

An Overview of Ancient Indian Banking Systems

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ABSTRACT

The evolution of banking in India reflects a long and complex historical journey shaped by economic, social, and political transformations. The roots of Indian banking can be traced back to the Vedic period, when barter systems governed trade and economic transactions were guided by the ethical principles of dharma. Over time, merchant guilds known as shrenis facilitated trade and informal credit practices, laying the foundation for organized financial systems. The introduction of metallic currency during the Mauryan and Gupta periods further strengthened commercial activities and formalized monetary transactions. During the Mughal era, financial innovations such as the hundi system promoted secure long-distance trade, while indigenous bankers played a crucial role in supporting agriculture and commerce. The colonial period marked a turning point with the establishment of Western-style banking institutions and the creation of the Reserve Bank of India in 1935. Post-independence reforms, including bank nationalization and priority sector lending, aimed at promoting financial inclusion and economic development. Economic liberalization in the 1990s modernized the sector through competition and technological advancements. Today, India's banking system represents a dynamic blend of historical legacy and modern innovation, contributing significantly to national growth and financial inclusion.

Keywords: *Ancient Indian Banking, Vedic Economy, Dharma, Shrenis, Sahukars, Hundi System, Mauryan Period, Gupta Empire, Mughal Banking, Colonial Banking in India, Bank Nationalization, Financial Inclusion, Liberalization, Reserve Bank of India, Modern Indian Banking*

Banking in India started a long time ago during the Vedic era, which was from 1500 to 500 BCE. Then people who sold things and traders did not use money. They used a system where they exchanged goods for goods. This system was based on something called "dharma". Banking in India and the idea of "dharma" was important because it included being fair and doing the right thing when people did business with each other. People also formed groups called "shrenis" or guilds. They used grain as a kind of money. This made it easier for merchants to trade and get the money they needed. When coins and currency came into use in the era banking in ancient India and the way people did banking became more complicated and advanced. Banking, in India changed a lot over time. The minting of gold and silver coins in the Gupta Empire (c. 320–550 CE) facilitated trade and commerce. During this

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period, the rise of moneylenders, known as "sahukars," became evident. They provided loans to farmers and merchants, with interest rates varying based on risk.

From the 1600s to the 1800s the Mughal Empire made banking better. The Mughal Empire set up banks that were run by the state and made something called "hundi" popular. The Mughal Empire made hundi popular because it was a note that promised to pay someone and it made it easier to trade with countries. Local bankers became important during this time. They helped pay for trade and farming. The Mughal Empire and local bankers helped the banking industry.

When the British came to India in the 1800s they changed the banking industry a lot. The British East India Company started the modern banks, like the Bank of Hindostan in 1770. The Bank of Hindostan was one of the modern banks and the British East India Company started it. In 1935, the Reserve Bank of India was set up as the central bank to manage monetary policy and oversee the banking sector due to the adoption of Western banking practices and the establishment of a formal banking system.

The Indian government did a lot of things to make the banking system better after India became independent. They wanted to help the country grow economically. So they started something called priority sector lending to help people who really needed help. The government took control of some banks in 1969. This was done so that people in industries and farmers could get the money they needed.

On in the 1990s the Indian government opened up the economy. This meant that private banks and banks from countries could now do business in India. This led to competition and new ideas, in the banking sector. The Indian government and the banking sector and the economy all benefited from these changes to the banking sector. Technological advancements like ATMs, internet banking, and mobile banking transformed how banking services were delivered, making them more accessible. Today, India's banking industry includes public sector banks, commercial banks, regional rural banks, and cooperative banks, all catering to diverse customer needs. Initiatives such as the Pradhan Mantri Jan Dhan Yojana aim to provide banking services to those without access.

REVIEW OF LITERATURE

Meir Kohn (1999) The study discussed the development of merchant banks—merchants who specialized in credit and remittance activities. It examined the sources of their funds and analyzed how they utilized these funds for sovereign lending, commercial credit, and exchange trading. The study also explored how banks managed risk and liquidity, as well as the financial crises that were triggered by sovereign defaults.

