

RAJYA SABHA

Tuesday the 26 November, 1991/
5th Agradayana, 1913 (Saka)

The House met at eleven of the clock,
Mr. Chairman in the Chair.

OBITUARY REFERENCE

MR. CHAIRMAN: I refer with profound sorrow to the passing away of Shri T. S. Avinashi Lingam Chettiar, a former Member of this House, on the 21st November, 1991 at the age of 88 years.

Shri Chettiar was born at Trippur town in Coimbatore District of Tamil Nadu in May, 1903 and had his education in the Pachaiyappa's College and the Law College, Madras.

He gave up the legal profession in 1930 to join the freedom struggle. A staunch follower of Mahatma Gandhi, Shri Chettiar underwent imprisonment several times during the turbulent days between 1930 and 1942, for actively participating in the Salt Satyagraha, the Civil Disobedience and the Quit India Movements.

Shri Chettiar had a long parliamentary career starting with the membership of the Central Legislative Assembly from 1935 to 1945 and of the erstwhile Madras Legislative Assembly from 1946 to 1951. He served as Minister for Education in the Government of Madras from 1946 to 1949. He served as a Member of the Lok Sabha from 1952 to 1957 and represented the erstwhile State of Madras in this House from April 1958 to April 1964.

Shri Chettiar had special interest in the spread of education and founded many educational institutions.

Shri Chettiar was a prolific writer and authored many books in Tamil and English languages. In his death, the nation has lost an eminent educationist and a dedicated reformist.

We deeply mourn the passing away of Shri T. S. Avinashi Lingam Chettiar.

I request Members to rise in their places and observe silence as a mark of respect to the memory of the departed.

(Hon. Members then stood in silence for one minute.)

MR. CHAIRMAN: Secretary-General will convey to the members of the bereaved family our sense of profound sorrow and deep sympathy.

ORAL ANSWERS TO QUESTIONS

Setting up of New Banks in the Private Sector

*61. **SHRI HARVENDRA SINGH HANSPAL:** Will the Minister of FINANCE be pleased to state:

(a) whether the High Powered Committee on financial sector reforms is looking into the modalities for permitting the private sector to set up new banks in the country;

(b) if so, what are the details in this regard;

(c) whether the competition in banking industry would increase substantially as a result thereof;

(d) what are the details of the private sector interested to set up such banks in the country; and

(e) the extent to which this step would be useful to the public?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI DALBIR SINGH): (a) to (e) A Statement is laid on the Table of the House.

Statement

The High Level Committee set up by the Government under the Chairmanship of Shri M. Narasimham was asked to examine all aspects relating

to the structure, organisation, functions and procedures of the financial system. It has submitted its report to the Government on 20-11-1991. The report of the Committee will be processed on the basis of detailed examination of all its recommendations in consultation with Reserve Bank of India (RBI) and other concerned agencies.

The Banking Regulation Act, 1949 provides that no banking company shall carry on banking business in the country unless it holds a licence issued by RBI. Before granting any licence, RBI may require to be satisfied by an inspection of the books of the company or otherwise that the conditions stipulated in the statute are fulfilled.

RBI has reported that no proposal for setting up of banks in the private sector is at present pending with it.

श्री हरवेन्द्र सिंह हंजपाल : श्रीमान्, मंत्री महोदय ने कहा कि जो हाई लेवल कमेटी बनाई गई थी, उसकी रिपोर्ट 20-11-91 को सबमिट हुई। वह रिपोर्ट प्रोवेंस हो रही है। उसमें कितना टाइम लगेगा, अगर मंत्री जी यह बता दें तो बहुत अच्छा होगा। साथ ही मैं यह जानना चाहूंगा कि हाई लेवल कमेटी को जरूरत क्यों पड़ी? क्या देश का जो फाइनेंशियल सिस्टम है, उसमें कोई कमी आ गई? अगर यह बैंकों के बारे में है तो क्या जो नेशनलाइज्ड बैंक हैं उनकी परफार्मेंस सैटिस्फैक्टरी नहीं रही और क्या इसका हल सिर्फ यह है कि प्राइवेट सेक्टर में बैंक दे दिए जाएं या इसका हल यह है कि अगर उनकी परफार्मेंस सैटिस्फैक्टरी नहीं है तो नेशनलाइज्ड बैंकों की सविशेष को इम्प्रूव करने के लिए कुछ कदम उठाए जाएं। तो मंत्री महोदय क्या कदम उठाने जा रहे हैं? मेरे पास यह भी रिपोर्ट है कि यह सब कुछ इसलिए हो रहा है कि वर्ल्ड बैंक ने लोन रिलीज करने के लिए यह कंडीशन लगाई है कि बैंकिंग सेक्टर का

प्राइवेटाइजेशन हो। तो मैं मंत्री महोदय से यह जानना चाहूंगा कि क्या यह बात सही है?

