

PART - I

BANKING LAW

1. HISTORY OF BANKING IN INDIA AND ENGLAND

(IMPORTANT)

SYNOPSIS:

- A. Introduction**
- B. Origin of Banking**
- C. Development of Banking Institutions**
- D. Development of Banking System in England**
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- F. Institutionalised Banking in India
(Indigenous Banks)**
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to meet global challenges**
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A. INTRODUCTION:

With the increased global production and economic activities, it has become necessary that the prices of goods and services are to be held steadily and for this purpose, the banking system plays a pivotal role.

Banking is a business of borrowing, lending and management of funds which is an important instrument for national and global economy and their growth. Banks are reservoirs of savings of the people. The Industrial, business and agricultural growth of a nation majorly depend on banking.

B. ORIGIN OF BANKING:

According to **one school of thought**, the term '**Bank**' is of Italian origin from the word '**Banco**' or '**Banque**' which means a **Bench**. The Bench is the market place where money lenders and money changers transact money business by displaying the coins.

In those days, money changing was considered as the most important function of a bank. The work '**banco**' finally became **bank** in the English language. The **Bank of Venice** is considered as the most ancient bank in the banking history.

According to the **other school of thought**, the word '**bank**' was derived from German word '**back**' which means a joint fund. This German word 'back' has become '**banco**' in Italy.

C. DEVELOPMENT OF BANKING INSTITUTIONS:

The business of banking has ancient origin. Evidence is available that banking system existed even as early as **2000 B.C. in Babylonia temples** which were used for keeping gold and silver for safe custody as against loans and advances made to its owners at interest.

D. DEVELOPMENT OF BANKING SYSTEM IN ENGLAND:

In England, the banking business developed well among Goldsmiths during the period of **Queen Elizabeth I**. The profitable banking business in England received a set back during **Charles II** period (1640) who directed that the loans need not be repaid to Goldsmiths.

Due to this, private banking started growing.

In 1694, the Bank of England was started by **King William III** under the **Tonnage Act 1694**.

In 1890 the cheque currency was introduced to substitute the issue of bank notes.

The **Peel's Act 1844** restricted other banks than Bank of England issuing the currency notes and this laid the foundation for centralized issue of bank notes by Bank of England.

E. BANKING BUSINESS IN INDIA:

The banking industry in India has a unique history. There is ample evidence to show that the concept of banking existed even in ancient India. The ancient Hindu scriptures refer to the money-lending activities in the **vedic period**.

Proofs are available for banking activity among the **Vaish community**. The main function of banks in ancient days were to grant loans to Public/State at times of crisis.

The debts incurred while playing dice was paid of by a system called **Rnam – Samm**. Thus credit system existed even during **vedic period**.

Money lending business existed even before the period of **laws of manu**. There was a special section on **'deposits and pledges'** in Manu law. The system of **'Hundi'** i.e., collection of money - existed even during

the days of **Mahabharatha**. The system of **Usury** i.e., advance of loan at high rate of interest was prevalent in India even in ancient days.

Throughout the period of Indian History, moneylenders called **wither seths** or **shroffs** existed and carried on the business of money-lending and private banking on large scale.

In India, the real banking system started only in the 19th century. The **Joint Stock Companies Act, 1850** permitted companies to start banking business as per the provisions of the Act.

Accordingly, **Oudh Commercial Bank** was established in 1901. The **Banking Regulation Act, 1949** was enacted to regulate the rapidly growing banking business and banking institutions.

Before 1969, there were many private banks except the Government owned Reserve Bank of India and State Bank of India. But in 1969, by amending **Banking Nationalization Act 1948, 14** major commercial private banks were nationalized and **6** more banks were nationalized **in 1980**.

F. INSTITUTIONALIZED BANKING IN INDIA: (INDIGENOUS BANKS)

Institutionalized banking means banking operations through institutions like companies, firms, corporations, etc., in India first started by companies like Messrs Alexander & Co., Messrs Fergusson & Co. and others.

In 1809, the Bank of Bengal was financed by the Indian Government to the tune of Rs. 50 lakhs to do institutionalized banking.

In 1839, the bank opened branches and started dealing with Inland Exchange operations. In 1840, the Bank of Bombay was established and in 1843 the Bank of Madras was established.

Till 1860, the banks were operated with unlimited liability, though they were institutions. Only in 1860, the principle of limited liability was applied to banks.

The Swadeshi movement prompted Indians to start many new institutions. The number of joint stock banks increased during 1906 - 13. With the dawn of 20th century, many institutionalized banks started operating. Some of the important institutionalized banks were the Bank of India Ltd., the Central Bank of India Ltd., the Indian Bank Ltd., the Bank of Baroda Ltd., etc.,

In 1921, the Imperial Bank of India came into existence by amalgamation of the Bank of Bengal, Bank of Bombay and Bank of Madras. The functions of the Imperial Bank of India were taken over by the Reserve Bank of India in the year 1935.

