

Department of Commerce (CA)

ALLIED PAPER-II BANKING THEORY LAW AND PRACTICES.

**SEMESTER:II
B.COM(CA)**

SUB CODE:18BCA25A

UNIT2: RBI-Role of Reserve Bank of India-Role of State Bank of India.

REFERENCE BOOK:

- BANKING LAW AND PRACTICE- P. N. VARSHNEY
- A TEXT BOOK OF BANKING – RADHASWAMY AND VASUDEVAN
- BANKING THEORY LAW AND PRACTICES- GORDON AND NATARAJAN
- INDIAN BANKING – PARAMESHWARAN AND NATARAJAN
- BANKING THEORY LAW AND PRACTICES- SANTHANAM.

**PREPARED BY: DR. E.N. KANJANA,
ASST PROFESSOR.**

1. Definition Of RBI

RBI:- The Reserve Bank of India (RBI) is the apex or central financial institution of the country's financial system entrusted with the task of control, supervision, promotion, development and planning.



2. Role of RBI in Indian Banking System

1. Issue of Bank Notes:

The Reserve Bank of India has the sole right to issue currency notes except one rupee notes which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country.

2. Banker to Government:

As banker to the government the Reserve Bank manages the banking needs of the

government. It has to maintain and operate the government's deposit accounts as well as it collects receipts of funds and makes payments on behalf of the government.

3. Custodian of Cash Reserves of Commercial Banks:

The commercial banks hold deposits in the Reserve Bank and the latter has the custody of the cash reserves of the commercial banks.

4. Custodian of Country's Foreign Currency Reserves:

The Reserve Bank has the custody of the country's reserves of international currency. This enables the Reserve Bank to deal with crisis connected with adverse balance of payments position.

5. Lender of Last Resort:

The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though by might charges a higher rate of interest.

6. Central Clearance and Accounts Settlement:

Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank.

7. Controller of Credit:

Credit money forms the most important part of supply of money. Because supply of money has important implications for economic stability and control of credit. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

8. Monetary Authority: It decides how much money is needed to be supplied to the economy in order to stabilize the exchange rate, maintaining good balance of payment, attain financial stability, control inflation, strengthening the core banking system.

9. The issuer of Banking License: As per Sec 22 of Banking Regulation Act, a bank cannot start functioning without obtaining license from the Reserve Bank Of India.

10 .Banker's Bank: RBI is the bank of all banks in India as it provides the loan to banks/bankers, rediscount the bills of banks and accept the deposit of banks.

11. Manager of foreign exchange: It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.

12. Managing Government securities: RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.

13. Publisher of monetary data and other data: RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. Moreover, RBI collects, collates and publishes data regularly.

14. Banking Codes and Standards Board of India: To measure the performance of banks against Codes and standards based on established global practices, the RBI set up the Banking Codes and Standards Board of India (BCSBI).

15. Fair Practices Codes For Lenders: RBI formulated the Fair Practices Code for Lenders which was communicated to banks to safeguard the interest of the borrowers. All the banks are supposed to follow the codes formulated by RBI.

16. Provision of Industrial Finance: Rapid industrial growth is the key to the development of the economy. Providing adequate and timely credit to small, medium and large industry is very important. The RBI has played a pivotal role in setting up special financial institutions such as IDBI Ltd, ICICI and EXIM BANK etc.

3. RBI's Role In Current Scenario

RBI's role in the economy is essential as it makes or breaks the economy. Below mentioned are the areas where RBI plays an important role in

1. Development of banking system
2. Development of financial institutions
3. Development of backward areas
4. Bringing Economic stability
5. Facilitating Economic growth
6. Preparing Proper interest rate structure

4. RBI's Role in Promoting Schemes And Policies

Introducing schemes and policies which benefit the public as well as the government is one of the important function of RBI. Below mentioned are the sector RBI prioritizes for economic development

1. Promotion of commercial banking
2. Promotion of cooperative banking
3. RBI promotes the industrial finance and export finance
4. Promotion of credit guarantees
5. It promotes the differential rate of interest scheme
6. Promotion of credit to priority sections including rural & agricultural sector
7. Promotion of credit to weaker sections

5. Prohibitory Functions of RBI

1. It cannot provide any direct financial assistance to any industry, trade or business
2. Rbi cannot purchase its own share
3. It cannot purchase shares of any commercial and industrial undertaking.
4. Rbi cannot purchase any immovable property
5. It cannot give loans on the security of shares and property

6. Functions Of RBI

1. **Monetary policy** :- It refers to the use of regulatory tools under the control of the RBI in order to regulate the availability, cost and use of money and credit.

2. **Cash Reserve Ratio (CRR)**: Banks are required to hold a certain proportion of their deposits in the form of cash with RBI. RBI uses CRR either to drain excess liquidity from the economy or to release additional funds needed for the growth of the economy.

3. **Statutory Liquidity Ratio (SLR)**: SLR is the amount that commercial banks are required to maintain in the form of cash, gold or government approved securities to maintain liquidity before providing credit to the customers.

