



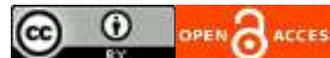
# THE EVOLUTION OF BANKING IN INDIA: FROM THE REMOTE PAST TO A BRIGHT FUTURE

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## ABSTRACT

*Banking in India has a long history, with its origins dating back to around 500 BC. During the Vedic era, a financial system was in effect, based on the Atharva Veda, Volume II, Part III, Sukta 15, and Hymns 5 and 6. The development of banking in India among different periods, specifically during the Vedic period (2000–1400 BC), the Sutra period (700–200 BC), between (200 BC- 500 AD), the 6th to 16th century, during the reign of the EIC Mughal period, and the pre- and post-independence periods. At the beginning of the 18th century, commercial banking—specifically, the joint-stock type prevalent globally—began to take shape. India began modern banking by establishing English agency Houses in Calcutta and Bombay, which initially served as bankers for the East India Company (EIC). Tea and Indigo had been primary trading concerns of agency houses. Foreign trade finance was the primary purpose of exchange banks as they initially emerged in India. The findings of the Indian Central Banking Enquiry Committee report highlighted their dominance in India's international trade. In his Minority Report to the Indian Central Banking Enquiry Committee, Manu Subedar stated that their primary business now includes funding domestic and international trade in India. If these banks only concentrated on funding international trade, they couldn't collect significantly additional deposits within India. Moreover, banks play a crucial role during times of crisis. Learning the history of banking and the sector's development is crucial since it forms the foundation of the nation's financial system. This research paper will provide an overview of the Indian banking system, examine the significant changes over time, and explore its future. Therefore, studying the trends and transformations in the banking industry is vital.*

**Key Words:** Central Banking Enquiry Committee, Exchange Banks, Indigenous Banking, Indian Joint Stock Banks,

## INTRODUCTION

A summary of the historical development of banking could serve as a better starting point for examining contemporary banking and 'indigenous banking' practices in India. However, it is essential first to clarify the term 'indigenous banking.' In this investigation, 'indigenous banking' refers exclusively to the activities of indigenous bankers and does not encompass those of joint-stock banks or co-operative credit organisations. So, who are the indigenous bankers? These bankers do not have any legal obligation to register themselves as such under any laws in the country. Consequently, no legal definition is available for the term 'indigenous banker.' Additionally, the Census does not provide any definition either. The situation is further complicated because, in India, many individuals referred to as 'bankers' primarily lend their personal or family funds at interest.

The foundation of our economic stability is that the Indian banking sector is persistent and unwavering, proving its strength amid challenges. Its strong earnings growth, enhanced asset quality, and greater capital ratios have facilitated double-digit credit growth and increased economic activity in India. The current research paper offers an in-depth understanding of the dynamics of our economic system by exploring the origins and development of banks in India throughout history. The significance of formal financial institutions in promoting economic activity has been discussed. This understanding is not just crucial, but it is a significant contribution to the field of commerce and banking, enhancing the knowledge and research of scholars and professionals. However, to sustain this upward trajectory, it is essential to continue best risk management practices, building additional buffers, and enhancing governance.



## REVIEW OF LITERATURE

The literature survey was conducted on the research using leading national and international journals and books of national and international importance. The banking sector played a crucial role in the development of the economy and attracted the attention of scholars and administrators.

(Rau, 1925) Describes the existing banking system and offers suggestions to improve our credit situation. However, a soundly organised banking system cannot be established as long as the monetary system is liable to frequent and sudden changes. (Thakur, 1927) Examine the shortcomings of our banking system, propose enhancements, and invite public feedback to educate readers. (Jain, 1929) The Treatise on Indian Indigenous Banking emphasises the need for a comprehensive and efficient banking system encompassing all existing agencies, including Indigenous moneylenders. His background in a community specialised in banking offers valuable insights, addressing a notable gap in Indian economic literature. (Bhargava, 1934) It is evaluated that Indian indigenous banking has a rich history, reflecting advanced scientific knowledge from the early stages of civilisation. The regulations established by Hindu lawgivers for indigenous banking were comprehensive and unmatched by those of other nations during that time.

## OBJECTIVE OF THE STUDY

This study has a clear and focused objective: to thoroughly examine the evolution of banking in India from its ancient origins through its growth and development over time.

## METHODOLOGY OF STUDY

The present study is exploratory and based on secondary data. The Indian Institute of Banking & Finance (IIBF), Reserve Bank of India (RBI), and Indian Banks Association (IBA) publications, government committee reports, journals, and magazines are cited in the current paper.

## EVOLUTION OF BANKING IN INDIA

Four primary stages could be employed to monitor the development of Indian banking:

- The Early Phase of Banking in India (up to 1947)
- The Early Years of Independence (1947-1967).
- Social Control over Banks – (1967-1991).
- Phase of Financial Sector Reforms – 1991-92 onwards.

### i) The Early Phase of Banking in India – up to 1947.

**Banking during the Vedic Period, including the Epic Period:** It is widely acknowledged that India had an Indigenous financial system from the very beginning. The following passage, taken from page 26 of Mr. B. T. Thakur's book on "Organization of Indian Banking," should be adequate in this context. It was written "by Mr. W.E. Preston, Chief Manager of Chartered Bank of India, Australia, and China, and a member of Hilton Currency Commission" in 1926.

“It may be accepted that a system of banking eminently suited to India’s requirements was in force in that country many centuries before the science of banking became an accomplished fact in England. It is true that the methods of old in force in India were vastly different from the European ideas of banking today and partook more of money-lending, money-changing, and later of the hundi business; nevertheless, as applied to the conditions then existing in India, they admirably acted their part and must be recognised as having rendered immense services to the country as a whole, particularly when we keep in view the enormous agricultural interests of India.”



