Know the History of Nationalization of Banks for Bank Exams

Embark on a journey through the historical evolution of **Nationalization of Banks**, a crucial aspect for bank exam preparation. Understanding the chronological context of how banks transitioned from private to national ownership and vice versa is paramount for aspirants.

This guide delves into the significant milestones, policies, and implications surrounding the nationalization processes. Explore the economic and regulatory factors that shaped these decisions, shaping the banking landscape. Aspiring bankers seeking a nuanced grasp of financial history will find this exploration invaluable. Get ready to unravel the intricate threads of banking transformations, equipping yourself with the knowledge essential for success in bank exams.

This is the second part of the **Banks in India** Blog series. So, before diving deep into this topic, let's recap Evolution of Banking System in India by clicking on the embedded link. So, let's start with the **Nationalization of the Banks**.

Nationalization of Banks

The process of transforming a private holding into a public stake, effectively expanding the government's share of the banking industry, is known as bank nationalization. This move was made with the primary purpose of reducing the concentration of power and money in the hands of a few rich people.

Nationalization of RBI and SBI (1947-1969):

Reserve Bank of India:

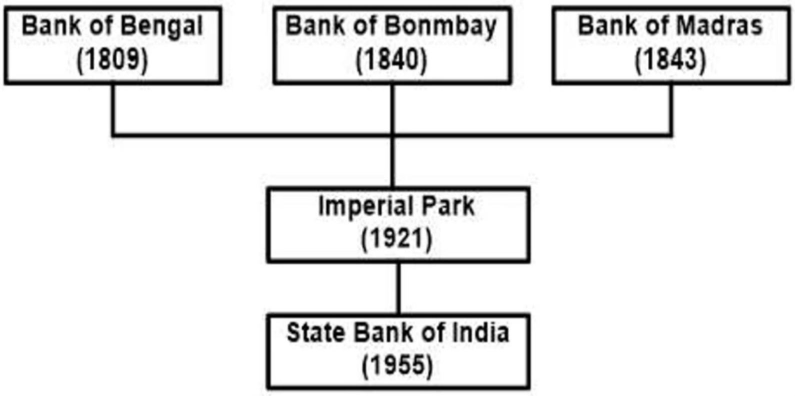
RBI was nationalized on January 1, 1949 and is also known as the central bank of India. It derives its powers from The Banking Regulation Act, 1949 as it empowers the Reserve Bank of India to inspect and supervise commercial banks. These powers are exercised through on-site inspection and off-site surveillance.

If you want to know more about the Reserve Bank of India (RBI) in detail, just click on the embedded link.

State Bank of India:

The East India Company setup **Bank of Bengal (1809)**, **Bank of Bombay (1840)**, and **Bank of Madras (1843)** as autonomous bodies and called them Presidency Banks. These three banks were merged in 1920 to form Imperial Bank of India, a bank of private European shareholders. Additional right to issue currency was given in 1861. After combining the Presidency Banks of Bombay, Calcutta, and Madras in January 1921, the Imperial Bank was formed as a joint-stock bank.

To serve the rural sector, the All-India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank by taking over the Imperial Bank of India, and integrating with it, the former state-owned or state-associate banks. The Imperial Bank of India thus became the State Bank of India on 1 July 1955.



Additionally, there were seven subsidiaries of SBI which were nationalized in 1959:

- State Bank of Patiala
- State Bank of Hyderabad
- State Bank of Bikaner & Jaipur
- State Bank of Mysore
- State Bank of Travancore
- State Bank of Saurashtra
- State Bank of Indore

[Source: Moneycontrol]

It is headquartered in Mumbai. Its current (2023) chairman is **Shri Dinesh Kumar Khara**.

Nationalization of Other Banks

The Government of India issued the **Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969** and 14 largest commercial banks were nationalized with effect from the midnight of 19 July 1969. These were the banks whose national deposits were over 50 crores.

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General Functions of Bank:

1. To provide security to the savings of customers.
2. To encourage public confidence in the working of the financial system and increase savings speedily and efficiently provides security to the savings of customers.
3. To set equal norms and conditons {i.e., rate of interest, period of leding, etc.} to all types of customers.

