



Rizvi College of Arts, Science and Commerce

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Banking Regulations And Role of RBI

Chapter 04

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Introduction:



Bank is an institution that accepts money as a deposit to further lend it out for profit. Indian Banking has evolved in its present form during the British Raj. The structure and pattern of Indian banking is largely on the British Banking System. The Indian banking sector is regulated by the Reserve Bank of India Act 1934 (RBI Act) and the Banking Regulation Act 1949 (BR Act). ... In addition, the Foreign Exchange Management Act 1999 (FEMA) regulates cross-border exchange transactions by Indian entities, including banks.

Banking Regulation Act, 1949:



The legal framework of banking in India can be understood with the help of the following special points in the Banking Regulation Act, 1949. The Banking Regulation Act, 1949 is a legislation in India that regulates all banking firms in India. Passed as the Banking Companies Act 1949, it came into force from 16 March 1949 and changed to Banking Regulation Act 1949 from 1 March 1966. It is applicable in Jammu and Kashmir from 1956.

Definition of Banking:

The Banking Regulation Act, 1949 defines a banking company as a company which transacts the business of banking in India (Section 5-c).

Minimum Paid up Capital and Reserves:

Section 11 contains provision to ensure adequacy of minimum paid up capital and reserves. Adequacy of capital is essential for the soundness of a banking company.

As per section 11(2) of Banking Regulation Act, 1949, the banking company incorporated outside India (Foreign Bank) must maintain paid-up capital and reserves of 15 lakhs rupees and if it has a place or places of business in the city of Mumbai or Calcutta or both, 20 lakhs rupees.



Licensing of Banking Companies:



For commencing banking business in India, every banking company is required to obtain a license from the Reserve Bank of India, under the provisions of **Section 22** of the Banking Regulation Act, 1949. No company can carry on banking business in India unless it holds a license issued by the Reserve Bank of India.

OPENING BRANCHES:

Section 23 provides that every banking company should take Reserve Bank's prior permission for opening a new place of business in India, or to change the location of an existing place of business in India.

Maintenance of Liquid Assets:

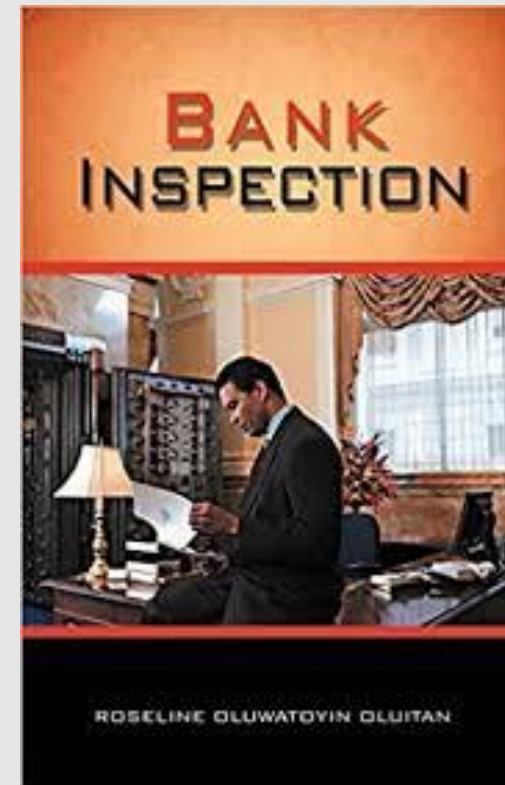
Section 24 of the Banking Regulation Act, (Amendment) of 1983, provides that every banking company is required to maintain in India, in cash, gold or unencumbered approved securities an amount which shall not at the cost of business on any day be less than 25 per cent of the total of its demand and time liabilities in India.

In terms of section 24 of the Banking Regulation Act, 1949 (AACs), every co-operative bank in addition to the Cash Reserve required to be maintained under section 18 (1), shall maintain in India, liquid assets, the value which shall not be less than such percentage as may be specified by Reserve Bank

Inspection of Banks:

The RBI conducts annual financial inspection of commercial banks, both public and private. The central bank is empowered under **Section 35** of the Banking Regulation Act to conduct inspection of banks to ensure they adhere to prescribed rules and regulations.

A bank will usually require an appraisal in this case. They'll hire a third-party appraiser to inspect the home, both inside and out, to determine if it's worth the amount of money they're loaning and to ensure that there aren't any glaring issues.



Restriction on Advances:

In terms of **Section 20** of the Banking Regulation Act, 1949, a bank cannot grant any loans and advances on the security of its own shares. Section 20(1) of the Banking Regulation Act, 1949 also lays down the restrictions on loans and advances to the directors and the firms in which they hold substantial interest.



