An Analysis of the Impact of Nationalisation on the functioning of the Commercial Banks

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ABSTRACT

The present paper aims to analyse the impact of 'Nationalisation' on the functioning of the commercial banks. It tries to seek the questions like- whether the nationalisation of banks is desirable or not. Nationalisation of banks in India generated a controversy which was meaningless. In fact the public deposits in the bank have increased so much that it is unsafe to leave in private hands. Banks by advancing loans to the speculators and non priority sector can create havoc in the economy. So banks were nationalized for the larger interests of the nation.

Banks are the custodians of the public money but they were in the clutches of the private brands. The officials of the banks carried out unfair means to earn profits. Public interest was completely ignored. The savings of the people were used to be employed for personal business. The nationalisation of banks becomes extremely necessary in order to protect the customers from the unfair games played by the bankers.

The nationalisation of banks was not an easy step to take. Like any other movement, it too had some pros and cons. It too was appraised as well as criticized.

The paper therefore aims at elucidating the various achievements, merits of nationalisation and its impact on various sectors of economy. The progressive nationalisation of banks has increased the role of public sector banking in the country. Without a sound and effective banking system in India we cannot have a healthy economy . The banking system in India should not only be hassle free but it should be able to meet new challenges posed by any external or internal factors. Therefore, nationalisation of banks has curbed the various in banking sector.

OBJECTIVES

- To study the objectives behind nationalsation of banks.
- To study the impact of nationalisation on functioning of commercial bank.
- To study the pre and post nationalisation period.
- To analyse the merits and demerits of nationalisation.
- To study the achievements and criticism of nationalsation.

RESEARCH METHODOLOGY

The present research study is mainly a doctrinal and analytical. Keeping this in view the conventional method of using secondary data consisting of books, journals, libraries, etc. have been used. As the study is doctrinal in nature, historical and doctrinal methods are adopted because it is not possible to study purely by experimental method. The relevant material is collected from the secondary sources. Materials and information are collected by legal sources like books on Banking Law. Materials are also collected from print and electronic media. From the collected material and information, research proposes to critically analyze the topic of the study and tries to reach the core aspects of the study.

STUDY OF NATIONALISATION & IT'S PHASES

For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitan or cosmopolitan in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process.

The government's regular policy for Indian bank since 1969 has paid rich dividends with the rationalization of 14 major private banks of India.

Not long ago, an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has a choice. Gone are the days when the most efficient bank transferred money from one branch to other in two days. Now it is simple as instant messaging or dials a pizza. Money has become the order of the day.

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

- Early phase from 1786 to 1969 of Indian Banks.
- Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
- New phase of Indian Banking System with the advent of Indian Financial & Banking Reforms after 1991.

To make this write-up more explanatory, I prefix the scenario as Phase I, Phase II, and Phase III.

PHASE-I-

The General Bank of India was set up in the year in 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly European shareholders.

In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. Reserve Bank of India came in 1935.

During the first phase the growth was very slow and Banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with, The Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority.

During those days, public has lesser confidence in the banks. As an aftermath deposit mobilization was slow. Abreast of its saving bank facility provided by the Postal department was comparatively safer. Moreover, funds were largely given to traders.

PHASE-II-

Government of India took major steps in this Indian Banking Sector Reforms after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State government all over the country.

Seven banks forming subsidiary of State Bank of India was nationalized in 1960. On 19th July 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in India were nationalized.

Second phase of nationalization Indian Banking Sector Reform was carried out in 1980 with more banks. This step brought 80% of the banking segment in India under Government ownership.

The following are the steps taken by the Government of India to Regulate Banking Institutions in the country:

1949: Enactment of Banking Regulation Act.
1955: Nationalization of State Bank of India.
1959: Nationalization of SBI subsidiaries.
1961: Insurance cover extended to deposits.
1969: Nationalization of 14 major banks.

1971: Creation of Credit Guarantee Corporation.
1975: Creation of regional rural banks.
1980: Nationalization of seven banks with deposits over 200 crores.

After the nationalization of banks, the branches of the public sector bank India rose to approximately 800% in deposits and advances took a huge jump by 11,000%.

Banking in the sunshine of government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

PHASE-III-

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalization of banking practices.

The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money.

The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.

NATIONALISATION OF BANKS:

After independence the Government of India (GOI) adopted planned economic development for the country (India). Accordingly, five year plans came into existence since 1951. This economic planning basically aimed at social ownership of the means of production. However, commercial banks were private sectors those days. In 1950-51, there were 430 commercial banks. The Government of India had some social objectives of planning. These commercial banks failed helping the government in attaining these objectives. Thus the government decided to nationalize 14 major commercial banks on 19th of July, 1969. All commercial banks with a deposit base over Rs.50 crores were nationalized. It was considered that the banks were controlled by business houses and failed in catering to the credit needs of poor sections such as cottage industry, village industry, farmers, crafts men, etc. The second dose of nationalization came in April1980when banks were nationalized.

