Government College of Commerce, Vadali

Accountancy Department

Notice regarding project work

Date : 21/06/2019

Therefore, to inform all the students studying in the college that as per the instruction of the Principal, the students of each semester are required to do '**Project Work**' during the Academic Year : 2019-2020. This year the college has to do project work on the below mentioned subject during the first year and submit the project to the college on the scheduled date.

Project Topic	: **'History of World and Indian Banking'**
Last date of registration for the project	: **30/06/2019**
Project Commencement Date	: **01/07/2019**
Project Submission Date	: **30/09/2019**

Rules:

1) Project work is a team project, which must have a maximum of **five (05)** students and a minimum of **four (04)** students.
2) A team can be formed whether the members participating in the project are from the same semester or from different semesters.
3) No students' names will be accepted for project work after the last date of registration for the project.
4) The project has to be completed within the stipulated time limit.
5) Projects will not be accepted after the stipulated time.
6) The project within the stipulated time limit will be evaluated by the team decided by the college.
7) Students of first selected project will be felicitated with certificate and trophy in college annual festival.
8) Second and third ranked project students will be felicitated with certificate in college annual festival.
9) The students of the second ranked project will be given a certificate of participation in the project.
10) **Prof. Shaileshkumar S. Baria** is Present Project Guide.
11) All project related information and guidance given by **Prof. Shaileshkumar S. Baria.**

Principal
Government College of Commerce, Vadali
At. Vadali, Dist : Sabarkantha

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Education Department

Affliated with

HEMCHANDRACHARYA NORTH GUJARAT UNIVERSITY, PATAN

PROJECT WORK

ACADEMIC YEAR : 2019-2020

Name of Project: The History of World & Indian Banking
Name of Concern Subject : Economics & Commerce

List of Participant for Project Work

Sr. No.	Name of Student	Semester	Roll No.	Remarks/ Signature
1	Hemangi Ashokbhai Patel	B.Com. Sem-5	14	Hemangi
2	Aarti Kantilal Soni	B.Com. Sem-5	27	
3	Lisaparvin M. Shekh	B.Com. Sem-5	24	
4	Riddhiben P. Soni	B.Com. Sem-5	28	
5	Falguni Jitendraprasad Vaishnav	B.Com. Sem-1	30	Falguni

Project Guide

GOVT. COMMERCE COLLEGE VADALI DIST.S.K. GUJARAT

Principal

Principal
Govt. Commerce College
Vadali, Dist.Sabarkantha

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PROJECT WORK

ACADEMIC YEAR : 2019-2020

Full Name of Student: HEMANGI ASHOKBHAI PATEL

Semester: 5 **Roll No.** 14 **Subject:** ECONOMICS & COMMERCE

Name of Project: History of Banking in India

CONTENTS

Sr No.	Project Topics	Date of Submission	Marks Obtained	Remarks/ Signature
1	History of Banking in India	30-09-2019	-	

Certificate

This is to certify that Mr/Ms. HEMANGI ASHOKBHAI PATEL has satisfactorily completed the Project Work/Assignment prescribed by the PROF. SHAILESH S. BARIA DR. GURUPRAKASH Z. SINGH in the Academic Year : 2018-2019

Verified By

Guide-1 Signature

Guide-2 Signature

GOVERNMENT COMMERCE COLLEGE, VADALI

ACADEMIC YEAR : 2019-2020

PROJECT WORK

HISTORY OF BANKING IN INDIA

Banking in India forms the base for the economic development of the country. Major changes in the banking system and management have been seen over the years with the advancement in technology, considering the needs of people.

The History of Banking in India dates back to before India got independence in 1947 and is a key topic in terms of questions asked in various Government exams. In this article, we shall discuss in detail the evolution of the banking sector in India.

The banking sector development can be divided into three phases:

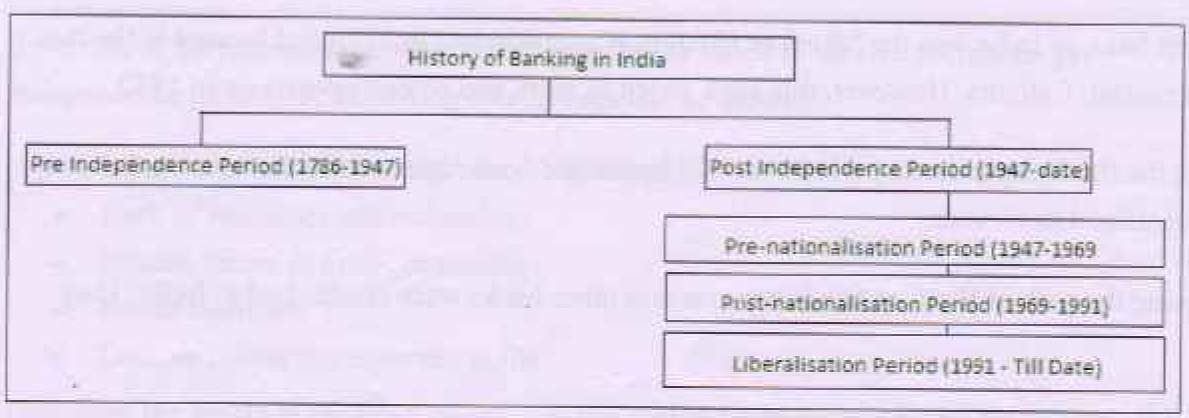
Phase I: The Early Phase which lasted from 1770 to 1969

