CHAPTER –II

ORIGIN AND EVOLUTION OF BANKS

2.0 INTRODUCTION

The Indian economy is emerging as a one of the strongest economy of the world with the GDP growth of more than 8 % every year. A strongest banking industry is important in every country and can have a significant affect in supporting economic development through efficient financial services. Banking sector play a vital role in growth and development of Indian economy. After liberalization the banking industry in India under gone major changes. The process of liberalization and globalization has strongly influenced the Indian banking sector. A stable and efficient banking sector is an essential precondition to increase the economic level of a country. Liberalization policy introduced in the banking sector in India led to consolidated competition, efficient allocation of resources and introducing innovative methods for mobilizing of saving. The ability of banks to analyze its financial position for improving its competitive position in the market place. Most banks in India are currently focusing an expanding their service network. A growing Indian economy, expanding their various segments. After the recommendations of Narshinham Committee report with the entry of many private players. Indian banking industry has transformed into a customer oriented market. It now consists of multiple products and customer groups and various channels of distribution. It is well known fact that an effective and efficient banking system is important for the long-run growth and development of the economy. So, there is needed to make a comprehensive study into performance of banks in India.
A Banking Sector performs three primary functions in economy, the operation of the payment system, the mobilization of savings and the allocation of saving to investment products. Banking industry has been changed after reforms process.

The Government has taken this sector in a basic priority and this service sector has been changed according to the need of present days. Banking sector reforms in India Strive to Banking industry has been changed after reforms process. The Government has taken this sector in a basic priority and this service sector has been India Strive to Banking industry has been changed after reforms process.

The Government has taken this sector in a basic priority and this service sector has been changed according to the need of present days. Banking sector reforms in India Strive to increase efficiency and profitability of the banking institutions as well as brought the existing banking institutions face to face with global competition in globalization process. Different type of banks differs from each other in terms of operations, efficiency, productivity, profitability and credit efficiency. Indian banking sector is an important constituent of the Indian Financial System. The banking sector plays a vital role through promoting business in urban as well as rural area in recent year, without a sound and effective banking system, India cannot be considered as a healthy economy. The main objective of this study to understand of how a bank is able to use the available resources to increase the profitability and performance of banks and banks in India are performed well or not.

2.1 ORIGIN OF THE WORD BANKS

There seems no uniformity amongst the economist about the origin of the word “Bank” According to some authors the word “Bank”, itself is derived from the word “Bancus” or “Banque” that is a banch. The early bankers, the Jews in Lombardy, transacted their business on benches in the market place, when, a banker failed, his ‘Banco’ was broken up by the people; it was called ‘Bankrupt’. This etymology is however, ridiculed by McLeod on the ground that “The Italian Money changers as such were never called Banchier in the middle ages.59

It is generally said that the word "Bank" has been originated in Italy. In the middle of 12th century there was a great financial crisis in Italy due to war. To meet the war expenses, the government of that period a forced subscribed loan on citizens of the country at the interest of 5% per annum. Such loans were known as 'Compare', 'minto' etc. The most common name was 'Monte'. In Germany the word 'Monte was named as 'Bank' or 'Banke'. According to some writers, the word 'Bank' has been derived from the word bank.

It is also said that the word 'bank' has been derived from the word 'Banco' which means a bench. The Jews money lenders in Italy used to transact their business sitting on benches at different market places. When any of them used to fail to meet his obligations, his 'Banco' or banch or bench would be broken by the angry creditors. The word 'Bankrupt' seems to be originated from broken Banco. Since, the banking system has been originated from money leading business; it is rightly argued that the word 'Bank' has been originated from the word "'Banco'. Whatever be the origin of the word

'Bank‘ as Professor Ram Chandra Rao says,” It would trace the history of banking in Europe from the middle Ages.60

Today the word bank is used as a comprehensive term for a number of institutions carrying on certain kinds of financial business. In practice, the word 'Bank' means which borrows money from one class of people and again lends money to another class of people for interest or profit.

Actually meaning of bank is not specifies in any regulation or act. In India, different people have different type of meaning for bank. Normal salary earner knows means of bank that it is a saving institution, for current account holder or businessman knows bank as a financial institutions and many other. Bank is not for profit making, it creates saving activity in salary earner.