The nationalization of banks in India took place in 1969 by Mrs. Indira Gandhi the then prime minister. It nationalized 14 banks then. These banks were mostly owned by businessmen and even managed by them. They are:

1. Central Bank of India
2. Bank of Maharashtra
3. Dena Bank
4. Punjab National Bank
5. Syndicate Bank
6. Canara Bank
7. Indian Bank
8. Indian Overseas Bank
9. Bank of Baroda
10. Union Bank
11. Allahabad Bank
12. United Bank of India
13. UCO Bank
14. Bank of India

Before the steps nationalization of Indian banks, only State Bank of India (SBI) was nationalized. It took place in July 1955 under the SBI Act of 1955. Nationalization of seven state bank of India (formed subsidiary) took place on 19th July, 1960.

The State Bank of India is India's largest commercial bank and is ranked one of the top five banks worldwide. It serves 90 million customers through a network of 9,000 branches and it offers – either directly or through subsidiaries- a wide range of banking services.

The second phase of nationalization of Indian banks took place in 1980. Seven more banks were nationalized with deposits over 200 crores. Till this year, approximately, 80% of the banking segment in India was under government ownership.

After the nationalization of banks in India, the branches of the public sector banks rose to approximately 800% in deposits and advances took a huge jump by 11,000%.

Thus, the years in which nationalization of banks took place were-

- 1948: Soon after Independence, RBI was nationalized.
- 1955: Nationalization of State Bank of India.
- 1959: Nationalization of SBI subsidiaries.
- 1969: Nationalization of 14 major banks.
- 1980: Nationalization of seven banks with deposits over 200 crores.

NEED FOR NATIONALISATION OF BANKS

The need for the nationalization was felt mainly because private commercial banks were not fulfilling the social and development goals of banking which are so essential for any industrializing country. Despite the enactment of the Banking Regulation Act in 1949 and the nationalization of the largest bank, the State Bank of India, in 1955, the expansion of commercial banking had largely excluded rural areas and small-scale borrowers.

The developing goals of financial intermediation were not being achieved other than for some favored large industries and established business house. Whereas industry's share in credit disbursed by commercial banks almost doubled between 1951 and 1968, from 34% to 68%, agriculture received less than 2% of total credit. Other key areas such credits to exports and small-scale industries were also neglected.

The stated purpose of bank nationalization of bank was to to ensure that credit allocation occur in accordance with plan priorities. Nationalization took place in two phases, with a first round in 1969 covering 14 banks followed by another in 1980 covering 7 banks. Currently, there are 27 nationalized commercial banks.

Initially, the focus on the physical extension of banking services. There is no doubt that the achievement has been impressive by any standards. From only 8261 in June 1969, the number of branches of commercial banks increased to 65,521 in 2000. (Indeed, they had increased to even more, as we shall see, the "reforms" of the nineties caused a decline in the number of rural branches.) The expansion of rural branches was especially noteworthy. The population covered by a branch decreased from 65,000 in 1969 to 15,000 in 2001. There were associated increase in both deposits and credit flow.

OBJECTIVES BEHIND NATIONALISATION OF BANKS IN INDIA

According to the Banking Companies Act 1970, the aim of the nationalisation 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 conformity with national policies and objectives." The nationalization of commercial banks took place with an aim to achieve to following major objectives. More specifically, the important objectives of bank nationalisation as outlined by the prime minister in the parliament on July 21,1969 are :

- **Social Welfare**: It was the need of the hour to direct the funds for the needy and required sectors of the Indian economy. Sector such as agriculture, and small village industries were in need of funds for their expansion and further economic development. to ensure that the operations of the banking system are guided by large social purpose and are subject to close public regulation.
- **Controlling Private Monopolies**: Prior to nationalization, many banks were controlled by private business houses and corporate families. It was necessary to check these monopolies in order to ensure a smooth supply of credit to socially desirable sections.
- **Expansion of banking**: In a large country like India, the number of banks existing those days was critically inadequate. It was necessary to spread banking across the country. It could be done through expanding banking network in the un-banked areas.

- **Reducing Regional Imbalance**: In a country like India where we have a urban-rural divide; it was necessary for banks to go in the rural areas where the banking facilities were not available. In order to reduce this regional imbalance nationalization was justified.
- **Priority Sector Lending**: In India, the agriculture sector and its allied activities were the largest contributors to the national income. Thus these were labeled as the priority sectors. But unfortunately, they were deprived of their due share in the credit. Nationalization was urgently needed for catering funds to them.
- **Developing Bank Habits**: In India, more than 70% population used to stay in rural areas. It was necessary to develop the banking habit among such a large population.
- **Mobilise savings**: Nationalisation aimed at mobilizing the savings of the people to the largest possible extent and to utilize them for productive purposes.
- **Productive sector:** Nationalization ensures that the needs of productive sectors of the economy and in particular those of farmers, small skill industries and self employed professional groups are made.
- **Creating fresh oppurtinity :** It aims to actively foster the growth of new and progressive entrepreneur and create fresh oppurtinity for hitherto neglected and backward areas in different parts of the country.
- **To curb speculative activities:** It also focuses on curbing the use of bank credit for speculative and other unproductive purposes.

