

## HISTORY AND DEVELOPMENT OF PUBLIC SECTOR BANKS IN INDIA

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### 1. ABSTRACT :

*Public Sector Banks (PSBs) play a significant role in supporting the growth, stability, and overall development of the Indian economy. The evolution of public sector banking in India can be traced back to the British era with the establishment of early institutions such as the Imperial Bank of India. In 1955, the Imperial Bank was nationalized and reconstituted as the State Bank of India, which marked an important milestone in expanding organized banking services across the country. The establishment of the Reserve Bank of India in 1935 further strengthened the regulatory framework and ensured systematic control over the nation's monetary and financial system. A major structural shift took place in 1969 and later in 1980 when several large private banks were nationalized with the objective of promoting financial inclusion and ensuring equitable distribution of credit. These measures significantly expanded banking outreach in rural and semi-urban regions and supported priority sectors such as agriculture, small-scale industries, and economically weaker sections of society. The economic reforms of 1991 introduced liberalization and modernization in the banking industry, resulting in improved efficiency, competitiveness, transparency, and better risk management practices. In recent years, developments such as consolidation of banks, technological advancements, digital payment systems, and government-led financial inclusion initiatives have further strengthened public sector banks. Their extensive branch network and strong rural presence help bridge the gap between urban and rural financial services, promoting balanced regional development. Strengthening governance, improving asset quality management, and enhancing risk control mechanisms will further support their long-term sustainability and growth. Although these banks continue to face challenges such as rising Non-Performing Assets (NPAs) and operational constraints, they remain a crucial pillar of economic development, financial stability, and inclusive growth in India.*

### 2. KEY WORDS :

*Public Sector Banks, Bank Nationalisation, Financial Inclusion, Economic Reforms, Indian Banking System, Digital Banking.*

### 3. Introduction :

Public Sector Banks (PSBs) refer to banking institutions in which the majority ownership, usually more than fifty percent, is held by the Government of India. These banks play a pivotal role in the Indian economy by providing a wide range of financial services to individuals, businesses, and government schemes. In the post-independence era, India faced multiple developmental challenges, such as poverty, uneven distribution of financial resources, and limited access to banking facilities in rural areas. Private banks during that period mainly focused on urban centers and business communities, leaving rural populations largely dependent on informal moneylenders and cooperative societies. To address these disparities and ensure equitable distribution of credit, the government initiated policies aimed at strengthening public sector banking and expanding its reach across the country.

The historical development of PSBs reflects their evolving role in shaping India's financial landscape. From the nationalization of major banks to the introduction of liberalization reforms in 1991, these institutions have been instrumental in promoting financial inclusion, supporting priority sectors such as agriculture and small-scale industries, and implementing government welfare programs. Over time, public sector banks have expanded their branch networks to rural and semi-urban areas, adopted modern technological solutions, and contributed to the overall economic growth of the country. This paper aims to explore the history, evolution, and development of public sector banks in India, highlighting their impact on financial inclusion, economic stability, and the modernization of the banking sector.

#### **4. Overview of the Indian Banking System :**

The Indian banking system comprises the central bank, commercial banks, regional rural banks, and cooperative institutions. The Reserve Bank of India acts as the apex regulatory authority responsible for monetary control and supervision of the banking sector. Within this structure, public sector banks form a significant component due to majority government ownership and extensive branch networks. Understanding the structure of the Indian banking system is essential to analyse the historical evolution and development of public sector banks, as their growth has been closely linked with national economic policies and regulatory reforms.

#### **5. Objectives of the Study :**

- To study the historical background of public sector banks in India.
- To examine the impact of bank nationalization on the Indian banking system.
- To analyze the role of public sector banks in promoting financial inclusion.
- To evaluate recent reforms and developments in public sector banks.
- To understand the challenges faced by public sector banks in the present scenario.

#### **6. Literature Review :**

Budhedeo and Pandya (2018) analyzed the financial performance of public sector banks after the 1993 financial sector reforms. Their study discussed the changing performance trends of public sector banks in the competitive banking environment and highlighted issues related to efficiency and profitability in later years.

