
AN ANALYSIS OF THE BANKING LAWS (AMENDMENT) BILL, 2021

G. Tejaswini, BBA LLB (Hons), Saveetha School of Law, Saveetha Institute of Medical and Technical Sciences (SIMATS), Chennai

Jayasree Mariappan, BBA LLB (Hons), Saveetha School of Law, Saveetha Institute of Medical and Technical Sciences (SIMATS), Chennai

This article aims at knowing the aspects of the banking laws amendment bill 2021. This article analyses the advantages and disadvantages of passing this bill and whether the bill is beneficial to the public or not.

HISTORY OF BANKS:

Banking in India forms the base for the economic development of the country. Major changes in the banking system and management have been seen over the years with the advancement in technology, considering the needs of people.

The banking sector development can be divided into three phases:

Phase I: The Early Phase which lasted from 1770 to 1969

Phase II: The Nationalisation Phase which lasted from 1969 to 1991

Phase III: The Liberalisation or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date

Pre Independence Period (1786-1947)

The first bank of India was the “*Bank of Hindustan*”, established in 1770 and located in the then Indian capital, Calcutta. However, this bank failed to work and ceased operations in 1832. During the Pre Independence period over 600 banks had been registered in the country, but only a few managed to survive.

Following the path of Bank of Hindustan, various other banks were established in India. They were:

- The General Bank of India (1786-1791)

- Oudh Commercial Bank (1881-1958)
- Bank of Bengal (1809)
- Bank of Bombay (1840)
- Bank of Madras (1843)

During the British rule in India, The East India Company had established three banks: Bank of Bengal, Bank of Bombay and Bank of Madras and called them the Presidential Banks. These three banks were later merged into one single bank in 1921, which was called the “*Imperial Bank of India*.” The Imperial Bank of India was later nationalised in 1955 and was named The State Bank of India, which is currently the largest Public sector Bank.

Post Independence Period (1947-1991)

At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance. With an aim to solve this problem, the then Government decided to nationalise the Banks. These banks were nationalised under the Banking Regulation Act, 1949. Whereas, the Reserve Bank of India was nationalised in 1949.

Following it was the formation of State Bank of India in 1955 and the other 14 banks were nationalised between the time duration of 1969 to 1991. These were the banks whose national deposits were more than 50 crores.

Given below is the list of these 14 Banks nationalised in 1969:

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

12. Union Bank of India
13. United Bank
14. UCO Bank

In the year 1980, another 6 banks were nationalised, taking the number to 20 banks. These banks included:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Comm.
5. Punjab & Sind Bank
6. Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalised in 1959:

1. State Bank of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner & Jaipur
4. State Bank of Mysore
5. State Bank of Travancore
6. State Bank of Saurashtra
7. State Bank of Indore

All these banks were later merged with the State Bank of India in 2017, except for the State Bank of Saurashtra, which merged in 2008 and State Bank of Indore, which merged in 2010.

Liberalisation Period (1991-Till Date)

Once the banks were established in the country, regular monitoring and regulations need to be followed to continue the profits provided by the banking sector. The last phase or the ongoing phase of the banking sector development plays a hugely significant role. To provide stability and profitability to the Nationalised Public sector Banks, the Government decided to set up a committee under the leadership of Shri. M Narasimham to manage the various reforms in the Indian banking industry. The biggest development was the introduction of Private sector banks

in India. RBI gave license to 10 Private sector banks to establish themselves in the country. These banks included:

1. Global Trust Bank
2. ICICI Bank
3. HDFC Bank
4. Axis Bank
5. Bank of Punjab
6. IndusInd Bank
7. Centurion Bank
8. IDBI Bank
9. Times Bank
10. Development Credit Bank

The other measures taken include:

- Setting up of branches of the various Foreign Banks in India
- No more nationalisation of Banks could be done
- The committee announced that RBI and Government would treat both public and private sector banks equally
- Any Foreign Bank could start joint ventures with Indian Banks
- Payments banks were introduced with the development in the field of banking and technology
- Small Finance Banks were allowed to set their branches across India
- A major part of Indian banking moved online with internet banking and apps available for fund transfer

Thus, the history of banking in India shows that with time and the needs of people, major developments have been brought about in the banking sector with an aim to prosper it.

