CHAPTER – 6
NATIONALISED BANKS – AN OVERVIEW

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CHAPTER – 6

NATIONALISED BANKS – AN OVERVIEW

➢ COMMERCIAL BANKING IN INDIA

In India there are different kinds of banks each specializing in some field or the other. There are the money lenders and indigenous bankers who combine banking with trading and commission business. There are Indian Commercial Banks and Joint Stock Banks, which specialize in financing trade, commerce and industry. Above all the Reserve Bank of India (RBI) controls and directs the entire Banking Structure and Indian Commercial Banking System.

Under the Reserve Bank of India Act, 1934, banking companies incorporated in India should have minimum paid-up capital and reserves of Rs. 5 lakh if a bank has offices in more than one State and Rs. 10 lakhs if it has branches in Mumbai or Calcutta or both. These conditions were fixed in the 1930's if and those who fulfilled these conditions were known as the scheduled banks and those, which did not fulfill were called non-scheduled banks, RBI, there fore, speaks of all.

6.1
(i) **SCHEDULED COMMERCIAL BANKS**

Public Sector Banks, Private Sector Banks and Foreign Banks are included.

(ii) **SCHEDULED BANKS**

In this category we include Co-operative banks along with Commercial Banks.

(iii) **PUBLIC SECTOR BANKS**

In this category only banks which are associated with the government are included. Here, too we distinguish between.

a) State Bank of India (SBI) and its seven associate banks known as State Bank Group.

b) Nationalised Banks – 19 in number.

The Indian Banking System went through a series of crises and bank failure and consequently, its growth was quite slow during the first half of the 20\textsuperscript{th} century. But after independence, the Indian Banking System recorded rapid progress.

6.2
This was due to planned economic growth, increase in money supply, growth of banking habit, the setting up of the State Bank of India and its associate banks in the 1950's, the control and guidance by the Reserve Bank of India and, above all, nationalization of banks in July 1969.

> **COMMERCIAL BANKS AN OVERVIEW**

The Scheduled Commercial Banks continued to record impressive expansion of credit since nationalization. The credit expansion was largely facilitated by sharp reduction in CRR (Cash Reserve Ratio). The ongoing financial sector reforms helped to further strengthen the capital base of banks and clean up their balance sheets and as a consequence, their non-performing assets declined substantially in relative terms, improving thereby, the process of recycling of funds. Banks had to exercise caution in regard to their investment portfolios, even though the yield on the Government securities were relatively high, in view of their resources position. In retrospect, this proved to be helpful, since the high yield to maturity had led to depreciation of their asset values under the “Mark-to-Market” mechanism.
Given the large government borrowing from the market and the subdued deposit accretion, some banks tried to match the demand for credit with resources to money market, thereby pushing up the nominal rates of interest. The real rates of interest also turned out to be high, with inflationary pressures showing a marked slowdown over the year. Faced with the sharper challenges of managing their assets and liabilities, the responses of individual banks were markedly different than in the recent past.

➤ **TYPES OF COMMERCIAL BANK**

Modern banks in India are joint stock banks. They are registered under the Indian Companies Act 1956. They are classified by the Reserve Bank of India into two categories scheduled banks and non-scheduled banks.

(i) **SCHEDULED BANKS**

Scheduled Banks are those banks, which are included in the second schedule of the Reserve Bank of India Act 1934 and have a paid-up capital and reserves not less than Rs. 5 Lakh. The operations of these banks are controlled and regulated by the Reserve Bank and they are eligible for its rediscounting facilities.
(ii) **NON-SCHEDULED BANKS**

Non-scheduled Banks are those banks, which have their paid up capital and reserves of less than Rs. 5 Lakh and are not included in the second schedule of the Reserve Bank of India Act 1934.

The commercial banking structure in India consists of:

- Scheduled Commercial Banks in India
- Unscheduled Banks in India

Scheduled Banks in India constitute those banks, which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule, which satisfy the criteria laid down, vide section 42 (6) (a) of the Act.

"Scheduled banks in India" means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980),
or any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934), but does not include a co-operative bank."

"Non-scheduled Bank in India" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank."

The following are the Scheduled Banks in India (Public Sector):

- State Bank of India
- State Bank of Bikaner and Jaipur
- State Bank of Indore
- State Bank of Hyderabad
- State Bank of Mysore
- State Bank of Patiala
- State Bank of Saurashtra
- State Bank of Travancore
- Andhra Bank
- Allahabad Bank
- Bank of Baroda
- Bank of India
- Bank of Maharashtra
- Canara Bank

6.6
• Central Bank of India
• Corporation Bank
• Dena Bank
• Indian Overseas Bank
• Indian Bank
• Oriental Bank of Commerce
• Punjab National Bank
• Syndicate Bank
• Union Bank of India
• United Bank of India
• UCO Bank
• Vijaya Bank

The following are the Scheduled Banks in India (Private Sector):

• Vysya Bank Ltd.
• UTI Bank Ltd.
• Indusind Bank Ltd.
• ICICI Banking Corporation Bank Ltd.
• Global Trust Bank Ltd.
• HDFC Bank Ltd.
• Centurion Bank Ltd.
• Bank of Punjab Ltd.
• IDBI Bank Ltd.
The following are the Scheduled Foreign Banks in India:

- American Express Bank Ltd.
- ANZ Grindlyas Bank Plc.
- Bank of America NT & SA
- Bank of Tokyo Ltd.
- Banque Nationale de Paris
- Barclays Bank Plc
- City Bank N.C.
- Deustche Bank A.G.
- Hongkong and Shanghai Banking Corporation
- Standard Chartered Bank.
- The Chase Manhattan Bank Ltd.
- Dresdner Bank AG.

