EVOLUTION OF BANKING SYSTEM IN INDIA

Authored by: Prashant Singh Rajput*

* 4th Year B.A.LLB student, Indore Institute of Law”, Indore (M.P).

ABSTRACT

The banking system in India has glorious past, bright future, and pleasant present. Indian banking system has been developing day by day. Banks are one of the most important organizations for proper growth of Economy and GDP of the country. It is also important for society which requires faith of customer to keep safe their asset in terms of gold and money in the banks. There is liability of banks to maintain strict policies in terms of asset management. Banks also provide various facilities to the customer so that there must be a very healthy relationship between banker and customer.

This research paper also covers various topics which clearly explain how the banking institution evolved in India. Such topics are history of Indian banking, nationalization of Indian banking system, banking system in British era, banking in post independent era, globalization in banking sector and banking in today’s era.

Keywords:-Banking System, Credit Cards, ATM, Loan Process and NPA
INTRODUCTION

Some authorities believe that the word ‘Bank’ has been derived from the Greek word ‘Banque’ which means ‘a Bench’. In older days Jews entered into money transaction sitting on benches in a market place. When a banker was not in a position to meet his obligation the ‘Bench’ on which he used to sit and carry on the money business was broken into pieces and he was taken as Bankrupt. Thus both the word ‘Bank’ and ‘Bankrupt’ are said to have their origin from the word ‘Banque’.

There are others, who believe that the word ‘bank’ is originally derived from the German word ‘back’ meaning a joint–stock fund. As the Germans occupied Italy, the word was Italized, the word ‘back’ became ‘banco’ and finally it became ‘Bank’ under the English.

Banks were considered as a backbone to the financial system to the country, and it also play an important role in economic development of nation. Banks primary function is to include accepting deposits & using these deposits for binding purpose.

It basically acts as a link between people who have surplus capital and the people who are in need of those capitals. In general banking system of nation increases the efficiency of economic transaction.

The current global crisis that hit every country raised various issues regarding efficiency and solvency of banking system in front of policy makers. Now, crisis has been almost over, Government of India (GOI) and Reserve Bank of India (RBI) is trying to draw some lessons. RBI is making necessary changes in his policy to ensure price stability in the economy. The main objective of these changes is to increases the efficiency of banking as a whole as well as of individual institutions. So, it is necessary to measures the efficiency of Indian Bank so that corrective steps can be taken to improve the health of banking system.

HISTORY

Banking was in existence in India during Vedic times (from 2000 BC TO 1400 BC). Loans and usury were well understood in those days. Money lending was regarded as an old art. During early
Aryan days money lending was practiced. During those days, money lending was considered as one of the four honest callings, the other three being ‘tillage, trading and harvesting’.

There are references of lending and banking in two epics namely Mahabharata and Ramayana which are concerned with the events of life which took place between 1000 and 700 BC. During that period banking has become a full–fledged business.

In modern era the function which banks are performing out of which most of these functions are already performed by the bankers in the Smriti period, such as; accepting of deposits, granting secured and unsecured loans, acting as their customers baille, granting loan to kings in times of grave crisis, acting as the treasurer and banker to the state and issuing and managing the currency of the country.

During the Mughal period, indigenous banking was in its prime. There was hardly a village in India without its money-lender or Sharoff who financed trade and commerce. The system of currency and coinage in operation at that time rendered money lending a highly profitable business. This was a period in which indigenous bankers enjoyed a pre-eminent position in society, being the sole source of finance to the community. The rulers and government also mostly depended on them and appointed them as revenue collectors. However, there was a great fall in the banking system during this period as the Muslims regarded taking of interest as a sin.

Modern banking started in India only from the beginning of the 19th century. The earliest commercial banks were started in India by the employees of the East India Company. These banks were known as ‘Agency House’. They were mainly trading concerns which combined banking business with other activities, such as; trading and speculation.

Banking in India in modern sense originated in the last decade of 18th century when Bank of Hindustan was first established in 1770. Three Presidencies Banks viz. Bank of Calcutta, Bank of Bombay, and Bank of Madras were established in 1806, 1840 & 1843 respectively.