MAJOR TYPES OF BANKS:

PUBLIC BANK:

A public bank is where the Government holdings are more than 50 per cent. The interest rates and other functions of a public bank are regulated by the Government itself. The public sector bank mainly focuses on public welfare. The interest rates are said to be less in public banks

when compared to the interest rates of private banks. The public banks are classified into nationalized banks and State banks and their associates.

An example of a public bank is SBI.

PRIVATE BANK:

A private bank is one in which the major shares are held by private individuals, corporations or entities and not by the Government. The functioning of these banks are regulated by the private bodies. The major aim of these banks is to attain profit by providing financing services. The functions of a private and public sector bank are similar. Reserve Bank Of India (RBI) acts as the regulatory body for all the private banks in India. An example for a private sector bank is ICICI Bank.

Post liberalisation, the private sector banks emerged and saw huge development. These private sector banks have advanced technology, innovation, monetary tools and techniques.

BANKING LAWS (AMENDMENT) BILL, 2021:

The banking laws amendment bill, 2021 is a part of the Government's disinvestment plan to garner Rs. 1.75 crores. This amendment gives way for privatisation of two public sector banks. The two banks to be privatised will be selected based on the recommendation of NITI Aayog. Through this amendment the Government holdings in public sector banks will be reduced to 26% from the existing 51%. This bill is to be discussed during the winter session of the parliament in December 2021. To effect amendments in Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970 and 1980 and incidental amendments to Banking Regulation Act, 1949 in the context of Union Budget announcement 2021 regarding privatisation of two Public Sector Banks. However the Banking unions are against this amendment.

When we look into the history of the banking system in India we see that private financial institutions, private banks and individuals played a major role in the banking sector. There prevailed a monopoly situation in the banking sector. So in the year 1969 the then Government nationalised 14 banks and the situation was held in control. The major aim for nationalisation of banks was to ensure that fair financial aid is provided to each and every citizen of the country. Rural banks were also introduced to focus on rural areas and to help citizens in the agricultural sector. Also to avoid the rise of the monopoly situation in the banking sector the

nationalisation of banks was done. Monopoly in the banking sector is a great threat to socio-economic welfare. But after liberalisation in 1991, the private sector banks began to develop.

Now at present there are 12 public sector banks and 22 private sector banks in India. Now if this amendment is passed then it leads to privatisation of two more banks and this fails the objective of nationalising the banks in 1969. The banking sector will again be dominated by the private sector banks and this will lead to monopoly in the banking sector. The major drawback of private banks is that they work towards attaining profits and not on achieving public welfare. The interest rates in private banks are very much higher when compared with the interest rates of public banks. These interest rates prevent the common man from approaching the banks for financial aid. Banking sector plays a major role in the country's development. It is an important sector where public welfare should be ensured and by leaving the banking sector in the hands of private institutions will be a grave danger to the country's economy and development.

Although these private banks have enhanced customer service and advanced technology in handling finances, these private banks have their branches only in places where they can earn profit, that is mainly in urban areas. They do not establish their services to the rural and interior areas of the country. This leads to unequal distribution of resources and will not result in overall development in the country. This amendment was said to be framed with the thought of relieving the Government from the burden of these maintaining banks and to reduce the Government's liabilities. The Government's burden cannot be reduced at the cost of public welfare. It is the Government who is responsible to ensure social welfare in the country. It is a Constitutional duty as the Constitution ensures socio-economic justice to all its citizens. So the Government cannot waive off this responsibility.

This amendment might be the beginning point for privatisation of the Indian banking sector. This will again lead to the situation which was prevalent before 1969. Instead of privatisation of public banks the Government can take actions to ensure the proper functioning of these public sector banks. The Government can take steps to improve the customer service at public banks which can attract more customers to the PSBs. Steps can be taken to reduce corruption and scams in the banking sector. Any other alternate solution can be thought of instead of privatisation of banks. In total it can be said that privatisation of the banking sector can become a grave danger to the Indian economy. The total economic structure will be changed if the banking sector is given in the hands of private individuals. The socialistic principles enshrined

in the Constitution cannot be achieved by privatisation. So for the benefit of the public this amendment bill should not be passed.