THE BANK NATIONALISATION CASE-

Rustam cawasjee cooper v. Union of India-

In this landmark case, the constitutional validity of the Banking Companies Act, 1969 was challenged in the Supreme Court. The Supreme Court, by a majority of 10:1, declared the Act invalid and unconstitutional because its provisions relating to the statutory transfer of undertaking were void as they impaired the fundamental guarantee under Article 31(2) of the constitution. The majority judgment held that-

a)"The Act is within the legislative competence of parliament but it makes hostile discrimination against the named banks in that it prohibits the named banks from carrying on banking business and even new banks may be formed which may be engaged in banking business.

b) In reality, it resists the named banks from carrying on business other than banking as defined in Sections(5)b of the Banking Regulations Act, 1949; and

c) That the violates the guarantee of compensation under Article 31(2) in that it provides for giving certain amounts determined according to principles which are not relevant in the determination of compensation of the undertaking of the named banks and by the methods prescribed the amounts which cannot be regarded as compensation."

HAS NATIONALISATION ACTUALLY BENEFITTED INDIA?- CRITICAL ANALYSIS

Every coin has two sides. Hence nationalization too has its own pros and cons. There are certain arguments which favor it and certain other arguments which are against it.

ARGUMENTS IN FAVOUR –

1. **Speculative activities:**
Previously, the funds of the banks were mostly used for hoarding and speculative activities. Anti social elements were able to receive the bank loans to make large profits by creating artificial shortages of essential goods. Such misuse bank resources would be controlled by the nationalisation of banks. Before nationalization, the commercial banks in India used to give loan to unscrupulous persons who used to indulge in speculation of essential commodities.
2. **Threat to democracy:**
Some of the banks had started giving money to politicians for contesting elections, under one or the other pretext. Consequently money started playing an important role in the elections and had it continued it would have been a serious threat to the very existence of the democracy.
3. **Financing the priority sectors:**
The banks were ignoring national priorities and the economic policies which were mooted by the government could not succeed. It was necessary to provide adequate finance to the Agriculturalists and to the educated unemployed. After nationalization the banks have started working in accordance with the policies of the government.
4. **Ownership and control of a few:**
Indian banks were owned and controlled by a few big shareholders. They generally influenced the pattern of allocation of bank credit in accordance with their own interest.
According to an unpublished Reserve Bank sample survey, at the end of 1965, of the total equity capital of Rs 21.4 crores of 9 large banks, about 40% was held by only 33 accounts and the rest by more than 88,000 accounts. The nationalization of banks would bring banks under the control of government for meeting the general interest of the public.
5. **Concentration of wealth and power**:
The banks in India were controlled by a few industrial houses which used the public funds of the banks to build up large industrial estates. According to an estimate in mid-sixties 70% of total industrial advances went to only 1% of the number of borrow accounts, each with credit outstanding of over Rs. 5 lakh, whereas 12 % of the accounts with credit outstanding of less than Rs. 10,000 each received only 4% of the total. This led to the growth of wealth and power in few hands.
6. **Credit to directors**:
The resources of the banks were made available to the directors of these banks at concessional rates. These directors also had connecting with other business concerns. According to an official survey, 188 persons serving on the boards of 20 leading banks had 1452 directorships of other companies also. In this way, the funds of the banks were not utilized for the economic development of the country but for the promotion of the interest of the directors. Bank nationalisation would check favourable attitude of the banks towards directors.
7. **Discrimination against small business**: Indian banks had adopted a general policy of providing finance to large industries> small businesses were not able to approach these banks for meeting their credit needs and were usually discriminated against. Nationalization was favored in order to extend financial help to the small business units.
8. **Indifference to agricultural sector**: The agricultural sector was almost ignored by the commercial banks. Most of the banks and their branches existed in the urban areas and were catering the needs of the industry and trade. Little efforts were made by the banks to meet the credit requirement of agriculture which is the backbone of Indian economy. Nationalization of banks was hoped to contribute to the development of agriculture.
9. **Financing Economic Plans**: It was argued that the nationalized banks would make their resources available to the government for financing economic plans of the country .in this way , the banks contribute to the development of the economy.
10. **Safety of depositors: Nationalization** will provide 100% safety to the deposits of the people. This will inspire public confidence in the banking system and thus increase the bank deposits.
11. **Other arguments** :some other arguments given in favor of the nationalization of banks are as follows:
(a)Nationalization eliminates wasteful competition and raises the efficiency of the working of the banks.
(b) Integrated monetary policy and its effective implementation requires unified control of both the central and the commercial banks.

(c) Nationalization of banks is necessary for achieving socialism: nationalization of industry is not possible without bank nationalization.