Abdelkader Chachi (2008) The majority of economists tended to view banking as a contemporary invention that emerged in Italy in the 12th century AD. However, a historical review of financial activities refuted this assumption, as the study demonstrated. The objectives of the paper were threefold. First, it aimed to show that banking operations had been practiced by nearly all known early civilizations long before their emergence in 12th-century Italy. Second, it sought to demonstrate that Islam not only permitted but also actively promoted such financial activities on an unprecedented scale. Finally, the study traced the origin and development of what later became known as Islamic banking and argued that Italian bankers learned these operations from Muslim, Christian, and Jewish traders of the Muslim world, with

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whom they maintained strong commercial relationships between the 10th and 12th centuries AD.

Jonathan Warner (2012) Richard S. Grossman examined the development of banking institutions, the emergence of financial crises, and the regulatory responses that followed while analyzing the history of banking in the industrialized world from 1800 onward. He highlighted the recurring nature of banking crises and emphasized that regulation alone had often failed to prevent them, using case studies from the United States, Sweden, and England. Although he acknowledged the complexity created by previous experiences and historical contexts, he further proposed macroeconomic strategies aimed at stabilizing the business cycle.

Faheem Iqbal Shayiq (2017) Since its inception, banking had experienced a long historical journey. It was generally traced back to ancient Babylon, where priests held significant authority and power. During that period, religious institutions were used as secure places to conduct early banking transactions. The expansion of global trade and economic activity further stimulated the growth of the banking industry. As a result, banking gradually gained public acceptance in a form closer to modern practice, which led to efforts to regulate it more effectively. Following this global trend, India also began actively pursuing reforms to redefine banking activities that had been practiced since the Vedic period. The author attempted to briefly trace the history of banking across the world, including developments in India and the State of Jammu and Kashmir. The paper also sought to identify and analyze the barriers that hindered reform and development in the contemporary context.

Dr. Sweta Ghosh (2022) The paper examined the history of banks and other financial institutions. It emphasized that banks played an essential role in both a nation's domestic economy and its global economic interactions. The scope and historical background of banking operations differed significantly across countries. The study specifically focused on the evolution of the banking industry in Greece, Hellenistic Roman Egypt, and Rome from a historical perspective.

Dr. T. SASIKALA., Dr. K.POONGODI(2023) India was considered a trading hub due to its strategic location and favorable natural features. The Arabian Sea and the Bay of Bengal connected India to the rest of the world, while rivers such as the Ganges, Yamuna, and Indus functioned as natural trade routes for the movement of goods. The oceans and the Himalayas served as facilitators of trade rather than barriers. From early times, trade had been a fundamental aspect of human society, as individuals exchanged goods to satisfy their needs. In ancient India, simple barter systems gradually evolved into more complex exchange mechanisms that utilized commodity currencies such as copper, bronze, and cowry shells. This transformation not only fulfilled practical economic requirements but also played a crucial role in shaping Indian society, culture, and its position in the global economic landscape.

Prof. Samita Karande (2024) The historical account of banking systems in ancient India, from the Vedic era to the Gupta Empire, revealed a complex financial framework. Economic activity flourished during the Vedic age with the development of guilds, or *sreni*, which functioned as informal financial institutions that promoted trade within specific regions. The innovative use of the *hundi* system served as an early example of secure money transfers and was particularly beneficial for traders engaged in long-distance transactions. Financial practices advanced further during the Mauryan and Gupta periods. Temples played a significant role in resource management, and *shroffs* emerged as important intermediaries who handled deposits and conducted exchange transactions. With the introduction of *akshaya patra* and the circulation

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of metallic currency, cities such as Ujjain and Pataliputra became thriving economic centers. However, as this traditional banking system began to decline, invasions and political instability disrupted trade routes and commercial hubs. Despite its eventual decline, the foundations of modern banking systems continued to reflect the lasting influence of these early financial practices, demonstrating the economic sophistication of ancient Indian civilizations. An analysis of this historical progression highlighted the enduring global impact of these early financial innovations and enhanced understanding of past economic systems.

