SNS College of Technology

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COIMBATORE-641 035, TAMIL NADU

DEPARTMENT OF MANAGEMENT STUDIES

Academic Year	: 2024-25	Semesters	: 03
Course Code	: 23BAE701		
Course Name	: BANKIG AND FINANCIAL SERVICES		
Unit	: **I INTRODUCTION TO INDIAN BANKING SYSTEM**		

<u>Questions [2 Marks]</u>

1. What is the Indian Banking System?

   Answer: The Indian Banking System refers to the network of institutions that provide financial services, including accepting deposits, offering loans, and other banking functions, regulated by the Reserve Bank of India (RBI).

2. What is the primary function of commercial banks in India?

   Answer: The primary function of commercial banks in India is to accept deposits from the public and extend loans and credit facilities to individuals and businesses.

3. How is the Indian banking structure categorized?

   Answer: The Indian banking structure is categorized into scheduled banks and non-scheduled banks, further divided into public sector banks, private sector banks, foreign banks, regional rural banks (RRBs), and cooperative banks.

4. What are scheduled banks?

   Answer: Scheduled banks are those listed in the Second Schedule of the Reserve Bank o India Act, 1934, and must meet specific criteria such as maintaining a reserve capital**.**

5. Name the three main types of banks in India.

   Answer: The three main types of banks in India are commercial banks, cooperative banks, and regional rural banks (RRBs).

6. What is the role of cooperative banks?

Answer: Cooperative banks provide financial assistance primarily to the agricultural sector and small-scale industries, operating on a cooperative model owned by their members.

7. What are the two primary functions of banks?

   Answer: The two primary functions of banks are accepting deposits and granting loans and advances.

8. What is meant by 'credit creation' by banks?

   Answer: Credit creation is the process by which banks generate additional deposits in the banking system by lending out a portion of the deposits they receive.

9. What are the primary sources of funds for banks?

   Answer: The primary sources of funds for banks are customer deposits, borrowings from other banks, and issuing equity or debt instruments.

10. What is a fixed deposit?

    Answer: A fixed deposit is a type of bank account where the depositor deposits money for a fixed period at a pre-agreed interest rate, and the money cannot be withdrawn before the maturity date without a penalty.

11. How do banks employ their funds?

    Answer: Banks employ their funds by providing loans and advances, investing in securities, and maintaining cash reserves for liquidity management.

12. What is the importance of maintaining liquidity for banks?

    Answer: Maintaining liquidity is crucial for banks to meet their obligations to depositors, such as withdrawals, and to manage day-to-day operations efficiently.

13. What is the Reserve Bank of India (RBI)?
    Answer: The Reserve Bank of India (RBI) is the central bank of India, responsible for regulating the monetary policy, issuing currency, and overseeing the country's banking system.

14. When was the Reserve Bank of India established?

    Answer: The Reserve Bank of India was established on April 1, 1935.

15. What is the primary function of the RBI?

    Answer: The primary function of the RBI is to regulate the issue and supply of the Indian rupee and manage the country's monetary policy.

16. What is the RBI’s role in controlling inflation?

    Answer: The RBI controls inflation by regulating interest rates and using monetary policy tools like the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) to manage the money supply in the economy.

17. What is the regulatory framework of the RBI?

    Answer: The regulatory framework of the RBI includes setting guidelines and regulations for banks and financial institutions, ensuring financial stability, and supervising the banking sector to safeguard depositors' interests.

18. What is the purpose of the CRR (Cash Reserve Ratio)?

    Answer: The CRR is a regulatory tool used by the RBI where banks are required to maintain a certain percentage of their total deposits in reserve, either in cash or as deposits with the RBI, to control the liquidity and money supply in the economy.

19. What is the significance of the SLR (Statutory Liquidity Ratio)?

    Answer: The SLR is the percentage of a bank's net demand and time liabilities that must be maintained in the form of liquid assets like cash, gold, or government securities. It ensures that banks maintain a certain level of liquidity.

20. How does the RBI ensure the soundness of the banking system?

    Answer: The RBI ensures the soundness of the banking system by conducting regular inspections, audits, and stress tests of banks, and by setting prudential norms for asset classification, capital adequacy, and risk management.