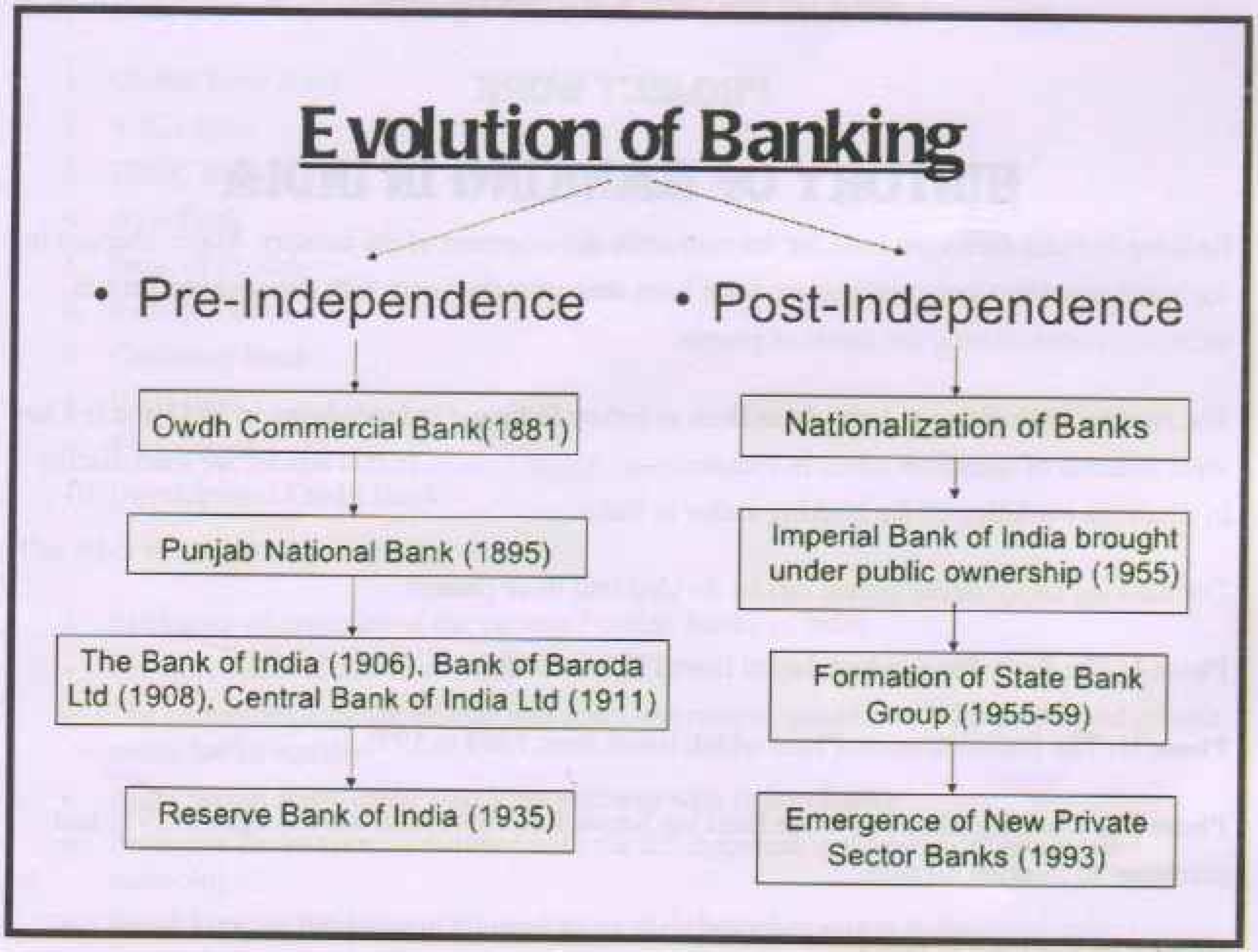
Phase II: The Nationalisation Phase which lasted from 1969 to 1991

Phase III: The Liberalization or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date

History of Banking in India

Given below is a pictorial representation of the evolution of the Indian banking system over the years:





Pre Independence Period (1786-1947)

The first bank of India was the "*Bank of Hindustan*", established in 1770 and located in the then Indian capital, Calcutta. However, this bank failed to work and ceased operations in 1832.

During the Pre Independence period over 600 banks had been registered in the country, but only a few managed to survive.

Following the path of Bank of Hindustan, various other banks were established in India. They were:

- The General Bank of India (1786-1791)
- Oudh Commercial Bank (1881-1958)
- Bank of Bengal (1809)

- Bank of Bombay (1840)
- Bank of Madras (1843)

During the British rule in India, The East India Company had established three banks: Bank of Bengal, Bank of Bombay and Bank of Madras and called them the Presidential Banks. These three banks were later merged into one single bank in 1921, which was called the "*Imperial Bank of India.*"

The Imperial Bank of India was later nationalized in 1955 and was named The State Bank of India, which is currently the largest Public Sector Bank.

Given below is a list of other banks which were established during the Pre-Independence period:

Pre-Indepence Banks in India	
Bank Name	**Year of Establishment**
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Central Bank of India	1911
Canara Bank	1906
Bank of Baroda	1908

If we talk of the reasons as to why many major banks failed to survive during the pre-independence period, the following conclusions can be drawn:

- Indian account holders had become fraud-prone
- Lack of machines and technology
- Human errors & time-consuming
- Fewer facilities
- Lack of proper management skills

Following the Pre-Independence period was the post-independence period, which observed some significant changes in the banking industry scenario and has till date developed a lot.

Post-Independence Period (1947-1991)

At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance.

With an aim to solve this problem, the then Government decided to nationalize the Banks. These banks were nationalized under the Banking Regulation Act, 1949. Whereas, the Reserve Bank of India was nationalized in 1949.

Candidates can check the list of Banking sector reforms and Acts at the linked article.

Following it was the formation of State Bank of India in 1955 and the other 14 banks were nationalized between the time duration of 1969 to 1991. These were the banks whose national deposits were more than 50 crores.

Given below is the list of these 14 Banks nationalized in 1969:

1. Allahabad Bank
2. Bank of India
3. Bank of Baroda
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank
7. Dena Bank
8. Indian Overseas Bank
9. Indian Bank
10. Punjab National Bank
11. Syndicate Bank
12. Union Bank of India
13. United Bank
14. UCO Bank

In the year 1980, another 6 banks were nationalized, taking the number to 20 banks. These banks included:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Comm.
5. Punjab & Sind Bank

6. Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalized in 1959:

1. State Bank of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner & Jaipur
4. State Bank of Mysore
5. State Bank of Travancore
6. State Bank of Saurashtra
7. State Bank of Indore

All these banks were later merged with the State Bank of India in 2017, except for the State Bank of Saurashtra, which merged in 2008 and State Bank of Indore, which merged in 2010.
Note: The Regional Rural Banks in India were established in the year 1975 for the development of rural areas in India. Candidates can get the list of RRBs in India at the linked article

Impact of Nationalization

There were various reasons why the Government chose to nationalise the banks. Given below is the impact of Nationalizing Banks in India:

- This lead to an increase in funds and thereby increasing the economic condition of the country
- Increased efficiency
- Helped in boosting the rural and agricultural sector of the country
- It opened up a major employment opportunity for the people
- The Government used profit gained by Banks for the betterment of the people
- The competition decreased, which resulted in increased work efficiency

This post Independence phase was the one that led to major developments in the banking sector of India and also in the evolution of the banking sector.

Liberalization Period (1991-Till Date)

Once the banks were established in the country, regular monitoring and regulations need to be followed to continue the profits provided by the banking sector. The last phase or the ongoing phase of the banking sector development plays a hugely significant role.

To provide stability and profitability to the Nationalized Public sector Banks, the Government decided to set up a committee under the leadership of Shri. M Narasimham to manage the various reforms in the Indian banking industry.

The biggest development was the introduction of Private sector banks in India. RBI gave license to 10 Private sector banks to establish themselves in the country. These banks included:

1. Global Trust Bank
2. ICICI Bank
3. HDFC Bank
4. Axis Bank
5. Bank of Punjab
6. IndusInd Bank
7. Centurion Bank
8. IDBI Bank
9. Times Bank
10. Development Credit Bank

The other measures taken include:

- Setting up of branches of the various Foreign Banks in India
- No more nationalization of Banks could be done
- The committee announced that RBI and Government would treat both public and private sector banks equally
- Any Foreign Bank could start joint ventures with Indian Banks
- Payments banks were introduced with the development in the field of banking and technology
- Small Finance Banks were allowed to set their branches across India
- A major part of Indian banking moved online with internet banking and apps available for fund transfer

Thus, the history of banking in India shows that with time and the needs of people, major developments have been brought about in the banking sector with an aim to prosper it.

