Principles And Practices Of Banking **14MBAFM301**

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Syllabus

Module 1

Banking system and structure in India - Evolution of Indian Banks-Types of banks –Public Sector, Regional Banks, Performance of Public Sector banks, Private Sector Banks.

Commercial banking: Structure, Functions - Primary & secondary function, Role of commercial banks in socio economic development, Services rendered. Credit creation and Deployment of Funds.-Role of Reserve Bank and GOI as regulator of banking system – Provisions of Banking Regulation Act & Reserve Bank of India Act

Module 2

Banker and customer – Types of relationship between banker and customer – Bankers obligations to customers – Right of lean, setoff, appropriation–Bankers legal duty of disclosure and related matters Customers` accounts with banks – Opening- operation – KYC norms and operation – Types of accounts and customers – Nomination – Settlement of death claims

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Module 4

Banking Technology - Concept of Universal Banking-Home banking – ATMs- Internet banking – Mobile banking- Core banking solutions – Debit, Credit, and Smart cards – Electronic Payment Systems-MICR- Cheque Truncation-ECS- EFT – NEFT-RTGS

Module 5

International banking – International Banking: Exchange rates and Forex Business, Correspondent banking and NRI Accounts, Letters of Credit, Foreign currency Loans, Facilities for Exporters and Importers, Role of ECGC, RBI and EXIM Bank

Module 6

Banker as lender – Types of loans – Overdraft facilities – Discounting of bills – Financing book Debts and supply bills- Charging of Security bills- pledge – mortgage – assignment.

Module 7

Asset Liability Management (ALM) in banks: Components of Liabilities and Components of Assets, Significance of Asset Liability management, Purpose and objectives. Prerequisites for ALM, Assets and Liabilities Committee (ALCO) - Activities of ALCO

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Module 1

Banking system and structure in India

Evolution of Indian Banks

- **Banking in India** originated in the last decades of the 18th century.
- The first bank was The General Bank of India, which started in 1786.
- Bank of Hindustan was the 2nd bank, which started in 1790; both are now defunct.
- The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal.
- The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.
- During the First World War (1914–1918) through the end of the Second World War (1939–1945), and two years thereafter until the independence of India were challenging for Indian banking.

From Bank of Hindustan in 1770, the evolution of banking in India can be divided into three different periods as follows:

Phase I: Early phase of primitive Indian banks to Nationalization of Banks in 1969

Phase II: From Nationalization of India banks in 1969 up to advent of liberalization and banking reforms in 1991

Phase III: From Indian Financial and Banking Sector Reforms 1991 onward

Post Independence

- India observed the emergence of large number of institutions for providing finance to different sectors of the economy.
- The entry activities of private sector and foreign banks were restricted through branch licensing and regulation norms.
- Steps taken by Indian Govt. to regulate banking are:

Reserve bank of India was nationalized on January 1, 1949 under the terms of Reserve bank of India.

- In 1949, the Banking Regulation Act was in acted.
- The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI.
- No two banks could have common directors.

Nationalization

- The nationalization of banks in India took place in 1969 by Mrs. Indira Gandhi. It nationalized 14 banks. Before the steps of nationalization of Indian banks, only State Bank of India (SBI) was nationalized.
- Nationalization of Seven State Banks of India (formed subsidiary) took place on 19th July, 1960.
- The second phase of nationalization of Indian banks took place in the year 1980. Seven more banks were nationalized with deposits over 200 crores.
- The stated reason for the nationalization was to give the government more control of credit delivery.

Adoption of banking technology

The IT revolution had a great impact in the Indian banking system:

- Introduction of online banking in India.
- Formation of committee on Mechanization in the banking Industry in 1984, providing use of standardized cheque forms and encoders.
- Formation of committee on Computerization in Banks (1988) which emphasized that settlement operation must be computerized in the clearing houses of RBI.
- Focused on computerization of branches and increasing connectivity among branches through computers.
- Formation of Committee on Technology Issues relating to Payments System, Cheque Clearing and Securities Settlement in the Banking Industry (1994) emphasized on Electronic Funds Transfer (EFT) system, with the BANKNET communications network as its carrier.
- ATMs installed in India by various banks as on end March 2005 is 17,642.

