

# **A Critical Study of Indian Bank Systems**

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**Abstract:** *The modern banking system began with the opening of Bank of England in 1694. Bank of Hindustan was the first bank to be established in India, in 1770. The earliest institutions that undertook banking business under the British regime were agency houses which carried on banking business in addition to their trading activities. Most of these agency houses were closed down during 1929-32. Three Presidency banks known as Bank of Bengal, Bank of Bombay and Bank of Madras were open in 1809, 1840 and 1843 respectively at Calcutta, Bombay and Madras. These were later merged into the Imperial Bank of India in 1919 following a banking crisis.*

**Keywords:** *banking system*

## **I. INTRODUCTION**

Banking business is considered as an integral part of economy in modern times. Therefore, banking business has developed in every country of the world. Although the banking business has acquired an organized form in modern times, banking business appears to have existed in an unorganized form since ancient times. A.D. There is evidence of the existence of a banking business in Babilon and Egypt as early as 2000 BCE. In those days religious places were used as places of banking business and religious leaders functioned as bankers. In the countries of Italy, Rome, Greece, banking business emerged in this form. After AD, the banking business started to take shape. In general, after the process of currency creation, banking business developed. The emergence and development of banking business in different countries of the world can be seen in different eras. The evolution of banking business took place early in Europe, America, England. Comparatively, the evolution of banking business in Asia seems to have taken place late. When it comes to banking business in India, it appears to have ancient context. Gautama, Brihaspati, Budhyava, Kautilya etc. There is a discussion about money deposit, transactions, interest in his writings. Banking business was also prevalent during the period of Muslim power and Marathi power. However, the real development of banking business in India took place during the British period. In the post-independence period, the banking system in India seems to have taken shape. On the basis of all these factors, the evolution of banking business can be considered.

## **II. RESEARCH METHODOLOGY**

The type of research paper presented is descriptive and evaluative.

### **Objectives of the Research Paper**

The following objectives of the present research paper are set out.

- To take a historical overview of banking business in India.
- To study the features of banking business in India.
- To study the development of banking business in India.

### **Data Collection :**

Data collection is an important step in any research. Facts are information. Secondary information is used for the present research essay. Reference books, magazines, newspapers are used in this research paper.

### **Origin of Banking**

It appears that banking transactions have been taking place in the world for a long time. Evidence of the existence of a banking system can also be found in the Babylonian culture. Banks existed in Rome as early as in Greece. In 1971, the

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authorities of the state of Venice took a loan from the public to cover the cost of the war and arranged for its repayment. Such a loan was called 'mot' in Italian, meaning joint fund. The word 'mot' is synonymous with 'bank' in Germany. The word 'bank' came into vogue due to German rule in most parts of Italy in the past. The same word later evolved into the Italian word 'banco'. The same word started being used in France and England with a slight difference in their respective languages. A.D. From 1646, the word 'bank' is found used in many articles. After that, many banks came into existence using the word 'bank' in their names. E.g. Bank of Milan. But according to some intellectuals, the origin of the word 'bank' is different. According to him, the Italian word 'banco' means 'bench' or 'table'. Earlier moneylenders used to transact by keeping their money on the bench or on the table, hence the word 'bank' or 'banking' may have become customary.

**Concept of Bank** - While understanding the evolution of banking business, it is necessary to understand the concept of 'bank'. So the concept of bank can be explained based on the meaning and definition of bank.

**Meaning of Bank** - There are differences of opinion regarding the etymology of the word bank. The word bank is believed to be derived from the Latin word 'Lancus'. According to some, the word bank is derived from the Italian word 'Banco'. The word means 'bench to sit on'. In earlier times such benches were placed in market places and financial transactions were conducted there. According to others, the word 'bank' is derived from the word 'montel' meaning 'a pile of money'. Although there is disagreement about the term bank, a person or institution that accepts deposits and makes loans has been known as a 'banker' since medieval times. A financial institution that does banking is a bank. Such is the general definition of a bank. As there is no consensus among the experts regarding the functioning of the bank, the comprehensive meaning of the bank cannot be explained. A bank is a financial institution that is involved in money and credit transactions. It works to keep Tegi safe from people. It also deals in loans. In Sodkyat, a bank is a financial institution that safeguards the money of customers and gives it to them as per their demand.

**Definition of Bank** - The definition of bank can be known on the basis of following points.

**Dr. Herbert Ol. Heart** - "A banker is one who endorses the checks left on the bank account of giwaikas and who collects money from the people in their daily dealings and allows them to withdraw this money by cheques."

**Poulter Leaf** - "A banker is a person or institution that accepts deposits from the public and can draw bills of exchange on demand."

**Tossing** - "The bank serves as the foundation of investment and savings and forms part of the financial medium."

**Banking Regulating Act 1949** - "Banks which accept credit or other forms of fraud for importation from the public or for repayment on time"

**Characteristics of the bank** - The features of the bank can be found under the following points

**Relating to money** - A bank is a financial institution dealing with other people's money and dealing in money Organization can be said to be an important feature of a bank.

