**Bank:**

 “Bank is a lawful organisation, which accepts deposits that can be withdrawn ondemand. It also lends money to individuals and business houses that need it.”

**History of Indian Banking System:**

 The first bank in India, called The General Bank of India was established in the year 1786. The East India Company established The Bank of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). The next bank was Bank of Hindustan which was established in 1870. These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank which was established in 1865, was for the first time completely run by Indians. Punjab National Bank Ltd. was set up in 1894 with head quarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India which was run by European Shareholders. After that the Reserve Bank of India was established in April 1935.

**Indian Banking structure :**

1.Reserve banks of India.

2.Indian Scheduled Commercial Banks.

 a)State Bank of India and its associate banks.

 b)Twenty nationalized banks.

 c)Regional rural banks.

 d)Other scheduled commercial banks.

3.Foreign Banks

4.Non-scheduled banks.

5.Co-operative banks.

**Types of banks:**

**Commercial banks:** which dominate this industry, offer a full range of services for individuals, businesses, and governments. These banks come in a wide range of sizes, from large global banks to regional and community banks.

**Global banks**: They are involved in international lending and foreign currency trading, in addition to the more typical banking services.

**Regional banks:** They have numerous branches and automated teller machine (ATM) locations throughout a multi-state area that provide banking services to individuals. Banks have become more oriented toward marketing and sales. As a result, employees need to know about all types of products and services offered by banks.

**Community banks:** They are based locally and offer more personal attention, which many individuals and small businesses prefer. In recent years, online banks—which provide all services entirely over the Internet—have entered the market, with some success.

**Reserve bank:** They are Government agencies that perform many financial services for the Government. Their chief responsibilities are to regulate the banking industry and to help implement our Nation’s monetary policy so our economy can run efficiently.

Public Sector Banks: These are banks where majority stake is held by the Government ofIndia or Reserve Bank of India. Examples of public sector banks are: State Bank of India,Corporation Bank, Bank of Boroda and Dena Bank, etc.

Private Sectors Banks: In case of private sector banks majority of share capital of thebank is held by private individuals. These banks are registered as companies with limitedliability. For example: The Jammu and Kashmir Bank Ltd., Bank of Rajasthan Ltd.,Development Credit Bank Ltd, Lord Krishna Bank Ltd., Bharat Overseas Bank Ltd.,Global Trust Bank, Vysya Bank, etc.

Co-operative Banks People who come together to jointly serve their common interest often form a co-operativesociety under the Co-operative Societies Act. When a co-operative society engages itself inbanking business it is called a Co-operative Bank. The society has to obtain a licence from theReserve Bank of India before starting banking business. Any co-operative bank as a society isto function under the overall supervision of the Registrar, Co-operative Societies of the State.As regards banking business, the society must follow the guidelines set and issued by the ReserveBank of India

Foreign Banks: These banks are registered and have their headquarters in a foreign countrybut operate their branches in our country. Some of the foreign banks operating in ourcountry are Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, AmericanExpress Bank, Standard & Chartered Bank, Grindlay’s Bank, etc. The number of foreignbanks operating in our country has increased since the financial sector reforms of 1991

Small Industries Development Bank of India (SIDBI): If you want to establish asmall-scale business unit or industry, loan on easy terms can be available through SIDBI. Italso finances modernisation of small-scale industrial units, use of new technology and marketactivities. The aim and focus of SIDBI is to promote, finance and develop small-scaleindustries.

National Bank for Agricultural and Rural Development (NABARD): It is a centralor apex institution for financing agricultural and rural sectors. If a person is engaged inagriculture or other activities like handloom weaving, fishing, etc. NABARD can providecredit, both short-term and long-term, through regional rural banks. It provides financialassistance, especially, to co-operative credit, in the field of agriculture, small-scale industries,cottage and village industries handicrafts and allied economic activities in rural areas.

**Functions of Commercial Banks:**

**Primary function:**

1. Accepting deposits

 The most important activity of a commercial bank is to mobilise deposits from the public. Peoplewho have surplus income and savings find it convenient to deposit the amounts with banks.Depending upon the nature of deposits, funds deposited with bank also earn interest.

