

Scheduled and Non-Scheduled Bank in India

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Introduction

Governance and commercial banks two types of banks that are working in India and every commercial bank must be a scheduled bank or non-scheduled bank. Reserve Bank of India (RBI) gives the license to the commercial banks in India. Scheduled banks are banks listed in the 2nd schedule of the Reserve Bank of India and able to take low-interest loans from the Reserve Bank of India and membership in clearinghouses but some extra requirements must follow by every scheduled bank. Section 42 of Reserve Bank of India Act, 1934 says every scheduled bank shall maintain Cash Reserve with the Reserve bank of India and Banking Regulation Act, 1949, section 18 and read with section 5 (c) says every non-scheduled Bank shall maintain Cash Reserve with itself or with RBI, it means Non-scheduled may maintain cash reserve with itself but scheduled bank shall maintain cash reserve with RBI. RBI gives many benefits to scheduled banks, e.g. RBI gives loan at bank rate to the scheduled banks, give the financial support and etc. According to RBI at present (22/05/2021) 23 state co-operative banks, 53 urban co-operative banks, 12 public sector banks, 22 private banks, 46 foreign banks, and 45 regional rural banks are scheduled banks in India and took loan directly or through RBI at bank Rate.

According to section 2 (e) of the RBI Act, 1934, “scheduled bank” means a bank included in the Second Schedule.

Non-scheduled banks are banks that are not scheduled banks and not included in the second schedule of RBI are the non-scheduled banks and these banks have not mandate to maintain Cash Reserve with themselves or with RBI. Some banks of some classes are working as a non-scheduled bank in India and they are not listed in the second schedule of the Reserve Bank of India. These banks are as follows.

Objectives

The main objectives of study are to describe the Scheduled and Non-scheduled Banks in India and to describe the Advantages to Scheduled Banks

Data Analysis and Results

Scheduled and Non-scheduled Banks in India

No.	Type of Bank	Number of Scheduled Banks	Number of Non-Scheduled Banks	Total
1.	Public Banks	12	0	12
2.	Private Banks	22	0	22
3.	Regional Rural Banks	45	0	45
4.	Rural Co-operative Banks	23	11	34
	District Co-operative Banks	0	352	352
5.	Urban Co-operative Banks as on (31/01/21)	53	1481	1534
6.	Foreign Banks	46	0	46
7.	Payment Banks	2	4	6
8.	Local Area Banks	0	3	3
9.	Small Finance Banks	10	0	10
	Total	213	1863	2076

Source: RBI

Advantages to Scheduled Banks

The scheduled banks enjoy several privileges as compared to non-scheduled banks. Scheduled banks are entitled to receive refinance facilities from the Reserve Bank of India. They are also entitled to currency chest facilities. They are automatic also become members of the Clearing House.

The scheduled banks can enjoy several benefits as compared to non-scheduled banks.

- 1) Schedule banks are able to take refinance (loan) from RBI at bank rate.
- 2) Scheduled banks entitled for currency chest facilities.
- 3) Membership of the clearinghouse.

In other words, scheduled banks have more opportunities for business as take refinance (loan) from RBI at bank rates and it is the basic need of banks and biggest benefit to any bank because these banks can get lower interest rate loan from RBI.

Process of Non-scheduled Banks conversion into Scheduled Banks

RBI gives license to every commercial bank for operating the banking business in India and scheduled banks are such banks which are listed in the second scheduled list of RBI and section 42 (6) (a) of Banking Regulation Act, 1949, specifies the requirements of becoming a scheduled bank from the non-scheduled bank. These provisions include the minimum capital of Rs 5,00,000, the bank should work in the favour of depositors and it should be a company or State co-operative bank or institution notified by the central Government. But this section is not applied to the co-operative banks other than state co-operative banks and RBI gives special provision for urban co-operative banks to become a scheduled bank but RBI not gives any provision for district co-operative banks to become a scheduled bank and section 42 (6) (a) is also not applied on these banks, so as district co-operative banks can't become scheduled banks.

List of Non-scheduled Banks

Classes of Banks	Number of Non-Scheduled Bank	Conversion into Scheduled bank possible
State Co-operative Banks	11	Yes
District Co-operative Banks	352	No
Urban Co-operative Banks	1481	Yes
Payment Banks	4	Yes
Local Area Banks	3	Yes

According to Reserve Bank of India Act, 1934, If any non-scheduled bank, which is not a district co-operative bank or urban co-operative bank, fulfills the following provisions RBI may include this bank into the scheduled banks list.

Section 42 (6) (a) of Reserve Bank of India Act, 1934 are as follows

(a) direct the inclusion in the Second Schedule of any bank not already so included which carries on the business of banking in India and which—

- (i) has a paid-up capital and reserves of an aggregate value of not less than five lakhs of rupees, and
- (ii) satisfies the Bank that its affairs are not being conducted in a manner detrimental to the interests of its depositors, and
- (iii) is a **State co-operative bank or a company** as defined in [section 3 of the Companies Act, 1956, or an institution notified by the Central Government in this behalf] or a corporation or a company incorporated by or under any law in force in any place outside India;

Further provided that, According to RBI any non-scheduled payments bank will be given scheduled bank status once it commences operations, and is found suitable as per Section 42 (6) (a) of the Reserve Bank of India Act, 1934. Guidelines for Licensing of Payments Banks.

*In the above table, state co-operative bank is state co-operative banks, payment banks and local area banks are in form of company But **District Co-operative Banks** and **urban co-operative bank** are neither a state co-operative bank nor a company, so as these banks are not covered in this section. The process of these banks conversion to a scheduled bank is as follows.*

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