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Documented verifiable History of Banking in India

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Abstract:

Banking, as a system of financial institutions and services, has a long and rich history in India. The evolution of banking in the country can be traced back to ancient times when various forms of money lending and financial transactions took place. Over the centuries, the banking sector in India has witnessed significant developments, leading to the establishment of modern banking institutions that play a crucial role in the nation's economy. This article delves into the history of banking in India, exploring its origins, milestones, and key transformations.

Keywords: Financial Institutions and Services, Nation's Economy, The Progress of the Banking Sector, Indigenous Banking Systems.

Introduction:

History of Banking in India (3 phases):

The evolution of banking in India has witnessed significant changes over the years, with various phases defining its growth and development. From the establishment of the first bank to the nationalization of major banks, the country's banking sector has played a crucial role in shaping the nation's economy. Let's delve into the important phases and significant events that have shaped the banking landscape in India. The progress of the banking sector can be categorized into three distinct phases:

History of Banking in India Phase I: The Early Phase (1770-1969):

The journey of banking in India began with the establishment of the "Bank of Hindustan" in 1770 in Calcutta, the then Indian capital. However, this pioneering bank faced challenges and eventually ceased operations in 1832. During the pre-independence period, over 600 banks were registered in the country, but only a few managed to survive.

Following the Bank of Hindustan, other banks like "The General Bank of India" (1786-1791) and "Oudh Commercial Bank" (1881-1958) were established. Additionally, the "Bank of Bengal," "Bank of Bombay," and "Bank of Madras" were set up by the East India

Company and later merged into the "Imperial Bank of India" in 1921.

History of Banking in India Phase II: The Nationalisation Phase (1947-1991):

Post-independence in 1947, the Indian banking sector witnessed significant changes to address financial inclusion and promote economic growth. The government decided to nationalize banks to extend financial services to rural areas and reduce dependency on money lenders. Under the Banking Regulation Act, 1949, several banks were nationalized, including the Reserve Bank of India.

Material and Methods:

In 1955, the State Bank of India (SBI) was formed, and between 1969 and 1991, 14 major banks with deposits exceeding 50 crores were nationalized. These banks included Allahabad Bank, Bank of India, Canara Bank, Punjab National Bank, and more. History of Banking in India Phase III: The Liberalisation and Banking Sector Reforms Phase (1991-Present).The post-liberalization era from 1991 onwards witnessed further reforms in the banking sector. The government focused on enhancing efficiency, promoting competition, and encouraging technological advancements. The new policies aimed to attract foreign investments and boost economic growth. Over the years, the Indian banking sector has seen remarkable progress, with modernization and digitization transforming the way financial services are delivered. Public sector banks like the State Bank of India continue to play a pivotal role, and private and foreign banks have also gained prominence, contributing to the country's economic growth.

Objective of the Study:

The history of banking in India stretches back to antiquity, where the roots of financial systems were established during ancient and medieval times. Long before the advent of modern banking institutions, India witnessed a diverse array of indigenous financial practices that laid the foundation for the country's economic activities. These ancient and medieval banking systems provide fascinating insights into how commerce and finance were conducted in early Indian societies, setting the stage for the evolution of banking as we know it today. In this article, we delve into the world of ancient and medieval banking in India, exploring the unique practices, early forms of currency, and the emergence of early financial institutions that shaped the economic landscape of the subcontinent.

1. Banking in India: Indigenous Banking Systems:

In ancient India, money lending and banking activities were prevalent through indigenous systems like Shroffs, Sahukars, and Mahajans. These moneylenders acted as early bankers, providing credit and facilitating trade in various regions.

2. Banking in India: Early Forms of Currency:

The use of cowry shells and metallic objects as mediums of exchange can be traced back to the Vedic period. As trade flourished, the concept of currency and coinage evolved, with punch-marked coins being one of the earliest forms of currency in circulation.