Bank of Calcutta renamed as Bank of Bengal in 1809. These three presidency Banks were amalgamated & formed Imperial Bank of India on 27th January 1921. This Imperial Bank of India after independence again renamed and became State Bank of India in 1955, State Bank of India is the largest and oldest Bank of India.
Pursuant to the provision of the State Bank of India (Subsidiary Banks) Act of 1959, the following banks were constituted as subsidiaries of the State Bank of India: State Bank of Bikaner, Bank of Indore, State Bank of Hyderabad, State Bank of Saurashtra. On 1st January the State Bank of Jaipur and State Bank of Bikaner were amalgamated to form State Bank of Bikaner and Jaipur. Thus there are now seven subsidiaries of State Bank of India.

**BANK CRISIS**

Banking in India experienced severe setback during the period 1913-17, as 108 banks failed and another 373 banks failed in 1922-36, which was again followed the failure of 620 banks in 1937-48.

Cooperative banks started functioning in India 1904 with the sole aims to finance agriculture. The cooperative banks are now on a three tier basis, namely, - (i) Primary Cooperative Banks at the village level; (ii) Central Cooperative Banks at the district level; (iii) State cooperative Bank at State level.

The establishment of Reserve Bank of India in the year 1935 marked as the beginning of a new era in history of Indian banking system. The Banking regulation act 1949 gave wide power to the Reserve Bank of India to regulate, supervise and develop the banking system. In subsequent years, the efforts of RBI were mainly directed towards institutionalization of savings, consolidated of banking structure and re-orienting the credit system to emerging need of the economy.

**BRITISH ERA**

During British Era, the merchants started Union Bank of Calcutta in 1869, initially it was started as joint stock association but later it came into partnership with other.

The Allahabad Bank which is still functioning today was started in 1865, it is the oldest joint stock bank in India, still it was not the first though. The first bank was bank of upper India, which was established in 1863 & survived until 1913, but due to failure of some of its assets and liabilities it being transferred to Alliance Bank of Simla.
In 1881 in Fizalabad first Indian joint stock bank which was Oudh Commercial Bank came into action but it was failed in 1958. The next which was established in 1894 in Lahore was the Punjab National Bank, which has been in existence to the present and is now the second largest Bank in India.

The banking system of India in the early 20th was not enough developed that it can give a strong fight to the presidency banks and foreign exchange banks which were well updated with the technology and capital resources.

The Swadeshi Movement inspired the establishment of banks in periods between 1906 and 1911. Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India are some banks which are established during that time and are functioning very smoothly.

POST INDEPENDENCE

India observed the emergence of large number of Institution for providing finance to different sector of the economy. The entry activities of Private Sector and Foreign Banks were restricted through Branch licensing and regulation norms.

Steps taken by Indian Government to regulate Banking are: - RBI was nationalized on January, 1949 under the terms of RBI. In 1949 the Banking Regulation Act was enacted. The Banking Regulation Act, 1949 also have a provision that the no new bank or branch of any existing bank could be opened without a license issued by an RBI. No two banks could have common Directors.

NATIONALIZATION

In India Nationalization of banks took place in 1969, by Mrs. Indira Gandhi. It nationalized the 14 largest Commercial Bank on 19th July 1969. Second phase of nationalization of Indian Banks took place in the year 1980. There was around 91% of the banking business controlled by government of India with the inception of second round of nationalization.
In the year 1993 Punjab National Bank merged with New Bank of India by the government. It was the only merger between nationalized banks due to which there is reduction of nationalized banks from 20 to 19.

LIBERALISATION AND GLOBALISATION

Number of small private banks were granted license by the government due to the policies of liberalization in the early 1990s. Due to Globalization more and more Banks are receiving the benefits and also expanding at an incredible faster pace, publicly owned Banks handle more than 80% of the Banking Business in India and rest in the hand of private sector Banks.

However, Banking in both the government and private sector is being revolutionized by this latest phenomenon called ‘Globalization’.

EVOLUTION OF BANKING LAW IN INDIA

The Law of Contract, the Law of Torts and different branches of business and common law are relevant to banks as to other. The Indian Banking Law is construct to a substantial degree upon the English Banking Law.

During British Rule in India, the English Law identifying with negotiable instruments was applied by Courts in India, when the challenging gatherings were European, yet on account of Hindus and Mohammedans, their individual laws and utilizations were made pertinent; where, however, the parties belonged with various communities, the law and use which administered the defendant were connected.

