

THE INDIAN SUCCESSION (AMENDMENT) BILL, 1961

THE DEPUTY MINISTER OF LAW (SHRI R. M. HAJARNAVIS) : Sir, I move for leave to introduce a Bill further to amend the Indian Succession Act, 1925.

The question was put and the motion was adopted.

SHRI R. M. HAJARNAVIS: I introduce the Bill.

SHRI BHUPESH GUPTA (West Bengal): May I make a suggestion, before we start with our legislative business, about the business of the House? From the papers we gather that the Lok Sabha will not be taking up certain Bills announced earlier, that it is not likely to take them up and dispose of them—this Lok Sabha. I can understand that. If it is so, in that case some of the Bills could be introduced in this House, and they could be considered later when the next Lok Sabha meets. I just point out to you this thing to show that this is how Government arranges its business. If it were a question of giving opportunity to the new Lok Sabha, this thing could have been done here, and then the new Lok Sabha could have taken it up.

THE DEPOSIT INSURANCE COR- PORATION BILL, 1961

THE DEPUTY MINISTER OF FINANCE (SHRI B. R. BHAGAT): Sir, I move.

"That the Bill to provide for the establishment of a corporation for the purpose of insurance of deposits and for other matters connected therewith or incidental thereto, as passed by the Lok Sabha, be taken into consideration."

Sir, the House will not, I think, expect me to make a very long speech as the Bill was originally introduced

in the other House in August, 1961, and as the broad details of this scheme are now fairly well known.

The idea of deposit insurance is not altogether new. Seven years ago, the Shroff Committee on finance for the private sector, which was constituted to examine ways and means of promoting the further growth of banking and of liberalising the assistance available to industry and trade, recommended the acceptance of a scheme of insurance in principle. The banking industry was adequately represented on the Shroff Committee. Nevertheless, the Committee's recommendation could not be implemented at that time, among other reasons because there was no general agreement among the bankers themselves regarding the need for insurance or the details of the scheme, in case insurance of some kind was finally considered desirable.

The entire question has since been re-examined in the light of recent developments, and I am glad to say that the principles on which this Bill is based have now been generally accepted. The Bill, in consequence, is more or less a non-controversial measure.

The salient features of the scheme of insurance, which the Bill seeks to implement, have been set out very briefly in the Statement of Objects and Reasons. Our intention for the time being is that the Corporation should insure deposits up to Rs. 1,500/- and that the premium payable by the insured banks should be 5 naye paise per hundred rupees per annum. We estimate, on the basis of such statistics as we have been able to obtain, that a substantial portion of the deposits will be covered on this basis.

The number of accounts in commercial banks is at present slightly more than six millions. Approximately 75 per cent, of the number of accounts, and 20 per cent, or one-fifth of the total value of the deposits, after excluding P. L. 480 funds, *m>v*

[Shri B. R. Bhagat.] be covered under the proposals which I have just indicated. The House will, I think, regard this as quite reasonable in the circumstances of today.

Sir, I should perhaps add at this stage that in relation to the level of our national income, and the average size of our bank deposits, the Corporation will be making a very good beginning. After allowing for the differences between the two countries, the extent of the protection which we are trying to provide for the depositors does not, I think, compare unfavourably with that granted by the Federal Deposit Insurance Corporation of the U.S.A.

There has been some understandable disappointment that these proposals, while they are good and satisfactory so far as they go, do not cover the deposits in co-operative banks. The recent conference at New Delhi of the Registrars of Cooperative Societies, and the State Ministers of Co-operation also, I think, mentioned this question.

The problem, in so far as co-operative banks are involved, is exceedingly complex, and it will be premature for us to try to cover the deposits in these banks at this stage. The number of co-operative banks is, as the House is aware, very much larger than the number of commercial banks. The financial position of these banks also varies very considerably. There is, in fact, no clear or accepted definition of co-operative banking, which might facilitate any attempt at the present stage to distinguish these banks from other co-operative societies. The constitutional and legal provisions governing co-operative banks are at the same time different from those applicable to commercial banks, and neither the Central Government nor the Reserve Bank have been, or can be, granted, in relation to the cooperative banks, the same power or authority as they have in relation to commercial banks.