3. Banking in India: Emergence of Banking Guilds:

During the medieval period, banking guilds known as "Sarrafs" and "Kothas" emerged in various parts of India. These guilds facilitated money transfers and offered banking services to traders and merchants.

History of Banking in India Colonial Era Banking:

The colonial era marked a significant turning point in the history of banking in India. With the arrival of European traders and the establishment of various colonial powers, the concept of modern banking began to take root in the Indian subcontinent. This period witnessed the introduction of formal banking institutions and the emergence of financial systems that would lay the foundation for the modern banking sector in India. The influence of European banks, the establishment of presidency banks, and the role of indigenous bankers all contributed to shaping the banking landscape during this crucial era. In this article, we explore the key developments and contributions of colonial-era banking in India, highlighting its lasting impact on the nation's financial system.

1. History of Banking in India: Establishment of European Banks:

With the arrival of European traders, the concept of modern banking took root in India. The British East India Company established the first bank in India, the Bank of Hindustan, in 1770. It was followed by other European banks such as Bank of Bengal, Bank of Bombay, and Bank of Madras, which later merged to form the Imperial Bank of India.

2. History of Banking in India: Advent of Presidency Banks:

In the early 19th century, three presidency banks were established in Calcutta (Bank of Bengal), Bombay (Bank of Bombay), and Madras (Bank of Madras). These banks played a significant role in financing trade and providing credit facilities during the colonial era.

3. History of Banking in India: The Role of Indian Banks:

During the late 19th and early 20th centuries, Indian entrepreneurs and philanthropists founded several Indian banks, such as Allahabad Bank, Punjab National Bank, and Bank of India. These banks aimed to cater to the financial needs of Indian businesses and individuals.

History of Banking in India: Post-Independence Developments:

The post-independence era in India marked a significant turning point in the nation's history. With newfound freedom from British colonial rule, India embarked on a journey of progress and transformation across various sectors. In the wake of independence, the country witnessed several critical developments that shaped its political, economic, social, and cultural landscape.

1. History of Banking in India: Nationalization of Banks:

In 1949, the Reserve Bank of India (RBI) was nationalized, becoming the central banking authority. Subsequently, in 1969, the Indian government undertook a significant step by nationalizing 14 major commercial banks, aiming to expand banking services and enhance financial inclusion.

Nationalization of banks refers to the process of transferring ownership and control of private banks to the government. In India, the nationalization of banks took place in two phases, with the primary aim of achieving social welfare and economic development.

Phase I: The Nationalization of 14 Banks (1969) The first phase of nationalization occurred on July 19, 1969, under the leadership of then Prime Minister Indira Gandhi. Fourteen major private banks with deposits exceeding Rs. 50 crores were brought under government ownership. The nationalized banks included prominent names such as Allahabad Bank, Bank of India, Punjab National Bank, Canara Bank, Central Bank of India, and more. This move was driven by the objective of reducing the concentration of economic power and promoting financial inclusion.

2. History of Banking in India: Impact of Phase I Nationalization:

1. Increased Access to Banking: The nationalization of these banks expanded banking services to rural and underserved areas, providing access to formal credit and financial services to a larger section of the population.
2. Priority Sector Lending: Nationalized banks were directed to allocate a certain percentage of their total lending to priority sectors like agriculture, small-scale industries, and weaker sections of society, facilitating inclusive growth.
3. Control of Resources: The government gained greater control over financial resources, allowing them to channel funds for development-oriented projects.
4. Employment Generation: With the expansion of banking services, there was a surge in employment opportunities in the banking sector, benefiting the economy.

Phase II: The Nationalization of 6 More Banks (1980) The second phase of nationalization occurred on April 15, 1980, during the tenure of Prime Minister Indira Gandhi. Six more private banks were nationalized, further consolidating government control over the banking industry. The banks that were nationalized in this phase included Andhra Bank, Corporation Bank, New Bank of India, Punjab & Sind Bank, Vijaya Bank, and Oriental Bank of Commerce.