1. **The Negotiable Instrument Act, 1881**: To manage the law identifying with bills of exchange and promissory notes, the Legislature of India authorized Act 6 of 1840. In spite of the fact that Negotiable Instruments Bills was acquainted in 1866 with systematize the law in regards to negotiable instruments, it turned into a Demonstration in 1881 with a few changes.

2. **The Banker’s Book Evidence Act, 1891**: The Banker's Book Evidence Act, 1891 is a vital enactment which is made just for Bankers in India. It is an extraordinary Act giving certain
benefits to Bankers as respects the mode of providing of entries in their books and the creation thereof in Courts of Law.

The Law of Evidence requires that the presence, condition or substance of a report can be demonstrated under the watchful eye of a Court just by delivering the first archives. Be that as it may, Section 65 of Indian Evidence Act sets out certain special case to this govern and enables copies of a document to be produced before a Court not withstanding when the first is accessible. The Banker's Book Evidence Act, 1891 is one of the arrangements of the law which permits the creation of a guaranteed certified copy of the documents.

Section 4 of the Banker’s Book Evidence Act, 1891 states: “Subject to the arrangement of this Act, a certified copy of any entry in a banker’s book shall in all legal matters be received as a prima facie evidence of the existence of such entry and shall also be admitted as evidence of the matters, existence of such entry, and shall be admitted as evidence of the matters, transactions and accounts therein recorded in every case where, and to the same extent as, the original entry itself is now by law admissible, but not further or otherwise.”

In Chandradhar Goswami v. The Gauhati Bank Ltd, the Supreme Court has held that no individual can be accused of obligation only based on entries in books of record, even which such books of records are kept in the consistent course of business. There must be additional confirmation to instalment of the cash which may show up in the books of record all together that a man might be accused of obligation there under, aside from where individual to be charged acknowledge the accuracy of the books of record and does not move them. Additionally held that the original entries under Section 34 of the Evidence Act would not be adequate to accuse any individual of risk and as such duplicates created under Section 4 of the Banker's Book Evidence Act clearly can't accuse any individual of obligation.

3. **The Banking Regulation Act, 1949**: The law relating to banking, as we find in India today, is the result of the slow procedure of advancement, before 1949. The Indian Companies Act, 1913 contained extraordinary arrangements identifying with saving

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1 (AIR 1967) SC 1058
money organizations which were felt deficient and were in this way fused in the extensive enactment go in 1949 under the name of 'Banking Companies Act, 1949.' It was passed to merge and correct the law identifying with keeping money and to accommodate the idea of exchanges which can be carried on by banks in India. It came into compel with impact from 16th March, 1949.

With impact from 1st March, 1966, the name of the Act has been changed to the Banking Regulation Act, 1949.

**CURRENT SCENARIO**

By 2010, Indian Banking was generally enough mature in terms of supply and reach. Even though reach in rural India still remains a big challenge for Private Sector and Rural Areas. RBI being an autonomous body faces minimum pressure from the government.

By 2013 Indian Banking sector employed approx. 12 lakhs employees and had a total 109,811 branches in all over India and approx. 180 branches abroad and manage an aggregate deposits of Rs.54 billion and bank credit of Rs.52604.59 billion.

According to financial year 2012-13 net profit of banks operating in India was approx. Rs. 51 billion against a turnover of Rs.9148.59 billion.

With the new government in power on 28th August 2014 Prime Minister of India Mr Narendra Modi launched new scheme for Financial Inclusion, that scheme is Pradhan Mantri Jan Dhan Yojana. Run by Department of financial services, Ministry of finance opens 1.5 crores banks accounts on the inauguration day. By 10th January 2015 11.5 crores accounts were opened with around Rs.8698 crores rupees deposited under the scheme; there was also an option for opening bank account with zero balance.

Physical as well as virtual expansion of banking through mobile banking, internet banking, tele banking, and bio metric and mobile ATMs is taking place since last decade and has gained a momentum in last few years.
CONCLUSION

It is clear that Indian Banks are operating in an increasing competitive environment. Indian banking system has also learned a lot from its mistakes and gradually on the footprints of other developed countries. People of the country are still dependent on the banks to keep their saving rather than preferring illicit ways to save their savings. This is due to illiteracy and conservative thoughts about tax evasion. There is still a lot to do to put our country economy on the driver’s seat.