The history of money lending in India extends back to the Vedic era, which some authorities have estimated to be between 2000 and 1400 B.C. However, there is no proof that any segment of the population practices it as a profession, nor are there any specifics regarding loan duration. Indian literature offers concrete evidence of money lending and the transfer of funds in cash or credit instruments as early as the 5th century B.C. The term “*rna*,” meaning “*debt*,” is repeatedly mentioned from the Rigveda onwards, having been a normal condition among Vedic Indians. Reference is often made to debts contracted at dice. To pay off debt termed *rnām sam-ni*. The allusion is made to debts contracted without the intention of payment. “*The Atharva Veda, Volume II, Part III, Sukta 15, and Hymns 5 and 6 indicate the existence of a banking system in the Vedic period. These mantras serve as prayers for acquiring, utilising, and safeguarding wealth.*”

येन धनेन प्रपणं चरामि धनेन देवा धनमिच्छमानः I

तन्मे भूयो भवतु मा कनीयोऽग्ने सातघ्नो देवान् हविषा निषेध ॥5II

“Yena Dhanena Prapanam Charaami Dhanena Devaa Dhanamichhamaanah I  
Tanme Bhuuyo Bhavatu Maa Kaniyoagne Sataghno Devaan Havishaa Ni Shedha” II

**Meaning:** O Agne! You return the gods, the restrictors of profit, after satisfying them with the offering made to them. O Gods! Desiring the wealthiest of wealth, I want to deal with my wealth; with your blessing, may that wealth be mine, whether it be a lot or a little. Sri Sayanacharyaji has commented on this as, “*Hae Deva dhenen Mulya Dhanen bridhiuktam Dhanen Ichhamaanah kamaimanoham*,” which, when translated, reads as, “O god, I engage myself in moneylending from my principal sum to earn money (principal added with interest).”

येन धनेन प्रपणं चरामि धनेन देवा धनमिच्छमानः I

तस्मिन् म इन्द्रो रुचिमा दधातु प्रजापतिः सविता सोमो अग्निः ॥6II

“Yena Dhanena Prapanam Charaami Dhanena Devaa Dhanamichhamaanah I  
Tasmin Ma Indro Ruchimaa Dadhatu Prajapati Savita Somo Agni” ॥6II

**Meaning:** May Indra, Prajapati, Savita, and Agni bestow upon me the wealth by which I acquire and move. The divine wishes for prosperity; may Indra, the giver of joy, bestow it upon me.

The information on interest is minimal. Before the Sutra era, interest rates on loans weren't specified. Interest was likely charged, as indicated by the mention of the *usurer (kusidan)* in the *Satapatha Brahmana* and the *Nirukta* and frequently in the Sutras. An 8th (sapha) and 16th (kala) are described as paid in one section of the Rigveda and the Atharvaveda; however, it is uncertain if this refers to the interest or principal instalment. During *the Epic period*, it is apparent that banking was exclusively associated with the Vaishyas, and the State also took an active interest in banking; *the Mahabharata* shows that during times of distress, the Royal Treasury provided loans to the public at an interest rate of *12 per cent per annum*. *The Mahabharata* also references the practice of moneylending. The Gita states that the Vaishyas engaged in the same professions prescribed in *the Vedas*.

**Banking in the Shastric and Smriti Period:** There is uncertainty regarding the dating of the Shastric and Buddhist periods; some believe the Shastric period followed the Buddhist period, while others argue that it preceded it. However, *Vaishyas* remained involved in banking and lending money during the Shastric and Smriti periods. Manu, a prestigious lawgiver, has characterised Vaishyas' operations in the Manusmriti.



पशूनां रक्षणं दानमिज्याऽध्ययनमेव च ।

वणिक्पथं कुसीदं च वैश्यस्य कृषिमेव च ॥

Paśūnāṃ Rakṣaṇaṃ Dānamijyā'dhyayanameva Ch |  
Vaṇikpathaṃ Kusīdaṃ Ch Vaiśhyasya Kṛṣhimeva Ch || 1.90 ||

This means that “protection of animals, worship, donation, study and Interest earning by money lending, trade and agriculture are professions allotted to Vaishyas.” “Smriti period bankers performed the majority of duties that contemporary banks perform, which included taking deposits and offering loans against pledges, mortgages, personal assets, and simple open loans. Additionally, they subscribed to public loans by granting them to kings. They served kings as bankers and treasurers. The nation's currency has been issued and managed by them.

Shruti is defined as 'that which is heard,' signifying that the sages compiled the revelations they received from the divine into the Shruti and Veda, which serve as the foundational sources of our Hindu Law. It refers to the sacred literature that includes the *Vedas, Samhitas, Brahmanas, Aranyakas, and Upanishads*, as these texts were initially passed down through an oral tradition from teacher to disciple. The Vedas are categorised into four distinct groups: “Rig-Veda, Yajurveda, Samaveda, and Atharvaveda.” These texts articulate the life, customs, traditions, religious practices, aspirations, and philosophies of our forebears, the Aryas.

The term 'Smriti' translates to 'that which has been remembered.' It represents a category of sacred literature rooted in Vedic traditions, believed to have been composed by sages and scholars after the Vedic period. Smriti Literature encompasses the entire collection of Classical Sanskrit literature following the *Vedic era, including Vedanga, Shad Darsana, Itihasa, Puranas, Maha Kavyas, Upveda, Agamas, Upangas, Tantras*, among others. Thus, Smriti depended on the memories of the saints. The period during which Smriti was created is referred to as the '*Golden Age*,' as it marks the beginning of a well-organised and systematic development of Hindu Law.

Smritis are classified into two categories: Dharmaśūtras and Dharmaśāstra. The Dharmaśāstra is notable for figures such as Hareet from approximately 850 B.C., Gautam around 750 B.C., Budhayan from 750 B.C., Aapstamb from 500 B.C., Vishnu from 300-400 B.C., and Yajnavalkya 350 A.D., Narad and 400 A.D., while notable Dharmaśāstras include Manu Smriti, Yagyvalkyā Smriti, and Narad Smriti, among others. “It seems that the majority of the Smritis were composed before Buddhism emerged in India; hence, we first navigate through the Shastric and Smriti eras rather than the Buddhist era. As a result, it is suggested that the state of banking during that time should be altered and transitioned to the Buddhist period after it has been concluded.”

Over time, the term "Smriti" came to be explicitly used to refer to works dealing with social behaviour and the law, such as the renowned Manu-smriti (Laws of Manu). The Manu Smriti, also known as the Laws of Manu or the Institutes of Manu, is a foundational text in Hindu law. Manu is regarded as the greatest law-giver of the race and the oldest law-giver as well. The Yajnavalkya Smriti, another authoritative work, follows the same general lines as the Manu Smriti and is next in importance to it. According to the Hindu law compiled by Sir Hari Singh Gaur, page xxxi contains the following details regarding the Smritis authored by Manu and others: "Manu's approximate date is 800 B.C. There are four versions of Manu, which include Bhrigu Sanhita, Narad, Brihaspati, and Angiras.



