Banking system in India

Introduction

A bank is a financial institution which performs the deposit and lending function.

A bank allows a person with excess money (Saver) to deposit his money in the bank and earns an interest rate. Similarly, the bank lends to a person who needs money (investor/borrower) at an interest rate. Thus, the banks act as an intermediary between the saver and the borrower.

The bank usually takes a deposit from the public at a much lower rate called deposit rate and lends the money to the borrower at a higher interest rate called lending rate.

Bank classification

There are two broad categories under which banks are classified in India-

1 – Scheduled banks

2 – Non-scheduled banks

Scheduled banks

Banks that are included in the second schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled banks.

The banks included in this category should fulfil two conditions-

1. The paid-up capital & collected fund of the bank should not be less than Rs. 5 lacs.
2. Any activity of the bank will not adversely affect the interests of the depositors.

Scheduled Banks are eligible for obtaining debts/loans on bank rate from the RBI.

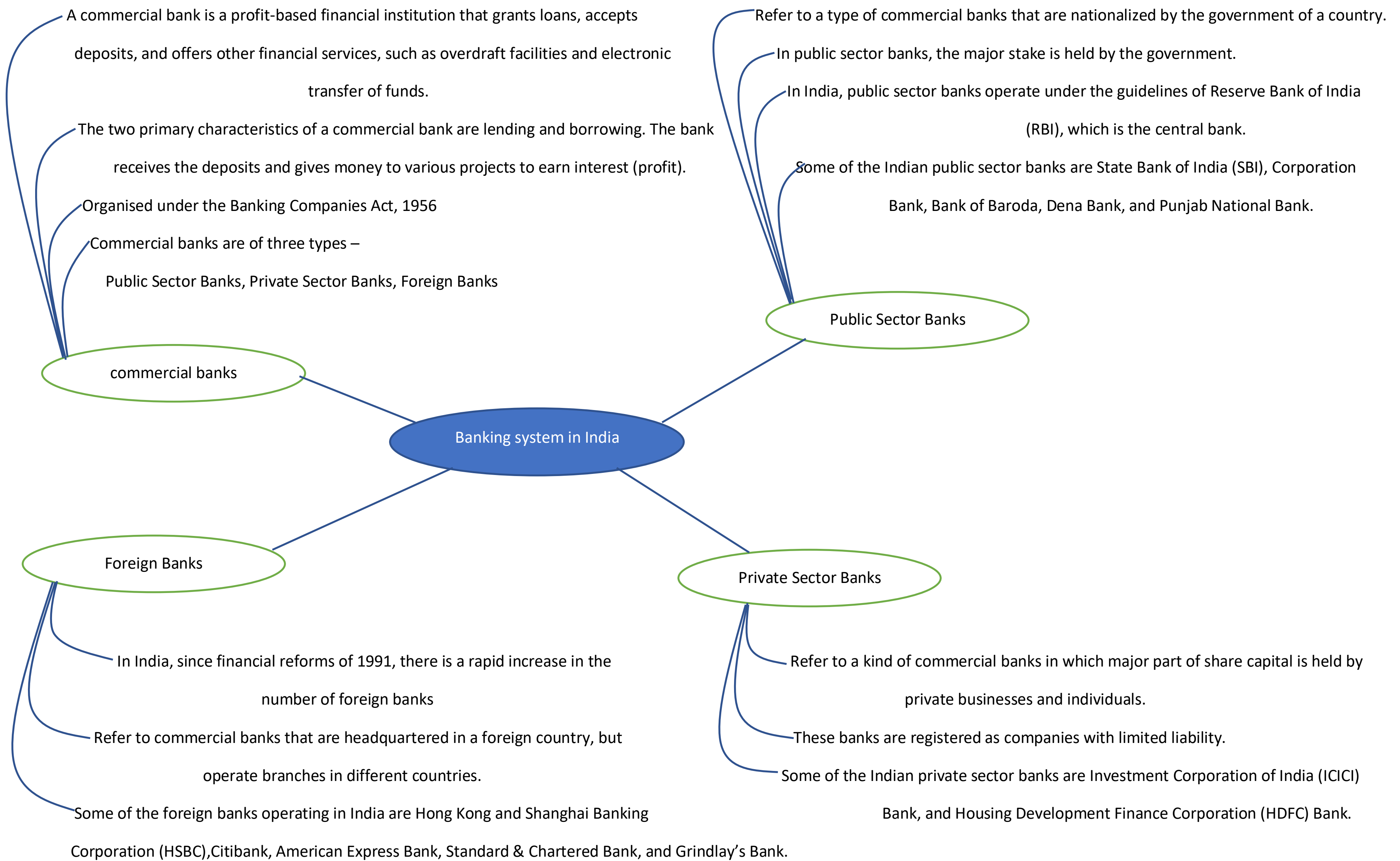
Scheduled banks are further divided into commercial and co-operative banks.