ARGUMENTS AGAINST –

1. **Less deposit**: Banks or any other public dealing institution if nationalized results in frustration among the people because the institution becomes inefficient and does not bother about the public. This may result in less deposit and loss of confidence in public.
2. **Less Confidence**: After nationalization the commercial banks have become an effective tool in the hands of the ruling party. The party in power forces the bank to give loans to the supporters of their party and can also get money for contesting elections on one or the other pretext. Under such circumstances the nationalization of the banks has gone against the interest of the common man.
3. **Reduction in Efficiency**: Only 20 banks have been nationalized and the government has justified its action by saying that nationalization of all the banks was not necessary because they wanted the public sector and the private sector banks to compete with each other. In fact there can be no competition between the public sector and private sectors banks as it is between public sector industries because the Reserve Bank controls monetary activities of the Commercial Bank in the country. The experience of other nationalizes institution indicates that the nationalisation of the commercial banks will reduce the efficiency of these banks. Moreover, political interference will also impair the smooth working of these institutions.
4. **No control on monopolies**: The root cause of the growth of the monopolies and the concentrations of wealth and power lies in the existing economic system. Therefore, the remedy requires the changing and reforming of the economic system and not the nationalization of banks.
5. **Risky Lending to Agriculturist**: Extending loans to agriculture and small scale industries is risky and less remunerative. Such loans are against the sound banking rules and may weaken the economy viability of these institutions.
6. **No need of security to deposits**: It is pointed out that there is no need to provide 100% security to the depositors in India through nationalization of banks. Institutions like Indian Deposit Insurance and CREDIT Guarantee Corporation are functioning quite efficiently and providing enough relief to the deposition.
7. **Burden of Compensation**: Nationalization involves large amounts of money to be paid as compensation to the shareholders. This puts additional financial burden on the government. Moreover, it is also argued that nationalization will not bring much revenue to the state.
8. **Nationalization is no socialism**: It is argued that nationalization may not lead to socialism. State capitalism is not socialism. Moreover, there is a general tendency to trat public property not as sacred national property, but as no one's property. As such, it is misused and destroyed like anything.

ACHIEVEMENTS OF NATIONALIZED BANKS

The commercial banking system in India has improved and progressed appreciably after bank nationalization in 1969. Various achievements of the banks in the post-nationalization period are discussed below:

(A) Development of Banking Industry

1. **Lead Bank Scheme**: The lead bank scheme was introduced by the Reserve Bank of India towards the end of 1969 with the objective of enabling the commercial banks to assume the role of leadership for the development of banking and credit facilities throughout the country on the basis of area approach. Under this scheme, all the districts in the country have been allotted to the State Bank Group, nationalized banks and private Indian banks. A lead bank is assigned the role of a catalytic agent of economic development through the expansion of bank branches and diversification of credit facilities in the district. The main objectives of a lead bank are :

   (a) To open branches in all the important localities of the lead district
   (b) To extend maximum credit facilities for development in the district
   (c) To mobilize the savings of the people in the district and
   (d) To co-ordinate the activities of co-operative banks, commercial banks and other financial institutions in the district.

   More specifically, the functions of lead bank are:

   (i) To survey the sources and potential for banking development in the district.
   (ii) To survey number of industrial and commercial units and other establishments which do not have banking accounts.
   (iii) To examine the facilities for marketing of agricultural produce and industrial production, storage and warehousing space and linking of credit with marketing in the district
   (iv) To survey the facilities for stocking of fertilizers and other agricultural inputs and for the repair and servicing of equipment
   (v) To recruit and train staff for offering advice to small borrowers and farmers and for the follow-up and inspection of end use ogf loans
   (vi) To assist other primary lending agencies
   (vii) To maintain contacts and liaison with government and semi-government agencies.

2. **Branch Expansion:** There has been a spectacular expansion of bank branches after nationalization of major commercial banks in 1969. The lead bank scheme has played an important role in the bank expansionprogramme. The number of branches of of all scheduled commercial banks, which increased from 4151 to 8262 during the 18 years of pre-nationalization period(1951-1969), has further gone up from 8262 to 53840 during the 18 years of post-nationalization period (1969-1987).the banking coverage in the country as a whole has also considerably improved from one office for 87 thousand people in 1951 to one office for 65 thousand people in 1969 and one for 15 thousand people in 2006. The number of bank branches in 2011 was 90830.

3. **Coverage of Rural Areas:** the main thrust of bank expansion policy in the post-nationalization period has been on increasing the bank facilities in rural areas. There has been a significant increase in the rural branches of banks since1969.the number of branches in rural areas having population up to 10,000 has increased from 1832 in June 1969 to 33795 in

June 2011. The percentage of bank branches in rural areas to the total branches has increased from 22.2% in June to 37.2% in June 2011. Of the thousand branches opened between June 1969 to June 2006 , 50% were in rural areas.

4. **Reduction of regional imbalances**: another highlight of the branch expansion policy since the nationalization of banks has been to extend banking facilities in the deficit and unbanked areas and to reduce the regional imbalances. Systematic efforts are being made to increase banking facilities in the rural and semi-urban areas of the deficit districts if the country. The licensing policy during the seventh plan period (1985-90) aims at achieving a coverage of 17000 population per bank in rural and semi-urban areas of each development block. The policy also aims at providing a bank office within 10 kms from each village.
5. **Expansion of bank deposits**: since nationalization, of banks there has been a significant increase in the deposits of commercial banks. During the 18 years of pr-nationalization period, the deposits in the scheduled banks increased from Rs. 908 crores in 1951 to Rs. 4646 crores in 1969. Against this, during the 18 years of post-nationalization period, the deposits increased from Rs. 4646 crores in 1969 to Rs. 107345 crores in 1987. The deposits rose to Rs. 5710061 crores in 2011.
6. **Change in composition of deposits**: the relative proportions of demands and time deposits have also changed markedly after the nationalization of banks. The proportion of time deposits has increased continuously from 50% in 1951 to 75% in 1969 and further to 90% in December 2011. This is a clear indication of a shift in favour of fixed deposits of the commercial banks.
7. **Credit Expansion**: the expansion of baj=nk credit has also been more spectacular in the post-bank nationalization period. Over the period of 18 years before bank nationalization, total advances of scheduled banks increased from Rs. 547 crore in 1951 to Rs. 3599 crores in 1969. Against this, during the 18 years of post-nationalization period the advances of scheduled banks increased from Rs. 3599 crores in 1969 to Rs. 63753 crores. The advances increased to Rs. 4235421 crore in 2011.
8. **Investment in Government Securities**: The nationalized banks were expected to provide finance for economic of the country through the purchase of government securities. There has been a significant increase in the investment of the banks in government and other approved securities which increased from Rs. 1727 crores in march 1970 to Rs. 1738236 crores in 2011.