Types of Banks

1. **The public sector banks** are owned and operated by the government, who has a major share in them. The major focus of these banks is to serve the people rather earn profits. Some examples of these banks include State Bank of India, Punjab National Bank, Bank of Maharashtra, etc.
2. **The regional rural banks** were brought into operation with the objective of providing credit to the rural and agricultural regions and were brought into effect in 1975 by RRB Act. These banks are restricted to operate only in the areas specified by government of India. These banks are owned by State Government and a sponsor bank. This sponsorship was to be done by a nationalized bank and a State Cooperative bank. Prathama Bank is one such example, which is located in Moradabad in U.P.
3. **The private sector banks** are owned and operated by private institutes. They are free to operate and are controlled by market forces. A greater share is held by private players and not the government. For example, Axis Bank, Kotak Mahindra Bank etc.

Performance of public sector bank

The financial system of any country consists of financial institutions, financial markets, financial instruments, financial services and financial assets. An efficient and a smooth financial system plays an important role in the nation's economic development. A well developed country will have a well-organized financial Institutions. Financial Institutions are an important part of the Indian Financial System. The institutions are divided into two categories, banking and non-banking. Banks play a pivotal role in India's economy. The year 1969 was a landmark in the history of commercial banking in India. In July 1969, the government nationalized 14 major commercial banks of the country. In 1980, 6 more banks were nationalized.

The first Five Year Plan held in the 1951 accorded the development of the rural areas as the highest priority. The plan was for the time period between 1951–1956. The All India Rural Credit Survey Committee advised the government to create state partnered and state owned banks. An act was passed in the parliament in May 1955 and the State

Bank of India was constituted. Later the State Bank of India Act was passed in 1959 to take over the associate banks of SBI and its subsidiaries.

The pre-nationalization period saw a lion's share in the industrial sector to the bank's credit. Large scale industries cornered a large portion of the credit and the share of small scale industries was marginal. There were many reasons for the dominance of the large scale industries in the banking sector. Many commercial banks were under the ownership and control of big industrial houses. A disturbing feature of the pre-nationalization banking policy was the negligence of agriculture sector to the bank's credit. This share hovered around 2% of the total commercial bank credit. The privately owned commercial banks were neither interested nor geared up to meet the risky and small credit requirements of the farmers. Similarly, the share of other non-industrial sectors was also very low. Since the commercial banks were under the control of big industrialists, the loanable funds of the banks were sometimes used to finance socially undesirable activities like hoarding of essential commodities.

The post-nationalization period witnessed certain drastic changes in the economy. All the leading commercial banks of the country were nationalized in the year 1969 with some objectives in mind. The objectives of nationalization were as follows:

- To break the ownership and control of banks by a few business families.
- To prevent concentration of wealth and economic power.
- To mobilize savings of the masses from every nook and corner of the country.

To pay more attention to the priority sectors of the economy like agriculture and small scale industries, the post-nationalization period saw a remarkable expansion in the banking and financial system. The biggest achievement of nationalization was the reallocation of sectoral credit in favor of agriculture, small scale industries and exports. Within agriculture, credit for the procurement of food grains, i.e., food credit was a major thing. Other agriculture activities included poultry farming, dairy and piggery.

Certain other sectors of the economy which also received attention for credit allocation were professionals, self-employed individuals, artisans and other weaker sections of the society. Conversely, there was a sharp fall in bank credit to large scale industries. However, the share of small-scale industry registered an upward trend. Nationalization

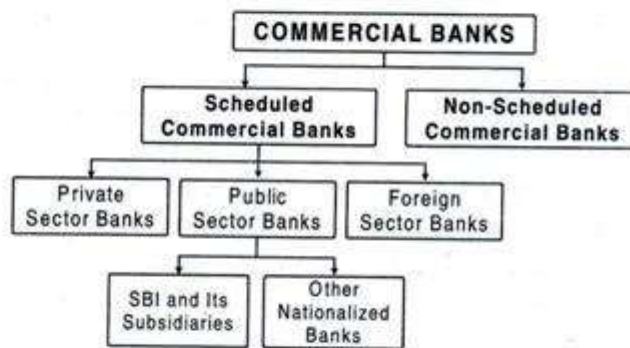
of commercial banks had many pros and cons for the economy. The government paid more attention to agriculture than industry. The country witnessed increasing numbers of bank branches in the rural areas. Branch expansion program resulted in mobilization of savings from all parts of the country.

Commercial Banking

A **commercial bank** is a type of **bank** that provides services such as accepting deposits, making business loans, and offering basic investment products.

