The RRBs, over the years have made impressive improvement on Various business indicators. For instance, deposits of RRBs have grown by 18 times and advances by 13 times between 1980 and 1990.Between 1990 and 2004, deposits and advances grew by 14 times and 7 times, respectively. Between the year 2000 and 2004,loans disbursed by RRBs more than doubled reflecting the efforts taken by the banks6 to improve credit flow to the rural sector. The average per branch advances also increased from Rs.25 lakh in March 1990 to Rs.154 lakh in March 2003. When one considers the deployment of credit relative to the mobilisation of resources, the credit-deposit (C-D) ratio of RRBs were more than 100 per cent during the first decade of their operations up to 1987. Though the C-D ratio subsequently became lower, of late, it has shown an improvement and went up from around 39 % in March 2000 to 44.5 % in March 2004 .

In order to make Financial Inclusion Plan of the government effective and to expand the penetration of banking network in unbanked and under-banked rural areas, regional rural banks (RRBs) also worked out its branch expansion plan for 2011-12 and 2012-13 with 10 per cent increase over the previous year. Accordingly, RRBs could open 913 branches in 2011-12 against its target of opening 1247 branches. This figure compares favorably with that of opening of 521 branches in 2010-11 and 299 branches in 2009-10. For 2012-13, a target of opening 1845 new branches has also been set.

11.4.2 Role of Regional Rural Banks in the Indian Economy

Regional Rural Banks have made commendable progress in advancing various types of loan to the weaker and under privileged section of the rural society. As per recent RBI report, "The RRBs have fared well in achieving the objective of providing access to weaker sections of the society to institutional credit but the recovery position on the whole is not satisfactory."

Q 4: Do you think that there is any potential for health tourism in India? If yes, explain.

Q 5: Discuss about the IT-BPM industry in India.

Q 6: Are you aware of the changes that have taken place in the Indian service sector due to the GST?

Q 7: What is the impact of demonetisation on service sector in India? Discuss briefly.

Q 8: What do you suggest for the improvement of Indian service sector?

Q 9: Explain the role of banking sector in the growth of services sector in India?

Q 10: State three cases for and against merger of Public Sector Banks in India?

Q 11: Explain the significance of tourism sector in the overall growth of services sector in India? Suggest a few policies for improvement of tourism sector in India.

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UNIT 11 : THE FINANCIAL SECTOR IN INDIA

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction

11.3 Commercial Banks in India

11.3.1 Changing Role of the Commercial Banks

11.4 Regional Rural Banks

11.4.1 Progress of Regional Rural Banks

11.4.2 Role of Regional Rural Banks in the Indian Economy

11.5 Reserve Bank of India

11.5.1 Developmental Role of Reserve Bank of India

11.6 Role of Non Banking Financial Institutions (NBFIs) in the Indian Economy

11.7 The Major Reforms initiated in the Financial Market

11.8 Let Us Sum Up

11.9 Further Reading

11.10 Answers to Check Your Progress

11.11 Model Questions

11.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- derive the changing role of commercial bank in pre nationalisation and post nationalisation period.
- discuss the role of Regional Rural Bank.
- discuss developmental role of Reserve Bank of India.
- know the role Non-banking financial institution (NBFI).
- discuss the major reforms initiated in Financial Market.

11.2 INTRODUCTION

In this unit, we shall discuss about the financial sector in India. The word 'finance' means funds of monetary resources required by various

11.4.1 Progress of Regional Rural Banks

After the establishment, the regional Rural Banks have extended their network throughout the country to a considerable extent. At Present there are 196 regional rural banks operating in India with nearly 14,484 branches.The presence of RRBs shows wide variation both across States and sponsor banks. Although RRBs are spread over twenty-six States, they have most of their presence in seven States, i.e., Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Maharastra, Rajasthan and Uttar Pradesh. Uttar Pradesh has the highest number of RRBs, i.e., thirtysix and Kerala has got only two amongst the major States of the country . The north-eastern States like Manipur, Meghalya, Mizoram and Nagaland have got only one RRB. Like-wise, seven sponsor banks amongst twenty-eight, viz., Bank of Baroda, Bank of India, Central Bank of India, Punjab National Bank, State Bank of India, United Bank of India and UCO bank account for more than three fifths of the RRBs. More than 160 RRBs earned profit in March 2004 while 150 RRBs were found to be earning profits for three consecutive years beginning with the year 2000-01. More than half of these loss-making RRBs are found to be operating in four States, i.e., Bihar, Madhya Pradesh, Maharastra and Orissa. Seen at the level of sponsor banks, three banks, i.e., Bank of India, Central Bank of India and State Bank of India accounted for more than half of the loss making RRBs.

Till 1996 these RRBs has been lending nearly 1500 crore to the rural people and more than 90% of the loan has been advances to weaker section of the society. During the last 20 years RRB have been participating actively in various programmes designed for providing credit assistance to identified beneficiaries included under the new 20 point programmes, IRDP and other programmes designed for scheduled caste and tribes. RRB's are also advancing loan to weaker section and physically handicapped persons under differential rate of industrial scheme.

entities like individual, business unit, corporate and government. Individuals and households need funds for meeting their day to day current requirement related to consumption and investment. The business unit and corporate require fund to pay wages, salaries, buy raw material, machineries etc. The government require a huge amount of fund so as to meet its expenditure for routine maintenance works like law and order, defence, social service etc and also to finance its development programmes. Under the financial sector commercial bank plays a very important role in the development of Indian Economy. Again Regional Rural bank also plays very important role in providing rural finance in Indian Economy.

In this unit, we also shall discuss about developmental role of Reserve Bank of India and the role of Non Bank Financial sector and also the major reforms initiated in financial market of Indian Economy.