Hemangi Ashokbhai Patel
B.Com. Semester-5
Roll No. 14

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shaiv

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PROJECT WORK

ACADEMIC YEAR : 2019-2020

Full Name of Student: Aarti Kantilal Soni

Semester: 5 **Roll No.** 27 **Subject:** Economics & Commerce

Name of Project: History of Banking in India

CONTENTS

Sr No.	Project Topics	Date of Submission	Marks Obtained	Remarks/ Signature
1	History of Banking in India	30-09-2019		

Certificate

This is to certify that Mr/Ms. Aarti Kantilal Soni has satisfactorily completed the Project Work/Assignment prescribed by the PROF SHAILESH. S. BAFNA in the Academic Year : 2018-2019

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UNIVERSITY, PATAN

PROJECT WORK

ACADEMIC YEAR : 2019-2020

Full Name of Student: Lisaparvin M. Shekh
Semester: Sem-5 **Roll No.** 24 **Subject:** Economics & Commerce
Name of Project: History of Banking in India

CONTENTS

Sr No.	Project Topics	Date of Submission	Marks Obtained	Remarks/ Signature
	History of Banking in India	30-09-2019		

Certificate

This is to certify that Mr/Ms. Lisaparvin M. Shekh has satisfactorily completed the Project Work/Assignment prescribed by the Prof. Shailesh S. Baria & Dr. Guruprakash Z. Singh in the Academic Year : 2018-2019

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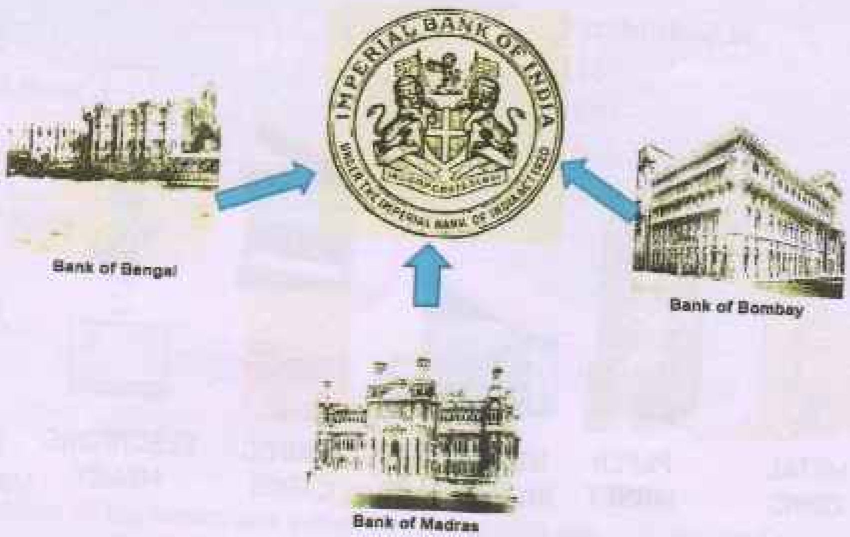
GOVERNMENT COMMERCE COLLEGE, VADALI

ACADEMIC YEAR : 2019-2020

PROJECT WORK

HISTORY OF BANKING IN INDIA



History of banking in India is one of the key concepts as far as practical purposes and competitive exams are concerned. Besides, History of Banking in India also acts as a foundation for the economic development of the nation. Over the years, there have been major changes in the banking system and management along with advancements considering the banking needs of the people. History of Banking in India is important concept for banking awareness topics in Banks exam

- Banking services have been in existence in India since ancient times. However, the history of banking in India traces back to 1947 when India got independence.
- Although it was not in an organized form before the Britishers, various banking activities would be carried out.
- After the Britishers entered in the 17th century, the foreign banking structure started declining. Mayer's Alexander and Company set up the first European Bank, that is, the Bank of Hindustan in 1770.

For bank exams purposes, the development and the history of banking in India can be understood better through the following sections. Let us learn more about the topic as far as the origin, development, stages of evolution, and reforms are concerned

- The pre-independence stage has seen some more important events as the phase marked the presence of more than 600 banks.
- The banking system in India began with the establishment of the Bank of Hindustan in 1771, but it shut its operations by 1832
- The phase also witnessed the alliance of 3 major banks, that is, Bank of Bengal, Bank of Bombay, and Bank of Madras. These banks were amalgamated to be called the Imperial Bank. The State Bank of India (SBI) took over the Imperial Bank in 1955

The following banks were established during this period:

Bank Name	Established in
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Bank of Baroda	1908
Central Bank of India	1911

History of Banking Post - Independence Phase - (Between 1947 to 1991)

- Nationalization of the banks was a major event to take place during this phase.
- The Reserve Bank of India (RBI) was nationalized on 01st January 1949
- Apart from nationalization of banks, various Regional Rural Banks (RRBs) were formed as well on 02nd October 1975

Nationalization & Its Impacts

Nationalization is the transferring of public sector assets to be operated or owned by the central or the state government. In India, the banks that were previously functioning under the privacy sector were transferred to the public sector by the act of nationalization. Thus, the nationalized banks came into existence. The nationalization of banks brought about the following benefits to the banking industry as well as the economic growth of the country:

- Increased levels of efficiency in the banking system
- Boosted confidence of the masses in the banks
- Growth in the small scale industries leading to increase in funds and economic growth
- Increased penetration of the banks with motive transitioning from profit to service, especially in the rural areas
- Stabilization of costs as essential goods supply increased
- Competition alleviation and increase in the working efficiency and performance of the banks

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Following banks were nationalized during that phase:

Name of the Banks	
Allahabad Bank	UCO Bank
Bank of India	Union Bank
Central Bank of India	United Bank of India
Canara Bank	Bank of Baroda
Indian Bank	Bank of Maharashtra
Punjab National Bank	Dena Bank
Syndicate Bank	Indian Overseas Bank

The following banks having reserves more than INR 200 crore of reserves were nationalized on 15th April, 1980:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Commerce
5. Punjab and Sind Bank
6. Vijaya Bank

Besides the above-mentioned banks, 7 of the subsidiaries of the SBI were nationalized in 1959. These include:

1. State Bank of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner & Jaipur
4. State Bank of Mysore
5. State Bank of Travancore
6. State Bank of Saurashtra
7. State Bank of Indore

The above banks were later merged with the SBI in 2017, except for the State Bank of Saurashtra. It was merged in 2008 and the State Bank of Indore merged in 2010.

History of Banking in India Liberalization- Present Scenario

The structure of banking in India has been broadly divided into organized sectors and unorganized sectors. Organized sector comprises the RBI, commercial banks, cooperative banks, and specialized financial institutions like the ICICI, IFC, etc. The unorganized sector is the one that is not regulated by the government or the RBI. Such bodies are highly vulnerable towards fraud and instability. Let's look into the structure of banking in India in more detail in the below section:

Scheduled Banks

Scheduled banks are those which are included in the second schedule of the RBI Act of 1934. In order to be registered as a scheduled bank, it must satisfy the following conditions:

- Paid-up capital and collected funds should not be less than INR 5 lakhs
- Any activity of the bank should not be detrimental or adversely affect the customers' interests.

