



Reserve Bank of India as a Regulator – An Analysis

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ABSTRACT

The role of R.B.I in regulating banks in India under the Banking (Regulation) Act through Amendment Act 23 of 1965 will be discussed in this article. The Banking Companies Act was passed in 1949 in relation to the protection of various financial institutions in order to protect and safeguard the industrial interests of the community. Non-Nationalized institutions, Nationalized banks and cooperative banks are protected by the applicable law. In compliance with the provisions of the RBI Act, 1934, the Reserve State was created on April 1, 1935. The Reserve Bank's Wiring Closet was set up in Calcutta, but later had been temporarily relocated to Mumbai in 1937. While originally government funded, the Reserve Bank has been listed on the main Market of India since nationalization in 1949. The role including its RBI is to supervise the functioning and growth including its country's resultant product.

KEYWORDS: Indian Banks, Central bank, Banking regulation act, Depository, powers of RBI.

INTRODUCTION

As we see it today in India, the later decades of the 18th Century contributed to the root of modern banking. The Bank of Hindustan was founded in 1770 and the Bank of India and established in 1786, following the establishment of three presidential banks in the cities of Calcutta, Bombay and Madras. After a century after they merged to create the Imperial Bank of India, that played the role of quasi-central banks.

In the year 1838, the Union Bank was formed in Calcutta and was collapsed in 1839 due to the economic collapse of 1848-1849. Allahabad Bank is India's oldest living joint stock bank which was founded in 1865. In the year 1881 Oudh Commercial Bank was founded in Faizabad, and was later collapsed. Punjab National Bank (P.N.B) which was founded in 1895 in Lahore, is now one of India's largest banks.

The Swadeshi movement encouraged business merchants & people with political preferences to set up banks along the line of the movement, that is, banks for and of the people. Several financial institutions, which include Bank of India, Corporate Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India, have flourished during the period. The Bank of Hindustan and the Bank of India which were formed in 1770 and 1786 respectively, following the formation in the cities of Madras, Calcutta and Bombay.

How RBI acts as the central bank:

The roots can be traced back to 1926, when the Parliamentary Committee on Indian Currency & Finance, still known as the Hilton-Young Commission, proposed the establishment of a fiat currency to distinguish the government's control of fake currency and to increase banking facilities across the country.

The decision to nationalize the bank, which will also cause the policies including its bank's monetary to be in line amongst each other, was killed shortly once the country achieved independence. The bank has been operating as a government owned bank since January 1, 1949. RBI functions as a bank manager, banker to the country, and trader to the bank. It also governs the nation's global economy through various initiatives.

In accordance with the various provisions laid down by RBI Act, 1934 the main functions of RBI include

- operating monetary policy with the aim of maintaining economic stability and ensuring adequate finances for developmental purposes
- meeting the diverse currency need of the country
- promotion of an efficient financial system
- foreign exchange reserve management

The Banking (regulation) act, 1949:

The Banking Companies Bill was passed in 1949 to secure the interests of the community and counterparties relevant to the economy. By either the Amendment Act 23 of 1965, the name of the legislation was amended to the Banking (Regulation) Act. For nationalized banks, non-nationalized banks and finance companies, the provisions of this Act apply.

How banks do functions:

The regulatory and supervisory duties of RBI can be outlined as follows:

- It issues licenses to new banks and also for expansion of the existing ones
- It has the power to appoint or remove banking board
- It regulates the business related to banking;
- It inspects and supervise banks.
- It conducts audits of the banks.
- It gives various directives to the banks functioning from time to time.
- It establishes norms for practice and maintenance of accounts.
- It has the power to get the credit information.

Requirements for Branch License:

RBI Act of 1949 section 23 governs the opening of bank branches. Under the modified structure, through its Master Circular on Branch Licenses dated July 1, 2013, the RBI has moved annually from the framework of granting approvals within one branch at various times the process shifted to a system of collated approvals. In case of some situations, branches can be opened with the general permission issued by the RBI.

“Before granting the license, the RBI must be very much satisfied with the financial conditions of the company and its reputation, the capital structure appropriateness and even the earnings potential.

Markets are expected to maintain the RBI's cash rate, which is a specific fraction of their creditors mostly with bank as deposit accounts.

Any manufacturing company in India is required to maintain approved security in form of cash, gold or unfettered current approach in India, a sum which should not fall below the percentage authorized by RBI of its complete monthly salary in India at both the close of business any day of the year.

Powers of RBI:

Section 27 of the Code provides it the right, if available in the public interest, to distribute any information that has been collected again from Banking Regulation Act in a redistribution method as it may be deemed acceptable.

Section 35 motivates the bank to send instructions to cooperative banks mostly in interests of the public, in order to ascertain that every cooperative bank is properly managing the banking sector. The

path can be narrow in scope or to some particular bank, but in principle it is binding.

If it considers it fit and in the cause of banking in India, RBI may suspend a term of the Contract for 60 days. Whenever considered appropriate, the bank may conduct special audits to assess specific areas of its operations to ensure compliance with regulatory standards. The bank has the power to warn or even prevent any business activities from undertaking any commercial behavior and to advise a wealth management company.

At any time, if the Reserve Bank of India is confident that, in the public interest, also in purpose of a banking policy or perhaps in the interest of removing the conduct of the banking company's business in a manner beneficial to the assets of the banking company or its depositors, it may: Require a banking company to convene a meeting of its directors for the purpose of discussing any matter relating to, or arising from, the banking company's affairs, or to request a banking bank officer to resolve any such matter only with reserve bank officer.

Depute its officers to observe the proceedings at every meeting including its Manufacturing Company's Board of Directors and request that the Banking Company give the offices so deputized an equal voice at such hearings and also mandate such officers to file a report to the Reserve Bank on such proceedings.

All duties require the Board of Directors of a banking company to send written notices of, and many other correspondence relating to, any meetings of the Board, Committee or any other body constituted by something to any officer designated by the Reserve Bank in that name at his usual address; Employ one or more of its officers to assess and monitor on the conduct including its relations of the central bank or its offices or branches; enable the banking company to make, within the period specified in the order, such changes made in management as may be deemed appropriate by the RBI.

CONCLUSION

The reforms were issued by the Government of the Union to speed up the resolution of the gigantic number of non-performing assets or, in other words, bad loans that have obstructed the Indian banking system. The ruling party and the RBI have the power to actually intervene against a certain business that has defaulted on its loans. Earlier, out of fear of being challenged, banks couldn't invoke the insolvency and bankruptcy law. This will now be a straightforward and market-determined strategy with the RBI leading banks to trigger insolvency.

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