2.Grant of loans and advances

 The second important function of a commercial bank is to grant loans and advances. Such loansand advances are given to members of the public and to the business community at a higher rateof interest than allowed by banks on various deposit accounts. The rate of interest charged onloans and advances varies according to the purpose and period of loan and also the mode ofrepayment

**Secondary functions:**

In addition to the primary functions of accepting deposits and lending money, banks perform anumber of other functions, which are called secondary functions. These are as follows-

a.Issuing letters of credit, travellers cheque, etc.

b.Undertaking safe custody of valuables, important document and securities by providingsafe deposit vaults or lockers.

c.Providing customers with facilities of foreign exchange dealings.

d.Transferring money from one account to another; and from one branch to anotherbranch of the bank through cheque, pay order, demand draft.

e.Standing guarantee on behalf of its customers, for making payment for purchase ofgoods, machinery, vehicles etc.

f.Collecting and supplying business information.

g.Providing reports on the credit worthiness of customers.

i.Providing consumer finance for individuals by way of loans on easy terms for purchaseof consumer durables like televisions, refrigerators, etc.

j.Educational loans to students at reasonable rate of interest for higher studies, especiallyfor professional courses

**Functions of Money Market:**

1. To maintain monetary balance between demand and supply of short term monetary transactions.

2. Money market plays a very important role of making funds available to many units or entities engaged in diversified field of activities be it agriculture, industry, trade, commerce or any other business.

3. By providing funds to developing sectors it helps in growth of economy also.

4. Another important feature that money market provides is discounting of bills of exchange which facilitates growth of trade.

5. No doubt it provides a base for the implementation of monetary policy also.

6. The money market provides opportunity for short term investments, which provide for short term savings, which in turn help formation of capital base also.

**Money Market Instruments:**

Treasury Bills (T-Bills): Treasury bills are short-term securities issued by RBI on behalf of Government of India. They are the main instruments of short term borrowing by the Government. They are useful in managing short-term liquidity. At present, the Government of India issues three types of treasury bills through auctions, namely – 91 days, 182-day and 364-day treasury bills. There are no treasury bills issued by state governments. With the introduction of the auction system, interest rates on all types of TBs are being determined by the market forces.

Commercial Bills: Commercial bill is a short-term, negotiable, and self-liquidating instrument with low risk. They are negotiable instruments drawn by a seller on the buyer for the value of goods delivered by him. Such bills are called trade bills. When trade bills are accepted by commercial banks, they are called commercial bills. If the seller gives some time for payment, the bill is payable at future date (i.e. usance bill). Generally the maturity period is upto 90 days. During the usance period, if the seller is in need of funds, he may approach his bank for discounting the bill. Commercial banks can provide credit to customers by discounting commercial bills. The banks can rediscount the commercial bills any number of times during the usance period of bill and get money.

 Certificates of Deposits (CDs): CDs are unsecured, negotiable promissory notes issued at a discount to the face value. They are issued by commercial banks and development financial institutions. CDs are marketable receipts of funds deposited in a bank for a fixed period at a specified rate of interest. CDs were introduced in India in June 1989. The main purpose of the scheme was to enable commercial banks to raise funds from the market through CDs. According to the original scheme, CDs were issued in multiples of Rs.25 lakh subject to minimum size of an issue being Rs.1 crore. They had the maturity period of 3 months to one year. They are freely transferable but only after the lock in period of 45 days after the date of issue.

Commercial Papers (CPs): Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note with fixed maturity. They indicate the short-term obligation of an issuer. They are quite safe and highly liquid. They are generally issued by the leading, nationally reputed, highly rates and credit worthy large manufacturing and finance companies is the public as well as private sector. CPs were introduced in India January 1990. CPs were launched in India with a view to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and also to provide an additional instrument to investors. RBI has modified its original scheme in order to widen the market for CPs.