Four types of scheduled commercial banks are:

1. Public sector banks
2. Private sector banks
3. Foreign banks
4. Regional Rural banks

Non Scheduled Banks

They are described as "a banking company as defined in clause C of section 5 of the Banking Regulation Act, 1949 (10 of 1949) which is not a scheduled bank." RBI is the central bank of the nation and all the banks in India are required to follow the guidelines issued by the RBI.

History of Banking in India - Reforms

After the successful establishment of the banks in the country, they would require regular monitoring and regulations in order to derive maximum profits within the banking sector. The government passed a resolution to set up a committee under the leadership of Shri M. Narasimham in order to manage the reforms in the Indian banking sector. The committee was also in-charge to provide stability and profitability to the nationalized public sector banks. The most remarkable development in the Indian banking sector was the introduction of private sector banks. Subsequently, the RBI issued licences to the following 10 private sector banks for establishment:

Name of the Banks	
Global Trust Bank	ICICI Bank
HDFC Bank	Axis Bank
Bank of Punjab	IndusInd Bank
Centurion Bank	IDBI Bank
Times Bank	Development Credit Bank

Other Important measures include:

- Setting up new branches of several foreign banks in India
- The act of nationalization of banks came to a halt
- It was decided to treat both public and private sector banks in one and the same manner by the RBI as well as the government
- Foreign banks permitted to start joint ventures with Indian banks
- With the advent of digital banking, payments banks were introduced in the country
- Small finance banks would be able to set up their branches anywhere in India
- Digital banking made more prominent with various banking apps available for funds transfer

Important points to note:

- The banking sector in India is an important part of the Indian financial system
- The banking sector has been a prominent driver of business promotion in urban as well as rural areas in the recent years
- Without the banking sector, the Indian economy may find it challenging to survive
- For the past three decades, the banking system in India has had several outstanding achievements to its credit
- The NPAs (Non Performing Assets) increased since 2011 after a steady decline in the 2000s.

Aarti Kantilal Soni
B.Com. Semester-5
Roll No.27

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Shaiv

GOVERNMENT COMMERCE COLLEGE, VADALI

ACADEMIC YEAR : 2019-2020

PROJECT WORK

History of Banking

INTRODUCTION

In the modern world we live in today banks have taken on a major role as a crucial component of an economy. It is said that a bank is like a heart in the economic structure and the capital provided by it is like blood in it.

1) Britannica defines a bank as an institution that deals in money and its substitutes and provides financial services.
2) Bankers play very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth. In this way they become very effective partners in the process of economic development. Today modern banks are very useful for the utilization of the resources of the country. The banks are mobilizing the savings of the people for the investment purposes. If there would be no banks then a great portion of a capital of the country would remain idle.
3) Two major types of banks are central and commercial banks. The primary function of the central bank is to control money supply in the economy. It is the central authority responsible for issuing of currency on behalf of the government. Commercial banks are organized financial institutions that deal with the business of credit (borrowing and lending of money) with the objective to earn profit. The commercial banks are financial intermediaries between savers and investors.
4) Simply put, the primary function of commercial banks is to put their account holders' money to use by lending it out to others.
5) Banks accept deposits and make loans and derive a profit from the difference in the interest rates paid and charged, respectively.

History of Banking

The necessity for banking has been present among humankind for the period of several millenniums and, surprisingly, it has been constantly conducted in some form or another. Preceded only by two other, the profession of banking is regarded as one of the oldest known to historians. The invention of banking precedes even the invention of coinage by several thousand years. Banking has simultaneously evolved along with the mankind. This essay will walk you through the main points and major breakthroughs in the history of banking.

18th Century BC

Oldest clues show the use of banking in ancient Mesopotamia and Egypt. Early civilizations used gold as means to store wealth, trade and make transactions. Naturally, wealth kept in this form had to be hidden for protection and safekeeping. The most reliable place for such need consisted of temples. Constantly attended, solid building with a sacred character which itself may deter thieves, lived up to this task. However, banks contribute to the efficient functioning of an economy by helping smooth and proper allocation of funds, and temples kept the wealth idle. The development of banking was initiated out of the need of the trading communities and governments for funds. Hence, in Babylon at the time of Hammurabi, in the 18th century BC, there are records of loans made by the priests of the temple. This is a sign that the concept of banking was initiated. Discoveries also include preserved clay tablets that were used to record transactions carried out between two parties. Code of Hammurabi which is among the earliest recorded laws concerns regulations within the banking industry. Other remains showed that at the very first stages of the „evolution“ of banking, modern practices such as deposits, interest, loans, and letters of credit already existed. The aforementioned clay tablets were a predecessor of more modern paper money systems that emerged in China by 900 AD and in Western culture by the 18th century.

4th Century BC

Greece has taken banking to the next level making the industry more varied and sophisticated. The role of private entrepreneurs rose greater and they became a major player in financial transactions, in addition to temples and public bodies that were main contributors in earlier cultures. Taking deposits, making loans, exchanging currencies, and testing coins for weight and purity became common practices. The vast number of new practices also included the use of book transactions. This minimized the risks that coupled with transfers of large quantities of coins and minimized the costs, both in the sense of transportation costs and in the sense of time needed for transporting, as moneylenders gained the possibility to accept payment in one place and arrange a credit in another. Soon after, the profession of money changers emerged as well. As coinage became standardized within Greece the need for foreign exchange grew due to the differences in weight of various coins. Even the Bible testifies to the extent of importance banking industry and foreign exchange dealers had at the time. There is a mention of the situation where Christ overturns the tables of the money changers in the Temple of Jerusalem . Aforementioned tables that were used in the trade were trapezium in shape and usually marked with a series of lines and squares used in calculations. The word "trapezitai" which is used for Greek bankers originates from the shape of these tables. Today, the internationally used word is "bank". This word is also derived from the tables used by bankers, but it comes from the Italian word "banca" meaning bench or counter. Banking started to emerge in cities throughout the ancient world. The island of Delos was specific, however. Unlike Athens and most of the other cities at the time where banking was conducted mainly on cash basis, Delos was the first to deploy an actual system of credit receipts and payments. Each client would have their own account and the ability to order transfer of funds to another client's account. This was the first instance of offshore banking as well. This island possessed very few natural resources so its development had to rely only on its natural harbor and the rich temple of Apollo. With the expansion of the Roman empire, the enemies of Delos, Carthage and Corinth were eliminated, hence, allowing Delos and it's banking system to develop and prosper. This gave the Romans a well designed banking system to imitate.

12th Century AD

After the aforementioned major steps in the development of the banking industry, the progress was stopped with the fall of the Roman Empire. Banking services were continued mainly by the papal bankers that emerged in the Holy Roman Empire, and with the Knights of the Temple during the Crusades as they were needed in order for financing of the wars . Moneylenders still tried to have their share in the industry, however, the Christian church would prosecute them with charges of usury which they considered to be morally offensive. One anonymous medieval author declares vividly that 'a usurer is a bawd to his own money bags, taking a fee that they may engender together'. In addition, the fall of the Roman Empire caused the collapse of trade as well which in turn made bankers less necessary.

