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Nationalization of Banks: A Step in Uplifting Farmers and Rural Society

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Post-independence the commercial banks were in the hands of private sector which in a big move by government were nationalized in 1969, taking an all total of 14 commercial banks into government control. The second spell of nationalization took place in 1980 when 6 more banks were nationalized. This step was intended to make the banks work for socio-economic development with their profit motives and make banking system more inclusive for rural. This also brought in many limitations to the banking sector pushing many banks to operate at loss which led to their merger in 2017 and 2020 to make them profitable again.

Keywords: Nationalization of Banks, Socio- economic Development, Economic Inequality, Rural Development

Introduction

After independence in 1959 there were 570 banks which reduced to 276 by 1963 and during this time the banks were highly concentrated in urban areas. These banks had deposits from industrialists and only 5 banks accounted for 50% of the deposits. It was back then a monopolistic system where the banks turned to be organizations funding the industrialists, they also owned the bank's shares and the banks were operating with their funds hence the banks were a far reach for the rural areas.

In India, an overwhelming 70% of population lives in rural areas which was never a part of the banking ecosystem as the banks were concentrate only in urban areas. The motive of banks in those days was to just earn profit. This was to be changed to make it more inclusive.

Objectives Behind Nationalization of Banks

1. There were huge economic inequalities, wherein major financial resources were controlled by wealthy business groups.
2. Expansion of the banking system to each and every part of the country.
3. A means for social welfare where funds distribution was done for small village industries, agricultural sectors, artisans and many more.
4. A growing demand to make banking system more inclusive to meet the needs of the broader population.
5. A global precedent having successful nationalized banking system.
6. Developing banking habits in the vast population, as 70% of the population lived in rural areas for them banking was far dream.
7. Nationalization of banks attracted more deposits which led to more mobilization of the savings.
8. Creating new opportunities for new entrepreneurs and for hitherto neglected and backward classes.

The Process of Nationalization

Taking cognizance of the matter of the banking system in the state the then prime minister Smt. Indira Gandhi took a bold step to nationalize the banks having deposits over Rs. 50 crores. The nationalization took place in two spells first on 19th July, 1969 followed by the second on 15th April, 1980 taking 14 and 6 banks respectively into public control.

1948: RBI was nationalized.
1949: Enactment of Banking Regulation Act.
1955: The State Bank of India was nationalized.
1959: The subsidiaries banks of SBI were nationalized.
1969: Nationalization of 14 banks over 50 crores as deposits.
1980: Nationalization of 6 banks over 200 crores as deposits.
1990: Liberalization of Indian economy.

Banks Nationalized in 1969

Allahabad bank	Indian Bank
Bank of Baroda	Indian Overseas Bank
Bank of India	Punjab National Bank
Bank of Maharashtra	Syndicate Bank
Central Bank of India	Union Bank of India
Canara Bank	United Bank of India
Dena Bank	UCO Bank

Banks Nationalized in 1980

Punjab and Sindh Bank	Corporation Bank
Vijay Bank	Andhra Bank
Oriental Bank of Commerce	New Bank of India

Liberalization in the 1990s

In 1980s, India had a severe balance of payment crisis where the country's foreign exchange reserve would be able to support the imports for next 14 days only. This crisis led government to liberalize the Indian economy, with an approach towards industrial liberalization and globalization. In 1990 government embarked the policy of licensing private banks i.e. Axis Bank, Induslnd Bank, ICICI Bank and HDFC Bank. This helped banking sector to gain back its momentum and the development of Indian economy with help of private banks, public sector banks and foreign banks.

Idea Behind Nationalization and Days Ahead

The banks were nationalized to make credit lending system open for all sectors of society and after nationalization it helped the poor and middleclass population of the nation to start their enterprises with borrowing institutional sources which got them rid of the exploitation from those money lenders and other non-institutional sources which not only charged higher interest rates but also used to make them bonded laborer or took away their land. With nationalization the total credit provided by the public sector banks in 1969 was Rs. 440 crores which went up to Rs. 29,330 crores in 1988 . The banks now operate for socio- economic development of the rural society with many programs and schemes intended to benefit the rural and agricultural society.

