economy
(e) All of the above

**22.** Which of the following instruments of credit control adopted by the Reserve Bank of India (RBI) does not fall within 'general' or 'quantitative' methods of credit control?
(a) Bank rate **[IBPS Clerk 2015]**
(b) Open market operations
(c) Stipulation of certain minimum margin in respect of advance against specified commodities
(d) Variable reserve requirements
(e) None of the above

**23.** Bank rate policy, open market operations, variable reserve requirements and statutory liquidity requirements employed by Reserve Bank as measures of credit control are classified as **[IBPS PO 2011]**
(a) quantitative methods
(b) qualitative methods
(c) monetary methods
(d) All of the above
(e) None of the above

**24.** Generally, the minimum rate below which the banks do not lend is known as
(a) floor rate (b) repo rate
(c) highest rate (d) base rate
(e) All of these

**25.** The ratio of the Cash Reserves that the banks are required to keep with the RBI is known as
(a) Liquidity Ratio
(b) SLR
(c) CRR
(d) Net Demand and Time Liability
(e) None of the above

**26.** Banks and other financial institutions in India are required to maintain a certain amount of liquid assets like cash, precious metals and other short term securities as a reserve all the time in banking world, this is known as
(a) CRR (b) Fixed asset
(c) SLR (d) PLR
(e) None of these

**27.** Bank rate means
(a) the rate of interest charged by commercial banks on advances
(b) the rate at which commercial banks discount bills of exchange for their clients
(c) the rate of interest allowed by banks on the deposits
(d) the standard rate at which the Reserve Bank of India is prepared to buy or rediscount bills of exchange other commercial paper are eligible for purchase under the Reserve Bank of India Act, 1934
(e) None of the above

**28.** When the Reserve Bank desires to restrict expansion of credit it
(a) raises the bank rate
(b) reduces the bank rate
(c) freezes the bank rate
(d) None of the above
(e) All of the above

**29.** For the performance of its duties as the regulator of credit, the Reserve Bank of India possesses the usual instruments of general credit control, viz.
(a) bank rate
(b) open market operation
(c) the power to vary the reserve requirement of banks
(d) All of the above
(e) None of the above

**30.** In periods of depression when the Reserve Bank desires to encourage the banking system to create more credit, it
(a) reduces the bank rate
(b) raises the bank rate
(c) permits the bank rate to be decided by market forces
(d) All of the above
(e) None of the above

**31.** RBI open market operation transactions are carried out with a view to regulate
(a) liquidity in the economy
(b) prices of essential commodities and inflation
(c) borrowing power of the banks
(d) All of the above
(e) None of the above

**32.** Whenever RBI does some Open Market Operation transactions, actually it wishes to regulate which of the following?
(a) Inflation only
(b) Liquidity in economy
(c) Borrowing powers of the banks
(d) Flow of foreign direct investments
(e) None of the above

**33.** Reverse Repo is a tool used by RBI to
(a) inject liquidity
(b) absorb liquidity
(c) increase the liquidity with banking system
(d) to keep the liquidity at one level
(e) None of the above

**34.** The bank rate is
(a) free to fluctuate according to the forces of demand and supply
(b) set by the RBI
(c) set by the RBI and directed by the Union Ministry of Finance
(d) set by the RBI as advised by the Indian Banks Association
(e) set by the Government of India on the recommendation of the Planning Commission

**35.** The interest rate at which the RBI lends to commercial banks in the short term to maintain liquidity is known as
(a) interest rate (b) repo rate
(c) reverse repo rate (d) bank rate
(e) None of these

**36.** The RBI policy rate which is purely an indicative rate used by the Reserve Bank of India to signal long term outlook on interest rates is **[SBI PO 2014]**
(a) bank rate (b) repo rate
(c) call money rate (d) notice money rate
(e) reverse repo rate

**37.** Banks in India are required to maintain a portion of their demand and time liabilities with the Reserve Bank of India. This portion is called **[SBI PO 2013]**
(a) statutory liquidity ratio
(b) cash reserve ratio
(c) bank deposit
(d) reverse repo
(e) government securities

**38.** 'Base Rate' in banks is **[IBPS Clerk 2011]**
(a) The rate of interest payable on demand deposits
(b) The rate of interest payable on fixed deposits
(c) The rate of interest charged by RBI on long-term borrowings of public sector banks
(d) Minimum lending rate decided by the RBI which shall be adopted by all public sector banks
(e) The minimum interest rate fixed by individual banks below which they cannot lend funds, except cases like Government's sponsored scheme

