

**GOVERNMENT BILL****The Credit Information Companies (Regulation) Bill, 2004**

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): Sir, I move:—

That the Bill to provide for regulation of credit information companies and to facilitate efficient distribution of credit and for matters connected therewith or incidental thereto, be taken into consideration.

Hon. Members are aware that the introduction of financial sector reforms in 1993 had brought to fore the extent of the non-performing assets, and the management of NPAs in the banking system is being tackled through various measures. It has also become imperative to arrest the accretion of fresh NPAs in the banking sector through an efficient system of credit information on borrowers as a first step in credit risk management. Therefore, the requirement of an adequate, comprehensive and reliable information system on the borrowers through an efficient data base system has been keenly felt by the Government, the Reserve Bank as well credit institutions. It has been felt that it would not be possible to set up a world class credit information company within the existing legal framework as the legal prohibition on disclosure of information enshrined in various banking acts does not permit banks and financial institutions to share credit information with a credit information companies. To overcome these problems, I had introduced a Credit Information Companies (Regulation) Bill, 2004, in this House on the 6th of December, 2004 to provide for regulation of credit' information companies and to facilitate efficient distribution of credit and the matters connected therewith and incidental thereto, as also to significantly improve the quality of credit appraisal and decisions. The Bill was referred to the Standing Committee on Finance which submitted its report to this House in February, 2005. Keeping in view the recommendations of the Standing Committee, it was considered desirable to provide for the following in the Bill.

- (i) The Reserve Bank of India may, having regard to the business of credit information available and the potential scope for expansion of such business already in existence determined from time to time, the number of credit information companies, the number of course will be reviewed from time to time;
- (ii) An appeal against the order of rejection of an application for grant of registration or cancellation of certificate of registration shall be

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preferred to the Central Government, or, any authority designated by it.

- (iii) A time-frame within which disputes referred for arbitration are to be resolved and to provide flexibility for extension of time in exceptional cases where situation so demands may be specified.

I am introducing amendments for these purposes.

With the above words, I commend the Credit Information Companies (Regulation) Bill, 2004 to this House.

*The question was proposed.*

SHRI MATILAL SARKAR (Tripura): Sir, I rise to support the Bill. As already stated by the hon. Finance Minister, the financial sector reforms came into operation in 1993, and thereafter, it revealed the facts, that the Non-Performing Assets have reached such a horrible stage. Sir, I may cite one instance here. The gross NPAs upto 31st March, 2004 in the priority sector were Rs. 23,840 crores; in the agricultural sector, Rs. 7,240 crores; small scale industry sector, Rs. 8,838 crores and others Rs. 7,762 crores. Sir, side by side, I would like to give another picture of what the banks have done in providing credit. The suits filed against those whose credit amounts to Rs. 1 crore or more with the nationalised banks—there are 4862 suits and the amount involved is Rs. 28,671.21 crores. The hon. Finance Minister revealed this fact in reply to a question asked in the Lok Sabha. The State Bank of India and its associate banks, the number of suits filed is 1951 and the amount involved is Rs. 10,434.11 crores. In other financial institutions, the number of suits filed is 1914 and the amount involved is Rs. 13,051.78 crores. The number of defaulters for amount one crore or more is 10340. Defaulter means, whose suits have not been filed, but they are defaulters. The number of wilful defaulters having borrowed Rs. 25 lakh or more is 2647. So, this gives a picture how banks' moneys are looted by persons; in real name or in the guise of a company or in whatever manner, the money has been taken away from the banks. There is a drainage on banks' and financial institutions' moneys. This is the picture which we see here. So, the Bill aims at preventing the loot of money, preventing a drainage of money and regulating the credit system. This is the necessity why this Bill has been brought forward

Sir, before the Bill was brought in, a Working Group was appointed by the Reserve Bank of India to explore the possibilities of setting up a Credit

Information Bureau. The Working Group submitted its Report in October, 1999. The Working Group pointed out two important things. These are like this. The Working Group observed that a world-class Credit Information Bureau may not be possible in our country, at this stage. The reasons are, in our laws there is legal prohibition on disclosure of information. So, the banks may say, "I will not disclose information. Who are you to take information? The rule guards me like this". The Reserve Bank of India cannot delegate power of such collection and furnishing of information to another institution. In these circumstances, the present Bill was introduced in December, 2004 and now it is being discussed here.

Sir, the Bill contains as many as 20 provisions. I do not like to refer to all these provisions but some of the provisions are very important, according to me, and I would like to cite them here. The Bill has the provision to prohibit work of carrying on of business of credit information without having a certificate of registration from the Reserve Bank of India. If the Reserve Bank of India does not provide registration to a company or to any one, he cannot carry on the business of credit information. The second thing is, it empowers the Reserve Bank of India to determine the policy regarding how to regulate credit information companies.

Sir, I would like to cite one thing. Now the collection of information has become easy in comparison to the past, because the information technology has advanced, computer science has advanced, to such an extent that information may be easily available. So, caution should be there, for the Reserve Bank of India, so that the information is collected from the ground level. It may be that the companies are concentrated in some areas of the country, not spread all over the country. So, the information of some corners will come; maybe, hazardous in the name of information; and, some areas may be left out. So, care should be taken while implementing these provisions.