A primary stimulus for banking requirements was none other than the Crusades. Basic banking requirements emerged out of the necessity to make payments for supplies and equipment. Waging international war was something that could not be accomplished without banking facilities that would enable the safe and speedy means of transferring huge sums of cash. It was the Knights Templar that began to provide such banking services based upon the Italian model.

13th – 14th Century AD

In 13th century the holes in the banking industry were being filled by bankers from the north of Italy who were known as Lombards. They gradually started to dominate the industry. Although they were the followers of Christian religion, they were wisely avoiding the charges for usury. They presented the collected interests either as a voluntary gift from customers or as a reward for the taken risk. Two other important practices that were introduced during this period were double-entry book-keeping and the use of bills of exchange. Although some forms of bills of exchange were present even in the earlier times, Italians sophisticated it. These bills of exchange were similar to the cheques being used today. These practices allowed banking to prosper in number of cities in Italy. However, the major beneficiary was Florence whose financial power was mainly derived from its currency. The florin became widely recognized and highly trusted allowing the bankers to heavily engage in international finance. Two most influential families were Bardi and Peruzzi who earned an immense wealth by offering financial services not only in Italy, but in number of major cities outside the borders of Italy through their own branches. The downfall of these families came when they loaned immense sum of gold florins to the ruler of England Edward III. It was a common practice to offer financial services to foreign rulers and governments, but the expensive war that Edward III engaged in prevented him to repay the loan. Nevertheless, Florence was strong enough banking center to recover the industry only half a century later when Medici and Pazzi houses became the most powerful financiers of the city.

15th Century AD

As Medici house got heavily involved in politics, the German dynasty Fuggers took the opportunity to take over the Medici's title of Europe's greatest banking dynasty. Their earnings mainly came from loans given to the governments and rulers. They used their sharp negotiation skills to increase the interest rates from 12%, which was the norm, up to 45% when the situations allowed them. In order to secure the repayment of loans they were taking interest in government's mines and rights to certain portions of government's revenues. They became both revenue collectors and managers of state assets. In time they seized to take part in financial risk-taking after several disastrous ventures.

16th Century AD

In the 16th century the government of Venice took initiative and opened the Banco della Piazza di Rialto. Its purpose was to serve the needs of merchants to store funds and make secure financial transactions without the physical transfer of coins. This practice already existed for quite a while, even in ancient Greece, but it involved high possibility of bankruptcy of moneylenders who individually carried out these risky services. Banking industry gained popularity as the government stood behind the newly opened bank to provide security to merchants who used the bank's services. As banking practices developed, the customer's knowledge of it expanded as well. They learned about the hidden potential of their deposits. At this time the bank's profit became the difference between the rates of interest paid to depositors and the interest demanded from debtors. Many moneylenders that still operated soon started to transform into private banks. Traditionally goldsmiths would accept money on deposit for safekeeping. When they discovered the potential for earning interest, they started loaning part of the deposits. At the point when they realized the full potential for profit making they made banking their main business.

17th – 18th Century AD

Like the most successful banking dynasties before, the Banco della Piazza di Rialto got itself into problems by making insecure loans. In order for this issue to be solved the Banco Giro was established. It was founded on the principle that the government's creditors accept payment in the form of credit with the new bank. Apart from solving the aforementioned problem, the new bank created opportunities as Venice got a mechanism for raising public finance on the basis of guaranteed credit. The logical extension of this concept is a national bank, established in some form of partnership with the state. The bank of Sweden was the first example. The next to come was the Bank of England that eventually undertook various tasks that are now associated with a central bank. These tasks included organizing of the sale of government bonds when funds needed to be raised and acting as a clearing bank for government departments, facilitating and processing their daily transactions. Furthermore, it became the banker to other London banks that used it as a source of credit in crisis. With the rise of the British Empire, the banking center migrated to London where modern banking finally emerged. To this day, London has remained as the primary financial center within Europe. In year 1776 Adam Smith publicized his well-known theory, the theory of the "invisible hand". Smith advocated self-regulated economy. His ideas were adopted by moneylenders and bankers who were able to limit the state's involvement in the banking sector and the overall economy. This free market capitalism and competitive banking found fertile ground in the New World, where the United States of America was getting ready to emerge.

19th Century

The first major bank to emerge in the USA banking industry was J.P. Morgan and Company that was standing as the leader among the merchant banks during the late 1800s. The power of this bank resided on its direct connection to London, the financial center of the world at the time. Although the dawn of the 1900s had well-established merchant banks, it was difficult for the average American to get loans from them. These banks didn't advertise and they rarely extended credit to the "common" people. Racism was also widespread and, even though the Jewish and Anglo American bankers had to work together on large issues, their customers were split along clear class and race lines. These banks left consumer loans to the lesser banks that were still failing at an alarming rate.

20th Century

In the early 20th century the Federal Reserve Bank still did not occur. When the banking industry encountered significant issues due to the collapse in shares of a copper trust that further lead to huge withdrawals of money out of banks and investments, J. P. Morgan used it's political power to gather all the major players on Wall Street to maneuver the credit and capital they controlled, just as the Fed would do today. This event lead to the formation of the Federal Reserve Bank, commonly referred to today as the Fed, in 1913. Government wanted to ensure that no private banker holds such supreme power in the U.S. economy again. Even with the establishment of the

Federal Reserve, financial power, and residual political power, was concentrated in Wall Street. When the First World War broke out, America became a global lender and replaced London as the center of the financial world by the end of the war. Unfortunately, a Republican administration put some unconventional handcuffs on the banking sector. The government insisted that all debtor nations must pay back their war loans which traditionally were forgiven, especially in the case of allies, before any American institution would extend them further credit. This slowed down world trade and caused many countries to become hostile toward American goods. When the stock market crashed in on Black Tuesday in 1929, the already sluggish world economy was knocked out. The Federal Reserve couldn't contain the crash and refused to stop the depression; the aftermath had immediate consequences for all banks. A clear line was drawn between being a bank and being an investor. In 1933, banks were no longer allowed to speculate with deposits and the FDIC regulations were enacted, to convince the public it was safe to come back. No one was fooled and the depression continued. World War II may have saved the banking industry from complete destruction. WWII, and the industriousness it generated, lifted the American and world economy back out of the downward spiral. For the banks and the Federal Reserve, the war required financial maneuvers using billions of dollars. This massive financing operation created companies with huge credit needs that in turn spurred banks into mergers to meet the new needs. These huge banks spanned global markets. More importantly, domestic banking in the United States had finally settled to the point where, with the advent of deposit insurance and mortgages, an individual would have reasonable access to credit.

