Chapter 2
HISTORY OF BANKING AND ORIGIN OF BANKING IN INDIA

2.1 History of Banking

Only Economic Prosperity of the state can create prosperity for the people
- Chanakya

The word bank is derived from French word “Banqui”1 and Italian word ‘Banca’, it refers to present day word Bank. To this credit of pioneering in banking system, the oldest still operating bank is still operating in Italy. ‘Banca Monte dei Paschi di Siena’ is the one and only surviving bank in the world operating since 1472.

Banking is one of the oldest forms of commerce & trade. And trade is as old as Humanity itself. Banking is an integral part of human beings from ages. We can see banking in all forms, in all places, playing a major role in our day to day activities. Banking as an institution touching each and every member in a family in one way or the other. Especially banking as an activity starts from childhood, where we all started our savings banking through Piggy banking. A great concept for any kid to start the idea of saving money and understanding the value of money. Learning counting money, its exchange value and target of saving has knowledge thought by this banking. This savings gives purchase power.
When humans started producing grains and other food materials, trade started between people through exchange for materials, cattle, cotton and so many other perishable and non-perishable items. This is called as Barter system where exchange happens between goods and services, no money involved. In this system, the exchange happens immediately without any delay. The parties agreed to exchange goods or services for the reciprocal of the same without any credit period. Once the goods exchanged, the trade is over. Barter system has history dating back to BC 6000\(^2\) where tribes of certain parts of Europe were engaged in barter. The barter was between communities and also between far flung areas of Mesopotamia\(^3\). Certain valuable goods were involved in this barter system, like spices, weapons, tea, food items etc which had geographical specific productions. Salt was one of the important items bartered that time, salt was valuable since its production was limited to certain areas. As per records, salt was paid as salaries to Roman soldiers\(^4\). Till today we have barter systems prevailing, even after invention and popular use of currencies. By use of money, Barter system has been reformed and organized. Since exchanges of goods were immediately transferred from hand to hand, the trust factor was very important. There was no scope for cheating each other, long term trade between people gave opportunity for long-term relationship. This gave way to develop trade between countries and actual import and export activities started.

During Babylon period, evidences show that the usage of metal coins as a standard form of exchange\(^5\). The first ever use of coins as money was found by historians at the kingdom of Croesus, where the king of Lydia in Anatolia, the present state of western Turkey. The primitive coins which were used are made up of an element called “electrum”, which is a natural mixture of gold and silver. These were unpolished, bean-shaped ingots bearing a punch mark which
certified either weight or fineness or both. According to some historians, the first embossed coins were actually issued by priests and that the first mints were started from temples. When trade was extending to other parts of the world, with increase in value and volume, there was a need of standard denominations and value of exchange. So the coins and currencies replaced barter system.

Electrum coin of the Byzantine Emperor Alexius I Comnenus.

Early 6th century BCE Lydian electrum coin (one-third stater denomination), one of the oldest known coins

Greek, Rome, Babylon and Egypt were early champions of banking where temples played an important role as banking. There was threat of safety at homes, temples were the answers for safety issues. As they were safe from theft, they are sacred places for worship and people come holy mind, they were best places for storage of precious items. So, primary aim of baking through temple was safety and security. It is believed that even rulers used to borrow money from these temples for certain interest. The money borrowed by these temples was used mainly for war expenses. It’s easy money from temples without any hassle was privilege for rulers to exploit this opportunity. That is how temples were getting prominence more than sacred places. It was temple of trust for many people who lived at their vicinities. Temples started growing their branches across with patronages across society. But, not to forget during
internal or external aggression on the country, these temples were prime targets. Time passed by with increase in dependency on trade and temple economy, there was many attempts to standardize the system to various parts of a country by using common systems. In some practices, to make it standard process coins were used for international trades and grains and food materials for local trade. Greek and roman record identifies money lenders who were present in those periods lending money in one place and collect money in another place. The branch concept of banking was taking its momentum with the need of trade.

Coins were the first currencies as a unit of value which was mode of exchange. Coins evolved to form an important form of exchange value of goods, which was earlier just a barter. If in a trade any part has no goods to exchange for what he wants, he can exchange with these coins. Gradually coins were standardized to value as an exchange for goods and services. These coins got modified as per rulers, their importance felt in the impression of depicting their face, emblem of the country, deities etc. Coins were of different sizes and shapes. The first coins in Rome were made of gold, gradually in silvers and bronze. The use of precious metals were limited later part to avoid loot during aggressions. Even in India, many rulers are known for their coin mint, coins of different shape, size, and compositions were in transaction. There were gold coins in the early periods, by time pass by, the coins took silver, bronze, copper, iron etc. Historians recorded that Muhammad Tughlaq experimented replacing gold coins with copper coins$^7$. His attempt to revolutionise coin usage was not accepted by trading countries, as the value was not quantified against gold coins. Again, he gave order of bring back gold coins, as a result people who got copper coins exchanged them with gold coins from the treasuries.

