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Souvenir on National Seminar

Indian Banking Growth and Challenges

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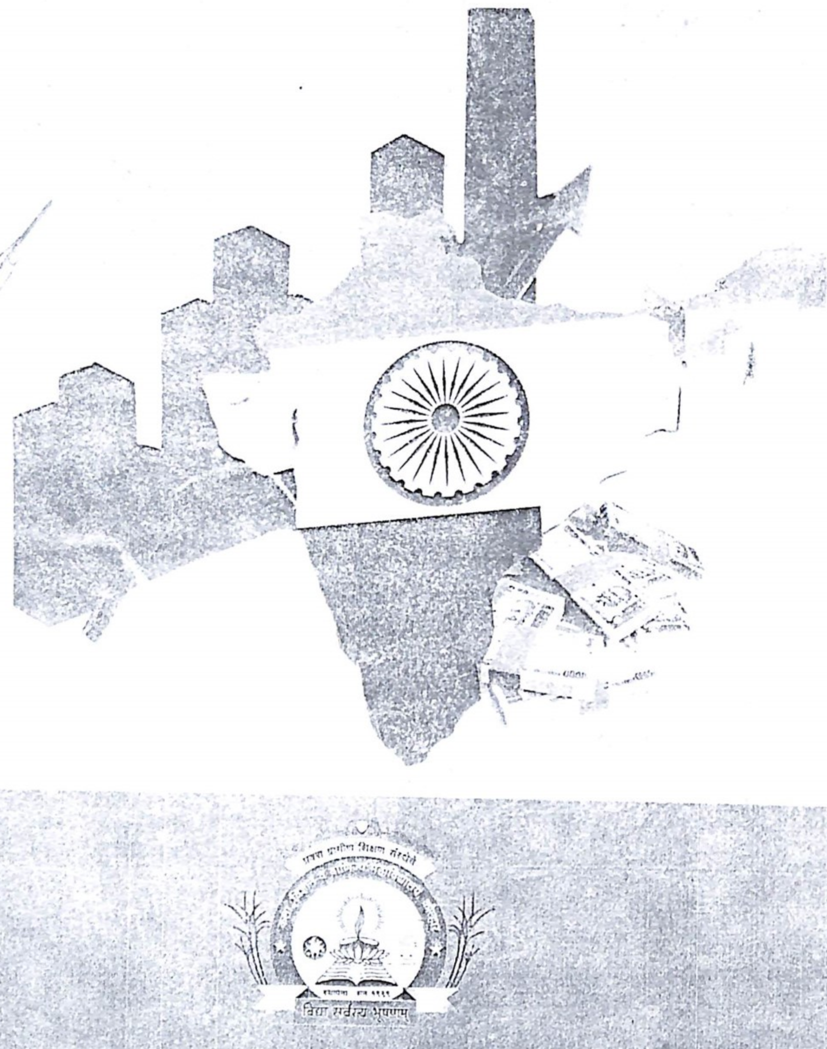
Bank of



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PUBLIC SECTOR BANKS AND BANKING REGULATIONS

Dr. Barhate G. H.
Head, Dpt. Of Commerce & Research Centre,
C. D. Jain College of Commerce,
Shrirampur
Mob. No.-7588005519

Dr. Adik B. R.
Vice Principal
C. D. Jain College of Commerce,
Shrirampur
Mob. No.-9970645474

Introduction:

Nationalisation of imperial bank of India in1955 created a way for the central government entered in banking business. In 1969, fourteen large banks were nationalised and again in1980 six more banks were taken over by the government. These nationalised banks are called as PSBs(Public Sector Banks). The total deposits of these banks amounted to around Rs. 200 crores. This move led to a further increase in the number of branches in the market, increasing to 91% of the total branch network of the country. The objectives behind nationalisation were- to smash the ownership and control of banks by the business families, to prevent the concentration of wealth and economic power to specific group, to mobilise savings from masses from all parts of the country, to cater to the needs of the priority sectors.

For the smooth functioning of any sector there should be some standardised framework. It should have certain regulatory guidelines to follow by banking unit for [illegible] practices and growing performance. Hence, regulation of banking sector is must. [illegible] paper studies the position of PSBs in India and regulatory framework for banks.

Objectives:

1. To study the position of PSBs in India.
2. To understand the need for banking regulations
3. To study the statutes for regulation of banks in India

Methodology:

The paper is based on secondary data collected from various books, journals, [illegible] authors.

Position of PSB:

In financial sector, banking sector is dominating. The PSBs, on the strength of their country wide presence, continued to be dominating to be the leader within the banking sector. The banking industry \is dominating in financial sector contributing the 85% of market share followed by Non Banking Financial Corporation (NBFC) Housing Financial [illegible] only 5% of Market Share.

Out of 85% of banking industry, PSBs have market share of 65%, followed by private sector banks which have 16% market share. Foreign banks have only 4% of market share. While the Indian banking sector features a large number of players competing against each other, the top 10 banks accounted for a significant 57% share of the total credit as on March 31, 2011

Financial Position of PSBs:

Economic liberalisation and subsequent economic growth along with competition in [illegible] sector helped banks grow at rapid pace. Following table explains financial position [illegible] India:

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Table No. 1

Financial Position of PSB

Amount in Crore

	2008-09	2009-10	2010-11	2011-12	2012-13
Assets	239819	295104	175048	199600	206520
Deposits	3112747	3692019	4372448	5002013	5745697
Investments	1012665	1215598	1336076	1507270	1759105
Advances	2259211	2701018	3304432	3877307	4472774

Source: Profile of banks 2012-13 retrieved from www.rbi.org

Interpretation:

1. All indicators in above table shows increasing trend.
2. Investment and advances has increased by 42% and 49% respectively in 2013-14 from 2008-09
3. Assets of PSB showing increasing trend over the period of 5 years.