Constantinos Challoumis, Nicolaos Eriotis (2024) The essay discussed the vital role that banks played in the Greek economy, highlighting their importance in maintaining stability and promoting financial growth. It examined the existing structure of the Greek banking system, traced its historical development, and analyzed potential opportunities and challenges for the future. The study adopted a historical-analytical approach, beginning with a thorough evaluation of the evolution of the Greek financial sector. To provide a comprehensive analysis of the banking industry, it then focused on four main pillars: regulation, function, accessibility, and societal impact. This approach allowed for a clear understanding of both the historical context and contemporary factors influencing the Greek financial system. Particularly during periods of economic expansion and recovery, the Greek banking sector played a crucial role in supporting national development. Following the 2008 global financial crisis, significant weaknesses in the banking system were revealed, including a persistent lack of public trust. Despite their effectiveness in many areas, regulatory reforms had left unresolved issues concerning economic resilience, accessibility, and societal confidence. The study concluded that further reforms were necessary to ensure long-term stability and growth, particularly in the areas of digital banking and transparency. Overall, Greek banks continued to be essential to the nation's economy, despite facing challenges related to systemic risks and public trust. The report offered policymakers practical recommendations, emphasizing the importance of strengthening regulatory frameworks, improving access to financial services, and cultivating public trust through greater transparency. These measures were intended to promote economic growth while helping the Greek banking sector navigate future challenges effectively.

Mrs. Divya C (2024) Over thousands of years, India's banking industry underwent a remarkable transformation that reflected the nation's rich cultural and economic history. The significance of trade and agriculture was documented in the Vedic scriptures, which laid the foundation for later financial practices. Banking procedures underwent substantial modifications due to Islamic influence as India entered the medieval era. During this period, the integration of Indian and Islamic banking systems established the foundation for India's later diverse financial environment. The arrival of European powers during the colonial era marked a turning point in India's banking history. To support its commercial activities, the British East India Company established India's earliest modern banks, including the General Bank of India and the Bank of Hindostan. After independence, several banking reforms were implemented to modernize the industry and promote financial inclusion. Major banks were nationalized in 1969 and 1980 with the aim of fostering economic growth and providing financial services to the general public. The advent of technology-driven financial services, such as online banking and automated teller machines, transformed the way consumers accessed and used banking services across the nation. To meet the demands of a developing economy, India developed a diversified banking sector that included public sector banks, private banks, foreign banks, and cooperative banks. These institutions provided a wide range of financial products and services, contributing to the modernization and expansion of India's financial system.

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TRADITIONAL BANKING METHODS

India's financial history dates back to the Vedic era, which spanned approximately 1500–500 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. During this time, grain was frequently used as a means of exchange. Grain excess would be stored by farmers and exchanged for other necessities. The foundation for the ideas of credit and savings was established by this practice. Rich people or landowners frequently served as unofficial lenders by lending grain to people in need and collecting interest. Precious metals like gold and silver started to be utilized as means of exchanging and storing wealth in addition to grains. The invention of coinage, especially in later eras, dramatically transformed banking and trading procedures. Coins made transactions easier and more effective by offering a uniform medium of exchange. Formal banking procedures emerged as a result of the development of a more structured economy as society advanced into the Mauryan period (322–185 BCE). The Mauryan Empire encouraged trade and the demand for financial services by establishing standardized currency and trading channels. Lenders referred to as "sresthins" and "sarthavas" were essential in this era for promoting trade and making loans. There was a major change in financial transactions when promissory notes and the idea of interest started to take shape.

