Crucial Aspects of History and Evolution of Banking System in India with Timeline

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Abstract

Globally, the history of banking has much in common, as it evolved with the moneylenders accepting deposits and issuing receipts in their place. The intension of this paper is to bring out some vital, fascinating facts based on Indian central banking enquiry committee, which describes that history and evolution of the Indian banking system that was far beyond the medieval time. The minute vital details of the history and evolution of banking sector in India have been consolidated in this paper with the timeline to present the comprehensive depiction of the evolution of the banking sector. It has been revealed that India's US$ 1.25 trillion banking industry is the backbone of the economy and continuing flourishing with a strong foothold. The sector emerged to be resilient during the global financial turmoil and proved its mettle when the developed economies were shaking during the year of 2008. Capturing major events of the Indian banking industry, this paper expects to add value to the knowledge of banking history and abet the readers to understand the evolution of the banking industry of a nation which is justifiably looking forward to be one of the largest economy in the world.

Key words: Banking, Evolution economy, Trade and commerce, Committee

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1. Introduction

Bank as a financial institution, act as a financial intermediary that receives payments and channels those payments into lending activities. A bank is the connection between customers that have capital deficits and customers with capital surpluses (Reserve Bank of India: India's Central Bank, 1998).

Due to their influence within a financial system and an economy, banks are highly regulated in most countries. Most banks operate under a system known as fractional reserve banking where they hold only a small reserve of the funds deposited and lend out the rest for profit. They are generally subject to minimum capital requirements which are based on an international set of capital standards, known as the Basel Accords. The oldest bank still in existence is *Monte deiPaschi di Siena*, headquartered in Siena, Italy, which has been operating continuously since 1472. It is followed *by Berenberg Bank* of Hamburg (1590) and *SverigesRiks* bank of Sweden (1668). Banking in its modern sense evolved in rich cities of renaissance Italy, such as Florence, Venice and Genoa. In the history of banking, a number of banking dynasties among them notably Medici, Fugger, Welser, Berenberg, Baring and Rothschild have played a central role over many centuries (Murthy, 2006).

The word bank was borrowed in middle English from middle French *banque*, from old Italian *banca*, from old high German *banc*, bank "*bench, counter*". Benches were used as desks or exchange counters during the renaissance by florentine bankers, who used to make their transactions atop desks covered by green table cloths (Ray, 2011). Another possible origin of the word is from the Sanskrit words 'byaya' (expense) and 'onka' (calculation) = byaya-onka. This word still survives in Bangla, which is one of Sanskrit's child languages. ą ĕŁţ + š ¯ = ą ĕĿ . Such expense calculations were the biggest part of mathematical treatises written by Indian mathematicians as early as 500 B.C (Ambedkar, 2011).

2. Evolution of Indian banking history

In this section the paper will highlight the evolution of the banking industry in India. Extensive literature reviews from the historical perspective, here in this paper, it has been structured in four phases of the Indian banking history.

2.1 Ancient and medieval banking phase in India.

According to the Indian central banking enquiry committee (1931), money lending activity in India could be traced back to the Vedic period, i.e., 2000 to 1400 BC. The existence of professional banking in India could be traced to the 500 BC. Kautilya's Arthashastra, dating back to 400 BC contained references to creditors, lenders and lending rates. Banking was fairly varied and catered to the credit needs of the trade, commerce, agriculture as well as individuals in the economy. It may be accepted that a system of banking that was eminently suited to India's then requirements was in force in that country many centuries before the science of banking became an accomplished fact in England (Reserve Bank of India: India's Central Bank, 1998). An extensive network of Indian banking houses existed in the country connecting all cities/towns that were of commercial importance. They had their own inland bills of exchange or *hundi* (in Hindi language), which were the major forms of transactions between Indian bankers and their trans-regional connections. Banking practices in force in India were vastly different from the European counterparts. The dishonoring of *hundi*s was a rare occurrence. Most banking worked on mutual trust, confidence and without securities and facilities that were considered essential by British bankers. Northcote Cooke observed the fact that Europeans are not the originators of banking in this country, which does not strike us with surprise (Cooke, 1863). Banking regulation also had a rich tradition and evolved along with banking in India. In fact, the classic 'Arthashastra' also had norms for banks going into liquidation. If anyone became bankrupt, debts owed to the State had priority over other creditors (Leeladhar, 2007).