Sir, in clause 7(i) it is written, "RBI may reject an application praying for registration if the company cannot qualify itself." The application may be rejected but that company also has been given a right to make an appeal. But it is not clearly mentioned in the clause to whom the appeal should be made. It says, "to the Central Government." It does not suffice. Categorically, it should be mentioned to whom this appeal can be made.

Sir, the benefits of Credit Information Bureau will be asserted by the information an evident from other countries. In the developed countries,

there are credit information collecting agencies and what is seen is that in the developed countries the credit covers 66 per cent of the GDP. In our country, there is no such company to collect information, our credit is not able to penetrate into the market to such an extent. Only 3 per cent of the GDP is involved in the credit sector. So, there would be a great benefit if Credit Information Bureau works in a proper manner.

Sir, to conclude, I expect that the huge amount wasted in the name of non-performing assets, the huge amount that has remained unrealised from the borrowers, this picture may be reduced. This picture may disappear or at least, may be minimised by the proper application of this Bill.

With these words, I conclude, Sir. Thank you.

SHRI JAIRAM RAMESH (Andhra Pradesh): Mr. Deputy Chairman, thank you very much for giving me this opportunity to speak. Sir, I rise to support the Credit Information Companies (Regulation) Bill, which has been studied by the Standing Committee and has also been commented upon by various other organisations. While doing so, I will make four observations more in the nature of trying to seek clarifications from the Finance Minister in his reply, so, my first point comes out of the Statement... (*Interruptions*)...

SHRI V.. NARAYANASAMY (Pondicherry): Observations or clarifications?

SHRI JAIRAM RAMESH: These are comments in the nature of seeking clarifications. Sir, it may appear surprising to Mr. Narayanasamy that I am actually supporting this Bill. Sir, my first comment comes out of the Statement of Objects and Reasons that the hon. Finance Minister read out, which starts as follows and I quote, "The introduction of financial sector reform has brought to fore the extent of non-performing assets, NPAs and management of NPAs in the banking system." He went on to quote from this and made out a case that the Credit Information Companies Bill is a major step in the direction of recovering NPAs. Sir, I do not think, any such case can be made. I think the Government knows today exactly how many NPAs exist, who are responsible for these NPAs. If the Government has the will and determination to recover them, they can recover. So, you do not require credit information. Let us not oversell the Credit Information Companies Bill. I think the Credit Information Companies bill is required for some other purposes, which I will come to. But if we

are to sell this Credit Information Companies Bill as a major revolutionary step to recover NPAs, Sir, I am afraid, that is not. That is gross exaggeration. If today a Finance Minister wants to recover NPAs, he can do it. The information is available. The default list is available. It is available to the Government and who owes what money, to which bank and for what period is also very well known. If the Government wants, whichever Government, if the Government is serious about recovering the Rs. 50,000 odd crores of NPAs on account of the organised private industrial sector over the next five years, I think, it is possible to work out a time-schedule for it. Sir, but the Credit Information Bill is required for a different purpose. If not for the NPAs of large, medium and large organised private industry, it is certainly required from the point of view of consumer and commercial credit. Here, Sir, I have three comments to make. Now, there is already one Credit Information Bureau that has been set up. Sir, 40 per cent of it is owned by the State Bank of India, another 40 per cent is owned by the HDFC and remaining 20 per cent is owned by a foreign company, Dun and Bradstreet. This Credit Information Bureau which is going to get legal backing as a result of this Bill that we are going to pass today, was established in January 2001 and started its operations in April 2004. Sir, this is quite clearly a credit information company promoted by the public sector financial institutions like the State Bank of India and the HDFC, which is really a private company, but has also got strong links with the public financial sector. My question to the hon. Finance Minister is, once this Bill is passed, is the public sector financial industry going to take an active role in promoting more such companies? Or, are we going to pass the Bill and expect these companies to be formed by private players? In other words, like the State Bank of India took the initiative, undoubtedly at the behest of the Government of the day at that time in 1999, is there going to be a proactive role on the part of the Government to set up more than one credit information companies? Since one credit information company already exists, is it the intention of the Government to have more than one credit information company? Sir, my second question is, since most of the focus is going to be on consumer credit, credit card, Consumer Credit Housing Finance, commercial credit, is there going to be some sort of a bifurcation in the activities? Is there going to be a specialisation as far as credit information companies are concerned, in the sense that one credit information company would focus on consumer and commercial and retail credit and some other credit information company could deal with large borrowers of the type on whom information is already available? In other words, is there going to be some geographical specialisation as well as

