

## UPSC Civil Services Examination

### UPSC Notes [GS-III]

#### Topic: Banks in India - UPSC Economy Notes

Banks are financial institutions which perform deposit and lending function. The bank takes deposit at a much lower rate from the public called deposit rate and lends money at a much higher rate called lending rate.

Banks can be classified into four types:-

- Cooperative Banks
- Commercial Banks
- Regional Rural Banks (RRB)
- Local Area Banks (LAB)

#### Functions of Banks

1. Acceptance of deposits from the public
2. Provide demand withdrawal facility
3. Lending facility

Aspirants can read about different [bank exams](#) at the linked article.

#### Cooperative Banks

These banks are organised under state government's act. They give short term loans to agriculture sector and other allied activities.

The main goal of Cooperative Banks is to promote social welfare by providing concessional loans

They are organised in the 3 tier structure

- Tier 1 (State Level) – State Cooperative Banks (regulated by RBI, State Govt, NABARD)
  - Funded by RBI, government, NABARD. Money is then distributed to public
  - Concessional CRR, SLR is applicable to these banks. (CRR- 3%, SLR- 25%)
  - Owned by state government and top management is elected by members
- Tier 2 (District Level) – Central/District Cooperative Banks
- Tier 3 (Village Level) – Primary Agriculture Cooperative Banks

#### Commercial Banks

- Organised under the Banking Companies Act, 1956

- They operate on commercial basis and its main objective is profit.
- They have unified structure and are owned by government, state, or any private entity.
- They tend to all sectors ranging from rural to urban
- These banks do not charge concessional interest rates unless instructed by the RBI
- Public deposits are the main source of funds for these banks

## Regional Rural Banks

- These are special type of commercial Banks that provide concessional credit to agriculture and rural sector.
- RRBs are established in 1975 and are registered under a Regional Rural Bank Act, 1976.
- RRBs are joint venture between Central government (50%), State government (15%) and a Commercial Bank (35%).
- 196 RRBs have been established from 1987 to 2005.
- From 2005 onwards government started merger of RRBs thus reducing the number of RRBs to 82
- One RRB cannot open its branches in more than 3 geographically connected districts.

## Local Area Banks

- Introduced in India in the year 1996
- These are organized by the private sector
- Earning profit is the main objective of Local Area Banks
- Local Area Banks are registered under companies Act, 1956
- At present, there are only 4 Local Area Banks all which are located in South India