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OVERVIEW OF INDIAN BANKING SYSTEM

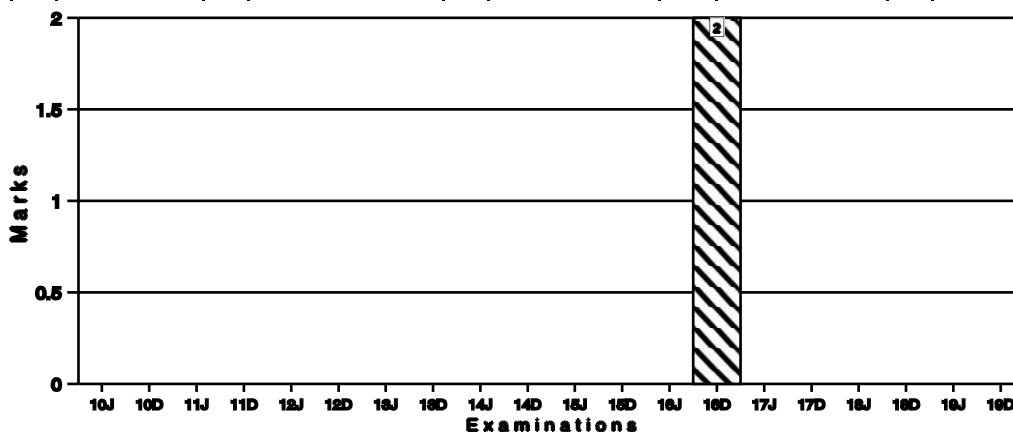
THIS CHAPTER INCLUDES

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| <ul style="list-style-type: none"> • Indian Banking System - Evolution • Role of RBI • Structure of Banks in India • Commercial Banks | <ul style="list-style-type: none"> • Co-operative Banking System • Development Banks • NBFCs |
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Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective
  Short Notes
  Distinguish
  Descriptive
  Practical



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SHORT NOTES

2009 - June [4] Write short note on the following:

(vi) Specialised development financing institutions

(3 marks)

Answer :

Specialised development financing institutions: Specialised Development Finance Institutions are financial institutions set up by the government to provide long-term financial and technical assistance to economic sectors of the country that other providers of capital do not necessarily go into.

The specialised development financing institutions both at National level and state level are as under :

For Industry : IDBI, SIDBI, IIBI, IFCI, ICICI, SIDCO

For Agriculture : NABARD

For Exports : Export - Import Bank

For Housing : National Housing Bank of India

For Infrastructure : IDFC

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DESCRIPTIVE QUESTIONS

2008 - Dec [3] (c) Describe the main functions of the Small Industries Development Bank of India (SIDBI). **(5 marks)**

Answer :

Functions of Small Industries Development Bank of India (SIDBI):

Over the years, the scope of promotional and developmental activities of SIDBI has been enlarged to encompass several new activities. It performs a series of functions in collaboration with voluntary organisations, non-governmental organisations, consultancy firms and multinational agencies to enhance the overall performance of the small scale sector. The important functions of SIDBI are discussed as follows:

- (i) Initiates steps for technology adoption, technology exchange, transfer and up gradation and modernisation of existing units.
- (ii) SIDBI participates in the equity type of loans on soft terms, term loan, working capital both in rupee and foreign currencies, venture capital support, and different forms of resource support to banks and other institutions.
- (iii) SIDBI facilitates timely flow of credit for both term loans and working capital to MSMEs in collaboration with commercial banks.
- (iv) SIDBI enlarges marketing capabilities of the products of MSMEs in both domestic and international markets.
- (v) SIDBI directly discounts and rediscounts bills with a view to encourage bills culture and helping the SSI units to realise their sale proceeds of capital goods / equipments and components etc.
- (vi) SIDBI promotes employment oriented industries especially in semi-urban areas to create more employment opportunities so that rural-urban migration of people can be checked.

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2009 - June [2] Attempt the following:

- (i) List down some of the strengths of the Indian banking system.

(5 marks)

Answer :

Strengths of the Indian Banking System :

According to a recent survey conducted by the Federation of Indian Chamber of Commerce and Industry (FICCI) over 95% of the respondents were of the view that the Indian Financial Sector is robust and sound.

According to the survey, some of the strengths of the banking system are :

- Regulatory system
- Economic growth
- Technological advancement
- Risk assessment system
- Credit quality
- Overall health of these banks has improved.

9.1.14



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Asset quality has improved. Almost all Public Sector Banks are earning net profits.

NPA level has come down drastically. Capital adequacy ratio has improved substantially. Latest technology has been adopted. Supervisory and monitoring systems have been adopted which have stood the test of time.

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2016 - Dec [2] (b) Comment on the following:

(viii) RBI is a banker to the government.

(2 marks)

Answer:

True: In terms of **Sections 20 and 21 of the RBI Act 1934**, the RBI has the obligation to transact the banking business of the Central Government.

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TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATIONS

SHORT NOTES

Question 1: Write a short note on National Housing Bank (NHB)

Answer:

National Housing Bank (NHB):

National Housing Bank was set up in July, 1988 as the apex financing institution for the housing sector with the mandate to promote efficient, viable and sound Housing Finance Companies (HFCs). Its functions aim at to augment the flow of institutional credit for the housing sector and regulate HFCs. NHB mobilizes resources and channelizes them to various schemes of housing infrastructure development. It provides refinance for direct housing loans given by commercial banks and non-banking financial institutions. The NHB also provides refinance to Housing Finance Institutions for direct lending for construction/purchase of new housing/dwelling units, public agencies for land development and shelter projects, primary cooperative housing societies, property developers. At present, it is a wholly

owned subsidiary of Reserve Bank of India which contributed the entire paid-up capital. RBI has proposed to transfer its entire shareholding to Government of India to avoid conflict of ownership and regulatory role. For this transfer, the central bank will pay RBI, in cash, an amount equal to the face value of the subscribed capital issued by the RBI. The outstanding portfolio of NHB at ₹ 33,083 crores as on 31st December 2012 is almost equally divided between the commercial banks and the HFCs.

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DESCRIPTIVE QUESTIONS

Question 1: State the types of activities undertaken by NABARD.

Answer:

NABARD undertakes a number of inter-related activities/services which fall under three broad categories

(a) Credit Dispensation:

NABARD prepares for each district annually a potential linked credit plan which forms the basis for district credit plans. It participates in finalization of Annual Action Plan at block, district and state levels and monitors implementation of credit plans at above levels. It also provides guidance in evolving the credit discipline to be followed by the credit institutions in financing production, marketing and investment activities of rural farm and non- farm sectors.

(b) Developmental & Promotional:

The developmental role of NABARD can be broadly classified as:-

- Nurturing and strengthening of - the Rural Financial Institutions (RFIs) like SCBs/SCARDBs, CCBs, RRBs etc. by various institutional strengthening initiatives.
- Fostering the growth of the SHG Bank linkage programme and extending essential support to SHPIs NGOs/VAs/ Development Agencies and client banks.



- Development and promotional initiatives in farm and non-farm sector.
- Extending assistance for Research and Development.
- Acting as a catalyst for Agriculture and rural development in rural areas.

(c) A Supervisory Activities:

As the Apex Development Bank, NABARD shares with the Central Bank of the country (Reserve Bank of India) some of the supervisory functions in respect of Cooperative Banks and RRBs.

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