2.2 MEANING OF BANK

A Bank is an institution which accepts deposits from the general public and extends loans to the households, the firms and the government. Banks are those institutions which operate in money. Thus, they are money traders, with the process of development functions of banks are also increasing and diversifying now, the banks are not nearly the traders of money, they also create credit. Their activities are increasing and diversifying. Hence it is very difficult to give a universally acceptable definition of bank. “Banking business” means the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and includes such other business as the Authority may prescribe for the purposes of this Act’

---

2.3 DEFINITIONS OF BANK

Indian Banking Regulation act 1949 section 5 (1) (b) of the banking Regulation Act 1949 Banking is defined as.

“Accepting for the purpose of the landing of investment of deposits of money from public repayable on demand or other wise and withdraw able by cheques, draft, draft, order or otherwise.” 61

“Bank means a bench or table for changing money.” 62-Greek History

“Bank is an establishment for custody of money received from or on behalf of its customers. Its essential duty is to pay their drafts unit. Its profits arise from the use of the money left employed them.” 63-Oxford Dictionary

“Bank is an institution which traders in money, establishment for money, as also for making loans and discounts and facilitating the transmission of remittances from one place to another.” 64-Western's Dictionary

2.4 ORIGIN OF BANKING

Though commercial banking of the western type has been a recent development In India, banking as such has not been unknown to India. From the very ancient times, indigenous banking has been organized in the form of family or individual business. The indigenous bankers have been variously called as shroffs, Seths, sahukars, mahajana, and chettis etc, in different parts of the country. They vary in their size from the petty moneylenders to substantial shroffs. They lend money act as moneychangers and finance

---

64 Ibid
the internal bill of exchange. There are 3 types of indigenous banker:

(a) Those whose main business is banking;
(b) Those who combine banking business with trading and commission business; and
(c) Those who are mainly traders and commission agents but who do a little banking business as well.

The majority of indigenous bankers in India belong to the second category.

Banking on the western lines had started from the beginning of the 19-century. The first Joint Stock Bank under European Management was set up in Calcutta by the name of Bank Of Hindoostan. Later, the Bank Of Bengal, Bombay and Madras were started with the financial participation of the government of India. These banks were called the presidency banks and were given the right to issue currency notes in their regions. These three banks were later merged to form the imperial bank of India.

The first purely Indian joint stock bank was the Oudh commercial bank, which was established in 1881. The Punjab national bank in 1894 and the people’s bank in 1901 followed it. The Swadeshi movement in 1905 gave great stimulus to the starting of Indians banks. Besides, the leading industrial houses like the Tatas, the Birlas and other set up their own banking companies, but the growth of joint stock banking in India has not always been smooth. There was too many and too frequent bank failures.

The supervisions and controls of money and banking in India till 1935 were peculiar. The issue of currency was with the controller of currency but the control of commercial banking was entrusted to the imperial bank of India. With the setting up of the Reserve Bank Of India, this situation changed and RBI became the supreme monetary and banking authority in the country.
At the time of independence, there were nearly 430 large and small banks. During 1950s and 1960s, the RBI adopted a policy of compulsory merging of small banks with large ones, so as to strengthen the banking system and to protect the depository’s money. As a result, the number of banks was reduced to about 75 in mid-sixties, with the nationalization of leading 14 banks in July 1969; the banking system in India got a big boost.

2.5 BANKING IN INDIA

The organized banking system in India can be broadly be divided into 3 categories namely, the central bank of the country known as the RBI, the commercial banks and the cooperatives banks. The RBI is the supreme monetary and banking authority in the country and the responsibility to control the entire banking system in the country. It keeps the reserves of all commercial banks and hence is known as “Reserve Banks”.

Commercial banks have been in existence for many decades. They mobilize savings in urban areas and make them available to large and small industrial and trading units mainly for working capital requirements.

The regional rural banks came in to existence in the middle of 1970s with the specific objective of providing credit and deposit facilities particularly to the small and marginal farmers, agricultural labourers and artisans and small entrepreneurs.