Conclusion

As with all things in life, the development of the banking industry has had its side effects. The process of providing credit allowed leverage to be reintroduced into the modern world. While leverage allows an individual to purchase items today using tomorrow's future earnings, it also tends to create greater levels of inflation. Throughout the monetary history of the world, leverage has provided through the means of credit the boom and the bust effect within the economy. With it, the business cycle inevitably over-expands and over-contracts aid largely by credit. The greater the amount of credit, the higher the volatility within the monetary system. Nonetheless, the absence of banking and credit discourages human interaction and thus acts an impediment to economic and social growth. Too much debt and credit runs the risk of destroying the very foundations of civilization as witnessed by the fall of Athens and Rome. If there is one lesson to be learned from history, it is that need for moderation in both directions of the economic pendulum.

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PROJECT WORK

ACADEMIC YEAR : 2019-2020

Full Name of Student: Ridhiben Prahladbhai Soni

Semester: Sem-5 **Roll No.** 28 **Subject:** Economics & Commerce

Name of Project: History of Banking in India

CONTENTS

Sr No.	Project Topics	Date of Submission	Marks Obtained	Remarks/ Signature
	History of Banking in India	30-09-2019		

Certificate

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ACADEMIC YEAR : 2019-2020

PROJECT WORK

HISTORY OF BANKING IN INDIA

According to the Banking Companies Act of 1949, Banking is defined as, accepting for the purpose of lending or investment of deposit money from the public, repayable on demand or otherwise and withdrawable by cheque draft, order or otherwise. It also defines Bank as an institution dealing in money and credit. It safeguards the savings of the public and gives loans and advances.

THE MAIN FUNCTIONS OF THE BANKING SECTOR ARE AS FOLLOWING:

- It provides liquidity for economic growth of a country
- It acts as the main pillar of the whole financial system
- It offers safety for the depositors who want to deposit their savings in the Bank
- It offers liquidity for the borrowers both on short and long-term basis based on their need
- It provides credit or loan to dealers, households, small as well as large business houses
- It helps to manage all the financial transactions between different parties
- It provides the Government with the flexibility to reach to the masses across the country

THE BANKING SECTOR WAS DEVELOPED DURING THE BRITISH ERA. BRITISH EAST INDIA COMPANY ESTABLISHED THREE BANKS,

1. BANK OF BENGAL – 1809
2. BANK OF BOMBAY – 1840
3. BANK OF MADRAS – 1843

These three banks were later amalgamated and called Imperial Bank, which was taken over by SBI in 1955. The Reserve Bank of India was established in 1935, followed by the Punjab National Bank, Bank of India, Canara Bank and Indian Bank.

In 1969, 14 major banks were nationalized and in 1980, 6 major private sector banks were taken over by the government.

INDIAN BANKING SYSTEM, OVER THE YEARS, HAS GONE THROUGH VARIOUS PHASES. FOR EASE OF STUDY AND UNDERSTANDING, IT CAN BE BROKEN INTO FOUR PHASES:-

During the first phase, the growth was very slow and banks experienced periodic failures during the Early Phase between. There were approximately 1100 banks, mostly small which failed in the early phase.

1. PRE-NATIONALIZATION PHASE:

Breakthrough happened in this phase, was Reserve Bank of India. Reserve Bank of India (RBI) was created with the central task of maintaining monetary stability in India. This phase of Indian banking was eventful and was a phase of restructuring, regulation. However, Early phase (1786-1935) Pre-Nationalization (1935-1969) Post-Nationalization (1969-1990) Modern Phase (1990-present) despite these provisions, control and regulations, banks in India except the State Bank of India, continued to be owned and operated by private persons.

2. POST NATIONALIZATION PHASE:

This phase of Indian banking not so happening for entry of new banks. Undoubtedly, it was a phase of expansion, consolidation and increment in many ways. The banking sector grew at a phenomenal rate, fruits of nationalization were evident, and the common man was now banking with great trust.

3. MODERN PHASE:

This is the phase of "New Generation" tech-savvy banks. This phase can be called as "The Reforms Phase". Currently, 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.

PROF K.V. BHANU MURTHY HAS ALSO SEGREGATED THE INDIAN BANKING PERIODS INTO FOUR ERAS. THESE ARE:

- Early historical and formative era: 1770-19052
- Pre-independence era: 1906-19463
- Post-independence regulated era: 1947-19934
- Post-independence deregulated era from 1993 onwards

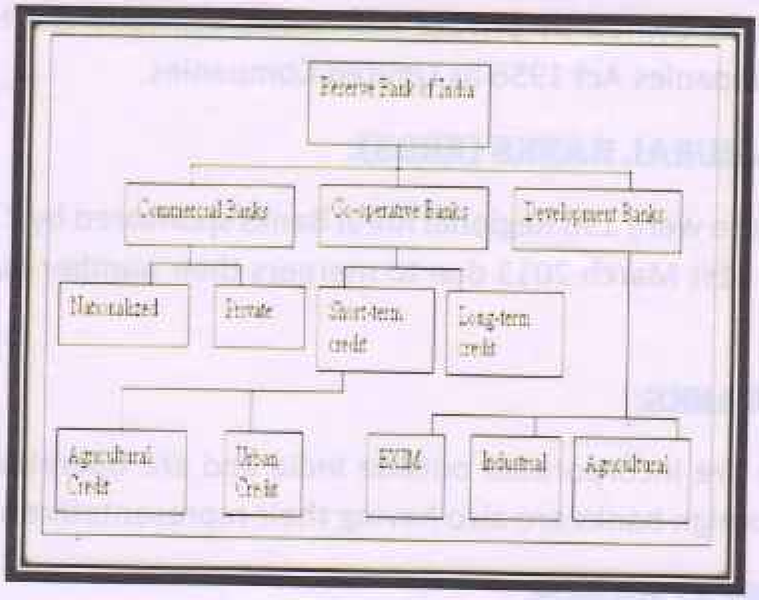
BANKS IN INDIA CAN BE CATEGORIZED INTO SCHEDULED AND NON-SCHEDULED BANKS.

1) SCHEDULED BANKS

Scheduled Banks in India constitute those banks, which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. These banks should fulfil two conditions:

- Paid up capital and collected funds should not be less than Rs.5 lakhs
- Any activity of the Bank should not be detrimental or adversely affect the interests of the customers.

It comprises Commercial Banks and Cooperative Banks. Commercial Banks are both scheduled and Non-scheduled commercial banks regulated Banking Regulations Act 1949. Commercial Banks works on a 'Profit Basis' and are engaged in the business of accepting deposits for the purpose of advances/loans.



THERE ARE FOUR TYPES OF SCHEDULED COMMERCIAL BANKS:

- **Public Sector Banks**
- **Private sector Banks**
- **Foreign Banks**
- **Regional Rural Banks**

2) NON-SCHEDULED BANK

Non-Scheduled Bank in India" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank".

• PUBLIC SECTOR BANKS:

They are those banks where Govt. is the owner or having more than 51% stake in the capital. Currently, there are 21 Public Sector Banks in India including 19 Nationalized Banks. State Bank of India and its 5 Associate Banks together called State Bank Group.