**Banking in the Sutra Period, 700 to 200 B.C.:** Prof. Hopkins assigns the Sutras to a period not earlier than the 7th century B.C., nor later than the 2nd century B.C. Later, Brahman literature had roots in the development of Buddhism and Jainism. Regardless of the age, their representative works are in their current form. **Sutras, Epic Poems, Law Books, and Puranas** are four categories in which this literature could be categorised. Form and function distinguish Sutras from other literary compositions that fall into two categories. Derived from the word "a thread," "Sutras" is a term used to help navigate the Brahmanical learning that can be identified in Brahmanas. Lawbooks and Puranas adopt the language and form framework provided by the Epics.

The Jatakas, or the birth tales of Buddha, are the primary sources of our understanding of the economic circumstances during the era, along with the **Vinaya and Suttapitakas** to a lesser degree. The information is predominantly obtained from narratives. The economy of India during this time was predominantly rural, relying on a network of village communities consisting of peasant owners. Examples of collective efforts indicate a fairly developed sense of citizenship among the villagers. The community had a nominal head known as the **Bhojaka or headman, who was compensated through dues and fines.**

Despite this, money was **borrowed with interest.** The Jataka tales exhibit a forgiving attitude towards money-lenders, suggesting that *money-lending, farming, commerce, and harvesting* are deemed four respectable professions. Gautama shares a similar tolerance level, while Vasistha and Baudhayana denounce the practice. Hypocritical ascetics are criticised for engaging in it. Vasistha and Gautama identify six types of interest: compound, *periodic, stipulated, corporal, daily, and the use of a pledge.*

A legal interest rate of 15 per cent per year was established for all secured loans, including both pledges of movable assets and mortgages on real estate. In this context, Vashishtha remarks: "According to Vashisht, a money-lender may take five mashas for every twenty karshapanas each month; thus, the law is upheld." The commentator Hara Datta calculates that there are 20 mashas per Karshapanas, leading to an interest rate of 1.25 per cent per month, which amounts to 15 per cent annually. Likewise, Gautama states, "The lawful interest for borrowed money is set at five mashas monthly for twenty karshapanas," and adds, "The monthly interest is determined to be one-eightieth of the principal if a pledge is provided." Yajnavalkya concurs with the authorities mentioned above, stating: "For a secured loan, the monthly interest equals one-eightieth of the principal amount."

Narad, while referencing Vashishtha rate, states: "A money-lender may charge, in addition to the principal, the interest set by Vashishtha, specifically an eightieth part of a hundred each month." Brihaspati concurs with this authority on the interest rate established at 15 per cent annually. Kautilya, in his Arthashastra, also aligns with these authorities, agreeing on a fixed interest rate of 15 per cent per annum for secured loans. Baudhayana sets the interest rate for secured loans at 12 per cent per annum and notes: "A sum of 25 karshapanas will accrue an interest of 5 mashas each month."

In the process of granting unsecured loans, the social status of the individuals involved was of utmost significance, and the interest rates were determined mainly based on caste distinctions. However, exceptions were made to allow certain transactions to deviate from this general guideline. The interest rates for unsecured loans were established as follows: (1) Brahmans 2 % per month; (2) Kshatriyas 8 % per month; (3) Vaishyas 4 % per month; and (4) Shudras 5 % per month. Vashishtha shares the same view as Manu on this matter. Furthermore, items like gold, grain, aromatic substances, flowers, roots, fruits, wool, and draught animals can be borrowed at a significantly high interest rate, potentially escalating to six or eight times the original amount.



**Banking between 200 B.C. and 500 A.D.:** The importance of money-lending and the related issues likely increased significantly during this period, as evidenced by Manu's choice to prioritize "Recovery of Debt" and "Deposits and Pledges" as the first two legal categories in his work. However, there is no mention of interest payments on deposits during this early period. A moneylender could charge a monthly interest rate of *two, three, four, or five per cent, depending on the caste*, reflecting the complex and caste-dependent nature of the early Hindu financial system. The most renowned lawgiver in ancient India is *Manu*, who Hindus regard as belonging to ancient times; however, research by Prof. Jolly suggests that his Code may date to roughly the second or third century A.D. Following Manu, we have *Vishnu* from the third century, then *Yajnavalkya* and *Narada* from the fourth and fifth centuries A.D, in chronological order.

The significance of money-lending and the associated issues likely grew substantially by the onset of the new era, as indicated by Manu's choice to prioritize "Recovery of Debt" and "Deposits and Pledges" as the first two legal categories in his work. But there is no mention of interest payments on the deposits in this early period. According to the order of the castes, a moneylender may take just two in a hundred, three, four, or five (and not more) as monthly interest, highlighting the intricate and caste-dependent nature of the early Hindu financial system. The shift from "Money Lending" to "Banking" occurred between the 2nd and 3rd centuries A.D., although interest payments were not mentioned.

**Banking from the Sixth to the Sixteenth Centuries A.D.:** From the 6th-16th century, there aren't any remaining documents of indigenous banking. The reference can be traced back to hundis as early as the 12th century. The word hundi is a Persian word that means to collect, which was given to it by Mohammedans. It is a generic term denoting all instruments of exchange drawn in vernacular language. Although no one has ever examined original Sanskrit and Persian chronicles of the period from this perspective, they may provide information. The following related evidence isn't essential for our current aim; it has simply been to demonstrate that Indigenous bankers have a long history and have existed throughout India's history. Jaina bankers were already extremely rich in the 12th century. According to an inscription reported in the well-known Jaina temples of Dilwara on Mount Abu, the most prominent of these temples was constructed between 1197 and 1247 A.D. by two Jaina bankers. The cost of the temple must have been very high.

