Evolution of Banking in India

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The story of banks in India starts with establishment of **Bank of Hindustan** in 1770 by the agency house of Alexander and Company. Bank of Hindustan failed in the commercial crisis of 1832.
The **General Bank of India** was established in 1786 but failed in 1791.

Three Presidency banks were set up under charter of the British East India Company:

1. Bank of Calcutta (in 1806 & later renamed as Bank of Bengal in 1809),
2. Bank of Bombay (in 1840) and,
3. Bank of Madras (in 1843).

These three presidency banks were merged in 1921 to form the **Imperial Bank of India**, which upon India's independence, became the **State Bank of India** in 1955.

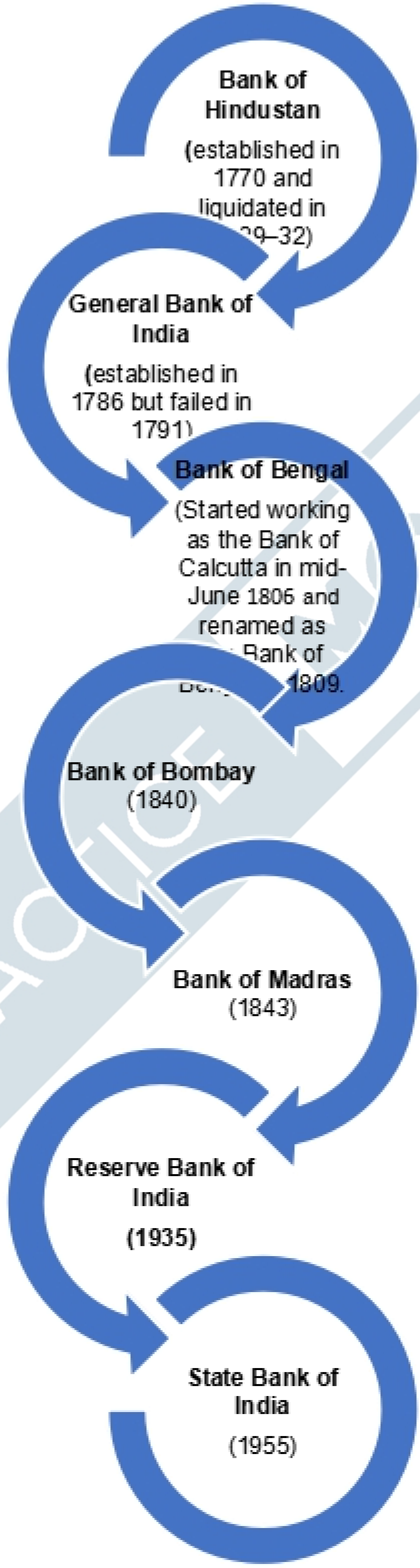
Some of the banks established in Pre-independence period which are still in existence are given below:

Bank	Establishment Year
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Central Bank of India	1911
Canara Bank	1906
Bank of Baroda	1908

Allahabad Bank was established in 1865 and is working even today. It is the oldest Public Sector Bank in India. It is also known as one of India’s Oldest Joint Stock Bank.

The first Indian commercial bank which was wholly owned and managed by Indians was **Central Bank of India** which was established in 1911. So, it is called India’s first truly swadeshi bank.

Fig. Evolution of Banking in India



The Reserve Bank of India was established on **April 1, 1935** in accordance with the provisions of the **Reserve Bank of India Act, 1934** with a paid-up capital of **5 Crore** and nationalised in 1949 on the recommendation of **Hilton Young Commission**.

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.

In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks.

Nationalisation of Banks:

"Nationalisation is the process of transforming private assets into public assets by bringing them under the public ownership of a national government or state."

The Reserve Bank of India was nationalised with effect from **1st January, 1949** on the basis of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. All shares in the capital of the Bank were deemed transferred to the Central Government on payment of a suitable compensation.

The government through the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 and nationalised the **14** largest commercial banks on **19 July 1969**. These lenders held over 80 per cent bank deposits in the country.

The banks that were nationalised in 1969 are:

1. Allahabad Bank

2. Bank of Baroda
3. Bank of India
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank
7. Dena Bank
8. Indian Bank
9. Indian Overseas Bank
10. Punjab National Bank
11. Syndicate Bank
12. UCO Bank
13. Union Bank
14. United Bank of India

In 1980, six more banks were nationalised. These were:

1. Punjab and Sind Bank
2. Vijaya Bank
3. Oriental Bank of India
4. Corporate Bank
5. Andhra Bank

6. New Bank of India.

Why were these banks nationalised?

Untill 1969, access to banking services remained available only to handful of rich and middle class urban households, and the disbursal of credit to the rural areas and small scale borrowers was far less as compared to the industry despite the Banking Regulation Act, 1949.

The government of the time believed that the banks failed to support its socio-economic objectives and hence, it should increase its control over them. Hence, then Prime Minister Indira Gandhi decided to nationalise fourteen major commercial banks.

Liberalisation in the 1990s:

Liberalization refers to a relaxation of previous government restrictions, usually in areas of social or economic policy.

Liberalization in Indian banking sector was begun since 1992, following the **Narsimham Committee** Report. It allowed the entry of private sector players into the banking system.

This move, along with the rapid growth in the economy of India, revitalized the banking sector in India.