Currency standardisation was first initiated in India by Sher Shah in 1542$^8$. The reforms in coin system and currencies brought by Sher Shah Suri said to be most outstanding
achievements. Dam was the name given to currencies he introduced. He saw many coins of different ages and reigns were in circulation without standardization. His new coins made up of copper and Silver, which weighed 180 grains of pure silver. Subsequently he abolished all old currencies and coins.

These currencies were continued throughout the period of Mughal empire and same was used by the English East India Company till 1835. As per V.A. Smith, “it is the basis of the existing British currency” up to 1947. The uniqueness of Sher Shah’s coins was, it carried name and title of him and place of its mint inscribed on the coins in Arabic characters. Some coins inscribed with his names in Devanagari script.

2.2 History of Banking in India

Banking in India has a very long history starting from Indus Valley civilization, one of the oldest civilisation in the world. In later centuries, it continued under well-known rulers of Mauryan, Chola, Mughals and many other major kingdoms and its rulers who had well defined structure of banking and economic system. Still some of these banking practices had been carried till date, which we can see under unorganized sectors in rural India.

As mentioned above, in ancient India the banking structure was quite matured and had various terminologies in different periods. During Vedic period, contemporary to Buddhist period, banking and its operations were highly evolved and organised to cater to some of the niche and very important activities. There is a clear mention of coins in Rig Veda. They were important metals for making coins, metals like Gold, silver, copper and bronze has mention. When inventions happened, gradually during later Vedic periods, there is a mention of Tin. As mentioned in famous Jatakas, Rnapatra and Rnalekhya which were the terminologies for
debentures and loan deeds used extensively. Without these loan deeds, the loan was not honored in any banks that time. There is a mention in Arthashastra that Kautilya was in strong support for these loan-deeds and also there is a mention on the rate of interest for these loans which were termed as Usury (Kusidin)\(^\text{11}\). But for our surprise, during 13th Century in Italy, these Usury or interest on loans were termed as sin under Christianity, so they have developed double entry system of book-keeping and maintained interest as voluntary gift from borrower or reward for the risk taken. One more term, Adesha is a bill of exchange used during Mauryan period, these are dated back to 300BC\(^\text{12}\). ‘Panas’ were the name of currencies of Mauryan period\(^\text{13}\). Today’s Rupee is derived from Sanskrit word ‘rupa’ meaning silver. Chanakya mentioned in Arthashastra about group of merchant bankers, who received deposits and advances and issued hundis. Even some of Jain scripts mentioned on the two bankers who build the temples of Dilware at Mount Abu during 1197 AD and 1247 AD\(^\text{14}\).

India has credited to the pioneer of one of the best institutions in the world and across the centuries to shape the banking sector. Many rulers, conquerors, intellectuals from across parts of the globe have contributed immensely to the growth of this sector. Perhaps India may be the only country to have given opportunities for people to trade, establish their market, exploit the resources, exchange related currencies etc. Centuries of these trade and business and establish of kingdoms and colonies have given many identities to India in different ages. The economy or value of trade is known by different names or values in different periods. There were huge fluctuations of value of money in different periods and even different regions. For example, the age of Mauryans have seen trade and economy under native indigenous values\(^\text{15}\), same as in the age of Vijayanagara Empire. But during Mughal period or sultanate period the value of money or the exchange values were different compare to their previous rulers of India. Same is again changed during colonial rulers, people of India traded with currencies of Europeans. Though the exposure of many economic values of different regions, the Indian rupee has stabilized to great extent, to an extent to compete with its global competitors. Thanks to the greatest contribution of civilisation, it has evolved tolerated, modified to become one of the strongest economies of the world, which was evident through its stability in recent financial crisis.
**Mughal period** had witnessed to some of the mature, professional banking systems. Mughals were known for their well-known and sophisticated monetary system. As per the evidences, during 1526 when Babur was the ruler indigenous bankers played a major role in lending and financing for trade activities. Banking services got more stability during Akbar period.

‘Sheth’ or ‘Jagath Sheth’ or ‘Shash’ or ‘Shroff’ were performed number of banking activities in those periods. Bigger cities had ‘Nagar Sheth’, who was responsible for doing collection activities through Hundis. These Hundis were accepted as instruments of exchange in commercial transactions. Origin of these Hundis has trace to 12th century, continued till today. They were used for:

- Remittance of money
- As credit instrument
- Foreign transaction

During Mughal period, there was evidence of silver and gold coin circulations. Jagath Sheth used to act as collection agent for state finances in times of need.

Currency system during Mughal had three basic coins, **Muhr** was gold, the rupee of silver and the **dam** of copper. If it is analysed, there was actually one metal reigned supreme at one time. It was copper in the sixteenth century and silver in the seventeenth. The gold **muhr** weighed 169 grains (10.95g) troy and was practically unalloyed. The weight of silver rupee was initially 178 grains (11.53g) and was later raised to 180 grains (11.66g) by Aurangzeb.

India has witnessed to many foreign visitors during Mughal period. These travelers in the writings have mentioned the use of bills of exchange and even Indian bankers were also issuing bills of exchange on foreign countries for trade related activities. These bills of exchange were so popular due to their wide acceptability and insurance coverage with this to protect the traded goods.