Structure of commercial bank

The commercial banks can be broadly classified under two heads:



1. Scheduled Banks:

Scheduled Banks refer to those banks which have been included in the Second Schedule of Reserve Bank of India Act, 1934.

In India, scheduled commercial banks are of three types:

(i) Public Sector Banks:

These banks are owned and controlled by the government. The main objective of these banks is to provide service to the society, not to make profits. State Bank of India, Bank of India, Punjab National Bank, Canada Bank and Corporation Bank are some examples of public sector banks.

Public sector banks are of two types:

(a) SBI and its subsidiaries;

(b) Other nationalized banks.

(ii) Private Sector Banks:

These banks are owned and controlled by private businessmen. Their main objective is to earn profits. ICICI Bank, HDFC Bank, IDBI Bank is some examples of private sector banks.

(iii) Foreign Banks:

These banks are owned and controlled by foreign promoters. Their number has grown rapidly since 1991, when the process of economic liberalization had started in India. Bank of America, American Express Bank, Standard Chartered Bank are examples of foreign banks.

2. Non-Scheduled Banks:

Non-Scheduled banks refer to those banks which are not included in the Second Schedule of Reserve Bank of India Act, 1934.

Functions of commercial banks

1. Primary or Principle functions
2. Secondary or Subsidiary function

1. Primary or Principle functions

- Receiving deposits

Accepting various types of deposits is an important function of the commercial banks. Deposits constitute the main sources of the funds for commercial banks. Deposits are of various types like demand deposits, savings deposits and fixed deposits.

a) Demand deposits

Demand deposits also known as current deposits are those which can be withdrawn by the depositor at any time by means of cheques. The bank does not pay any interest on demand deposits. In fact, a bank makes a small charge on the customers with a current account. It is convenient for businessmen to pay creditors by drawing cheques and also get the cheques received by them collected.

b) Savings deposits

Savings deposits are those deposits on which a bank pays a certain percentage of interest to the depositors but the bank places certain restrictions on their withdrawals. For instance, today in India only 150 withdrawals in a year are allowed by the banks. Further the total amount withdrawals that can be made is restricted to Rs.20, 000. Or 10% of the credit balance in the customer's accounts whichever is greater. A proper and satisfactory introduction is necessary to open savings bank account. These accounts are meant for encouraging thrift and a habit of savings among the people.

c) Fixed deposits

There are deposits which can be withdrawn after the expiry of a specified fixed period these are also called time deposits. The rate of interest is higher than that allowed on savings deposit. The fixed deposits are withdrawn by surrendering the fixed deposit receipts, obtained from the bank at the time of depositing the money.

➢ Lending of funds

The bank lends fund by means of loans, overdrafts, cash credits and discounting of bills.

a) Loan

Loan is financial accommodation under which bank grants an advance on a separate account called loan account. Interest is charged on the entire amount of loan sanctioned. Loans are given to all types of persons against the personal security of the borrower or against the personal movable or immovable properties.

b) Overdraft

An overdraft is a financial accommodation under which a current account holder is permitted to overdraw his account upto an agreed limit. Interest is charged on the exact amount overdrawn by the customer. It is granted against the security of the borrower. It is advantageous to the borrower because interest is charged only on the amount actually overdrawn by him.

c) Cash credit

A cash credit is a financial accommodation under which an advance is granted on a separate account called cash credit account upto a specified limit. Interest is charged on the amount made use of by the borrower. It is granted against the security of goods or personal security of one or more persons other than the borrower. Traders prefer cash credit to direct loans as they need not pay interest on the entire amount.

d) Discounting of bills

Discounting of bills is a financial arrangement under which a customer holding a bill of exchange can get a loan equivalent to the value of the bill, less discount. The discount represents interest on the money lent for the unexpired period of the bill. On maturity, the banker collects the proceeds of the bill from its acceptor.

- Investment of funds on securities

Investment of funds in securities is one of the important functions of commercial banks; they invest a considerable amount of their funds in Government and industrial securities.

2. Secondary or subsidiary Functions

The secondary or subsidiary functions of a bank can be divided into two classes, viz

a) Agency service

Agency services are those services which are rendered by the bank as an agent of their customer. They are:

- Collection of cheques, drafts, etc. on behalf of the customer.
- Payment of bills of exchange, life insurance premium etc., on behalf of the customer.
- Purchase and sale of securities on behalf of the customer.
- Arranging for transfer of money from one place to another on behalf of the customer.
- Acting as a trustee, executors, administrators and attorney.
- Acting as correspondents of other banks and financial institutions.
- Banks also issue credit cards to their customers.

b) General utility services

These are the services rendered not only to the customers but also to the general public as well.