The following note, which has been written by **Ludovico Di Varthema**, an Italian traveller who travelled from 1503-08 A.D., may be copied here to benefit from the universal praise given to Indian banking by European travellers:

*"The money-changers and bankers of Calicut have some weights, that is, balances, which are so small that the box in which they stand and the weights together do not weigh half an ounce, and they are so true that they will turn by a hair of the head. When they wish to test any piece of gold, they have carats of gold like we have and touchstones like us. And they test after our manner. When the touchstone is full of gold, they have a ball of a certain composition that resembles wax. With this ball, when they wish to see if the gold is good or poor, they press on the touchstone, and then they see in the ball the goodness of the gold, and they say: "Idu mannu, Idu aga," that is "this is good, and this is poor." Moreover, when that ball is full of gold, they melt it and remove all the gold they tested by the touchstone. The said money-changers are extremely acute in their business."*

**Mohammedan Period:** The restrictions on usury were, however, eased in India during the Mughal era, a time when the security of both money and life became considerably uncertain. With the arrival of the Mohammedans in India, Indian indigenous banking suffered a fatal blow and a significant setback, as



these conquerors employed their own Holy Quran, which dictated India's future. A quick review of the Quran can assist in clarifying the topic, considering its teachings differ significantly from those of the Hindu Dharma shastras. In Arabia, Persia, and other Islamic nations, receiving and paying interest was considered acceptable before the delivery of the Quran by the Prophet Muhammad. However, the word "interest" itself became a major sin once the teachings of the Holy Quran had been implemented in Islamic countries and later in India.

The Quran states: “**Allahtalla (God)** has ordained that Baiy (selling goods or property with profit) was **Halal**, i.e., sinless and good. However, Byaj or interest was a great sin (**Haraam**).” In 4th Sipara, this injunction is made more severe by the following: “The Quran states, the seller couldn't charge interest for the loss he suffered as a result of locking up his capital if he sold certain goods on credit, involving when the price was due after month. In that case, the seller had been to receive the price agreed upon between the seller and the buyer; however, if the buyer did not pay for a month and the seller had to wait for two months, it would be a grave sin.”

In Islamic beliefs, any surplus of capital is considered **Riba** (interest). Islam does not distinguish between appropriate and excessive interest rates, resulting in what became known as the difference between usury and interest or between returns on bonuses for consumption and those for production, as far as prohibition is concerned.

According to Ain-i-Akbari, loans were granted from the Royal treasury with varying interest rates over the years, as follows: no interest in the first year, 6.5% in the second year, 12% in the third year, 25% in the fourth year, 50% from the fifth to the seventh years, 75% from the eighth to the tenth years, and 100% from the tenth year onward.

**Development of Banking During the British Era:** The demand for the banking and mercantile industries' services declined significantly following the fall of the Maratha government, particularly in the Deccan. As early as 1720, the EIC founded the first English bank, the Bank of Bombay, on the island of Bombay. It did not, however, last for very long. In Bombay, Forbes and Company, the first English firm, was founded in 1767 and conducted unparalleled agency and mercantile activity for many years. Bombay had five European Agency Houses during the first decade of the 19th century. Later, the Managing Agency system and joint-stock banking replaced the previous Agency House arrangement. "Bank of Bombay", the first joint stock bank, eventually opened in 1840. About 10 significant banking companies had begun operations in western India by 1860.

**Establishment of Banks Operating on European Principles, and Development of Joint Stock Banks:** Modern banking, with the principle of limited liability underlying its constitution, is a later growth. The First Joint-stock banking enterprise, Hindustan Bank, was established in 1770. Some Agency Houses in Calcutta started it, and its business was more or less intimately connected with those houses. It closed its doors in 1832 when the firm of Alexander & Co., the principal party associated with it, failed. Like all other similar institutions of the time, it issued notes which, although not recognised as legal tender, were circulated freely, their circulation often amounting to Rs. 50 lacs, a figure of some importance in those days. "Bengal Bank and General Bank of India" existed in about 1785. After a somewhat interesting career, the latter was dissolved by voluntary liquidation in 1791, and a little later, the former suspended payment due to severe run occasioned by the reverses with which the English met in their encounters against Tippoo Sultan.

In 1801, the Accountant General, Mr. Henry St. G. Tucker, brought to the attention of the Indian Government the necessity of banks both in the interests of the Government and of the mercantile



community. Ultimately, this resulted in the Bank of Bengal being established in 1806 and receiving its charter a little later, in 1809. This bank had a capital of £500,000, of which the State, through EIC, provided £100,000, or one-fifth. Participation of the Government in the bank's capital as a shareholder was thought necessary to share in the direction of the bank's affairs and safely guide it.

Bank of Bombay was initially established in 1840 with Rs.52,25,000 capital and Rs.3lacs contributed by the government. In 1843, 3 years later, the Bank of Madras was established with a capital of Rs.30 lacs, of which the EIC contributed Rs. 3 lacs. The monopoly of government banking and the authority to issue notes were among the most significant concessions that the government granted to all three banks. There were, however, certain restrictions upon their powers to issue notes. In the first place, limits were prescribed for the total amount that each bank could issue, e.g., the limit in the case of Bank of Bengal was Rs. 2 crores. Banks had to maintain a 33 per cent cash reserve of their demand liabilities, which included current deposits and outstanding notes. This percentage was later reduced to 25 per cent. In 1862, the right to issue notes was withdrawn from these banks, and the Paper Currency Act of 1862 was brought into operation. The Presidency Banks were, however, compensated for the loss of this privilege by the Government's agreeing to place all their funds in Presidency towns with these banks.

Allahabad Bank was founded in 1865, according to the history of Indian banking. About 10 years later, the Alliance Bank of Simla was established, and it was liquidated in 1923. Both of these, however, owe their origin to European enterprise. Europeans started all the Indian Joint-stock banking activities before 1880. Exchange Banks controlled the foreign banking industry, and by 1870, two of them had established offices in India. More about these banks will be said later. The first purely Indian Banking enterprise on the principle of limited liability was started in 1881 when "Oudh Commercial Bank" had been founded. Lalla Har Kishen Lai, the province of Punjab's business and banking pioneer, was largely responsible for the establishment of "PNB (Punjab National Bank Ltd.)" in 1894.

The Swadeshi Movement (1906-1913) established numerous additional Indian commercial banks, including "CBI, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore," that significantly assisted joint stock banks with Indian ownership. These banks have been established between 1906-13. In addition to giving the cooperative credit movement an improvement, the Swadeshi Movement additionally led to the development of several types of urban cooperatives and agricultural credit institutions. In India, the cooperative banking movement began to take shape in the final 10 years of the 1800s. "In the then-princely State of Baroda, late Shri Vithal L. Kavthekar spearheaded the urban cooperative credit movement in 1889.

