

PAST, PRESENT & FUTURE OF BANKING

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ABSTRACT

In earlier times, merchants had to move from one place to another for the purpose of trade and for this money was required. There were also some merchants who kept different currencies that were displayed on a bench and exchanged currencies with other traders while sitting on this bench. The origin of the word 'Bank'¹ can be seen in the context of this bench. There are two main concepts behind the origin of the word 'Bank', one; Which assumes the origin of the word bank from the Italian word 'Banca' and secondly, from the French word 'Banque' but both mean a bench where merchants used to trade currencies while sitting. Some consider it to be derived from the German word 'back' which means joint stock fund.

Keywords: Merchants, Trade, Exchanged Currencies, Bank, Banca, Banque, Stock Fund.

Introduction

Today banking has become an important part in our life because without banking we cannot imagine any financial transaction. The form of banking that exists today was started only a few centuries ago. This never means that earlier, people were not familiar with banking just that their transaction methods were different from today's banking. If we talk about India, then formal banking started here after the arrival of foreign traders, although Dutch, French also tried to trade here but Dutch and French did not succeed, but the British got it. That is why it is said that the opening of banks in India started after the British rule.

Historical Era of Banking

By examining the historical evidence, we have come to know that our ancestors have been doing banking since ancient times but not in the form it is today. We have found many such institutions in India as well as outside India which used to preserve valuable jewelry and goods at that time. In return for this security, he used to get a certain amount as interest. Influenced by this type of income, a new class emerged in India, which we know as Mahajan/Lala/Sahukar.

The word 'Kusidin' is mentioned in the Vedas, whose job was to manage the currency. Similarly, in 'Jatak' also there is a mention of 'Rinpatra' or 'Rinpanne' in the context of lending. We find mention of this in the Arthashastra written by Kautilya about the practices that existed during the time of the Maurya Empire. In this, 'Rinpatra' or 'Rinpanne' has been addressed as 'Rinaalekh'. Somewhere he is also called Ranapatra, Ranapanna or Ranlekhay. Today's exchange practicable deed appears to be the same form issued in Maurya period which was written by a big merchant in the name of another trader.²

In the Maurya period, an instrument called 'Adesh' was in circulation, which was an order to pay to a third person. This matches the definition of a bill of exchange that we use today. In the beginning, the royal authority used to issue the above, but later the merchants started issuing them, due to which the 'Vada-Patra' issued by the merchants became common practice.³

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¹ "History of Banking", Website:- <https://dailytools.in/BankingKnowledge/BankingHistory>

² "The Origins of the Structured Money Lending System in India" Website:-<https://news.clearartax.in/the-origins-of-the-structured-money-lending-system-in-india/3297/>

³ "Evolution of Payment Systems in India", Website:-
<https://m.rbi.org.in/scripts/PublicationsView.aspx?id=155#:~:text=2.3.,as%20we%20understand%20it%20today>

Like the Maurya period, such documents were issued for the transactions of merchants even in the Mughal period. There were mainly two documents during the Mughal period, one 'Dastawez-e-Indutalab' which was issued on demand and the other 'Dastawez-e-Miyadi' which was presented after a certain period. 'Dastawez-e-Miyadi' was similar to today's fixed deposits.¹

These documents were issued from the royal treasury, but the system of issuing them in parallel also came into vogue and with time it increased progressively, which came to be called Mahajani. These moneylenders did the work of giving money to the people on interest for a long time. The practice of 'hundi' also started in this period and with time arbitrary interest was charged on it which we can understand like credit cards of today's era.