The banking history in India is interesting and also reflects the evolution in trade and commerce. It also pitches light on living style, political and cultural aspects of civilized mankind. In India, the strongest faith of people has always been religion and Deity. The seat of religion and place of worship was considered a safe place for money and valuables. Ancient homes didn't have the benefit of a steel safe, therefore, most wealthy people held accounts at their temples. Numerous people, like priests or temple workers were both devout and honest, always occupied the temples, adding a sense of security. There are records in regard to Somnath temple and submerged inscription of Dwaraka city found in the Arabian Sea by "Marine Archaeology of Indian Ocean by National Institute of Oceanography", Goa, that traced various stone inscriptions that reveals that temples loaned money out, in addition to keeping it safe. The fact that most temples were also the financial centre of their cities and this is the major reason that they were ransacked during wars. The practice of depositing personal valuables atthese places which were also functioning as the treasuries in ancient Somnath Temple which could be compared with Babylon against a receipt was perhaps the earliest form of “Banking” (Cooke, 1863).

The story of Indian coinage itself is very vast and fascinating, and also throws tremendous light on the various aspects of life during different periods. The coinage system and the banking system were closely interlinked. The Rig Veda speaks only gold, silver, copper, and bronze and the later Vedic texts also mention tin, lead, iron and silver. Recently iron coins were found in the very early levels at Attranji Kheri (U.P.) and Pandu Rajar Dhibi (Bengal). A money economy existed in India since the days of Buddha. In ancient India during the Maurya dynasty (321 to 185 BC), an instrument called adesha was in use, which was an order on a banker desiring him to pay the money of the note to a third person, which corresponds to the definition of a bill of exchange as we understand it today. During the Buddhist period, there was considerable use of these instruments. Merchants in large towns gave letters of credit to one another (Austin, 1999).

Trade guilds acted as bankers, both receiving deposits and issuing loans. The larger temples served as bankers and in the south the village communities economically advanced loans to peasants. There were many professional bankers and money lenders like the sethi, the word literally means “chief”. It has survived in the North India as seth. Small purchases were regularly paid for in cowry shells (varataka), which remained the chief currency of the poor in many parts of India. Indigenous banking grew up in the form of rural money lending to certain individuals using their private funds for this purpose. The scriptures singled out the vaishyasas the principal bankers. The earliest form of Indian Bill of Exchange was called “Hundi”. Exports and imports were regulated by the barter system. Kautilya’s Arthasastra mentions about a currency known as panasan deven fines paid to courts were made by panas. E.B.Havell in his work: The History of Aryas Rule in India says that Muhammad Tughlaq issued copper coin as counters and byan imperial decree made them pass at the value of gold and silver. The people paid their tribute in copper instead of gold, and they bought all the necessaries and luxuries they desired in the same coin (Deshmukh, 1948).

However, the Sultan' stokens were not accepted in counties in which his decree did not run. Soon the whole external trade of Hindustan comes to a stand still. When as last the copper tankas had become more worthless than clods,the Sultan in a rage repealed his edict and proclaimed that the treasury would exchange gold coin for his copper ones. As a result of this thousands of men from various quarters who possessed thousands of these copper coins bought them to the treasury and received in exchange gold tankas. The origin of the word "rupee" is found in the Sanskrit *rūpya*" shaped ;stamped, impressed; coin" and also from the Sanskrit word "rupa" meaning silver. The standard is at ion of currency unit as Rupee in largely due to SherShahin1542 (Deshmukh, 1948).

2.2 Early phase of Indian banks, from 1786 to 1969

Indian Banking system was influenced by the European Banking system. The East India Company established in 1600 which played vital role in developing and shaping the Banking system. The English traders that came to India in the 17th century could not make much use of the of indigenous bankers, owing to their ignorance of the language as well the inexperience indigenous people of the European trade. Therefore, the English Agency Houses in Calcutta and Bombay began to conduct banking business, besides their commercial business, based on unlimited liability. The Europeans with the aptitude of commercial pursuit, who resigned from civil and military services, organized these agency houses.