Gupta and Jaiswal (2020) carried out a comparative study of selected public and private sector banks. The analysis was based on various financial ratios, including liquidity, profitability, and financial stability. The study provided insights into the relative performance levels of both sectors.

Jha (2018) examined the financial performance of Punjab National Bank and ICICI Bank using indicators such as Return on Assets, Net Profit Margin, and Credit-Deposit Ratio. The research reflected performance variations between public and private sector banks during the selected period.

Singh and Milan (2023) evaluated public sector banks using the CAMEL model, which measures capital adequacy, asset quality, management efficiency, earnings, and liquidity to assess overall financial strength.

Overall, previous studies suggest that public sector banks have undergone significant changes in terms of performance and efficiency, especially in the post-reform era.

#### **7. Research Methodology :**

The present study is descriptive in nature and is based entirely on secondary data. The research focuses on examining the historical development and growth of public sector banks in India. Data for the study was collected from academic research articles, books related to the Indian financial system, scholarly journals, and credible online sources.

The study analyzed major milestones in the evolution of public sector banks, including bank nationalization, post-liberalization reforms, and recent developments such as mergers and digital banking initiatives. The collected information was systematically reviewed to understand the role and contribution of public sector banks in the Indian economy.

#### **8. Pre-Independence Period (1786–1947) :**

The origin of modern banking in India dates back to the eighteenth century. The Bank of Hindustan, established in 1770 in Calcutta, was one of the earliest banks in India. However, it ceased operations in 1832 due to financial difficulties. During the pre-independence period, more than 600 banks were registered in the country, but many of them failed because of weak regulation and poor management.

Following this, several banks were established, including

General Bank of India (1786–1791),  
Oudh Commercial Bank (1881–1958), and  
The three Presidency Banks—Bank of Bengal (1809), Bank of Bombay (1840), and Bank of Madras (1843).

These banks played an important role in laying the foundation of the Indian banking system.

The Reserve Bank of India was established in 1935 under the Reserve Bank of India Act, 1934, to regulate the country's monetary and financial system. Initially, it functioned as a privately owned institution but was nationalised in 1949. After independence, RBI played a crucial role in controlling inflation, supervising banks, and ensuring financial stability in India.

The State Bank of India was formed in 1955 through the nationalisation of the Imperial Bank of India. The objective behind its establishment was to expand banking services to rural and semi-urban areas. Over time, SBI became the largest public sector bank in India and played a major role in implementing government banking policies.

#### **9. Post-Independence Period (1947–1991) :**

After India gained independence in 1947, most of the major banks in the country were privately owned. These banks mainly focused on urban areas and large businesses, while rural populations continued to depend on moneylenders for financial support. This imbalance created the need for greater government intervention in the banking sector.

To address these issues, the Government of India introduced regulatory reforms under the Banking Regulation Act, 1949. In the same year, the Reserve Bank of India was nationalised to strengthen control over the banking system and ensure better supervision and stability in the country's financial structure.

#### **10. Bank Nationalisation (1969 & 1980) :**

In order to promote social and economic development, the Government of India decided to nationalise major commercial banks. In 1969, 14 large private banks were nationalised to ensure that banking services reached rural areas, farmers, small industries, and weaker sections of society. This step aimed to reduce the concentration of wealth and expand financial inclusion across the country.

Later, in 1980, six more commercial banks were nationalised to further strengthen government control over the banking sector. As a result, the public sector gained dominance in Indian banking. Bank nationalisation played a significant role in increasing branch expansion in rural areas and supporting priority sector lending.

#### **11. Liberalisation and Banking Reforms (1991) :**

In 1991, India faced a severe economic crisis which led the government to introduce major economic reforms. Under the Liberalisation, Privatisation and Globalisation (LPG) policy, significant changes were made in the banking sector to improve efficiency and competitiveness.

Based on the recommendations of the Narasimham Committee, several reforms were introduced. These reforms were aimed at improving economic efficiency, reducing excessive government control, and integrating the Indian economy with global markets. In the banking sector, reforms led to deregulation of interest rates, reduction in statutory pre-emptions, and greater operational autonomy for banks. The entry of new private sector banks and foreign banks increased competition, which encouraged improvements in customer service, technology adoption, and financial innovation. Public sector banks were required to strengthen their capital base, improve asset quality, and adopt better risk management practices. The reforms also emphasized transparency, accountability, and adherence to international banking standards.