**39.** The amount specified as the Cash Reserve Ratio (CRR) is held in cash and cash equivalents and is stored in bank vaults or parked with **[SBI PO 2014]**
(a) Small Industries Development Bank of India (SIDBI)
(b) Government of India (GoI)
(c) Reserve Bank of India (RBI)
(d) State Bank of India (SBI)
(e) Rural Infrastructure Development Fund (RIDF)

**40.** Interest below which a bank is not expected lend to customers is known as ....... **[IBPS Clerk 2015]**
(a) deposit rate (b) base rate
(c) prime lending rate (d) bank rate
(e) discount rate

**41.** With effect from 1st July, 2012, for calculation of lending rates, the Reserve Bank of India has advised banks to switch over to the **[IBPS PO 2018]**
(a) MSF Rate System
(b) Reverse Repo Rate System
(c) Bank Rate System
(d) Repo Rate System
(e) Base Rate System

**42.** What is Repo Rate?
(a) It is a rate at which RBI sell government securities to banks
(b) It is a rate of which RBI buys government securities from banks
(c) It is a rate at which RBI allows small loans in the market
(d) It is a rate which is offered by banks to their most valued customers or prime customers
(e) None of the above

**43.** Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) are terms most closely related to which of the following industries/markets? **[IBPS Clerk 2011]**
(a) Capital market
(b) Banking industry
(c) Commodities market
(d) Money Market
(e) Mutual fund industry

**44.** What is the Repo Rate? **[IBPS Clerk 2011]**
(a) It is the rate at which RBI sells government securities to banks
(b) It is the rate at which RBI allows small loans in the market
(c) It is the rate at which banks borrow money from the Reserve Bank of India
(d) It is the rate which is offered by banks to their most valued customers or prime customers
(e) None of the above

**45.** Which instrument is used by the Reserve Bank of India to control market liquidity? **[SBI PO 2013]**
(a) Repo Rate
(b) Statutory Liquidity Ratio
(c) Marginal Adjustment Facility
(d) Reserve Repo Rate
(e) Only (a) and (d)

**46.** How RBI measured to liquidate the market?
(a) By Reverse Repo Rate **[IBPS PO/MT 2014]**
(b) By Repo Rate
(c) By Cash Reserve Ratio
(d) By Statutory Liquidity Ratio
(e) None of the above

**47.** Interest below which a bank is not expected to lend to customers is known as......... **[SBI PO 2013]**
(a) Deposit Rate (b) Base Rate
(c) Prime Lending Rate (d) Bank Rate
(e) Discount Rate

**48.** With effect from 1st July, 2012, for calculation of lending rates, the Reserve Bank of India has advised banks to switch over to the **[IBPS PO/MT 2013]**
(a) MSF Rate System
(b) Reverse Repo Rate System
(c) Bank Rate System
(d) Repo Rate System
(e) Base Rate System

**49.** Base Rate is the rate below which no Bank can allow their lending to anyone. Who sets up this 'Base Rate' for Banks?
**[IBPS PO/MT 2012]**
(a) Individual Banks Board
(b) Ministry of Commerce
(c) Ministry of Finance
(d) RBI
(e) None of the above

**50.** Reverse Repo is a tool used by RBI to ........
**[IBPS RRB Main 2017]**
(a) increase liquidity of banking system
(b) absorb liquidity
(c) inject liquidity
(d) keep the liquidity at one level
(e) None of the above

**51.** Which of the following is correct regarding the Statutory Liquidity Ratio (SLR)?
**[IBPS Clerk 2013]**
(a) It restricts commercial bank's leverage in pumping more money into the economy
(b) It is maintained only in form of cash
(c) It controls liquidity in banking system
(d) It does not ensure the solvency of commercial banks
(e) None of the above

**52.** In which form is the Cash Reserve Ratio (CRR) to be maintained with the Reserve Bank of India? **[IBPS Clerk 2013]**
(a) Minimum cash reserves
(b) Gold
(c) Approved securities
(d) Both (a) and (b)
(e) All of the above

**53.** Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank. CRR is set according to the guidelines of the central bank of a country. CRR **[SBI PO Main 2016]**
(a) Is cheaper for banks to borrow money
(b) Is a tool, which central bank uses for short-term purposes
(c) Provides greater control to the central bank over money supply
(d) Marks a shift from earlier method of calibrating various policy rates separately
(e) None of the above

