

Hello students, in today's banking session we will speak about the Origin of Modern Banking in India.

The first part of the Origin is covered in this session.

The outline for today's session:

1. Era before Modern Banking in India.
2. Modern banking during Pre-independence.
3. Post-independence, and
4. The conclusion.

From this session you will be able to:

1. To describe the era of modern banking before and after independence, and
2. Trace the history of modern banking in India.

In my earlier sessions, I've already mentioned that modern banking started with the English Goldsmiths in the year 1640 but in India Commercial banking is of modern origin. But the history dates back to Vedic period where the Hindu scriptures have mentioned about Indigenous bankers and money lenders who carried on the activities of banking. Chanakya's Arthashastra around 300 BC mentioned about the merchant bankers who receive deposits, advanced loans and perform the other banking functions.

Even during the Mughal period, they have mentioned the merchant bankers, who were to finance the trade and used the instruments of trade. It was the merchant bankers or the indigenous bankers who helped the East India Company when the British started ruling here. In the beginning they rendered great service to the East India Company. The two collected the revenues of the East India Company.

Modern banking during the pre independence time:

We can say that banking existed in India, before the British rule. The first European Bank in India was started in Calcutta in 1770s, under the name the Bank of Hindoostan. The bank was started mostly to meet the needs of the foreign trade during that period and the Bank of Hindoostan ceased its operations in the year 1832.

Modern banking in the modern sense came into picture on setting up the three presidency banks. Namely, the Bank of Bengal, Bank of Bombay and the Bank of Madras. The Presidency bank combines the banking functions with their commercial and trading activities. The East India Company established these banks to facilitate the borrowings of the government and to maintain credit of the government. These banks were the central banks for their respective areas and each was the government's banker in those particular areas i.e. in Bengal, Madras and Bombay.

By then the Indian ownership banks were also started up. The first bank started up in 1865 was the Allahabad bank. In 1895, the Punjab National Bank was established. Bank of India was founded in the year 1906 in Mumbai. From the period of 1906 to 1913, there were many Indian ownership banks which came up. Namely, Canara Bank, Indian Bank, Central Bank of India, Bank of Baroda and the Bank of Mysore.

In 1921 the presidency banks were merged and were named as the Imperial Bank of India. Till the central bank was established, the Imperial Bank acted as the central Bank of India. In the year 1935, RBI was established under the RBI Act 1934. All these banks only focused on the urban area, the rural sector was completely neglected and even the priority sector that is agriculture was not taken into consideration by the banking sector.

Post-independence

After independence that is after 1947, we can categorize this period as pre nationalization and post nationalization and the post nationalization period can be further classified as pre LPG and post LPG. LPG is nothing but Liberalization, Privatization and globalization.

After independence there were around 600 to 700 private sector banks, so the first aim under the banking sector was nationalised these banks, in a sense to take over the private sector banks by the government sector. So the first bank which got nationalized was RBI in the year 1949 and in that same year, the Banking Regulation Act was enacted. The next bank which got nationalized was the Imperial Bank of India in the year 1955 and was named as SBI which is in existence till date.

To conclude, we have seen that banking has its origin in India from the ancient era. Modern banking in India started with the three presidency banks. Namely, the Bank of Bengal, Bank of Madras and the Bank of Bombay; and we have even seen the pre-independence phase of banking and the post independence phase of banking will be completed in the next session.

These are the references.

Thank you.