Banking regulation:

Regulation in its broadest sense includes establishing specific rules of behaviour or regulatory aspect per se, monitoring or tracking observance of behaviour and supervision or oversight of the compliance with specific rules in the overall behaviour along with disincentives and penal provisions for non- compliance

The regulation of banking sector has evolved as an instrument of planned development. In such a situation the objectives are mobilisation of savings, and allocation of investible resources mainly through public sector and/ or administered prices of financial products.

For the smooth functioning of any sector there should be some standardised framework. It should have certain regulatory guidelines to follow by banking unit for sound business practices and growing performance.

Objectives of Bank Regulations:

Following are the most common objectives of banking regulation:

1. To set up prudential regulations. These regulations helps to reduce the level of risk to which bank creditors are exposed (i.e. to protect depositors)
2. System risk reduction focuses to reduce the risk of disruption resulting from adverse trading conditions for banks causing multiple or major bank failures. To reduce and avoid misuse of banks for criminal purposes, e.g. laundering the proceeds of crime.
3. Bank regulation helps to protect banking confidentiality.
4. Regulation can help to achieve goal of financial inclusion. Credit allocation to direct credit to favoured sectors. E.g. SHG, Agriculture, MSME industries.

5. It may also include rules about treating customers fairly and having corporate social responsibility.

Need for Banking Regulation:

Process of economic development of any country is depending on stability of banks. So it is important to have banking discipline. Undoubtly there is relation between bank behaviour and economic stability. Contribution of banking sector in economic development, whether negative or positive or neutral, strongly depends on the structure of banking system which is primarily shaped by legislation and government policies.

Experience over long period of years proved that banking system will not function satisfactorily without the supervision and regulation by central bank or government, whether in developed or underdeveloped country.

Concept of banking law:

There is variation in banking law as per country. Some country has single authority as regulator where as in some country situation is contradictory.

In India it is not possible to refer to a single law as the law and this has to be finding out from various sources. This position is not only in India but also in England. The India law has followed the English pattern. So the banking law is to be analysed from various legal provisions.

The term banking Law means which includes all those branches of law which are connected to the banking business. The important act for banking regulations is RBI Act and banking regulation act. Other important acts closely related to banking are Negotiable Instrument Act, Transfer of property Act, Partnership Act, Companies Act, Insolvency Act, Bank Nationalisation Act.

Statutes relevant for regulation of banks:

a. RBI Act, 1934:
   The RBI is the central bank of India. It is the higher authority which regulates the bank in terms of the elaborate provisions of the Banking Regulations Act. It also exercises few important powers under the RBI Act, it commenced its operations on 1 April 1935 during the British Rule in accordance with the provision of the RBI Act, 1934.
b. Banking Regulation Act, 1949:
   The Banking Regulation Act, 1949 is legislation that regulates all banking firms in India. Initially the Act was passed as banking Companies Act, but, in 1965 it was amended to make it applicable to cooperative banks and to introduce other changes.

Powers conferred by Banking Regulation Act on RBI:

1. Section 21 of the act confers power on RBI. To determine the policy in relation to advances to be followed by banking companies. Subsection (2) of that section empowers the RBI to issue directions to banking companies as to the purpose for which advances may or may not be made. This section is amended in [illegible]
2. Section 22 of the act requires every banking company to obtain a licence from the RBI for carrying on or commencing banking business in India. This is [illegible]

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intended to check the growth of unsound banks and to arrest indiscriminate floating of mushroom banks. The RBI is also empowered to cancel a licence already granted.

3. As per amendment in 1965, RBI is empowered to regulate the appointment and remuneration of the senior officers of banks, further it empowers RBI to remove from office the chairman of chief executive officers of banking companies, if such person found guilty.
4. The RBI is empowered to inspect any banking company at any time to ensure itself about the efficiency performance of the responsibilities of the banking company concerned. This is particularly useful to promote sound banking methods among the banking companies.
5. The RBI is authorised to caution any individual bank or banks generally against a particular transaction or a class of transaction or to offer advice.
6. The RBI may, apply to the high court for the winding up of any banking company, if it thins necessary.
7. According to section 36 of the Act, the RBI is required to make an annual report of the central government on trend and progress of banking in the country.
8. The provision relating to amalgamation of banks is an important one. The act requires any scheme of amalgamation to be approved by RBI. RBI does not sanction any scheme of amalgamation.
9. Certain returns are also required to be sent to RBI by banks such as monthly return of liquid assets and liabilities. Section 24(3), quarterly return of assets and liabilities in India (25), return of unclaimed deposits i.e. 10 years and above (26) and monthly return of assets and liabilities (27-1)

Conclusion:

This paper is an attempt to understand the current scenario of PSB as well as financial position of the banks. For smooth working of any bank, banking regulation is must. With a regulatory framework the banks can not functions properly. To smash the ownership and control of banks by the business families, to prevent the concentration of wealth and economic power to specific group, to mobilise savings from masses from all parts of the country, to cater to the needs of the priority sectors, banking regulation act was passed in India and it has proved to be useful for regulated functioning of PSBs.

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