The House will appreciate that it will be somewhat difficult for us to ignore these practical considerations. We cannot saddle the new Corporation, right from the beginning, with an onerous responsibility, which it may not be able to discharge very satisfactorily from a purely administrative point of view. Fortunately, however, the size of the total public deposits in the co-operative banks is not very great in comparison with the volume of commercial bank deposits. In the context of our rapid economic growth, the co-operative banks, I expect, will not, on balance, be affected adversely by the introduction of the present scheme.

I would like to draw the attention of the House, at this stage, to an important feature of this insurance scheme. The Deposit Insurance Corporation's liability, according to the provisions of this Bill, will be attracted in the event of the liquidation of a bank, or the enforcement, in relation to it, of a scheme of reconstruction or amalgamation which does not provide for full payments being made to the depositors. While we have every reason to hope that the contingencies in which the Corporation's liability will be attracted will be comparatively rare, provision has been made in the Bill for the payments due to the depositors, in the unfortunate event of the failure of any bank, to be disbursed in the most expeditious manner possible. The depositors will be saved, according to the procedure envisaged in clauses 17 and 18 of the Bill, the vexatious delays incidental to liquidation proceedings or on the realisation of sticky and frozen assets of the banks. In actual practice, the depositors, I hope, will get the amounts due to them within a matter of a few weeks after the Corporation's liability has arisen.

As the Bill has been before the House for some time, and as the notes on clauses are fairly detailed, I do not want to detain the House any further. But I would like to say, before I conclude, these very brief introductory

remarks, that this Bill has not been brought forward because of any feeling that there is any crisis, real or imaginary, in our commercial banking system. Commercial banks, since they first came into being in this country towards the end of the eighteenth century, have, I think, been as progressive and enlightened as anywhere else in the world. Their record, judged in terms of the number of bank failures, or the amounts lost by the depositors, has been on the whole much more satisfactory than that of financial institutions in many other countries, developed or otherwise. The present Bill is intended, by and large, to facilitate the continued growth of our banking system and must be regarded as a positive contribution towards this result rather than as a remedy for any crisis past or present. If the Bill helps to spread the banking habit and enables our banks to discharge effectively the important tasks which have been or are likely to be entrusted to them, the object which we have in view will, I am sure be abundantly fulfilled.

Sir, with these words I move. *The question was proposed.*

DR. R. B. GOUR (Andhra Pradesh): Mr. Deputy Chairman, I rise on this occasion to offer a few remarks on the Bill that the hon. Deputy Minister has just moved for consideration. I would also on this occasion. Mr. Deputy Chairman, deal with the ideas behind this Bill and the purpose for which it has been brought before our House.

Sir, it is no use saying that commercial banking in our country has been doing very well or has been behaving very well towards our country and therefore nothing should be misunderstood about commercial banking in the private sector when the Ministry of Finance is proposing this Bill to the House. Nobody would believe it. Evidently the whole business of deposit insurance would be unnecessary in that case. The idea was first given expression to by the Finance

Minister himself after the crash of the Palai Bank and the Laxmi Bank. What is it that the Government propose to do? The Government proposes to tell the small depositor, "Look here. Your deposit is here, all insured, and you need not bother about the ways of the working of the private commercial banks". This measure, in fact, is to tell the common depositor in our country that here is the Government of this country and a Deposit Insurance Corporation, more or less managed on Government funds or the funds of the Reserve Bank which will guarantee you the difference between what the bank is going to pay to you and your own deposit if the bank crashes or if it is amalgamated with another bank. That is the purpose of this Bill. Why at all has this BUI come if there is no trouble with the banking system in our country? To instil confidence in the depositors? Therefore, the point that the hon. Deputy Minister just let out before he concluded was surely not the point that he should have brought out.

