debentures are allowed in demat form. The advantage of demat trade is that it involves Paperless trading.

Screen Based Trading: The Indian stock exchanges were modernised in 90s, with Computerised Screen Based Trading System (SBTS), It cuts down time, cost, risk of error and fraud and there by leads to improved operational efficiency. The trading system also provides complete online market information through various inquiry facilities

Establishment of Securities and Exchange Board Of India (SEBI): SEBI became operational since 1992. It was set with necessary powers to regulate the activities connected with marketing of securities and investments in the stock exchanges, merchant banking, portfolio management, stock brokers and others in India. The objective of SEBI is to protect the interest of investors in primary and secondary stock markets in the country.

Establishment of National Stock Exchange (NSE) : The setting up to NSE is a landmark in Indian capital markets. At present, NSE is the largest stock market in the country.

Investor Protection : The Central Government notified the establishment of Investor Education and Protection Fund (IEPF) with effect from 1st Oct. 2001.

Trading In Central Government Securities: In order to encourage wider participation of all classes of investors, Including retail investors, across the country, trading in government securities has been introduced from January 2003.

Credit Rating Agencies : Various credit rating agencies such as Credit Rating Information services of India Ltd. (CRISIL-1988),Investment Information and credit Rating Agency of India Ltd. (ICRA -1991), etc. were set up to meet the emerging needs of capital market. They also help merchant bankers, brokers, regulatory authorities, etc. in discharging their functions related to debt issues.

The working of RRBs was evaluated by the Narasimham Committee on the Financial System. Although RRBs were set up in order to provide a low cost alternative to the operation of commercial bank branches, particularly in the rural areas but the functioning of RRBs was not up to the mark. The Committee mentioned three basic problems of RRBs:

- RRBs have a low earning capacity due to so many restrictions placed on the business undertaken by these banks;
- With the recent award of a tribunal the wages and salary scales of RRBs would be similar to that of commercial banks and thus the very idea of low cost alternative to the operation of commercial bank has been nullified; and
- The very area of operations of RRBs is also being utilised by the sponsoring banks by running their own rural branches leading to certain anomalies like duplication of services and expenditures on control and administration.

But there are some inherent factors which are very much responsible for this non-viable nature of RRBs. These include:

- RRBs can set up its branches mostly in unbalanced and under-banked areas;
- The lending operations of RRBs are very much confined to target group composed of small borrowers of rural and semi-urban areas; and
- The rate of interest charged by RRBs on their loan are comparatively lower.

Regional Rural Banks have also established functional superiority over other commercial banks of the country. This superiority of RRBs has been brought out by the share of deposits contributed by these branch offices of RRBs in different states. The share of deposits of these branches of RRBs in December, 1991 in a state like Uttar Pradesh was 25.7 per cent in comparison to that of only 12.4 per cent for other Scheduled Commercial Banks.

This achievement is noteworthy if we consider that the

number of branches of RRBs (1,193) was even lower than that of other scheduled commercial banks (1,361). Moreover, the share of deposits of RRBs in Haryana was also higher than other scheduled commercial banks which had comparatively double the number of branches.

Another important matter that has also been noticed is that most of the branches of RRBs are opened in unbanked centers and thus the deposits mobilised by them are fresh deposits and are not diverted from the deposits per branch of RRBs established before 1980 is uniformly higher in almost all the states of the country. In respect of credit operations, RRBs were successful in identifying the target groups and also in meeting their credit requirements.

BasicallyRRBs plays a pivotal role in the economic development of the rural India. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labors, and even small entrepreneurs.



CHECK YOUR PROGRESS

Q 1: Describe about the changing role of commercial bank in India. (Answer in about 60 words)

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Q 2: Describe about the role of RRB in Indian Economy (Answer in about 60 words)

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11.7 THE MAJOR REFORMS INITIATED IN THE FINANCIAL MARKET

Indian financial market comprised of money market and capital market. A money market is a market for near money that is associated with the borrowing and lending of short term funds. Again capital market is an institutional arrangement for borrowing and lending of long term funds.

The major money market reforms came after the recommendations of S. Chakravarty Committee and Narsimham Committee. These are outlined below:

Deregulation of Interest Rates: Interest rates are now subject to market conditions as the ceiling limit on them have been removed by RBI after 1989.

Reforms in Call and Term money market: The reforms in call and term money market were done to infuse more liquidity into the system and enable price discovery. RBI undertook several important steps to check the constraints and remove them systematically.

Introduction of new money market instruments : RBI introduced many new market instruments to diversify the market. These were certificates of deposit in 1989, commercial papers in 1990 and interbank participation certificates with/without risk in 1988.

Setting up Discount and Finance House of India : Discount and Finance House of India was set up in 1988 to impart more liquidity and also further develop the secondary market instruments.

Introducing Liquidity Adjustment Facility: RBI introduced a Liquidity Adjustment Facility in June 2000 which was operated through fixed repo and reverse repo rates.

Again the government has taken several measures to develop capital market in post-reform period, with which the capital market reached new heights. Some of the important measures are

Dematerialisation of Shares: Dematerialisation of shares has been introduced in all the shares traded on the secondary stock markets as well as those issued to the public in the primary markets. Even bonds and

according to the needs of the clients. Their flexible structure helps in broadening the market by providing the saver and investor a bundle of services on a competitive basis.

