Nationalised Banks V/S Public Sector Banks

Pavithra.B[a], Shreyas Sumesh Menon[b], Soundharya.M[c].
[abc]II B.Com (Banking and Insurance),Sri Krishna Arts and Science College,Coimbatore-641008

Abstract

In public sector units government takes or holds the majority interest. In simple words, the government holds more than 50% stake of an organization. Public sector banks come under government. In these banks, the government is always responsible for each and every type of activity. There are 27 public sector banks in India. Now the question arises about nationalized banks. We have to know about private sector banks in the first place. Private Banks are those held by an individual or may be any private entity with majority at stake. Private Banks become nationalized when the government buys the majority stake. The only difference between public sector banks and nationalized banks is that all nationalized banks will become public banks. Moreover no public banks will become nationalized banks. The need for nationalization is that to be equally competent to foreign banks since our balance is very low and we are nothing compared to foreign banks. Currently as per governments proposal banks like Bank Of Baroda, Bank Of India, Canara Bank, PNB, State Bank of India that some banks are going to be merged under these banks since they are the big lenders. Benefits of this activity is that the capital of all these banks will also combine. The large capital helps the bank to increase the power of the bank. With this large capital, banks can easily give competition to foreign banks. With increased capital, their balance sheet will also become more profitable. The biggest disadvantage is that if these little banks don't merge with large banks. Then after sometimes there are chances that these little banks would be banished. Therefore for their benefit, they have to join the big lenders bank.

KEYWORDS: Public sector, Government, Private sector, majority stake

Introduction

Nationalization is the act of taking an industry or assets into the public ownership of a national government. Nationalization refers to the public sector being transferred to the public sector to be operated by or owned by the state. So there is no difference between a nationalised bank and a public sector bank. The banks which were private banks earlier are transformed into public sector banks by the act of nationalization. The first nationalised bank was Imperial Bank of India (under the SEBI Act of 1955) and re-christened as State Bank of India (SBI) in July 1955. In 1969, 14 banks were nationalised and in 1980, the second phase of nationalization of Indian banks took place, in which 7 more banks were nationalised. Currently total 26 public sector banks in India all were nationalised over a period of time.

Public sector banks are a major type of bank in India, where a majority stake is held by the government (more than 50%). The shares of these banks are listed in stock exchanges.

There are a total of 21 state owned payment bank in India. Some of the public sector banks include Allahabad Bank, Bank of Baroda, Dena Bank, IOB, IDBI Bank Ltd.,

Though the features of these banks are similar, there are some strong distinctions between nationalised banks and public sector banks.

Distinction between nationalised banks and public sector banks

Every nationalised banks are public sector banks but every public sector banks are not nationalised

Example: UCO and PNB are nationalised and public sector banks but all the Grameen banks are only public sector banks not nationalised

Government carries out nationalization in order to meet certain goals like:-

1. To bring the regional equality.

2. To expand the spectrum of banking facilities in a uniform manner.

3. To provide banking facility in less developed regions.

4. Nationalization sought to find the monopoly control of big industrialists on the system.

5. It aimed at giving more credit to sectors that required to be prioritized.

6. To raise the confidence of public in banking system

7. It aims at generating enough funds that can be utilized in various development schemes for the country.

However, a success cannot be guaranteed that nationalization of banks will always be a successful act. France had nationalized its banking sector, and later the government sold it to private hands. State Bank of India was nationalized in 1955 under the SBI Act. Later in 1960, seven state banks were also nationalized. The second phase in India took place is 1980, when seven more banks were nationalized.

Advantages and Disadvantages of nationalization of banks

The advantages of Nationalization is given below:

- **Cooperation and prosperity for all:** The industrial world, under private capitalism, is torn as under by strife and discords. There are frequent stoppages of production or, at least, the quantity and quality of work have to suffer as a result of this bitterness. Nationalization would do away with industrial unrest and usher in a period of cooperation and prosperity for all.
- **Increased earnings of the State:** Nationalization of some important industries would enable the State to earn large revenue easily and without any extra cost.
- **Employment opportunities:** In periods of unemployment, people could be given employment expanding the activities of the nationalized industries.

Disadvantages

Nationalization was a slogan raised by these who were impressed by the wastes of private capitalism and wanted to introduce considerations of social welfare in the management of a nation's economic affairs. The disadvantages of Nationalization is summarized below:

- **Lack of individual initiative:** The men who shout these slogans do not always stop to consider if there can be any progress if individual initiative is stopped. Social philosophers have often pointed out that in a regime of nationalized industries, the spur of individual advancement will never be as powerful as it is today. Men will have a tendency to work in accordance with a dull routine rather than strike out a new path.
- **Lack of freedom:** It is only when men can think and act freely as individuals that they can produce new ideas and make new inventions.
- **Lack of Spirit of competition:** Then we must not forget that although modem industry is often dominated by monopolies, there is some rivalry among them and the spirit of competition is not entirely dead.

Advantages of Public Sector Banks

Public sector banks are those financial institutions in which government holds more than 51 percent stake and also has controlling power of the bank. Public sector banks are the backbone of the financial system of the country. Some of the advantages and disadvantages of public sector banks.

- The first and foremost advantage of public sector banks is that they are safe and people keeping money in fixed deposit and in saving account do not have to worry about the safety of their funds as chances of default by public sector banks is next to nil as government tends to bail out these banks in case they are in financial stress and hence as far as individual is concerned his or her money will be safe even if bank has financial problem.
- Another advantage of these banks is that there are less hidden charges and also lower limit of amount to be held as minimum deposit as far saving account is concerned, so for example in case of private banks minimum balance to be maintained is anywhere between 5000 to 20000 rupees whereas in case of public sector banks it is 1000 rupees and in case of student account and no frill accounts it is 0.
- As far as employees are concerned these banks are more beneficial because of job security and once an individual gets into public sector bank he or she does not need to worry about retrenchment which is the case with private sector banks, though at higher levels of management private banks pay higher remuneration to its employees but at lower levels the exploitation is more in case of private banks as compared to public sector banks.

Disadvantages of Public Sector Banks

- The biggest disadvantage of public sector banks is that in terms of technology they lag far behind as compared to private sector banks so if you are one of those who do his or her majority of work online than public sector bank is not his or her cup of tea. Although public sector banks are trying their best by upgrading their technology still private sector banks hold an edge over them.

- Another disadvantage of public sector banks is that if you go in public sector banks excepting that you will get all information at one seat which is the case with private sector banks then you will be disappointed because in public sector banks one individual keep doing same work for years resulting in he or she losing touch with other areas of banking.
- Due to government share in public sector banks there is lot of government intervention and due to it these banks have to give loans not on the basis of merit of project but due to political pressure resulting in that loan becoming NPA which will result in loss for the bank. Another area of distress due to government intervention is opening various no frills account due to government seeking political mileage, also opening branches in far-flung areas due to government financial inclusion program affects the profitability of the banks.

Thus, we can conclude by saying that there is no difference between a nationalized and public sector bank. Nationalised banks are public sector banks, as both are controlled and managed by the government. The only minor difference lies in the fact that earlier nationalized banks were not public sector banks, but after the nationalization of banks, the banks got converted into public sector banks.

References:

- http://www.gktoday.in
- http://www.quora.com
- www.allbankingsolutions.com
- https://www.bankexamstoday.com
- www.differencebetween.info
- https://en.m.wikipedia.org