some borrowers' specialisation as far as the credit information companies are concerned? Sir, if you look at the Membership of the existing Credit Information Bureau, Sir, it is the intention of the hon. Finance Minister to make Membership of a credit information company mandatory. My reading is it is incumbent upon every financial institution to be a member of one or another credit information company. But, if you look, Sir, today on the Membership of the existing Credit Information Bureau that is run by the State Bank, HDFC and Dun and Bradstreet-although this did not have statutory backing, so that is a caveat I must add - a large number of housing finance companies and a large number of NBFCs do not figure in the portfolio of Membership of the credit information companies, so, the question I have is that it is one thing for public sector scheduled commercial banks to be a Member of one or more credit information companies. It is relatively easy for a regulator namely, the Reserve Bank of India to ensure that this Membership actually happens but I wonder what is the mechanism for ensuring that housing finance companies for which the regulator is the national housing bank and the NBFCs for which the regulator undoubtedly is the RBI but which is much more diverse and larger in number, how to make their membership in a credit information company mandatory? In other words, Sir, what I am trying to drive at is that while we are providing statutory backing through this Bill, how are we actually going to ensure that these institutions are actually going to end up being Member of one or the other company? Sir, the second issue that I want to raise is on rating norms. Now, Sir, as of today, we have only one company. But, say four years from now or three years from now, we" have three or four companies, credit information companies. Now is it the intention, is not my reading --I am subject to correction by the hon. Finance Minister, - will different credit information companies give different norms for the same borrower? In other words, Sir, if I am borrowing through the Membership of one credit information company, can a borrower get say, triple 'A' rating from one credit information company and can from the same credit record, they can get a different credit rating from another agency? Sir, the Standing Committee actually did look into this issue in some detail and the consensus view was that there should be some rating norms prescribed in the legislation. Now that has not been done and I am sure there are perfectly valid reasons why it has not been done. But I do want to flog this issue, Sir, that there must be at some stage, today the question is hypothetical because we have only one company but in a situation where we have more than one company, it would be odd if the same borrower gets different norms from different rating agencies. You should

get the same norms. If you are a borrower and if your credit history is the same, then, you must really have the same norm. In other words, three years down the road, when you have more than one company this issue will become far more relevant than it is the case so far. My third and final point relates to Clause 18 in the Bill which provides for a settlement on disputes between the borrowers. In other words, if I have a complaint on credit history, it prescribes a certain methodology for dispute settlement between me and my bank which may have doctored my credit history. But there is really no time-frame prescribed for the settlement of the dispute. Sir, in the case of organised industry this does not matter because your counter-vailing power and your counter-vailing muscle is quite substantial and you can move the powerful and the mighty and the influential and get the dispute settled. But, if you are an individual retail borrower from a bank or if you are a housing finance borrower or if you are a credit card consumer, I think, if you are going to leave Clause 18 open-ended, without prescribing a time-limit for the resolution of disputes, then, it is possible that these disputes over credit rating could extend into months, if not years. In fact, the possibility of it extending into years also exists. So, my request to the hon. Finance Minister is to look at Clause 18. The method for settlement of disputes that he has prescribed is novel, is innovative and is based on arbitration and conciliation on a bilateral basis. I think, it is a major step forward. But, I do feel that without the prescription of specified time-limit, it seriously jeopardises the prospects of an individual retail borrower being able to resolve his dispute over his credit history with his bank in a reasonable time frame.

With these comments, I would support the Credit Information Companies (Regulation) Bill, 2004, and only reiterate the point that on the larger issue of NPAs that Mr. Sarkar has raised, I think, there are enough instruments already available. Parliament has passed amendments to the SARAFESI Act. I am sure, the hon. Finance Minister has many ideas on improvements in the existing system of Debt Recovery Tribunals and it is possible] with the instruments currently available with the Government, to demonstrate a far more purposive, a far more aggressive and a far more business-like approach to recovery of the NPAs from organised private industry. Thank you.

SHRI FALI S. NARIMAN (Nominated): Sir, as I understand the Bill on my reading today, it appears to be meant to tackle the problem from the root. Apparently, it is a measure to prevent NPAs from happening and not

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a cure for NPAs about which we have been speaking for months and years in this House. That is a different aspect which has to be dealt with, perhaps, differently. Having said that, the hon. Finance Minister in his Statement of Objects and Reasons has also said that a company was set up in January, 2001, known as the Credit Information Bureau of India Limited and from what I gather from my learned friend, Mr. Jairam Ramesh, it is already functioning since 2004. With this in mind, I was only questioning the hon. Finance Minister whether this very heavy artillery that we have in the Bill of so many different companies being set up by private parties or by the public sector is necessary. Then, having been set up, they can also be knocked down, suspended and administrator appointed in case they misbehave and so on. Is all this really necessary or is it enough that we try to experiment with the Credit Information Bureau of India Limited and, perhaps, one other company which the Reserve Bank may sponsor or the State Bank may sponsor or set up and then deal with the situation? That will avoid a large number of problems. The problem I envisage is "if you permit the private sector credit information companies to crop up, you will get mushrooming growth of these companies sponsored, I believe, by large houses. We will have this problem of large houses sponsoring different mushroom companies for credit information and you will get the oddity which Jairam mentioned of different ratings for different types of credit institutions for different types of borrowings. I, therefore, would respectfully suggest - of course, this has gone through the Standing Committee ~ we might, perhaps, delay the coming into force of this Act and experiment with the existing company that is already there and see how far it progresses - is it really necessary and how will we prevent the proliferation of new companies set up to carry on the business of credit information under this Act and will they all be trustworthy? In fact, there is a provision which would suggest that it is believed that they may not be. In such an event, again, they will be taken over. It is all a very cumbersome way of providing for a very useful thing, namely credit information which can be done, perhaps, by one company or two companies at the most which could be Government-sponsored. They would, therefore, give an accurate barometer of the health of various companies or institutions that borrow money. I would, therefore, suggest that we delay the implementation of this.

