



Role of Reserve Bank of India for Banking Reforms in India

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Abstract: *As the Indian Banking is undergoing a transition, the reform measures have brought about sweeping changes. In this background, the broad objective of the financial sector reform is to create a viable and efficient banking system. Fraud has been acknowledged as one of the principal threat to the development of the banking sector worldwide. This paper examines the fraud and its prevention in the Indian banking sector. Data used for this paper were obtained from primary source, through the administration of literature review. RBI Guidelines on frauds insists, among others, that banks are required to introduce necessary safeguards / preventive measures by way of appropriate procedures and internal checks so as to prevent/minimize occurrence of frauds and resultant financial loss to the banks. Banks are the engines that drive the operations in the financial sector, which is vital for the economy. With the nationalization of banks in 1969, they also have emerged as engines for social change and have become indispensable in a modern society. Banks play a critical role in economic development of a nation. The increase in banking operations is now accompanied by an increase in frauds in the banking sector. An attempt has been made in this paper to provide a brief overview on performance of the Banking Sector in India against the frauds prevailing in the contemporary period with the help of availability of preventive measure that can help to prevent the frauds.*

I. INTRODUCTION

The banking sector in India is poised for a quantum jump in productivity and scope for expansion in view of the competitive strengths acquired by the Indian industry. Public sector banks have shown substantial improvements, though in view of their large presence and some institutional constraints, further progress in reform is desirable. An attempt has been made to outline measure initiated by the RBI as follows.

1. Consolidation:

There are three aspects to consolidation viz., legal and regulatory regime governing consolidation, enabling policy framework where Government owns several banks and market conditions that facilitate such consolidation, recognizing that all mergers and acquisitions may not necessarily be in the interests of either the parties concerned or the system as a whole. While sanctioning the scheme of amalgamation, the RBI considers the financial health of the two banking companies to ensure, inter alia, that after the amalgamation, the new entity will emerge as much stronger bank. However, these provisions do not apply to viz., the nationalized banks, State Bank of India and its subsidiary banks.

2. Extension of Coverage of Reform Process:

The reform process has been extended to cover various other institutions such as Regional Rural Banks (RRBs), Cooperative Banks, All India Financial Institutions (AIFIs) and Non-Banking Financial Companies (NBFCs).

3. Payment System:

The current predominant mode of funds settlement is through the clearing process achieved by the functioning of about 1050 clearing houses in the India. In anticipation of the statutory changes, certain preliminary steps have been proposed by the RBI to build the requisite infrastructure for having effective supervision over payment and settlement systems. A Board for Payment and Settlement Systems (BPSS) is proposed that would function like the Board for Financial Supervision. It would provide policy directions in areas relating to regulation and supervision of payment and settlement systems, approval of payment systems, criteria for membership, various aspects relating to admission, continuation, and denial of membership, handling of offences etc.

4. Rating of Supervision:

The supervision of banks is becoming very complex. The supervisors need to acquire technical skills, exhibit considerable judgments on systems and develop inter institutional interactions on a continuing basis. The RBI has made efforts to introduce a system of feedback from the supervised banks on the adequacy, appropriateness and quality of supervision. That would help in rating of our supervisory performance from time to time and also obtain suggestions for improvements from a large, small foreign and local bank.



5. Users' Panel on Regulatory Instructions:

A Standing Technical Committee on Financial Regulation has been set up to advise on regulatory regimes administered by the RBI. The RBI has decided to prepare, self-regulatory organizations, a Users' Consultative Panel consisting of those in charge of compliance in the regulated institutions aimed at to obtain feedback on regulations at the formulation stage to avoid ambiguities and operational glitches (www.rbi.org.in). The RBI has laid substantial importance on appropriate mix between the elements of continuity and change in the process of reform, but the dynamic elements in the mix are determined by the context. The Annual Policy Statement of May 2004 carried forward this focus and found out major areas requiring urgent attention especially in the areas of ownership, governance, conflicts of interest and customer protection. It is necessary to articulate in a comprehensive and transparent manner the policy with regard to ownership and governance of both public and private sector banks keeping in view the special nature of banks. Inter-relationships between activities of financial intermediaries and areas of conflict of interests need to be considered. In order to protect the integrity of the financial system by reducing the likelihood of banks' becoming conduits for money laundering, terrorist financing and other unlawful activities, and also to ensure audit track, greater accent needs to be laid on the adoption of an effective consolidated know your customer (KYC) system, on both assets and liabilities, in all financial intermediaries regulated by the RBI. It is essential that banks do not look for interfering details from their customers and do not resort to sharing of information regarding the customer except with the written consent of the customer. The stability and efficiency imparted to the large commercial banking system is universally recognized, there are some segments which warrant restructuring. The annual policy statement for the current year 2007 restates the concern for common person, while expressing a medium term framework, for development of money, forex and Government securities markets; for enhancing credit flow to agriculture and small industry; for action points in technology and payments systems; for institutional reform in co-operative banking, non-banking financial companies and regional rural banks; and, for ensuring availability of quality services to all sections of the population(www.rbi.org.in)