Pay-order was one more banking instrument widely used during Mughal period. They were called as “**Barattes**” which was issued by Royal treasury and were equivalent to present day drafts or cheques.
But later during the period of Aurangzeb, indigenous banking services got setback due to his strong religious belief, where charging interest on loans were considered as sin\textsuperscript{21}.

By colonial period, Imperial coinage was having control over coin circulation and the circulation was expanding as and when the empire was expanding\textsuperscript{14}. Coins were called as ‘Sikkas’ and issuing in their names were considered as sovereign right and pride of the ruler. They didn’t tolerated this sovereign power, in 1692 when the English East India Company attempted to replace Mughal coin to their English Monarch imprinted coins bearing King William III and Queen Mary\textsuperscript{15}, it drew the displeasure of Aurangzeb. He took immediate steps to check this encroachment on the sovereign prerogative. A special emissary - Khafi Khan was sent to Bombay to investigate into this and various other alleged delinquencies of the Company. The Company explained their act of coining money in their own King’s name by stating that they had to purchase investments at places where the Mughal money did not pass. However, due to strong opposition from the Mughal emissary the coinage of this new coin-type, of which a few specimens still exist, was stopped by the Company once and for all.

2.3 Stages of Evolution of Indian Banking Sector

Today, Indian banking sector, one of the biggest institutions in the world, catering to its largest population has seen an ocean of change since its inception. It’s now a fragmented industry with many players with huge competition. Compared to any other countries, India has more number of banks, for instance China has only four major banks but topped no.1\textsuperscript{16} in the globe, but in India, we have a huge network of banks catering to vast segment of its population. At present, we have 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, over 1 lakh ATM machines is an astonishing number of institutions. Still the assets share, 70% of total commercial banking assets owned by Public sector banks. But same was 80% during 1980’s and declined due to increasing foreign and private bank operations.

Banking sector plays a major role in development rather than just mobilizing the savings. It has transformed after British rule to shape up Indian aspiration of self-sufficiency,
industrialization, globalization followed by FDI as channel for growth and now boosting new trends of entrepreneurial atmosphere as we call it start-ups.

As per Section 5(b) of the Banking Regulation Act, 1949, "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.

The banking sector evolution can be divided into four phases.

1. Pre-independence period during colonial rule
2. Post-independence and before nationalisation
3. Nationalisation and regulations
4. Phase of liberalisation

Each decade has seen a major shift in focus keeping the traditional values of banking and culture intact.

1. Pre-independence period during colonial rule

Banking system has witnessed tangential changes post Mughal period in India. Colonial rules transformed the banking culture in India to serve the needs of colonial invaders. Even though the banking sector had a mature phase earlier to colonial rules, it has taken different shapes and structure as per the culture and convenience of the foreign rulers. Economy and financial activities were very strong in India before colonization. Banking was for the people at large aiming to help people development, agriculture and other basic needs. But this got a different intention during Colonial rule where trade, industries and commerce was main aim of banking. This period banking was limited to set of people and colonial companies for their personal and trade related activities. It is unfortunate that the exploitation and looting the wealth of the country was facilitated by these banks during colonial rule.

When Europeans invaded India, they struggled to understand the banking organisations in India, language was the barriers, the methods of banking and book keeping forced them to have their own banking system, beside their commercial trade. Initially these banks were restricted to Europeans. One such bank started in 1707 was Hindustan, which was completely
managed by Europeans. During East India company time, the first bank to start its operation in Bengal is President Bank during 1806 and later in 1840 Bombay operations started. Likewise, it followed its operations at Madras during 1842. The responsibility to issue the note was given to these banks during 1861. Observing the progress, later by 1921 all three banks merged into a single entity to be known as Imperial Bank of India, which after independence became State Bank of India. Even some foreign banks started its operations in India. During 1860’s The Comptoire d’Escompte de Paris started branch in Calcutta and later opened branch in Bombay, Madras and Pondicherry in 1862. Likewise, HSBC in 1869 started in Bengal. Since Calcutta was main trading hub of East India companies, banks were concentrated in this area.

Below is some of the currencies issued by Bank of Bengal, Bank of Bombay and Bank of Madras

**Currencies of Bank of Bengal**

- 20 Rupees
- 16 Rupees
- 4 Rupees
- 250 Rupees
- 25 Rupees
- 500 Rupees
- 1 Gold Mohur
- 50 Rupee
Some currencies issued by Bank of Bombay

Currencies issued by Bank of Madras
Indian managed banks started opening branches, banks like Allahabad Bank and Bank of Baroda started its operations in the year 1865 and 1908 respectively. Continuing its accomplishments, banks in other regions of India started its operations. Anticipating to Swadeshi movement, banks started by Indian communities across. Different regions started Swadeshi banks. Punjab National bank started in 1895 in Lahore, which is one more surviving banks till-date. Continuing in Punjab region, Punjab Sind bank and Oriental Bank of Commerce started its operations in 1908 and 1943.