Mr. Deputy Chairman, the position about banking in our country is this: In the year 1949 there were 584 banks. By the end of 1960 the number of banks came down to 350. The total deposit in these banks was Rs. 538-97 crores in 1949 and in 1960 it was Rs. 1,278-3 crores. Now, let us take the number of non-scheduled banks and the deposits they cover.

Mr. Deputy Chairman, may I hope that the hon. Deputy Minister is listening to me rather than to the Railway Minister?

MR. DEPUTY CHAIRMAN: He is listening to you.

DR. R. B. GOUR: Thank you very much. Now, the number of non-scheduled banks was 258 at the end of 1960. These 258 banks are 73.1 per cent of the total number of banks and the deposits with these 73.1 per cent of the total number of banks is Rs. 47-2 crores out of a total of Rs. 1,278-3 crores. That is, a total of

[Dr. R. B. Gour.] 3-6 per cent. It is these banks that pose the problem of either reconstruction of the banking industry or protection to the depositor. It is these banks that are either likely to crash, lose business or likely to be amalgamated. Therefore, this question is a very serious question. Now, then -why is it that a small bank is unable to survive? I shall be pardoned, Mr. Deputy Chairman, if I draw the attention of the House to the fact that however much the private capitalist, the private entrepreneur may say, may talk of free enterprise, free competition, the fact remains that the laws of capitalist development operate in a manner that leads towards concentration of financial power, industrial power and profits, and that goes towards elbowing out of the lesser fry, of the smaller entrepreneur.

We have, therefore, seen how between 1949 and 1960 the number of banks with deposits of over Rs. 25 crores has grown from 1 in 1949 to 14 in 1960. The deposits of these banks have also grown from 234 to 890 crores. Banks commanding a deposit of Rs. 25 crores and above are 14 in number, accounting for more than 69 per cent, of the total deposits. This is how banking in our country is growing. In fact, in our country the three banks, with deposits above Rs. 100 crores each, account for 9 per cent, of the total number of banks. They possess Rs. 3721 crores of deposits, i.e., 29.1 per cent, of the total deposits. So, this concentration is growing; money is getting attracted towards big banks. Big banks are growing and it is this inevitable process of capitalism that we see in our country which is leading to the crash of smaller banks. That is the position.

There is also another thing. After all, capitalism and mismanagement go together. Profit by hook or by crook

is the order of the capitalists. We have seen the Palai Bank where a director or his wife comes with rupees one lakh as deposit and goes away with Rs. 20 lakhs. A company is given some money without any security. We know that it is mismanagement and yet nothing has been done to tackle that gross mismanagement up to date. No one has been brought to book and no one has been punished. There is no case or criminal action pending against anybody of this type. After the crash we know to what extent people have been suffering. To date the depositors of the Palai Bank have not been given their dues. It is not their fault. The point that has got to be very seriously considered is that the depositors in the small banks are suffering at the hands of concentration of finance capital in our banking institutions. It is not their fault that the Government should think of deposit insurance to instil confidence in private commercial banking. The remedy is in the nationalisation of banks. Unless the country takes hold of the huge financial resources, that is, the capital accumulation of the ordinary earners of the country, there is no use our talking of planned development leading to socialism. Deposit insurance has been conceived of in order to strengthen capitalism in our country. That is why the Minister tells us that the bankers have been constantly consulted and it is only in agreement with the private bankers that the Government is conceiving of this Bill. Obviously, the private bankers will not agree to socialism. Obviously, the private bankers will not agree to nationalisation of banking and obviously they will not agree to any radical step that the Government should take in the interests of banking and the economy of this country. The small depositors in the private banks are at the mercy of these big sharks in the financing and banking fields. The Government comes forward and says 'Here is the Government's assistance to this Corporation. Here are so many crores'. The Corporation will be floated by the Government money, paid by the funds of our country. For what? It is for

defending the private sector in our banking. I would like to know whether these are the ways of those who talk of socialism. I would like to know whether this is a proper remedy to meet the challenge that the private banking industry has thrown to the country. Therefore, let us take courage in both the hands. Let the Government come out with what we have been suggesting time and again, for cogent reasons, in the national interest. Obviously, the Communist Party of India is not going to gain by the nationalisation of banking. It is the country as a whole which will be rescued from the private bankers who are holding the money and are holding the entire society to ransom. This is the first thing that I would say on this occasion.