4. **Fiscal Policy**: It is related to direct taxes and government spending. When direct taxes increases and spending of government increases than the disposable Income of the people reduces and hence the demand reduces

5. **Repo Rate**: The rate at which the RBI loans out money to commercial banks is called Repo Rate. Whenever banks face limitation of funds they can borrow from the RBI, against securities. If the RBI increases the Repo Rate, borrowing becomes quite expensive for banks and vice versa. This tool is used for inflation.

Reverse Repo Rate: The rate at which the RBI is willing to borrow from the commercial banks is called reverse repo rate. If the RBI increases the reverse repo rate, it means that the RBI is willing to offer good interest rate to banks to deposit their money with the RBI.

1. **1. INTRODUCTION**: • Established in 1806 at Calcutta as bank of Calcutta. • It is the oldest bank of Indian sub-continent. • Head quarter-corporate Centre at Mumbai • Largest branch network in India with 16000 branches. • Over8500 ATM's
2. **2. BRIEF HISTORY**: • Started as bank of Calcutta in Calcutta on June 1806. • Re-designed as the bank of Bengal on 2 January 1806. • It was the first-stock bank of British India. • Later on Bank of Madras, Bank of Bombay and Bank of Bengal were

amalgamated to form imperial bank of India on 27 January 1991. • It was nationalized on 1995 and was renamed as state Bank of India

3. **3. Employees:** SBI is one of the largest employers in the country having 222,033 employees as on 31 March 2014, out of which there were 45,132 female employees (20%) and 2,610 (1%) employees with disabilities. On the same date, SBI had 42,744 Schedule Caste (19%) and 17,243 Schedule Tribe (8%) employees. The percentage of Officers, Assistants and Sub-staff was 36%, 46% and 18% respectively on the same date
Hiring drive: 1,776 Assistants and 1,394 Officers joined the Bank in FY 2013-14, for expansion of the branch network and to mitigate staff shortage, particularly at rural and semi-urban branches. Staff productivity: As per its Annual Report for FY 2013-14, each employee contributed net profit of INR 4.85 lakhs.
4. **4. Directors:** • There are 13 directors in its central board. • Mrs. Arundhati bhattacharya is the chairman • Shri B. Sriram is the managing director of S.B.I
5. **5. Associate banks:** 1. State Bank of Indore. 2. State Bank of Bikaner and Jaipur. 3. State bank of Hyderabad. 4. State bank of Mysore. 5. State bank of Patiala.
6. **6. Non banking subsidiaries:** • SBI Capital Markets LTD. • SBI Mutual Fund(A Trust) • SBI Factors and Commercial Services LTD. • SBI DFHI Ltd. • SBI Life Insurance Co. Ltd
7. **7. Services:** • Domestic Treasury • E-Rail • E-Pay • Safe deposit Locker • Internet Banking • ATM services • Broking service
8. **8. Competitors:** • Punjab National Bank • ICICI Bank • HDFC • Bank of Baroda

9. **9. International Presence:** • The bank has 52 branches, 131 Foreign offices in 32 countries. • It has branches in Los Angeles, Maldives, Muscat, New York, Osaka, Sydney, and London. • In Nepal SBI owns 50% of Nepal SBI Bank • In Moscow SBI owns 60% of Commercial of India.
10. **10. Logo and slogan:** The logo of the State Bank of India is a blue circle with a small cut in the bottom that depicts perfection and the small man the common man - being the center of the bank's business.
11. **STATE BANK of INDIA** • Largest public sector bank in INDIA • 2nd largest public sector bank in whole world • Personal banking, corporate banking, ATM, mobile banking, net banking, demat, agri/rural banking, NRI service, SME services, loans, etc. • SBI caters in various section and is quietly a dominator in SERVICE INDUSTRY
12. **3.** State bank of India is nation's largest and oldest bank. State bank of India is largest of the big four banks of India. State bank of India ranked no. 292 globally in fortune global 500. State bank of India is 29th most reputed company in the world.
13. **4.** The Presidency banks amalgamated on January 27, 1921, and the re-organized banking. The roots of the State Bank of India lie in the first decade of 19th century, when the Bank of Calcutta, later renamed the Bank of Bengal, was established on June 2, 1806. It took as its name Imperial Bank of India. Pursuant to the provisions of the State Bank of India Act of 1955, the Reserve Bank of India, which is India's central bank, acquired a controlling interest in the Imperial Bank of India. On 30 April 1955, State Bank of India changed its name from Imperial Bank of India. Imperial Bank of India was consist of Bank of Calcutta, Bank of Bombay & Bank of Madras. The Government of India nationalized the Imperial Bank of India in 1955.

14. 5. SBI has 14 local head offices and 57 Zonal Offices located throughout the country.

SBI has about 26,000+ ATMs . SBI has 21,500 branches, including branches that belong to its associate banks. SBI has 172 foreign offices in 37 countries across the globe. SBI has subsidiary in Canada , Nigeria , Nepal, Moscow & Shanghai.

15. 6. ASSOCIATE BANKS • There are seven other associate banks that fall under SBI.