(B) Financing of Priority Sectors

1. Lesser importance to Big industries

The sectoral deployment of credit has undergone a great qualitative change after the nationalization of banks. In the pre-nationalization dys, large and medium industries and wholesale trade account for about 78% of the total bank credit, while agriculture accounted for only 2.2% of the total bank credit. The share of large and medium industries and wholesale trade in the total bank credit has declined to about 36% in 2009. Correspondingly, the share of agriculture, small industries and other priority sectors, food procurement agencies, exports, has increased.

2. Advances to priority sectors

One of the main objectives of the nationalization of bank was to extend credit facilities to the borrowers in the so for neglected sectors of the economy. To
achieve this objective, the banks formulated various schemes to provide credit to small borrowers in the sectors like agriculture, small scale industry, road and transport, water, retail trade and small business. Considering the necessity of meeting specific credit requirements of the weaker sections, consumptions credit has been included in the priority sectors. Similarly, small housing loans to scheduled castes/tribes and weaker sections have also been considered as priority sector loans. Distinctive features of the advances made available to the priority sectors after nationalization are given below:

(i) The number of borrowed accounts of the priority sector with the public sector banks has increased from 2.60 lakhs to 483.39 lakh between june 1969 to march 2011.

(ii) The total credit provided by the public sector banks to prority sector has increased from Rs. 441 crore in june 1969 to Rs. 1021495 crore in 2011. As a result, the share of priority sector in the total credit has increased from 14.6% in june 1969 to 41% in 2011.

(iii) Agri culture credit increased from Rs. 162 crore in june 1969 to Rs. 414973 crore in 2011.

(iv) Dire ct finance to agriculture which was only Rs. 40 crore in june 1969, has gone up to Rs. 300190 crore in march 2011.

(v) Ban k credit to small scale industries has also increased significantly from Rs. 251 crore in june 1969 to Rs. 369430 crore in march 2011.

(vi) Ban k credit to other priority sectors like road and water transport operators, retail trade, small business, professional and self employed persons ,education, consumption loans, housing loans etc. has also increased from Rs. 28 crore in june 1969 to Rs. 237092 crore in March 2011.

3. **Agricultural finance**

After nationalization, the commercial banks have been giving special attention to the financial needs of agricultural and of rural areas. This is clear from the various measures taken by the public sector banks:

(i) Larg er and growing proportion of credit his grown from 5.4% in 1969 to 16.6% in 2011.

(ii) The strategy of agricultural finance by the banks has been

(a) To take note of various imbalances in the agricultural development and to take measures to correct them.

(b) To give a big push to agricultural development in terms of investment, management, and policy.

(c) To develop untrapped potential in the neglected region.

(iii) The banks provide direct financial assistance to the agriculturists in the form of (a)short-term loans: (b)term loans for purchasing animals and farm machinery, constructing wells and tube wells, leveling or developing land etc.: (c) loans for allied activities such as dairying, poultry farming, piggery, bee keeping, fisheries, etc.

(iv) The commercial banks provide indirect financial assistance to the agriculturist in the following forms: (a) they finance co-operative societies to enable them to expand their production credit to the farmers; (b) they provide indirect finance for the distribution on various agricultural inputs; (c) they extend credits to firm or agencies engaged in the supply of agricultural machinery on hire- purchase basis or otherwise ; and (d) they subscribe to the debentures of the central land development activities.

(v) The commercial bank have started many innovative schemes to ensure larger flow of credit to the needy farmers and its effective utilization. Some of the schemes are : (a) agricultural branches of State Bank of India, (b) village adoption scheme: (c) Gram Vikash Kendras of Bank of Barodra: (d) Rural Financing Centres of Dena Bank: (e) Project Lending with Refinance facilities from ARDC or NABARD: (f) Linkage of Lending with development Activities.

(vi) Since 1975, the State Bank of India and Nationalized banks are sponsoring regional rural bank to extend cheap credit to small farmers, rural artisans and others.

(vii) To small but potentially vivale farmers, the commercial bank have set up farmer's service society in SFDA areas (Small Farmers Development Agency Areas) for providing such farmers credit facility, ensuring the supply of inputs, and helping in the marketing of products.

