# Banking Regulations

# Indian Banks- Evolution

The Hindustan Bank- 1779

The General Bank of India- 1786

Bank of Calcutta -1806

East India Company set up three banks in first half of 19th century.

Bank of Bengal-1809, Bank of Bombay-1840 & Bank of Madras-1843 (The presidency Banks)

# Indian Banks- Evolution

Amalgamated in 1920 & renamed "The Imperial bank of India" - 27.01.1921

RBI act passed in 1934 & RBI came into existence in 1935

SBI act passed in 1955 & SBI has taken over the Imperial bank

Many Indian Joint stock Banking companies set up Banks

Some of the large banks were nationalized in 1969 & some in 1980 and some of them were merged later

# Banking Structure

**The essential function of a bank is to provide services related to the storing Of deposits and the extending of credit. While interest is paid on deposits ( except current deposits ),interest is charged on loans.**

## Scheduled

**Satisfy the criteria laid down in sec 42(6) (a) of the RBI act 1934 and have been included in second schedule Of RBI**

**State Co-operative Banks**

**Commercial Banks**

**Public sector, Private sector(old & new)
Foreign & RRB (sponsored by PSB), Small Banks**

## Non Scheduled

**Non scheduled bank is a banking company as defined in section 5 ( c ) of BR act 1949**

**Central Co-op Banks & Primary Credit societies**

# INDIAN BANKING SYSTEM

## Public sector Banks

- Nationalized banks (12)
- RRB's (43)

## Private sector Banks

- Old gen Pvt Banks (14)
- New gen Pvt Banks (7)
- Foreign Banks (46)
- Non Sch banks (LAB) (4)
- Small Banks

## Development Banks

- IFCI
- IIBI
- SIDBI
- NABARD
- EXIM Bank
- N H B
- Others

## Co op sector Banks

- Central Co-op banks
- State Co-op banks
- Pri Agri credit societies
- Land dev Banks
- Urban Co-op banks
- State land dev Banks

The banking system in India is regulated by the Reserve Bank of India (RBI), through the provisions of the Banking Regulation Act, 1949.

BR act is the basic regulation

RBI is the regulator and also central bank

# The Important acts in Banking sector

B R Act
1949

RBI Act
1934

FEMA Act
1999

N I Act
1881

# B R Act

# B R Act 1949

**Is a legislation in India that regulates all banking firms in India.**

**Passed as the Banking Companies Act 1949**

**Changed to Banking Regulation Act 1949 from 1 March 1966.**

**It is  applicable to all the banks including cooperative banks**

**The Act provides a framework using which commercial banking in India is supervised and regulated**

# B R Act 1949

The Act gives the RBI the power to

- License banks,
- Supervise the appointment of the boards and management,
- Regulate the operations of banks,
- lay down instructions for audits Control moratorium, merger and liquidation
- issue directives in the interests of public good and on banking policy, and impose penalties.

# Banking Regulation Act -1949

## Objectives of the Banking Regulation Act

- **to safeguard the interest of depositors;**

- **to develop banking institutions on sound lines;**

- **to attune the monetary and credit system to the larger interests and priorities of the nation.**

# Banking Regulation Act

**Definition –**
**Banking company is any company which transacts the business of Banking.**

**Banking**

**Accepting deposits for the purpose of lending from the public repayable on demand or otherwise & withdraw able by DD , Cheque or otherwise.**

**Banking Policy**

**Any policy specified by RBI from time to time in the interest of Banking system / monetary / depositors.**

**Banking Branch**

**Banking Branch means any branch office at which deposits are received , cheques are cashed or money's lent.**

# Provisions of B R act 1949

- Banking Business
- Paid up Capital & reserves
- Licensing Of banks
- Opening New branches
- Payment of dividend
- Control advances
- Reserve fund
- Cash reserves
- Liquid assets
- RBI Powers for Inspection
- Restrictions on Loans & Advances

# R B I Act

# R B I  Act 1934

Reserve Bank of India Act, 1934 (RBI Act): The RBI Act was enacted to establish and set out the functions of the RBI.

