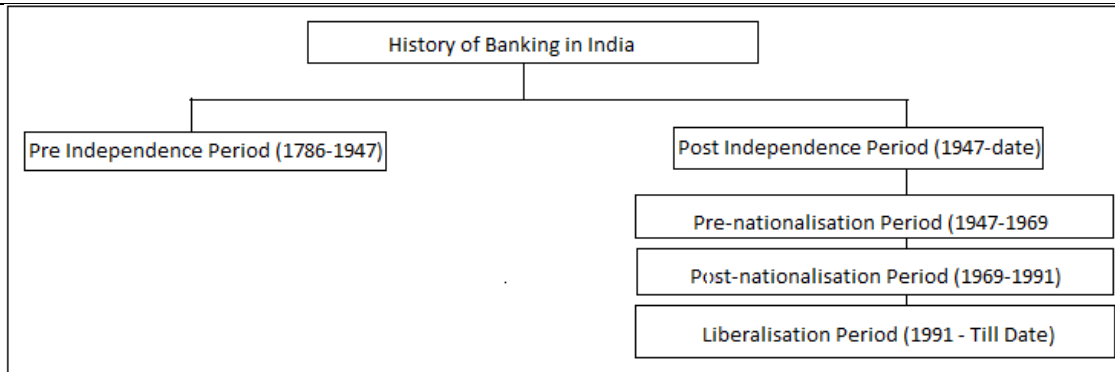


History of Banking in India

Indian Banking System: Phases



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

Pre-Independence Phase

- 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**.
- After that many banks came but were not successful like:
 - (1) General Bank of India (1786-1791)
 - (2) Oudh Commercial Bank (1881-1958) – the **first commercial bank of India**.
- Whereas some are successful and continue to lead even now like:
 - (1) **Allahabad Bank** (est. 1865)
 - (2) **Punjab National Bank** (est. 1894, with HQ in Lahore (that time))
 - (3) **Bank of India** (est. 1906)
 - (4) **Bank of Baroda** (est. 1908)
 - (5) **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**.
- **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 (set up in 1926)**.
- In this time period, most of the **bank were small in size and suffered from the 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 the unorganized sector (moneylenders and indigenous bankers).

Second phase from 1947 to 1991

- Broadly the main characteristic feature of this phase is the **Nationalization of the 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**.
- **Fourteen commercial banks** were nationalized on **19th July 1969**. Smt. Indira Gandhi was the Prime Minister of India, during in 1969. The following banks are nationalized:
 1. Central Bank of India
 2. Bank of India
 3. Punjab National Bank
 4. Bank of Baroda
 5. United Commercial Bank
 6. Canara Bank
 7. Dena Bank
 8. United Bank
 9. Syndicate Bank
 10. Allahabad Bank
 11. Indian Bank
 12. Union Bank of India
 13. Bank of Maharashtra
 14. Indian Overseas Bank
- **Six more commercial banks were nationalized in April 1980**. These are mentioned below:
 1. Andhra Bank
 2. Corporation Bank
 3. New Bank of India
 4. Oriental Bank of Commerce
 5. Punjab & Sindh Bank
 6. Vijaya Bank.
- Meanwhile, on the recommendation of **Narasimham committee**, Regional Rural Banks (RRBs) were formed on **Oct 2, 1975**. The objective behind the formation of RRBs was **to serve the 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:
 - (a) **NABARD** (est. 1982)
 - (b) **EXIM** (est. 1982)
 - (c) **NHB** (est. 1988)
 - (d) **SIDBI** (est. 1990)

Impact of Nationalization

- Improved efficiency in the Banking system – since the public's confidence got boosted.

- Sectors such as Agriculture, small and medium industries started getting funds which led to economic growth.
- Increased penetration of Bank branches in rural areas.

Third phase 1991 and beyond

- 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 is untouched by the banking services.
- Considering this, in 1991, **the Narasimham 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, out of which few survived the market demands, which are- **ICICI, HDFC, Axis Bank, IndusInd Bank, DCB.**
- In **1998, the Narsimham committee** again recommended entry of more private players. As a result, RBI gave license to the following newbies:
 - (a) **Kotak Mahindra Bank (2001)**
 - (b) **Yes Bank (2004)**
- In **2013-14**, 3rd round of bank licensing took place. And in 2015, IDFC bank and Bandhan Bank emerged.
- In order to further financial inclusion, RBI also proposed to set up 2 new kinds of banks i.e. **Payment Banks and Small Banks.**

Points to Note

- **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. Punjab National Bank** is the first bank purely managed by Indians, which was established in Lahore in 1895.
- **4. 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.
- **5. Union Bank of India** was inaugurated by **Mahatma Gandhi in 1919.**
- **6. Osborne Smith** was the first governor of the **Reserve Bank.**
- **7. CD Deshmukh** was the first Indian to be the governor of **Reserve Bank.**
- **8. The first Indian bank to open overseas branch is Bank of India.** It established a branch in London in **1946.**
- **9. State Bank of India** has the maximum number of **overseas branches.**