श्री वल्लभोद्दिष्ट सिंह : महोदय, 14-8-91 को वित्तीय प्रणाली के कार्यकरण के बारे में नरसिंहम कमेटी का गठन हुआ। ऐसा नहीं है कि नेशनलाइजेशन के बाद बैंकों की संख्या में वृद्धि नहीं हुई है, काफी वृद्धि हुई है। हमारे यहां औसतन 11000 से 17000 की पापुलेशन के लिए एक बैंक बांच है। यह नरसिंहम कमेटी वित्तीय प्रणाली की संरचना, संगठन और कार्यकरण संबंधी सभी पहलुओं पर विचार करने के लिए गठित की गई थी। ऐसा नहीं है कि नेशनलाइज्ड बैंकों के कान में कुछ कमी आई है। इस कमेटी की रिपोर्ट के आधार पर हम यह विचार कर रहे हैं कि हम किन बैंकों द्वारा और कितनी अच्छी सेवा प्रदान कर सकते हैं।

श्री सभापति : इन्होंने पूछा था कि क्या वर्ल्ड बैंक का कोई जोर है इस मामले में?

श्री हरवेन्द्र सिंह हंजपाल : मैंने यह पूछा था कि क्या वर्ल्ड बैंक ने यह कंडीशन लगाई है कि लोन तभी रिलीज किए जाएंगे जब आप बैंकों का प्राइवेटाइजेशन करेंगे।

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): Sir, I have stated on several occasions that the Government has no plans to privatise the nationalised banks. There is no pressure on us to do so. Therefore, there is no question of the World Bank putting it as a condition for giving us any loans.

श्री हरवेन्द्र सिंह हंजपाल : मंत्री महोदय ने यह बताया कि बैंक सविशेष बहुत सैटिस्फैक्टरी है। हाउस इस बात से सहमत होगा कि अगर सबसे खराब सविशेष देश में कोई है तो वह बैंकों की है और खास तौर से नेशनलाइज्ड बैंकों की है। अगर मंत्री महोदय कहीं सो मैं

यहाँ दसियों मिसालें आपके सामने रख सकता हूँ कि बैंकों के अंदर किस तरह से करप्शन हो रहा है, घाटा हो रहा है, गलत बैलेंस शीट्स बनती हैं, सब फेक हैं, सब कवर किया जाता है और कितने बैंड-बैंड्स हैं, यह मैं अभी बता सकता हूँ। मैं बड़े मंत्री जो से जानना चाहता हूँ कि क्या वे इस बात से सहमत हैं कि बैंकों की सर्विस सैटिस्फैक्टरी है ?

SHRI MANMOHAN SINGH: Sir, there is no doubt that our banks after nationalisation have expanded into areas and sectors which were unthinkable before nationalisation. But it would also be not correct to say that we are satisfied with the working of the banking system. There are complaints about the inefficiency in our banking system. There are complaints about the profitability of the banking system. I have stated on several occasions that our banking system must come up to the level of the world class standards if anybody is to meet the challenge of the type of economic reconstruction and economic revival that we want. Therefore, we are conscious of the fact that there are a lot of lacunae in the functioning of the banking system. It will be our effort to deal actively with those problems.

श्री हरबेन्द्र सिंह हुंतापल : मेरा दूसरा सवाल यह है कि... (व्यवधान)

श्री सभापति : आपके दो सवाल हो गए।

श्री हरबेन्द्र सिंह हुंतापल : सर, वह तो पहले का क्लेरिफिकेशन था।

श्री सभापति : पहले की क्लेरिफिकेशन में आपने इतना टाईन खराब किया, दी रोजेनेबल। आपका पहला सप्लीमेंटरी यह था कि क्या वर्ल्ड बैंक के अंदर से आप बैंकों का प्राइवाइजेशन कर रहे हैं। उसके बाद आपने ये पूरा भाषण दे दिया। ऐसे तो

मुश्किल हो जाएगी। मुझे सबको चांस देना है।

SHRI A. G. KULKARNI: The Minister himself has admitted that he is not satisfied with the functioning of the nationalised banks. I am also not satisfied with their functioning. When the banks were nationalised, we were very happy in this House. When Indiraji took this decision we thought that some new innovations will come in the interest of the poor and the downtrodden. But I am very sorry to say, Mr. Minister, that you have also mentioned that the working totally lacks that commitment to the poor, totally lacks commitment to the consumer and thereby, the banks have become irrelevant to the cause for which they were nationalised.

