State Bank of India Act 1955, Provision, Background, Significance

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The **State Bank of India Act 1955** is a key law that established the State Bank of India and provided for transfer of the undertaking of the Imperial Bank of India. The Act is Act No. 23 of 1955 and received assent on 8 May 1955. It was enacted to expand banking facilities, especially in rural and semi urban areas and to serve wider public purposes.

What is State Bank of India Act 1955?

The State Bank of India Act 1955 created a statutory framework for the establishment, ownership, management, business, capital, accounts and audit of the State Bank. It came into force on 1 July 1955. Section 3 constituted the State Bank of India as a body corporate with perpetual succession. The Act also provided for transfer of the Imperial Bank's undertaking to the new State Bank.

State Bank of India Act 1955 Background

The State Bank of India Act 1955 was designed around the simultaneous transition from the Imperial Bank of India to the State Bank of India. Its provisions covered the transfer of assets, liabilities, employees and related institutional arrangements.

- **Imperial Bank transfer:** Section 6 transferred the undertaking of the Imperial Bank to the State Bank, including property, investments, books, rights, debts, liabilities and existing obligations.
- **Employee protection:** Section 7 transferred eligible Imperial Bank officers and employees to the State Bank with the same tenure, remuneration and service related rights, subject to the Act.
- **Shareholder compensation:** Section 9 provided compensation to Imperial Bank shareholders according to the First Schedule. The Schedule prescribed ₹1,765.10 per fully paid up share and ₹431.12.4 per partly paid up share.
- **Amending history:** The Act has been amended through several laws, including amendments in 1955, 1957, 1959, 1964, 1973, 1983, 1993, 2007, 2010, 2018 and 2025.

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State Bank of India Act 1955 Provisions

The State Bank of India Act 1955 contains 57 sections arranged across eight chapters, covering incorporation, shares, management, banking business, funds, audit and miscellaneous matters.

- **Capital structure:** Section 4 fixes authorised capital at ₹5,000 crore, divided into 500 crore fully paid up shares of ₹10 each. Section 5 requires the Central Government to hold at least 51% of issued equity capital.
- **Branch expansion:** Section 16 provides for the central office at Mumbai and local head offices at Mumbai, Kolkata and Chennai. It also required at least 400 additional branches within five years of the appointed day.
- **Central Board:** Section 17 entrusts general management and direction to the Central Board. Section 18 requires the State Bank to follow Central Government directions on policy matters involving public interest.
- **Board composition:** Section 19 provides for the chairman, managing directors, elected shareholder directors, employee directors and government nominated directors. The framework also includes representation based on rural economy, banking, finance and related expertise.
- **Banking functions:** Section 32 enables the State Bank to act as an agent of the Reserve Bank. Section 33 permits banking activities and other forms of business allowed under the **Banking Regulation Act, 1949**.
- **Funds and profits:** Sections 36 to 38 provide for the Integration and Development Fund, Reserve Fund and disposal of profits. The Integration and Development Fund can support losses or expenditure connected with specified branch expansion and approved purposes.
- **Audit and secrecy:** Chapter VII covers books, returns and audit. Section 44 imposes obligations of fidelity and secrecy, while the Second Schedule contains the prescribed declaration for directors, auditors, officers and employees.

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State Bank of India Act 1955 Significance

The State Bank of India Act 1955 created an institutional framework for expanding organised banking and connecting banking operations with wider public and development objectives.

- **Rural banking expansion:** The Act specifically recognised the need for large scale banking facilities, particularly in rural and semi urban areas, making branch expansion an important statutory objective.
- **Public interest framework:** Sections 17 and 18 combine commercial management with consideration of public interest and provide a role for Central Government policy directions.
- **Institutional continuity:** Transfer provisions ensured continuity of Imperial Bank assets, liabilities, contracts, legal proceedings and employee related arrangements during the creation of the State Bank.
- **Financial safeguards:** Reserve funds, profit provisions, annual balancing, returns and audit requirements established financial discipline within the statutory banking framework.
- **Confidentiality and accountability:** The Act combines management controls with fidelity, secrecy, audit and regulatory provisions. The Second Schedule formalises confidentiality obligations for key personnel.
- **Historical transformation:** The Act marked the legal transition from the Imperial Bank of India to the State Bank of India and provided the foundation for a wider state oriented banking structure.