Why is it that the State Bank of India and the subsidiary banks are also called upon to pay the premium to this Corporation? Why should the State sector banks pay the premium at a maximum rate of 15 nP. for every Rs. 100 deposit that they hold? He has kindly said that PL. 480 funds are? no more with the State Bank and they are already with the Reserve Bank. In my humble opinion, the State Bank and its subsidiaries are being punished by the Government of India for what they are doing, for the service they are rendering to the country. After all, the State Bank and its subsidiaries are not responsible for any crash in the private banks. In fact the State Bank and its subsidiaries are doing business in the most difficult sectors. It is they who have taken over rural credit. Not a single private bank is coming forward to help the requirements of rural credit. They are not even coming to help the small-scale industries. Even the life insurance guarantee scheme has not made any headway in relation to loans to be advanced by private banking companies to the small industries. The co-operative banks are not at all being helped by the private banks. It is the State Bank of India and the Reserve Bank that are helping the co-

operative banks in the growth and development of co-operative banking. By the end of 1959 the State Bank and its subsidiaries had 1,235 offices out of a total of 4,900 offices in the country. Out of about 4,000 offices—of the entire scheduled banks—and let us leave the non-scheduled banks—, the State Bank and its subsidiaries had 1,235 offices at the end of 1959. Where are these offices? The total deposits of the State Bank of India and its subsidiaries were Rs. 667 crores out of Rs. 1,827 crores of deposit liabilities of all the scheduled banks in the country by the end of 1959. But how is this Rs. 667 crores of deposits, of that composite structure of the State Bank and its subsidiaries, being used? Is it being used to cut across the small banks? Is it being used to take over the business of small banks in cut-throat competition? Is it being in any way used in a manner that a highway robber of private sector bank does? No. Out of four hundred new branches of the State Bank of India that were opened since its reconstitution, till the end of 1959, all except 24 have been in places with a population less than 50,000. I challenge any private bank, whether it is an article of faith with them that they would do pioneering work regarding the opening of branches. No, they would rather like to open branches where already branches are there, where easy, quick business is possible. They would not like to do pioneering work. They would not like to open branches in semi-urban or rural areas, with population less than 30,000, whereas the State Bank of India and its subsidiaries have done it as follows: In 90 places where they have opened branches are those with a population between 25,000 and 50,000. Two hundred and nine places were with a population between 10,000 and 25,000. Seventy-seven places were those with a population below 10,000. Out of the 64 centres where the State Bank has opened branches, 20 were those where no facilities were existing. At the end of 1960 the State Bank had 40 offices where no other bank had offices existing within a dis-

[Dr. R. B. Gour.] t;nce of 20 miles. This is what the State Bank people are doing to the country and how they are serving the country and how they are serving the semi-urban areas. They also take risk. Out of 284 offices opened till April, 1960, only 47 of the State Bank branches were making a profit. The other 337 offices were running at a loss. So the State Bank and its subsidiaries have to do the job that the Rural Credit Survey Committee had wanted to be done, namely, cater to the requirements of the backward areas, the undeveloped areas, the semi-urban areas, and run its branches at a loss. And you also want them to contribute to the Insurance Corporation. Very fine idea. It seems you are out to punish the State Bank and its subsidiaries for the good work that they are doing for the country.