The Typical European Banking system in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1770; both are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency Banks acted as quasi-central Banks, as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955. 1848 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India. (Joint

Stock Bank: A company that issues stock and requires shareholders to be held liable for the company's debt) It was not the first though. That honor belongs to the Bank of Upper India, which was established in 1863, and which survived until 1913, when it failed, with some of its assets and liabilities being transferred to the Alliance Bank of Simla (Reserve Bank of India: India's Central Bank, 1998).

Foreign Banks too started to advance in Indian Economy, particularly in Calcutta, in the 1860s. The Comptoird'Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French colony, followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking center (Murthy, 2006).

The Punjab National Bank, established in Lahore in 1895, which has survived to the present and is now one of the largest banks in India. Around the turn of the 20th Century, the Indian economy was passing through a relative period of stability. Around five decades had elapsed since the Indian Mutiny, and the social, industrial and other infrastructure had improved. Indians had established small Banks, most of which served particular ethnic and religious communities. The presidency Banks dominated Banking in India, but there were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally under capitalized and lacked the experience and maturity to compete with the presidency and exchange banks. This segmentation led Lord Curzon realized the setback and compared like some old fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbersome compartments (Goradia & Goradia, 1993).

The pre-independence period was largely characterised by the existence of private banks organised as joint stock companies. Most banks were small and had private shareholding of the closely held variety. They were largely localised and many of them failed. They came under the purview of the Reserve Bank that was established as a central bank in the country in 1935. But the process of regulation and supervision was limited by the provisions of the Reserve Bank of India Act, 1934 and the Companies Act, 1913. The indigenous bankers and moneylenders had remained mainly isolated from the institutional part of the system. The usurious network was still rampant and exploitative. Co-operative credit was the only hope for credit, but the movement was successful only in a few regions.

2.2.1 Colonial era

During the colonial era merchants in Calcutta established the Union Bank in 1839, but it failed in 1840 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India, it was not the first though. That honor belongs to the Bank of Upper India, which was established in 1863, and which survived until 1913, when it failed, with some of its assets and liabilities being transferred to the Alliance Bank of Simla (Cooke, 1863).

Foreign banks too started to appear, particularly in Calcutta, in the 1860s. The Comptoird'Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French possession, followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking centre. The first entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad. It failed in 1958. The next was the Punjab National Bank, established in Lahore in 1895, which has survived to the present and is now one of the largest banks in India.

Around the turn of the 20th century, the Indian economy was passing through a relative period of stability. Around five decades had elapsed since the Indian Mutiny, and the social, industrial and other infrastructure had improved. Indians had established small banks, most of which served particular ethnic and religious communities. The presidency banks dominated banking in India, but there were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally under capitalized and lacked the experience and maturity to compete with the presidency and exchange banks. The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political figures to find banks of and for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India. The fervour of Swadeshi movement leads to establishing of many private banks in Dakshina Kannada and Udupi district, which were unified earlier and known by the name South Canara (South Kanara) district. Four nationalised banks started in this district and also a leading private sector bank. Hence undivided Dakshina Kannada district is known as "Cradle of Indian Banking" (Cooke, 1863).

During the First World War (1914–1918) through the end of the Second World War (1939–1945), and two years thereafter until the independence of India were challenging for Indian banking. The years of the First World War were turbulent, and it took its toll with banks simply collapsing despite the Indian economy gaining indirect boost due to war-related economic activities. At least 94 banks in India failed between 1913 and 1918 as indicated in the following table 1:

Table 1: Banked failed in India during the first world war

Years	Number of banks that failed	Authorised capital (Rs. million)	Paid-up Capital (Rs. million)
1913	12	27.4	3.5
1914	42	71.0	10.9
1915	11	5.6	0.5
1916	13	23.1	0.4
1917	9	7.6	2.5
1918	7	20.9	0.1

2.2.2 Swadeshi Movement

The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political leaders to found banks for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, CanaraBank and Central Bank of India. Ammemb al Subbarao Pai founded “Canara Bank Hindu Permanent Fund” in1906. Central Bank of India was established in 1911 by Sir SorabjiPochkhanawala and was the first commercial Indian bank completely owned and managed by Indians. In 1923, it acquired the Tata Industrial Bank. The fervour of Swadeshi movement lead to establishing of many private banks in DakshinaKannadaandUdupi district which were unified earlier and known by the name South Canara (South Kanara)district. Four nationalized banks started in this district and also a leading private sector bank. Hence, undivided Dakshina Kannada district is known as “Cradle of Indian Banking" (Cooke, 1863).