• PRIVATE SECTOR BANKS:

Private Banks is owned by private individuals/institutions. These are registered under the Companies Act 1956 as Limited Companies.

• REGIONAL RURAL BANKS (RRBS):

Previously these were 196 Regional Rural Banks sponsored by 27 State Cooperative Banks. As on 31st March 2013 due to mergers their number has come down from 196 to 64.

• FOREIGN BANKS:

These banks are incorporated outside India and are operating branches in India also. Some foreign banks are also having their representative offices in India.

• DEVELOPMENT BANKS:

These include Industrial Finance Corporation of India (IFCI) established in 1948, Export-Import Bank of India (EXIM Bank) established in 1982, National Bank for Agriculture & Rural Development (NABARD) established in 1982, and Small Industries Development Bank of India (SIDBI) established on 2nd April 1990.

BANKING REFORMS IN INDIA:

• The Indian banking sectors is an important constituent of the Indian financial system.

• The banking sectors play a vital role in promoting business in urban as well as in rural areas in recent years.

• Without in India cannot be considered as a healthy economy.

• For the past three decades, India's banking system has several outstanding achievements to its credit. • NPA's Have increased since 2011 after a steady decline in 2000's.

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Name of Project: History of Banking in India

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Sr No.	Project Topics	Date of Submission	Marks Obtained	Remarks/ Signature
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2	History of Banking In India	30-09-2019		
3				
4				

Certificate

This is to certify that Mr/Ms. FALGUNI JITENDRAPRASAD VAISHNAV has satisfactorily completed the Project Work/Assignment prescribed by the PROF. Shailesh Baria in the Academic Year : 2018-2019
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GOVERNMENT COMMERCE COLLEGE, VADALI

ACADEMIC YEAR : 2019-2020

PROJECT WORK

HISTORY OF BANKING

The History of Banking begins with the first prototype banks of merchants of the ancient world that made grain loans to farmers and traders carrying goods between cities; recorded as having occured at about 2000 BC within the areas of Assyria and J3abylonia. Later on, in ancient Greece and during the Roman Empire, lenders based in temples made loans and added two important innovations: the accepting of deposits and the changing of money. Archaeology from this period in ancient China and India, shows the existence also of money lending activity. Banking, in the modern sense of the word, can be traced to medieval and early Renaissance Italy, to the rich cities in the north such as F1orence, Veniceand Genoa.

The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. The development of banking spread through Europe also and a number of important innovations look place in Amsterdam during the Dutch Republic in the 16th century and in London in the 17th century.

During the 20th century, developments in telecommunications and computing resulting in major changes to the way banks operated and allowed them to dramatically increase in size and geographic spread. The Late-2000 financial crisis saw significant number of bank failures, including some of the world's largest banks, and much debate about bank regulation. Earliest forms of banking The history of banking is closely related to the history of money but banking transactions probably predate the invention of money. Deposits initially consisted of grain and later other goods including cattle, agricultural implements, and eventually precious metals such as gold, in the form of easy-to-carry compressed plates. In the times before the establishment of Christianity, the economic lives of the people circulated about the houses of the familiar gala and their priesthood, where security was afforded for storage and distribution principally of crops.

Thus the buildings utilized primarily by this elite, the palaces and temples, became the location of the earliest of social exchange bearing some similarity to banking practices of contemporary culture, where-in the safeguarding of the wealth of society was assured.

Temples and palaces were the safest places to store also gold, as they were constantly attended and well built. The original banks were "merchant banks" which were first invented in the middle ages by Italian grain merchants. As the Lombardy merchants and bankers grew in stature based on the strength of the Lombard plains cereal crops, many displaced Jews fleeing Spanish persecution were attracted to the trade. They brought with them ancient practices from the Middle and Far East silk routes. Originally intended for the finance of long trading journeys, these methods were applied to finance the production and trading of grains. The Jews could not hold land in Italy, so they entered the great trading piazzas and halls of Lombardy, alongside the local traders, and set up their benches to trade in crops. They had one great advantage over the locals. Christians were strictly forbidden the sin of usury, defined as lending at interest (Islam makes similar condemnations of usury). In both cases they made their profit from the present discount against the future price. This two-handed trade was time- consuming and soon there arose a class of merchants who were trading grain debt instead of grain.

The Jewish trader performed both financing (credit) and underwriting (insurance) functions. Financing took the form of a crop loan at the beginning of the growing season, which allowed a farmer to develop and manufacture (through seeding, growing, weeding, and harvesting) his annual crop. Underwriting in the form of a crop, or commodity, insurance guaranteed the delivery of the crop to its buyer, typically a merchant wholesaler. In addition, traders performed the merchant function by making arrangements to supply the buyer of the crop through alternative sources-grain stores or alternate markets, for instance-in the event of crop failure. He could also 'keep the farmer (or other commodity producer) in business during a drought or other crop failure, through the issuance of a crop (or commodity) insurance against the hazard of failure of his crop.

Merchant banking progressed from financing trade on one's own behalf to settling trades for others and then to holding deposits for settlement of "billeted" or notes written by the people who were still brokering the actual grain. And so the merchant's "benches" (bank is derived from the Italian for bench, Banca, as in a counter) in the great grain markets became centers for holding money against a bill (billeted, a note, a letter of formal exchange, later a bill of exchange and later still a cheque).

The trend also spread to the US after much of the Glass-Steagall Act was repealed in the 1980s, this saw US retail banks embark on big rounds of mergers and acquisitions and also engage in investment banking activities. Financial services continued to grow through the 1980s and 1990s as a result of a great increase in demand from companies, governments, and financial institutions, but also because financial market conditions were buoyant and, on the whole, bullish. Interest rates in the United States declined from about 15% for two-year U.S. Treasury notes to about 5% during the 20-year period, and financial assets grew then at a rate approximately twice the rate of the world economy.

This period saw a significant internationalization of financial markets. The process of financial innovation advanced enormously in the first decade of the 21 century increasing the importance and profitability of nonbank finance. Such profitability priorly restricted to the non-banking industry, has prompted the Office of the Comptroller of the Currency (OCC) to encourage banks to explore other financial instruments, diversifying banks' business as well as improving banking economic health. Hence, as the distinct financial instruments are being explored and adopted by both the banking and non-banking industries, the distinction between different financial institutions is gradually vanishing.

The first decade of the 21stcentury also saw the culmination of the technical innovation in banking over the previous 30 years and saw a major shift away from traditional banking to internet. The Evolution of Banking Services and its History in India Banking in India has a very hoary origin. The Vedic period has literature which records the giving of loans to others. Banking was synonymous with money lending. The Manusmrithi speaks of deposits, pledges, loans and interest rate. Interest could be legally charged at between two and five per cent per month in order of class. The maximum amount of interest collectable on the principal was laid down by the State. Usury was not allowed.

The People's Bank of India Ltd., The Bank of India, The Central Bank of India, Indian Bank Ltd. and the Bank of Baroda were started during this period. This boom continued till it was overtaken by the crash of 1913-17, the first crisis that the Indian joint stock banks experienced. In 1921 the three Presidency Banks at Calcutta, Bombay and Madras were merged into the Imperial Bank by the passing of the Imperial Bank of India Act 1920. This bank did net have the power of issuing bank notes, but was permitted to manage the clearing house and hold government balances.