- Accepting valuables and securities for safe custody
- Providing foreign exchange to the importers and exporters.
- Issuing of travelers cheques, circular notes, etc
- Underwriting shares, debentures and Govt securities.
- Acting as referees and providing information relating to the credit worthiness of their customer.
- Collection of information useful to the customers or to the general public and their publication

- Banker may institute scholarship endowment establish book banks for the benefit of the students, arrange exhibitions and undertake any such other activities beneficial to the community in general.

Role of commercial banks in socio economic development

Banks help in accelerating the economic growth of a country in the following ways:

1. Accelerating the Rate of Capital Formation:

Commercial banks encourage the habit of thrift and mobilise the savings of people. These savings are effectively allocated among the ultimate users of funds, i.e., investors for productive investment. So, savings of people result in capital formation which forms the basis of economic development.

2. Provision of Finance and Credit:

Commercial banks are a very important source of finance and credit for trade and industry. The activities of commercial banks are not only confined to domestic trade and commerce, but extend to foreign trade also.

3. Developing Entrepreneurship:

Banks promote entrepreneurship by underwriting the shares of new and existing companies and granting assistance in promoting new ventures or financing promotional activities. Banks finance sick (loss-making) industries for making them viable units.

4. *Promoting Balanced Regional Development:*

Commercial banks provide credit facilities to rural people by opening branches in the backward areas. The funds collected in developed regions may be channelised for investments in the under developed regions of the country. In this way, they bring about more balanced regional development.

5. *Help to Consumers*:

Commercial banks advance credit for purchase of durable consumer items like Vehicles, T.V., refrigerator etc., which are out of reach for some consumers due to their limited paying capacity. In this way, banks help in creating demand for such consumer goods.

Services rendered by commercial banks

1. Accepting Deposit

Accepting deposit from savers or account holders is the primary function of bank. Banks accept deposit from those who can save money, but cannot utilize in profitable sectors.People prefer to deposit their savings in a bank because by doing so, they earn interest.

2. Advancing Of Loans

Banks are profit oriented business organizations. So they have to advance loan to public and generate interest from them as profit. After keeping certain cash reserves, banks provide short-term, medium-term and long-term loans to needy borrowers.

3. Discounting of bill of exchange

Bill of exchange is a negotiable instrument, which is accepted by the debtor, drawn upon him/her by the creditor and agrees to pay the amount mentioned on maturity. Discounting bill of exchange is another function of modern commercial bank. Under this, banks purchase bill of exchange from holder in discount after making some marginal deduction in the form of commission. The banks pay the deducted value to the holders when traders discount it into bank.

4. Cheque Payment

Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheques of customers after formal verification and official procedures. .

5. Remittance

Remittance is a system, through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge.

6. Collection and Payment Of Credit Instruments

In modern business, different types of credit instruments such as bill of exchange, promissory notes, cheques etc. are used. Banks deal with such instruments. Modern banks collect and pay different types of credit instruments as the representative of the customers.

7. Foreign Currency Exchange

Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to settle down the dues in the international trade.

8. Consultancy

Modern commercial banks are large organizations. They can expand their function to consultancy business. In this function, banks hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade, income, tax etc.

9. Bank Guarantee

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in governmental offices or courts for specific purpose, bank can present itself as the guarantee for the customer, instead of depositing fund by customers.

Credit creation and deployment of funds

- An important function performed by the commercial banks is the creation of credit.
- The process of banking must be considered in terms of monetary flows, that is, continuous depositing and withdrawal of cash from the bank.
- It is only this activity which has enabled the bank to manufacture money.
- Therefore the banks are not only the purveyors of money but manufacturers of money.

Basic of Credit Creation

The basis of credit money is the bank deposits. The bank deposits are of two kinds viz.,

(1) Primary deposits, and

(2) Derivative deposits.

Primary Deposits:

- Primary deposits arise or formed when cash or cheque is deposited by customers.
- When a person deposits money or cheque, the bank will credit his account.
- The customer is free to withdraw the amount whenever he wants by cheques.
- These deposits are called “primary deposits” or “cash deposits.”
- It is out of these primary deposits that the bank makes loans and advances to its customers.
- The initiative is taken by the customers themselves. In this case, the role of the bank is passive.
- So these deposits are also called “passive deposits.” These deposits merely convert currency money into deposit money. They do not create money.