NBFIs (Non Banking Financial institutions) play an important role in promoting inclusive growth in the country, by catering to the diverse financial needs of bank excluded customers. Further, NBFIs often take lead role in providing innovative financial services to Micro, Small, and Medium Enterprises (MSMEs) most suitable to their business requirements. NBFIs do play a critical role in participating in the development of an economy by providing a boost to transportation, employment generation, wealth creation, bank credit in rural segments and to support financially weaker sections of the society. Emergency services like financial assistance and guidance is also provided to the customers in the matters pertaining to insurance.

NBFIs are financial intermediaries engaged in the business of accepting deposits delivering credit and play an important role in channelizing the scarce financial resources to capital formation. They supplement the role of the banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sector and to small local borrowers. However, they do not include services related to agriculture activity, industrial activity, sale, purchase or construction of immovable property. In India, despite being different from banks, NBFC are bound by the Indian banking industry rules and regulations.

NBFI focuses on business related to loans and advances, acquisition of shares, stock, bonds, debentures, securities issued by government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business.

The banking sector would always be the most important sector in the field of business because of its credibility in supporting manufacturing, infrastructural development and even being the backbone for the common man's money. But despite this, the role of NBFIs is critical and their presence in a country would only boost the economy in the right direction.

11.5 RESERVE BANK OF INDIA

On the 1st April, 1935 Reserve Bank of India (RBI) was established as per the Reserve Bank of India Act 1934 as a shareholder's Bank. At first this bank was established as a joint stock bank with a share capital of Rs 5 crore. But in 1949 the Reserve Bank of India was nationalised by Government as per RBI act 1948 and transferred to public owenship. So, after nationalisation RBI was working as an apex institution and central bank of the country.

Functions: The Reserve Bank of India as an apex institution performing various functions related to monetary management, banking operations, foreign exchange, developmental work and research problem of the economy. Some important functions of RBI are:

Note Issue: Being a cental Bank of the country the RBI entrusted with the sole authority to issue currency notes after keeping a minimum reserve including gold.

Banker to Government: The RBI is working as banker of the Government and therefore all the funds of both central and state government are kept with it. It acts as an agent of the Government and manages all the government expenditure and public debt.

Banker's Bank: RBI regulates the whole banking system of the country keeping a certain percentage as reserve. Therefore RBI is called Banker's Bank.

Credit control: The RBI has the sole power to control credit created by commercial bank by its various measures. It also controls the total volume of money supply in the economy.

Custodian of foreign exchange reserve: The RBI is entrusted with the sole authority to determine exchange rate and maintain the exchange reserve.

Developmental functions: The RBI also working as a developmental agency by developing various organisations like Agricultural Refinance development corporation, NABARD, IDBI etc.

11.5.1 Developmental Role of Reserve Bank of India

With the increase in importance of economic development at the national level, new demands were made on the RBI and its functions increased steadily. Today, RBI performs various developmental and promotional functions. Earlier, these functions were outside the purview of the central bank. In other words, the RBI's functions are now not confined merely to the exercise of restrictive controls over the money market. Now, it attempts to mobilise saving through banks and other financial institutions for productive purposes. A large portion of financial system in India yet unorganised. Under this unorganised sector, the indigenous banker, money lender operates and RBI has no control over their activities. The working of these traditional money lending institutions is very defective and their activities are exclusively motivated by the desire to exploit borrowers. For this reason, RBI has been putting pressure on commercial bank to open their branches in semi-urban and rural areas. This ultimately reduces the dependencies of the people on indigenous banker and money lender. In order to adjust their activities according to the requirement of the customers especially in rural areas, commercial bank have done several innovation in banking practices. A major hindrance of banking development in India was frequent bank failure due to improper mobilisation of deposits. Therefore RBI with the objective of protecting depositor has established Deposit Insurance Corporation of India 1962. In order to mobilise saving the RBI played an active role in the establishment of UTI (united Trust of India) in 1964.

Since India is a under-developed country which mainly depend on agriculture, therefore the development of institutional agricultural credit has been a major function of RBI. In fact, this has been the RBI's statutory obligation ever since it was established. In the year 1963 RBI established the Agriculture Refinance Development Corporation (ADRC) . After that RBI established National Bank for

Agriculture and Rural Development(NABARD). Almost half of the share capital of NABARD has been provided by RBI. Again, in the backward country like India industrial finance for the development of industrialisation is very important. Normally commercial bank avoid giving long term credit. But for meeting the financial requirement of the industry there was need for specialised institution for industrial finance. Therefore, RBI with the initiatives of central government was actively participated in theestablishment of specialised institutions of industrial finance like Industrial Finance Corporation of India(IDBI) etc. Besides these RBI act as an adviser to the government. The significance of this function has increased considerably with development process of the country. So, RBI plays an active role in the development process of the country.

11.6 ROLE OF NON BANKING FINANCIAL INSTITUTIONS (NBFIs) IN THE INDIAN ECONOMY

A non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFI facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.Examples of these are: HDFC Ltd., Aditya Birla Finance Ltd., LIC Housing Finance Ltd., and Bajaj Finance, India bulls Housing Finance Ltd.

Non-banking financial institution (NBFIs) constitutes an important segment of the financial system in India. NBFIs are financial intermediaries engaged primarily in the business of accepting deposits and delivering credit. They play an important role in channelizing the scarce financial resources to capital formation. NBFIs supplement the role of the banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sector and to small local borrowers. NBFIs have a more flexible structure than banks. As compared to banks, they can take quick decisions; assume greater risks, tailor-make their services and charges