The RBI Act empowers the RBI to issue rules, regulations, directions and guidelines on a wide range of issues relating to the banking and the financial sector

It come out with its policies regularly

# R B I

**The central Bank & center for Indian financial & monitory system. An Apex institution**

**Established under RBI act of 1934 , started functioning on 01.04.1935 and nationalized in January 1949**

**The bank is managed by central Board of directors, four local board of directors & a committee of central Board of directors.**

**The central board comprises of Governor & four deputy governors & 15 directors nominated by central government)**

# Functions of R B I

- RBI functions within the frame work of mixed economic system
- It maintains close & continuous collaboration with the Government
- RBI regulates issue of notes & keep the reserves for securing monitory stability
- RBI  maintain financial stability & ensure sound financial  institutions

# Functions of R B I

- Maintains stable payment system to ensure financial transactions can be safely executed.
- To promote & develop financial infrastructure of markets & systems.
- Play a leading role in developing sound financial system.
- To ensure credit allocation by the financial system broadly reflecting national economic priorities.
- To regulate the overall volume of money & credit in the economy for price stability

# Functions of R B I

- **To issue & manage currency**

- **To serve as Banker to the Government and act as Bankers Banker.**

- **To supervise & control commercial banks, co-operative Banks & other FI's**

- **To promote the development & healthy functioning of FI's & markets.**

- **To manage the rupee exchange rates and forex reserves .**

- **To regulate & control money & credit.**

# Functions of R B I

1. Capital adequacy and provisioning requirements
2. Licensing of small finance banks, payment banks
3. Directions on External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorized Dealers
4. Restrictions applicable to end use of the loans and advances provided by banks

# R B I- Policies

- Monitory policy regulations
- Credit policy regulations
- Exchange policy regulations

# Why Monetary policy

- Price stability
- Expansion and distribution of Bank's credit
- Promotion of fixed investments
- Restriction of inventories
- Promotion of exports
- Promotion of food procurement operations
- To maintain the stability of the rupee.

# Techniques of Monetary policy

- **Liquidity Adjustment Facility (REPO Reverse Repo)**
- **Marginal Standing facility**
- **C R R**
- **S L R**
- **Bank rate**

# RBI Monitory policy- LAF

**Liquidity adjustment facility (LAF) is a monetary policy tool which allows banks to borrow money through repurchase agreements.**

**LAF is used to aid banks in adjusting the day to day mismatches and manage the liquidity.**

- **LAF consists of repo and reverse repo operations.**
- **Repo is used to mop up money and reverse repo to supply money in the market**

# RBI Monitory policy

## Repo & Reverse repo

- Short term lending by RBI to banks against securities
- RBI controls flow of funds to banks using the repo rate
- Higher the repo rate, lower the borrowings by the banks and vice versa
- In case of reverse repo banks can park their excess liquidity with RBI
- Presently- Repo rate is 5.9 & reverse repo is 3.5

# RBI Monitory policy- MSF

**Marginal standing facility (MSF) is the rate at which SCB can borrow funds overnight from RBI against government approved securities to meet the acute shortage of cash and is very short term in nature.**

- **The rate of MSF is pegged 1% ( 100 bps) over Repo rate.**
- **Presently it is 6.15 %**
- **Scheduled Commercial Banks can borrow up to 1% of NDTL**

# RBI Monitory policy

**Bank Rate**

- **Is the rate at which RBI allows finance to commercial banks**
- **is a short term finance**
- **Will have direct impact on Base rate (BPLR)**
- **Is 6.15 % (now)**

# RBI Monitory policy

**C R R – Cash reserve ratio**

- **Is the amount of funds that the banks have to keep with the RBI.**
- **A tool to drain out the excess liquidity from banks**
- **RBI need not pay any interest to banks for maintaining CRR**
- **Is 4.5 % on the total deposits**

# RBI  Monitory policy

**S L R**

- **18 % of NDTL  as on date has to be maintained is liquid assets form ( cash/Gold/ Unencumbered approved securities ) on daily basis**
- **RBI can increase this up to 40 % depending on economic situation**

# FEMA Act

# FEMA Act 1999

**Foreign Exchange Management Act, 1999 and the rules and regulations issued thereunder (FEMA):**

**The FEMA is the primary legislation in India which regulates cross-border transactions and related activities.**

**It is a set of regulations that empowers the RBI to pass regulations relating to foreign exchange**

**FEMA and the rules made thereunder are administered by the RBI.**

# Features of FEMA Act 1999

**FEMA gives powers to the Central Government/ RBI to regulate the flow of payments to and from a person situated outside the country.**

**It also gives power to the central government for imposing restrictions on activities like making payments to a person situated outside of the country or receiving money through them**

**All transactions must be carried out through authorized dealers who are Commercial Banks**

**State Co-operative Banks and Urban Co-operative Banks**

# Objectives of FEMA Act 1999

**The main objective of FEMA is to help facilitate external trade and payments in India.**

**It was also meant to help orderly development and maintenance of foreign exchange market in India.**

**It defines the procedures, formalities, dealings of all foreign exchange transactions in India**

# FEMA Act 1999

Under FEMA , the adjudicator (an officer with the Enforcement Directorate) can impose a penalty three times the size of the contravention involved where the sum is quantifiable.

