

MONEY AND BANKING



- Financial activities performed by banks: Banking

- Classification of banks: **RBI Act of 1934**

1st April 1935: the first setup of RBI
 Headquarter: Calcutta, At present
 Headquarter: **Mumbai in 1937**

Reserve Bank of India

Independent body

was established on the basis of recommendation
 of **Hilton Young Commission, 1926**

Recommendation taken
 from **B R Ambedkar** as
 well

- 1st RBI Governor: Osborne Smith
- 1st Indian RBI Governor: C D Deshmukh

Functions of RBI

1. It regulates bank

RBI Act 1934

RBI was nationalised on 1st Jan 1949

License CRR/SLR Interest Rate

Banking Regulation Act, 1949

Regulation power to banking system

2. **Currency printing** except ₹1 note (Under Ministry of Finance)

legal tender → **FIAT Money**

Currency Printing Coins → GOI - ₹1 note

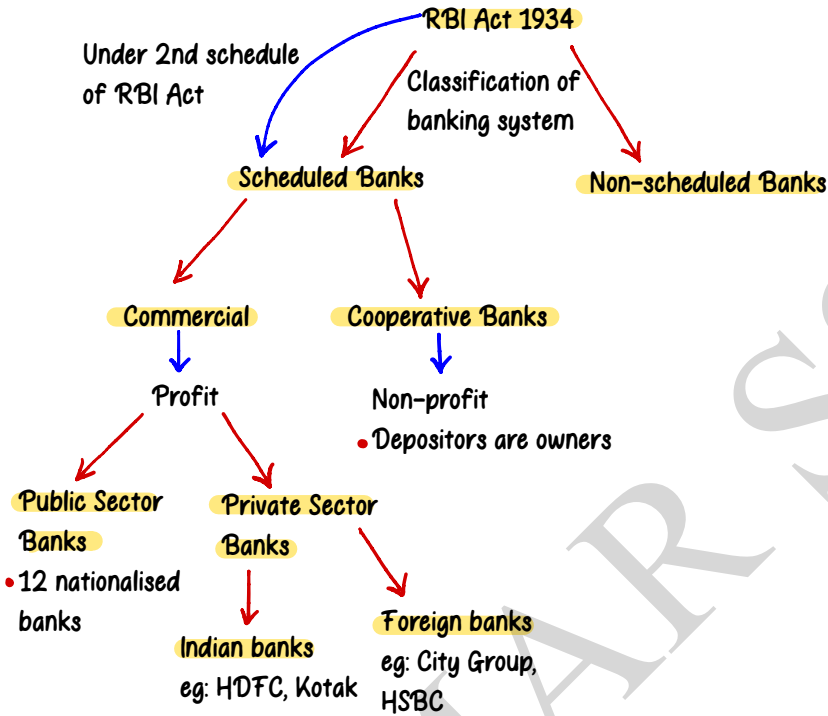
- | | |
|-----------|-------------|
| • Nasik | • Mumbai |
| • Dewas | • Hyderabad |
| • Mysore | • Calcutta |
| • Salboni | • Noida |

- **Plastic Money:** Credit card, debit card, etc.
- **Hot Money:** Assets such as stocks, deposits, bonds, etc.

3. Monetary Policy

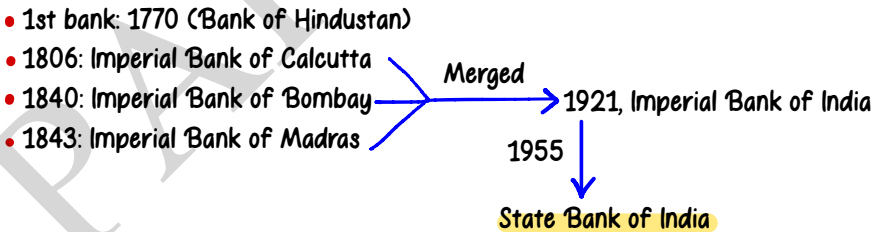
Quickly and regularly
 moves b/w financial
 markets