Management of Banking Companies:

The Banking Regulation Act, confers wide powers on the Reserve Bank for ensuring better management of banking companies. The important provisions are as follows:

(a) Constitutional of Board of Directors

(b) Appointment of Chairman

(c) Control Over Top Management



Reserve Bank of India:



The Reserve Bank of India is India's central bank, responsible for the issue and supply of the Indian rupee and the regulation of the Indian banking system. It also manages the country's main payment systems and works to promote its economic development. Though set up as a shareholders' bank, the RBI has been fully owned by the Government of India since its nationalization in 1949. RBI has a monopoly of note issue.

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

Role of RBI:

Note Issuing
Authority

Bankers To
Governments

Banker's Bank

Exchange
Management
and Control

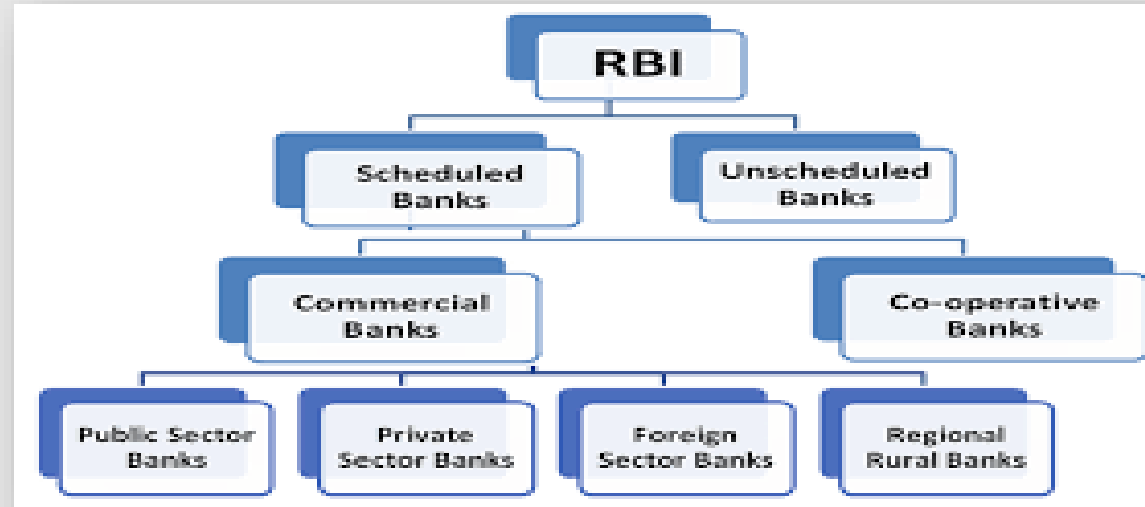
Supervising
Authority

Credit
Control

Development
and
Publishing

Export
Finance

Scheduled Banks:



Scheduled Banks in India refer to those banks which have been included in the Second Schedule of Reserve Bank of India Act, 1934. RBI in turn includes only those banks in this Schedule which satisfy the criteria laid down vide section 42 of the said Act. Banks not under this Schedule are called **Non-Scheduled Banks**.

Controller of credit:

Credit control is the system used by businesses and central banks to make sure that credit is given only to borrowers who are likely to be able to repay it. As such matters are rarely certain, credit controllers control lending by calculating and managing risk.

One of the functions of the central bank is the controlling of credit, which in turn controls the inflation rate within the economy. It is important to understand that the central bank cannot prevent or eradicate the inflation rate. However, they do monitor and control credit rates.

The central bank controls the volume of credit and money supply in the country. The main objective is to maintain price and economic stability in the country. To control inflation it has to restrict the supply of credit and to prevent depression and deflation it has to expand credit.

Chapter III – Section 45 – Credit Information:

Chapter III was inserted in the Reserve Bank of India Act, in the year 1962 under which RBI was empowered to collect credit information from banking companies and to furnish such information in a consolidated form to any banking company applying for the same along with the prescribed fee.



Non-Banking Finance Companies(NBFCs):



A non-banking financial institution or non-bank financial company is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency.

There are approximately 10,000 NBFCs registered in India with the Reserve Bank of India (RBI) out of which we have compiled a list of 50 top ranking NBFCs on two different parameters.

An NBFC is a company that provides banking services to people without holding a bank license. An NBFC is incorporated under the Indian Companies Act, 1956 whereas a bank is registered under Banking Regulation Act, 1949. NBFC is not allowed to accept such deposits which are repayable on demand.



THANK YOU...!