**History of Indian Banking System**

**Introduction:** This chapter includes a comprehensive study of the history of the Indian Banking system and covers all the aspects related to the development of banks. This article includes all the developmental stage of banks and the nationalisation and merger of Banks after independence.

***During the ancient times, businessman were called shroffs, seths, sahukars, mahajans, chettis etc. and they carry the business of banking that time. In the year 1770 the first bank of India was formed and named as*** *Bank of Hindustan, in Calcutta and managed by Europeans. So it was not truly ‘Swadeshi’ and stop operating after 1832.* ***After the bank of Hindustan various banks were set up.***

***After 1612, Under british India various factories or trading posts had been setup with the permission of local mughal emperors. So, in this process, they had established three presidency towns viz. Madras in 1640, Bombay in 1687 and Bengal Presidency in 1690. In 1687, the headquarter of East India Company was shifted from Surat to Bombay. From (1806-42)*** *three Presidency Banks were set up* ***under the charter of British east India company*** *at different places. These were****-***

* *Bank of Bengal 1809- It was setup as bank of calcutta on 2 june 1806 and renamed as bank of bengal in 1809.*
* *Bank of Bombay (15 April, 1840)*
* *Bank of Madras (1 July, 1843)*

*These banks were worked as quasi central banks for a long time. As we know that, Calcutta was the most active port in India, as they are the main trade port of British Empire so became a banking center. In 1861 these three banks get the right to* ***issue currency****.*

*In 1921 these three banks* ***(Bengal, Bombay, and Madras)*** *combined and a new bank was formed as* ***Imperial Bank*** *of India. It was a private entity at that time and later the Imperial Bank of India was known as the* ***State Bank of India*** *after nationalised in (1955).*

**Oldest Joint stock bank:**

*A joint stock bank has multiple share holders. The oldest joint stock bank of India was Bank of Upper India that setup in 1863 and stop working in 1913. Allahabad Bank is India’s oldest joint stock bank that is operating till now. It is also known as India’s oldest public sector bank. It was setup in 1865.*

**Some important Banks during the pre-independence time-**

*Oudh commercial bank (1881-1958)- It was the first bank that managed by Indian boards with limited liabilities. It was setup in Faizabad in 1881 and stop operating in 1958.*

*Allahabad Bank (****1865)-*** *It was owned by Europeans*

*Punjab National Bank (1894)- It was the first bank that was completely owned by Indians. This bank was setup in Lahore in 1895. It is not only survived till now but also is one of the largest bank in India. Lala Lajpat Rai play the main role in the foundation of PNB.*

*Bank of Baroda (1908) set up by Maharaja Sayajirao Gaekwad III.*

***Central Bank of India was setup in 1911 and it was the first Indian commercial bank which was purely owned and managed by Indians. So, it is the India’s first truly Swadeshi Bank. The founder of central bank of India was Sir Sorabji Pochkhanawala and Pherozshah Mehta was its first chairman.***

***From 1913-30s*** *State Bank of Mysore, the State Bank of Patiala was set up and this period had seen the rise and collapse of the Banking industry, after this Birth of RBI (1935) took place.*

***In the 1940s*** *State bank of Bikaner, Jaipur, Hyderabad, Travancore were established by the respective princely states and Nawabs. After the Post-Independence period these banks were ‘Associated Banks of SBI’, and ultimately, merged with the State Bank of India (2017).*

*Bank of Baroda & Dena bank was nationalised in 1969 with Head Quarter in Mumbai. Vijaya Bank was nationalised in 1980 with Head Quarter in Bengaluru.*

***First Bank that open its branch at foreign soil was Bank of India. Its first branch was open at london in 1946 and was the first to open a branch in continental europe at Paris in 1974. In September 1906, the bank of India was founded as a private entity and later nationalised in 1969. Its logo is like a star and its headquarter is located at star house, Bandra east, Mumbai.***

*Major banks were privately owned throughout independence, which was a severe source of concern because people and farmers still relied on money lenders. As a result, the government decided to nationalise banks, and the Banking Regulation Act of 1949 went into effect. Banks are nationalised after the country gains independence. From the 1950s until 1960, a nexus existed between banks and industrialists, with only 188 elite persons controlling the economy through their positions on the boards of top 20 banks, 1452 corporations, and numerous insurance and financial companies. This resulted in risky financing to directors and their companies. As a result, banks failed often, and the RBI was forced to close them.*

***Merger and Nationalisation of Banks after Independence***

*In 1969, 14 private banks with deposits worth of 50₹ /> million were nationalised, including Bank of Baroda, PNB, Dena, Canara, and others. Because Catholic Syrian Bank (1920, Kerala), Ratnakar Bank, Dhanlaxmi Bank, and other smaller banks did not have big deposits, they were excluded and dubbed "Old Private Banks."*

***In 1980,*** *6 banks with />₹ 200 cr deposits were nationalized e.g. Corporation Bank, Vijaya Bank, Oriental Bank of Commerce etc.*

***These are the following Committees made for reforms in banking sector:***

* *M Narasimham-I (1991)*
* *M Narasimham-I (1997)*
* *Dr. Raghuram Rajan Committee (2007)*
* *and P J Nayak Committee (2014)*

***SBI:***

*SBI is the largest bank with around 17,000 branches and around 200 foregin offices. It is India’s largest banking and financial services company in terms of assets. This bank setup during british era. First it start with three presidencies bank viz. Bank of calcutta, Bank of Bombay and Bank of Madras. These three banks merged with one another and became a single entity as “Imperial bank of India”. It was nationalised in 1955 and became Imperial Bank of India. The State Bank of Saurashtra and the State Bank of Indore amalgamated in 2008-10. There were eight associate banks of SBI till 1959.*