They all use the "State Bank of" name followed by the regional headquarters' name. –

State Bank of Bikaner & Jaipur – State Bank of Hyderabad – State Bank of Indore – State Bank of Mysore – State Bank of Patiala – State Bank of Saurashtra – State Bank of Travancore

16. 7. NON-BANKING SUBSIDIARIES ःSBI Capital Markets Ltd. ःSBI Funds

Management Pvt. Ltd. ःSBI Factors & Commercial Services Pvt. Ltd. ःSBI Cards & Payments Services Pvt. Ltd. (SBICPSL) ःSBI DFHI Ltd. ःSBI Life Insurance Company Ltd. ःSBI General Insurance

17. 8. Foreign Offices • State Bank of India is present in 32 countries, where it has 84 offices

serving the international needs of the bank's foreign customers, and in some cases

conducts retail operations. The focus of these offices is India-related business. • SBI has

branches in these countries: – Australia – Bahrain – Bangladesh – Belgium – Canada – Dubai – France – Germany – Hong Kong – Israel – Japan

18. 9. CHAIRMAN CORPORATE CENTRE DMD&CCO DMD(I&MA) CVO

DMD&CDO BUSINESS GROUPS MD&GE(CB) MD&GE(NB) DMD&GE(IB)

DMD&GE(A&S) DMD&CFO DMD(IT) ORGANISATIONAL STRUCTURE

19. 10. Current Board of Directors ꣳ Pratip Chaudhuri (Chairman) ꣳ Hemant G. Contractor (Managing Director) ꣳ Diwakar Gupta (Managing Director) ꣳ A Krishna Kumar (Managing Director) ꣳ Dileep C Choksi (Director) ꣳ S. Venkatachalam (Director) ꣳ D. Sundaram (Director) ꣳ Parthasarathy Iyengar (Director) ꣳ Jyoti Bhushan Mohapatra (Workmen Employee Director) ꣳ G. D. Nadaf (Officer Employee Director) ꣳ Rashpal Malhotra (Director) ꣳ D. K. Mittal (Director) ꣳ Subir V. Gokarn (Director) ꣳ Deepak Ishwarbhai Amin (Director)

20. 11. 61% 21% 9% 6% 3% Promoters Financial Institutions Foreign Institutions General Public Others

21. 12. 57,722.87 75,775.02 86,960.52 96,590.72 120,233.77 0.00 20,000.00 40,000.00 60,000.00 80,000.00 100,000.00 120,000.00 140,000.00 2008 2009 2010 2011 2012
PROFITINCR. YEARS

22. 13. Services • Domestic Treasury • SBI Vishwa Yatra Foreign Travel Card. • Broking Services • Revised Service Charges. • ATM Services • Internet Banking. • E-Pay • E-Rail • Safe Deposit Locker.

23. 14. Competitors • Punjab National Bank. • ICICI Bank • HDFC. • Bank of Baroda.

24. 15. Awards & Prizes • Won 2 Awards for Best Rural Banking Initiative and Best IT Architecture. • National Awards for Excellence in MSE Enterprise. • National Awards for Excellence in lending to Micro Enterprise. • Most admired Infrastructure Financier” Award by KMPG. • “Best Home Loan Provider” as well as “The Best Bank” – by Outlook Money Awards, 2008. • “Top Public Sector Bank under SME Financing” by Dun and Bradstreet.

25. **16. Strengths** Strong domestic market position sustaining reach and customer confidence
 Strong capital position helping pursue growth initiatives
Weaknesses Reduction in the asset quality & increasing non performing assets ration
 Susceptible to political inventories
26. **17. Opportunities** Growing Indian banking sector
 Dissatisfied customers of other Bank
 Threats various competitors -Foreign banks -govt. banks‡
 Market trends
27. **18.** ∅ SAVING ∅ CURRENT ∅ RECURRING DOCUMENTS REQUIRED } PAN CARD } RATION CARD } VOTER ID } ELECTRIC BILL } DRIVING LICENSES →
 IN SAVING ACCOUNT THERE IS 4 % INTREST FO 390 DAYS → IN RECURING ACCOUNT THERE IS 8.7 % INTREST FOR 390 DAYS → 2 PASSPORT SIZE PHOTOGRAPH → CURRENT & NATIVE ADDRESS AND NOMINEE NAME
28. **19.** SBI & India's economic development ∅ The formation of the State Bank of India aims at promoting planned economic development of the country. ∅ By March 1995 the SBI and its associates over 13,800 small scale business units and other small operators. The amount of loans outstanding was Rs.9,200 Crores. ∅ In March 1995,the loans outstanding to farmers rose to over Rs.7,450 Crores. ∅ SBI has also introduced Installment Credit schemes. It is designed to assist the financing equipment or machinery used by small and medium size manufacturing units. ∅ Out of it's 21,500 branches, nearly two-thirds of these are located in rural and semi-urban areas with a population of less than 25,000.
29. **20.** • As the financial system has grown rapidly State Bank Of India has taken initiative that banking services made available to each and every one. • State Bank of India is

presently doing well. Increasing the services every year. But still, if some operating Expenses will be reduced then it will become strong. And more over it would be better if it provides more services to the public like, credit loans, home loans, less interest rates and more online services will be provided to customers.