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Nationalization	Banks
1st Nationalization of Bankers: 14 Banks were Nationalized (1969)	• Allahabad Bank • Bank of India • Bank of Baroda • Bank of Maharashtra • Central Bank of India • Canara Bank • Dena Bank • Indian Overseas Bank • Indian Bank • Punjab National Bank • Syndicate Bank • Union Bank of India • United Bank • UCO Bank
2nd Nationalization of Bankers: 6 Banks were Nationalized (1969)	• Andhra Bank • Corporation Bank • New Bank of India • Oriental Bank of Commerce • Punjab and Sind Bank • Vijaya Bank

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[Source: Moneycontrol]

To simplify the activities and functioning of commercial banks, the Government of India formulated the Banking Companies Act, 1949, which was later amended as Banking Regulations Act, 1949.

The table given below shows the year of formation of Public Sector Banks:

Bank	Year of formation
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Canara Bank	1906
Corporation Bank	1906
Indian Bank	1907
Bank of Baroda	1908
Punjab and Sindh Bank	1908
Central Bank of India	1911
Union Bank of India	1919
Andhra Bank	1923
Syndicate Bank	1925
Vijaya Bank	1931
Bank of Maharashtra	1935
Indian Overseas Bank	1937
Dena Bank	1938
Oriental Bank of Commerce	1943
UCO Bank	1943

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New Economic Policy was introduced in 1991 that introduced and promoted liberalisation, privatisation and globalisation of the Indian economy with the global economy. To provide support to the Nationalized Public sector Banks, the Government set up a committee under the leadership of Shri. M. Narasimhan to advise on the various reforms in the Indian banking industry.

Narasimham Committee 1, 1991

The Narasimham Committee, also known as the Committee on the Financial System, was appointed by the Government of India in 1991 to review the structure and functioning of the Indian financial system. The committee was chaired by M. Narasimham, who was the 13th governor of the **Reserve Bank of India**.

[Source: Moneylife]

The committee's report, which was submitted to the government in November 1991, made a number of recommendations for reforming the Indian financial system. These recommendations included:

- **Liberalizing interest rates:** The committee recommended that interest rates be deregulated and allowed to be determined by market forces. This would help to improve the efficiency of the financial system and promote competition.
- **Strengthening the regulatory framework:** The committee recommended that the regulatory framework for the financial system be strengthened to protect depositors and investors. This would include creating a new independent regulatory authority, the Securities and Exchange Board of India.
- **Promoting competition:** The committee recommended that the government take steps to promote competition in the financial sector. This would include reducing restrictions on entry and exit, and encouraging mergers and acquisitions.

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The Narasimham Committee's recommendations had a significant impact on the Indian financial system. They helped to liberalize the financial sector, strengthen the regulatory framework, and promote competition. These reforms contributed to the growth and stability of the Indian economy in the 1990s and beyond.

Here are some of the specific changes that were implemented as a result of the Narasimham Committee's recommendations:

- **Interest rates were deregulated in 1992.** This led to a decline in interest rates, which made it more affordable for businesses to borrow money and for consumers to buy homes and cars.
- **The Securities and Exchange Board of India (SEBI) was established in 1992.** SEBI is responsible for regulating the securities market in India.
- **The Monopolies and Restrictive Trade Practices (MRTP) Act was amended in 1991 to reduce restrictions on entry and exit in the financial sector.** This made it easier for new banks and financial institutions to enter the market.

The Narasimham Committee's reforms were a major step forward for the Indian financial system. They helped to make the system more efficient, stable, and competitive.

10 private banks were given licences: Global Trust Bank, ICICI Bank, HDFC Bank, UTI Bank, Bank of Punjab, IndusInd Bank, Centurian Bank, IDBI Bank, Times Bank, Development Credit Bank.

Out of these 10 banks, 6 are still running: ICICI Bank, HDFC Bank, UTI (Now Axis Bank), IDBI Bank, IndusInd Bank, Development Credit Bank.

In conclusion, delving into the history of Nationalization of Banks unveils a tapestry of economic evolution and policy dynamics. This exploration has provided invaluable insights into the shifts from private to public ownership, elucidating the reasons, consequences, and overarching impact on the banking sector. As aspiring bankers, comprehending this historical context equips you with a deeper understanding of the financial landscape.

The intricacies of nationalization policies and their outcomes underscore the importance of adaptability and foresight in the banking industry. Armed with this knowledge, you are better prepared to navigate the challenges and opportunities that may arise in the ever-changing financial realm. This historical perspective enhances your readiness for bank exams, ensuring you approach questions with a comprehensive understanding of the factors that have shaped the banking sector over time.

So, this is all for today. In our next blog, we will discuss the Privatization of the Banks. Till then, stay tuned!

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