Presidency banks merged to form the Imperial Bank of India in 1921. Lord John Maynard Keynes recommended the title Imperial Bank of India. Imperial Bank of India was established by the merger of numerous banks from former princely states, particularly Jaipur, Mysore, Patiala, and Jodhpur". "Imperial Bank of India now has a richer historical tapestry due to the diversity of the bank's origins. Imperial Bank of India also functioned as a central bank before the Reserve Bank was established in 1935. In this manner, the Imperial Bank of India fulfilled three functions": *government, commercial, and central banking*.

**ii) The Early Years of Independence (1947-1967):** Private ownership of the Indian banking industry was complete at the time of independence. Five significant banks, in addition to Imperial Bank, held public deposits of at least Rs 100 crore. These banks were "PNB, Central Bank of India Ltd. (CBI), Bank of Baroda Ltd., Bank of India Ltd. (BOI), and United Commercial Bank Ltd. (UCB)." Other commercial



banks, most of which held deposits under Rs. Fifty crores were privately held and usually had a regional focus.

**iii) Social Control over Banks – (1967-1991):** "Banks Laws (Amendment) Act 1968", which went into effect on February 1, 1969, established social control over banks in December 1967. Through the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance of 1969, the government nationalized 14 banks with *deposits exceeding Rs. 50 crores.* "Indian Overseas Bank, Bank of Maharashtra, Bank of Baroda, Allahabad Bank, CBI, Indian Bank, United Bank of India, UCO Bank, BOI, Union Bank, Dena Bank, Punjab National Bank, Syndicate Bank, Canara Bank, and Indian Bank."

Some private banks grappled with governance issues, and a more robust credit delivery system was needed. In response, a crucial decision was made in April 1980. Six banks, namely "Vijaya Bank, Andhra Bank, Oriental Bank of Commerce, Punjab & Sind Bank, New Bank of India, and Corporation Bank," each *with deposits and liabilities of Rs.200 crore and above*, had been nationalized.

**iv) Phase of Financial Sector Reforms – 1991-92 onwards:** The banking industry's inadequate capital basis, low profitability, and precarious health had been significant issues in the early 1990s. Several mutually supporting actions have been implemented to resolve these problems. Under "CAMELS system (Capital Adequacy, Assets Quality, Earning Ability, Liquidity Management, and Sensitivity)" for domestic commercial banks and "CALCS (Capital Adequacy, Assets Quality, Liquidity, Compliance, and Systems)" for foreign banks, emphasis shifted in assessing the overall operations and performance of banks. Prudential norms for capital sufficiency, asset classification, provisioning, and revenue recognition became gradually implemented "in April 1992. Guidelines for private-sector banks were implemented in January 1993". By November 1995, "The Board for Financial Supervision (BFS)" established the computerized "Off-site Monitoring and Surveillance (OSMOS) system" as an early warning mechanism for at-risk banks.

While the "Cash Reserve Ratio (CRR)" dropped from 15% in April 1993 to 4.5% by June 2003 before increasing to 9.0% in August 2008, the "Statutory Liquidity Ratio (SLR)" gradually decreased from 38.5% in February 1992 to 25% by October 1997. When the Board for Financial Supervision (BFS) was established in July 1994, its purpose was to comprehensively regulate banks, financial institutions, and non-banking financial companies.

From April 1993, lending interest rates were deregulated, and deposit rates (excluding savings accounts) were fully liberalized. "The Banking Ombudsman Scheme was introduced in June 1995, and Maximum Permissible Bank Finance gradually phased out in April 1997. By March 31, 2000, capital-to-risk-weighted assets ratio" had been 9%. To facilitate foreign investment, the government increased private banks' foreign direct investment (FDI) limit to 49% in 2001 and 74% in March 2004. The Banking Codes and Standards Board of India (BCSBI) was established to promote customer service standards.

In February 2005, a policy framework was implemented to ensure diversified "ownership and proper governance in private banks." To address dual control difficulties, a state-level Task Force for Cooperative Urban Banks emerged in March 2005, along with a roadmap for foreign banks. A pilot risk-based supervision approach began in April 2004, and by November 2005, banks were encouraged to offer 'No Frills' accounts. In January 2006, banks could employ business facilitators and correspondents to deliver financial services through NGOs and civil society organizations.

## Legal Reforms

Recovering Debts "Debt recovery tribunals (DRTs)" have been established in various locations under the Banks and Financial Institutions Act (1993) to expedite the recovery of non-performing loans. State Bank of India (SBI) The Act was revised in October 1993 by an ordinance that ensured government ownership of nationalized banks wouldn't remain above 51% while permitting public sector banks to obtain funds directly from the capital market. The SARFAESI Act was enacted in March 2002 to aid financial asset securitization. Furthermore, June 2006 and January 2007 modifications removed restrictions on banks' CRR and SLR.

## GROWTH AND DEVELOPMENT OF BANKING IN INDIA: AN OVERVIEW, 1870-2024

**Table 1: Number of Banks in Undivided India 1870-1912 – Concluded**

Year End -December	Presidency Banks	Exchange Bank	Indian Joint Stock Banks (Class-A Capital and reserve over Rs. 5 lakh)	Total Reporting Banks Column (2+3+4)
<b>1</b>	2	3	4	5
<b>1870</b>	3	3	2	8
<b>1880</b>	3	4	3	10
<b>1890</b>	3	5	5	13
<b>1900</b>	3	8	9	20
<b>1904</b>	3	10	8	21
<b>1905</b>	3	10	9	22
<b>1906</b>	3	10	10	23
<b>1907</b>	3	10	20	33
<b>1908</b>	3	10	14	27
<b>1909</b>	3	10	15	28
<b>1910</b>	3	11	16	30
<b>1911</b>	3	12	18	33
<b>1912</b>	3	12	18	33

Source: 1. Statistical Tables Relating to Banks in India, 1913-15.  
 2. RBI- Banking and Monetary Statistics- 1954.  
 3. RBI-Report on Currency and Finance 2006-08-Vol-I, Chapter-III.