In case the contravention is not quantifiable, the penalty is set at Rs 2 lakh. Further, where the violation is a continuing one, an additional penalty of Rs 5,000 per day of contravention can be imposed.

# Negotiable Instruments Act 1881

# NI- Explained

A negotiable instrument is a signed document that promises a sum of payment to a specified person or the assignee.

It is a transferable, signed document that promises to pay the bearer a sum of money at a future date or on-demand

# NI- Explained

Negotiable instruments are transferable in nature, allowing the holder to take the funds as cash or use them in a manner appropriate for the transaction or according to their preference.

Once the instrument is transferred, the holder obtains a full legal title to the instrument.

# N I – Parties

**Normally there are three parties to a NI**

**Drawer-The maker of the N I is called the drawer;**

**Drawee- The person thereby directed to pay is called the drawee.**

**Payee - The payee is the person receiving the payment must be named in the instrument**

# Types of N I

The various types of N I are

Promissory notes. ( Sec 4 of NI act)
Bill of exchange. ( Sec 5 of NI Act)
Cheque. ( Sec 6 of N I Act)

# Promissory Notes

It is an instrument in writing containing an unconditional rule signed by one party to pay a certain sum of money only to or to the order of a certain person or the bearer of the instrument.

Thus a promissory note contains a promise by the debtor to the creditor to pay a certain sum of money after a certain date

# Promissory Note

## Promissory Note

______________________________ Place of residence

__________________________ Date

I, _______(Maker's name)__________ agree and promise to pay __(Payee's name)... or order the sum of (€____________) Euros for value received, with interest at the annual rate of ...% payable on/after _____(Date)______.

________________________________

(Maker's signature)

# Bill of Exchange

Bills of exchange refer to a legally binding, written document which instructs a party to pay a predetermined sum of money to the another party.

Some of the bills might state that money is due on a specified date in the future, or they might state that the payment is due on demand

# Bill of Exchange

**A bill of exchange is used in transactions pertaining to goods as well as services.**

**It is signed by a party who owes money (called the payer) and given to a party entitled to receive money (called the payee or seller), and thus, this could be used for fulfilling the contract forpayment.**

# Bill of Exchange

## Bill of Exchange

Stamp

Amount: $ 50,0000 Date: 01 Jan 202X

Term: one month after the date pay to Mr. A or order the sum of $ 50,000, for value receive.

Accepted
(Signed)
Drawee name & address

Drawer
(Signed)
Drawer name & address

# Cheque

A cheque refers to an instrument in writing which contains an unconditional order, addressed to a banker and is signed by a person who has deposited his money with the banker.

This order, requires the banker to pay a Certain sum of money on demand only to the bearer of cheque (person holding the cheque) or to any other person who the holder of the instrument

# Cheque

**N I act**

Sec 6 of N I act

Is a B O E drawn on Specified banker ,

Not expressed to be Payable otherwise on demand

It includes truncated Cheque in E form

**Parties to the cheque**

Drawer

Drawee

Payee

# A Valid cheque

Should be Unconditional order in writing to be Paid on demand only for certain amount

Amount in figures/ words to tally

Drawn on specified banker

Signed by drawer for Certain sum only to a certain payee

Drawer's signature to tally

Should be in printed form with number by the bank

Post / anti dated , stale cheques, material alterations/ Mutilated cheques are invalid

# Transfer of NI

A negotiable instrument can also be transferred through assignment of the instrument under section 130 of TPA.

It is always preferable to take a NI under endorsement than assignment as the transferee gets all the rights of holder in due course where as in case of assignment the assignee does not get the rights of holder in due course

# Endorsements

**Section 15 of NI act.**

**Maker/holder of the instrument signs the same for the purpose of negotiation on the back of the instrument or a slip of paper annexed thereto or signs a stamp paper intended to be completed as negotiable instrument .**

# Endorsements

Endorsee- The person whose name is written on the back of a cheque, bill of exchange, etc. so that they can receive the money from it instead of the person it was originally written for:

The holder of a negotiable instrument is normally the endorsee.

Concluded