Non-scheduled banks

Non-scheduled banks by definition are those which are not listed in the 2nd schedule of the RBI Act, 1934.

Banks with a reserve capital of less than 5 lakh rupees qualify as non-scheduled banks.

Unlike scheduled banks, they are not entitled to borrow from the RBI for normal banking purposes, except, in emergency or “abnormal circumstances.”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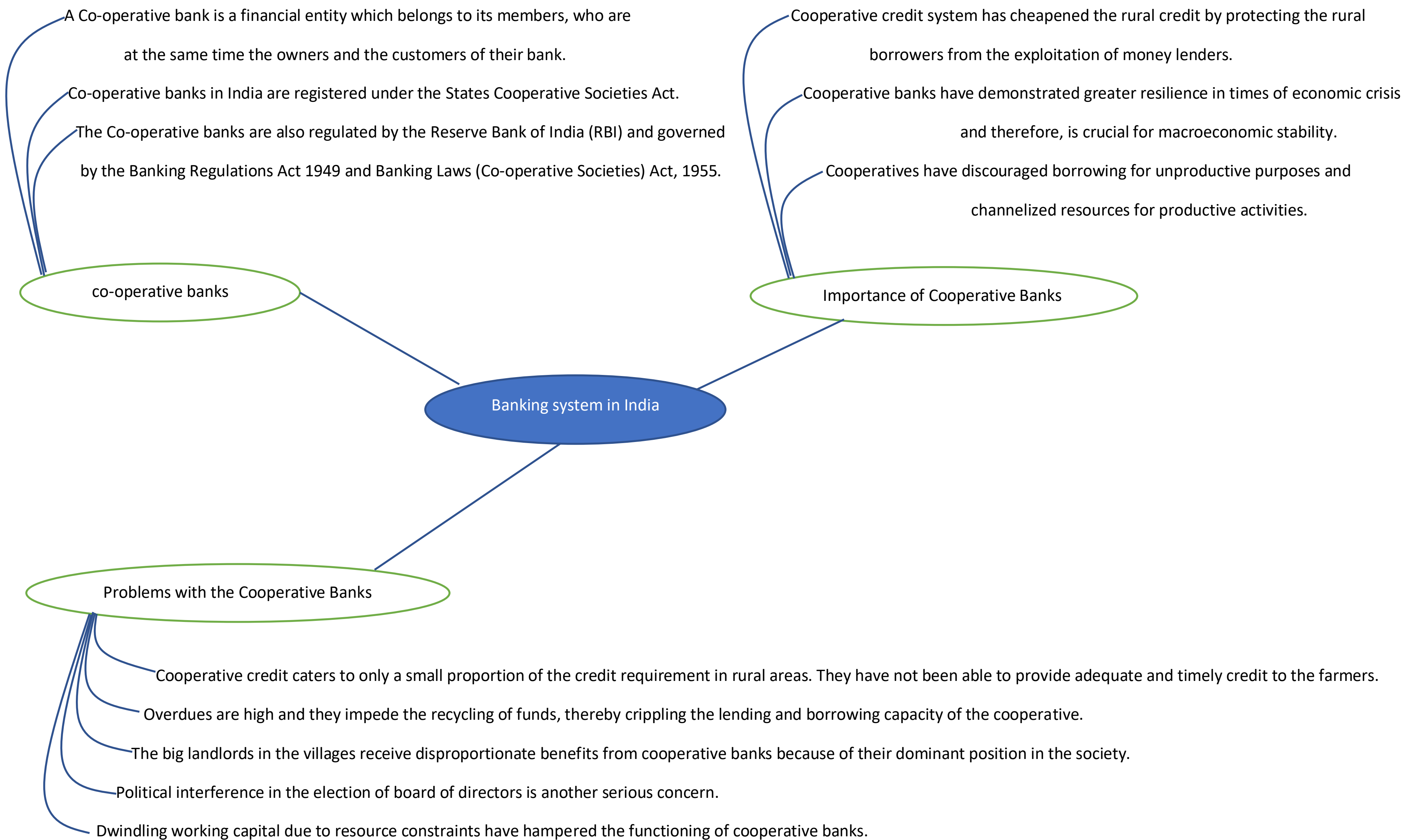
commercial banks
A commercial bank is a profit-based financial institution that grants loans, accepts deposits, and offers other financial services, such as overdraft facilities and electronic transfer of funds.
The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit).
Organised under the Banking Companies Act, 1956
Commercial banks are of three types –
Public Sector Banks, Private Sector Banks, Foreign Banks
Public Sector Banks
Refer to a type of commercial banks that are nationalized by the government of a country.
In public sector banks, the major stake is held by the government.
In India, public sector banks operate under the guidelines of Reserve Bank of India (RBI), which is the central bank.
Some of the Indian public sector banks are State Bank of India (SBI), Corporation Bank, Bank of Baroda, Dena Bank, and Punjab National Bank.
Foreign Banks
In India, since financial reforms of 1991, there is a rapid increase in the number of foreign banks
Refer to commercial banks that are headquartered in a foreign country, but operate branches in different countries.
Some of the foreign banks operating in India are Hong Kong and Shanghai Banking Corporation (HSBC),Citibank, American Express Bank, Standard & Chartered Bank, and Grindlay’s Bank.
Private Sector Banks