**Table 2: Number of Banks in Undivided India 1913-1920 – Concluded**

Year End-December	Presidency Banks	Exchange Bank	Indian Joint Stock Banks		Total Reporting Banks Column (2+3+4+5)
			Class-A (Capital and reserve over Rs. 5 lakh)	(Class-B (Capital and reserve between Rs. 1- 5 lakh)	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>1913 (Pre-war year)</b>	3	12	18	23	56
<b>1914</b>	3	11 (a)	17	25	56
<b>1915</b>	3	11	20	25	59
<b>1916</b>	3	10 (b)	20	28	61
<b>1917</b>	3	9 (c)	18*	25	55
<b>1918</b>	3	10 (d)	19	28	60
<b>1919</b>	3	11(e)	18	29	61
<b>1920</b>	3	15 (f)	25	33	76

(a) Excluding the Duet-oh-Asiatische Bank, which went into liquidation after the outbreak of war.  
 (b) Excluding Delhi and London Bank amalgamated with Alliance Bank of Shimla Ltd. (Indian Joint-Stock Bank)  
 (c) Excluding the Russo-Asiatic Bank information, not being available  
 (d) Including the Bank of Taiwan, which opened a branch in India  
 (e) This includes Sumitomo Bank, which has a branch in India.  
 (f) Including National Bank of South Africa, Imperial Bank of Persia, P. and O. Banking Corporation, and the Banco Nacional Ultramarino.

Source: 1. Statistical Tables Relating to Banks in India, 1920.  
 2. RBI- Banking and Monetary Statistics- 1954.  
 3. RBI-Report on Currency and Finance 2006-08-Vol-I, Chapter-III.

**Table 3: Number of Banks in Undivided India 1921-1938 – Concluded**

Year End- December	Imperial Bank of India	Exchange Banks		Indian Joint Stock Banks		Total Reporting Banks Column (2+3+4+5+6)
		A	B	Class-A	Class-B	
				(Capital and reserve over Rs.5 lakh)	(Capital and reserve between Rs.1- 5 lakh)	
1	2	3	4	5	6	7
1921	1	17		27	38	83
1922	1	18		27	41	87
1923	1	5	13	26	43	88
1924	1	5	13	29	41	89
1925	1	5	13	28	46	93
1926	1	5	13	28	47	94
1927	1	6	12	29	48	96
1928	1	6	12	28	46	93
1929	1	6	12	33	45	97
1930	1	6	12	31	57	107
1931	1	6	11	34	54	106
1932	1	7	11	34	52	105
1933	1	7	11	34	55	108
1934	1	7	10	36	69	123
1935	1	7	10	38	62	118
1936	1	6	13	41	71	132
1937	1	6	12	40	108	167
1938	1	5	13	41	120	180

- A. A significant amount of bank business is conducted in India; i.e. more than 25% of their deposits are in India.  
 B. Large banking companies that conduct a significant amount of their business overseas, that is, have less than 25% "of their deposits in India, are merely the result of banks.

Source: 1. Statistical Tables Relating to Banks in India, 1928, 1938 and" 1941.  
 2. RBI- Banking and Monetary Statistics- 1954.  
 3. RBI-Report on Currency and Finance 2006-08-Vol-I, Chapter-III.

**Table 4: Number of Banks in Undivided India 1939-1947 and Indian Union 1948-55 – Concluded**

Year End- December	Scheduled Banks					Non-Scheduled Banks				All Banks Column (6+11) Total	
	Banks that carry on the business of banking in India and which (a) have paid up capital and reserves of an aggregate value of not less than five lakhs of rupees and (b) are companies as defined in clause (2) of Section 2 of the Indian Companies Act, 1913.					Banks that have not so far been included in the second schedule under Section 42 (6) of the Reserve Bank Act and which have paid-up capital and reserves of					Non-Scheduled Banks column (7+8+9+10) Total
	Imperial Bank of India	Exchange Bank or Foreign Banks		Other Scheduled Bank Class-A1	Scheduled Banks Column (2+3+4+5) Total	Class-A2	Class-B	Class-C	Class-D		
		Class									
A	B	7	8	9	10	11					
1	2	3	4	5	6	7	8	9	10	11	12
1939	1	5	14	39	59	12	119	112	400	643	702
1940	1	5	15	41	62	17	122	121	332	592	654
1941	1	5	12	44	62	19	125	124	147	415	477
1942	1	6	10	44	61	25	136	137	133	431	492
1943	1	5	11	57	74	35	152	141	161	489	563
1944	1	5	10	69	85	49	162	113	235	559	644
1945	1	6	9	75	91	67	188	137	24	646	737
		Scheduled	Non-Scheduled								
1946	1	16	12	78	107	58	188	128	168	542	649
1947	1	16	7	81	105	68	185	121	170	544	649
1948	1	16	4	79	100	72	191	119	158	540	640
1949	1	16	5	78	100	78	190	124	129	521	621
1950	1	16	5	75	97	73	189	123	124	509	606
1951	1	16	5	76	98	70	186	117	96	469	567
1952	1	15	2	76	94	70	194	114	60	438	532
1953	1	16	1	73	91	67	196	114	54	431	522
1954	1	16	1	72	90	65	191	116	37	409	499
1955	1	17	1	72	91	64	190	105	25	384	475

- Source: 1. This information is drawn from a collection of Statistical Tables that document the performance and characteristics of banks in India over several years, specifically from 1928 to 1957. The tables include data from the key years 1928, 1938, 1941, 1946, 1947, 1949, 1951, 1955, and 1957, providing valuable insights into the evolution of the banking sector in this period.  
 2. RBI- Banking and Monetary Statistics- 1954.  
 3. RBI-Report on Currency and Finance 2006-08-Vol-I, Chapter-III.

**Table 5: Indian Commercial Banks 1956-1963 – Concluded**

Year End-December	Scheduled Banks @			Non-Scheduled Banks				All Banks Column (4+9)	
	Banks that carry on the banking business in India and (a) have paid-up capital and reserves of an aggregate real or exchangeable value of not less than Rs. 5 lakhs and (b) are either a company as defined in Section 3 of the Companies Act, 1956.		Scheduled Banks Column (2+3)	Banks that have not so far been included in the second schedule under Section 42 (6) of the Reserve Bank Act and which have paid-up capital and reserves of					
	Indian Scheduled Bank Class-A1	Foreign Scheduled Bank		Class-A2	Class-B	Class-C	Class-D		
	Paid-up capital and reserves of Rs. 5 lakhs and above								Rs. 5 lakhs and above
1	2	3	4	5	6	7	8	9	10
1956	72	18*	90	58	170	93	12	333	423
1957	74	17	91	55	163	76	4	298	389
1958	77	16	93	41	151	84	2	278	371
1959	78	16	94	30	148	76	2	265	359
1960	77	16	93	38	143	69	1	251	344
1961	67	15	82	32	121	56	-	209	291
1962	66	14	80	30	117	49	-	196	276
1963	65	14	79	30	100	43	-	168	252*

@ “Commercial banks which carry on the business of banking in India and which (a) have paid-up capital and reserves of an aggregate real or exchangeable value of not less than Rs. 5 lakhs and (b) satisfy the Reserve Bank of India that their affairs are not being conducted in a manner detrimental to the interests of their depositors are eligible for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934, and when so included are known as ‘Scheduled Commercial Banks’.”

