PUNJAB POLICE • PSSSB • PUNJAB PCS • GOVERNMENT EXAMS

HOUSE OF ASPIRANTS

INDIAN ECONOMY

CHAPTER 5

Banking System in India

Prepared by someone who has already achieved what you are preparing for.

WEBSITE	EDITION	LANGUAGE
houseofaspirants.in	October 2026	English

House of Aspirants

Punjab's bilingual exam-preparation platform

houseofaspirants.in

Welcome, Aspirant

Thank you for choosing **House of Aspirants**. These notes are written for every serious government-exam aspirant: **exam-oriented, easy to understand and free**.

> *"Prepared by someone who has already achieved what you are preparing for."*

HOW TO GET THE MOST FROM THESE NOTES

1 Read
Go through the chapter once and mark the points that are new to you.

2 Practise
Attempt this chapter's MCQ quiz on houseofaspirants.in.

3 Revise
Check previous year questions on the topic and revise your marked points.

Visit Our Website

- Bilingual notes: Punjabi & English
- Daily quiz & chapter-wise MCQs
- Monthly current affairs
- 10+ years of previous year papers
- Progress tracking

Scan to visit

www.houseofaspirants.in

Join Our Telegram Channel

- Latest notes, first
- Daily updates
- Exam notifications
- Weekly PDFs
- Live guidance sessions

Scan to join

t.me/HouseOfAspirant

Keep Learning. Keep Growing. Keep Achieving.

Team House of Aspirants

© 2026 House of Aspirants. These notes are for educational purposes only. Reproduction, redistribution or commercial use without permission is prohibited.

CHAPTER 5

Banking System in India

History, Banking Laws and Reform Committees

IN THIS CHAPTER

- History of Banks in India
- History of Banking Laws in India
- Committees on Banking Sector Reforms

History of Banks in India

- The first bank of India was the **Bank of Hindustan**, established in **1770** in **Calcutta**, the then capital.
- The first commercial bank of India was **Allahabad Bank**.
- The oldest existing bank in India is **Punjab National Bank (1894)**.

After the Bank of Hindustan, several other banks were set up:

Bank	Year	Note
General Bank of India	1786–1791	
Bank of Bengal	1809	Presidency Bank
Bank of Bombay	1840	Presidency Bank
Bank of Madras	1843	Presidency Bank
Oudh Commercial Bank	1881–1958	First commercial bank fully owned by Indians

Presidency Banks to State Bank of India

- During British rule, the **East India Company** set up three **Presidency Banks**: Bank of Bengal, Bank of Bombay and Bank of Madras.
- In **1921** these were merged into a single bank – the **Imperial Bank of India**.
- In **1955**, on the recommendation of the **Gorwala Committee**, the Imperial Bank was **nationalised** (taken over by the government) and renamed the **State Bank of India (SBI)** – today the **largest public sector bank**.

Nationalisation of Banks

At Independence, all major banks were privately owned. People in rural areas were still dependent on moneylenders. To solve this, the government decided to regulate and later nationalise banks.

BANKING MILESTONES

1949 **Banking Regulation Act** passed to regulate banks; RBI nationalised.

1969 **14 banks nationalised** – banks with deposits of more than **₹50 crore**.

1975 **Regional Rural Banks (RRBs)** set up for the development of rural areas.

1980 **6 more banks nationalised** (deposits above **₹200 crore**), taking the total to **20**.

1991 **Narasimham Committee** set up for banking reforms. RBI gave licences to **10 private sector banks**; foreign banks could form joint ventures with Indian banks.

1992 **SEBI** got statutory powers to regulate the securities market (set up in 1988).

1999 **FEMA** passed, replacing **FERA**, to regulate foreign exchange transactions.

REMEMBER

- Bank nationalisation: **1969 (14 banks)** and **1980 (6 banks)** – total **20**.
- SBI formed in **1955** (Gorwala Committee).
- Imperial Bank of India formed in **1921**.

History of Banking Laws in India

Law	Key Points
Reserve Bank of India Act, 1934	RBI set up on the recommendation of the **Hilton Young Commission**. Gave RBI power over monetary policy, currency issue and bank supervision. RBI started functioning on **1 April 1935**.
Banking Regulation Act, 1949	Regulates banking in India. Gave RBI power to supervise and control banks, and laid down rules for licensing and management of banks.
State Bank of India Act, 1955	Established **SBI** and provided the legal framework for SBI and its subsidiaries.
Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970 and 1980	Nationalised major commercial banks: **14 in 1969** and **6 in 1980**.
Foreign Exchange Management Act (FEMA), 1999	Replaced **FERA, 1973**; legal framework for foreign exchange transactions.
Banking Regulation (Amendment) Act, 2020	Gave RBI more power over **cooperative banks** and brought them under RBI supervision.

Committees on Banking Sector Reforms

Committee	Year
First Narasimham Committee	1991
Khan Committee	1997
Second Narasimham Committee	1998
Verma Committee	1999

EXAM TIP

Narasimham Committee is linked with banking sector reforms (1991 and 1998). **Hilton Young Commission** is linked with the creation of RBI.

QUICK REVISION

1. Bank of Hindustan (1770, Calcutta) was the first bank of India.
2. Oudh Commercial Bank – first bank fully owned by Indians.
3. Three Presidency Banks merged in 1921 to form the Imperial Bank of India.
4. Imperial Bank became SBI in 1955 (Gorwala Committee).
5. 14 banks nationalised in 1969; 6 more in 1980.
6. RRBs were set up in 1975.
7. RBI Act 1934 – Hilton Young Commission; RBI started on 1 April 1935.
8. FEMA 1999 replaced FERA 1973.
9. Banking Regulation (Amendment) Act 2020 brought cooperative banks under RBI.