Refer to a kind of commercial banks in which major part of share capital is held by private businesses and individuals.
These banks are registered as companies with limited liability.
Some of the Indian private sector banks are Investment Corporation of India (ICICI) Bank, and Housing Development Finance Corporation (HDFC) Bank.


A Co-operative bank is a financial entity which belongs to its members, who are
at the same time the owners and the customers of their bank.
Co-operative banks in India are registered under the States Cooperative Societies Act.
The Co-operative banks are also regulated by the Reserve Bank of India (RBI) and governed
by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1955.
Cooperative credit system has cheapened the rural credit by protecting the rural
borrowers from the exploitation of money lenders.
Cooperative banks have demonstrated greater resilience in times of economic crisis
and therefore, is crucial for macroeconomic stability.
Cooperatives have discouraged borrowing for unproductive purposes and
channelized resources for productive activities.
co-operative banks
Importance of Cooperative Banks
Banking system in India
Problems with the Cooperative Banks
Cooperative credit caters to only a small proportion of the credit requirement in rural areas. They have not been able to provide adequate and timely credit to the farmers.
Overdues are high and they impede the recycling of funds, thereby crippling the lending and borrowing capacity of the cooperative.
The big landlords in the villages receive disproportionate benefits from cooperative banks because of their dominant position in the society.
Political interference in the election of board of directors is another serious concern.
Dwindling working capital due to resource constraints have hampered the functioning of cooperative banks.