

## HISTORY OF BANKING

The advancement in the Indian banking system is classified into 3 distinct phases:

1. The pre-independence phase i.e. before 1947
2. Second phase from 1947 to 1991
3. Third phase 1991 and beyond

### Phase I

#### Highlights

This phase is characterized by the presence of a large number of banks (more than 600).

Banking system commenced in India with the foundation of Bank of Hindustan in Calcutta (now Kolkata) in 1770 which ceased to operate in 1832.

Whereas some are successful and continue to lead even now like –

- Allahabad Bank (est. 1865)
- Punjab National Bank (est. 1894, with HQ in Lahore (that time))
- Bank of India (est. 1906)
- Bank of Baroda (est. 1908)
- Central Bank of India (est. 1911)

While some others like Bank of Bengal (est. 1806), Bank of Bombay (est. 1840), Bank of Madras (est. 1843) merged into a single entity in 1921 which came to be known as Imperial Bank of India.

*Note: Imperial Bank of India was later renamed in 1955 as the State Bank of India.*

In April 1935, Reserve Bank of India was formed based on the recommendation of Hilton Young Commission (setup in 1926).

In this time period, most of the bank were small in size and suffered from high rate of failures. As a result public confidence is low in these banks and deposit mobilization was also very slow. People continued to rely on unorganized sector (moneylenders and indigenous bankers).

### Phase II

Broadly the main characteristic feature of this phase is the nationalization of bank. With the view of economic planning, nationalization emerged as the effective measure.

Need for nationalization in India:

- a) The banks mostly catered to the needs of large industries, big business houses.
- b) Sectors such as agriculture, small scale industries and exports were lagging behind.
- c) The poor masses continued to be exploited by the moneylenders.

Following this, in the year 1949, 1st January the Reserve Bank of India was nationalized.

14 commercial banks were nationalized in 19th July, 1969. Smt. Indira Gandhi was the Prime Minister of India, during in 1969. These were –

Central Bank of India

Bank of India

Punjab National Bank

Bank of Baroda

United Commercial Bank

Canara Bank

Dena Bank

United Bank

Syndicate Bank

Allahabad Bank

Indian Bank

Union Bank of India

Bank of Maharashtra

Indian Overseas Bank

6 more commercial banks were nationalized in April 1980. These were:

Andhra Bank

Corporation Bank

New Bank of India

Oriental Bank of Commerce

Punjab & Sindh Bank

Vijaya Bank.

**Note: In 1993, New Bank of India got merged with Punjab National Bank.**

Meanwhile on the recommendation of M.Narsimhan committee, RRBs (Regional Rural Banks) were formed on Oct 2, 1975. The objective behind the formation of RRBs was to serve large unserved population of rural areas and promoting financial inclusion.

With a view to meet the specific requirement from the different sector (i.e. agriculture, housing, foreign trade, industry) some apex level banking institutions were also setup like

NABARD (est. 1982)

EXIM (est. 1982)

NHB (est. 1988)

SIDBI (est. 1990)

### **Impact of Nationalisation:**

- a) Improved efficiency in the Banking system
- b) Sectors such as Agriculture, small and medium industries started getting funds – led to economic growth.
- c) Increased penetration of Bank branches in the rural areas.

### **Phase III**

This period saw a remarkable growth in the process of development of banks with the liberalization of economic policies. Even after nationalization and the subsequent regulations that followed, a large portion of masses are untouched by the banking services.

Considering this, in 1991, the Narsimhan committee gave its recommendation i.e. to allow the entry of private sector players into the banking system. Following this RBI gave license to 10 private entities, of which 6 are survived, which are- ICICI, HDFC, Axis Bank, IDBI, Indus, DCB.

In 1998, the Narsimhan committee again recommended entry of more private players. As a result RBI gave license to

Kotak Mahindra Bank (2003) and Yes Bank (2004)

In 2013-14, 3rd round of bank licensing took place. And in 2014 IDFC Bank and Bandhan Bank emerged.

In order to further financial inclusion, RBI also proposed to set up 2 kind of banks i.e. Payment Banks and Small Banks.

### **Some Important Facts –**

1. Allahabad Bank, established in 1865 – Allahabad Bank is the oldest Public Sector Bank in India having branches all over India and serving the customers for the last 145 years.
2. Imperial Bank of India was later renamed in 1955 as the State Bank of India.
3. The first Bank of India with Limited Liability to be managed by Indian Board was Oudh Commercial Bank. It was established in 1881 at Faizabad.
4. Punjab National Bank is the first bank purely managed by Indians, which was established in Lahore in 1895.
5. First Truly Swadeshi bank – Central Bank of India is called India's First Truly Swadeshi bank, which was established in 1911 and wholly owned and managed by Indians.
6. Union Bank of India was inaugurated by Mahatma Gandhi in 1919.
7. Osborne Smith was the first governor of the Reserve Bank.
8. CD Desmukh was the first Indian to be the governor of Reserve Bank.
9. Savings account system in India was started by Presidency Bank, 1833.

10. The first Indian bank to open overseas branch is Bank of India. It established a branch in London in 1946.
11. ICICI Bank was the first Indian bank to provide internet banking facility.
12. Central Bank of India was the first public bank to introduce Credit card.
13. ICICI bank is the first bank to provide mobile ATM.
14. Bank of Baroda has the maximum number of overseas branches.

### Timeline of the Events

Year	Even
1770	First bank was established at Calcutta under European Management.
1786	General Bank of India was set up.
2 June 1806	Bank of Calcutta was established in 1806; it was renamed in 1809 as Bank of Bengal
15 April 1840	Bank of Bombay established
1 July 1843	Bank of Madras established
1861	Paper Currency Act was enacted by British Government of India
1863	Oldest Joint Stock bank of India named Bank of Upper India was established.
1865	Allahabad Bank was established.
1881	Oudh Commercial Bank, the first Bank of India with Limited Liability to be managed by Indian Board was established at Faizabad.
1895	Punjab National Bank was established. It was first bank purely managed by Indians.
1906	Canara Bank Hindu Permanent Fund founded. Now known as Canara Bank.
1911	Central Bank of India, first Indian commercial bank which was wholly owned and managed by Indians, was established. It was called First Truly Swadeshi bank
1921	Three presidency banks viz. Bank of Calcutta, Bank of Bombay and Bank of Madras amalgamated to form Imperial Bank of India
1935	Creation of Reserve Bank of India
1949	(January) Nationalization of Reserve Bank of India 1949 (March) Enactment of Banking Regulation Act
1955	Nationalization of Imperial Bank of India, which now became State Bank of India
1959	Nationalization of SBI Subsidiaries
1969	Nationalization of 14 major Banks
1971	Creation of Credit Guarantee Corporation
1975	Creation of Regional Rural Banks
1980	Nationalization of 7 more banks with deposits over Rs. 200 Crore