2.2.3 Post- Independence Era

The partition of India in 1947 adversely impacted the economies of Punjab and West Bengal, paralysing banking activities for months. India's independence marked the end of a regime of the Laissez-faire for the Indian banking. The Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance.

The Reserve Bank of India, India's central banking authority, was established in April 1934, but was nationalized on January 1, 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948 (RBI, 2005).In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India". The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors (Reserve Bank Of India, 2005).

The Banking System in India is significantly different from that of other Asian nations because of the country’s unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population, but, at the same time, the country has a large reservoir of managerial and technological advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centres. The country’s economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the “exported growth” of other Asian economies, with emphasis on self-reliance through import substitution. These features are reflected in the structure, size, and diversity of the country's banking and financial sector. The banking system has had to serve the goals of economic policies enunciated in successive five year development plan, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In order for the banking industry to serve as an instrument of state policy, it was subjected to various nationalization schemes in different phases (1955, 1969, and 1980). As a result, banking remained internationally isolated (few Indian banks had presence abroad in international financial centres) because of preoccupations with domestic priorities, especially massive branch expansion and attracting more people to the system. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries, exports, and banking activities in the developed commercial centers (i.e., metro, urban, and a limited number of semi-urban centers). The banking system's international isolation was also due to strict branch licensing controls on foreign banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity is required for any Indian bank to open an office abroad (Murthy, 2006).

These features have left the Indian banking sector with weaknesses and strengths. A big challenge facing Indian banks is how, under the current ownership structure, to attain operational efficiency suitable for modern financial intermediation through effective compensation Management System. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in nonperforming assets (NPAs), as their Government dominated ownership structure has reduced the conflicts of interest that private banks would face.

2.2.4 Development after Freedom

These milestones in history of Indian banking were India to become a sovereign republic. The Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance. The banking sector also witnessed the benefits; Government took major steps in this Indian Banking Sector Reform after independence.

- First major step in this direction was the nationalization of Reserve Bank in1949.
- Enactment of Banking Regulation Act in1949
- Reserve Bank of India Scheduled Banks' Regulations,1951.
- Nationalization of Imperial Bank of India in 1955, with extensive banking facilities on a large scale, especially in rural and semi-urban areas.
- Nationalization of SBI subsidiaries in1959.

2.3 Nationalization of banks and the banking sector reforms from 1969 to 1991

After Independence India adopted a socialist pattern of the economy as its goal. The aim was to achieve a society with wealth distributed as equitably as possibly but ensuring that the government does not acquire a totalitarian role (Austin, 1999).

The Government of India wished to play an active role in the economic life of the nation and with this the government adopted a mixed economy. The two sectors, private and public were allowed to function independently of each other. The private sector was regulated through a system of checks and balances such as regulations, licenses controls and legislations. The public sector was allowed to grow through setting up of institutions and industries and nationalization of some belonging to private sector who failed to achieve the desired result of growth of the economy (Murthy, 2006). Despite the provisions, control and regulations of Reserve Bank of India, banks in India except the State Bank of India or SBI, continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. Indira Gandhi, then Prime Minister of India, expressed the intention of the Government of India in the annual conference of the All India Congress Meeting in a paper entitled "*stray thoughts on bank nationalisation*." The meeting received the paper with enthusiasm (Austin, 1999).

Thereafter, her move was swift and sudden. The Government of India issued an ordinance ('Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969')) and nationalised the 14 largest commercial banks with effect from the midnight of July 19, 1969. These banks contained 85 percent of bank deposits in the country. Jayaprakash Narayan, a national leader of India, described the step as a "masterstroke of political sagacity." Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969.

A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalised banks from 20 to 19. After this, until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy. The banking accepting the National Banking of other states.Thus the Banking Sector in India became one of the Major and Vital Service sector and has developed as the plinth of Indian Economy. This Sector has vast number of employment and has major contribution of human resources (Rao, 2008).