\* During 1963, 3 banks amalgamated with other banks, other banks took over four banks’ businesses, 15 banks ceased to function due to the transfer of assets and liabilities to different banking companies, one went into voluntary liquidation, and five banks did not submit their returns or balance sheets in time.

Source: 1. This information is drawn from a collection of Statistical Tables that document the performance and characteristics of banks in India over several years, specifically from 1956 to 1963. The tables include data from the key years 1957 and 1960, providing valuable insights into the evolution of the banking sector during this period.

2. RBI-Report on Currency and Finance 2006-08-Vol-I, Chapter-III.

**Table 6: Indian Commercial Banks 1964-1998 – Concluded**

Year End-December	Scheduled Commercial Banks @				Non-Scheduled Commercial Banks		All Commercial Banks	
	Indian Banks		Foreign Banks		Functioning	Reporting	Total Scheduled Commercial Banks	
	Functioning	Reporting	Functioning	Reporting			Functioning (2+4+6)	Reporting (3+5+7)
1	2	3	4	5	6	7	8	9
1964	61	60	15	15	84	80	160	155
1965	61	61	15	13	33	33	109	109
1966	60	60	15	13	27	27	102	100
1967	58	58	15	13	20	20	93	91
1968	58	57	15	13	17	16	90	86
1969	58	58	15	13	14	14	87	85
1970	58	58	15	13	12	12	85	83
1971	60	60	14	12	9	9	83	81
1972	61	61	13	11	9	9	83	81
1973	61	61	13	11	9	9	83	81
1974	60	60	14	12	9	9	83	81
1975	65	65	14	12	8	8	87	85
1976	99	99	14	12	7	7	120	118
1977	108	108	14	12	6	6	128	126
1978	112	109	14	12	5	4	131	125
1979	121	120	14	12	5	4	140	136
1980 \$	147	141+	15	13 €	3	3	165	157
1981	169	165x	18	16	3	3	190	184
1982	186	185++	18	16	3	3	207	204
1983	212	211	18	17	3	3	233	231
1984	235	234@@	18	18	3	3	256	255
1985	247	247	20	20	3	3	270	270
1986	252	252	21	21	3	3	276	276
1987	253	253	21	21	3	3	277	277
1988	253	253	21	21	3	3	277	277



1989	253	253	21	21	3	3	277	277
1990	249	249	21	21	3	3	273	273
1991	248	248	23	23	3	3	274	274
1992	248	248	24	24	3	3	275	275
1993	248	248	24	24	3	3	275	275
1994	248	248	23	23	3	3	274	274
1995	254	254	26	26	2	2	282	282
1996	258	258	29	29	1	-	288	287
1997	258	258	37	37	1	-	299	298
1998	257	257	41	41	-	-	301	301

@ “Commercial banks which carry on the business of banking in India and which (a) have paid-up capital and reserves of an aggregate real or exchangeable value of not less than Rs. 5 lakhs and (b) satisfy the Reserve Bank of India that their affairs are not being conducted in a manner detrimental to the interests of their depositors are eligible for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934, and when so included are known as ‘Scheduled Commercial Banks’.”

€ In 1981, two international commercial banks—Emirates Commercial Bank Ltd. and Bank of Oman Ltd.—were added to the RBI Act of 1934's second schedule upon opening in 1980. Their offices, however, are listed in Table Nos. 28, 30, 31, 32, 33, and 35 and Appendix I.

\* Habib Bank Ltd. and National Bank of Pakistan Ltd., two foreign commercial banks under the Custodian of Enemy Property since September 7, 1965, are exempt from filing returns for the 1966 Statistical Tables. However, their offices are listed in Appendix I and Table Nos. 28, 30, 31, 32, 33, and 35.

+ Excludes six Regional Rural Banks due to non-receipt of forms A-1 and A-2.

++ Excludes one Regional Rural Bank due to non-receipt of Forms A-1 and A-2.

@@ Excludes one Scheduled Commercial Bank.

X Excludes four Regional Rural banks due to non-receipt of Forms A-1 and A-2.

\$ End-March, from" 1980.

The last time there was any non-scheduled bank was May 1997.

Source: 1. This information is drawn from a collection of Statistical Tables that document the performance and characteristics of banks in India over several years, specifically from 1964 to 1997. The tables include data from the key years 1967-1971, 1976,1984,1988-89,1990-91,1992-93,1994-95 and 1998-99, providing valuable insights into the evolution of the banking sector during this period.

