

BHARAT SCHOOL OF BANKING

NATIONALIZED BANKS AND PUBLIC SECTOR BANKS

Public Sector Banks (PSBs)

If the government holds **majority stake**, i.e., **more than 50 % stake** of an **enterprise**, then it is known as **Public Sector Unit (PSU)**. Government is the **owner** of the **PSU**, and is responsible for the **managerial control** of the enterprise. Similarly, if the **majority stake (>50 %)** of a **bank** is held by the **government** (generally, central government), then it is known as **Public Sector Bank (PSB)**.

To know whether a **bank** (or any enterprise) is a **public sector bank**, just take a note on the **stake of government**.

Nationalized Banks

If some **private entity** or **individual** holds the **majority stake (>50 %)** of a **bank**, then it is a **Private Sector Bank**. Now if the **government buys the majority stake** of the **private bank**, and take the **managerial control** of it, then it will be known as **Nationalized Bank**, and the process will be known as **Nationalization**.

Note that the bank earlier was a **private bank**, but after the **nationalization** process, it became a **Nationalized Bank**. Hence to know whether a **bank** is a **nationalized bank**, just take a note on the **history of the bank (private -> public)** and the **stake of government** in it.

Nationalized Banks vs PSB

Now it is **evident** that a **nationalized bank** is always a **public sector bank (PSB)**, because the **government** (in turn the public) **owns it (>50 % stake)**, but a **PSB** may not be a **nationalized bank** (if the **government itself** creates the bank, with majority stake).

History of Nationalization

- The **Reserve Bank of India (RBI)** was **nationalized** with effect from **January 1, 1949**, on the basis of **Reserve Bank of India (Transfer to Public Ownership) Act, 1948**.
- The **Central government** entered the **banking business** with the **nationalization** of the **Imperial Bank of India** in **1955** (**60% stake** bought by **RBI**), and renamed **State Bank of India (SBI)** under **State Bank of India Act, 1955**. In **2008**, **government** acquired **RBI's stake** in **SBI** to remove any conflict of interest, because **RBI** is the banking regulatory authority.
- The **7 other state banks** became the **subsidiaries** of **SBI**, after being **nationalized** on **1959**, under **State Bank of India (Subsidiary Banks) Act, 1959**. Currently **2 SBI subsidiaries** are merged, making total **5 SBI associate banks**.
- The major **nationalization** took place in **July 19, 1969** under former PM **Smt. Indira Gandhi**, under **Bank Nationalization Act, 1969**. **14 major banks** were nationalized at that time, making **84 % of total branches** coming under **government control**. However, on **February 10, 1970**, the **Supreme Court** held the Act **void** on the grounds that it was **discriminatory** against the **14 banks** and that the **compensation** proposed to be paid was not **fair compensation**.

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A fresh Ordinance was issued on February 14, which was later replaced by **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970**

- The next **nationalization** process took place in **1980**, making **6** other banks **nationalized**. **91** % of **total** **branches** came **under government** **control**, through **Banking Companies (Acquisition and transfer of Undertakings) Ordinance, 1980**

Which banks are Nationalized Banks?

This is a **debated topic**. If we consider the definition of **Nationalized banks**, then the criteria is - the bank need to be a **private bank** prior **nationalization**. This criteria is satisfied by **RBI, SBI, SBI associates** and all other **banks** that are **nationalized** in **1969** and **1980** (total $14 + 6 - 1 = 19$, '-1' because **New Bank of India** is merged with **Punjab National Bank** in **1993**).

But it is better not to call **RBI, SBI, or SBI associates** as a **Nationalized Banks**. Because, they **draw** power from different **Acts**, like -

- **RBI - Reserve Bank of India (Transfer to Public Ownership) Act, 1948**
- **SBI - State Bank of India Act, 1955**
- **SBI Associates - State Bank of India (Subsidiary Banks) Act, 1959**

Banks that are **nationalized** in **1969** and **1980** draw power from **Banking Companies (Acquisition and transfer of Undertakings) Act of 1969 and 1980**, are known as **Nationalized Bank**.

These total **19 banks** are designated as **Nationalized Banks** by **RBI** in their website too - Also note that **IDBI Bank Ltd.** is denoted as **Other PSBs** in the website.

Bharatiya Mahila Bank (BMB) is a government-owned bank from the **beginning**. So there is no process of **nationalization** involved. Hence it is a **Public Sector Bank**.

Now we can calculate the total number of **Public Sector Banks (PSB)** as -

- **SBI and SBI Associates - 6 banks**
- **Nationalized banks (both 1969 & 1980) - 19 banks**
- **IDBI bank - 1 bank**
- **BMB bank - 1 bank**

Total = $6 + 19 + 1 + 1 = 27$ PSB

Nationalization vs. Privatization

Nationalization is the process for a **government** to expand its **economic** resources and power, whereas **Privatization** is the process where **government-owned companies** are spun off into the **private** sector.