In Bengal, Indian merchants started United Commercial Bank (UCO) in 1943 and United Bank of India in 1950. In Mumbai, Bank of India started its operations in 1906. Central bank of India started by Sir Sorabji Pochkhanawala in 1911 was the first commercial Indian bank fully owned by Indians. It later acquired Tata Industrial Bank in 1923 to become a bigger entity. Then, Union Bank started in 1919, Bank of Maharashtra in 1935 and Dena Bank in 1938 have started their establishments.

Swadeshi movement continued inspiring Indian businessmen and many more banks started by Indians in different parts. Mainly Karnataka called as banking hub and called as “Cradle of Indian Banking”\textsuperscript{17}, credit to some of the popular banks of all times like, Corporation Bank in 1906, Canara Bank started by Ammembal Subbarao Pai in 1910. Syndicate bank in 1928 and Vijaya Bank in 1931 started its operations in Dakshina Kannada. In Other parts of country also banking got popularity, some of the important banks established from down south are, Andhra Bank in 1923, Indian Bank in 1923, Indian Overseas Bank in 1937.

2. Post-independence and before nationalisation

Post-independence, the agenda towards industrialisation through industrial policy of 1948 envisaged a mixed economy. By this banking and finance as economic vehicles gained prominence by government. Major steps by government towards Nationalising Banks stared as banking sector reforms in 1948. The first major step was during 1949 by nationalising Reserve Bank of India (RBI) followed by passing banking regulations Act in
1949 and Reserve Bank of India scheduled banks regulation in 1951. This phase was also called as Foundation Phase.

In 1951, Nationalisation of Imperial Bank of India facilitating large scale operations to rural and semi-urban areas started. This was followed by nationalising SBI subsidiary banks in 1959. On the other side, there were many private banks continued operating by individuals or groups. The initial nationalisation gave greater boost to economic and industrial activities, and emerged as largest employer. This gave an idea to get control of many unorganised private banks across India. The well thoughtful act of Indira Gandhi to bring banking in to government ambit, came in All India Congress meeting by presenting a paper, titled “Stray thoughts on Bank Nationalisation”\(^\text{18}\). Government of India in 1969, July 14th issued ordinance to nationalize 14 banks with immediate effect. Following immediately this, government issued with an ordinance passed by Parliament, Banking Companies (Acquisition and transfer of undertaking) bill on 9th August 1969. So, complete nationalisation gained momentum with passage of this bill. Again, during late 60’s another attempt was made to nationalising 6 more banks. The need of the hour was to give more credit for rural areas for agricultural developments and facilitate rural inclusion. Post nationalisation of these 14 plus 6 banks, government of India gained 91% control on Indian banking sector.

3. Nationalisation and regulations

   Based on national credit Council advise, three sectors like Agriculture, small industries and Export were termed as priority sectors. It was planned economic development by providing necessary boost to its Five-year plans. But before nationalisation the support from the so called commercial banks which were around 430 in number were failed to support the government in its social objectives. The main reasons for nationalisation of banks was;

   Support government backed social objectives, expand the banking sector to unbanked areas, bring down the monopoly of private banks, address to the regional imbalances of India, lending to its priority sector and inculcate banking habit
Government was clear in its agenda to nationalize banking sectors. 14 banks were chosen to nationalize in the first stage.

The social sector developments like agriculture, small and village industries were badly affected during British rule. A desperate revival was necessary. The manipulations of British government to agriculture had badly affected India’s maximum population which was 85% who lived in villages. Mainly Zamindari, ryotwari systems gradually changed the pattern of land use in India. The cheap manufacturers from British had destroyed the handicraft and cottage industries. The import of British goods rose in India to support British manufacturers. At the time of independence, the agricultural sector was badly affected with centuries of exploitation of policies, heavy taxation, maximum export of output, uneven landholding patterns etc had made the sector indebtedness. The great depression also caused the change in focus of colonial rulers through disinvestment in agriculture and reinvest in urban areas. The condition of other sectors was also not in good shape post-independence. The distribution of national income and work-force had also declined post-colonial rule in India. The following table clarifies the same.
Table 2.1: Sector wise National Income during independence

<table>
<thead>
<tr>
<th>Sector</th>
<th>National Income (1948-49)</th>
<th>Work-force Engaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Animal Husbandry, Horticulture and Fisheries</td>
<td>49.1</td>
<td>72.3</td>
</tr>
<tr>
<td>Mines, Manufacturing Industries, Small Enterprises</td>
<td>17.1</td>
<td>10.7</td>
</tr>
<tr>
<td>Trade, Transport &amp; Communications</td>
<td>18.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Other Services, Professions, Administration, Domestic Services</td>
<td>15.7</td>
<td>9.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Source: India’s Economic Development Since 1947, RBI*

Low agriculture output, under employment, low per-capita income, sluggish growth in other sectors were the main features of Indian social and economic condition during independence. As per the table, the agriculture and allied forces have recorded very minimal income inspite of maximum population dependent on agriculture. Obviously, the other fields had more share of income due to focus on industrial activities by British.

A much-awaited revival was brought through nationalisation of banks to support the sector with necessary economic assistance, aiming to address these issues. The importance of credit facility to sectors gained momentum through nationalisation, which boosted rapid expansion of banking system in India. The revolution in banking sector took place through branch penetration. The expansion of banks was 1.6 % during 1950’s, 12% per annum in 1970-80 and 8.8% during 1980-8520.