As a result, the Indian banking system became more market-oriented, technologically advanced, and competitive. The reforms introduced in 1991 became a major milestone in modernizing the Indian banking framework.

#### **12. Recent Developments in Indian Banking :**

From 2014 onwards, the Indian banking sector has experienced significant transformation with a renewed emphasis on financial inclusion, digitalization, and structural reforms. The government launched various initiatives aimed at expanding banking access, particularly among rural populations and economically weaker sections. One of the major initiatives during this period was the PradhanMantri Jan DhanYojana, which significantly increased the number of bank accounts and strengthened the foundation of inclusive banking in the country.

Technological advancement has played a crucial role in reshaping banking operations. The rapid expansion of digital payment systems, mobile banking platforms, and the Unified Payments Interface (UPI) has transformed the manner in which financial transactions are conducted. The development of digital infrastructure under the supervision of the National Payments Corporation of India has facilitated secure and real-time fund transfers across the country. As a result, banking services have become more efficient, transparent, and accessible to a broader segment of the population.

In addition to digital progress, structural reforms were undertaken to enhance the stability and performance of public sector banks. Several mergers were implemented to consolidate resources, improve capital adequacy, and reduce the burden of non-performing assets (NPAs). These consolidation measures have strengthened operational efficiency and improved the competitive position of public sector banks within the evolving financial landscape. Overall, recent developments reflect a shift toward modernization, improved governance, and sustainable growth in the Indian banking system.

### **13. Recent Mergers of Public Sector Banks in India :**

In recent years, the Indian public sector banking system has undergone significant consolidation to improve operational efficiency, enhance financial stability, and reduce Non-Performing Assets (NPAs). A notable merger took place in 2020, when Bank of Baroda, Vijaya Bank, and Dena Bank were merged to form a single entity under the name Bank of Baroda. Similarly, Punjab National Bank, Oriental Bank of Commerce, and United Bank of India were combined to strengthen PNB's financial position and expand its branch network. Additionally, Union Bank of India, Andhra Bank, and Corporation Bank were merged to create a larger, more competitive Union Bank of India. These mergers have not only optimized resource utilization but also improved the capacity of public sector banks to serve rural and semi-urban areas effectively, while enhancing their ability to implement government-led financial inclusion initiatives.

### **14. Findings :**

- After independence, the Indian banking structure gradually shifted from private ownership towards stronger government control.
- The nationalisation of banks led to wider expansion of banking facilities, especially in rural and semi-urban regions.
- Economic reforms introduced in 1991 improved competitiveness, operational efficiency, and modernization within the banking industry.
- The growth of digital technology after 2014 significantly increased financial inclusion and transformed banking services.
- Regulatory measures and policy initiatives contributed substantially to improving financial stability in the country.

### **15. Conclusion :**

The study demonstrates the steady evolution of the Indian banking sector from its early foundation during the colonial period to a more structured and technology-oriented system in the modern era. Key developments such as the establishment of regulatory institutions, bank nationalisation, and post-1991 reforms played a crucial role in shaping the present structure of public sector banks.

Initially, government intervention focused on expanding outreach and ensuring equitable distribution of credit. In later years, reforms emphasized efficiency, competition, transparency, and technological advancement. Recent developments, including digital banking initiatives and structural consolidation, have further strengthened the system.

In conclusion, public sector banks continue to contribute significantly to economic development and financial inclusion despite facing operational challenges.

### **16. Limitations :**

- The study is primarily based on secondary data collected from books, research articles, government reports, and other published sources. Therefore, the findings are dependent on the accuracy, reliability, and availability of existing information.
- The research mainly focuses on the historical evolution and major developmental phases of public sector banks in India. It does not provide a detailed financial or operational analysis of each individual bank.

- As the banking sector is continuously evolving due to technological advancements, regulatory changes, and economic reforms, some recent developments may not be fully reflected in the study.
- The scope of the research is limited to significant milestones such as bank nationalization, post-liberalization reforms, mergers, and modernization initiatives, and does not cover every minor policy or institutional change.

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