Secondly, I would welcome clause 18.1 am glad to see that clause 18 is a very fine innovation for the future. I think, we should utilize the Arbitration and Conciliation Act more and more in disputes, instead of, as the

pattern goes, appellate tribunals, appeals to the Supreme Court, and all that paraphernalia, which require much more infrastructure, more people, more houses for people, more cars for people, and things of that sort. It is, I think, a complete drain on the exchequer. Perhaps, more utilization of the Arbitration and Conciliation Act in legislation of this nature should be welcome and not eschewed and, perhaps, followed in various other measures which the Government may choose to bring in.

Lastly, I am not very happy with the credit scoring business. The credit scoring somehow gives me the creeps. A very competent person can possibly tell whether this institution is creditworthy for this sum of money or not. But if you say, "Should I give five marks to it, or, eight marks to it", then, Sir, I find — as I always find when I judge these debating competitions of moot competitions etc. — it is impossible to allot marks or allocate marks on the various patterns. You should think whether this is good or this is not good. Only an expert can decide it, nobody else can. Therefore, with these few words, I would respectfully ask the Finance Minister to please consider it in the light of what I have said. The Act is required, as he said, to permit sharing information with the bureau. To that extent it is perfectly all right. By all means, bring that provision into force. But don't encourage the setting up of unnecessary mushrooming companies because I know that all the big houses will immediately be the first to start their credit worthiness companies and we will have a spate of questions for our hon. friend over the point whether the credit rating is good or bad. Thank you very much.

SHRI MANOJ BHATTACHARYA (West Bengal): Sir, I seldom get a chance of entirely agreeing with my hon. friend, Jairam Ramesh. Today, the issues that I wanted to raise, he has already raised. (*Interruptions*) I have full respect for him. I would only begin by saying that a great philosopher of 19th century has said, "The world has been interpreted by many philosophers in different ways. The moot question is how to change the world". So, my moot question to the hon. Finance Minister is: How to change the entire scenario, even though he has stated in the Statement of Objects and Reasons that the introduction of financial sector reforms has brought to fore the extent of non-performing assets (NPAs) and the management of NPAs in the banking system. Sir, you will kindly recall that on last Thursday, when I was commenting on the Finance Bill, I had extensively commented about present scenario of the non-performing assets. Whatever information I had at my disposal was only, as it was exposed by the hon. Finance Minister in this House, in the form of questions

and replies. But, I believe, that was only the tip of the iceberg. It was only the tip of the iceberg what the hon. Finance Minister had exposed. And, I was trying to draw his kind attention to the fact that even some of the hon. Members of this House—even Shri Jairam Ramesh vouches for it—are also holders of NPAs. What are the exact measures that the hon Finance Minister is trying to take to recover those huge amounts of the NPAs to the tune of 2,47,000 crores of rupees? I am having a doubt.

[THE VICE-CHAIRMAN (SHRI SANTOSH BAGRODIA) in the Chair] I seek a clarification from the hon. Minister whether this Bill is in furtherance of the cause of reforms in the financial sector. Will it facilitate further squandering of money by different big companies? Sir, through you, I want to seek another clarification from the hon. Finance Minister. I would like to know whether this will be benefiting, mostly, the plastic card companies. There is a mushroom growth of credit card system in this country of ours since some 10-12 years. Will these companies get a better statutory provision or a better control over the market? I learn that some of the foreign banking organisations, foreign lending organisations, foreign credit organisations, they are using even thugs to recover the money from very small borrowers. For recovering from very small borrowers, say, petty shop owners or even rickshaw pullers, they are using thugs. Whereas the big borrowers, the borrowers who are borrowing money and swindling that money, over crores of rupees, are going scot-free. But the small borrowers are facing a terrible problem in the present scenario of the country. I would like to know whether this Bill or this sort of an enactment is going to help them or it will simply help those credit companies further. I would like to know whether it is for the furtherance of the cause of the reforms in the financial sector, which has really brought a sort of boost to the country of ours. We are in a very difficult situation today because of the NPAs and other difficulties. The hon. Finance Minister may be kind enough to enlighten us on this.

With these words, I will conclude, I don't want to try to expand it further because most of the points have been covered by hon. Shri Fali Narimanji and, my friend, Shri Jairam Ramesh. I don't want to extend my speech, unnecessarily, because the points have been well raised. I would implore upon the hon. Finance Minister to come out with an exact roadmap. What is the exact situation? He has disclosed the names of only 5-6 companies whereas in the volume of a book published by the Banking Employees' Organisation, they have given the names of thousands of borrowers, where they have segmented more than Rs. one crore. I don't

know whether the Finance Minister could have a glance at that book and where the names have been inscribed. What is the exact roadmap of this present Government or what is the exact roadmap being envisaged by the hon. Finance Minister to recover that amount? Unless we can recover this amount, these sorts of Bills will remain only as another enactments. We have got many enactments. In this country there is no dearth of enactments, no dearth of laws, no dearth of Acts. But, it is a problem of delivery system once again. How to implement those?