The banking sector now turned to large public sector and hence generated large number of job opportunities in Indian job market. Being a public sector, the working efficiency is still a question but recently with the government initiative to provide all welfare schemes through bank account of the individual has helped the banks to grow in rural and remote areas. The banks are now accountable to implement schemes of rural and agricultural welfare and development.

The gigantic shift from the profit earning motive to the socio-economic development motive of banks led to operating the banks in loss and the political interference led to credit advancing to those with power and relations and if unable to repay the loan they escape the system leaving it in huge loss. It has now been more than 55 years of banks being nationalized, it has now well reached to each and every section of the society, hence the purpose of socio-economic approach has been well achieved but by the two decades of 21st century most of the banks lagged behind carrying huge losses. It was now difficult for the government and the Reserve Bank of India to bring them back to track. This led the government to merge banks where the comparatively smaller banks were merged with the larger one, it simplified the banking system benefitting both the banks and the account holders. The first merger took place in 2017 followed by a major merger in 2019-20 where 10 public sector banks were merged into 4 reducing the number of public sector banks in India from 27 to 12.

Benefits of Merger of Banks

1. Reduction in the operational cost of the banks resulting in betterment of non-performing assets and risk management.
2. A larger bank is capable of facing global competitiveness and can gain recognition in global market.
3. A larger bank is capable of managing its short and long-term liquidity.
4. It helps perform large scale operations and attracts a larger customer base.
5. Reduces regulatory burden and increases lending capacity.

Merging Banks and Their Anchoring Banks

Anchoring Banks	Merging Banks
State Bank of India	5 associate banks and Bhartiya Mahila Bank
Bank of Baroda	Dena Bank, Vijay Bank
Punjab National Bank	Oriental Bank of Commerce, United Bank of India
Canara Bank	Syndicate Bank
Union Bank of India	Andhra Bank, Corporation Bank
Indian Bank	Allahabad Bank

Advantages of Nationalization of Banks

1. Savings were used in direction of national development, the main aim to promote social and economic development of the rural and backward classes.
2. It helped to check the illegal activities relating to the under invoicing of exports and over invoicing of imports.
3. The banks were just confined to urban areas but with nationalization new branches were opened in rural areas for further expanding banking services.
4. The banks lent credit to only big business units or industrialists and the agriculture sector was neglected but with nationalization the interest in agricultural credit was evident.
5. Post nationalization the service conditions of the bank employees turned to be better and the employees were provided training by government officials.
6. It also helped banks to deal with losses and the bank failures and increased the confidence of the public in bank as it is now a government entity.
7. Increased the confidence of the depositors providing them 100% security for their deposits which increases the bank deposits.
8. No more discrimination against small business units as earlier the wealth and power was concentrated in the hands of few which was now transferred to government’s hands.

Disadvantages of Nationalization of Banks

1. The profit motive of banks was now replaced by socio-economic welfare which led to banks to bear losses.
2. The efficiency of the banks was reduced after being turned into a government institution.
3. The cost of establishment and operations increased many folds as expansion of branches and employee base was done.

4. The private sectors that used to get the most benefits now get hard times in their survival.
5. The system witnessed high political and bureaucratic interference in operations, advancing of loans and asset management.
6. Nationalized banks need to pay larger amount of compensation to shareholders.
7. Involves risky lending to small enterprises and agriculturist where there is less remuneration.

Conclusion

In conclusion, the nationalization has lead the banks to rural and remote areas promoting an all-inclusive banking society, has led to speedy transfer of funds, made credit available to poor and farmers, has avoided diversion of funds for harmful activities, removed concentration of wealth in the hands of industrialists, removed regional disparity and has implemented various government schemes and welfare measures. Beyond all its achievements the banks have yet miles to go as with the changing age and digitalization banking services needs to be simpler and should be made easily available to poor and illiterates. An integration of the banking and agro-rural sector can help the nation in its economic development. It was also believed to provide credit at reduced interest rates to farmers and weaker sections of societies. The Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 which nationalized 14 banks stated that "the nationalization was done in order to serve the better needs of development of the economy in conformity with national policy and objectives".

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