DEVELOPMENTS IN THE MIDDLE AGES

Significant improvements in banking operations were seen during the Middle Ages, especially with the introduction of currency. By producing gold and silver currencies, the Gupta Empire, which flourished from about 320 to 550 CE, was instrumental in this evolution. Compared to the earlier barter system, this innovation made trade and business easier and more efficient. During this time, the use of standardized coinage promoted economic expansion by offering a dependable medium of exchange that made both local and long-distance trade easier. The position of moneylenders in society grew in significance as coinage increased. The "sahukars," who became important financial figures in medieval India, were among these moneylenders. Sahukars gave loans to merchants, farmers, and other people who needed money. Different interest rates, which were established according to the perceived risk of the loan, were frequently used to describe their lending operations. For instance, loans to farmers during the planting season may have lower interest rates, but because of the unpredictability of market changes, loans for trading endeavors may have higher rates. The Sahukars functioned in a community-based setting where lending methods were heavily influenced by interpersonal connections and trust. In order to obtain loans, they frequently needed collateral, like real estate or agricultural products, which reduced their risks. In addition to assisting the agricultural industry, this financing system promoted trade by giving merchants the money they needed to make investments in their companies. Apart from sahukars, more structured financial systems were also established during the Middle Ages, especially in cities. These early banks improved the financial environment of the day by starting to provide services like money exchange and deposit accounts. All things considered, the advent of coinage, the growth of moneylenders,

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and the slow emergence of more structured banking practices during the Middle Ages were significant milestones in banking that prepared the way for India's future financial systems.

THE MUGHAL PERIOD

The Mughal Era, which lasted from the sixteenth to the eighteenth centuries, saw a major development in India's banking infrastructure. State-controlled banks were established by the Mughal Empire during this period, and they were essential in controlling financial transactions and bolstering the economy. The invention of the "hundi," a type of promissory note that enabled traders to send money over great distances without the use of actual cash, was one of the major breakthroughs of this era. In addition to streamlining transaction, this technique increased trader trust. Known as "sahukars," indigenous bankers gained prominence during the Mughal era. They offered vital financial services that were vital to the empire's economic success, including as loans for trade and agriculture. By providing loans to farmers and merchants, these bankers frequently worked locally, bolstering the agricultural industry and promoting regional economic stability. The foundation for a more structured financial system that would develop further in later eras was established by the mix of state-controlled banking and the operations of indigenous bankers.

THE IMPACT OF COLONIALISM

The banking industry in India saw significant changes as a result of colonial influence, especially during British administration in the 18th century. The earliest contemporary banks were established by the British East India Company, which was instrumental in this development. The Bank of Hindostan was established in 1770. With the introduction of Western banking systems by the British, who placed an emphasis on codified banking processes, record-keeping, and regulatory frameworks, this signaled a break from conventional banking practices. The British realized they needed a well-organized banking system to promote their economic interests as they solidified their power. As a result, other banks and financial organizations were founded, promoting trade and business throughout colonial control. In addition to modernizing the financial environment, the adoption of Western banking techniques set the stage for a more structured banking industry. The establishment of the Reserve Bank of India in 1935 was one of the most important events of this time. The Reserve Bank was created to control monetary policy and supervise the banking industry with the goals of managing currency issuance and stabilizing the economy. By offering the essential regulatory framework that would direct the nation's banking operations in the years to come, this organization established itself as a pillar of the Indian financial system. Thus, the colonial influence paved the way for the development of banking in India, fusing conventional techniques with cutting-edge procedures that would mold the financial industry's future.

REFORMS AFTER INDEPENDENCE

India implemented major changes after gaining independence with the goal of bolstering its banking sector and fostering economic growth. The Indian government made significant efforts to guarantee that financial resources were available to a wider range of people after realizing the critical role banks play in promoting growth. The 1969 nationalization of large banks was one of the historic reforms. The purpose of this action was to connect the banking industry with national development goals by placing it under government control. The government's goal in nationalizing banks was to expand credit availability, especially for industry and agriculture, which were viewed as vital areas for economic expansion.