Primary cooperative credit societies were originally set up in villages to promote thrift and savings of the farmers and to meet the credit needs of the farmers in cultivations. To support them, central or district cooperative banks and above them state cooperative banks were established.
2.5.1 Commercial Banks

Commercial Banks are the institutions, setup as per the provisions of the Banking Regulation Act, 1949. These institutions ordinarily accept deposits from the people and advances loans. They also create credit. *Scheduled banks and non-scheduled banks come in the category of Commercial Banks.*
Scheduled Banks

- Scheduled banks are listed in the second schedule of the RBI and their minimum paid-up capital and reserve fund amounts to 25 lakh.
- Every week these banks have to submit details of their activities to the RBI.

Non-scheduled Banks

- Paid-up capital of such bank is less than Rs 5 lakh, they are not listed in the second schedule of the RBI and RBI doesn’t have any functioning control over them.
- Every week these banks have to submit details of their activities to the RBI.

The scheduled commercial banks are those banks which are included in the second schedule of RBI Act 1934 and which carry out the normal business of banking such as accepting deposits, giving out loans and other banking services. The major difference between Scheduled Commercial Banks and Scheduled Cooperative Banks is their holding pattern, since cooperatives are registered under the Cooperative Societies Act as cooperative credit institutions.

Scheduled Commercial Banks can be further divided into four groups:

The Public Sector Banks are managed, controlled and owned by the Government.

- Scheduled Commercial Banks (Public Sector) : This includes:
  - SBI & Associates
  - Nationalized Banks
  - Other Public Sector Banks

- Scheduled Commercial Banks (Private Banks)
  - Old Private Banks
  - New Private Sector Banks
- Foreign Banks
- Regional Rural Banks

2.5.1.1 Scheduled Commercial Banks (Public Sector)

At present, there are 27 Public Sector Banks in India including SBI (plus its 5 associates) and 19 nationalized banks. Further, there are two banks which have been categorized by RBI as “Other Public Sector Banks”. IDBI and Bhartiya Mahila Bank come under this category.

2.5.1.1.1 State Bank of India and its Associates

State Bank of India Commercial and International Bank. State Bank of India with its around 17,000 branches and around 200 foreign offices, is India’s largest banking and financial services company by assets. With over 2 lakh employees, SBI is banker to millions of Indians. This bank got birth in the British Era. Its first parents were three presidency banks viz. Bank of Calcutta (later Bank of Bengal), Bank of Bombay and the Bank of Madras. In 1921, these three presidency banks were merged in one entity called “Imperial Bank of India”. The Imperial Bank of India was nationalized in 1955 and was renamed a State Bank of India. Thus, State bank of India is the oldest Bank of India.

State Bank of India (Subsidiary) Act was passed in 1959. As per the provisions of this Act, seven banks of the erstwhile princely states were made the subsidiary banks of SBI. They were:
Table No – 2.1

LIST OF SUBSIDIARY BANKS OF SBI

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the Banks</th>
<th>Founded in the Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>State Bank of Hyderabad(SBH)</td>
<td>1941</td>
</tr>
<tr>
<td>2.</td>
<td>State Bank of Bikaner and Jaipur (SBBJ)</td>
<td>1963</td>
</tr>
<tr>
<td>3.</td>
<td>State Bank of Mysore(SBM)</td>
<td>1913</td>
</tr>
<tr>
<td>4.</td>
<td>State Bank of Patiala(SBP)</td>
<td>1917</td>
</tr>
<tr>
<td>5.</td>
<td>State Bank of Travancore(SBT)</td>
<td>1945</td>
</tr>
<tr>
<td>7.</td>
<td>State Bank of Saurashtra (merged with SBI on 13 Aug 2008)**</td>
<td>1902</td>
</tr>
</tbody>
</table>

* Since State Bank of Indore merged with SBI subsidiary of SBI becomes Five.
**Since State Bank of Saurashtra merged with SBI subsidiary of SBI becomes Five.

- At present SBI has five subsidiary banks.
- RBI owns the majority shares of SBI and some of its associate banks.

Apart from the above, the SBI also has seven non-banking subsidiaries viz. SBI Capital Markets Ltd, SBI Funds Management Pvt Ltd, SBI Factors and Commercial Services Pvt Ltd, SBI Cards and Payments Services Pvt. Ltd. (SBICPSL), SBI Discount and Finance House of India (SBI DFHI), SBI Life Insurance Company Limited (SBI LIC) and SBI General Insurance.

