



THE EVOLUTION OF BANKING IN INDIA: FROM VEDIC TIMES TO MODERN ERA.

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DOI: <http://doi.org/10.47211/tg.2024.v11i04.002>

ABSTRACT:

The evolution of banking in India is a fascinating journey that spans thousands of years, reflecting the country's rich cultural and economic history. The Vedic texts also mention the importance of agriculture and trade, laying the groundwork for the financial practices that would follow. As India transitioned into the medieval period, the Islamic influence brought significant changes to banking practices. The fusion of Indian and Islamic banking practices during this period laid the groundwork for the diverse banking landscape seen in India today. The colonial era marked a pivotal point in India's banking history with the arrival of European powers. The British East India Company established the first modern banks in India, such as the Bank of Hindostan and the General Bank of India, to facilitate their trade operations. Post-independence, India witnessed a series of banking reforms aimed at modernizing the sector and promoting financial inclusion. The nationalization of major banks in 1969 and 1980 aimed to bring banking services to the masses and support economic growth. The introduction of technology-driven banking services, such as ATMs and online banking, revolutionized the way banking services were accessed and delivered to customers across the country. Today, India boasts a diverse banking sector comprising public sector banks, private banks, foreign banks, and cooperative banks, offering a wide range of financial products and services to cater to the needs of a growing economy.

Key Words: Banking History, Vedic Economy, Ancient Banking Practices, Modern Banking Innovations, Financial Institutions, Digital Banking Revolution, Economic Development.

INTRODUCTION:

In ancient India, banking practices can be traced back to the Vedic period (around 1500-500 BCE) when merchants and traders engaged in barter systems. The concept of "dharma," which included the principles of fairness and ethical conduct in financial transactions, was central to these early practices. The use of grain as a medium of exchange and the establishment of "shrenis" (guilds) facilitated trade and lending among merchants. As it moved into the medieval period, the introduction of coinage further advanced banking activities. The Gupta Empire (around 320-550 CE) saw the minting of gold and silver coins, which simplified trade and commerce. During this time, the emergence of moneylenders, known as "sahukars," became prominent. They provided loans to farmers and merchants, charging interest rates that varied based on the risk involved. The Mughal Empire (16th to 18th centuries) brought about further sophistication in banking. The Mughals established a system of state-controlled banks and introduced the concept of "hundi," a form of promissory note that facilitated trade across vast distances. This period also saw the rise of indigenous bankers who played a crucial role in financing trade and agriculture. With the advent of British colonial rule in the 18th century, the banking landscape underwent significant changes. The British East India Company established the first modern banks, such as the Bank of Hindostan in 1770. The introduction of Western banking practices, including the establishment of a formal banking system, led to the formation of the Reserve Bank of India in 1935, which served as the central bank to regulate monetary policy and oversee the banking sector. Post-independence, the Indian government implemented several reforms to strengthen the banking system and promote economic development. The nationalization of major banks in 1969 aimed to increase access to credit for the agricultural and industrial sectors, while the



introduction of priority sector lending ensured that marginalized communities received financial support. The liberalization of the Indian economy in the 1990s led to the entry of private and foreign banks, enhancing competition and innovation in the banking sector. The introduction of technology, such as ATMs, mobile banking, and internet banking, revolutionized the way banking services were delivered, making them more accessible to the general public. Today, India's banking sector is characterized by a mix of public sector banks, private banks, regional rural banks, and cooperative banks, catering to diverse customer needs. The focus on financial inclusion has led to initiatives like the Pradhan Mantri Jan Dhan Yojana, which aims to provide banking services to the unbanked population.

1. Ancient Banking Practices

The roots of banking in India can be traced back to the Vedic period, which lasted from around 1500 to 500 BCE. During this time, the economy was predominantly agrarian, and trade was primarily conducted through a barter system. People exchanged goods and services directly without the use of money. The concept of "dharma," which encompassed ethical conduct and fairness in transactions, played a crucial role in guiding these exchanges. As trade expanded, especially with the growth of urban centers, the need for a more systematic approach to transactions emerged. Merchants began to form guilds known as "shrenis." These guilds acted as associations for merchants and craftsmen, facilitating trade and providing a platform for collective bargaining. Within these guilds, members engaged in lending and borrowing practices, often using agricultural produce or goods as collateral.

The use of grain as a medium of exchange was common during this era. Farmers would store surplus grain and use it to trade for other necessities. This practice laid the foundation for the concept of savings and credit. Wealthy individuals or landowners often acted as informal bankers, lending grain to those in need and charging interest on these loans. In addition to grains, precious metals like gold and silver began to be used as forms of wealth storage and exchange. The emergence of coins, particularly during the later periods, further revolutionized trade and banking practices. Coins provided a standardized medium of exchange, making transactions simpler and more efficient.