There is a difference, Sir. The earlier Government, the Government headed by Shri Atal Bihari Vajpayee was never disclosing the names. It was never commenting about this. Whenever we raised this question, there was a golden silence prevailing in the Finance Ministry. But, today, fortunately, there is a difference. This Government, at least, is disclosing the names. They are, at least, trying to say, "Well, this is the total quantum of NPAs being borrowed by different business houses." What is this? Only having disclosure, only getting information is not of much advantage to us. We want concrete action against them. What is the exact roadmap? This has to go simultaneously. In this Credit Information Companies Regulation Bill, the recovery of the NPAs and taking stringent measures against them; seeing them as criminals, is also, simultaneously, important. With these words I thank you, Sir. Thank you very much.

THE VICE-CHAIRMAN (SHRI SANTOSH BAGRODIA): Prof. P. J. Kurian. You have ten minutes.

PROF. P. J. KURIAN (Kerala): Sir, thank you very much for calling me. When there is a very seriously sick patient in the hospital, the doctor is going after would be patient. Why not first treat the sick patient, who is going to die? Sir, we have got NPA's in our banking system to the tune of more than, I believe, and, my friend has also now said that it is more than Rupees two lakh crores. I don't know whether that figure is correct. However, I would like to know from *the* hon. Minister what is the actual NPAs today. If the figure is available with him, please give that figure to this House. Secondly, out of that figure, is it all bad debt or what percentage of it is bad debt? Because as I understand, according to the latest definition, if a borrower defaults in 2 or 3 instalments, his loan is also termed as NPA. It is calculated, classified as NPAs. I don't know how far scientific that calculation is. Therefore, I would like to know from the hon. Minister, out of this NPA, how much is the bad debt? Is the Finance Ministry conducting any inquiry? Has his Ministry got any system or machinery to find

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out how many of these are fraudulent loans? Out of this NPA, there are a good percentage of loans which are taken without giving adequate security and violating the Reserve Bank of India's guidelines. I would also like to know whether there is any machinery to investigate how many banking officials are in collusion with such fraudulent loanees. Is there any system in his Ministry to evaluate all these? As far as I understand, especially after the liberalisation, the control of the Government on the bank has further become narrower; therefore, the Finance Ministry does not have adequate machinery to control all these transactions. That is why, the NPAs are further on the increase. Steps should be taken to realise these NPAs and reduce the NPA's amount to the minimum, and, if possible, to close it. Then, the second step is to prevent such NPAs. This Bill will, certainly, help in preventing future NPAs, and in that context, I welcome this Bill. I agree with all my previous speakers. Especially with my senior colleague, learned, jurist, Fali S. Narimanji, when he says that according to this Bill, any number of private companies, credit information companies, can be formed. What will happen then? I will say that these are information companies. What about the general information? For all general information, we have newspapers. But, big companies, and big industries are sponsoring newspapers. You take any newspaper company, I don't have mention any newspaper, but behind a newspaper, there will be a big industry. The news you get from newspaper is biased to that extent. They are not impartial or objective news. The same thing, as Mr. Fali Narimanji has said, can happen to these companies also. Once you permit mushrooming of these companies, all big industries, all big borrowers will start such companies; therefore, the information given by them or the rating given by them will be biased to that extent and cannot be dependable. There is already one company which has been formed. You may, under the control of the RBI or the State Bank of India, have one company or one or two companies, certainly with the control of the Government, so that the proliferation of these companies, or, mushrooming of these companies will not vitiate the banking system. It can happen that these companies will give different information, different ratings and there will be a situation, as Shri Jairam Ramesh said, that one company will say one thing and another company contradicting it...(*Interruptions*)...

THE VICE-CHAIRMAN (SHRI SANTOSH BAGRODIA): There is a second House going on in that area ...(*Interruptions*)...Why don't you address the Chair?

PROF. P.J. KURIAN: Sir, my point is that there is a possibility of proliferation of such companies; that will vitiate the banking atmosphere. That will create further problems, because one company would give ratings in a particular way, another company would give higher ratings, there would be a fight between them and thus, the atmosphere would be vitiated. Therefore, I fully endorse and agree with the views expressed by Shri Fali S. Nariman that the no. of companies should be limited.

Sir, I have to make a few more submissions. In the present system, bulk of the NPAs are from the big loans, not farmers, small-scale industries, or the ordinary man. I would like the hon. Finance Minister to pay special attention to this. Even today, banks are violating the Reserve Bank guidelines in giving loans to the poor, to farmers, and to students, who want education loans. In this House, you have announced that a loan of up to Rs. 7.5 lakhs would be given to students without any security. I don't think in the State of Kerala the banks are providing such loans. I can give any number of such examples where an applicant goes to the bank for an Education Loan and immediately, he is asked for security. Then, these applicants go in for recommendations. Dozens of students have approached me to tell the banks that they cannot produce security. I had to argue with some branch managers in this regard.

Sir, you may recall that in Kerala, last year, an Engineering student called Rajni committed suicide. She was one of the best students as far as I know. She approached the bank for an education loan, when the scheme was prevailing. The bank asked for a security. She was a poor girl. She could not provide security and so, she did not get the loan. She could not pay the fee and ultimately, she committed suicide.

Therefore, I am requesting you, using this opportunity, please, instruct the banks that they should adhere to the Reserve Bank guidelines and they should implement the Government policy with regard to providing loans to farmers, students and the small-scale sectors.

With these words, I support the Bill and thank you for giving me the time.