The consolidation phase witnessed gradual slowdown in bank expansion to seek for profit. The branch expansion was very less from 52,721 to 58,914 with annual growth rate of 2.6%. The credit growth rate was 14.6% and deposit rate saw a mere growth of 17.7% and investment was 19.0% during 1985 to 1990. But the profit was grown annually by 51.7%. The phase has proved government action towards nationalisation was beneficial to Indian economy.
4. **Phase of liberalisation**

The last phase of banking evolution has shown a tremendous rate of growth in the sector comparatively among any other phase. This is a period which has given decisive phase of economic changes since Indian independence. Liberalisation refers to relaxation of government restrictions in economic and social policies. Private sectors started playing an important role in this phase, it has seen a shift from mixed economy to more liberal way of doing business in India.

Lot many changes occurred in India post Liberalisation of 1991 policy of P V Narasimha Rao government. The change was an abrupt end to the decade old socialist ideas. Continuing economic Liberalisation has made country to move towards market based economy. India was a very conservative market for global economy, but post reforms India was opened to During Pre-liberalisation, growth was public sector driven, but post liberalisation, growth is seen from private sectors. In a short span of 20 yrs, India has established itself a fastest growing economy in the world.

License raj was dismantled and given way to entrepreneurs to setup business with minimum hurdles. However, since there were very few business houses in India to capitalize the reforms there was a need to open gate for foreign players to invest as FDI. One of the interesting factors of this LPG is Liberal economic policy, which directly promoted:

1. Reform for planned mixed economy framework
2. The macro-economic policy in India moved from fiscal neutrality to fiscal activism
3. Reforms in industrial and trade policy
4. Encourage FDI

No doubt there was tremendous improvement in financial condition of the country due to this.

The timeline of nationalisation of Banks in India is a phased manner with incremental improvement. These phases can be consolidated as;

- Introduction of Banking Regulation Act – 1949
- Nationalisaton of State Bank of India – 1955
- Nationalisation of SBI and its subsidiaries – 1959
Nationalisation of 14 banks – 1969
• Credit guarantee corporations created – 1971
• Regional Rural Banks created – 1975
• 2nd phase of nationalisation done for 6 banks which has deposit over Rs. 200 crores – 1980

2.4 Structure of Indian Banking Sector

Indian Banking sector took many forms and shape post-independence. The structure of banking has taken many shapes since independence for the convenient banking for Indian people. At present banks in India structured as:

A. Scheduled Banks
B. Non-Scheduled Banks

and

C. Apex Banks

Table 2.2 - Structure of Indian Banking Sector

A. Scheduled banks are the one which are listed in the 2nd Schedule of the Reserve Bank of India Act, 1934.
Scheduled banks in India again divided in to;

1. **Scheduled Commercial Banks**

2. **Scheduled Co-Operative Banks**

1. **Scheduled Commercial banks qualify when they,**
   
   - Maintain paid up capital of 50lakh and above as reserve
   - Satisfy CRAR norms

Under these scheduled commercial banks, we have four institutions;

I. Public sector banks,

II. Private sector banks,

III. Foreign banks,

IV. Regional rural banks

i. **Public Sector Banks** are the government banks with more than 51% of shares are held by government. They have high penetration with huge customer base. The main aims of these banks are in alignment with governmental development activities focused on comprehensive social development, community development etc. Other than commercial intentions like private banks, public sector banks has played major role in transforming India since independence.

These public sector banks again divided in to;

i.i **State Bank of India group** which comprises 6 state bank groups

i.ii **Nationalized Bank groups** includes 19 banks which were private banks earlier to 1969 and post 1980 nationalization, government of India acquired majority of stakes in these banks.
i.iii The last group is Other Public Sector Banks, which are IDBI bank & Bharatiya Mahila Bank.

State Bank of India, is the largest public sector bank in India with 17,000 branches in India, 200 foreign branches and 5 associate banks in the name of State Bank. Also, it has 7 non-banking subsidiaries. SBI is governed by SBI act of 1955 and SBI subsidiary bank act of 1959.

ii. Private Sector Banks are one which shares are held by individuals and corporates. These banks can be categorized based on their incorporation. First one being Indian Incorporated banks or called as domestic banks. The next one is outside India incorporated or foreign banks.

Again, among these banks there are old private sector banks formed before 1992-93 which are 13 in number and new banks formed after 1993 through new licenses issued post liberalization which is 7 in number.

iii. Foreign Banks are 43 in numbers from 26 countries. As on June 2015, there are 334 branches in India. For foreign banks to operate in India, there are few norms RBI has set. It has to adhere to capital adequacy requirement standards as per Basel standards, minimum capital requirement of 5 billion and they have target from RBI to concentrate 40% on priority sector.

iv. Regional Rural Banks

These banks are for rural masses, they are owned by three different entities

1. Central government with 50% of share
2. State Government with 15% of share and
3. Sponsor Banks with 35% share.

The regulator for these banks are NABARD, they are governed by RRB act 1976. They need not to maintain CRR and SLR.