2. RBI-Report on Currency and Finance 2006-08-Vol-I, Chapter-III.

Table 7: Commercial Banks in India 1999-2024 – Concluded

Year End-March	Scheduled Commercial Banks @											Non-Scheduled Commercial Banks	All Commercial Banks (7+8+9+10+11+12+13)
	Public Sector Banks		Private Sector Banks		Foreign Banks	Total Scheduled Commercial Banks (2+3+4+5+6)	Cooperative Banks		Small Finance Banks	Payments Banks	RRB, s		
	SBI & Associates	Nationalized Banks	Old	New			State Co-operative Banks	Urban State Co-operative Banks					
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1999	8	19	25	9	45	106	16	51			196	3	372
2000	8	19	24	8	43	102	16	51			196	3	368
2001	8	19	23	8	42	100	16	51			196	3	366
2002	8	19	22	8	41	98	16	52			196	4	366
2003	8	19	21	9	37	94	16	55			196	4	365
2004	8	19	20	10	33	90	16	55			196	5	362
2005	8	20	20	9	31	88	16	55			196	4	359
2006	8	20	20	8	29	85	16	55			133	4	293
2007	8	20	17	8	29	82	16	53			96	4	251
2008	8	20	15	8	28	79	16	53			92	4	244
2009	7	20	15	7	31	80	16	53			86	4	239
2010	7	20	15	7	34	83	16	53			82	4	238
2011	6	20	14	7	34	81	16	53			82	4	236
2012	6	20	13	7	41	87	16	52			82	4	241
2013	6	20	13	7	43	89	16	51			67	4	227
2014	6	21	13	7	43	90	17	50			58	4	129
2015	6	21	13	7	44	91	18	50			56	4	128
2016	6	21	14	7	45	93	18	52			56	4	130
2017	6	21	14	7	44	92	19	54	2		56	3	134
2018	1	20	14	7	45	87	20	54	6		56	3	139
2019	1	19	13	9	45	87	21	54	7		51	3	136
2020	1	17	13	9	46	86	23	54	10	1	45	3	136
2021	1	11 #	12	9	45	78	23	53	10	2	43	2	133
2022	1	11	12	9	45	78	23	52	11	4	43	2	135
2023	1	11	12	9	44	77	24	51	12	4	43	4~	138
2024	1	11	12	9	44	77	24	51	11	4	43	4~	137

~ SCBs are classified into scheduled and non-scheduled based on their inclusion or otherwise in the second schedule of the RBI Act of 1934. Two PBs, viz., Jio Payments Bank Ltd. and NSDL Payments Bank Ltd, and two LABs, Coastal Local Area Bank Ltd. and Krishna Bhima Samruddhi LAB Ltd., are non-scheduled commercial banks.

# Syndicate Bank merged with Canara Bank, Andhra Bank, and Corporation Bank merged with Union Bank of India, United Bank of India, and Oriental Bank of Commerce merged with Punjab National Bank, and Allahabad Bank with Indian Bank w.e.f. April 01, 2020.

\* IDBI Bank Limited was classified as a “Public Sector Bank” before January 21, 2019, and is now classified as a “Private Sector Bank. Vijaya Bank and Dena Bank with Bank of Baroda w.e.f. April 01, 2019.

State Bank of India absorbed five associates and the Bhartiya Mahila Bank in 2017.



@ Scheduled Commercial Banks are banks included in the second schedule of the RBI Act. They comprise the Public Sector, the Regional Rural, the Private Sector, Small Finance Banks (SFBS), Scheduled Payments Banks, and foreign banks. (b) Public Sector banks comprise the State Bank of India (including erstwhile associate banks and Bhartiya Mahila Bank, established before April 1, 2017) and Nationalised banks. Bhartiya Mahila Bank was established on 19 November 2013.

SBI Commercial & International Bank Ltd. (an old private sector bank) merged with the State Bank of India on 29 July 2011.

Source: 1. This information is drawn from a collection of Statistical Tables that document the performance and characteristics of banks in India over several years, specifically from 1999 to 2024. The tables include data from the key years 2000, 2001, 2007, 2010, 2011, 2012, and 2013, providing valuable insights into the evolution of the banking sector during this period.

2. RBI-Report on Currency and Finance 2006-08-Vol-I, Chapter-III.

## DISCUSSION OF RESULTS AND CONCLUSION

The present study provides a comprehensive analysis of how the growth and development of banking in India have taken place, tracing its origins from ancient times and the views of different religions on banking, as seen through the eyes of various travellers, including Ludovico Di Varthema from Italy and Jean Baptiste Tavernier from France, who visited India between the 15th and 17th centuries during the reign of the EIC and the Moghuls. Modern banking began with establishing banks operating on European principles and joint-stock banks. The Swadeshi movement, 1906-1913, posed significant exchange challenges by the early 19th century. Inspired by national sentiment, many Indians began establishing new financial institutions. Numerous industrial ventures emerged within these eight years alongside a rise in joint-stock banks, as evidenced by the statistics provided. Indian banking encountered numerous difficulties during the First World War from July 28, 1914, to November 11, 1918. However, this period was followed by a severe financial crisis during which failed banks accounted for approximately 51% of the total paid-up capital of the surviving joint-stock banks by 1918. This banking crisis was the most significant that India had experienced since introducing European banking to the country. Additionally, the Great Depression of 1929 and the Second World War from September 1, 1939, to September 2, 1945, severely affected the Indian banking sector.

Major transformations took place in the Indian banking sector following independence, particularly in 1949 when the RBI was nationalised. In 1955, the State Bank of India was established, followed by the nationalisation of 14 significant private banks in 1969 and an additional 6 in 1980. By 1926, there were 94 banks in India, comprising 18 exchange banks and 76 Indian joint-stock banks. The Imperial Bank of India, along with 28 other banks, had a paid-up capital and reserves of Rs. 5 lakhs or more, while 47 smaller banks had paid-up capital and reserves between Rs. 1 lakh and Rs. 5 lakhs. (Table 1.3)

In 1947, when India gained independence, there were 649 banks in total, including 23 exchange banks. Among these, 81 were classified as scheduled banks, which included the Imperial Bank of India, while 544 were non-scheduled Indian joint-stock banks, categorised into types A, B, C, and D, from which the Reserve Bank of India gathered returns. From this total, 81 scheduled and 68 non-scheduled banks possessed paid-up capital and reserves of Rs. 5 lakhs or more. The remaining 500 banks were smaller entities with paid-up capital and reserves between Rs. 1 lakh and Rs. 5 lakhs. (Table 1.4)

As of March 2024, India had a total of 137 banks, which comprised 43 foreign banks and 94 domestic banks. Within the category of Indian banks, there were 11 scheduled nationalised banks, including the State Bank of India, 21 scheduled private sector banks, and 4 non-scheduled Indian joint-stock banks. (Table 1.7) The study emphasises the diverse origins of banking in India, tracing its journey from the Vedic Era to contemporary banking practices. It demonstrates the evolution of the banking sector, transitioning from European-style banking to the establishment of Indian joint-stock banking.

Banks must start implementing strategies now to prepare for the future of banking. The banking landscape in the future will vastly differ from what we see today in response to evolving customer expectations, new technologies, and innovative business models. Although digital transformation is often seen as a current trend, it is essential for banks' success in a rapidly changing marketplace. While many



banks are trying out digital initiatives, most have not yet made bold, consistent, and sustained efforts towards comprehensive, technology-driven transformation. Technology will remain a key factor for business growth and will play a vital role in providing various services through enhanced customer experiences.

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