

# HISTORY OF BANKING IN INDIA

- The Banking system of the country is the base of the economy and economic development of the country. It is the most leading part of the financial sector of the country as it is responsible for more than 70 % of the funds flowing through the financial sector in the country.
- The banking system in the country has three primary functions:
- Operations of Payment system
- Depositor and protector of people's savings
- Issue loans to individual and Companies

The Banking system in India can be categorized in two phases :

- Pre-Independence Phase (1786-1947)
- Post- Independence Phase (1947 to till date)
  - The post-Independence period may further be divided into three phases-
- Pre-nationalisation Period (1947 to 1969)
- Post nationalisation Period (1969 to 1991)
- Liberalisation Period (1991 to till date)

# Pre-Independence Phase (1786-1947)

The first bank of India was the “*Bank of Hindustan*”, established in 1770 and located in the then, Indian capital, Calcutta. However, this bank failed to work and ceased operations in 1832.

- During the Pre Independence period over 600 banks had been registered in the country but only a few managed to survive.
- Following the path of Bank of Hindustan, various other banks were established in India. They were:
  - The General Bank of India (1786-1791)
  - Bank of Bengal (1809)
  - Bank of Bombay (1840)
  - Bank of Madras (1843)
- During the British rule in India, The East India Company had established three banks: Bank of Bengal, Bank of Bombay and Bank of Madras and called them the Presidential Banks. These three banks were later merged into one single bank in 1921 which was called the “*Imperial Bank of India.*”
- The Imperial Bank of India was later nationalised in 1955 and was named The State Bank of India, which is currently the largest Public sector Bank.

Pre-Independence Banks in India	
Bank Name	Year of Establishment
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Central Bank of India	1911
Canara Bank	1906
Bank of Baroda	1908

The central Bank of India, RBI establish in 1935 on the recommendation of **Hilton-Young Commission**.

At that time, the Banking system was only covered the urban population and need of rural and agriculture sector was totally neglected.

If we talk of the reasons as to why many major banks failed to survive during the pre independence period, following conclusions can be drawn:

- Lack of machines and technology
- Human errors & time consuming
- Less facilities
- Lack of proper management skills

Following the Pre Independence period was the post independence period which observed some major changes in the banking industry scenario and has till date developed a lot.

# Post- Independence Phase -Pre-nationalisation Period (1947 to 1969)

- At the time independence, the entire Banking sector was under private ownership. The rural population of the country had to depend on small money lenders for their requirements. To solve these issues and better development of the economy the Government of India nationalised the Reserve Bank of India in 1949.
- **In 1955 the Imperial Bank of India was nationalised and named the State Bank of India.**
- The Banking Regulation Act enacted in 1949.

# Post nationalisation Period (1969 to 1991)

- The Indian Banking system immensely developed after nationalisation but the rural and weaker section of the society was still not covered under the system.
- To solve these issues, the **Narasimham Committee** in 1974 recommended the establishment of **Regional Rural Banks (RRB)**. On **2<sup>nd</sup> October 1975**, RRBs were **established** with an objective to extend the amount of credit to the rural section of the society.
- **Six more banks** further nationalised in the year 1980. With the second wave of nationalisation, the target of priority sector lending was also raised to 40%.

. These banks included:

Andhra Bank

Corporation Bank

New Bank of India

Oriental Bank of Comm.

Punjab & Sind Bank

Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalised in 1959:

State Bank of Patiala

State Bank of Hyderabad

State Bank of Bikaner & Jaipur

State Bank of Mysore

State Bank of Travancore

State Bank of Saurashtra

State Bank of Indore

All these banks were later merged with the State Bank of India in 2017, except for the State Bank of Saurashtra, which was merged in 2008 and State Bank of Indore, which was merged in 2010.

# Impact of Nationalization

There were various reasons why the Government chose to nationalise the banks. Given below is the impact of Nationalising Banks in India:

- This led to an increase in funds and thereby increasing the economic condition of the country
- Increased Efficiency
- Helped in boosting the rural and agricultural sector of the country
- It opened up a major employment opportunity for the people

Profit gained by Banks was used by the Government for the betterment of the people

Competition was decreased and work efficiency had increased

This post Independence phase was the one that led to major developments in the banking sector of India and also in the evolution of the banking sector.