2.5.1.1.2 Nationalized Banks

In order to increase the branch network, the Government of India has done the nationalization of 14 scheduled commercial banks in 1969 and 06 more in 1980. These 20 nationalized banks became 19 when New Bank of India was merged into Punjab National Bank.
There are 19 nationalized banks in India as follows:

Table No – 2.2

LIST OF THE NATIONALIZED BANKS IN INDIA

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the Banks</th>
<th>Year of established</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Allahabad Bank</td>
<td>1865</td>
</tr>
<tr>
<td>2.</td>
<td>Andhra Bank</td>
<td>1923</td>
</tr>
<tr>
<td>3.</td>
<td>Bank of Baroda</td>
<td>1908</td>
</tr>
<tr>
<td>4.</td>
<td>Bank of India</td>
<td>1906</td>
</tr>
<tr>
<td>5.</td>
<td>Bank of Maharashtra</td>
<td>1935</td>
</tr>
<tr>
<td>6.</td>
<td>Canara Bank</td>
<td>1910</td>
</tr>
<tr>
<td>7.</td>
<td>Central Bank of India</td>
<td>1911</td>
</tr>
<tr>
<td>8.</td>
<td>Corporation Bank</td>
<td>1906</td>
</tr>
<tr>
<td>9.</td>
<td>Dena Bank</td>
<td>1938</td>
</tr>
<tr>
<td>10.</td>
<td>Indian Bank</td>
<td>1907</td>
</tr>
<tr>
<td>11.</td>
<td>Indian Overseas Bank</td>
<td>1937</td>
</tr>
<tr>
<td>13.</td>
<td>Punjab &amp; Sind Bank</td>
<td>1908</td>
</tr>
<tr>
<td>14.</td>
<td>Punjab National Bank</td>
<td>1894</td>
</tr>
<tr>
<td>15.</td>
<td>Syndicate Bank</td>
<td>1925</td>
</tr>
<tr>
<td>16.</td>
<td>UCO Bank</td>
<td>1943</td>
</tr>
<tr>
<td>17.</td>
<td>Union Bank of India</td>
<td>1919</td>
</tr>
<tr>
<td>18.</td>
<td>United Bank of India</td>
<td>1943</td>
</tr>
<tr>
<td>19.</td>
<td>Vijaya Bank</td>
<td>1931</td>
</tr>
</tbody>
</table>
Bank of Punjab established in 1943 later it merged with Centurion Bank to form Centurion Bank of Punjab in 2005 which was acquired by HDFC bank Ltd in 2008. Hence it comes under the list new private sector banks in India as HDFC bank Ltd.

Further, there are two scheduled commercial banks in India, which have been classified as “other Public Sector Banks”. These are

1. IDBI 1964 (IDB Bank Ltd reverse merged with parent IDBI in 2004 to become IDBI Bank. Making this public sector bank private)
2. Bhartiya Mahila Bank (BMB) founded on 19th November 2013 by Government of India

**Place of Private Sector Banks in the Indian Banking Industry**

The private sector banks play a vital role in the Indian economy. They create healthy competition in the Indian banking industry. The following points justify their existence.

1. **Offering high degree of professional management:** The private sector banks help in introducing a high degree of professional management and marketing concept into banking. It helps the public sector banks as well to develop similar skill and technology.

2. **Creates healthy competition:** The private sector banks provide a healthy competition on general efficiency levels in the banking system.

3. **Encourages foreign investments:** The private sector banks especially the foreign banks have much influence on the foreign investment in the country.

4. **Helps to access foreign capital markets:** The private sector banks help the Indian companies and the government agencies to meet out their financial
requirements from international capital markets. This service becomes easier for them because of the presence of their head offices or other branches in important foreign centers. In this way they help a large extent in the promotion of trade and industry in the country.

5. **Helps in developing innovation and achieve expertise:** The private sector banks are always trying to innovate new product avenues (new schemes: Automated Teller Machines (ATMs), Electronic Banking (e-banking), credit cards, debit cards, other value added services etc.) and make the industry to achieve expertise in their respective fields by offering quality service and guidance. They introduce new technology in the banking service.