THE VICE-CHAIRMAN (SHRI SANTOSH BAGRODIA): You have done well. The last speaker is Mr. Ravula Chandra Sekar Reddy. Technically speaking, you have four minutes, but I don't know how much time you would take. Please, go ahead.

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SHRI RAVULA CHANDRA SEKAR REDDY (Andhra Pradesh): Sir, I would take even less than four minutes.

SHRI DIPANKAR MUKHERJEE: He is the only Member from the Opposition. He has all the time to speak.

THE VICE-CHAIRMAN (SHRI SANTOSH BAGRODIA): You may decide that. I am only the referee here. If you decide that all the time allotted for the Opposition is to be given, then we would give you about half-an-hour to speak.

SHRI RAVULA CHANDRA SEKAR REDDY: Thank you, Sir. The present Bill is intended to arrest accretion of fresh NPAs, as per the objects and reasons given by the hon. Finance Minister for bringing the new Bill.

Sir, I would like to know from the hon. Minister—he was replying to the Finance Bill, 2005 and even at that time, I wanted to know—about the NPAs, their present status. What is the amount of NPAs?

[MR. DEPUTY CHAIRMAN in the Chair]

The present Bill is intended to prevent fresh NPAs; it would not affect the already existing NPAs. There are instances, I am told, that the people who are really locked in NPAs are still allowed to borrow money. During lunch-time, I was exchanging views with Shri Jairam Ramesh, though not regarding this issue.

Sir, I come from a rural area, where a small farmer or an individual, who wants to obtain a loan from a bank, is asked to get a No Objection Certificate, or a No Due Certificate. Many certificates are demanded from a small man, a small agricultural family, or, an individual wishing to obtain a loan from either a bank or cooperative societies. There is a coercion, or, threat from the people who really organise things at the lowest level, that they should obtain all these certificates, otherwise no loan would be given; whereas, for big people, for big companies, no such restriction was there earlier. By way of this new act, would you like to impose some conditions upon the new companies? Sir, if you are successful in containing NPAs, we are happy. But, at the same time, it is the responsibility of the Government to enlighten the people regarding the existing NPAs and reasons for so much of money being locked in NPAs. Clauses 14, 18 and 23 of the present Bill are very important. Clause 14 deals with companies and clause 18 deals with disputes. Coming to clause 23, sub-clause (1)

provides for one year imprisonment and fine. Sub-clause (2) of clause 23 only provides for 'fine not exceeding one crore'. No imprisonment is provided. Sub-clause (3) of clause 23 again provides for a fine of one crore. No imprisonment is provided. Sir, I fail to understand the logic behind the kinds of punishment provided under sub-clause(1), (2) and (3) of clause 23. So far as clause 18 is concerned, I agree with my learned colleague, Shri Jairam Ramesh, that instead of going in for a protracted or prolonged litigation, this process of going in for conciliation and arbitration is good. When you are imposing so many conditions at the lowest level, at last, you have come forward with a new Bill for containing or controlling the big people from creating NPAs. This is a good gesture on your part. At the same time, as mentioned by Prof. Kurian, I have not come across people borrowing money without any collateral security for educational purpose. I request the hon. Minister to concentrate on this-aspect also. With these words, I support the Bill. Thank you.

SHRI P. CHIDAMBARAM: Mr. Deputy Chairman, Sir, I am grateful to hon. Members for taking so much time to study this rather dry Bill and to point out, what appears to them, certain doubts or questions which require clarifications. I am quite happy to clarify them. If I can't clarify them, then, of course, I will seek the help of Mr. Nariman to clarify them. As Mr. Nariman pointed out, this Bill does not address the current NPAs. My friend, Shri Jairam Ramesh, read the first sentence of the Statement of Objects and Reasons, but he didn't read the second sentence. The Statement of Objects and Reasons very clearly says that there is a problem with NPAs, and then it says that in order to prevent accretion of NPAs, we are bringing the Bill. So, this Bill does not address current NPAs. Now, NPAs are very high, but it is again an erroneous impression that NPAs are rising. Now, look at the figures for the three years, ending March 2002, March 2003 and March 2004. All Scheduled Banks put together, gross NPAs declined from Rs. 70,861 crore to Rs. 68,714 crore and again to Rs. 64,786 crore. Now, I can give the break up of public sector banks, they also show a decline; of all the private sector banks, they also show a decline. For new private sector banks, there was a rise from 2001-02 to 2002-2003, but then again, a decline. And, for foreign banks, there has been a marginal rise in NPAs. Now, as far as gross NPAs are concerned, as of 31st March, 2004, for all scheduled commercial banks it was 7.2 per cent, net NPAs are 2.9 per cent. The corresponding figures three years ago were 10.4 per cent and 5.5 per cent. So, there is a decline in NPAs. In any event, Sir, this Bill does not deal with current NPAs. So, I won't take more time