- They do not make any net addition to the stock of money. In other words, there is no increase in the supply of money.

Derivative Deposits:

- Bank deposits also arise when a loan is granted or when a bank discounts a bill or purchase government securities.
- Deposits which arise on account of granting loan or purchase of assets by a bank are called "derivative deposits."
- Since the bank play an active role in the creation of such deposits, they are also known as "active deposits."
- Thus, credit creation implies multiplication of bank deposits. Credit creation may be defined as "the expansion of bank deposits through the process of more loans and advances and investments."
    - ➢ Process of Credit Creation
- An important aspect of the credit creating function of the commercial banks is the process of multiple-expansion of credit.
- The banking system as a whole can create credit which is several times more than the original increase in the deposits of a bank.
- This process is called the multiple-expansion or multiple-creation of credit.
- Similarly, if there is withdrawal from any one bank, it leads to the process of multiple-contraction of credit.

The process of multiple credit-expansion can be illustrated by assuming:

a) The existence of a number of banks, SBI, BARODA, AXIS etc., each with different sets of depositors.

b) Every bank has to keep 20% of cash reserves, according to law, and,

c) A new deposit of Rs. 1,000 has been made with SBI to start with.

Limitation on Credit Creation

The commercial banks do not have unlimited power of credit creation. Their power to create credit is limited by the following factors:

1) Amount of Cash Cash

2) Reserve Ratio

3) Banking Habits of the People

4) Nature of Business Conditions in the Economy

5) Leakages in Credit-Creation

6) Sound Securities

7) Liquidity Preference

8) Monetary Policy of the Central Bank

Role of RBI as a regulator

The central bank of the country is the Reserve bank of India(RBI). It was established in April 1935 with a share capital of Rs.5 crores on the basis of the recommendations of the Hilton young Commission. The share capital was divided into shares of Rs.100 each fully paid which was entirely owned by private shareholders in the beginning. The Govt held shares of nominal value of Rs.2, 20,000.

RBI was nationalized in the year 1949. The general superintendence and direction of the bank is entrusted to central Board of Directors of 20 members, the Governor and four deputy Governors, one Govt official from the Ministry of finance, ten nominated Directors by the central Govt to represent the four local Boards with the headquarters at Mumbai, Kolkata, Chennai and New Delhi. Local Boards consists of five members each central Govt appointed for a team of four years to represent territorial and economic interests and the interests of co-operative and indigenous banks.

The Reserve Bank of India Act 1934 was commenced on April1, 1935. The Act, 1934 (II of 1934) provides the statutory basis of the functioning of the bank.

The bank was constituted for the need of following:

- To regulate the issue of banknotes.
- To maintain reserves with a view to securing monetary stability
- To operate the credit and currency system of the country to its advantage.

Role of GOI as a regulator of Banking System

Bank regulations are a form of government regulation which subject banks to certain requirements, restrictions and guidelines. This regulatory structure creates transparency between banking institutions and the individuals and corporations with whom they conduct business, among other things.

Given the interconnectedness of the banking industry and the reliance that the national (and global) economy hold on banks, it is important for regulatory agencies to maintain control over the standardized practices of these institutions. Supporters of such regulation often hinge their arguments on the "too big to fail" notion. This holds that many financial institutions (particularly investment banks with a commercial arm) hold too much control over the economy to fail without enormous consequences. This is the premise for government bailouts, in which government financial assistance is provided to banks or other financial institutions who appear to be on the brink of collapse. The belief is that without this aid, the crippled banks would not only become bankrupt, but would create rippling effects throughout the economy leading to systemic failure.

Objectives of bank regulation

Objectives of bank regulation, and the emphasis, vary between jurisdictions. The most common objectives are:

1. Prudential—to reduce the level of risk to which bank creditors are exposed (i.e. to protect depositors)
2. Systemic risk reduction—to reduce the risk of disruption resulting from adverse trading conditions for banks causing multiple or major bank failures
3. Avoid misuse of banks—to reduce the risk of banks being used for criminal purposes, e.g. laundering the proceeds of crime
4. To protect banking confidentiality
5. Credit allocation—to direct credit to favored sectors
6. It may also include rules about treating customers fairly and having corporate social responsibility (CSR)

General principles of Bank regulation

- Minimum requirements

  Requirements are imposed on banks in order to promote the objectives of the regulator. Often, these requirements are closely tied to the level of risk exposure for a certain sector of the bank. The most important minimum requirement in banking regulation is maintaining minimum capital ratios. To some extent, U.S. banks have some leeway in determining who will supervise and regulate them.