As India initiated the Liberalisation Policy in 1991, the gate ways for the Foreign Banks were initiated with reduced restrictions and were subject to RBI directions and Control. Thus the Foreign Banks started their functioning and operations in India and are growing with their Branches in India. The Nationalisation of commercial banks increased the role of public sector banks. Various authorities have advocated many reasons for the Nationalisation of major commercial bank. Let us go, through the views of the then Prime Minister, Smt. Indira Gandhi and Views of B. Prof. Sayers .

The then Prime Minister, Smt. Indira Gandhi in her broadcast to the nation on the eve of Nationalisation of the fourteen leading Indian banks, she summed up the objectives of the Nationalisation as, "The present decision to nationalise major banks is to accelerate the achievements of our objectives(Monga & Sinha, 2002).

The purpose is to expand bank credit to priority areas which have hitherto was somewhat neglected. It also includes,

(i) The removal of control by a few;

(ii) Provision of adequate credit facilities to agriculture, small industry and exports;

(iii) The giving of professional bent to bank management;

(iv) The encouragement of new classes of entrepreneurs, and

(v) The provision of adequate training as well as reasonable terms of service for bank staff (Monga & Sinha, 2002)".

On the other hand, Professor Sayers supports the nationalisation and gives his views under the following issues (Monga & Sinha, 2002):

Efficiency issue: According to Sayers (Monga & Sinha, 2002), nationalisation will increase the efficiency of commercial banks as given below.

(i) Deposits will increase because of increasing confidence in a public sector bank. In-crease in bank resources will lead to economics of scale.

(ii) The government can appoint experienced personnel to run and manage the banks.

(iii) Government has the countrywide administrative network. Hence, it can make suitable changes in the banking policies, according to the prevailing trends in the economy.

(iv) Nationalised banks can have the main motive of public service.

(v) Public sector, banks can give preference to priority sectors in advancing loans. Thus, Nationalisation promotes efficiency.

Monetisation issue: Commercial banks accumulate deposits from the public. There-fore, they are in a position to bring changes in the supply of money. Such an important power should not be in the private sector. It is the public sector that should have the control over the money supply.

Integration issue: The central banks are established by the government, for overall monetary control in the economy and is not aiming at profit. But commercial banks are started mainly to earn profit. Thus, there are contradicting objectives between the central bank and commercial banks. In this situation, the central bank may find it difficult to implement its policies when the commercial banks oppose them. Therefore, in the interest of co-ordination and co-operation between them, commercial banks should be nationalised.

Socialisation issue: When a country aims at the socialistic pattern of society, then the role of public sector undertaking should be extended in all spheres of the economy. To start and run the public sector undertaking Government requires enormous financial requirements. Private commercial banks may obstruct such policies and may not finance public sector undertak-ings and above all they may discriminate against them. Therefore, the Nationalisation of commercial banks will be necessary if the government wants to establish socialism.

*Other vital reasons***:** According to Monga and Sinha (2002) there are other significant reasons which include the followings:

- *Preventing concentration of economic power:* Initially, a few leading industrial and "business houses had close association with commercial banks. The directors of these banks happened to be the same industrialists who established monopoly control of the bank finance. They exploited the bank resources in such a way that the new business units cannot enter in any line of business in competition with these business houses. Nationalisation of banks, thus, prevents the spread of the monopoly enterprise.
- *Social control was not adequate*: The 'social control' measures of the government did not work well. Some banks did not follow the regulations given under social control. Thus, the nationalisation was necessitated by the failure of social control.
- *Channel the bank finance to plan - priority sectors*: Banks collect savings from the gen-eral public. If it is in the hand of the private sector, the national interests may be neglected, besides, in Five-Year Plans, the government gives priority to some specified sectors like agriculture, small-industries etc. Thus, Nationalisation of banks ensures the availability of resources to the plan-priority sectors.
- *Greater mobilisation of deposits*: The public sector banks open branches in rural areas where the private sector has failed. Because of such rapid branch expansion there is possi-bility to mobilise rural savings.
- *Help to agriculture*: If banks fail to assist the agriculture in many ways, agriculture cannot prosper, that too, a country like India, where more than 70% of the population

de-pends upon agriculture. Thus, for providing increased finance to agriculture banks have to be nationalised.