Let me tell you what is the position at the end of 1960. Out of the 4141 offices of all the scheduled banks in the country, the State Bank and its subsidiaries number 1,281 that is to say, 31 per cent. And of the entire deposit structure, that of the State Bank and its subsidiaries comes to Rs. 394 crores or 25 per cent, of the total bank deposits of all the scheduled banks. Between 1st July 1955 and the end of December, 1960, 352 branches of the State Bank were opened in places with population of 30,000 and less. I would like to ask why the State Bank and its subsidiaries are being brought under the purview of this Deposit Insurance scheme. Is the State Bank or its subsidiaries responsible for the crash of the Palai Bank or the Laxmi Bank? Is the State Bank or its subsidiaries cutting across the business of some other banking company? Why does the Government want to punish the State Bank and its subsidiaries? After all, the insurance funds that will arise after this Corporation comes into existence and when the existing banks are brought under it, will be there for the Government to use. The Government will say that this is another way of getting 15 naye paise on every Rs. 100 in-

vested in Government securities. But why should the State Bank also contribute to the Government of India securities through this indirect way of deposit insurance? So I say there is absolutely no cogent reason whatsoever for including the State Bank in this scheme, because after all it would amount to meting out punishment to the State Bank for all that it is doing for the country, in carrying out a sort of pioneering work in the semi-urban areas, with many of its branches in such areas running at a loss. All these private banks, are they interested in deposits? No. Not a single bank has opened a single branch merely for mobilising deposits, because what they want is advances and easy advances and quick money. If there is a place where the banking company cannot make advances and can only take deposits, there it would not open a branch, because it is not interested in that. Is there any other banking company interested in deposits? They are reviewing their rates and there have been revisions so many times. They have slashed down the interest on deposits and raised the lending rates. So there is a disincentive on the part of depositors. Today the private bank is indulging in this. But I know, for example, that the State Bank of Hyderabad has opened a branch in a locality in the city of Hyderabad only to encourage and persuade the middle income group people to deposit their money. In fact, even the banking hours have been so adjusted that these office-going people can deposit their money and withdraw their money without difficulty. Tell me one private sector bank which has got such an office to its credit, or which has even thought of such a thing? This is the fine work that the banks in the public sector are doing and you want to punish them.

Mr. Deputy Chairman, I have also given notice of amendments to the effect that the State Bank and its subsidiaries should be excluded from the purview of this scheme, because, after all, they are doing a very difficult job. They should not be included because

In fact this would amount to their being punished, because they have to pay . . .

SHRI M. R. SHERVANI (Uttar Pradesh): How are they being punished?

DA. R. B. GOUR: There are being punished in this way. Mr. Deputy Chairman, let the hon. Member understand that out of the premium paid by the State Bank and its subsidiaries, other banks which either get amalgamated or get crashed, will pay their depositors. The depositors of those banks will get paid. The State Bank is not going to crash, because the crashing of the State Bank would mean the crashing of the Government of India itself. The subsidiary banks of the State Bank are not going to crash.

SHRI M. R. SHERVANI: It all goes to the Insurance Corporation, from one pocket to another.

DR. R. B. GOUR: It is not a case of from one pocket to another. It is actually going from the government pocket into the pocket of the private depositor, a depositor who has been cheated by a private bank. It is not a question of the money going from one pocket of the government to another pocket.

SHRI B. R. BHAGAT: What he means is that from the State Bank to deposits in the Corporation is from one government pocket to another.

DH. R. B. GOUR: It is not so, as I said just now. Also why do you want it? The money in the State Bank is itself government money and the Government can use it when it wants. Why route it to the Government via the Insurance Corporation?