With the passing of the Reserve Bank of India Act of 1934, the Reserve Bank of India came into being to act as the Central Bank.

It acquired the right to issue notes and acted as the banker to the Government in place of the Imperial Bank. However, the Imperial Bank was given the right to act as the agent of the Reserve Bank of India in places where the Reserve Bank had no branches. By the passing of the State Bank of India Act 1955, the Imperial Bank was taken over and the assets vested in a new bank, the State Bank of India. The Reserve Bank was originally a shareholder's bank. It was nationalized by the Reserve Bank Amendment Act 1948, consequent to the nationalization of the Bank of England in 1946.

Bank Nationalization The major historical event in the history of banking in India after independence is undoubtedly the nationalization of 14 major banks on 19th July 1969: The imposition of social control on the banks in early 1969 was deemed unsuccessful as the government felt that the Indian commercial banks did not increase their lending to the priority sectors like agriculture, small scale industry etc., Nationalization was deemed as a major step in achieving the socialistic pattern of society.

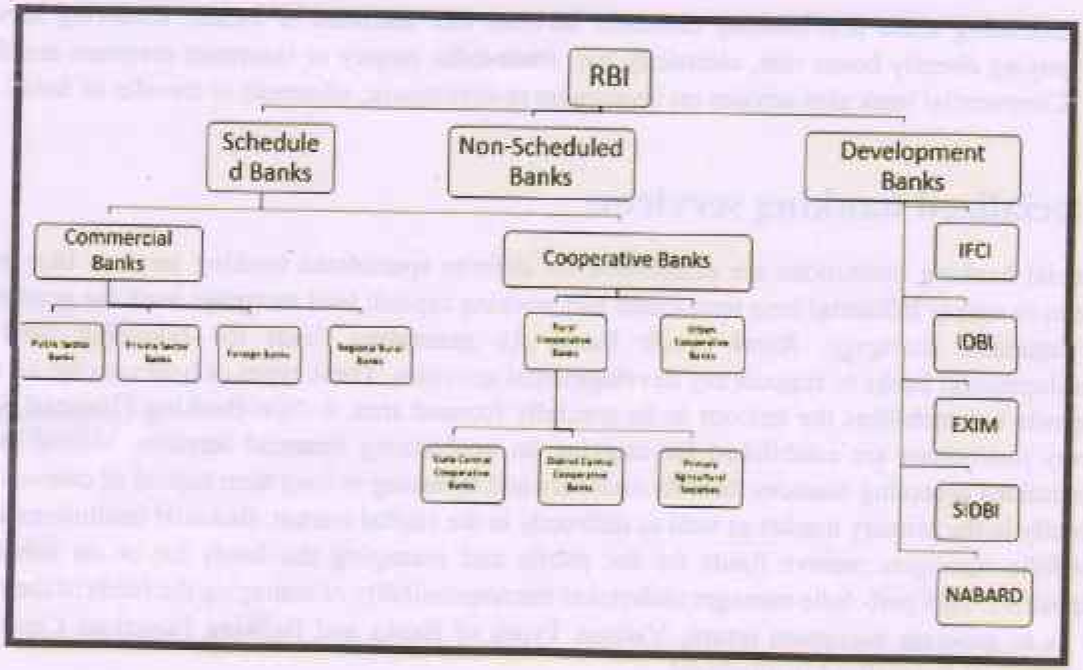
The nationalized banks were to increase lending to areas of importance to the government and to use their resources for sub serving the common good. A derailed scheme of objectives. Regulations, management, etc. was drawn up for these banks. In 1980 six more private sector banks were nationalized extending the public domain further over the banking sector.

Nationalization was a recognition of the potential of the bank system to promote broader economic objectives. The banks had to reach out and expand their network so that the concept of mass banking was given importance over class banking. Development of credit in the rural area was a prime objective. The benefits of nationalization have indeed been impressive. The branch network of these banks have spread practically all over 'the country especially in the rural and previously unbanked areas.

The branch network which was 8262 in June 1969 expanded to over 60000 by 1992 with a major expansion (80%) in rural areas. The average number of people served by a branch came down from over 60000 to 11000. The deployment of credit is more widely spread all over the country as against only in the advanced states. In 1969 deposits amounted to 30% of G.D.P and advances to 10%. By 1990 deposits grew to 30% and advances 25% of G.D.P. Rural deposits as a percentage of deposits grew from 3% to 15% making for increased mobilization of resources from the rural areas.

Deposits grew from a figure of Rs 4669 crores in July 1969 to Rs. 2,75,000crores on 31.3.1993. 40% of the total credit was directed to the priority sector. More than 45% of the total deposits was used by the government to fund its five year plans. However, this growth did not come without its costs.

The banking system has grown too large and unmanageable Customer service has suffered due to increasing costs and low productivity.



The directed credit program has led to large overdue affecting the very viability of the banking system. Various Types of Banking Services The flow chart given below shows the following types of banking services.

1. Central Banking Services
2. Commercial Banking Services
3. Specialized Banking Services
4. Non-banking financial services;

1. Central Banking Services:

The Central Bank of any country

(i) issues currency & bank notes;
(ii) discharges the treasury functions of the Government,
(iii) manages the money affairs of the nation & regulates the internal and external value of money,
(iv) acts as the bank of the Government and last but not the least, acts as the bankers' bank.

2. Commercial banking services:

Commercial banking services include

(i) receiving various types of deposits;
(ii) giving various types of loans,

(iii) extending some non-banking customer services like facilities of locker, rendering services in paying directly house rent, electricity bill, share-calls. money or insurance premium and the like. Commercial bank also advises on investment re-investment, allotment or transfer of funds.

3. Specialized banking services:

Special banking institutions are established for definite specialized banking services like industrial banks to supply industrial long term credit and working capital; land mortgage bank for granting loans on equitable mortgage; Rural Credit Banks for generating funds for extending rural credit; developmental banks to support any developmental activities. These types of banks accept all types of deposits but mobilizes the amount in its specially focused area. 4. Non-Banking Financial Services: Many institutions are established for carrying on nonbanking financial services. Mutual funds are institutions accepting finances from its members and investing in long term capital of companies both directly in the primary market as well as indirectly in the capital market. financial institutions acting as portfolio managers receive funds for the public and managing the funds for or on behalf of its depositors. This port- folio manager undertakes the responsibility of managing the funds of the principal so as to generate maximum return. Various Types of Banks and Banking Functions Central Bank Commercial Specialized Institutional.

4. Non-Banking Banks.

Many institutions are established for carrying on nonbanking financial services. Mutual funds are institutions accepting finances from its members and investing in long term capital of companies both directly in the primary market as well as indirectly in the capital market. financial institutions acting as portfolio managers receive funds for the public and managing the funds for or on behalf of its depositors. This port- folio manager undertakes the responsibility of managing the funds of the principal so as to generate maximum return.

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