History of Banking in India

The History of Banking in India dates back before India got independence in 1947 and is a key topic in terms of questions asked in various Government exams. In this article, we shall discuss in detail the evolution of the banking sector in India.

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

**Pre Independence Period (1786-1947)**

The first bank of India was the "Bank of Hindustani", 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.

Given below is a list of other banks which were established during the Pre-Independence period:

<table>
<thead>
<tr>
<th>Pre-Indepence Banks in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Name</td>
</tr>
</tbody>
</table>

https://byjus.com
If we talk of the reasons as to why many major banks failed to survive during the pre independence period, following conclusions can be drawn:

- Indian account holders had become fraud prone
- Lack of machines and technology
- Human errors & time consuming
- Less facilities
- Lack of proper management skills

Following the Pre Independence period was the post independence period which observed some major changes in the banking industry scenario and has till date developed a lot.

**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 and the Reserve Bank of India was nationalised in 1949.

Candidates can check the list of [Banking sector reforms and Acts](https://byjus.com) at the linked article.

Following it was the formation of State Bank of India in 1955 and other 14 banks were nationalised between the time duration of 1969 to 1991. These were the banks whose national deposits were more than 50 crores.

Given below is the list of these 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. These banks included:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
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:

1. State Bank of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner & Jaipur
4. State Bank of Mysore
5. State Bank of Travancore
6. State Bank of Saurashtra
7. State Bank of Indore

All these banks were later merged with the State Bank of India in 2017, except for the State Bank of Saurashtra, which was merged in 2008 and State Bank of Indore, which was merged in 2010.

Note: The Regional Rural Banks in India were established in the year 1975 for the development of rural areas in India. Candidates can get the list of RRBs in India at the linked article.
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 very important 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 10 Private sector banks to establish themselves in the country. These banks included:

1. Global Trust Bank
2. ICICI Bank
3. HDFC Bank
4. Axis Bank
5. Bank of Punjab
6. IndusInd Bank
7. Centurion Bank
8. IDBI Bank
9. Times Bank
10. Development Credit Bank

The other measures taken include:

- Setting up of branches of the various Foreign Banks in India
- No more nationalisation of Banks could be done
- The committee announced that RBI and Government would treat both public and private sector banks equally
- Any Foreign Bank could start joint ventures with Indian Banks
- Payments banks were introduced with the development in the field of banking and technology
- Small Finance Banks were allowed to set their branches across India
- A major part of Indian banking moved online with internet banking and apps available for fund transfer

Thus, the history of banking in India shows that with time and the needs of people, major developments have been done in the banking sector with an aim to prosper it.

Related Links:

<p>| Indian Financial System | Types of Bank Accounts | Types of Cheques |</p>
<table>
<thead>
<tr>
<th>Types of Banks in India</th>
<th>Principles of Insurance</th>
<th>Government Schemes</th>
</tr>
</thead>
</table>