3. History of Banking in India: Impact of Phase II Nationalization:

1. Strengthening Public Sector Banks: The nationalization of these additional banks strengthened the public sector's role in the banking sector and expanded their reach to different regions of the country.
2. Uniform Banking Standards: Nationalization helped in establishing uniform banking practices and standards across the country, ensuring transparency and efficiency in banking operations.
3. Social Welfare: The government used the profits generated by these nationalized banks for various welfare schemes and developmental projects, promoting the overall well-being of the nation.

History of Banking in India: Impact of Nationalisation:

The nationalisation of banks in India was a significant decision made by the government, driven by various reasons. This move had several notable impacts on the country's economy and banking sector:

1. Enhanced Economic Condition: Nationalisation led to an increase in funds available to the banking sector, which in turn contributed to the overall economic growth of the country.

2. Increased Efficiency: With the government taking control of major banks, there was a drive towards improving operational efficiency and financial performance.

3. Boost to Rural and Agricultural Sectors: Nationalised banks played a crucial role in providing financial services to rural areas and the agricultural sector, promoting inclusive growth.

4. Employment Opportunities: The nationalisation initiative created substantial employment opportunities for the people, contributing to economic development and reducing unemployment rates.

5. Utilization of Profits: The profits generated by nationalised banks were utilized by the government for various developmental projects, benefiting the public at large.

6. Reduced Competition, Increased Efficiency: Nationalisation reduced excessive competition among banks, leading to increased cooperation and a more efficient banking system.

The post-independence phase marked a significant period of growth and evolution in India's banking sector, laying the foundation for its expansion and modernization in subsequent years. The impact of nationalisation continues to influence the banking landscape in the country, fostering financial inclusion and sustainable development.

History of Banking in India: Establishment of Regional Rural Banks:

To promote rural development and bring banking services to remote areas, the Indian government established Regional Rural Banks (RRBs) in 1975. These banks operate in collaboration with commercial banks and the government.

The establishment of Regional Rural Banks (RRBs) marked a significant milestone in India's efforts to promote rural development and financial inclusion. RRBs were envisioned as a crucial instrument to bring banking services to the rural areas and cater to the financial needs of the rural population.

History of Banking in India: Background and Need for RRBs:

Prior to the establishment of RRBs, the banking services in rural areas were limited, and most of the rural population had little or no access to formal banking facilities. The traditional banking system failed to reach the rural masses due to various challenges such as geographical barriers, lack of infrastructure, and inadequate resources.

In response to this scenario, the Government of India, along with the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD), introduced the concept of RRBs. The primary objective was to enhance financial inclusion, promote rural development, and uplift the standard of living in rural regions.

History of Banking in India: Impact and Challenges:

The establishment of RRBs has had a positive impact on rural development and financial inclusion. These banks have played a crucial role in empowering rural communities by providing them with access to formal credit and banking facilities. They have contributed to increasing agricultural productivity, generating employment opportunities, and fostering rural entrepreneurship.

However, RRBs also face challenges such as inadequate capitalization, operational inefficiencies, and competition from other financial institutions. To ensure the continued success of RRBs, various measures have been taken by the government and RBI, including capital infusion, capacity building, and technological advancements.

History of Banking in India: Liberalization and Technological Advancements (1991-Till Date):

The phase of liberalisation in India's banking sector has been crucial for its continued growth and progress. After the establishment of banks in the country, it became essential to implement regular monitoring and regulations to sustain the profitability and stability of the banking industry. During this ongoing phase, significant reforms were introduced to enhance the functioning and efficiency of the banking sector.

In the 1990s, India underwent economic liberalization, which also impacted the banking sector. Foreign direct investment in banks was permitted, leading to the entry of private and foreign banks in the Indian market. Moreover, technological advancements brought internet banking, mobile banking, and ATMs, revolutionizing banking services.

