

## **Banking Law-Nationalisation of Banking Companies**

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### **ABSTRACT**

The research work is intended to study "Nationalisation of Banking Companies" in order to have idea of nationalization of banks in our country and their impact on Indian economy. The researcher looks into the compelling reasons for nationalization and the objects of nationalisation. India had just come out of colonization and any liberalism would pose threat to its sovereignty. In order to allocate resources the government sought to nationalize 14 banks. The government thus brought out an ordinance to this effect and 14 banks were nationalized.

The researcher has mainly referred to the secondary sources available in the form of websites as well as books for the purpose of preparing the research work.

The research work has been classified into different chapters:

- Chapter I- Introduction. It deals with the nationalization of banking companies.
- Chapter II- Compelling reasons for nationalization .
- Chapter III- Objects of nationalization .
- Chapter IV- Impact of nationalization of banks on Indian Economy.

- Chapter V- Conclusion. In this researcher express its critics related to topic.

## **RESEARCH METHODOLOGY**

Hard work has been made to undertake the study using doctrinal research methodology and to attain the goal. The researcher has consulted both primary and secondary sources.

### **Primary Sources**

- Banking Companies (Acquisition and Transfer of Undertaking) Act 1969

### **Secondary Sources**

Secondary sources consist of books, magazines and journals which provide information about the court decisions, precedents, data, articles, etc.

## **NATIONALISATION OF BANKING COMPANIES**

India after independence chose a path of socialism and conservative economic practice. There were sufficient justification to this path, India had just come out colonization and any liberalism would pose threat to its sovereignty. In order to priority allocation of resources the government sought to nationalize 14 banks. The government thus brought out an ordinance to this effect and 14 banks were nationalized.

In R.C.Cooper v. Union of India, famously known as the Bank Nationalisation case, the petitioner R.C.Cooper held shares in the Central Bank of India Ltd., Bank Of Baroda, Union Bank had accounts with these banks and was also a director of Central Bank. By these petitions he claimed a declaration that the Banking Companies(Acquisition and Transfer of Undertaking) Act 1969 impaired his rights under Articles 14,19and 31 of the Constitution and hence invalid.

The Hon'ble Supreme Court of India held that the Banking Companies (Acquisition and Transfer of Undertaking) Act 1969 authorizing the exercise of the power to take the property of an individual for a public purpose or to ensure the well-being of the community and the law authorizing the imposition of reasonable restrictions is intended to advance that large public interest.

## **First phase of 14 Banks-**

Before the Social Control of the commercial banks, the nationalization of these banks had taken roots in India. Social control could not yield desired aim. The crucial decision to nationalize the major Indian banks had its genesis in the Prime Minister's note on Economic Policy which was endorsed at the Bangalore Session of the All India Congress Committee held in July 1969. The note referred to the great feeling in the country regarding the nationalization of private commercial banks. The AICC resolution endorsing the Prime Minister's note strengthened her conviction and paved the way for the implementation of her revised thoughts. It was, therefore within six months of the imposition of social control on banks, ordinance to nationalize the fourteen major banks having deposits of Rs. 50 Crores or more was issued on 19<sup>th</sup> July, 1969 "to serve the better needs of development of economy in conformity with the national priorities and objectives. These banks mostly owned by businessmen and even managed by them were:

- The Central bank of India Ltd.
- The Bank of Maharashtra Ltd.
- The Dena Bank Ltd.
- The Punjab National Bank Ltd.
- The Syndicate Bank Ltd.
- The Canara Bank Ltd.
- The Indian Bank Ltd.
- The Indian Overseas Bank Ltd.<sup>1</sup>
- The Bank of Baroda Ltd.

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<sup>1</sup> Banking Laws- Central Law publications ; R.N. Chaudhary

- The Union Bank Ltd.
- The Allahabad bank Ltd.
- The United Bank of India Ltd.
- The UCO Bank Ltd.
- The Bank of India Ltd.

### **THE SECOND PHASE OF SIX BANKS-**

On the 15<sup>th</sup> April 1980 six more banks having deposits of over 200 crores were nationalized. Till this year approximately 80% of the banking sector in India were under Government ownership but after this there was a rise of approx. 80% in deposits and advances took a jump by 11,000%.

These banks were..

- i) The Andhra Pradesh Bank Ltd.
- ii) The Corporation Bank Ltd.
- iii) The New Bank of India Ltd.
- iv) The Oriental Bank of Commerce Ltd.
- v) The Punjab & Sindh Bank Ltd.
- vi) The Vijaya Bank Ltd.

Later, the New Bank Of India was merged in Punjab National Bank which had already nationalized on 19<sup>th</sup> July 1969.