- *Balanced Regional development*: In a country, certain areas remained backward for lack of financial resource and credit facilities. Private Banks neglected the backward areas because of poor business potential and profit opportunities. Nationalisation helps to pro-vide bank finance in such a way as to achieve balanced inter-regional development and remove regional disparities.
- *Greater control by the Reserve Bank*: In a developing country like India there is need for exercising strict control over credit created by banks. If banks are under the control of the Govt., it becomes easy for the Central Bank to bring about co-ordinated credit control. This necessitated the Nationalisation of banks.
- *Small stake of shareholders*: The nationalised banks had deposits totalling Rs. 2742 crore at the end of December 1968. But the capital contributed by their shareholders was only Rs. 28.5 crore, which was just 1% of deposits. Even if we include the reserves, the amount comes to only 2.4% of the bank's deposits with such a small and insignificant stake, it is unjustifiable to allow the private shareholders to exercise control over such vital credit machinery with large resources.
- *Greater Stability of banking structure*: Nationalised banks are sure to command more confidence with the customers about the safety of their deposits. Besides this, the planned development of nationalised banks will impart greater stability of the banking structure.
- *March Forward towards Socialism*: India aims of socialism. This requires the financial institutions to run under the government's control and only through Nationalisation, this objective can be effectively achieved.
- *Better service conditions for staff*: Nationalisation ensures the staff of banks to enjoy greater job security and higher emoluments. It can provide other benefits as well. In this way the banks can motivate their staff and thereby the operational efficiency of banks will be increased.
- New schemes: Through nationalised banks, new schemes like village adoption scheme, Lead Bank Scheme can be formulated and implemented. Besides, different types of financial facilities can be extended to persons like Doctors, Engineers, Self-employed persons like artisans etc.

Nationalisation of banks creates great interest among various sections of the public. Many hopes were raised in the middle class and poor people with regard to the financial assistance. The nationalised banks drew up a number of schemes to assist new types of customers and are plans to make each of these banks to adopt a few select districts and concentrate on their intensive development (Monga & Sinha, 2002). The list of the 25 nationalized banks as of now 2013 has been given in the table 2.

Table 2: List of nationalized bank in India

State Bank of India	Corporation Bank
State Bank of Bikaner & Jaipur	Dena Bank
State Bank of Hyderabad	Indian Bank
State Bank of Mysore	Indian Overseas Bank
State Bank of Patiala	Oriental Bank of Commerce
State Bank of Travancore	Punjab National Bank
Allahabad Bank	Punjab and Sind Bank
Andhra Bank	Syndicate Bank
Bank of Baroda	UCO Bank
Bank of India	United Bank of India
Bank of Maharashtra	Union Bank of India
Canara Bank	Vijaya Bank
Central Bank of India	

In addition, it is also important to highlight the foreign banks operating in India as of 2013, which has been also given in table 3.

Table 3: List of foreign banks operating in India

ABN AMRO Bank N.V. (Now merged with RBS)	DCB Bank now RHB Bank
Abu Dhabi Commercial Bank	Deutsche Bank AG
American Express Bank	FirstRand Bank
Australia and New Zealand Bank	HSBC
Bank Internasional Indonesia	JPMorgan Chase Bank
Bank of America NA	Krung Thai Bank
Bank of Bahrain and Kuwait	Mashreq Bank psc
Bank of Ceylon	Mizuho Corporate Bank
Bank of Nova Scotia (Scotia Bank)	Royal Bank of Scotland
Bank of Tokyo Mitsubishi UFJ	Shinhan Bank
Barclays Bank PLC	SociétéGénérale
BNP Paribas	Sonali Bank
Calyon Bank	Standard Chartered Bank
Chinatrust Commercial Bank	State Bank of Mauritius
Citibank N.A.	UBS
Credit Suisse	VTB
DBS Bank	

2.4 New phase of Indian banking system, with the reforms after 1991

The second major turning point in this phase was Economic Liberalization in India. After Independence in 1947, India adhered to socialist policies. The extensive regulation was sarcastically dubbed as the "License Raj". The Government of India headed by Narasimha Rao decided to usher in several reforms that are collectively termed as liberalization in the Indian media with Manmohan Singh whom he appointed Finance Minister. Dr. Manmohan Singh, an acclaimed economist, played a central role in implementing these reforms. In the early 1990s, the then Narasimha Rao government embarked on a policy of liberalization, licensing as a mall number of private banks. These came to be known as *New Generation Tech-savvy banks*, and included Global Trust Bank (the first of such new generation banks to be setup),which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank. This move, along with the rapid grow thin the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks (Murthy, 2006).

Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks incomparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government .The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate-and this has mostly been true.

With the grow thin the Indian economy expected to be strong for quite sometime-especially in its services sector-the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong.

The following points in the table 4, briefly highlights the vital role of banks in India since 2008-20012.

Table 4: Roles of Indian banks

• Better customer service, • Mobile banking facility, • Bank on wheels scheme, • Portfolio management, • Issue of electro-magnetic cards, • Universal banking, • Automated teller machine (ATM), • Internet banking,	• Better customer service, • Mobile banking facility, • Bank on wheels scheme, • Portfolio management, • Issue of electro-magnetic cards, • Universal banking, • Automated teller machine (ATM), • Internet banking,

There has been appreciation for India for weathering the financial crisis relatively unscathed. Much of it hinged on the sound and resilient banking system in the country. The foundation for the banking sector resilience was laid with the introduction of the financial sector reforms in 1991 with a focus on prudential regulation and increased competition.

These reforms resulted in a comprehensive transformation of the banking sector. The reforms had a major impact on the overall efficiency and stability of the banking system. The outreach of banks increased in terms of branch / ATM presence. The balance sheets and overall banking business also grew in size. The financial performance and efficiency of Indian banks improved with increased competition, as reflected in their profitability, net interest margins. The capital position improved significantly, and banks were able to bring down their non-performing assets sharply. This reform phase also witnessed increased use of technology, which in turn, helped improve customer service.

3. Conclusion

The banking system has emanated extensive way from the temples of the ancient world to modern Hi-tech computerized banking, but their basic business practices of lending and savings are still unchanged. Banks issue credit to people who need it, but demand interest on top of the repayment of the loan. Although history has altered the fine points of the business model, a bank's purpose is to make loans and protect depositors' money. Even if the future takes banks completely off your street corner and onto the internet, or has you shopping for loans across the globe, the banks will still exist to perform this primary function. India's US$ 1.25 trillion banking industry is the backbone of the economy. The sector emerged strong from global financial turmoil and proved its mettle when the developed economies were shaking in

2008. Indian Banking system could be considered as one of the most stable banking system. Its origin could be traced from the ancient Vedic period and its vast development has been discussed above in brief. The Banking system in India was influenced by European Banking System in the medieval era. We could trace that economic system in the ancient era of India was quite developed and sophisticated. Many foreign ambassadors like Megasthenes from Greece author of "Indika" and Fa-Hien, Huen-Tsang and I-Tsing from China had recorded the eminence of ancient India, including lending borrowing system and efficient economic system. However, after the ancient era, there was decline of various system, including Banking and economic system. The Banking system, thus grew after colonization by Europeans and then again there began the rise of the Banking system. After Nationalisation of Banks and Liberalization policy there was elite growth in the banking system. With advent of modern technology Banking system is cropping to stable and at more shaping perspective.

Even in the times of Great depression and the global recession era, the banking business in India was not shanked but due to Reserve Bank of India, it proved its forte against odds and stood stable in times of economic turmoil.As per the IBA-FICCI-BCG Report (August 2011), "India's Gross Domestic Product (GDP) growth will make the Indian banking industry the third largest in asset size in the (Reserve Bank Of India, 2005)". However, being largest is not enough – being efficient iswhat we have to strive for. The Indian economy has been growing fast and the GDP growth rate had averaged 8.8 per cent in the last 5 years preceding the crisis. Despite a subsequent slowdown, India's GDP is still growing at a reasonably fast pace. TheIndian banking sector will, as such, need to match up to the requirements of a fastgrowing economy including the likely acceleration in the Credit to GDP ratio. Added tothis is the demographic dividend with its myriad challenges and opportunities. There isthus a huge responsibility on, and opportunity for, the Indian banking sector goingahead.