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Prior to independence, there were inequalities in the distribution of credit, with a large percentage of financial resources concentrated among wealthier people and in urban areas. These were also addressed by the nationalization strategy. Priority sector lending, which required banks to devote a specific portion of their loans to particular industries like small-scale manufacturing, underprivileged populations, and agriculture, was implemented by the government to help promote this strategy. This made it possible for people who had previously been shut out of the official banking system to get the money they needed. By empowering underserved populations and encouraging entrepreneurship, these changes sought to promote inclusive growth in addition to improving the financial infrastructure. These actions eventually led to a more fair allocation of financial resources, which aided in promoting growth and activity in a number of Indian economic sectors. Thus, the post-independence reforms established a solid basis for an Indian financial sector that is more robust and inclusive.

MODERNIZATION AND LIBERALIZATION

A major turning point for the banking industry was the liberalization of the Indian economy in the 1990s, which resulted in significant reforms that altered the country's financial services environment. The state-owned institutions that dominated the banking sector prior to this time stifled competition and innovation. Private and foreign banks were able to enter the Indian banking industry more easily thanks to the economic reforms that were started in 1991 with the goal of opening the economy to international markets. Customers now have access to a wider range of financial goods, better services, and lower interest rates as a result of the increased competition brought about by the entry of new competitors. The use of cutting-edge technology in banking operations was one of the most prominent effects of deregulation. The advent of Automated Teller Machines (ATMs), which offer round-the-clock banking services and eliminate the need for in-person branch visits, completely changed how people access their money. The emergence of mobile banking, which enabled users to conduct transactions, settle bills, and control their accounts all from their cellphones, further enhanced this technical breakthrough. The public's banking experience was greatly improved by the accessibility and convenience these advances provided, especially in a nation with a large and diverse population. Furthermore, banks were encouraged to innovate in their product offerings throughout the liberalization era, which resulted in the creation of new financial instruments like mutual funds, insurance policies, and different kinds of loans designed to satisfy the demands of various clientele groups. In addition to serving urban customers, this change started to spread to previously underserved rural communities with banking services. All things considered, India's banking industry's modernization and liberalization boosted efficiency and competition while also significantly advancing financial inclusion, which ultimately aided in the nation's economic expansion.

PRESENT SITUATION

With a combination of public sector banks, commercial banks, regional rural banks, and cooperative banks, India's banking industry today offers a dynamic and varied terrain. To meet the many financial needs of the populace, each of these groups is essential. Government-owned public sector banks continue to lead the industry in terms of branch network and clientele, offering crucial services, particularly to those with lower and middle incomes. On the other hand, private banks have played a significant role in promoting innovation and improving customer service by utilizing cutting-edge technology and customized financial products. Cooperative banks and regional rural banks (RRBs) are essential for advancing financial inclusion, especially in rural and semi-urban areas. These organizations are designed to satisfy

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the unique requirements of nearby areas and frequently offer banking and credit services to small enterprises and farmers, who are essential to the rural economy. Many facets of society, especially underserved and unbanked groups, are guaranteed access to financial services thanks to the existence of such a wide variety of banking institutions. The Pradhan Mantri Jan Dhan Yojana (PMJDY), which was introduced in 2014, is one of the major programs meant to improve financial inclusion in India. By guaranteeing that every household has access to at least one bank account, this program aims to provide banking services to the unbanked population. The program has greatly expanded the nation's bank account base, giving millions of citizens easier access to credit, insurance, and savings options. In order to further close the gap between the conventional banking industry and underprivileged areas, the PMJDY has also included technology, allowing recipients to use digital payment systems and mobile banking. All things considered, the state of the Indian banking industry today shows a dedication to diversity and creativity, establishing it as a major force behind economic expansion.

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Conflict of Interest

The author declared no conflict of interest.

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