(viii) The commercial banks have been increasingly adopting area approach in agricultural by selecting group of villages in different areas and meeting total credit needs of farmers in those villages.

(ix) Kisan Credit Card (KCC) scheme was introduced in 1998-99 to facilitate the flow of timely and adequate short term credit to the farmers.

4. **Bank Credit For Small Scale Industries.**

Small Scale Industries Sector has also been recognized by the Government as an important productive sector of the economy which deserves special financial assistance by the commercial banks. Keeping this in mind, various facilities and concessions have been made available to the sector from the banks, particularly after their nationalization in 1969.

The following are the important bank credit facilities given in the small scale industries:

(i) Small Scale Industries Sector has been treated as a priority sector for bank loan.

(ii) Short period and term loans are provided to the small scale industries at a concessional rate of interest.

(iii) Bank have been instructed not to insist on margins and guarantees from the borrowers of small scale sector.

(iv) Banks have also been directed that the period of repayment should be related to the surplus generating capacity of the unit, and should not be fixed on adhoc basis.

(v) Special cells have been set up in the bank to provide guidance to the borrowers from small scale sector.

(vi) Advances to the small scale industries are protected by a guarantee from Deposit Insurance and Credit Guarantee Corporation under its credit guarantee scheme.

(vii) Commercial banks also provide financial assistance for setting up of industrial estates.

(viii) **Industrial Development Bank of India (IDBI) –** provides the following facilities to the commercial banks with a view to assist them in financing small scale industries:

(a) It refinances loans and advances extended by the commercial banks to small scale industries units.

(b) It launched the National Equity Fund Scheme in 1988 for providing support in the form of equity to tiny and small scale industrial units. This schemes in administered through nationalized banks.

(c) Small Industries Development Bank of India (SIDBI)- was setup as a wholly owned subsidiary of IDBI in 1989 as the principal institution for promotion , financing and development of industries in the small scale industries. It took over all the IDBI functions and schemes relating to small scale sector

(ix) Bank credit to small scale industrial units increased from Rs 251 crore in June 1969 (8.3% of total bank credit) to Rs 369430 crore in March 2011 (14.8% of the total bank credit).

5. **Banks and Export Promotion-**

In a developing economy like India , there is a great need to promote exports in order to earn sufficient foreign exchange to be able to meet the country's large and growing foreign exchange obligations. In a view of this , the governments has taken a number of measures to enable the commercial banks to provide sufficient and easy finance to the exporters.

(i) Exports have recognized as a priority sector for the allocation of bank credit. Thus the commercial banks extend financial assistance to the exporters on priority basis and relatively liberalized terms. As on March 2011, aggregate export credit of banks was Rs 42486 crore.

(ii) Banks give finance to exporters in two stages, ie, at the pre shipment stage and post shipment stage. The financing is done at concessional rates of interest. The purpose of charging low interest rate on export advances is to reduce the cost of product and make it competitive in the international market.

(iii) To induce banks to increase their credit for exports, the RBI has been providing increasingly liberal finance to them for such credit and at no concessional rates.

(iv) In its credit policy the RBI has been fixing credit fixings from time to time and requiring the commercial banks to observe specified incremental net non food credit deposit ratio. But exports have been kept outside the framework of this stipulated credit deposit ratio.

6. **Housing Finance-**

Housing finance is another priority sector and the the public sector banks play a crucial role in this area. The major issue in respect of housing finance is how to bridge the gap between demand for housing finance and its supply from all sources put together.

In this regard following measures have been taken:

(i) At the national level, national housing bank (NHB) has been set up in 1998 as an apex institution to promote and develop specialized housing finance institutions at regional and local level.

(ii) Other national level institutions providing housing finance are:

(a) Housing and Urban Development Corporation ltd (HUDCO).

(b) Housing Development Finance Corporation of India ltd (HDFC).

(iii) A broad policy of minimum allocation for housing finance by commercial banks has been adopted and the schedule commercial banks were advised to allocate 1.5% of their incremental deposits.

(iv) 20% of bank credit should be by way of direct lending of which at least half should be in the rural and semi urban areas.

(v) 30% of bank credit should be extended in indirect way in form of term finance.

(vi) The balance of 50% of bank credit for housing should be made use of subscription to the granted bonds and debentures of the National Housing Bank (NHB) and Housing and Urban Development Corporation Ltd (HUDCO).

(vii) The ceiling of Rs 10 lacks per borrower for direct lending has been fixed.

(viii) As at end of March 1991, 9 banks had set yup housing finance companies or subsidiaries or participated in equities of housing finance companies set up other institutions.

(ix) The outstanding amount of housing loans by public sectors banks has increased from Rs 323 crore in March 1992 to Rs 346110 crore in March 2011.

7. **Credit to Weaker Sections-**

In order to increase the flow of bank credit to smaller and poorer borrowers, the government has broadened the concept of weaker sections of society. Now the weaker sections include small and marginal farmers, landless labourers, tenant farmers & share croppers, artisans, village and cottage industries, beneficiaries of integrated rural development program, schedule caste and schedule tribes, and beneficiaries of differential rate of interest scheme. By March 2010, these weaker sections have been provided the bank credit of Rs 212215 crore which accounted for 10.2% of the total credit of public sector banks.