MR. CHAIRMAN: So, what is your question?

SHRI A. G. KULKARNI: I am coming to that. Give me a minute, Sir.

MR. CHAIRMAN: Have your questions become irrelevant? He will answer that.

SHRI A. G. KULKARNI: They have not only become irrelevant to the commitment made when they were nationalised, but corruption has been introduced in the banking system. I am happy that you have asked Mr. M. Narasimham to go through it and a decision will be taken, but once for all this ghost of the World Bank has to be buried. Everybody is thinking as if we are stenographers and secretaries of the World Bank and they are giving all the orders from New York. This impression has to be removed. I think for this purpose also, the damned conditionalities should be placed on the Table of the House.

Otherwise, the Government is unnecessarily blamed all along. And the last point I would like to ... (*Interruption*)

MR. CHAIRMAN: You are coming to your question now.

SHRI A. G. KULKARNI: My question is, looking to the various malpractices, various complaints, consumer complaints, would you please introduce a competitive element? You have stated in the last sentence of your answer, "RBI has reported that no proposal for setting up of banks in the private sector is at present pending with it". That means there were certain proposals. Unions are also playing havoc with the banking system. So you have to introduce an element of competition in the nationalised banks. Then only this financing structure and system will be improved.

MR. CHAIRMAN: His question—he has not put it—is: Will you abide by his advice? That is all I can say.

SHRI A. G. KULKARNI: No.

MR. CHAIRMAN: What is your question? I could not catch it.

SHRI A. G. KULKARNI: My question was, looking to the conditions..

MR. CHAIRMAN: I have put it in the form of a question as to whether he will abide by your suggestions.

SHRI A. G. KULKARNI: Sir, now, would you please allow me to ask my questions?

MR. CHAIRMAN: You kindly do it. I have been requesting you repeatedly to do that.

SHRI A. G. KULKARNI: I want to know from the hon. Minister this. Whatever I have stated about the working of the banks, there is a necessity of introducing an element of competition in the banking system

so that the consumer and the people at large will be benefited.

MR. CHAIRMAN: Instead of 'there is'; you make it is 'there'.

SHRI MANMOHAN SINGH: I have already stated that we need a great deal of improvement in the functioning of our banking system. Our banks cannot go on in the way they have been functioning until now and we owe it to our people to improve the working of the banking system. The suggestions made by hon. Members will also be considered as part of improving the working of our banking system. But this is an area where we need to evolve a climate of opinion in our country because we are trying to restructure our banking system. We must have a national consensus about dealing with these problems.

SHRI A. G. KULKARNI: What about inducting competition in the banking system?

SHRI MANMOHAN SINGH: We will take into account this suggestion also.

SHRI M. S. GURUPADASWAMY: Sir, I am happy to have listened to the frank statement of the Finance Minister that the nationalised banking sector in this country is not a success story and the objectives of banking have not been fully achieved. I would like to ask him two or three pointed questions. Is it not a fact that the banking as a whole has suffered, particularly the nationalised banks, because of mushroom growth of non-banking sector entering the banking field in the matter of deposits, in the matter of leasing, in the matter of giving other types of loans? Is it not a fact that non-professional elements have come into the nationalised banking sector in a large number? That has also caused a lot of distortions in the healthy growth of banking.

Thirdly, is it not a fact that the deposits, the monies in the nationalised banks have catered to the interests of the capitalist class more than the other classes? My friend, Kulkarni Ji raised it in another form. Is it not a fact? Does it require a radical structural reform in the banking system?

Finally, Sir, may I ask him whether he is contemplating amalgamation of certain nationalised banks? If so, has he really taken into consideration the consequences of amalgamation which are serious? Has he taken note of all these things? I would like to have a very clear answer from him.