### **A Brief Steps of Nationalisation-**

**1948:** Soon after Independence the Reserve Bank was nationalized.

**1955:** Nationalisation of State Bank of India.

**1959:** Nationalisation of SBI subsidiaries.

**1969:** Nationalisation of 14 major banks.

**1980:** Nationalisation of six banks with deposits over 200 crores.

### **Compelling Reasons For Nationalisation-**

The broad objectives of the government decision to nationalize the major banks were summed up by the Prime Minister as follows-

1. **Concentration of wealth and economic power-** the foremost reason for taking over the banks was the charge that private banking institutions, being under the control and management of big industrialists and businessmen were instrumental for the concentration of wealth and economic power through their lending policies.
2. **Branch expansion-** The private banking companies mainly concentrated their branches in urban areas with the effect that rural areas remained outside the purview of the commercial banks. Opening of branches in small towns and villages had not been profitable proposition in the initial years. Thus public ownership of these banks was therefore felt necessary to launch a massive programme of branch expansion in unbanked areas.<sup>2</sup>

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<sup>2</sup> Banking Laws- Central Law publications ; R.N. Chaudhary

3. **Neglect of agriculture, small industries and other deserving sectors-** the commercial banks totally neglected agriculture and small business for a long period because of the risk involved in financing these sectors. Large share of bank credit was granted for industry and commerce. These imbalances and credit gaps necessitated introduction of credit planning to allocate the bank resource equitably and to serve the larger social purpose. Public ownership of banks was felt necessary to make radical changes in the credit practices of these banks.
  
4. **Various malpractices-** Under private ownership management these banks were indulging in various malpractices to favour big businessmen and industrialists. Though steps were taken through successive legislative measures to plug the loopholes and stop the malpractices, complete success was not possible without dissociating the big industrialists and businessmen from the top management of the banks. <sup>3</sup>

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<sup>3</sup> Banking Laws- Central Law publications ; R.N. Chaudhary

## **OBJECTS OF NATIONALISATION-**

According to the Banking Companies Act 1970, the aim of nationalization of banks in India is 'to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in the conformity with national policy and objectives.'

In short, the chief objectives of nationalization of banks are:

1. The elimination of concentration of economic power in the hands of a few;
2. Diversification of the flow of bank economic credit towards priority sectors such as agriculture, small industry and exports, weaker sections and backward areas;
3. Fostering of new classes of entrepreneurs, as to create, sustain and accelerate the economic growth;
4. Professionalization of bank management;
5. Providing adequate training as well as reasonable terms of service to bank staff;
6. Extending banking facilities to unbanked rural areas and semi rural areas to mobilize savings of people to the largest possible extent and to utilize it for productive purposes;
7. To curb the use of bank credit for speculative and other unproductive purposes.<sup>4</sup>

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<sup>4</sup> Banking Laws- Central Law publications ; R.N. Chaudhary



## **Impact of Nationalisation on the Indian economy**

The impact of nationalization was seen instantly. There were no longer any barriers, social, economic or political between the bankers and customers. This enabled in a massive quantitative expansion in customer base and also helped improve the services.

Nationalization also enabled the bank to widen its growth. There was no more concern for profitability and there was expansion in the rural areas. With this the economy also expanded and employment opportunities were created.

Moreover, with nationalization there was substantial increase in the no. of branches opened in rural/semi-urban centres . According to bank economists, during the last 28 years of nationalisation, the branches of the public sector banks rose 800 per cent from 7,219 to 57,000, with deposits and advances taking a huge jump by 11,000 per cent and 9,000 per cent to Rs 5,035.96 billion and Rs 2,765.3 billion respectively.

It is argued that even today the nation is reaping the benefits of nationalization. For instance the national banks are still serving over 90% of the country's population availing banking services and thus driving the force of the Indian economy. Moreover, recently, P Chidambaram, the finance minister stated that nationalized banks were the reason that India recovered from the 2007 financial crisis faster than other economies of the world .

However, there have been negative impacts as well. Some economists argue that the benefits of the nationalization haven't still been fully realized. Government has failed to implement most of the recommendations of the committees and

study teams charged with reforming the banking sector. For instance, the Narsimhan Committee in its report in 1991 stated that "Management weaknesses and trade union pressures have seriously undermined the efficiency of banks and financial institutions". It referred to the "lack of sufficient delegation of authority, inadequate internal control in respect of balancing of books and reconciliation of inter-branch and inter-bank entries." The committee also suggested that for the banking sector to flourish it is imperative that the banks become competitive and innovative.. New sets of skills need to be developed and new areas of expertise need to be identified.

Values have been sacrificed for expediency and as a result the banks suffered huge losses which can be only attributed to the poor management of these banks

However, even though one may say that there have been negative impacts on the economy by reason of nationalization one can safely say that the positive contribution overshadows this negative impact and nationalization brought about a complete reform of the banking sector at a time when it was needed the most.<sup>5</sup>

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<sup>5</sup> Banking Laws- Central Law publications ; R.N. Chaudhary

## **CONCLUSION**

The nationalization of banks led to many achievements in India. It accelerated branch expansion in rural and backward regions. It brought to deposit mobilization, after nationalization banks attract deposits from different sections by means of attractive deposit schemes. It gave finance to priority sectors. It increased in total transactions and brought safety in banking functions and of banks. It contributed in profit making, developmental functions and self employment schemes. The Banking Companies Act 1969 which introduced social control over commercial banks has gone much ahead in the direction. It sought to streamline the managerial and operational aspects with a view to diffusing economic power and checking the misuse of bank credit by vested interest. The government have good intentions and it led to a banking system that spanned across the nation and was undergoing fewer banking failures, and actually making profits while lending to priority sectors.