As society progressed into the Mauryan period (322-185 BCE), the establishment of a more structured economy led to the emergence of formal banking practices. The Mauryan Empire introduced standardized currency and developed trade routes, which facilitated commerce and the need for banking services. During this time, lenders known as "sresthins" and "sarthavas" played a crucial role in facilitating trade and providing loans. The use of promissory notes and the concept of interest began to take shape, marking a significant shift in financial transactions.

2. Medieval Developments

In the medieval period, significant advancements in banking activities were observed, particularly with the introduction of coinage. The Gupta Empire, which thrived from around 320 to 550 CE, played a crucial role in this development by minting gold and silver coins. This innovation simplified trade and commerce, allowing transactions to be conducted more efficiently than the previous barter system. The use of standardized coins provided a reliable medium of exchange that facilitated both local and long-distance trade, contributing to economic growth during this period.

With the rise of coinage, the role of moneylenders became increasingly important in society. Among these moneylenders were the "sahukars," who emerged as key financial figures in medieval India. Sahukars provided loans to farmers, merchants, and other individuals in need of capital. Their lending practices were often characterized by varying interest rates, which were determined based on the



perceived risk associated with the loan. For example, loans to farmers during the planting season might carry lower interest rates, while loans for trade ventures could involve higher rates due to the uncertainties of market fluctuations. The *sahukars* operated within a community-based framework, where personal relationships and trust played a significant role in lending practices. They often required collateral, such as property or agricultural produce, to secure loans, which helped mitigate their risks. This system of lending not only supported the agricultural sector but also stimulated trade by providing merchants with the necessary funds to invest in their businesses.

In addition to *sahukars*, the medieval period also saw the establishment of more organized forms of banking, particularly in urban centers. These early banks began to offer services such as deposit accounts and money exchange, further enhancing the financial landscape of the time. Overall, the medieval developments in banking were marked by the introduction of coinage, the rise of moneylenders, and the gradual emergence of more structured banking practices that laid the groundwork for future financial systems in India.

3. The Mughal Era

The Mughal Era, spanning from the 16th to the 18th centuries, marked a significant advancement in the banking system of India. During this time, the Mughal Empire introduced state-controlled banks, which played a vital role in regulating financial transactions and supporting the economy. One of the notable innovations of this period was the introduction of the "hundi," a form of promissory note that facilitated trade by allowing merchants to transfer money across vast distances without the need for physical currency. This system not only streamlined trade but also enhanced trust among traders.

Indigenous bankers, known as "*sahukars*," became increasingly important during the Mughal Era. They provided essential financial services, including loans for agriculture and trade, which were crucial for the economic prosperity of the empire. These bankers often operated on a local level, extending credit to farmers and merchants, thereby supporting the agricultural sector and contributing to the overall economic stability of the region. The combination of state-controlled banking and the activities of indigenous bankers laid the groundwork for a more structured financial system that would evolve further in subsequent periods.

4. Colonial Influence

The Colonial Influence in India, particularly during the British rule in the 18th century, brought about transformative changes in the banking landscape. The British East India Company played a pivotal role in this evolution by establishing the first modern banks, with the Bank of Hindostan being founded in 1770. This marked a departure from traditional banking practices, as the British introduced Western banking systems that emphasized formalized banking operations, record-keeping, and regulatory frameworks.

As the British consolidated their power, they recognized the need for a structured banking system to support their economic interests. This led to the establishment of more banks and financial institutions, which facilitated trade and commerce under colonial rule. The introduction of Western banking practices not only modernized the financial landscape but also laid the groundwork for a more organized banking sector.

One of the most significant developments during this period was the formation of the Reserve Bank of India in 1935. Established to regulate monetary policy and oversee the banking sector, the Reserve Bank aimed to stabilize the economy and manage currency issuance. This institution became a cornerstone of India's financial system, providing the necessary regulatory framework that would



guide the country's banking practices in the years to come. The colonial influence thus set the stage for the evolution of banking in India, blending traditional methods with modern practices that would shape the future of the financial sector.

