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THE EMERGENCE OF BANKING IN INDIA

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ABSTRACT Banking is today an integral part of our everyday life: At home, at school, at office, at business, on travel everywhere we counter some aspect of banking. The significance of banking in our day to day life is being felt increasingly. What are the institutions, so inevitable in the present day set up? How do they transact? How did the concept emerge? These are some of the simple queries that do not surface in our minds but are lurking deep down. Money plays a dominant role in today's life. Forms of money have evolved from coin to paper currency notes to credit cards. Commercial transactions have increased in content and quantity from simple banker to speculative intemational trading. Hence the need arose for a third party who will assist smooth banding of transaction, mediate between the seller and buyer, hold custody of money and goods, remit funds and also to collect proceeds. He was the "banker". As the number of such mediators grew there is need to control. Such mediating agencies gave birth to the concept of "banks" and "banking". With the exception of the extremely wealthy, very few people buy their homes in all cash transactions. Most of us need a credit in form of loans, to make such a large purchase. In fact, many people need financial support from Bank to fulfil the financial requirement. The world as we know it wouldn't run smoothly without credit and banks to issue it. In this article we'll, explore the birth of this flourishing industry.

KEYWORDS : currency, money, commercial banking, liberalization, nationalization

Banking System in India

The banking history is interesting and reflects evolution in trade andcommerce. It also throws light on living style, political and cultural aspects ofcivilized mankind. The strongest faith of people has always been religion and God. The seat of religion and place of Worship were considered safe place for money and valuables. Ancient homes didn't have the benefit of a steel safe, therefore, most wealthy people held accounts at their temples. Numerous people, like priests or temple workers were both devout and honest, always occupied the temples, adding a sense of security. There are records from Greece, Rome, Egypt and Ancient Babylon that suggest temples loaned money out, in addition to keeping it safe. The fact that most temples were also the financial centers of their cities and this is the major reason that they were ransacked during wars. The practice of depositing personal valuables at these places which were also functioning as the treasuries in ancient Babylon against a receipt was perhaps the earliest form of "Banking". Gradually as the personal possession got evaluated in term of money, in form of coins made of precious metal like gold and silver, these Were being deposited in the temple treasuries. As these coins were commonly accepted form of wealth, 'lending' activity to those who needed it and were prepared to 'borrow' at an interest began. The person who conducted this 'lending' activity was known as the "Banker" because of the bench he usually set. It is also observed that the term 'bankrupt' got evolved then as the irate depositors broke the bench and table of the insolvent banker. With the expansion of trade the concept of banking gained greater ground. The handling of "banking" transcended from individual to groups to companies. Issuing currency was one of the major functions of the banks. The earliest from of money — coins, were a certificate of value stamped on a metal, usually gold, silver, and bronze or any other metal, by an authority, usually the king. With the increasing belief and faith in such authority of their valuation and the necessities of wider trade a substitute to metal was found in paper. The vagaries of monarchial rule led to the issues of currency being vested with the banks since they enjoyed faith, controlled credit andtrading. All forms of money were a unit of value and promised to pay the bearer of specified value. Due to failure on account of unwise loans, to rule and organize, a stable banking system arose. The word's earliest bank currency notes were issued in Sweden by stock holms Banco in July 1661.