*There are seven non-banking subsidiaries of SBI viz. SBI capital markets ltd, SBI factors and commercial services pvt ltd, SBI funds management pvt ltd, SBI cards and payment services pvt. Ltd, SBI DFHI ltd, SBI Life insurance company limited and SBI General Insurance.*

***Bharatiya Mahila Bank (BMB)*** *was established in* ***2013*** *as a public sector bank with headquarters in Delhi and 100% government ownership. BMB and five of SBI's Associated Banks, namely State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP), and State Bank of Travancore (SBT), amalgamated into SBI on April* ***1, 2017****.*

***History and Origin of RBI:***

*Prior to the establishement of RBI, the Imperial Bank of India virtually work as the central bank. the The proposal to setup Reserve Bank of India in* ***1926*** *was made on the recommendation of* ***Royal Commission*** *on Indian Currency's* ***Hilton Young*** *Commission's.*

*More than 450 banks in the United States failed as a result of the* ***Great Depression in 1929****. As a result, the British Indian government becomes aware of the need to establish RBI. The Reserve Bank of India Act was passed in 1934, and RBI was established.*

*The Reserve Bank of India (RBI) start its operations from* ***April 1, 1935****, with* ***Sir Osborne Smith*** *as its first governor.* ***Willingdon*** *was the Viceroy of India at that time, and the government-owned only 4.4 percent of the company. It was established by RBI act, 1934 so, it is also a statutory body similarily SBI derive its legality from SBI act 1955 hence, it is also a statutory body.*

*Initially RBI did not work as a government owned bank but as a privately held bank without major government ownership. It start its work with a paid up capital of Rs. 5 crore.*

*Commercial banks that met specific criteria were included in the 2nd Schedule of the RBI Act in July 1935, and these banks were required to keep a certain amount of CRR with the central bank.* ***C.D. Deshmukh*** *was the first Indian governor of the Reserve Bank of India from 1943 until 1949. He was India's second finance minister and attended the 1944* ***Bretton Woods Conference*** *in the United States.*

*The Banking Regulation Act of 1949 gave RBI the authority to:*

*Provide licenses to corporations to open banks and allow banks to open additional branches. Require banks to follow auditing and liquidity standards, such as the Statutory Liquid Ratio. Defend depositors' interests. Weak banks will be forced to close or combine.*

**Some Important questions related to the Indian Banking system-**

**Q1:** Which of the following was the first bank of India owned by Europeans?

1. Bank of Hindustan
2. Bank of Madras
3. Bank of Calcutta
4. State bank of Bombay
5. Bank of Travancore

**Answer: A**

**Q2:** Among the following which bank is not associated with the imperial bank of India?

1. Bank of Madras
2. Bank of Bombay
3. Bank of Bengal
4. Bank of Hindustan
5. Only 1 and 2
6. Only 2 and 3
7. Only 1,2 and 3
8. Only 3 and 4
9. Only 1,3 and 4

**Answer: C**

Q3: Who was the first Indian Governor of RBI?

1. K.K Venugopal
2. C.D Deshmukh
3. Y.V Reddy
4. Shanmukham Chetty
5. Sir Osborne Smith

Answer: B

Q4: Who was the first governor of RBI?

1. K.K Venugopal
2. C.D Deshmukh
3. Y.V Reddy
4. Shanmukham Chetty
5. Sir Osborne Smith

Answer: E

Q5: When was Bhartiya Mahila Bank was setup?

1. 2010
2. 2012
3. 2013
4. 2017
5. 2015

Answer: C

Q6: Which committee or commission is responsible for the formation of Reserve Bank of India?

1. Hilton Young commission
2. Gadgil committee
3. Lakkadwala committee
4. Swarn Singh committee
5. Rangarajan commission

Answer: A

Q7: Which of the following bank was setup with the help of nationalist leader Lala Lajpat Rai?

1. Punjab National Bank
2. State Bank of India
3. Dena Bank
4. Punjab and Sindh Bank
5. Bank of Baroda

Answer: A

Q8: What was the paid capital required when six banks were nationalised in 1980?

1. 50 cr
2. 500 cr
3. 200 cr
4. 100 cr
5. 300 cr

Answer: C

Q9: The Imperial bank of India name changed to which of the following banks later?

1. Punjab National Bank
2. Vijaya Bank
3. Bank of Baroda
4. State Bank of India
5. Bank of Maharashtra

Answer: D

Q10: When did Banking regulation act came into force?

1. 1954
2. 1949
3. 1942
4. 1951
5. 1945

Answer: B

Q11: Which was the First bank which was managed by Indians in 1881 and have limited liabilities?

1. PNB
2. Oudh commercial bank
3. Punjab and sindh bank
4. State bank of travancore
5. Hindustan commercial bank

Answer: B

Q12: When the nationalisation of banks took place first time, how many banks were nationalised?

1. 10
2. 12
3. 14
4. 15
5. 19

Answer: C

Q13: The second phase of nationalisation took place in which year?

1. 1969
2. 1985
3. 1982
4. 1968
5. None of these

Answer: D

Q14: When the nationalisation of banks took place Second time, how many banks were nationalised?

1. 10
2. 12
3. 5
4. 17
5. 9

Answer: E

Q15: Match the following

|  |  |
| --- | --- |
| List 1 | List 2 |
| 1. Allahabad Bank | 1. 1894 |
| 1. UCO bank | 1. 1865 |
| 1. Punjab National bank | 1. 1943 |
| 1. Oriental bank of commerce | 1. 1943 |

1. 2,1,4,3
2. 2,3,1,4
3. 1,2,3,4
4. 4,3,2,1
5. 3,2,1,4

Answer: A