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If you are preparing for Banking & SSC Exams, then it is very important to prepare well for the General Awareness Section. The GA Section has a considerable weightage & you can score good marks without investing much time. Nowadays, questions from Static GK are asked more than Current Affairs. Hence, it is important that you are well-versed with topics from History, Geography, Science, Environment & Sports. So, we give you a detailed history of the Banking Sector in India prepared from the point of view of exams.

History of Banking in India - Introduction

According to the Banking Companies Act of 1949, Banking is defined as, accepting for the purpose of lending or investment of deposit money from the public, repayable on demand or otherwise and withdrawable by cheque draft, order or otherwise. It also defines Bank as an institution dealing in money and credit. It safeguards the savings of the public and gives loans and advances.

The main functions of the 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 with the flexibility to reach to the masses across the country

The banking sector was developed during the British era. British East India Company established three banks,

- 1. Bank of Bengal 1809
- 2. Bank of Bombay 1840
- 3. Bank of Madras 1843

These three banks were later amalgamated and called Imperial Bank, which was taken over by SBI in 1955. The Reserve Bank of India was established in 1935, followed by the Punjab National Bank, Bank of India, Canara Bank and Indian Bank.

In 1969, 14 major banks were nationalized and in 1980, 6 major private sector banks were taken over by the government.

Indian banking system, over the years, has gone through various phases. For ease of study and understanding, it can be broken into four phases:-

Early phase (1786-1935) Pre-Nationalization (1935-1969) Post-Nationalization (1969-1990)

Modern Phase (1990-present)

- 1. **Early Phase**: During the first phase, the growth was very slow and banks experienced periodic failures during the Early Phase between. There were approximately 1100 banks, mostly small which failed in the early phase.
- 2. **Pre-Nationalisation Phase**: Breakthrough happened in this phase, was Reserve Bank of India. Reserve Bank of India (RBI) was created with the central task of maintaining monetary stability in India. This phase of Indian banking was eventful and was a phase of restructuring, regulation. However,





despite these provisions, control and regulations, banks in India except the State Bank of India, continued to be owned and operated by private persons

- 3. **Post Nationalisation Phase:** This phase of Indian banking not so happening for entry of new banks. Undoubtedly, it was a phase of expansion, consolidation and increment in many ways. The banking sector grew at a phenomenal rate, fruits of nationalization were evident, and the common man was now banking with great trust.
- 4. **Modern Phase:** This is the phase of "New Generation" tech-savvy banks. This phase can be called as "The Reforms Phase". Currently, banking in India is generally fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks.

Prof K.V. Bhanu Murthy has also segregated the Indian banking periods into four eras. These are:

- Early historical and formative era: 1770-19052
- Pre-independence era: 1906-19463
- Post-independence regulated era: 1947-19934
- Post-independence deregulated era from 1993 onwards









Current Banking Scenario:

Banks in India can be categorized into Scheduled and Non-scheduled Banks.

1) Scheduled Banks

Scheduled Banks in India constitute those banks, which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. These banks should fulfil two conditions:

- Paid up capital and collected funds should not be less than Rs.5 lakhs
- Any activity of the Bank should not be detrimental or adversely affect the interests of the customers.

It comprises Commercial Banks and Cooperative Banks. Commercial Banks are both scheduled and Non-scheduled commercial banks regulated Banking Regulations Act 1949. Commercial Banks works on a 'Profit Basis' and are engaged in the business of accepting deposits for the purpose of advances/loans.

There are four types of scheduled commercial Banks:

- Public Sector Banks
- Private sector Banks
- Foreign Banks
- Regional Rural Banks

2) Non-scheduled bank

Non-Scheduled Bank in India" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank".









Reserve Bank of India is the central bank of the nation and all Banks in India are required to follow the guidelines issued by RBI. Banks in India can also be classified in a different way:

- **Public Sector Banks**: They are those banks where Govt. is the owner or having more than 51% stake in the capital. Currently, there are 21 Public Sector Banks in India including 19 Nationalized Banks. State Bank of India and its 5 Associate Banks together called State Bank Group.
- Private Sector Banks: Private Banks is owned by private individuals/institutions. These are registered under the Companies Act 1956 as Limited Companies.
- **Regional Rural Banks (RRBs):** Previously these were 196 Regional Rural Banks sponsored by 27 State Cooperative Banks. As on 31st March 2013 due to mergers their number has come down from 196 to 64
- Foreign Banks: These banks are incorporated outside India and are operating branches in India also. Some foreign banks are also having their representative offices in India
- **Development Banks:** These include Industrial Finance Corporation of India (IFCI) established in 1948, Export-Import Bank of India (EXIM Bank) established in 1982, National Bank for Agriculture & Rural Development (NABARD) established in 1982, and Small Industries Development Bank of India (SIDBI) established on 2nd April 1990

Banking Reforms in India:

- The Indian banking sectors is an important constituent of the Indian financial system.
- The banking sectors play a vital role in promoting business in urban as well as in rural areas in recent years.
- Without in India cannot be considered as a healthy economy.
- For the past three decades, India's banking system has several outstanding achievements to its credit.
- NPA's Have increased since 2011 after a steady decline in 2000's





The banking system in India, through a measure, gradual, caution and steady process has undergone a substantial transformation. Banks have come a long way from the temples of the ancient world, but their basic business practices have not changed. 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.

We hope you found our article on History of Banking in India. You can also find important General Awareness Topics given below:

Indian Taxation System

Currency System in India

Why Cooperative Banks in India Need Your Attention GK Notes on International Monetary Fund Things to Know About World Bank for SSC & Banking Exams

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