MR. DEPUTY CHAIRMAN, I think I have made my point that the State Bank

and its subsidiaries should not be brought under this scheme. As I said earlier, nationalisation of banking is the only solution in order to see that the banking structure in our country grows with our economy and caters to the growing economy of the land. As regards the amalgamation of the small banks, when the Banking Act was sought to be amended, we pleaded that the amalgamation of banks should not be left to the choice of the banks, but that powers should be given to the Reserve Bank to amalgamate banks. But the Government did not pay heed to it and it was only after the crash of the Palai Bank that they came out with an Ordinance. Even now, there are people who have not taken to it with enthusiasm. I am afraid the Governor of the Reserve Bank, Mr. H. V. R. Iengar himself, has been making disturbing speeches. In a recent speech in August last, as Chairman of the Institute of Bankers *he* has tried to pose the question of the reconstitution of the banking structure and said the amount of deposit was very small. He left it at that. What he really meant was: Let these banks go. No use touching them. In fact, in an earlier speech, he goes to the extent of saying that it is no use trying to go to the rescue of banks on the verge of a crash. So the tendency in the highest advisers of our economic and banking policy is to see that this amalgamation also does not take place. Then why this deposit insurance? Deposits are already insured. If the bank crashes, the small depositors will get their money. With amalgamation also they get it. The law is there. Therefore, I feel that this deposit insurance scheme might further add to the hesitancy on the part of the Reserve Bank to enforce amalgamation of small banks. I want to warn against such a tendency, because these small banks must be amalgamated. They cannot survive in this economy. They cannot survive competition and there cannot be any big control on the board of directors and mismanagement. After all, whatever expansions might have taken place in the Reserve

[Dr. R. B. Gour.] Bank's inspection machinery, I hope the officials of the Reserve Bank themselves will bear me out when I say that not all the banks are inspected even once a year; much less can I say that all the branches are taken for inspection.

Therefore this amalgamation of small banks poses a very urgent and important question. I am afraid that amalgamation which would have been a guarantee for the depositors is not taken so seriously as this deposit insurance is taken. I am also afraid that this deposit insurance might add to the lack of enthusiasm in matters of amalgamation. Therefore, Mr. Deputy Chairman, to conclude I say that nationalisation, at least of the big banks, is an urgent necessity, of all the 14 banks that control Rs. 25 crore³ and above. I repeat that amalgamation of all the small banks is an urgency. That is the only sure guarantee for a healthy banking structure. I reassert that the public sector banking must be removed from the purview of this deposit insurance. Mr. Deputy Chairman, I have done.

Thank you.

STATEMENT ON RECENT RAIL-- WAY ACCIDENTS

THE MINISTER OF RAILWAYS (SHRI JAGJIVAN RAM): Sir, the statement is a long one. May I, with your permission, lay it on the Table?

SHRI BHUPESH GUPTA (West Bengal): Which one?

MR. DEPUTY CHAIRMAN: About railway accidents.

SHRI BHUPESH GUPTA: Which one? There were two accidents.

MR. DEPUTY CHAIRMAN: There were three, I think.

SHRI K. SANTHANAM (Madras): Can we have this after lunch?

MR. DEPUTY CHAIRMAN: There are still ten minutes. Do you want the statement to be read out?

DR. R. B. GOUR (Andhra Pradesh): Yes, Sir.

SHRI JAGJIVAN RAM: I have no objection.

SHR. K. SANTHANAM: If it is a very long statement . . .

DR. R. B. GOUR: Even then he should read it.

SHRI K. SANTHANAM: I thought we might take it up after lunch.

SHRI JAGJIVAN RAM: I shall read only a portion of it because it is a very big one.

Sir, it is with a heavy heart that I rise to make a statement about the three major accidents that have taken place recently near Ghatsila, Main-puri and Kosgi stations.

On 20th October, 1961, while 83 Up Ranchi Express was running between Dalbhumgarh and Ghatsila stations on the Khargpur-Tatanagar Section of the South Eastern Railway, it derailed at about 1-25 hours at Km.209/4-5. The engine and seven coaches behind derailed and capsized on both sides of the track. The eighth coach was also derailed while the rear four coaches of the train remained on the track.

It is painful to report that as a result of this accident, 45 persons were killed on the spot and 6 succumbed to their injuries subsequently. Besides, 11 persons suffered grievous injuries. Out of 184 persons who sustained minor injuries, 71 persons were discharged after being rendered first aid on the spot. 94 persons were discharged after treatment in the hospitals. This morning there are 80 persons still in the hospitals.

Local medical assistance available at Ghatsila was rushed to the site by a shuttle train. Medical relief vans