

Banking – An Introduction

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Banking Regulation Act 1949 Defines,

“ Banking is defined as the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise ”.

History of Banking in India

- Banking in India forms the base for the economic development of the country. Major changes in the banking system and management have been seen over the years with the advancement in technology, considering the needs of people.
- The History of Banking in India dates back to before India got independence in 1947

The banking sector development can be divided into three phases:

- **Phase I:** The Early Phase which lasted from 1770 to 1969
- **Phase II:** The Nationalisation Phase which lasted from 1969 to 1991
- **Phase III:** The Liberalisation or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date

History of Banking in India



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graph TD; A[History of Banking in India] --> B[Pre Independence Period (1786-1947)]; A --> C[Post Independence Period (1947-date)]; C --> D[Pre-nationalisation Period (1947-1969)]; C --> E[Post-nationalisation Period (1969-1991)]; C --> F[Liberalisation Period (1991 - Till Date)];
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The diagram is a hierarchical flowchart titled 'History of Banking in India'. It starts with a central box at the top, which branches into two main periods: 'Pre Independence Period (1786-1947)' on the left and 'Post Independence Period (1947-date)' on the right. The 'Post Independence Period' box further branches into three sub-periods: 'Pre-nationalisation Period (1947-1969)', 'Post-nationalisation Period (1969-1991)', and 'Liberalisation Period (1991 - Till Date)'. All boxes are connected by vertical and horizontal lines, indicating a sequential and hierarchical relationship.

Pre Independence Period (1786-1947)

Post Independence Period (1947-date)

Pre-nationalisation Period (1947-1969)

Post-nationalisation Period (1969-1991)

Liberalisation Period (1991 - Till Date)

Pre Independence Period (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)**
- **Oudh Commercial Bank (1881-1958)**
- **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.

Post Independence Period (1947-1991)

- At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance.
- With an aim to solve this problem, the then Government decided to nationalise the Banks. These banks were nationalised under the Banking Regulation Act, 1949. Whereas, the Reserve Bank of India was nationalised in 1949.
- Following it was the formation of State Bank of India in 1955 and the other 14 banks were nationalised. And 6 in 1980

14 Banks nationalised in 1969:

1. Allahabad Bank
2. Bank of India
3. Bank of Baroda
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank
7. Dena Bank
8. Indian Overseas Bank
9. Indian Bank
10. Punjab National bank
11. Syndicate Bank
12. Union Bank of India
13. United Bank
14. UCO Bank

In the year 1980, another 6 banks were nationalised, taking the number to 20 banks.

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Comm.
5. Punjab & Sind Bank
6. 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

Liberalisation Period (1991-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 hugely significant role.
- To provide stability and profitability to the Nationalised Public sector Banks, the Government decided to set up a committee under the leadership of Shri. M Narasimham to manage the various reforms in the Indian banking industry.
- The biggest development was the introduction of Private sector banks in India. RBI gave license to Private sector banks to establish themselves in the country.