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50 years of bank nationalisation

What is the issue?

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The year 2019 marks the 50th anniversary of bank nationalisation in India.

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How did it unfold?

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- The measure of bank nationalisation came into effect on 19 July 1969 under the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance.

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- The ownership of 14 major commercial private banks - estimated to be controlling 70 of the deposits in the country - was transferred to the government.

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- The ordinance was soon after followed by an Act of the same name.

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- Till 1969, the State Bank of India (SBI) was the only bank that was not privately owned, which was called as the Imperial Bank before its nationalisation in 1955.

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- At Present, there are 19 nationalised banks in India

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What was the reason behind the measure?

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- There were primarily two reasons why the ownership of these 14 banks was

transferred to the government.

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- First, there were 361 private banks which failed across the country in the period from 1947 to 1955, translating to an average of over 40 banks per year.
- This has resulted in depositors losing all their money as they were not offered any guarantee by their respective banks.
- Second, these commercial banks were seen as catering to the large industries and businesses, ignoring the agricultural sector.
- In 1950, only 2.3% of the bank loans were channelled to farmers, with the figure declining to 2.2% by 1967.
- Also, it was estimated that 14 major commercial private banks controlled 70% of the deposits in the country.
- Hence, the stated motive of this measure was to make credit availability easy for the “priority sector” – constituting agriculture, small industries, traders and entrepreneurs.
- Moreover, the focus was also on opening up of bank branches in the rural and backward areas.

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What was the consequence?

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- The move failed to eradicate poverty and in scaling down inequalities of income, wealth and entitlements, especially in rural India.
- The performance of nationalised banks, on the parameters of branch expansion as well as increasing the number of deposits, never surpassed that of private banks.

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- Moreover, even while it did serve the agriculture sector, the ones who reaped the maximum benefits in terms of borrowings were the well-off farmers, with the poorer and the needy ones being excluded.

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- The same trend applied in the case of traders, businesses and industries.
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- Thus the real purpose was that it gave the ruling party access to finance as and when it needed without having to resort to black money.
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- Projects which had been given crores with the high reputation of corporate borrowers stalled.
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- Many of these loans had to be written off as bad debt, which has turned out as the NPA disaster in future.
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- Though bank nationalisation was made for the purpose of extending bank facilities to rural areas, financial inclusion was only increased post the implementation of Jan Dhan Yojana.
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- Thus, the government could have provided incentives for private commercial banks to open rural branches rather than nationalising them.
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What are the takeaways?

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- Even now, the restructuring of the PSU banks has mostly concentrated on mergers and consolidation, instead of focussing on the failure of due diligence on part of the management.
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- The government has taken the route of recapitalising these bad banks rather than shutting them down or privatising them, affecting taxpayer's money.
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- Thus the
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- consolidation process should be completed covering all PSU banks, followed by promoting efforts towards
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- divestment.
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- Also, internationally credible managers should be hired to reform the management in PSBs and to bring accountability in the lending process.

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Source: Financial Express

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