### 2.5.1.2 Scheduled Commercial Banks (Private Banks)

The private sector banks in India represent part of the Indian banking sector that is made up of both private and public sector banks. The “Private Sector Banks” are banks where parts of state or equity are held by the private shareholders and not by government.

Banking in India has been dominated by public sector banks since the 1969 when all major banks were nationalized by the Indian government. However, since liberalization in government banking policy in the 1990s, old and new private sector banks have re-merged. They have grown faster & bigger over the two decades since liberalization using the latest technology, providing contemporary innovations and monetary tools and techniques.

The private sector banks are split into two groups by financial regulators in India, Old Private Sector Banks and New Private Sector Banks. The old private sector banks existed prior to the nationalization in 1969 and kept their independence because they
were either too small or specialist to be included in nationalization. The new private sector banks are those that have gained their banking license since the liberalization in the 1990s.

2.5.1.2.1 Old Private Sector Banks

The banks which were not nationalized at the time of bank nationalization that took place during 1969 and 1980 are known to be the old private – sector banks. These were not nationalized, because of their small size and regional focus. Most of the old private – sector banks are closely held by certain communities their operations are mostly restricted to the areas in and around their place of origin. Their board of directors mainly consist of locally prominent personalities from trade and business circles. One of the positive points of these banks is that, they lean heavily on service and technology and as such, they are likely to attract more business in days to come with the restructuring of the industry round the corner.

There are 13 old private – sector banks in India as follows:

Table No – 2.3

LIST OF THE OLD PRIVATE – SECTOR BANKS IN INDIA

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the Banks</th>
<th>Year of established</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>City Union Bank</td>
<td>1904</td>
</tr>
<tr>
<td>2.</td>
<td>Karur Vysya Bank</td>
<td>1916</td>
</tr>
<tr>
<td>3.</td>
<td>Catholic Syrian Bank</td>
<td>1920</td>
</tr>
<tr>
<td>4.</td>
<td>Tamilnad Mercantile Bank</td>
<td>1921</td>
</tr>
<tr>
<td>S.No</td>
<td>Name of the Banks</td>
<td>Year of established</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>5.</td>
<td>Nainital Bank (wholly owned subsidiary of Bank Of Baroda)</td>
<td>1922</td>
</tr>
<tr>
<td>6.</td>
<td>Karnataka Bank</td>
<td>1924</td>
</tr>
<tr>
<td>7.</td>
<td><strong>Lakshmi Vilas Bank</strong></td>
<td>1926</td>
</tr>
<tr>
<td>8.</td>
<td>Dhanlaxmi Bank</td>
<td>1927</td>
</tr>
<tr>
<td>9.</td>
<td>South Indian Bank</td>
<td>1929</td>
</tr>
<tr>
<td>10.</td>
<td>ING Vysya Bank Merged with Kotak Mahindra Bank</td>
<td>1930</td>
</tr>
<tr>
<td>11.</td>
<td>Federal Bank</td>
<td>1931</td>
</tr>
<tr>
<td>13.</td>
<td>Ratnakar Bank Ltd</td>
<td>1943</td>
</tr>
</tbody>
</table>

Out of the above banks, the Nainital Bank is a subsidiary of the Bank of Baroda, which has 98.57% stake in it. Some other old generation private sector banks in India have merged with other banks. For example, Lord Krishna Bank merged with Centurion Bank of Punjab in 2007; Sangli Bank merged with ICICI Bank in 2006; Centurion Bank of Punjab merged with HDFC in 2008.

### 2.5.1.2.2 New Private Sector Banks

The new private sector banks were incorporated as per the revised guidelines issued by the RBI regarding the entry of private sector banks in 1993. At present, there are seven new private sector banks as follows:
Table No – 2.4

LIST OF THE NEW PRIVATE – SECTOR BANKS IN INDIA

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the Banks</th>
<th>Year of established</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Axis Bank (earlier UTI Bank)</td>
<td>1994</td>
</tr>
<tr>
<td>2.</td>
<td>Development Credit Bank (DCB Bank Ltd)</td>
<td>1930</td>
</tr>
<tr>
<td>3.</td>
<td>HDFC Bank</td>
<td>1994</td>
</tr>
<tr>
<td>4.</td>
<td>ICICI Bank</td>
<td>1996</td>
</tr>
<tr>
<td>5.</td>
<td>IndusInd Bank</td>
<td>1994</td>
</tr>
<tr>
<td>7.</td>
<td>Yes Bank</td>
<td>2003</td>
</tr>
</tbody>
</table>