8. **Different Rate of Interest Scheme-**

With a view to provide bank credit to the weaker sections of the society at a concessional rate, the government introduced the different rate of interest scheme from April 1972. Under this scheme, the public sector banks have been providing loans at 4% rate of interest to the weaker sections of the society who do not have any tangible security to offer, but who can improve their economic conditions from the financial support from the banks. The schemes has shown notable progress. As on March 31, 2011, the outstanding differential rate of interest credit was of Rs 752 crore.

9. **Kisan credit Credit Card Scheme-**

Kisan Credit Card Scheme was introduced in 1998-99, to provide better access to short term institutional credit (i.e, from commercial banks and regional rural banks) to farmers.

The salient features of the scheme are given below :

(i) Farmers eligible for production credit of Rs 5000 or more are eligible for issue of Kisan Credit Card.

(ii) Eligible farmers are to be provided with a kisan card and passbook or card cum passbook.

(iii) There is a provision of revolving cash credit facility involving any number of drawals and repayments within the limit.

(iv) Entire production credit needs for full years plus ancillary activities related to crops production are to be considered while fixing limit.

(v) Limit will be fixed on the basis of operational land holding, crop pattern and scale of finance.

(vi) Sublimits may be fixed at the discretion of banks.

(vii) Card will be valids fpr 3 years subject to annual review.

(viii) Each drawal has to be repaid within 12 months.

(ix) Conversion/ reschedulement of loans are also permissible in case of damage to crops due to natural calamities.

(x) As incentive for good performance, credit limits can be increased.

(xi) Security, margin, rate of interest will be as per RBI norms.

(xii) Operations may be through issuing branch or at the discretion of bank, through other designated branches.

(xiii) Withdrawals will be through slips/ cheques accompanied by card & pass books.

The scheme has gained popularity and implementation has been taken up by 27 commercial banks. 334 central cooperative banks, and 187 regional rural banks up to December 2000. The number of cards increased from 6.1 lacks at the end of March 1999 to 878.30 lacks at the end of November 2009.

The banking system has issued 1078.36 lacks Kisan Credit Card (KCCs) involving total sanctioned credit limit of Rs 52705 crore as on October 31, 2011. The share of commercial banks stood at 45.6% of the total number , forward by cooperative banks at 39.4% and regional rural banks at 15.1%.

CRITICAL APPRAISAL

Undoubtedly, the commercial banks in India have made phenomenal progress after nationalisation. But the critics not only point out various unadequacies and limitations of public sector banks, but also express fears about the danger of nationalisation.

Various defects of commercial banking system banking system in India, particularly, after nationalisation of banks are discussed below:

1. **Criticism By Estimates Committee-**
The Estimate Committee of Lok Sabha (1975) headed by Mr R K Sinha has expressed dissatisfaction over the working of nationalisation. The committee is of the view that nationalized banks have largely failed in achieving the main objectives of bank nationalisation, particularly granting of loans to the priority sectors and removing regional disparities through developing banking facilities in backward areas. The banks have no machinery to see that "the finance from the public institutions are, in fact, going to productive uses in the large public interest".

2. **Insufficient Help To Priority Sector-**
In spite of much increase in the loans advance to the priority sectors, the toatal help is not suffiecient for the large size of these sectors. The rate of increase in the advances to the priority sectorswhich was rapid in the initial years of post nationalisation period, has slowed down in the later years. The advances to the priority sectors as a proportion to total bank credit increase from 14.6 % in June 1969 to 22.2% in June 1971. But between June 1984 and June 1990, the proportion increased only from 39% to 42%. The reason for this slow progress was that , one the one hand the bank officials were not inbued with the new objectives of the banking and, on the other hand, they were more worried about the unsatisfactory recovery performance.

3. **Inadequate Facilities in Rural Areas-**
No doubt, much progress has been made in expanding bank branches in respect of bank expansion, deposit mobilization and credit expansion in rural areas. But, it is not adequate to meet the financial needs of the population living in the rural areas. The magnitude of problem is clear from the fact that the current only about 5% villages are covered by the commercial banks directly or indirectly. The stipulated deposit credit ratio of 60% has not been achieved in the rural areas.

4. **Regional Imbalances-**
Though the overall expansion in the bank branches has taken place in country, their expansion is not equitably distributed among the different states. According to the Reserve Bank's reports, about half of the institutions concentrate in the two regions i.e, southern and western regions mainly comprising of five states , namely, Maharashtra, Gujrat , Kerala, Tamil Nadu,& Karnataka . on the other hand, the states like Assam, Jammu and Kashmir, Manipur, Nagaland, Orissa, Tripura, Uttar Pradesh and West Bengal still continue to remain bank deficient states.

5. **Insufficient Deposit Mobilisation-**
Despite the god progress on the deposit mobilization front, much remains to the done. Deposit mobilization by the public sector banks has been about 16% to 17% per annum since nationalisation. On the other hand, it has been found that the foreign banks and the smaller private banks have received much greater increases in deposits. The fact is that with the increase the total savings in the country, there still exists a large scope for expansion of deposits.