II. IMPACT OF REFORMS IN THE BANKING SECTOR IN INDIA

One can state that the implementation of reforms has in the banking sector. India has lead to improve access to credit through newly established domestic banks, foreign banks and bank-like intermediaries. Government debt markets have developed, enabling greater operational independence in monetary policy making. The growth of Government debt markets has also provided a benchmark for private debt markets to develop. One finds significant improvements also in the information infrastructure. The accounting and auditing of intermediaries and Information on small borrowers has improved and information sharing through operationalisation of credit information bureaus has helped to reduce information asymmetry. The technological infrastructure has developed with modern day requirements in information technology and communications networking (www.eac.gov.in). The primary beneficiaries of the announced reforms are the state-owned banks, which control over three quarters of total assets in the financial system. In the year 2005, the Central Government gave State-run banks significantly greater operational and managerial freedom, including the rights to: establish overseas branches or subsidiaries; exit non-profitable ventures; set human resource policies; and acquire domestic and foreign banks. Government of Government of India removed limits on banks Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) requirements, and gave the central bank greater flexibility to set the limits. In the first phase, between March 2005 and 2009, foreign banks will be allowed to establish a wholly owned subsidiary or to convert existing operations into a subsidiary. The RBI has raised the limit of Foreign Direct Investment in private banks to 74 percent from 49 percent. Before 2009, foreign banks of India removed limits on banks Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) requirements, and gave the central bank greater flexibility to set the limits. In the first phase, between March 2005 and 2009, foreign banks will be allowed to establish a wholly owned subsidiary or to convert existing operations into a subsidiary. The RBI has raised the limit of Foreign Direct Investment in private banks to 74 percent from 49 percent. Before 2009, foreign banks 49 will only be allowed to acquire up to 74 percent ownership of distressed private banks identified by the RBI for restructuring, After March 2009, foreign banks may be allowed to acquire any private bank, depending on a review of the outcome of the first phase (www.frbsf.org).

Following table number four provides a bird-eye view of the reforms of the banking sector of India
The Reforms in the Banking Sector in India



Announced Reforms	Prior to March 2005	2005-2009	2009 thereafter
Structure of foreign bank presence in India	Branches only	Branches of wholly owned subsidiaries	Full national treatment, including IPO, subject to 26% of paid in capital being held resident Indians
Aggregate foreign direct investment limit in private banks	49 per cent	74 per cent for banks identifies as distressed by RBI	74 per cent
Foreign voting rights limit	10 per cent	Proposed amendment to allow voting rights to reflect ownership level	
Branching limit per year	12	> 12 subject to RBI approval	
Unchanged			
5 per cent foreign investment limit in private banks by individual foreign banks			
10 per cent foreign investment limit in private banks by foreign institutional investors or individual investors or individual corporate entities.			

Source: www.frbsb.org

1. Electronic Fund Transfer (EFT):

The Important new technologies introduced in banking in India: The IT (Information Technology) has changed the structure of Indian Banking Technology has been identified by banks as an important element in their strategy to improve productivity and render sufficient customer service. In banking computerization has taken place all over the world. The purpose is to bring technology to the counter and to enable Employees to have information at their fingertips.

2. Credit Card

Credit Card(Post Card) is a convenient medium of exchange. With the help of credit card a customer can purchase goods and services from authorized outlets without making immediate cash payments but within the prescribed limit.

3. Debit Card

Debit card is a prepaid card ant it allows a customer's anytime anywhere access to his saving or current account. For using debit card a PIN (Personal Identification Number) is issued to customers. Any transaction taking place is directly debited to the customer's bank account.

4. Phone Banking



In phone banking a customer can do entire noncash related banking services on telephone anywhere at any time. He can talk to phone banking officer for transaction banking business.

5. Telebanking

Telebanking is a 24 hour banking facility based on the voice processing facility available on bank computers. Here banking services or products are rendering through telephone to its customers.

6. Internet Banking

Internet banking is online banking. It is a product of E-commerce. Internet banking enables customers to open accounts, paybills, know account balance, view and print copies of cheques, stop payments etc....

7. Mobile Banking

Everybody with a mobile phone can access banking services, irrespective of their location. It is an extension of Internet banking. It provides services like account balance, mobile alerts about credit card or debit card transaction, mini account statements etc..

8. Door Step Banking

Here there is no need for customer to visit the branch for getting services or products from the bank. This means banking services and products are made available to a customer at his place of residence or work.

9. Point of Sale (POS)

In an online environment the POS terminal is a machine that facilities transactions through swipe of card.

10. ATMs

ATMs are emerging as the most useful tool to ensure “any time banking” and “anywhere banking” or ‘anytime money’. ATMs are self services vendor machines that help the banks to provide round the clock banking services to their 53 customers at convenient places without visiting bank premises. The customers are provided with ATM card.

11. Virtual Banking

It means rendering banking and its related services through use of IT. Some of the most important types of virtual banking are: ATMs, electronic fund transfer phone- banking, credit card, debit card, internet banking etc..

12. Electronic Clearing Services (ECS)

It is non-paper based movement of funds, it consist of Electronic Credit Clearing and Electronic Debit Clearing. As banks are expanding in to virtual banking, supervision and audit will have to be strengthened. Banks will have to pay greater attention to fool proof security arrangements and systems to safeguard against frauds.

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