**The characteristics of the money market are:**

1. It is not a single market but a collection of markets for several instruments
2. It is wholesale market of short term debt instruments
3. Its principal feature is honor where the creditworthiness of the participants is important.
4. The main players are: Reserve bank of India (RBI), Discount and Finance House of India (DFHI), mutual funds, banks, corporate investor, non-banking finance companies (NBFCs), state governments, provident funds, Primary dealers. Securities Trading Corporation of India (STCI), public sector undertaking (PSUs), non-resident Indians and overseas corporate bodies.
5. It is a need based market wherein the demand and supply of money shape the market.

**Functions of the Money Market:**

1. Provide a balancing mechanism to even out the demand for and supply of short term funds
2. Provide a focal point for central bank intervention for influencing liquidity and general level of interest rates in the economy.
3. Provide reasonable access to suppliers and users of short term funds to fulfill their borrowings and investment requirements at an efficient market clearing price.

**Features Capital Market**

Mobilisation of Savings: Capital market is an organized institutional network of financial organizations, which not only mobilizes savings through various instruments but also channelizes them into productive avenues. By making available various types of financial assets, the capital market encourages savings. By providing liquidity to these financial assets through the secondary markets capital market is able to mobilize large amount of savings from various sections of the people such as individuals, families, and associations. Thus, capital market mobilizes these savings and make the same available for meeting the large capital needs of industry, trade and business.

Channelization of Funds into Investments: Capital market plays a crucial role in the economic development by channelizing funds in accordance with development priorities. The financial intermediaries in the capital market are better placed than individuals to channel the funds into investments which are more favourable for economic development.

Modernization and Rehabilitation of Industries: Capital market can contribute towards modernization, rationalization and rehabilitation of industries. For example, the setting up of development financial institutions in India such as IFCI, ICICI, IDBI and so on has helped the existing industries in the country to adopt modernization and replacement of obsolete machinery by providing adequate finance.

Technical Assistance: An important bottleneck faced by entrepreneurs in developing countries is technical assistance. By offering advisory services relating to the preparation of feasibility reports, identifying growth potential and training entrepreneurs in project management, the financial intermediaries in the capital market play an important role in stimulating industrial entrepreneurship. This helps to stimulate industrial investment and thus promotes economic development.

Encourage Investors to invest in Industrial Securities: Secondary market in securities encourage investors to invest in industrial securities by making them liquid. It provides facilities focontinuous, regular and ready buying and selling of securities. Thus, industries are able to raise substantial amount of funds from various segments of the economy.

Reliable Guide to Performance: The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency. It values companies accurately and toes up manager compensation to stock values. This gives incentives to managers to maximize the value of companies. This stimulates efficient resource allocation and growth

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| --- | --- | --- |
| **Point of Distinction** | **Money Market** | **Capital Market** |
| 1. Time period / Term | Deals in short-term funds. | Long term funds. |
| 2. Instrument Dealt In | Deals in securities like treasury bills, commercial paper, bills of exchange, certificate of deposits etc. | Deals in securities likeshares, debentures,bonds andgovernment securities. |
| 3. Participants | Commercial banks,NBFS, chit funds etc. | Stock brokers,under writers,mutual funds,individual investors,financial institutions |
| 4. Regulatory body | RBI | SEBI |

**Role of SEBI:**

### Issuers of securities

These are corporate entities which raise funds from the financial market. SEBI ensures that they get a transparent and healthy environment for their needs.

### Investor

These are the ones who keep the financial market alive. They earn from these markets thus it is the responsibility of SEBI to ensure that investors don’t fall prey to any manipulation or fraud in the market.

### Financial Intermediaries

These intermediaries act as a mediator in the financial market. Their presence brings smoothness and safety in financial transactions.

## Functions of SEBI

SEBI primarily has three functions-

1. Protective Function
2. Regulatory Function
3. Development Function

**Protective Functions**

As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants.

It includes-

* Checking price rigging
* Prevent insider trading
* Promote fair practices
* Create awareness among investors
* Prohibit fraudulent and unfair trade practices

**Regulatory Functions**

These functions are basically performed to keep a check on the functioning of the business in the financial markets.