Note: In addition to the above banks, RBI has given banking license to two financial institutions *IDFC* and *Bandhan Bank* which are about to begin their operations. *Bandhan* started its banking operations from 23 Aug 2015. *IDFC* started its banking operations from 01 Oct 2015.

2.5.1.3 Foreign Banks

New private banks provide high level of modern customer services. Foreign banks are those banks whose headquarters are situated in foreign countries. As of December 2014, there are 43 foreign banks from 26 countries operating as branches in India and 46 banks from 22 countries operating as representative offices in India. Most of the foreign banks in India are niche players. Earlier these banks used to restrict their activities primarily to foreign exchange and so they were called Foreign Exchange Banks. But now they are performing all sorts of banking functions and are now called as
Foreign Banks. RBI policy towards presence of foreign banks in India is based upon two cardinal principles viz. reciprocity and single mode of presence.

2.5.1.4 Regional Rural Banks

RRBs fill the credit gaps left by the cooperative banks and public sector banks in the rural credit demand. Regional Rural Banks were started in 1970s due to the fact that even after nationalization, there were cultural issues which made it difficult for commercial banks, even under government ownership, to lend to farmers. Their Main function was to provide financial help to small and marginal farmers and rural workers in order to develop rural economy. RRB’s are owned by Central government, State Government and the sponsor/founder banks in the ratio 50:15:35 and are regulated by National Agriculture and Rural Development Bank (NABARD).

2.6 EVOLUTION OF BANKING IN INDIA

The origin of western type commercial Banking in India dates back to the 18th century. The story of banking starts from Bank of Hindustan established in 1770 and it was first bank at Calcutta under European management. It was liquidated in 1830-32. From Bank of Hindustan in 1770, the evolution of banking in India can be divided into three different periods as follows:

- Phase I: Early phase of primitive Indian banks to Nationalization of Banks in 1969
- Phase II: From Nationalization of India banks in 1969 up to advent of liberalization and banking reforms in 1991
- Phase III: From Indian Financial and Banking Sector Reforms 1991 onward
In 1786 General Bank of India was set up.

Since Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, it became a banking center. Three Presidency banks were set up under charters from the British East India Company- Bank of Calcutta, Bank of Bombay and the Bank of Madras. These worked as quasi central banks in India for many years.

The Bank of Calcutta established in 1806 immediately became Bank of Bengal. In 1921 these 3 banks merged with each other and Imperial Bank of India got birth. Imperial Bank of India was later renamed in 1955 as the State Bank of India. Thus, State bank of India is the oldest Bank of India.

In 1839, there was a fruitless effort by Indian merchants to establish a Bank called Union Bank. It failed within a decade. Next came Allahabad Bank which was established in 1865 and working even today. The oldest Public Sector Bank in India having branches all over India and serving the customers for the last 145 years is Allahabad Bank. Allahabad bank is also known as one of India’s Oldest Joint Stock Bank. However, the Oldest Joint Stock bank of India was Bank of Upper India established in 1863 and failed in 1913.

The first Bank of India with Limited Liability to be managed by Indian Board was Oudh Commercial Bank. It was established in 1881 at Faizabad. This bank failed in 1958. The first bank purely managed by Indians was Punjab National Bank, established in Lahore in 1895. The Punjab national Bank has not only survived till date but also is one of the largest banks in India.
However, the first Indian commercial bank which was wholly owned and managed by Indians was Central Bank of India which was established in 1911. So, Central Bank of India is called India’s First Truly Swadeshi bank.

2.6.1 Indian Banking after Independence

India got independence in the year 1947, but banking sector at that time was not only quite small but was also extremely weak. The banks were mostly confined to urban areas, and loans were mostly extended to trading sector dealing with agricultural produce etc. There was hardly any penetration of the commercial banks in rural and semi-urban areas.

