

BANK EXAMS

GENERAL AWARENESS

History of Banking in India

Bank is a Financial Institute, whose principle business is accepting deposits and provide loans. Apart from accepting deposits and lending money, banks offer many more value added services to their clients. Banks are the important segment in Indian Financial System.

The origin of banking in India can be traced back to almost the Vedic period. The transformation from pure money lending to proper banking appears to have taken place before the times of Manu.

- ★ Manu, a great Hindu jurist, has devoted a section of his work explaining the deposits and advances and he even laid down certain rules on rates of interest. Through out Mauryan period and later on desi bankers played some role in the economy of the country. However, it was during the Moghul period that indigenous bankers started playing a vital role in lending money and financing of the foreign trade and commerce.

Indigenous banks

The indigenous bank means Money Lenders and Sahukars. They collect deposits from general public and grant loans to the needy persons out of their own funds as well as from deposits. These indigenous banks are popular in villages and small towns. They perform combined functions of trading and banking activities. Certain well-known Indian communities like Marwaries, Multani, Shroffs, Seths, Sahukars, Mahajans, Chettis even today run specialized indigenous banks, though they did not evolve the sound banking system in India.

As per the modern definition of Banking, first bank in India, called The General Bank of India was established in the year 1786, though the Bank of Hindustan established earlier in 1770 did not follow the few basic tenets of Banking. Three presidency banks namely the Bank of Bengal (this bank was originally started in the year 1806 as Bank of Calcutta and then in the year 1809 became the Bank of Bengal), the Bank of Bombay and the Bank of Madras, were set up. These three presidency banks acted as quasi-central banks for sometime during the British period. These three banks merged to form the Imperial Bank of India.

Indian Joint-Stock Banks

The year 1960 is a landmark in the history of Public banks in India, as in that year the principle of limited liability was first applied to joint stock banks. Since 1860, till the end of the 19th Century, a number of Indian Joint Stock banks came into existence. For instance, the Allahabad Bank was started at Allahabad in 1865. In 1875, the Alliance Bank of Shimla was started. In 1881, another Indian bank called Oudh Commercial Bank was established. In 1895, the famous Punjab National Bank was established.

The swadeshi movement in India given the inspiration to several Indian entrepreneurs became torch light for the development of Banking in India. During the boom period of 1906 –13, there was a mushroom growth of banks. The banks like Bank of India (1906), The Canara Bank (1906), the bank of Baroda (1908) and the Central Bank of India were established during this period.

Foreign Banks

In addition to the Indian Joint Stock banks, a number of multi-national foreign banks called 'exchange banks', with their head offices in their home nations, entered the colonial banking system of India. Exchange banks established to finance the foreign trade of the country, later given tough competition to the Indian banks. Mainly the exchange banks were financed by non-Indians.

Bank Crisis

Till the middle of the 12th Century, Indian Joint Stock Banking system had seen the continuous growth. However the banking experienced severe set-backs during the period 1913-17. During the period of 1913 - 17, at least 108 banks failed. During 1922 - 36 approximately 373 banks failed. During 1937 - 48, not less than 620 more banks were failed.

The central Banking Enquiry Committee in 1929 traced the following causes for banks failures in India.

- 1) Insufficient paid-up capital and reserves
 - 2) Irrational credit policy causing reckless and injudicious advances
 - 3) Poor liquidity of assets
 - 4) Mismanagement
 - 5) Creation of long term loans on the basis of short-term deposits
 - 6) Indulging in speculative investments
 - 7) Absence of central bank for overall supervision and control
 - 8) Lack of suitable banking legislation for regulation of banks.
- ★ The another blow caused to Indian Banking, as in 1946 - 47, with the crash of the A.B.C. Bank, the Exchange Bank, the Exchange Bank of India and African and the Nath Banks.
- ★ It is unfortunate that by the date of Independence in 1947, India inherited an extremely weak banking structure, with urban banking structure, loan to relatives and trade sector only, restricted to one geographical area losing the All-India Structure.

Development of Banking during the Planning Era

After Independence, the government of India launched economic planning since 1951. The entire banking had seen the drastic transformation through several important reforms introduced by the government.