6. **Problem of Liberal Credit Policy-**
Although liberal credit policy is necessary for providing financial support to the weaker sections of the rural community, but such a policy may prove harmful for stability of the banking system. The experience of the nationalized banks shown that these banks are now facing the problems of heavy overdue loans and economically unviable branches.

7. **Sound Principles Ignored-**
Normally, the growth of credit should go hand in hand with growth of deposit mobilization. But in the initial years of nationalisation, the credit expansion of banks was about 24% as compared to the deposits expansion of about 17%. This was an unwise and risky trend. Later on, however, the credit expansion has been proportionate to the expansion of deposits.

8. **Low Profitability-**
A major defect of banking after nationalisation is that that the nationalized banks are operating under losses or experiencing falling dividends. The profits of the commercial banks which were quite high during fifties and sixties have declined considerably in the past nationalisation period. Low profitability is caused by two types of factors : (a) the factors which push up costs , such as, inefficiency bureaucratic attitude, increasing expenditure on bank staff, expansion of branches, absence of effective cost control measures etc, and (b) the factors which reduce bank earning such as, advances to the priority sectors at concessional rates, large overdue because of non return of loans, increasing statuary ratio and cash reserve ratio, etc.

9. **Low Efficiency –**
Nationalisation has created bureaucratic attitude in the functioning og banking system. Lack of responsibility and initiative, red tapism, inordinate delays are common features of nationalized banks. AS a consequence the efficiency of these banks has reduced.

10. **Increased Expenditure-**
Due to huge expansion in a branch network, large staff administrative expenditure, trade union struggle, etc, banks expenditure increased to a dangerous level

11. **Political Pressure-**
Political pressure or interference also disturbs the smooth working of the nationalized banks. Political pressure in the granting of loans to a particular parties, the selection of personnel, opening of branches etc, creates difficulties for these banks.

These are several limitations faced by the banks after nationalisation in India. Apart from this there are certain other limitations as well, such as weak infrastructure, poor competitiveness, etc.

But after Economic Reform of 1991, the Indian banking industry has entered into the new horizons of competitiveness, efficiency and productivity. It has made Indian banks more vibrant and professional organizations, removing the bad days of bank nationalisation.

CONCLUSION

Nationalised banks are also called the government banks in India and work to provide social welfare to Indian public. They are responsible for direction funds to the needy and various sectors like agricultures and small industries for expansion as well as economic development.

Banks were nationalized to cater to the funds requirements by priority sectors. These sectors are largely the agriculture sector which contributes largely to national income of the country. Nationalised banks in India plays a great role in controlling private monopolies to guarantee and even contribution of credit to such sections of society that are most desirable. Nationalized banks in India also help in dropping the regional disparity. India is divided into urban and rural sectors and it is the nationalized banks that work to provide all firms banking facilities to the most rural areas of the country.

Nationalisation is in accordance with our national policy of adopting socialistic pattern of society. Some may say that industries which provide proper place for exploitation should have been nationalized first. They forget that the control of the capital is necessary because it gives power to exploit.

One legitimate criticism levied against nationalisation is that some banks were not nationalized so that the businessmen may not have to suffer. The government argued that the nationalised banks had the maximum deposits with them and other banks were not in position to influence the economy of the country. But there should be a complete control over the banks if we want them to boost our economy. Nationalisation of banks is the proper step in the proper direction.

After independence, it is the nationalized banks that worked to spread banking facilities across the underdeveloped region of the country in those days as there were insufficient number of banks and people were deprived of banking facilities. The nationalisation of banks helped in developing banking practice among the large population of the country since its independence.

The present working and future prospects of Indian banking system can be summed up as follows:

- Since nationalisation, the banking industry in the country has made a significant progress and now provides banking facilities throughout the length and breadth of the country.
- The public sector banks have a played an important role in mobilizing saving and extending credit increasingly in favour of the rural areas and weaker sections of the society.
- In spite of progress made by the banking institutions, the main objectives of nationalisation i.e, “to control the heights of the economy and to meet progressively, and serve better the needs of development of the economy”, has not yet been achieved. Banking facilities are still in adequate to cover all the rural and unbanked areas; regional imbalances still persist; the credit needs of priority sectors and weaker sectors of the society are not sufficiently met.
- Nationalisation has taken banking service to rural and remote areas.
- It has awaken the rural masses about the need and usefulness of banking service.
- It has helped enormously speedy transfer of funds from one place to another.
- It has provided thousand of job opportunities to the educated youth.
- It has made credit available to neglected people like agricultural labours, small traders at reduced interest rate.
- It has helped to free the rural poor from the clutches of money lenders.

- It has ensured adequate and timely credit for agricultural and forming operations.
- Priority sector advances ensured adequate supply of credit to weaker sections of the society like village artisans, labourers, scheduled cast and tribes.
- It has helped export sector to obtain cheap credit.
- It has ensured even supply of credit to various industrial activities.
- It has avoided diversion of funds for harmful activities like speculation in shares, holding of essential commodities investment in real estate etc.
- It has removed concentration of wealth in the hands of you industrialists.
- It has ensured use of public money (deposits of public money) for social and desirable purposes.
- It has removed regional disparity in economy development.
- It has helped implementation of various welfare measures formulated by the government.

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