**54.** What is Cash Reserve Ratio?
**[IBPS PO Main 2016]**
(a) Deposits of banks in government securities
(b) Rate at which banks borrow funds from the RBI
(c) Deposits (as cash) which banks have to keep/maintain with the RBI
(d) Rate at which RBI borrows money from the banks
(e) Rate at which RBI borrows money from the government

**55.** Reserves which can act as a liquidity buffer for commercial banks during crisis times are
**[IBPS Clerk 2011]**
(a) CAR
(b) CRR
(c) CAR and RR
(d) CRR and SLR
(e) SLR

**56.** Liquidity is injected by the RBI in the economy through which of the following mechanisms? **[SBI Clerk 2014]**
(a) Change in Bank Rate
(b) Repo
(c) Increase in SLR
(d) Through Liquidity Adjustment Facility
(e) Increase in CRR

**57.** An increase in CRR by RBI leads to **[IBPS Clerk 2015]**
(a) decrease in deposit
(b) increase in deposit
(c) increase in lendable resources
(d) decrease in lendable resources
(e) None of the above

**58.** CRR funds are kept by the banks in
**[IBPS Clerk 2015]**
(a) cash in hand at branches
(b) balance with other banks
(c) balance in a special account with RBI
(d) funds in the currency chest
(e) None of the above

**59.** SLR is maintained as a percentage of
**[IBPS Clerk 2015]**
(a) time liabilities
(b) demand liabilities
(c) Both (a) and (b)
(d) gross time and demand liabilities
(e) net demand and time liabilities

**60.** Which of the following is the minimum lending rate which the banks can charge their customers? **[RBI Grade B 2015]**
(a) Reverse repo rate
(b) Other than the those given as options
(c) Bank rate
(d) Base rate
(e) Repo rate

**61.** The 'Bank rate' is periodically announced by the **[RBI Grade B 2015]**
(a) Indian Banks Association (IBA)
(b) State Bank of India (SBI)
(c) Reserve Bank of India (RBI)
(d) Ministry of Finance
(e) Board of the respective banks

**62.** The Reserve Bank of India does not decide the **[RRB Assistant 2012]**
(a) Rate of Repo and Reverse Repo
(b) Marginal Standing Facility Rates
(c) Bank Rate
(d) Rate of Dearness Allowance to Government Employees
(e) Statutory Liquidity Ratio

**63.** Which of the following fall under the qualitative methods of credit control adopted by Reserve Bank of India?
(a) Selective Credit Control
(b) Credit Authorisation Scheme
(c) Moral Suasion
(d) All of the above
(e) None of the above

**64.** The term 'moral suasion' refers to
(a) the moral duty of a borrower to deal with only one bank
(b) the banker's duty of secrecy as regards the affairs and accounts of his customers
(c) the advice given by Reserve Bank to banks/ financial institutions in the matter of their lending land other operations with the objective that they might implement or follow it
(d) All of the above
(e) None of the above

**65.** For the first time, in which year Basel Committee came up with Capital Accords for banks?
(a) 1985 (b) 1988
(c) 1990 (d) 1992
(e) 1998

**66.** Under Basel III accord, Indian banks have to maintain Tier-1 capital (equity and reserves) at how much .......... per cent of risk weighted assets (RWA).
(a) 8% (b) 7%
(c) 9% (d) 5%
(e) None of these

**67.** Where is headquarter of Basel Committee on Banking Supervision (BCBS)?
(a) Rome
(b) Switzerland
(c) Belgium
(d) Washington DC
(e) None of the above

## Answers

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **1.** (b) | **2.** (a) | **3.** (d) | **4.** (c) | **5.** (b) | **6.** (c) | **7.** (e) | **8.** (d) | **9.** (a) | **10.** (c) |
| **11.** (a) | **12.** (b) | **13.** (d) | **14.** (e) | **15.** (a) | **16.** (b) | **17.** (c) | **18.** (a) | **19.** (d) | **20.** (c) |
| **21.** (e) | **22.** (c) | **23.** (a) | **24.** (d) | **25.** (c) | **26.** (c) | **27.** (d) | **28.** (a) | **29.** (d) | **30.** (a) |
| **31.** (d) | **32.** (b) | **33.** (b) | **34.** (b) | **35.** (b) | **36.** (a) | **37.** (b) | **38.** (e) | **39.** (c) | **40.** (b) |
| **41.** (a) | **42.** (b) | **43.** (b) | **44.** (c) | **45.** (c) | **46.** (b) | **47.** (b) | **48.** (a) | **49.** (d) | **50.** (b) |
| **51.** (a) | **52.** (a) | **53.** (c) | **54.** (c) | **55.** (d) | **56.** (b) | **57.** (d) | **58.** (c) | **59.** (e) | **60.** (d) |
| **61.** (c) | **62.** (d) | **63.** (d) | **64.** (c) | **65.** (b) | **66.** (b) | **67.** (b) | | | |

CHAPTER

04

# BANKING REGULATION SYSTEM

The Indian banking sector is regulated by the RBI Act, 1934 and the Banking Regulation Act, 1949.