SHRI MANMOHAN SINGH: Sir, about amalgamation, I know the problem arose on several occasions in the past also. Some Committees have recommended amalgamation of banks. We have not taken any decision about the amalgamation of banks. This is one of the considerations whose pros and cons will be weighed when we are dealing with the structural reforms. But as on today, we have not taken any decision about amalgamation of banks. Now about other things which the hon. Member has mentioned, about the functioning of the banking system, I have already said that the banking system's functioning needs to be improved. But I would respectfully submit that it is not because banks face competitions from non-banking companies. All over the world today the distinction between banks and other financial intermediaries is being reduced. There is more and more competition in the financial market and Shri Kulkarni Ji already talked about competition in the financial system. I don't think that is the problem of the Indian banking system. There are some unscrupulous elements raising money through company deposits and other methods. But those problems can be dealt with. The problems of the Indian banking system are of a structural

nature. We have to improve work culture; we have to improve the standard of performance; we have to improve the standard of loan appraisal, monitoring and also the work culture. These are the problems which we will have to tackle. But I don't think the problems or the ills of the Indian banking system are because of competition from the non-banking system.

SHRI JAGESH DESAI: Sir, the Minister has said that the existing public sector banks will not be privatised. I am very happy about that. One of the reasons for inefficiency in the public sector banks is that there is job security. I would like to know whether the Government will look into this aspect to see that those who are employed work according to the work given to them; otherwise, action would be taken against them and this can even lead to their dismissal from service. Then only efficiency will increase.

Secondly, my friend Mr. Kulkarni, has raised the question of competition. There are 21 nationalised banks in one row usually there are seven or eight branches of different banks. So at present also, the competition is there. But because of some unscrupulous manufacturers and traders, when they take loan on hypothecated goods, what they do is that they draw the goods, sell it but don't pay that to the bank and as such, many advances have become bad. As such, I would like to know whether the goods which have been taken on hypothecation will be taken care of and if they sell it, whether this action on their part will be considered as a criminal offence and not a civil offence. If that is done, most of the debts which are incurred by the banks will definitely come to nil. As such I would like to know this from the honourable Minister. Secondly, I would like to know whether any licence has been given by the

Reserve Bank of India to any private banks after the nationalisation, because only the Reserve Bank of India can give a licence. Has the Reserve Bank of India given any licence to private banks after the nationalisation?

SHRI MANMOHAN SINGH: With regard to the job security in the banking system, I think this is a question we have to deal with in consultation with the trade unions. I am confident that our trade unions and their leadership are worried about the efficient functioning of the public sector...

SHRI A. G. KULKARNI: I don't think.

SHRI MANMOHAN SINGH: ... and, therefore, it is my intention to have a thorough-going discussion with them on this problem. At this stage all I can say is that whenever I have talked to the trade union leaders in the banking industry, they have offered their full cooperation to me and I am going to take full advantage of their offer. As far as the problem of bad debts is concerned, I must confess to Mr. Desai that unlike him I am not an expert in these matters. But whatever is necessary to reduce the incidence of bad debts in our banking system, that will be a priority concern of the reform. Finally he has asked a question whether since nationalisation any new private bank has been given a licence. I don't have the information right now. I will supply this information to him later on. But that there are private banks in our country is a well-known fact.

SHRI SUKOMAL SEN: Some members have complained about mismanagement and corruption in the work culture of our banks has been on the rise. But according to a Reserve Bank of India report many of the

big private companies have also fallen sick because of mismanagement and corruption by the authorities. So, privatisation is not the alternative to mismanagement and corruption in the nationalised banks. That evil has to be fought in a different way. The honourable Minister has said that he has no intention of privatising the banks. Since the Narasimham Committee report has not been made public, we do not know what is contained therein. I would, therefore, like to know whether that committee has made any recommendation for full or partial privatisation of the nationalised banks. What are its actual recommendations in regard to privatisation? Secondly, some quarters have raised a demand that the banking division in the Ministry of Finance should be abolished so that the RBI can get more and more powers into its hands of deal with banks. I would like to know what the reaction of the Government thereto is.

SHRI MANMOHAN SINGH: The report was received only last week. Even I have not honestly read the report. As soon as this Parliament Session is over, I will apply my mind to these issues. But I have said categorically that regardless of the recommendations of any committee, the Government have taken a decision not to privatise any nationalised bank. Therefore, you don't have to worry about what somebody might say or what somebody might not say. Now, with regard to the demand as to what to do with the banking division, I think these suggestions have been made on several occasions in the past. In fact, when I was in the Government as Secretary in the Ministry of Finance, the Banking Department was abolished and banking became a division and that has been put in the Department of Economic Affairs. These are matters of internal organisation of Government and I think these cannot be raised to policy-level discussions. Whatever is administratively feasible, efficient, I think that will be done.