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Sr. No	**Important Historical Events on Indian Banking system**	YEAR
1	The first bank in India “Bank of Hindustan’’ established	1770
2	General Bank of India formed.	1786
3	Carnatic Bank established at Madras (now Chennai).	1788
4	Bank of Calcutta established -It was later renamed as Bank of Bengal	1806
5	Bank of Calcutta becomes Bank of Bengal circulating their own currency notes as paper money to be accepted later on as valid legal tender for public transactions extending the status equally to other presidency banks viz. Bank of Bombay and Bank of Madras.	1809
6	Union Bank established	1829
7	Bank of Bombay is established	1840
8	Bank of Madras is formed	1843
9	Paper Currency Act is passed	1861
10	Allahabad Bank is established. This was the first fully Indian owned Bank	1865
11	First general insurance company established	1850
12	Bombay Stock Exchange (BSE) started trading	1875
13	Punjab National Bank is established.	1895
14	Bank of India and Canara Bank come into existence.	1906
15	Indian Bank is established.	1907
16	Central Bank of India is established.	1911
17	ILO (International Labour Organisation) is formed.	1919
18	Imperial Bank of India Indian Staff Association is formed under the Benevolent Societies Act at Calcutta (now Kolkata). It was duly registered under Indian Trade Unions Act only on 24th May’1932.	1920
19	Oriental Life Insurance Company established	1918
20	Bank of Bengal, Bank of Madras and Bank of Bombay were merged into Imperial Bank	1921
21	Establishment of "Hilton-Young Commission" to suggest a central bank for the	1926

	country	
22	Establishment of "Reserve Bank of India" as the central bank	1935
23	The Indian Banks' Association (IBA) was formed	1946
24	Control of Capital Issues Act imposed	1947
25	Establishment of Industrial Finance Corporation (IFC)	1948
26	Establishment of Banking Regulation Act, 1949	1949
27	Imperial Bank taken over by State Bank of India; Establishment of Industrial Credit and Investment Corporation of India (ICICI)	1955
28	Life Insurance Company of India (LIC) was established	1956
29	Insertion of a new Chapter in RBI Act,1934 to effectively supervise, control and regulate NBFCs	1963
30	Establishment of Industrial Development Bank of India (IDBI)	1964
31	Deposit insurance extended to co-operative banks	1966
32	Nationalisation of 14 largest banks commercial banks, Nationalisation of general insurance companies	1969
33	Foreign Exchange Regulation Act (FERA) was promulgated 1973 which provided an opportunity to develop Indian equity market	1973
34	Establishment of Regional Rural Banks	1975
35	Second round of Nationalisation of 6 commercial banks Establishment of National Bank for Agriculture and Rural Development (NABARD)	1980
36	First credit rating agency established in India	1982
37	Establishment of Small Industries Development Bank of India	1990
38	Report of the Committee on the Financial System, which provided the blueprint for first generation financial sector 1991reforms.	1991
39	SEBI became capital market regulator National Stock Exchange (NSE) was established as the first screen-based trading platform for traders.	1992
40	Introduction of Depositories Board for Financial Supervision, under RBI established	1993
41	New guidelines for entry of new private sector banks announced Wholesale debt market operations started by NSE.	1994
42	Establishment of Institute for Development and Research in Banking Technology	1994
43	Depositories Act waspassed whichallowed for holding of Securities in dematerialized form.	1996
44	Termination of automatic monetization of Government deficit	1996
45	Statutory Liquidity Ratio (SLR} reduced to 25% (legal minimum}	1997
46	Insurance Regulation and Development Act passed	1999
47	Detailed guidelines on risk management in banks announced Guidelines issued regarding interest rate swaps and forward rate agreement	1999
48	New guidelines for categorisation and valuation of banks' investment portfolio announced Liquidity Adjustment Facility introduced Foreign Exchange Management Act	2000
49	Credit Information Bureau of India Ltd was established	2001
50	Revised guidelines announced for entry of new private banks	2001
51	Clearing Corporation of India Limited became operational	2002

52	Central Listing Authority was constituted	2003
53	8th Bipartite settlement concluded between IBA (Indian Banks Association) and NCBE/ AIBEA/ other unions.	2005
54	Government of India acquires the entire Reserve Bank of India shareholding in State Bank of India consisting of over 314 million equity shares at a total amount of over 355 billion rupees	2007
55	Banking Laws(Amendment) Bill, 2011 passed	2011
56	The number of ATMs has doubled in the last three years, reaching 99,218 ATMs in June 2012	2012