Regional rural banks which are nearly 77 in numbers, which used to be 200 in numbers and later got merged between them.
2. **Schedules cooperative banks**

Cooperative banks which are formed through Indian societies and registration act. The purpose and evolution of these banks has a story to tell on the societies deprived class revolution and the purpose for rejuvenating the poor segment by easing their financial accessibility. In India, the cooperative banks formed during 1904. They have already reached 67% of rural population. Their prime focus is to develop communities and take banking to all rural household. So, in this set of banks customers are the owners.

Cooperative banks in rural areas are termed as **Primary credit societies** and in Urban areas as categorized under **District Cooperative Banks, Urban Cooperative Banks** and **State cooperative Banks**

There are two categories of cooperative banks;  

1. **Rural Cooperative Banks:**

   They are further categorised into short-term and long-term structures.

   The short-term cooperative banks are **The State Cooperative Banks** – which operate at the apex level in states District, **The Central Cooperative Banks** -which operate at the district levels and **Primary Agricultural Credit Societies** – which are at the village or grass-root level.

   The long-term structures are:

   - **State Cooperative Agriculture and Rural Development Banks** (SCARDS)- which operate at state level.

   - **Primary Cooperative Agriculture and Rural Development Banks** (PCARDBS) – Which operate at district/block level.

   The rural cooperatives banks are having a complex monitoring structure as in India they have a dual control. This has led to many problems of overlap of activities. A Forum called State Level Task Force on Cooperative Urban Banks (TAFCUB) has been set-up to look into these issues related to dual controlling structure. Especially in rural banking all banking activities are regulated among RBI and NABARD. All management and registration activities are managed by RCS.
2. **Urban cooperative banks**, which are managed by registrar of cooperative societies and monitored by RBI. Under them, categorised as Multi-state and single-state banks. Majority of these banks fall in the non-scheduled and single-state category. Banking activities of Urban Cooperative Banks are monitored by RBI.

**B. Non-Scheduled Banks**

Non-scheduled banks are also called as Local Area Banks (LAB) and these banks are not under 2nd Schedule of the Reserve Bank of India Act of 1934. Also Banks with a reserve capital of less than 5 lakh rupees qualify as non-scheduled banks.

Though non-scheduled banks are having statutory norms to keep Cash reserve, they are not restricted to keep them with RBI. They can keep these reserves with themselves and maintain. Usually they are also not permitted to borrow from RBI on normal circumstance, but under abnormal circumstances, may be during emergency or “abnormal circumstances” they can seek support.

There are 5 Non-Scheduled Urban Cooperative Banks in India:

1. **Akhand Anand Co-Operative Bank Ltd**

   Akhand Anand Co-Op. Bank Ltd. Formed on 6th June, 1999 with the efforts and leadership of Popatlal Mulshankarbhai Vyas, who was former Home Minister Of Gujarat State.

2. **Alavi Co-Op Bank Ltd**, is established in Vadodara

3. **Amarnath Co-operative Bank Ltd**

4. **Amod Nagrik Sahakari Bank Ltd**

5. **Amreli Nagrik Sahakari Bank Ltd**

Along with this 4 local area banks in India which, forms under non-scheduled list of Banking as per RBI.

1. **Coastal Local Area Bank Ltd** : This bank was established on 27th December 1999. Its area of operation includes three contiguous districts viz. Krishna, Guntur and West Godavari. Its head office is located at Vijayawada in Andhra Pradesh.
2. Capital Local Area Bank Ltd: This bank was established on 14th January 2000. Its area of operation includes three districts viz. Jalandhar, Kapurthala and Hoshiarpur in Punjab. The head office is at Phagwara (Punjab).

3. Krishna Bhima Samruddhi Local Area Bank Ltd: This bank was established on 28th February 2001 with an area of operation comprising three contiguous districts of Mahbubnagar in Andhra Pradesh and Raichur and Gulbarga in the state of Karnataka with its head office at Mahbubnagar (Andhra Pradesh).

4. Subhadra Local Area Bank Ltd, Kolhapur: This is smallest Local Area Bank with only 8 branches. Its head office is in Kolhapur.

C. Apex banks

Apart from these banks, there are Apex banking institutions which are responsible for developing and regulating different segments of banks

Apex banking has 5 institutions:

1. **Reserve Bank of India** – This is a regulator of banks, provides export creditor facility and other functions for all banks. Established on 1st April 1935, is a banker to the government. Some of the important activities of RBI are; It stabilizes economic market through its monetary policies, it issues notes other than Rs.1 which is issued by ministry of finance, it acts as a custodian of cash reserve of all commercial banks, it also acts as a clearance authority of payments.

2. **NABARD** – National Bank for Agriculture and Rural Development is an apex bank with prime focus on rural development. It provides credit facilities to rural developmental activities, train personnel belonging to these activities, monitor the program etc. These activities are in coordination with state government or central governments or sometimes liaison with RBI and any other institutions where it refinances.