These functions include-

* Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
* Regulation of takeover of companies
* Conducting inquiries and audit of exchanges
* Registration of brokers, sub-brokers, merchant bankers etc.
* Levying of fees
* Performing and exercising powers
* Register and regulate credit rating agency

**Development Functions**

SEBI performs certain development functions also that include but they are not limited to-

* Imparting training to intermediaries
* Promotion of fair trading and reduction of malpractices
* Carry out research work
* Encouraging self-regulating organizations
* Buy-sell mutual funds directly from AMC through a broker

## Objectives of SEBI

SEBI has following objectives-

1. **Protection to the investors**

The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.

1. **Prevention of malpractices**

This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.

1. **Fair and proper functioning**

SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.

## Procedure for Listing Requirements

Public Company has to submit the following documents to Shares Listing in stock exchange:

* Certified copy of Memorandum & Article of Association;
* Prospectus & agreement with underwriters;
* Details of Capital Structure;
* Copies of an advertisement offering securities during the last 5 years;
* Copies of financial statement & auditor’s report for the last 5 years;
* Copy of shares & debentures, letter of allotment and letter of regret;
* Details of the company since incorporation including changes in the capital structure, borrowings, etc.;
* Details of shares or debentures issued for consideration other than cash;
* A statement defining the distribution of shares and other details related to the commission, brokerage, discounts, or terms related to issue of shares;
* Agreement with a financial institution, if any;
* Details of shares forfeited;
* Details of securities about which permission to deal with are applied for;
* A copy of consent from SEBI.

## Procedure

The application is made to the listing committee of the stock exchange by the company, and then the listing committee will scrutinize the application form of the company.

**Stock Exchange will ensure the following:**

* Whether the financial position of the company is sound or not;
* Solvency & liquidity positions of the company;

In case the application for listing is accepted then the listing company will have to execute a listing agreement with the stock exchange.

**Obligations required to be followed by the company:**

* It is required to treat all application with equal fairness.
* In the case of oversubscription, the process of allotment will be decided in consultation with stock exchanges.

**Benefits of Mutual Funds:**

1.Professional management: An average investor lacks theknowledge of capital market operations and does not havelarge resources to reap the benefits of investment. Hence, herequires the help of an expert. It, is not only expensive to‘hire the services’ of an expert but it is more difficult toidentify a real expert. Mutual funds are managed byprofessional managers who have the requisite skills andexperience to analyse the performance and prospects ofcompanies. They make possible an organised investmentstrategy, which is hardly possible for an individual investor.

2.Portfolio diversification: An investor undertakes risk ifhe invests all his funds in a single scrip. Mutual funds investin a number of companies across various industries andsectors. This diversification reduces the riskiness of theinvestments.

3.Reduction in transaction costs: Compared to directinvesting in the capital market, investing through the fundsis relatively less expensive as the benefit of economies ofscale is passed on to the investors.

4.Liquidity: Often, investors cannot sell the securities heldeasily, while in case of mutual funds, they can easily encashtheir investment by selling their units to the fund if it is anopen-ended scheme orselling them on a stock exchange ifit is a close-ended scheme.

5.Convenience: Investing in mutual fund reducespaperwork, saves time and makes investment easy.

6.Flexibility: Mutual funds offer a family of schemes, andinvestors have the option of transferring their holdingsfrom one scheme to the other.

7.Tax benefits Mutual fund investors now enjoy income-taxbenefits. Dividends received from mutualfunds’ debtschemes are tax exempt to the overall limit of Rs 9,000allowed under section 80L of theIncome Tax Act.

8.Transparency Mutual funds transparently declare theirportfolio every month. Thus an investor knowswherehis/her money is being deployed and in case they are nothappy with the portfolio they canwithdraw at a short notice.

9.Stability to the stock market Mutual funds have a largeamount of funds which provide them economies of scaleby which they can absorb any losses in the stock market andcontinue investing in the stock market. In addition, mutualfunds increase liquidity in the money and capital market.

10.Equity research Mutual funds can afford information anddata required for investments as they have large amount offunds and equity research teams available with them.