5. Post-Independence Reforms

Post-independence, India underwent significant reforms aimed at strengthening its banking system and promoting economic development. Recognizing the vital role of banks in facilitating growth, the Indian government took decisive steps to ensure that financial resources were accessible to a broader segment of the population. One of the landmark reforms was the nationalization of major banks in 1969. This move was intended to bring the banking sector under government control, thereby aligning it with national development goals. By nationalizing banks, the government aimed to increase access to credit, particularly for agriculture and industry, which were seen as critical sectors for economic growth. The nationalization policy also sought to address the disparities in credit distribution that existed prior to independence, where a significant portion of financial resources was concentrated in urban areas and among wealthier individuals. To further support this initiative, the government introduced priority sector lending, which mandated banks to allocate a certain percentage of their lending to specific sectors such as agriculture, small-scale industries, and marginalized communities. This ensured that those who had previously been excluded from the formal banking system could access necessary financial support.

These reforms not only aimed to enhance the banking infrastructure but also to foster inclusive growth by empowering marginalized communities and promoting entrepreneurship. Over time, these measures contributed to a more equitable distribution of financial resources, helping to stimulate economic activity and development across various sectors of the Indian economy. The post-independence reforms thus laid a strong foundation for a more resilient and inclusive banking system in India.

6. Liberalization and Modernization

The liberalization of the Indian economy in the 1990s marked a significant turning point for the banking sector, bringing about profound changes that reshaped the landscape of financial services in the country. Prior to this period, the banking system was predominantly characterized by state-owned institutions, which limited competition and innovation. The economic reforms initiated in 1991, aimed at opening up the economy to global markets, facilitated the entry of private and foreign banks into the Indian banking sector. This influx of new players intensified competition, leading to improved services, better interest rates, and a broader array of financial products for consumers.

One of the most notable impacts of liberalization was the adoption of advanced technology in banking operations. The introduction of Automated Teller Machines (ATMs) revolutionized the way people accessed their money, providing 24/7 banking services and reducing the need for physical branch visits. This technological advancement was further complemented by the rise of mobile banking, which allowed customers to perform transactions, pay bills, and manage their accounts directly from their smartphones. The convenience and accessibility offered by these innovations significantly enhanced the banking experience for the public, particularly in a country with a vast and diverse population.

Moreover, the liberalization era also encouraged banks to innovate in their product offerings, leading to the development of new financial instruments such as mutual funds, insurance products, and various types of loans tailored to meet the needs of different customer segments. This shift not only catered to urban consumers but also began to reach rural areas, where banking services were



previously limited. Overall, the liberalization and modernization of the banking sector in India not only increased competition and efficiency but also played a crucial role in promoting financial inclusion, ultimately contributing to the country's economic growth and development.

7. Current Landscape

Today, India's banking sector presents a diverse and dynamic landscape, comprising a mix of public sector banks, private banks, regional rural banks, and cooperative banks. Each of these categories plays a vital role in catering to the varied financial needs of the population. Public sector banks, which are government-owned, continue to dominate the sector in terms of branch network and customer base, providing essential services, especially to the lower and middle-income groups. Private banks, on the other hand, have been instrumental in driving innovation and enhancing customer service through advanced technology and personalized banking solutions. Regional rural banks (RRBs) and cooperative banks play a crucial role in promoting financial inclusion, particularly in rural and semi-urban areas. These institutions are tailored to meet the specific needs of local communities and often provide credit and banking services to farmers and small businesses, which are vital for the rural economy. The presence of such a diverse range of banking institutions ensures that various segments of society, including marginalized and unbanked populations, have access to financial services. One of the key initiatives aimed at enhancing financial inclusion in India is the Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in 2014. This program focuses on providing banking services to the unbanked population, ensuring that every household has access to at least one bank account. The initiative has significantly increased the number of bank accounts in the country, facilitating access to savings, credit, and insurance products for millions of people. Additionally, the PMJDY has integrated technology, enabling beneficiaries to utilize mobile banking and digital payment systems, further bridging the gap between the formal banking sector and underserved communities. Overall, the current landscape of India's banking sector reflects a commitment to inclusivity and innovation, positioning it as a key driver of economic growth and development.

CONCLUSION

In conclusion, the evolution of banking in India from Vedic times to the modern era showcases a remarkable transformation shaped by cultural, economic, and technological changes. Starting from the rudimentary barter system and the early forms of lending among communities, banking has gradually developed into a sophisticated and diverse financial system. The establishment of formal banking institutions during the colonial period laid the groundwork for the current banking landscape, which includes a mix of public and private sector banks, cooperative banks, and regional rural banks. Today, the Indian banking sector not only supports economic growth but also plays a crucial role in promoting financial inclusion through various initiatives and technological advancements. As India continues to embrace digitalization and innovation, the banking sector is poised to evolve further, addressing the needs of a growing and diverse population while contributing to the nation's overall development. This journey reflects the adaptability of the banking system, highlighting its significance in the socio-economic fabric of India.



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