Management Committee under Shri. M Narasimhan:

To ensure stability and profitability for Nationalised Public sector Banks, the Government formed a committee under the leadership of Shri. M Narasimhan. This committee played a pivotal role in implementing various reforms in the Indian banking industry.

Introduction of Private Sector Banks:

One of the most significant developments during this period was the introduction of Private sector banks in India. The Reserve Bank of India (RBI) granted licenses to 10 Private sector banks to establish themselves in the country. Some of the notable private banks included in this list were Global Trust Bank, ICICI Bank, HDFC Bank, Axis Bank, and IndusInd Bank.

Other Measures Taken:

1. Foreign Bank Branches: The liberalisation phase allowed various Foreign Banks to set up branches in India, promoting international collaboration in the banking sector.
2. Halt to Nationalisation: The committee recommended that no further nationalisation of banks should take place, giving more autonomy to the banking institutions.
3. Equal Treatment: The RBI and the Government were directed to treat both public and private sector banks equally, fostering healthy competition in the sector.
4. Joint Ventures: The liberalisation period opened up opportunities for any Foreign Bank to initiate joint ventures with Indian Banks, encouraging global partnerships.
5. Payments Banks: With advancements in banking and technology, the concept of Payments banks was introduced, focusing on providing efficient payment services to the public.
6. Small Finance Banks: The establishment of Small Finance

Banks was allowed, empowering them to set up branches across India, particularly catering to the needs of rural and underserved areas.

7. Online Banking: A major shift towards online banking occurred during this phase, with the advent of internet banking and mobile apps for convenient fund transfers and financial transactions.

The history of banking in India reflects continuous development and adaptation to meet the evolving needs of the people. The liberalisation period has been instrumental in shaping the banking sector and promoting its prosperity and accessibility for all.

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The History of Banking in India dates to before India got independence in 1947. The financial system has been around for almost as long as civilization itself, and the Indian banking system is no exception. Read here to learn about the history of banking in India. A nation's financial system supports its economic growth. The banking industry in India has seen significant changes during the past five centuries due to the state of the economy, the need for financial services, and the subsequent advances in technology. It appears from historical accounts from Greece, Rome, Egypt, and Babylon that temples did more than just save money; they also lent it out. One reason temples were often looted during conflicts was that they frequently served as the financial hubs of their towns. Since the first coins were produced and wealthy individuals realized they required a secure location to put their money, banking has existed. For commerce, wealth distribution, and taxation, ancient empires also need a sound financial system.

Brief History of Banking in India:

The Vedas, the ancient Indian texts mention the concept of usury, which is a practice of making unethical monetary loans which is advantageous to the lender. The Sutras (700–100 BCE) and the Jatakas (600–400 BCE) also mention usury.

During the Mauryan period (321–185 BCE), an instrument called adesha was in use, which was an order on a banker directing him to pay the sum on the note to a third person, which corresponds to the definition of a modern bill of exchange.

- History of Banking in India: Pre-independence phase (1770-1947)
- In India, modern banking originated in the middle of the 18th century.
- The first banking institution was the Bank of Hindustan established in 1770, and it was the first bank at Calcutta under European

management. It was liquidated in 1830-32.

- In 1786 General Bank of India was set up but it failed in 1791.
- Calcutta developed as a banking hub since it was India's busiest port for trade, mostly because of the British Empire's trade.
- The British East India Company granted the Bank of Calcutta, Bank of Bombay, and Bank of Madras licenses to establish the three Presidency banks. For long years, they operated in India as if they were central banks.
- The Bank of Calcutta established in 1806 immediately became the Bank of Bengal.
- These three banks joined in 1921 to become the Imperial Bank of India.
- Later, in 1955, the Imperial Bank of India was nationalized in 1955 and was named The State Bank of India, which is currently the largest Public sector Bank.
- Before the Reserve Bank of India was founded in 1935 under the Reserve Bank of India Act, of 1934, the presidency banks and their successors served as quasi-central banks for a long time.
- Consequently, the State Bank of India is the country's oldest bank.