4. Lender of last resort and Bank of Banks

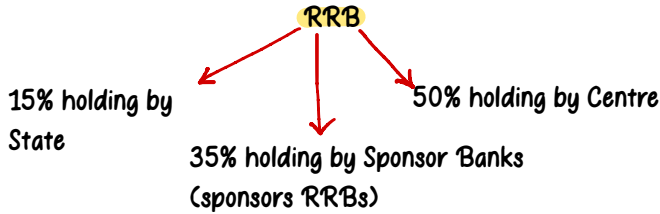


- Nationalisation of Banks in 1969 (14 banks) and 1980 (6 banks)

History of Banking System in India



- 1st Indian owned bank: Allahabad Bank, in 1865
 - Regional Rural Banks (RRBs): to enhance financial activities in rural areas
eg: Grameen Banks
1st: Pratham Grameen Bank (2nd Oct 1975, Moradabad, UP)
- RRB Act 1976
- Statutory Body



- **SIDBI**: 2nd April 1990
Headquarter: Lucknow

Other Financial Institutions

NABARD: National Bank for Agriculture and Rural Development

- **Set up**: 12 July 1982, on recommendation of B. Sivaramman Committee (1979)
- Through NABARD Act 1981

Functions:

- Provide finance for agriculture and rural development
- Supervises cooperative banks and **RRBs**
 - Regulate → RBI
 - Supervise → NABARD
- Does not deal directly with people
- Provides financing through PMAY, KCC, Ru Pay Kisan Cards
- **Headquarter**: Mumbai

National Housing Bank: 1988, through Act of 1987

→ Statutory body

SEBI: through SEBI Act of 1992 and established on 12th April 1988

- **Headquarter**: Mumbai
- **SEBI**: Securities and Exchange Board of India

Function:

- To protect the interests of investors
- Chairman: **Madhabi Puri Buch** (1st women, 1st non IAS chairman)
- **IRDAI**: Estd. through IRDAI Act of 1999, as a statutory body April 2000

→ Insurance Regulatory and Development Authority of India

Micro Finance Institution

- They offer financial services to low income population

eg: Loan, Savings, Insurance

- Microfinance loans is given to households having income less than ₹ 1.25 lakhs/annum

collateral free loan

→ ₹ 3 lakhs max

- Collateral: mortgage

- **Father of Micro Finance system: Muhammed Yunus (Bangladesh)**

↓
gave concept of Grameen
Model Banks, 1970 and was
given Nobel Prize

→ Bangladesh Grameen Bank

- 1st Micro Finance institution in India: **SEWA Bank (1974)**

Business Model of Micro Finance Banks

Min Max

- Self Help Groups (SHG): group of 10-20 people come together to find ways to improve their living conditions
- Group of below poverty line (BPL)
- Usually in rural areas

Informal
groups

- Joint Liability Group: group of 4-10 people

Min

Max

↓
Could be a small business
venture for profit

→ Micro Finance, collateral free loans

MUDRA scheme

- Micro Units Development and Refinance Agency, launched in 2015
- 3 types loan
 1. **Sishu**: loans upto 50,000
 2. **Kishore**: loans upto 50,000-5 lakhs
 3. **Tarun**: loans upto 5 lakhs-10 lakhs



Non-Banking Financial Companies (NBFC)

- Eg: Bajaj Finance, Muthoot Finance, Mahindra and Mahindra
- They are registered under **Companies Act of 1956**
- Gives loans and advances on gold
- They cannot accept Demand Deposits
- Deposits not guaranteed
- They are regulated by RBI
- They need not maintain CRR and SLR

NBFC-MFI

- Provides micro loans/micro financial services
- Max limit on Microfinance loans other than NBFC MFI → 25% of total assests
- Estd. through recommendation of a committee: Malegam Committee, 2010 (also sees issues of MFIs)
- To qualify for NBFC MFI license they should have at least 75% of assets in Microfinance

• A non-banking financial company cannot seek demand deposits from public and cannot issue cheques