Some of them are.....

- 1) Liquidation and amalgamation of banks
- 2) Banks legislation
- 3) Evolution of banks nationalization
- 4) Structural changes of commercial banking
- 5) Declining significance of foreign banks
- 6) New strategies in banking business

Liquidation and Amalgamation of Banks

Even in the post-Independence period, when the history of bank failures continued, the RBI adopted a deliberate policy of systematic elimination of weaker and uneconomic banking units by restoring to relicensing, mergers/ amalgamations of such banks, strengthening the banking system in the nation.

- ★ In 1954, 14 banks were failed, this came down to 4 in 1963. During the period of 1954 – 63, there were 92 cases of total bank failures. This led the government to insert a new section, Section 45 in the Banking Companies Act in 1960. That section says the Government of India, on the recommendation of RBI, is empowered to order the compulsory amalgamating of weak banks with strong well-managed banks.

Model Questions

- Which is the first bank managed by Indians?
 - 1) Union Bank of India
 - 2) Delhi Co-operative (Bharath) bank
 - 3) Oudh Commercial Bank
 - 4) Kasi Janmotsava Bank
 - 5) None
- First entirely Indian joint stock bank Oudh Commercial Bank was established in 1881 at

 - 1) Faizabad (U.P)
 - 2) Bhopal (M.P)
 - 3) Godhra (Gujarat)
 - 4) Varanasi (U.P)
 - 5) Calcutta (West Bengal)

- Few Indian Merchants established Union Bank in 1839 (not Union Bank of India) at....
 - 1) Calcutta
 - 2) Bombay
 - 3) Nagpur
 - 4) Hyderabad
 - 5) Shimla
- First French bank came to India Comptoire d'Escompte de Paris established in 1860 at

 - 1) Calcutta
 - 2) Bombay
 - 3) Hyderabad
 - 4) Puducherry
 - 5) Goa

- Hongkong and Shanghai Banking Corporation (HSBC) established its branch in 1869 in

 - 1) Surat
 - 2) Delhi
 - 3) Calcutta
 - 4) Chennai
 - 5) Jammu

- First bank in India to start its branches outside India ?
 - 1) Bank of India
 - 2) SBI
 - 3) SBT
 - 4) Punjab National Bank
 - 5) OBC
- Which is the oldest public sector bank in India, celebrated 150th year of establishment in 2014 ?
 - 1) Punjab National Bank
 - 2) Andhra Bank
 - 3) Allahabad Bank
 - 4) Bank of India
 - 5) None
- Founder of Punjab National bank is

 - 1) Lala Lajapathi Rai
 - 2) Mahathma Gandhi
 - 3) Nehru
 - 4) B.R. Ambedkar
 - 5) Mokshagundam Visweswarayya

- In which part of India, many banks are established, called the 'Cradle of Indian Banking System'?
 - 1) Northern Assam
 - 2) Southern Tamilnadu
 - 3) Eastern Rajasthan
 - 4) Southern Karnataka
 - 5) Western Maharastra
- The first phase of Indian banking runs between 1786 to 1969. The highlights of this period include.....
 - 1) Establishment of banks in India
 - 2) Report of Hilton-Young Commission

- 3) Establishment of Reserve Bank of India 4) Establishment of State Bank of India
5) All of above
11. The Second phase of Indian banking runs between 1969 to 1991. The highlights include
- 1) Nationalization of banks 2) Insurance of bank deposits
3) Setting up of Regional Rural Banks 4) Establishment of NABARD
5) All of above
12. Third phase of Indian Banking runs between 1991 till today. The highlights of the period include
- 1) Introduction of banking reforms 2) Infusion of Information Technology
3) More entry of Foreign bank 4) Customer Banking
5) All of above
13. What was the old name of State Bank of India?
- 1) National Bank of India 2) Royal Bank of India
3) Imperial Bank of India 4) State Bank of UK and India
5) None

ANSWERS

1-3; 2-1; 3-1; 4-1; 5-3; 6-1; 7-3; 8-1; 9-4; 10-5; 11-5; 12-5; 13-3.

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