   NABARD has greater responsibility vested on it to develop the cottage industry, small scale industries, rural industries, developing waste lands, support self-help groups, tribal development, watershed development etc.
3. **EXIM Bank** – Export-Import Bank of India set up on 1st January 1982 by government of India. Its prime responsibility is to promote cross border trade activities to facilitate export trade. It provides, technical, managerial and administrative support for export related activities. It has a major role to play in India’s ambitious project ‘Make in India’. An important activity under this is extension of line of credit, it is presently helping Indian projects across 60 countries.

4. **National Housing Bank** – National Housing Bank, is a wholly owned subsidiary of RBI, founded on 9th July 1988. It is founded under National housing bank act 1987. It focuses on housing, housing loans, refinance for housing loans. It is terming itself as Affordable Housing Finance Companies’ (AHFCs). By 2013, there were 52 housing finance institutions registered under NHB from almost a nil number when it started. In 2008, with 38% of stakes NHB started India Mortgage Guarantee Corporation (IMGC) which is a first mortgage guarantee company in India to be registered with RBI. It is expected to bring greater depth and reach in the housing finance market in India, along with stability.

5. **SIDBI** – Supports MSE sector, refinance for banks and institutions, direct financing also. It Promotes Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. Government has 34% ownership.

### 2.5 Some important milestones of Indian banking sector

<table>
<thead>
<tr>
<th>Year</th>
<th>What Happened?</th>
</tr>
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<tbody>
<tr>
<td>1770</td>
<td>Bank of Hindustan established at Calcutta by British. Later in the year 1832 it was liquidated</td>
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<tr>
<td>1786</td>
<td>General banking of India was established</td>
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<td>1806</td>
<td>Imperial Bank of India, one of the three Presidency Banks established in Calcutta. Later on, it is renamed as Bank of Bengal in 1809 and in the year 1955 it is renamed as State Bank of India. This bank was actually established to support the funding of wars against Tipu Sultan and The Marathas when General Wellesley was Governor General of India during that time</td>
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<tr>
<td>1840</td>
<td>2nd Presidency Bank established at Bombay on 15th April, it was renamed as Bank of Bombay</td>
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<td>1843</td>
<td>3rd Presidency Bank established at Madras. It was called as Bank of Madras</td>
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<tr>
<td>Year</td>
<td>Event</td>
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<tr>
<td>1860</td>
<td>The Comptoire d’Escompte de Paris started branch in Calcutta</td>
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<tr>
<td>1863</td>
<td>Bank of Upper India established, it was the first joint stock bank in India</td>
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<tr>
<td>1865</td>
<td>Allahabad Bank started its operation in Allahabad, which is an oldest and surviving Joint Stock bank in India. Started by Europeans G. Brown, T. Moss, S. Bird and A. W. Wollaton</td>
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<tr>
<td>1869</td>
<td>HSBC bank established in Mumbai</td>
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<tr>
<td>1881</td>
<td>Oudh Bank started in Faizabad, operated entirely by Indians</td>
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<tr>
<td>1894</td>
<td>Punjab Commercial Bank (PNB), started at Lahore by efforts of few Indian Merchants - Dyal Singh Majithia and Lala Harkishan Lal, Lala Lalchand, Shri Kali Prosanna Roy, Shri E.C. Jessawala, Shri Prabhu Dayal, Bakshi Jaishi Ram, and Lala Dholan Dass who were inspired by swadeshi moment. They put their own capital. It is operating till date.</td>
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<tr>
<td>1904</td>
<td>Cooperative Banks introduced by Lord Curzon to facilitate easy credit</td>
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<td>1913 - 1917</td>
<td>Banking Crisis of 588 banks in various states, it actually started in 1863 with bankruptcy of Central bank. Non-performing asset value rose to 20% in 27 public banks. This crisis is also due to the repercussions of WW1.</td>
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<tr>
<td>1921</td>
<td>Merger of all three Imperial Banks Of India happened</td>
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<tr>
<td>1934</td>
<td>Indian Parliament passed Reserve Bank Of India Act, which gave way for RBI formation. It was Royal Commission on Indian Currency (Hilton Young Commission) recommended to establish a central bank which is termed as 'Reserve Bank of India'.</td>
</tr>
<tr>
<td>1935</td>
<td>RBI established with Headquarter in Calcutta and later moved to Bombay in 1937. Sir Osborne Smith the first Governor of the Bank. The Bank was constituted as a shareholders' bank.</td>
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<tr>
<td>Oct 1935</td>
<td>Reserve Bank set up its branch in London. Later it was closed on September 30, 1963.</td>
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<tr>
<td>15 Jan 1937</td>
<td>Indian Companies (Amendment) Act, 1936 devotes a separate chapter exclusively to Banks.</td>
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<td>1937</td>
<td>RBI becomes central bank to Burma and started issuing notes</td>
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<tr>
<td>1938</td>
<td>Reserve Bank issued first notes in India</td>
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<tr>
<td>1939</td>
<td>Introduction of Exchange Controls in India under Defense of India Rules</td>
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<tr>
<td>1940</td>
<td>RBI accounting year changed from Jan-Dec to July-June</td>
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<td>1940</td>
<td>One rupee note introduced</td>
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<td>Year</td>
<td>Event</td>
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<tr>
<td>1944</td>