11.3 COMMERCIAL BANKS IN INDIA

The beginning of commercial banking in India was made in the seventeenth century and before that indigenous banker in the form of seths, Mahajans etc. The systematic form of commercial banks was initiated in the early part of nineteenth century with the establishment of Presidency Banks. In the year 1913 total of 18 such banks were functioning.The three Presidency Bank merged and Imperial Bank of India (now known as State Bank of India)was established in 1920. In 1949 The Banking Regulation Act was implemented and Reserve Bank of India was given extensive regulatory power over the commercial bank. In the beginning of 1stPlanning (150-51) there were nearly 430 commercial banks operated in India. But the number of such banks declined in the subsequent period due to amalgamation of small banks with big banks.In 1969, 14 major commercial bank was nationalised and after that in 1980, 6 another commercial bank were nationalised. At present there are 27 such nationalised banks(including SBI group) working in India. With the introduction of banking sector reforms the composition of banking system in India was recorded a considerable change. At present there are 381 scheduled and two non-scheduled banks operated in India.

implementation of various reform measures during the 1990's. Apart From certain limitations, performance of commercial bank in the post nationalisation phase was definitely impressive.

11.4 REGIONAL RURAL BANKS

In order to support the rural banking sector in recent years, Regional Rural Banks has been set up all over India with the objective of meeting the credit needs of the weaker Section of the society. These institution are playing a very important role for all round development of rural areas of the country. Regional Rural banks have been receiving a high degree of importance in the system of rural credit. Basically Reserve bank of India with the central Government, State government after considering the gross absence of banking facilities in rural areas, had set up Regional Rural Bank in the late seventies with the objective of improving the economic status of the rural people as well as to encourage saving among the rural masses. As Per the recommendations of the working group of rural bank , the regional rural bank were established in 1975 for supplementing the commercial banks and co-operatives in supplying rural credit. The main objective of regional rural banks in Indian is to advance credit and other facilities, especially to small and marginal farmer, agricultural labour, and small entrepreneurs in order to develop the different sectors of rural areas of the country. At the initial stage, five regional banks were established on 1975 (two in Uttar Pradesh, one in Jaipur,one in Haryana and one in West Bengal)under the sponsorship of State Bank of India, The Syndicate Bank, United Commercial Bank, Punjab National Bank and United Bank of India Respectively. All these five Banks have an authorised capital of Rs 1 crore and paid up capital of Rs. 25 lakhs. The Central Government have taken 50% of the share capital, whereas the State Government have taken 15% and the rest 35% was taken by the Commercial Bank. The reserve bank of India also allows this bank to maintain the CRR(cash reserve ratio) at 3% and SLR(statutory liquidity ratio) at 25%.

11.3.1 Changing Role of the Commercial Banks

From the beginning, Commercial Banks are playing an important role in the economic development in India. The Commercial Bank of India plays important role especially in the mobilisation of resources, Supply of rural credit, supply of credit to small scale industries etc. Commercial banks are rendering valuable services with mobilising small saving and financial resources from different areas. These banks also contributed in the development of banking habit among the people through the extensive branch banking, prompt services and sustained publicity. Before nationalisation, commercial banks did not show much interest in the development of small scale industries of the country .But after the nationalisation of 14 commercial bank in July 1969, these banks has taken some steps to extend credit to the small scale industries to some extent.In recent years the amount of loan extended by the commercial banks to the small scale industries of the country has increased in considerable proportion. After nationalisation the public sector banks started to extend liberal credit facilities to the priority sectors which include agriculture, small scale industries and exporters.

They now also give a lot of importance to their rural customers. They are even willing to help them and serve regularly the banking needs country-side India.. The changing role commercial banks can be outlined below:

Better Customer service: Before 1991, the overall service of India was verypoor. There were very long queues(lines) to receive payment for cheques and to deposit money. Banks in India have now become very customer and service focus. Their service has become quick, efficient and customer friendly.

Mobile Banking: Under Mobile Banking service, customers can easily carry out major banking transactions by simply using their cell-phones or mobiles.

Bank on Wheels: The bank on wheels was introduced in

the north east region of India .Under the Scheme , Banking serviced are made accessible to people staying in the remote areas of India. Portfolio Management: In portfolio management banks do all the investment work of their clients. Banks invest their client's money in shares, debentures, fixed deposits etc.

Issue of Electro- Magnetic Cards: Banks in India have already started issuing electromagnetic cards to their customers. These cardshelpto carry out cashless transactions, make an online purchase, avail ATM facility, book a railway ticket etc.Banks issue many type electromagnetic card such as credit card, debit card, ***charge card, Smart Card, Kisan Credit card*** etc.

Internet Banking: Internet banking is also called as E-Banking or net Banking .Here the customer can do Banking transactions through the medium of the internet or World Wide Web (www). The customer needs not to visit the bank's branch. Through this facility the customer can easily enquiry about bank balance, transfer fund etc.

The period since bank nationalisation is of great importance from the point of view of banking development as the size and the reach of the banking system have registered spectacular progress in this period. Opening of rural branches has improved mobilisation of saving in the rural sector. Presently, rural deposit accounts for about 15% of total deposits. Since bank nationalisation in this country, priority sector credit has increased from about14% of total bank credit to around 36%. Over the years development of banking has been faster in relatively less developed region of the country and as a result regional disparities have declined and the concentration of banking business is now less. Considering overall situation it may be argued that since in the later post nationalisation phase overall profitability of the banks was either low or even negative and their non-performing loans both as a percentage of total advances and as a percentage of assets were fairly high, their financial position was extremely weak. This situation improves only after



Charge cards are uses to spends money up to a certain limit for a month.

Smarts Cars are currently being used as an alternative to avail public transport services

Kisan Credit card are used for the benefit of the rural population of India