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dealing with the issue of current NPAs. Let me quickly deal with the comments and observations made by hon. Members. To answer Mr. Sarkar, the NPA situation is bad, but it is under control; it has improved. To answer, Mr. Jairam, Ramesh, this Bill is to prevent accretion of NPAs. Will public sector banks set up credit information bureaus? Well, I expect them to. The first Bureau was sponsored by the State Bank of India. I expect one or more public sector banks to sponsor the second or the third credit information bureau. But I can't speak for any of them. It is a management decision, which is for them to take. Will they specialise in different types of borrowers or users of the credit information? To begin with, there may not be specialisation. But, in course of time, I think, some credit information bureaus will address issues of consumer credit; some may address issues of industrial credit; some may address other segments of the borrowing community in India. But, this is something we will have to wait and see. Is membership of a credit information bureau mandatory for NBFCs and housing finance corporations? It is. And, I draw the attention of Mr. Jairam Ramesh to clause 2(f) which defines a credit institution as including a non-banking financial company, a public financial institution, a financial corporation established by States and the housing financing institution referred to in Section 45 of the National Housing Bank Act. The definition is very comprehensive. All of them would have to become members. Will there be rating norms? If hon. Members will look at clause 10 in the Bill, "Where the Reserve Bank is satisfied that it is necessary or expedient in the public interest or in the interest of specified users or in the interest of credit information companies or credit institutions or clients or borrowers so to do, it may determine the policy in relation to functioning of credit information companies...and when the policy has been so determined, all credit information companies, credit institutions and specified users, as the case may be, shall be bound to follow the policy." So, when norms have to be laid, the RBI will lay down the norms. The norms will be broad policy framework. For some users of credit information, certain parameters, certain financial parameters of a borrower would be more relevant; for other users of certain information, certain other parameters would be relevant. One may emphasise the net worth of a company, the other may emphasis the assets render management. The third may give major emphasis to the risk in the business in which the borrowing company is engaged. The fourth may look at certain other parameters of a company. It is really for the user of the information to choose that credit information company which applies norms and parameters which will secure the information that will be relevant to the user. This is not a 'one size fits all'. There is no

'one size fits all'. It will depend on the business we are dealing with, it will depend on the class of borrowers we are dealing with, and, from the user's point of view what information is more relevant to one user and less relevant to him, and, what information is more relevant to another user and less relevant to him. So, as far as arbitration is concerned, again if you read section 18 carefully, it clearly stipulates that the dispute shall be settled within three months, and, in exceptional cases, it can be extended up to six months. So, I think that answers all the questions of Mr. Jairam Ramesh, and, therefore, I hope he will give unqualified support to the Bill rather than qualified support.

As far as Mr. Nariman's questions are concerned, I am glad that he pointed out that this Bill deals with accretion of NPAs, not the accumulated NPAs. Will there be too many CIBs? Well, I doubt it. I doubt that there will be too many CIBs for the simple reason that, as you also know, the Reserve Bank is very parsimonious, the Reserve Bank is tight-fisted. It will simply not grant too many licences and in order to obtain a licence, one has to satisfy very rigorous conditions. Section 4 sets out the requirements for 'application for a registration'. The Reserve Bank has been given powers under Section 5 for grant of registration when it is satisfied that the conditions mentioned in Section 5(1)(a),(b) and (c); Section 5(2) and Section 8 are satisfied. These are very rigorous conditions. It is very unlikely that we have mushrooming of CIBs. In any way, we are now moving an amendment to enable the Reserve Bank to limit the number of CIBs and to review the number from time to time. So, my expectation is that RBI may, say, start with may be 3-4 companies. India is a very large country. There are too many borrowers in this country and one company simply cannot serve the requirements of all the borrowers and all the lenders. I think we need a multiple number and that multiple number does not mean a double-digit number. Probably, it will be three or four to start with, and, then the Reserve Bank will review the number if the situation warrants such a review.

Now, Mr. Nariman said that he is a little worried about the credit scoring. But I think that is the heart of the issue. Credit scoring is important. As I said a credit rating company with a set of parameters and norms will arrive at one credit score, another credit rating company with another set of parameters and norms will arrive at another credit score and the user will have to then decide which is the score or which are the parameters which are more relevant from his point of view. For example,

today countries are rated, companies are rated and there are more than one rating companies in the world. The best known are Standard and Poor's, and, Moody's. They give different ratings. Now, I found that General Motors' Bond was reduced to junk rating 3 days ago. That does not mean that nobody will buy General Motors' Bond. That is the kind of rigour that will come about under competition. There will be a credit score. They will apply different parameters and norms depending upon how they see a particular business or segment of industry and the user will then decide which is more relevant for him.

Mr. Manoj Bhattacharya broadly welcomed the Bill and I think the questions he had raised are the same questions that I have answered. Professor Kurian, of course, concentrated on the NPAs and I have answered that. The NPA situation is improving. I am not happy with it, but, it is improving, and, I think if we continue to hold 8 banks accountable even while giving them autonomy, the NPA situation will improve. With the Credit Information Bureau, accretion of NPAs will be slowed down.

The last is Mr. Reddy's question: is there an anomaly in Section 23, Sub-section (1), Sub-section (2) and Sub-section (3). The answer is 'no'. If you kindly read Section 23, sub-section (1), it applies to a person, a living person, and, since when a living person is prosecuted, the punishment can be both imprisonment and fine, Sub-section (1) provides for imprisonment and fine. Sub-section 2 and sub-section 3 talk about the legal entities. Therefore, while they will be prosecuted—and the Supreme Court has now held that they can be prosecuted—the only punishment that can be imposed upon the juristic entity is fine. Therefore, sub-section 2 and sub-section 3 deal with it. So, I think, I have answered all the questions and I request the hon. Members to pass the Bill.