<td>Security thread in noted introduced</td>
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<td>1944</td>
<td>Introduction of Bretton Woods system, to adopt monetary policy among countries. This was post WWII, countries wanted to avoid competition and devaluation of money</td>
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<td>1949</td>
<td>Reserve Bank of India is nationalized</td>
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<td>1949</td>
<td>Banking Companies Act, 1949 came into force. For the first time, Statutory Liquidity Ratio (SLR) introduced, which is required for banks to maintain its liquid assets. The Banking Companies Act was renamed as Banking Regulation Act.</td>
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<td>1950</td>
<td>Department of Banking Development created</td>
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<td>1954</td>
<td>Formation of the State Bank of India with the outcome of All-India Rural Credit Survey Committee Report</td>
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<tr>
<td>1954</td>
<td>ICICI established</td>
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<td>1955</td>
<td>1st July, 1955 State Bank of India of India formed based on recommendation of A D Gorwala committee</td>
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<tr>
<td>1956</td>
<td>Selective Credit Controls were deployed for first time.</td>
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<td>1960</td>
<td>Introduction of deposit insurance.</td>
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<td>1960</td>
<td>To have banks amalgamation, the policy of reconstruction or compulsory amalgamation of banks introduced</td>
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<tr>
<td>1962</td>
<td>Modified the policy to the licensing of new Bank Branch to have stress on 'unbanked' and 'underdeveloped' areas.</td>
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<tr>
<td>1964</td>
<td>Industrial Development Bank of India formed as wholly owned subsidiary of RBI by Act of Parliament</td>
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<tr>
<td>1966</td>
<td>12 State Cooperative Banks included in Second Schedule of RBI Act.</td>
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<tr>
<td>1969</td>
<td>14 Banks which were holding bank deposits of over s. 50 cr were Nationalised.</td>
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<tr>
<td>1969</td>
<td>Government has set up The Banking Commission to report on (i) Banking costs; (ii) legislations affecting banking; (iii) indigenous banking; (iv) bank procedures; (v) non-banking financial intermediaries.</td>
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<td>1969</td>
<td>National Institute of Bank Management (NIBM) started at Bombay</td>
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<td>1969</td>
<td>Lead Bank scheme introduced, to support credit</td>
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<td>1971</td>
<td>Deposit Insurance cover extended to cooperative banks.</td>
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<td>1971</td>
<td>State Level Bankers' Committees set up to consider problems relating to inter-bank coordination.</td>
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<tr>
<td>Year</td>
<td>Event</td>
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<tr>
<td>1980</td>
<td>Another 6 banks which are imperial banks Nationalised.</td>
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<tr>
<td>1982</td>
<td>NABARD established.</td>
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<tr>
<td>1987</td>
<td>Magnetic Ink Character Recognition (MICR) technology introduced for cheque clearing.</td>
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<tr>
<td>1988</td>
<td>SEBI established</td>
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<tr>
<td>1988</td>
<td>Maximum lending rate abolished. Banks free to charge customers according to their credit record</td>
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<tr>
<td>1993</td>
<td>Merger of New Bank Of India with PNB.</td>
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<td>1994-96</td>
<td>Core Banking System started, where bank branches are connected for better customer service anywhere and everywhere</td>
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<td>1998-99</td>
<td>Kisan Credit Card facility provided to farmers for better credit in collaboration of RBI with NABARD.</td>
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<tr>
<td>2005</td>
<td>Banking Ombudsman scheme started under Sec 35A of Banking Regulation Act 1949 by RBI</td>
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<tr>
<td>2006</td>
<td>IDBI merges with IDBI Bank, also IDBI acquired United Western Bank.</td>
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<tr>
<td>2007</td>
<td>CTS (Cheque Truncation System) or Image based Clearing System (ICS) first implemented in NCR, New Delhi by RBI, for faster clearing of cheques</td>
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<td>2008</td>
<td>IDBI Nationalised, State Bank of Saurashtra merged with SBI</td>
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<tr>
<td>2010</td>
<td>ICICI acquires Bank of Rajasthan. State Bank of Indore merged with SBI</td>
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<tr>
<td>2011</td>
<td>Rural banking inclusion scheme - Swabhiman started. The aim of the project to bring banking services to areas where population is more than 2000</td>
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<tr>
<td>2012</td>
<td>RuPay introduced by National Payments Corporation of India (NPCI) to have open domestic multilateral system of payments.</td>
</tr>
<tr>
<td>2013</td>
<td>Bhartiya Mahila Bank started in New Delhi on the occasion of 96th birth anniversary of Indira Gandhi. By starting this, India became the 3rd country in the world to have bank for women after Pakistan and Tanzania.</td>
</tr>
<tr>
<td>2014</td>
<td>Jan Dhan Yojana or Pradhan Mantri Jan Dhan Yojana scheme is for Financial Inclusion launched. 20 crore bank accounts opened 2 new banks started, Bandhan and IDFC due to new banking license policy by RBI.</td>
</tr>
<tr>
<td>2014</td>
<td>RBI allows White Label ATM operators to accept international cards</td>
</tr>
</tbody>
</table>
Reference:

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