Banking History in India

In India, an indigenous banking system has prevailed since ancient times. The people who have involved in business practices of banking are called Shroffs, Seths, Sahukars, Mahajans, Chettis, among others. These indigenous bankers included very small-time money lenders to Shroffs, who owned huge businesses and ran large and specialised businesses.

What is Banking?

Banking is defined as the method of accepting deposits in the form of Cash from some entities with surplus money (lenders and depositors) and lending these funds to the needy entities with need of cash or money (borrowers).

The main functions of banking sector are as following -

- It provides liquidity for economic growth of a country
- It acts as the main pillar of the whole financial system
- It offers safety for the depositors who want to deposit their savings in the Bank
- It offers liquidity for the borrowers both on short and long term basis based on their need
- It provides credit or loan to dealers, households, small as well as large business houses
- It helps to manage all the financial transactions between different parties
- It provides the Government the flexibility to reach to the masses across the country

The origin of western type commercial Banking in India dates back to the 18th century. Bank of Hindusthan was established in 1770 and it was the first bank founded in Calcutta under European management. In 1786, General Bank of India was set up. Since Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, it naturally became a banking center.

On June 2, 1806 the Bank of Calcutta established in Calcutta. It was the First Presidency Bank during the British. Bank of Calcutta was established mainly to fund General Wellesley's wars against Tipu Sultan and the Marathas. Along this, another two Presidency banks were set up under charters from the British East India Company- Bank of Bombay (15th April 1840 at Bombay) and the Bank of Madras (On I July 1843 at Madras). These
worked as quasi central banks in India for many years. On January 2, 1809 the Bank of Calcutta renamed as the **Bank of Bengal**.

In 1839, there was a fruitless effort by Indian merchants to establish a Bank called **Union Bank** but it failed within a decade. Next to this, Allahabad Bank was established in 1865 and working even today. The oldest Public Sector Bank in India having branches all over India and serving the customers for the last 145 years is Allahabad Bank. The first Bank of India with Limited Liability to be managed by Indian Board was Oudh Commercial Bank. It was established in 1881 at Faizabad. This bank failed in 1958.

The first bank purely managed by Indians was Punjab National Bank, established in Lahore in 1895. The Punjab National Bank has not only survived till date but also is one of the largest banks in India. However, the first Indian commercial bank which was wholly owned and managed by Indians was Central Bank of India which was established in 1911. This bank is also called India's first truly Swadeshi bank.

Between 1906 and 1911 thousands of Banks were established in India. Quite a few of those banks have survived to present day such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India. At least, 94 banks in India failed between 1913 and 1918 due to economic crisis during World War I.

In 27th January, 1921 three presidency banks Bank of Calcutta, Bank of Madras and Bank of Bombay merged with each other and Imperial Bank of India got birth. It is today's State Bank of India. The name was changed after India's Independence in 1955. That’s why State Bank of India is considered as the oldest Bank of India.

In 1926 Hilton-Young Commission submitted its report. In 1934 Reserve Bank of India Act was passed. On the recommendation of Hilton-Young Commission on 1st April, 1935 Reserve Bank of India was established with 'Initial share capital worth Rs. 5 crore with 5 Rs. 100 share dividend.'

**A brief chronology of events in Banking Industry in India**

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<thead>
<tr>
<th>Year</th>
<th>Event</th>
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1770 Bank of Hindustan comes into existence at Calcutta.
1786 General Bank of India formed.
1788 Carnatic Bank established at Madras (now Chennai).
1806, June 2 Bank of Calcutta is established.
1809, Jan 2 Bank of Calcutta became Bank of Bengal.
1829, Aug 17 Union Bank is established.
1840, Apr 15 Bank of Bombay is established.
1843, July 1 Bank of Madras is formed.
1861 Paper Currency Act is passed.
1865 Allahabad Bank is established. This was the first fully Indian owned Bank
1874 Alliance Bank of Simla is established.
1876 Presidency Banks Act is passed.
1895 Punjab National Bank is established.
1906 Bank of India and Canara Bank come into existence.
1907 Indian Bank is established.
1911 Central Bank of India is established.
1921, Jan 27 Imperial Bank of India established was by merging 3 Presidency Banks – Bank of Bengal, Bank of Bombay and Bank of Madras.
1935 Reserve Bank of India established as Government of India’s Central Bank. Sir Osborne A. Smith, who was earlier one of the two Managing Directors of the Imperial Bank of India, was appointed as its first Governor.
1937 Indian Overseas Bank established – founder being M. Chidambaram Chettyar.
1946, April 20 All India Bank Employees Association (AIBEA) founded.
1946, Sep 26 Indian Banks Association (IBA) is formed at Bombay with 22 members, which presently has 159 members.
1948, July 1 Industrial Finance Corporation of India (IFCI) inaugurated.
1955, July 1  State Bank of India is formed by replacing Imperial Bank of India. It becomes the first Bank in India to be nationalised.

1955  Industrial Credit and Investment Corporation of India was formed.

1959  State Bank of India (Subsidiary Banks) Act is passed enabling State Bank of India to take over 8 former State associated banks as its subsidiaries.

1969, July 19  Nationalisation of Banks -14 major Banks in India nationalized by the Government of India.

1980, July 15  Nationalisation of Banks -6 other Banks in India nationalized by the Government of India. With this Government of India owned banking in the country rose to 91%.

1982  Bank Employees Federation of India (BEFI) formed.

1993, Oct 29  Pension Scheme introduced in other banks (other than banks like State Bank of India)

1994  Axis Bank came in to existence (earlier Unit Trust of India)

1994  ICICI Bank was established.

1994, Aug  HDFC Bank Ltd. was established.