> **TRADITIONAL AND ANCILLARY SERVICES OF COMMERCIAL BANKS**

The traditional functions performed by commercial banks in India relate mainly to the acceptance of deposits in various forms and grant of advances through cash credit, overdraft and loan accounts and through purchasing / discounting demand bills saving held in the form of currency involves the risk of inflationary spending. When savings are held in the form of gold and jewelry, they are infructuous and socially wasteful.

6.8
However, when banks mobilize these deposits, the same can be used in creating productive assets, which, adds to the growth of the economy.

The other related functions of a commercial banks, as set out is clause (a) of sub-section (i) of section 8' of Banking Regulation Act 1949 are :-

i. Granting and issue of letter of credit, traveler’s cheques and circular notes.

ii. Buying, selling and dealing in bullion and species.

iii. Buying and selling of foreign exchange including foreign bank notes.

iv. The acquiring, holding, issuing on commission, under writing and dealing in stocks, funds, shares, debentures stock, bonds, obligations, securities and investment of all kinds.

v. Purchasing and selling of bonds scripts or other forms of securities on behalf of constituents or others, the negotiating of loans and advances.

vi. The receiving of all kinds of bonds or valuables, on deposit or for safe custody or otherwise : the providing of safe deposit vaults.

vii. The collecting and transmitting of money and securities.
viii. The borrowing, raising or taking up of money, the lending or advancing of money either with or without security.

ix. The drawing, making accepting, discounting, buying, selling and dealing in bills of exchange, hundies, promissory notes, coupons, drafts, bills or lading, railway receipts, warrants, debentures, certificates, scripts and other instruments and securities whether transferable or negotiable or not.

The other important ancillary services as set out in clauses (a) to (i) of sub-section (1) of section 6 are:

- Acting agents for any government or local authority or any other person or persons.
- Contracting for public and private loans and negotiating and issuing the same.
- The carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharge and otherwise acting as an Attorney on behalf of customers but excluding the business of a managing agent or secretary and treasurer of a company.

Effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue public or private of state, municipal or other loans or of shares stock debentures,
or debenture stock of any company, corporate or association and the lending of money for the purpose of any such issue.

- Carrying on a transacting every kind of guarantee and indemnity business.
- Managing, selling and realizing and property, which may come into the possession of the company in satisfaction or part satisfaction or any of its claims.
- Undertaking and executing trusts; and
- Understanding the administration of estates as executor, trustee or otherwise.

➢ **CO-OPERATIVE BANKS**

Co-operative banks are formed on the principles of co-operation ("All for Each and Each for All and Self Help and mutual help") to extend credit facilities to farmers and small scale industrial concerns and promote in general the habit of thrift and self-help among the low and middle income groups of the society. The distinguishing feature of a co-operative bank is the absence of profit motive. Co-operative banks are very helpful to meet the requirements of small farmers, artisans, etc. in India, co-operative banks have been the pioneers in mobilizing rural deposits.
Co-operative banking has a three-tier structure. At the top there is State Co-operative Bank at the state level. This is the apex bank which governs all the co-operative banks in the State. At the intermediate level, there are Central Co-operative Banks. There is generally one central co-operative bank for each district. At the base of the pyramid, there are Primary Credit Societies at the Village level. Each higher level institution is a federation of those below with membership and loan operations restricted to the affiliated units.

> **RURAL BANKS**

In India, Regional Rural Banks were set up in backward rural areas where the coverage of the commercial and co-operative banks was poor. The purpose of these banks is to finance agricultural operations and provide loans for self-employment to rural educated youth who possess the requisite orientation to look after the needs of rural folk.

Regional Rural Banks have been conceived to combine the strong points of both the co-operative and commercial banks and eliminate the weaknesses of both. The Regional Rural Banks have been included in the Second Schedule to the Reserve Bank of India Act and, therefore, they enjoy the same privileges and facilities as the scheduled banks, including access to the Reserve Bank for financial accommodation.
REFERENCES


3. Award on the industrial dispute between certain banking companies and corporations and their workmen. (Justice Kantilal T. Desai Committee) Delhi. 1962, p. 25.


5. J.V. Shetty "Nationalization the rewarding 25 years" Indian Express, July 19, 1994.


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ANNEXURE 6A

LIST OF COMMERCIAL BANKS IN INDIA:

A. SB GROUP
   State Bank of India
   State Bank of Bikaner and Jaipur
   State Bank of Hyderabad
   State Bank of Indore
   State Bank of Mysore
   State Bank of Patiala
   State Bank of Saurashtra
   State Bank of Travancore

B. NATIONALISED COMMERCIAL BANKS
   Allahabad Bank
   Andhra Bank
   Bank of Baroda
   Bank of India
   Bank of Maharashtra
   Canara Bank
   Central Bank of India
   Corporation Bank
   Dena Bank
   Indian Bank
   Indian Overseas Bank
   Oriental Bank of Commerce
   Punjab National Bank
   Punjab and Sind Bank
   Syndicate Bank
   Union Bank of India
   United Bank of India
   UCO Bank
   Vijaya Bank

Note: New Bank of India is merged with Punjab National Bank