- Supervisory review

  Banks are required to be issued with a bank license by the regulator in order to carry on business as a bank, and the regulator supervises licensed banks for compliance with the requirements and responds to breaches of the requirements through obtaining undertakings, giving directions, imposing penalties or revoking the bank's license.

- Market discipline

  The regulator requires banks to publicly disclose financial and other information, and depositors and other creditors are able to use this information to assess the level of risk and to make investment decisions. As a result of this, the bank is subject to market discipline and the regulator can also use market pricing information as an indicator of the bank's financial health.

Provisions of Banking Regulation Act and Reserve Bank of India Act

S. No.	Parts	Topics	Sections covered
1.	I	Preliminary	1 to 5A
2.	II	Business of Banking Companies	6 to 36 A
3.	IIA	Control over management	36AA to 36AC
4.	IIB	Prohibition of certain activities in relation to banking Companies	36AD
5.	IIC	Acquisition of the undertakings of Banking Companies in certain cases	36AE to 36AJ
6.	III	Suspension of business and winding up of Banking Companies	36B to 45
7.	IIIA	Speedy provision for speedy disposal of winding up proceedings	45A to 45X
8.	IIIB	Provision relating to certain operation of Banking Companies	45Y to 45ZF
9.	IV	Miscellaneous	46 to 55A
10.	V	Application of the Act to cooperative Banks	56

Applicability of the Banking Regulation Act, 1949

This Act applies to following categories of Banks:

- Nationalized Banks
- Non-Nationalized Banks
- Cooperative Banks

Business of banking Companies - Section 6(1) and 6(2) r.w. 56(b)

- Borrowing, raising or taking of money
- Giving advance
- Bills business
- L/C , Bank Guarantee, Indemnity
- Foreign exchange
- Providing safe deposit vaults
- Collecting and transmitting money
- Managing, selling and realizing any property that may come into the possession of the bank in satisfaction or part satisfaction of any of its dues
- Acquiring, holding and dealing with any property or any right, title or interest in any such property that may form the security or part of the security for any loans or advances or which may be connected with such security
- Undertaking and executing trusts
- Acquiring, constructing, maintaining and altering of any building for the purpose of the bank
- Acquiring and undertaking the whole or part of the business of any person or bank / company if its nature of business is as per the allowed business for the bank
- Doing all such other things as are incidental or conducive to the promotion or advancement of the business of the bank
- Any other business the Central Govt. may by notification specify as a allowed business
- Banks are prohibited to do any other business

Cash Reserve (CRR) – Section 18 r. w. 56 (j)

- Every bank is required to keep cash reserve, with itself or by way of balance in the current account with RBI or Central / District Co-operative Bank or net balance in all such way, of minimum prescribed % amount of its DTL as of last Friday of fortnight
- A return about this has to be submitted to RBI before 15thof each month about alternate Friday

Statutory Liquidity Ratio

- Bank shall maintain unencumbered approved securities, valued not exceeding the current market price, or an amount which shall not be less than 24% of the total of its demand and time liabilities (DTL)

Restrictions on loans and advances

- (1) Notwithstanding anything to the contrary contained in section 77 of the Companies Act, 1956 (1 of 1956), no banking company shall,
- (a) grant any loans or advances on the security of its own shares, or
- (b) enter into any commitment for granting any loan or advance to or on behalf of
- (i) any of its directors,
- (ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor, or
- (iii) any company [not being a subsidiary of the banking company or a company registered under section 25 of the Companies Act, 1956 (1 of 1956), or a Government company] of which 61[or the subsidiary or the holding company of which] any of the directors of the banking company is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or
- (iv) Any individual in respect of whom any of its directors is a partner or guarantor.

Licensing of banking companies

- Save as hereinafter provided, no company shall carry on banking business in India unless it holds a license issued in that behalf by the Reserve Bank and any such license may be issued subject of such conditions as the Reserve Bank may think fit to impose.]
- Every banking company in existence on the commencement of this Act, before the expiry of six months from such commencement, and every other company before commencing

banking business [in India], shall apply in writing to the Reserve Bank for a license under this section.

Power to publish information

The Reserve Bank or the National Bank, or both, if they consider it in the public interest so to do, may publish any information obtained by them under this Act in such consolidated form as they think fit.