

Study of role of R.B.I (Reserve Bank of India) as Regulator

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ABSTRACT: *The role of RBI in regulating Indian banks 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 because of the misuse of powers by certain people who controlled a few banks but in relation to the protection of financial institutions in order to safeguard and protect the industrial interests of the community. By amending Act 23 of 1965, the title of the Act was amended to the Banking (Regulation) Act. Nationalised banks, non-nationalised institutions and cooperative banks are protected by the applicable law. In compliance with the provisions of the Reserve Bank of India Act, 1934, the Reserve State was created on April 1, 1935. The Reserve Bank's Wiring Closet was originally set up in Calcutta, but 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 nationalisation in 1949. The role including its RBI is to supervise the growth and functioning including its country's resultant product.*

KEYWORDS: *Indian Banks, Reserve Bank of India, Banking, Depository.*

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. For almost a century after they merged to create the Imperial Bank of India, they played the role of quasi-central banks.

In 1839, the Union Bank was formed in Calcutta, and collapsed in 1838 due to the economic collapse of 1848-49. Founded in 1865, Allahabad Bank is India's oldest living joint stock bank. In 1958, Oudh Commercial Bank, founded in Faizabad in 1881, collapsed. Next was the Punjab National Bank, founded in 1895 in Lahore, which is now one of India's largest banks.”¹

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 banks, also including Bank of India, Corporate Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India, have flourished to something like the present. The later decades of the 18th century led to the origins of modern banking, as we see it today in India. The Bank of Hindustan and the Bank of India were founded in 1770 and established in 1786, following the establishment in the cities of Calcutta, Bombay and Madras of three presidential banks.

DISCUSSION

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.”²

In the meantime, the reserve bank started to act as a bank for private shareholders. The decision to nationalise 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 country's global economy through a variety of initiatives.

In accordance with the provisions of the RBI Act, 1934 the main functions of RBI are³:

¹Banking Law and Practice, The Institute of Company Secretaries of India, New Delhi.

²CA Himanshu Vasa & CA Siddharth Gandotra, *An Overview of Key Banking Regulations*, THE CHAMBER'S JOURNAL, Dec. 2014.

³M. L. Tannan, *Tannan's Banking Law and Practice in India*, 2005.

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

The preamble of the Act states that the purpose of the government is "to regulate the issuance of bank notes and the retention of reserves in order to ensure monetary stability in India &, in general, to benefit from the operation of the continent's currency or credit system.".⁴

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 nationalised banks, non-nationalized banks and finance companies, the provisions of this Act apply. Both are "in addition to others and not, except as expressly provided, only for purpose of complying, in condemnation from the Companies Act, 1956 and any legislation."⁵

How banks does functions:

The regulatory as well as the supervisory duties of RBI can be said to be as follows:

- It issues licenses of operation to the new banks and for expansion of the existing ones;
- It can appoint or remove banking board or personnel;
- It regulates the business related to banking;
- It inspects and supervise banks.
- It conducts audits of the banks.
- It gives directives to the banks on functioning from time to time.
- It establishes norms for practice and maintenance of accounts.
- It has the power to gain and furnish credit information.
- It imposes penalty in case of faults.

Requirements for Branch License:

Under Section 23, the Act of 1949 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 a times to the system of collated approvals. Centered on some situations, the RBI has issued general permission to open branches."⁶

"Before granting licences, the RBI must be satisfied with the company's financial conditions and reputation, its general character, the appropriateness of its capital structure and even the potential for earnings, but also that the public interest will be served from opening or changing locations in compliance with Section 23 (2). The opening of a division is criminal without permission."⁷

Markets are expected to maintain the RBI's cash rate, which is a specific fraction of their creditors mostly with bank as deposit accounts.⁸

Any manufacturing company in India is expected to maintain approved security in cash, gold or unfettered current approach in India, a sum which should not be less than 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."

⁴Preamble. Reserve Bank of India Act, 1934.

⁵*State of Kerala v. M. T. Devassia*, AIR 1977 SC 331 : (1977) 1 SCC 363 : (1978) 48 Comp Cas 19.

⁶Master Circular RPCD.CO.RRB.No.BL.BC.08/03.05.90/2013-14, Reserve Bank of India, July 1, 2013.

⁷*SBISA Cooperative Bank Ltd. v. Tarun Kumar Saha*, 2000 Bankman 275 (Cal.).

⁸Section 42, Banking (Regulation) Act, 1949

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.”⁹

If it considers it fit and in the cause of banking in India, RBI may suspend a terms of the Contract for 60 days. Whenever considered appropriate, the bank may carry out special audits of the bank. The bank has the power to warn or even prevent any business activities from undertaking any commercial behaviour and to advise a wealth management company. "In contravention of any provision, rule or regulation in the Act, RBI may associate justice."

At any time, if the RBI 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.;¹⁰

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 deputed an equal voice at such hearings and also mandate such officers to file a report to the Reserve Bank on such proceedings;¹¹

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 in management as may be deemed appropriate by the Reserve Bank..¹²

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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⁹*Mohammed Usman v. Registrar of Cooperative Societies*, AIR 2003 Ker 299.

¹⁰Section 36(1)(d)(i), *Id.*

¹¹*Id.*

¹²*Id.*

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