During this time, as many as 600 banks were founded.

Many large banks were unable to function because of a lack of management expertise, equipment, and technology, which resulted in laborious procedures and mistakes made by humans, making Indian account holders vulnerable to fraud. A few banks have endured and are still around today like the Allahabad Bank (1865), Punjab National Bank (1894), etc. As a result of the Swadeshi movement, various local merchants and politicians set up banks for the Indian population between 1906 and 1911. Numerous of these are still in use. The financial sector saw rough periods from the First World War (1914–1918), till the conclusion of the Second World War (1939–45), and two years later, until India gained its independence. Many banks failed because of these chaotic times.

History of Banking in India: Post-independence phase (1947-1991):

The Government of India (GOI) chose the strategy of a mixed economy with considerable market involvement in 1948 to develop the economy, continuing the evolution of the Indian banking sector post-independence.

After being established in 1935, the Reserve Bank of India was nationalized in 1949 and given the authority to oversee, govern, and inspect all banks in India.

All of India's main banks were privately run at the time of independence, which raised concerns because rural residents were still reliant on moneylenders for financial support.

The then-Government chose to nationalize the banks to address this issue.

Nationalization of Banks:

The Government of India issued the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance in 1969 and nationalized the 14 largest commercial banks in India at that time.

- Allahabad Bank
- Bank of India
- Bank of Baroda
- Bank of Maharashtra
- Central Bank of India
- Canara Bank
- Dena Bank
- Indian Overseas Bank
- Indian Bank
- Punjab National Bank
- Syndicate Bank
- Union Bank of India
- United Bank
- UCO Bank

In 1959, 7 subsidiaries of SBI were nationalized:

- 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

In the year 1980, another 6 banks were nationalized, taking the number to 20 banks:

- Andhra Bank
- Corporation Bank
- New Bank of India
- Oriental Bank of Comm.
- Punjab & Sind Bank
- Vijaya Bank

Post-nationalization:

In India, nationalizing banks marked a turning point toward financial stability, particularly in rural areas where there were no big banks. The efficiency of the financial sector in India was enhanced by the nationalised banks.

The step has a huge impact on the financial system of the country-

- When branches were established in the farthest reaches of the nation, bank access improved.
- Since more people had access to banks as a result of the opening of new branches, the average domestic saving increased by two times.
- A comparable rise in public deposits resulted from the expansion of banks' reach, which aided the expansion of export-related sectors, agriculture, and small businesses.
- Improved effectiveness and more public confidence were the results of greater accountability.
- The economy expanded significantly as a result of the small-scale industries' boost.
- After being nationalised, RBI had already established a precedent by ranking among the biggest

employers. As more banks followed the lead, this continued.

- Banks provide financing to marginal farmers at reasonable rates, which significantly boosted India's agricultural industry.

Liberalization (1991):

To increase the involvement of private and foreign investors, the Government implemented economic liberalization in 1991, which resulted in a significant change in its economic policies.

Read the following articles for a better understanding of liberalization:

- Economic Reforms of 1991
- Effects of Liberalization on the Indian Economy

Conclusion:

The history of banking in India has gone through numerous changes and is of the most mature financial systems.

Even though the reach of banks has spread to rural areas also, the financial inclusion of the poor remains a challenge. Many initiatives like NABARD are being implemented to rectify this issue.

Indian banking is walking hand in hand with technological advancement as well.

- The National Payments Corporation of India (NPCI) and the Government of India together unveiled the UPI (Unified Payment Interface) System and BHIM in 2016, ushering in the era of digital payments and what is commonly referred to as mobile banking.
- Following technological developments, several fintech in the nation have advanced digital banking in collaboration with conventional banks to offer a wide range of financial services.
- Full stack "digital banks," which will solely rely on the Internet to provide their services and not on their physical branches, were planned to be established by Niti Aayog in 2021.
- Digital banking in India is anticipated to undergo a revolution as a result.

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