STATE BANK OF INDIA (CENTRAL BANKING INSTITUTION OF ALL BANKS):

With the passing of the State Bank of India Act, 1955, the functions of the Imperial Bank of India was taken over by the State Bank of India, which later became the **Central Banking Institution** of all banks.

After passing of the State Bank of India (Subsidiary Banks) Act, 1959, many subsidiary banks under State Bank of India were started like the State Bank of Indore, State Bank of Mysore, State Bank of Travancore, State Bank of Hyderabad State Bank of Bikaner, State Bank of Jaipur, State Bank of Patiala and State Bank of Saurashtra have been constituted as subsidiaries of the State Bank of India. The State Bank of India became the lead agency bank of Reserve Bank of India from 1960 onwards.

Thus the institutionalized banking business was carried on in the form of Joint Stock Companies, private banks, indigenous bank (local bank), etc.,

LEAD BANKS SCHEME:

In 1969, the Reserve Bank of India introduced a Lead Bank Scheme under which commercial banks, co-operative banks, Government and semi-government agencies were involved in the process of economic development especially in the backward areas.

All the major scheduled banks were made Lead Banks to guide all other banks in development of banking and credits in the allotted rural areas of the districts.

The Lead Banks functions are to survey the credit needs, to develop more number of branches and to advance loans with the help of other banks.

Further, the Lead Bank have to maintain contacts and liaisoning with the appropriate Government and quasi – government agencies.

These banks also implemented Government Schemes like Integrated Rural Development Programme (IRDP), Directed Rural Development (DRD), etc.,

CO-OPERATIVE BANKS:

The Co-operative Banks came into existence under the **Central and State Co-operative Acts**. Now, the Co-operative banks are playing an important role in the rural banking system of the country.

The major Co-operative Banks are the State Co-operative Banks (SCBs), the Central Co-operative Banks (CCBs), the Primary Urban Co-operative Banks (PACS), etc.,

Specialised institutionalized banking was implemented for Financing Agriculture, Rural Development, Export, Housing Development, etc.,

Some of the important specialised institutionalized banks are Industrial Re-construction Bank of India (IRBI), Industrial Credit and Investment Corporation of India Limited (ICICI), Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), State Financial Corporations (SFCS), Deposit Insurance and Credit Guarantee Corporation (DICGC), Agricultural Finance Corporation Limited (AFC), Export - Import Bank of India (EXIM bank), Export Credit Guarantee Corporation of India Limited (ECGC), National bank for Agriculture and Rural Development (NABARD).

G. NECESSITY FOR REFORMS IN INDIAN BANKING LAW TO MEET GLOBAL CHALLENGES:

There is a criticism that the standard and service of Indian banks are not upto the mark when compared to international banks. With globalisation, many multi national companies have stepped into India and now there is an urgent need to rehaul the banking system in India.

Further, many private banks both National and International have started operating and they extend better services than the nationalised public sector banks. To compete with these banks, the Indian Nationalised banks and the banking system must be revamped to meet the global changes.

The following are the some of the suggestions for improvement of Indian Banking system to meet the international standards.

1. Modernisation in the form of computerisation, internet banking, etc., in all the branches of all the banks must be introduced.
2. The time taken and the cumbersome procedures for loan advances must be reduced.
3. The account opening procedure in banks must be simplified with door step services to the customers.
4. The ATM services to draw cash at any time of the day must be expanded to semi urban and rural areas.
5. The loan advances to semi urban areas and rural areas must be more liberalised as India consists of more number of villages and rural areas than urban areas.

6. The banker public friendly approach must be strictly followed by the bankers in quickly redressing the grievances of the public. Besides, rural people must be educated to avail the bank facilities.
7. The service charge for banking approaches must be reduced, so that more number of customers can easily avail such services at reduced cost.
8. Corruption, red-tapism and the number of bank frauds must be reduced to enhance the image of the Indian Banks.

H. CONCLUSION:

As of now, banks are considered as not only dealers in money but institutions at the **service of the people** to make their savings for the **economic and social progress** of the nation.

Banking business is the **back bone** of any national economy. It is important for economic development of any country and especially for advanced business setup, banks are indispensable.

UNIVERSITY QUESTIONS FOR REVIEW:

1. *Trace the development of the system of banking.*
2. *Write a note on evaluation of banking with the special reference to England and India.*
3. *Banking system existed even in ancient days in Europe and in India. Comment.*