# Liberalization Period (1991 to till date)

- Once the banks were established in the country, regular monitoring and regulations need to be followed to continue the profits provided by the banking sector. The last phase or the ongoing phase of the banking sector development plays a very important role
- In order to improve financial stability and profitability of Public Sector Banks, the Government of India set up a committee under the chairmanship of **Shri. M. Narasimham**. The committee recommended several measures to reform banking system in the country.
- The major thrust of the recommendations was to make banks competitive and strong and conducive to the stability of the financial system.
- The committee suggested for no more nationalisation of banks.
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- Foreign banks would be allowed to open offices in India either as branches or as subsidiaries.
- In order to make banks more competitive, the committee suggested that public sector banks and private sector banks should be treated equally by the Government and RBI.
- It was emphasised that banks should be encouraged to abandon the conservative and traditional system of banking and adopt progressive function such as merchant banking and underwriting, retail banking, etc.
- Now, foreign banks and Indian banks permitted to set up joint ventures in these and other newer forms of financial services.
- 10 Privates players got a license from the RBI to entry in the Banking sector. These were Global Trust Bank, ICICI Bank, HDFC Bank, Axis Bank, Bank of Punjab, IndusInd Bank, Centurion Bank, IDBI Bank, Times Bank and Development Credit Bank.
- The Government of India accepted all the major recommendation of the committee.

The other measures taken include:

- Setting up of branches of the various Foreign Banks in India
- No more nationalisation of Banks could be done
- The committee announced that RBI and Government would treat both public and private sector banks equally
- Any Foreign Bank could start joint ventures with Indian Banks
- Payments banks were introduced with the development in the field of banking and technology
- Small Finance Banks were allowed to set their branches across India
- A major part of Indian banking moved online with internet banking and apps available for fund transfer
- Thus, the history of banking in India shows that with time and the needs of people, major developments have been done in the banking sector with an aim to prosper it.
- The entire period of evolution of the banking industry is still ongoing and each day new changes can be seen in the banking sector for the betterment of the economic growth of the country.

# Recent Development in Indian Banking Sector:

- Kotak Mahindra Bank and Yes Bank got a license from RBI to entry in the system in the year 2003 and 2004.
- In 2014, RBI grants in-principle approval to **IDFC** and **Bandhan Financial Services** to set up banks.
- Today, Indian Banking industry is one of the most growing flourishing industries. Banking systems of any country need to be effective, efficient as it plays the active in the economic development of the country.

## The Firsts In Indian Banking System:

**First bank in India was** Bank of Hindustan (1770)

**First Bank managed by Indians was** Oudh Commercial Bank

**First Bank with Indian Capital was** Punjab National Bank (Founder of the Bank is Lala Lajpat Rai)

**First Foreign Bank in India is** HSBC

**First bank to get ISO certificate is** Canara Bank

**First Indian bank outside India is** Bank of India

**First Bank to introduce ATM is** HSBC (1987, Mumbai)

**First Bank to have a joint-stock public bank (Oldest) is** Allahabad Bank

**First Universal bank is** ICICI (Industrial Credit and Investment Corporation of India)

**First bank to introduce saving account is** Presidency Bank (1833)

**First Bank to Introduce Cheque system is** Bengal Bank (1833)

**First bank to give internet banking facility is** ICICI

**First bank to sell mutual funds is** State Bank of India

**First bank to issue credit cards is** Central Bank of India

**First Digital Bank is** Digibank

**First Rural Regional Bank (Grameen Bank) is** Prathama Bank (sponsored by Syndicate Bank)

**First bank to get 'in principle' banking license is** IDFC and Bandhan Bank

**First Bank to introduce merchant banking in India is** Grindlays bank

**First bank to introduce voice biometric is** Citi Bank

**First bank to introduce robot in banking service is** HDFC

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