After independence, with the advent of Five Year Plans, it was felt that the private banks are not extending the kind of cooperation needed for upliftment of the rural economy. Based on the recommendations of All India Rural Credit Survey Committee’s report submitted in 1954, the first Public Sector Bank under the banner of State Bank of India was established on 1st July, 1955, by acquiring the substantial part of the share capital by RBI, of the then Imperial Bank of India. It was established with the objective of "extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for diverse other public purposes". Later on during the period 1956-59, the seven associate banks of State Bank of India came into existence as a result of the re-organization of Princely States.

With Mrs. Indira Gandhi coming to power in 1966, the Scheme of Social Control of Banks was introduced in February, 1966. It was felt that private Banks are a mere tool in the hands of leading industrial houses and were not extending the credit facilities to the farmers, small entrepreneurs, transporters, professionals and self-employed etc. However,
this scheme could not deliver the desired results and thus on 19th July, 1969, the Government of India, promulgated Banking Companies (Acquisition and Transfer of Undertaking) Ordinance and acquired 14 commercial banks. Later on in 1980, six more banks were nationalised. Thus, government effectively bought about 91 per cent of the total deposits, and 84 per cent of the advances under public sector fold.

The period between 1969 and 1984, saw massive branch expansion by Public sector banks covering rural and semi urban areas. However, this resulted in erosion of the assets of the banking sector, increase in NPAs and lower profitability. Thus begin the consolidation phase from 1985, which witnessed the stress on better customer services, improved house-keeping of the branches etc. This phase is marked by strict regulations by RBI in terms of the branch expansion, interest rates etc.

A high level committee chaired by Shri. M.Narasimham, was set up in 1991 and submitted its report in 1992, which laid the foundation for the banking sector reforms. Subsequently, the RBI came out with vital measures based on the recommendations of the committee to enhance the viability and efficiency of the banking sector.

With a view to overcoming several weaknesses that had crept into the system over the years and with a view to creating a strong, competitive and vibrant banking system, several measures were initiated.

First, the banking system was strengthened by introducing prudential norms, which were subsequently tightened in line with international best practices.

Second, competition in the banking sector was enhanced by allowing entry of new private sector banks and enhanced presence of foreign banks. Foreign direct investment in private sector banks was also allowed up to 74 per cent.
Third, public sector banks were allowed to access the capital market and also provided with operational flexibility and functional autonomy.

Fourth, the system of administered interest rates was almost dismantled and pre-emption in the form of reserve requirements was reduced.

Fifth, the supervisory system was revamped in view of its crucial role in the creation of a sound banking system.

Sixth, corporate governance practices and disclosure standards were strengthened.

Seventh, regional rural banks, urban co-operative banks and rural co-operatives were also strengthened.

The Indian banking system is currently passing through a crucial phase. Although the banking sector has become strong, competitive, dynamic and resilient, it is faced with several newer challenges as a result of macroeconomic and financial sector developments, both domestic and global.

2.6.2 Future of Indian Banking

The Reserve Bank of India in its 'road map' for the banking industry has indicated that the Indian market will be opened for international banks by in nearer future. It is expected that many foreign banks would gain entry in the Indian markets to tap the vast potential that exists today. These banks with the help of advanced technology, adequate capital for investment, and their customer centric approach will be able to attract the profitable customers from the existing banks.
A fierce competition between the existing banks and the new entrants is likely to provide impetus for business growth. To effectively meet the competitive challenges from such banks, the Indian banking industry will have to gear up and adopt the global best practices, which make them stronger and comparable with the international banks.

The new foreign banks entering the Indian market will strive for creating a strong customer base. These banks with their large resources availability in the form of capital are likely to infuse the latest Income Tax (IT) based technological solutions for quality financial services. The Indian commercial banks have experienced the shift of preference of the new generation customers from 'personalized banking' to 'technological banking'. This techno-savvy customer groups prefers to complete banking transactions from their home or offices rather than visiting the bank branch.

They have very little loyalty to their bankers and given a slightest improved technology to shift their banking needs from the existing to another bank. In the face of the threat of losing profitable customers to the new entrants in the banking sector, the existing commercial; banks will have to evolve suitable market strategies aimed at attracting the existing ones.