History of Banking in India

The story of Indian coinage itself is very vast and fascinating, and also throws tremendous light on the various aspects of life during different periods. The Rig Veda speaks only gold, silver copper and bronze and the later Vedic texts also mention tin, lead, iron and silver. Recently iron coins were found in very early levels at Attranji Kheri(U.P.) and Pandu Rajar Dhibi (Bengal). A money economy existed in India since the days of Buddha.In ancient India during the Maurya dynasty (321 to l85 BC), an instrument called adesha was in use, which was an order on a banker desiring him to pay the money of the note to a third person, which corresponds to the definition of a bill of exchange as we understand it today. During the Buddhist period, there was considerable use of these instruments. Merchants in large towns gave letters of credit to one another. Trade guilds acted as bankers, both receiving deposits and issuing loans. The larger temples served as bankers and in the south the village communities economically advanced loans to peasants. There were many professional bankers and moneylenders like the sethi, the word literally means "chief". It has survived in the North India as seth. Small purchases were regularly paid for in cowry shells (varataka), which remained the chief currency of the poor in many parts of India. Indigenous banking grew up in the form of rural money lending with certain individuals using their private funds for this pulpose. The scriptures singled out the vaishyas as the principal bankers. The earliest form of Indian Bill of Exchange was called "Hundi". Expolts and import were regulated by barter system. Kautilya's Arthasastra mentions about a currency known as panas and even fines paid to courts were made by panas. E. B. Havell in his work: The History of Aryas Rule in India says that Muhammad Tughlaq issued copper coin as counters and by an imperial decree made them pass at the value of gold and silver. The people paid their tribute in copper instead of gold, and they bought all the necessaries and luxuries they desired in the same coin. However, the Sultan's tokens were not accepted in counties in which his decree did not run. Soon the whole extemal trade of Hindustan come to a standstill. When as last the copper tankas had become more worthless than clods, the Sultan in a rage repealed his edict and proclaimed that the treasury would exchange gold coin for his copper ones. As a result of this thousands of men from various quarters who possessed thousand of these copper coins bought them to the treasury and received in exchange gold tankas. The origin of the word "rupee" is found in the Sanskrit rupya "shaped; stamped, impressed; coin" and also from the Sanskrit word "rupa" meaning silver. The standardisation of currency unit as Rupee in largely due to Sher Shah in 1542. The English traders that came to India in the 17th century could not make much use of the of indigenous bankers, owing to their ignorance of the language as well the inexperience indigenous people of the European trade. Therefore, the English Agency Houses in Calcutta and Bombay began to conduct banking business, besides their commercial business, based on unlimited liability. The Europeans with aptitude of commercial pursuit, who resigned from civil and military services, organized these agency houses. A type of business organization recognizable as managing agency took form in a period from 1834 to 1847. The primary concern of these agency houses was trade, but they branched out into banking as aside line to facilitate the operations of their main business. The English agency houses, that began to serve as bankers to the East India Company had no capital of their own, and depended on deposits for their funds. They financed movements of crops, issued paper money and established joint stock banks. Earliest of these was Hindusthan Bank, established by one of the agency houses in Calcutta in 1770. Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1790; both are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency banks acted as quasi-central banks, as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India. Indian merchants in Calcutta established the Union Bank in 1839, but it failedin 1848 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India. Foreign banks too started to arrive, particularly in Calcutta, in the 1860s. The Comptoire d'Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French colony, followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking centre. The next was the Punjab National Bank, established in Lahore in 1895, which has survived to the present and is now one of the largest banks in India. The presidency banks dominated banking in India but there were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally undercapitalized and lacked the experience and maturity to compete with the presidency and exchange Swadeshi Movement The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political leaders to found banks for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India. Ammembal Subbarao Pai founded “Canara Bank Hindu Permanent Fund” in l906. Central Bank of India was established in 1911 by Sir Sorabji Pochkhanawala and was the first commercial Indian bank completely owned and managed by Indians. In 1923, it acquired the Tata Industrial Bank. The fervour of Swadeshi movement lead to establishing of many private banksin Dakshina Kannadaand Udupi district which were unified earlier and known by the name South Canara (South Kanara)district. Four nationalized banks started in this district and also a leading private sector bank. Hence, undivided Dakshina Kannada district is known as “Cradle of Indian Banking".

Role of banking sector after Freedom.

The second milestone in history of Indian banking was India becoming a sovereign republic. The Govemment of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance. The banking sector also witnessed the benefits; Govemment took major steps in this Indian Banking Sector Reform after independence.First major step in this direction was nationalization of Reserve Bank in 1949.Enactment of Banking Regulation Act in 1949Reserve Bank of India Scheduled Banks' Regulations, 1951.Nationalization of Imperial Bank of India in 1955, with extensive bankingfacilities on a large scale especially in rural and semi-urban areas.

Nationalization of SBI subsidiaries in 1959.

Govemment of India took many banking initiatives. These were aimed to provide banking coverage to all section of the society and every sector of the economy. The Industrial Credit and Investment Corporation of India Limited (ICICI) was incorporated at the initiative of World Bank, the Government of India and representatives of Indian industry, with the objective of creating a development financial institution for providing medium-term and long-term project financing to Indian businesses.

Process of nationalisation

Nationalization of banks in India was an important phenomenon. Despite theprovisions, control and regulations of Reserve Bank of India, banks in India except the State Bank of India or SBI, continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. Indira Gandhi, then Prime Minister of India, expressed the intention of the Govemment of India in the annual conference of the All India Congress Meeting in a paper entitled "Stray thoughts on Bank Nationalization. "The meeting received the paper with enthusiasm. Thereafter, her move was swift and sudden. The Govemment of India issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Govemment of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. Currently there are 27 nationalized commercial banks.

Liberalization in banking

The second major tuming point in this phase was Economic Liberalization in India. After Independence in 1947, India adhered to socialist policies. The extensive regulation was sarcastically dubbed as the "License Raj". The Government of India headed by Narasimha Rao decided to usher in several reforms that are collectively tenned as liberalization in the Indian media with Manmohan Singh whom he appointed Finance Minister. Dr. Manmohan Singh, an acclaimed economist, played a central role in implementing these reforms.In the early l990s, the then Narasimha Rao government embarked on a policyof liberalization, licensing a small number of private banks. These came to be known as New Generation tech-sawy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank(earlier as UTI Bank),ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks. Currently (2007), banking in India is generally fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the govemment. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate-and this has mostly been true. With the growth in the Indian economy expected to be strong for quite some time-especially in its services sector-the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong.

Conclusion

Banks have come a long way from the temples of the ancient world, but their basic business practices have not changed. Banks issue credit to people who need it, but demand interest on top of the repayment of the loan. Although history has altered the fine points of the business model, a bank's purpose is to make loans and protect depositors' money. Even if the future takes banks completely off your street corner and onto the intemet, or has you shopping for loans across the globe, the banks will still exist to perform this primary function.

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