The RBI issues various guidelines, notifications and policies from time to time to regulate the banking sector. Some important steps taken by RBI to improve bank's working procedure are as follow

## Banking Regulation Act, 1949

The Banking Regulation Act, enacted in 1949, has been a milestone in the history of banking in India. This act provides a framework for regulation and supervision of commercial banking activity. The Section-5(1)(e) of this Act, defines a **Banking Company** as a company which transacts the business of banking, undertakes lending of money, undertake deposits from the public and invests the same in trade and industry. Section 23 of this Act governs the opening of branches by the banks.

Objectives of Banking Regulation Act, 1949 are as follow

- To reduce unhealthy competition in the banking sector.
- To safeguard the rights of shareholders and the public.
- To ensure new branches are licensed.
- Help the bank to liquidate when they are unable to operate.
- Take necessary steps to strengthen the banking sector of the country.

## State Bank of India Act, 1955

Imperial Bank of India was transformed into SBI through SBI Act, 1955 passed by Indian Parliament.

As a result of it, banking services were expanded to rural as well as semi-urban areas.

Under this act, the RBI acquired a controlling interest in the Imperial Bank of India. On **1 July, 1955**, the Imperial Bank of India became the State Bank of India.

## The State Bank of India (Subsidiary Banks) Act, 1959

This Act provides the formation of certain Government or Government Associated Banks as subsidiary of the State Bank of India. Under this Act, the responsibility for constitution, management and control of the subsidiary banks had been entrusted to the SBI. It resulted in affiliation of 8 associate banks of SBI.

## Banking Laws (Miscellaneous Provisions) Act, 1963

With a view to restraining the control exercised by particular group of persons over the affairs of banks and to provide strict control over bank by the Reserve Bank, the Banking Laws (Miscellaneous Provisions) Act was passed in 1963.

This Act empowers the Reserve Bank to remove managerial and other persons from the office of the bank.

## Banking Law (Amendment) Act, 1968

In this act, it was decided as to which businesses banks are allowed to give loans. The role of banks in the areas of economic and social development was also specified.

## The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970

As per this Act, no shareholder of the Corresponding New Bank, other than the Central Government shall be entitled to exercise voting rights in respect of any shares held by him. Under this provision, 14 banks were nationalised in 1970.

## Regional Rural Banks Act, 1976

Regional Rural Banks were established under the provisions of an Ordinance passed on **26th September, 1975** and the RRB Act, 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. These were setup on the recommendations of the Narasimham Committee.

## SARFAESI Act, 2002

The full form of SARFAESI Act is Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Banks utilise this Act as an effective tool for bad loans (NPA) recovery.

It is possible that non-performing assets are backed by securities charged to the bank by way of hypothecation or mortgage or assignment.

Upon loan default, banks can seize the securities (except agricultural land) without intervention of the court. SARFAESI is effective only for secured loans where bank can enforce the underlying security. For example, hypothecation, pledge and mortgages.

The SARFAESI Act, 2002 gives powers of **seize and desist** to banks. Banks can give a notice in writing to the defaulting borrower requiring it to discharge its liabilities within 60 days.

According to this Act, the registration and regulation of securitisation companies or reconstruction companies is done by RBI.

**SARFAESI Amendment Act, 2016**

- It allows District Magistrate (DM) to take possession over collateral within 30 days for securing the creditors.
- It empowers District Magistrate (DM) to assist banks to take over the management of a company, in case the company is unable to repay loans.
- It creates a central database to integrate records of property registered under various registration systems with central registry meant for maintaining records of transactions related to secured assets.

## RBI (Amendment) Act, 2006

In 2006, Government amended the RBI Act, 1974 and the Banking Regulation Act.

Under the Act, Government removed the floor and CAR (Capital Adequacy Ratio) on CRR (Cash Reserve Ratio) and floor on Statutory Liquidity Ratio to provide flexibility to the RBI to manage liquidity.

After this, RBI was not required to pay any interest on the CRR deposits of banks. The amendment also established RBI as regulator of the bond market and the currency market.