Banking in British Era

The arrival of the British in India took place during the time of the Mughal emperor Jahangir. Some merchants of England formed the 'East India Company' in 1600 and asked the Queen for permission to trade in India. Under the leadership of Captain 'Hawkins', these people reached the port of Surat by a ship named 'Hector' which was a big trading center at that time. At that time India was ruled by the Mughal emperor 'Jahangir', Captain Hawkins asked him for permission to start business in India. With his diplomatic tricks, the English merchants attacked the trading existence of their rival Portuguese and emerged as a major trading power in India.²

The British needed a financial institution such as a bank to grow their business, secure profits and fulfill their business objectives. In the beginning, he established some agency houses, which used to keep the money safe as well as give loans. In this sequence, India's first bank 'Bank of Hindustan' was opened in Calcutta by Alexander and Company in the year 1770, which later failed. On the basis of their activity, the Britisher established 'Bank of Bengal' in 1806, 'Bank of Bombay' in 1840 and 'Bank of Madras' in 1843 with the help of private and cooperative shareholders. These three banks came to be known as Presidency Bank from 1962 onwards.³

After this, many banks were established with joint capital, such as; Allahabad Bank in 1865, Alliance Bank of Shimla in 1881, Awadh Commercial Bank in 1881, Punjab National Bank in 1894, People's Bank of India in 1901. Awadh Commercial Bank was the first bank established and operated by Indians. While the full Indian bank was Punjab National Bank. In the 20th century, Bank of India in 1906, Bank of Baroda in 1908, Central Bank of India in 1911, Bank of Mysore in 1913 Tata Industrial Bank was established in 1917. Most of the banks established before independence were small-scale private banks operated by joint stock companies which failed to survive over time. In 1827, for the purpose of banking reform, the three presidency banks were merged to form the Imperial Bank.

Now the time had come to establish such an institution which would work to establish control over all the banks, for this the Reserve Bank of India Act was enacted in 1934 according to the recommendations of the Hilton Yang Commission, as a result of which RBI started functioning from 1935. . If we look at the data at the time of independence, it is known that at that time in India, there were 664 private banks and about 5000 branches in India, whereas today 12 public sector banks have 22 private sector banks, 11 small finance banks, 43 regional rural banks and there are about 1 lakh 42 thousand branches of 46 foreign banks.

Banking after Independence

First, the Government of India nationalized the Reserve Bank of India in 1949 after that on 1 July 1955, on the recommendation of Gorwala Commission, Imperial Bank was nationalized and made SBI the largest bank in India. The purpose of the banking that the British developed was to increase their business, But, after independence, when the government of the people of India was formed for the first time in India, it was natural for the common man to grow ambitions from his government, keeping this in mind, a new era of banking was started in India. In the beginning, nationalization served as the foundation stone for this task. To give impetus to banking development, the then Prime Minister Indira Gandhi nationalized 14 large private banks of the country on 19 July 1969, whose total capital was more than 50 crores. Their list is as follows:

¹ "The Origins of the Structured Money Lending System in India" Website:-<https://news.clearartx.in/the-origins-of-the-structured-money-lending-system-in-india/3297/>

² "Arrival of William Hawkins in court of Jahangir", Website:-<https://www.gktoday.in/topic/arrival-of-william-hawkins-in-court-of-jahangir/>

³ "Origin and Development of Banking in India", Website:- <https://www.studyadda.com/notes/banking/general-awareness/origin-and-development-of-banking-in-india/origin-and-development-of-banking-in-india/11571>

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

Similarly, taking the development process further, on 15 April 1980, 6 banks whose deposits were more than 200 crores were nationalized. It was the effect of nationalization that the services of banking in India expanded from village to village to the common man. We can say that the branches of all the banks expanded during the period of nationalization. After nationalisation, about 91% of India's banking business came under the control of the government.¹

- Punjab and Sind Bank
- Vijaya Bank
- Oriental Bank of India
- Corporate Bank
- Andhra Bank
- New Bank of India

Banking is one such sector of the economy that affects other sectors as well as is affected by other sectors. Keeping this in mind, along with general banking, the government made policies for such areas, which are affected by banking, and for those which affect banking, some special institutions were established such as:-

- NABARD (1982) - For the development of agriculture sector
- EXIM (1982) - For Import and Export Promotion
- National Housing Board (1988) - for housing development
- SIDBI (1990) - For the development of Micro, Small & Medium (MSME) industries

In 1984, a committee was constituted under the chairmanship of Dr. C. Rangarajan, Deputy Governor, Reserve Bank of India, to study mechanization in the banking industry. The introduction of MICR technology in banks was due to the major recommendations of this committee. Clearing houses were also introduced in banking to expedite check payments and clearing houses were opened in different cities of the country so that payments could be made faster from one city to another by cheque. Similarly, with the efforts of the then Prime Minister Rajiv Gandhi, in 1988, a computerization committee was formed in banks under the chairmanship of Dr. Rangarajan, as a result of which it was agreed to install computers in banks in 1993. Today, the dependence of banks on computers has become so much that without computers banking is not possible.