**Individuals or Organizations** -A bank can be either an individual or an organization. A banking company is a company engaged in banking business. Bank transactions are also done through an individual.

**Acceptance of Deposits** - A bank accepts money from people in the form of deposits and it is returned to people after demand or expiry of the deposit. The bank provides protection to its customers' deposits. It also acts as a 'custodian' of the customer's money.

**Liability of Advances** - Banks provide money to needy people in the form of loans or advances. Lending is considered to be one of the functions of a bank. Banks provide loans to people for various reasons.

**Refund facility** - The bank provides easy facility of refund to its customers through checks and drafts. Withdrawing money from the bank makes it easy for customers. The bank uses your money for this purpose.

**System and Utility Services** - The bank provides various banking facilities to its customers. It includes system services and utility services. These services are provided immediately to the customers.

**Profit and Service Orientation** - A bank is an organization that operates with the objective of earning profit. For that service oriented approach is adopted by the bank by providing various services and the bank provides profit.

**Functional Growth** - Banking business is an evolving concept, hence there is continuous growth in bank's operations, services and activities. That is why the scope of modern banks seems to be wide.



**Contact Arrangement** - A bank creates a kind of communication system between paying and receiving entities. A bank collects money from those who have more money and provides money to those who need money. That is, this creates a contact system.

**Banking Business** - Establishing banking business is the main function of banks. Therefore, banking business is not a secondary business of any other business, rather it is an autonomous business.

**Evolution of Banking Business in India** - The modern banking business that originated in England was introduced in India during the British rule. So naturally banking business in India is similar to British banking business. Of course, this does not mean that the banking business was unknown in India. In fact, India was an important part of international trade. It was also an important center for the manufacture of iron, textiles and luxury goods. Manusmriti contains references to rates of interest, collateral for loans, etc. Also in Kautilya's Arthashastra, there are references to regulation of interest rates, discounting of deposits and bills etc., they were called 'hundi'. In Mughal and Maratha courts, big traders, businessmen and moneylenders were called 'Shreshthi' or 'Nagarseth' and their position was very important. They had branches all over India. Also there was a courier service system. They used to give loans to the king from time to time. However, the modern banking system with the recent double-entry bookkeeping system was introduced by the British in India. As the British rule spread in India, so did the banking business.

**Stages of Evolution of Banking Businesses in India** - The important milestones in the evolution of modern banking in India can be summarized as follows:

**Agency Houses** - When the British English traders came to India, they faced difficulty in raising capital because of the language problem. So they created agency houses that combined trading and banking business. An agency house in India etc. S. In 1770, the first bank 'Bank of Hindustan' was established. A number of banks were subsequently established; But soon after their establishment they were closed. At that time anyone could start a bank. So this area became open to all.

**Presidency Banks** - The East India Company, which ruled India at that time, established the Presidency Banks by taking 20% share capital. This was aimed at meeting their capital requirements. According to S. Banks like Bank of Bengal, Bank of Bombay and Bank of Madras etc. were established in 1806, 1840 and 1943 respectively.

**Joint Capital** - A.D. In 1884, banks were allowed to be established on the principle of limited liability. This gave impetus to the establishment of banks. In the following century, banks like Punjab National Bank, Allahabad Bank, Bank of Baroda were established by the efforts of Indians. Many foreigners also joined the Indian banking sector.

**Imperial Bank of India** - In order to face the competition of foreign banks, three Presidency Banks were merged in AD. In 1921, a single powerful bank, the Imperial Bank of India, was established. A network of branches of this bank came into existence all over the country. After that the same bank etc. S. Today's State Bank of India came into being after nationalization in 1955.

**Establishment of Reserve Bank of India** - Although this was a booming period for banks, many banks failed due to lack of any kind of regulation and lack of timely assistance. Due to this, people began to have doubts about banks. People started moving away from banks. The Hilton Young Commission clarified the need for the establishment of an independent central bank. The Reserve Bank of India was established in 1935 to act as a central bank. The bank was modeled on the Bank of England; But she had no special powers of regulation. The period that followed was depression and World War II. During this period the Reserve Bank could not do much about the banking business.

**Reserve Bank Nationalization and Banking Business Regulation Act** - Two important steps were taken in 1949. With India's independence, the Reserve Bank was given extensive powers of regulation and control. By using these powers, the Reserve Bank of India was successful in making Indian banking business viable. Bank failures soon became a thing of the past and the Indian banking business continued to develop/progress under the guidance of the Reserve Bank. RBI succeeded in removing many malpractices, obstacles and errors.

**Nationalization of banks between 1969 and 1980** - An important step was taken in 1969 by nationalizing 14 large banks. Then etc. S. Six more banks were nationalized in 1980. This nationalization led to significant changes in the functions, procedures, policies, attitudes etc. of banks. Now Indian banks are ready to act as international participants.



### III. SUMMARY

The competitiveness of Information Systems for corporate banking in the face of solutions adopted by some firms will be difficult to obtain in the short term. Furthermore it should be remembered that firms are changing entities in continuous evolution. The research undertaken shows that, except for a few rare exceptions (Bank W), this effort is not yet perceptible or only hinted at.

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