MR. DEPUTY CHAIRMAN: The question is:

"That the Bill to provide for regulation of credit information companies and to facilitate efficient distribution of credit and for matters connected therewith or incidental thereto, be taken into consideration."

*The motion was adopted.*

MR. DEPUTY CHAIRMAN: We shall now take up clause-by-clause consideration of the Bill.

*Clauses 2 to 4 were added to the Bill.*

MR. DEPUTY CHAIRMAN: In Clause 5, there is one amendment no. 3 by the hon. Minister.

**Clause 5 - Grant of Certificate of Registration**

SHRI P. CHIDAMBARAM: Sir, I move:

(3) That at page 4, after line 18, the following be *inserted*, namely:

"(3) The Reserve Bank may, having regard to the available business of credit information, the potential and scope for expansion of existing credit information companies and other relevant factors, determine the total number of the credit information companies which may be granted the certificates of registration for carrying on the business of credit information:

Provided that the total number of such credit information companies so determined may, on being satisfied by the Reserve Bank, that there is change in available business of credit information, potential and scope for expansion of existing credit information companies and other relevant factors relating thereto, be reviewed by the Reserve Bank."

*The question was put and the motion was adopted.*

*Clause 5, as amended, was added to the Bill.*

*Clause 6 was added to the Bill.*

MR. DEPUTY CHAIRMAN: In Clause 7, there are two amendments nos. 4 & 5 by the hon. Minister.

**Clause 7 - Appeal against order of Reserve Bank**

SHRI P. CHIDAMBARAM: Sir, I move:

"(4) That at page 5, line 3, for the words "the Central Government", the words "the Central Government or any other authority or tribunal which may be designated by rules made by the Central Government" be *substituted*.

"(5) That at page 5, line 6, for the words "the Central Government", the words "the Central Government or the authority or tribunal referred to in sub-section (1)" be *substituted*".

*The questions were put and the motions were adopted.*

*Clause 7, as amended, was added to the Bill.*

*Clauses 8 to 17 were added to the Bill.*

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MR, DEPUTY CHAIRMAN: In Clause 18, there is one amendment No. 6 by the hon. Minister.

**Clause 18 - Settlement of dispute**

SHRI P. CHIDAMBARAM: Sir, I move:

"(6) That at page 11, for lines 8 and 9, the following be *substituted*, namely:

(2) Where a dispute has been referred to arbitration under sub-section (1), the same shall be settled or decided:

(a) by the arbitrator to be appointed by the Reserve Bank;

(b) within three months of making a reference by the parties to the dispute:

Provided that the arbitrator may, after recording the reasons, therefore, extend the said period up to a maximum period of six months:

Provided further that, in an appropriate case or cases, the Reserve Bank may, if it considers necessary to do so (reasons to be recorded in writing), direct the parties to the dispute to appoint an arbitrator in accordance with the provisions of the Arbitration and Conciliation Act, 1996, for settlement of their dispute in accordance with the provisions of that Act."

*The question was put and the motion was adopted.*

*Clause 18, as amended, was added to the Bill.*

*Clauses 19 to 35 were added to the Bill.*

MR. DEPUTY CHAIRMAN: In Clause 36, there are three amendments Nos. 7, 8 and 9 by the hon. Minister.

**Clause 36 - Power to make rules**

SHRI P. CHIDAMBARAM: Sir, I move:

"(7) That at page 16, for lines 13 to 15, the following be *substituted*, namely:

(a) the authority or tribunal which may be designated under sub-section (1) of section 7;

(b) the steps to be taken by every credit information company or

credit institution and specified user for ensuring accuracy, completeness of data and protection of data from any loss or unauthorised access or use or disclosure under section 19,"

(8) That at page 16, line 16, for the bracket and alphabet "(b)", the bracket and alphabet "(c)" be *substituted*.

(9) That at page 16, line 18, for the bracket and alphabet "(c)", the bracket and alphabet "(d)" be *substituted*.

*The questions were put and the motions were adopted.*

*Clause 36, as amended, was added to the Bill.*

*Clause 37 and the Schedule were added to the Bill.*

MR. DEPUTY CHAIRMAN: In Clause 1, there is one amendment No. 2 by the hon. Minister.

Clause 1 - Short Title, extent and commencement

SHRI P. CHIDAMBARAM: Sir, I move:

(2) That at page 1, line 5 for the figure "2004", the figure "2005" be *substituted*.

*The question was put and the motion was adopted.*

*Clause 1, as amended, was added to the Bill.*

MR. DEPUTY CHAIRMAN: In the Enacting Formula, there is one amendment No. 1 by the hon. Minister.

#### **Enacting Formula**

SHRI P. CHIDAMBARAM: Sir, I move:

(1) That at page 1, line 1, for the word "fifty-fifth", the word "Fifty-sixth" be *substituted*.

*The question was put and the motion was adopted.*

*The Enacting Formula, as amended, was added to the Bill.*

*The Title was added to the Bill.*

SHRI P. CHIDAMBARAM: Sir, I move:

That the Bill, as amended, be passed.

The question was put and the motion was adopted.