After the nationalization of banks, the banking sector got a new direction, but that direction was limited only to increasing the number of banks. Now the government tried to increase the quality as well as the number of banks. To overcome this problem and to provide the responsibility of the development of the country to the public sector as well as the private sector, many private banks were started. These

¹ "Why Indra Gandhi Nationalised India's Banks", Website:-<https://www.bloombergquint.com/opinion/why-indira-gandhi-nationalised-indias-banks>"

new banks were convenient and tech-savvy as well. Along with ICICI Bank and HDFC Bank, Global Trust Bank, which later became Axis Bank, are among those early banks. Today private, public and foreign banks in the country are still working as a result of this policy. The era of new private banks started in the year 1994.

New Era of Banking

India's banking sector has developed very rapidly since independence. In the early decades after independence, we noticed an increase in the number of shakhas. And in the last decades, we have paid more attention to quality appreciation and accountability of the banking sector. Then the era started of the twenty-first century, in which we took the lead in the expansion of various types of facilities in the banking sector. HSBC established India's first **ATM** in Mumbai in 1987. Subsequently, around 1500 ATMs were set up by the Indian Banks Association (IBA) in 1997. After the ATM, we moved on to **Online Banking**. Through online banking, now the customer started using the necessary facilities of banking sitting at home. In 1998, ICICI Bank introduced internet banking. All the banking facilities that we are using today were made possible only through **Internet Banking**. **RTGS** was introduced in 2004 and **NEFT** in 2005 to transfer money. Banking has completely changed by using technology. Where earlier we had to depend on the branch for all the work, today all the facilities are being available to us everywhere through the internet. Moving forward, today we have entered the era of **Mobile Banking**. Mobile banking is a sophisticated form of internet banking in which all types of facilities are available to us on mobile only. In today's time, if we talk about any technology that has made banking developed, then it is **UPI** (Unified Payment Interface). Today professionals, highly educated, less educated, students, housewives etc. are all using this technology. Online payment has become a common financial practice.

Unlike normal banks, **Payments Bank** is a new model envisaged by the Reserve Bank of India (RBI) which can accept deposits but not give loans. Payment banks can issue ATM and debit cards and may offer net-banking and mobile-banking. Initially licensed as payment banks under Section 22 of the Banking Regulation Act, 1949, some of them surrendered their licenses, some are not functioning today. At present total 6 payment banks are working which are as follows.

- Airtel Payments Bank
- India Post Payments Bank
- Fino Payments Bank
- Jio Payments Bank
- Paytm Payments Bank
- NSDL Payments Bank

Keeping in mind the daily needs of the people, banking discovered a wonderful product **Credit Card** which has revolutionized the entire lending system. It provided the option of banking loans for small needs. Later on, online banking also tried to make the loan online, as a result, today anyone sitting at home can apply for a loan according to their needs. **Credit Lines** are also one of the few products in vogue today that is emerging as an alternative to loans and credit cards.

Future of Banking

How can banks ignore this aspect in the emerging era of social media, so social media banking has also started now. Earlier, internet banking and mobile banking were not possible without internet but now efforts are being made to develop such technology so that people can get these facilities through mobile network and maybe in the coming time we will all Enjoy them without internet.

Jack Ma of Alibaba Group says, "There are two big opportunities in the future in the financial industry. One is online banking, under which all financial institutions will go online. The second is internet finance, which will be led entirely by outsiders (Techfin)."¹ **AI Banking** (Artificial Intelligence) is the new form of banking that will emerge in the future. Simultaneously, **Digital** and **Crypto** currency is also developing rapidly in banking as a new form of currency.



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"Alibaba: shaking up Chinese finance", Website: <https://www.ft.com/content/0cae83c4-c936-367c-9bf8-d5a082c9597e>