

MR. DEPUTY CHAIRMAN: The House stands adjourned till 2.30.

The House then adjourned for lunch at ten minutes past one of the clock.

The House reassembled after lunch at half past two of the clock, MR. DEPUTY CHAIRMAN in the Chair.

THE DEPOSIT INSURANCE CORPORATION BILL, 1961—contd.

SHRI M. GOVINDA REDDY (Mysore): Mr. Deputy Chairman, I have great pleasure in extending my support to this Bill. As the hon. Minister has said while introducing this Bill, it is not only a timely measure but also it is a very beneficial measure. I wish, Sir, that the hon. Deputy Minister had given us some more details about this measure particularly in view of the fact that deposit insurance is a new scheme. I would have liked and the House would have been obliged to him if he had given us, for instance, the deposit amounts that will have to be covered in the various categories of deposits and in the various categories of banks, the measure of risk that is normally attached to such a thing as deposit insurance and also some idea as to the prevalent methods of insuring deposits in foreign countries. That would have certainly put us in full possession of a good picture, and we would have been able to view this matter much better. As I said, Sir, and as he has observed, this is a measure which is a non-controversial one. Although to me it appears to be a non-controversial measure, here almost an exception was taken by a Member of the Communist party who spoke first on this Bill. I did not understand his attitude whether he supported the Bill or opposed the Bill, neither did he say that he supported the Bill. All that he said was in opposition to the Bill. For instance, he thought that the Government in bringing this measure

SHRI P. A. SOLOMON (Kerala): He has supported it.

SHRI M. GOVINDA REDDY: He went on to say that the Government had conceived this Bill not as a measure of protecting deposits but of strengthening capitalism. I do not know why he thought so and what made him conclude that this measure is a device to strengthen capitalism. On the other hand I should have supposed that he, belonging to the Communist Party which professes to support the ordinary man, the common man, the man in the street, would consider this measure, which is obviously a very beneficial measure, which is a protective measure, not to be a measure which is devised in order to support capitalism.

As the hon. Minister was saying, we are in a developing economy, and in a developing economy it is but natural that banking plays progressively a greater and greater role, and it is in the interests of the country and the economy as a whole that the public in general should be educated with regard to the usefulness of banking and with regard to the several benefits that flow from a good system of banking and also the utility of effecting more savings and depositing them. The deposits not only help the individual depositor but also help the country as a whole in as much as they pool to the institutions wide financial resources which can be harnessed for industrial and other activities of the country. Therefore, it is necessary that in such a developing economy deposits do come to claim a very important and major place. Naturally it also follows that these deposits must have a certain sense of guarantee about them. Otherwise, if like pestilence bank crashes come and visit us often, then naturally the confidence of the public in the banking system as a whole will be undermined. It is very unfortunate that in this country bank crashes do occur periodically. I know when we were boys the Norton Bank failed, and several deaths by shock ensued on account

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of that crash, and so many went mad, A few years ago over one hundred banks, I think, in West Bengal came to grief—I do not know, I am not sure about the figure, I am quoting from memory, several banks, a large number of banks came to grief in West Bengal. That necessitated the Government to reconsider their approach towards regulating and controlling banking in the country, and that is why we have now in the Banking Companies Act several regulations and amendments introduced in order to see that banking is carried on according to recognised and systematic methods, subject to control by the Reserve Bank of the country. So these measures have been devised in order to ensure a certain sense of safeguard for those who transact with the banks, and not only the depositors. I do not think that by introducing this measure the Government will be complacent to think that this measure will entirely accord full safeguard for deposits and for the proper working of the banking system, and I hope they would show no leniency in regard to the enforcing of the several conditions of the Banking Companies Act in the matter of regulating the banking companies. They are necessary. It is necessary to exercise vigilance over banking, and therefore this measure in no way should preclude the Reserve Bank from exercising its statutory authority.

With regard to the scope of the Bill, the hon. Deputy Minister has anticipated a difficulty, at least a point which would be made. The co-operative banks are exempted from the operation of this Bill. The principle of the Bill is to guarantee deposits placed in banks. If that is so, I do not know why co-operative banks should be exempted. The difficulty which the hon. Minister pleaded was that the means of this Corporation would be inadequate to cover banking deposits of all institutions like co-operative banks, and also that co-operative banks work in a different fashion from the scheduled banks.

If his first argument is really to be supported, then the deposits covered by the co-operative banks must have been really large, but he himself has observed that the deposit amounts in co-operative banks when compared with those of the scheduled and non-scheduled banks are not heavy but are a fraction. Therefore, it should not be a reason for excluding co-operative banks from coming within the scope of this Bill. The other reason which he has given is that the co-operative banks are functioning in a different way from the scheduled and non-scheduled banks and that the system of rigour and vigilance that is exercised according to the Banking Companies Act is not extended to co-operative banks. In that case it is all the more necessary that co-operative banks should be brought within the scope of this Bill because, as we know, co-operative banks are loosely administered comparatively speaking. I do see the point in his argument that they function on a different footing. They do function on a different footing inasmuch as the directors of co-operative societies will be solely responsible for the administration and efficiency and the success or failure of the co-operative societies, and inasmuch as their office depends upon their election by the shareholders. It is true that co-operative banks cannot claim to be working under a rigorous system of supervision and control as the banks do. That is true. My point is this. When there is that loose structure, when there is a greater risk to the depositor, when there is a greater chance of the co-operative banks failing or of their not being administered properly, it is all the more necessary, according to me, that the deposits in co-operative banks must be guaranteed.

The other point is with regard to the quantum of deposit that is covered. Now, the principle of insurance is to cover all risks. If that is so, this Corporation should be able to cover the risk of the depositors to the

extent of their deposits. I do not know why it should be limited to Rs. 1,500 according to clause 16. Well, this will bring in, according to me, some further complication. In the matter. Now, as far as the big business men or the big investors are concerned, they deposit large amounts and they deposit in one bank or the other. It does not matter as long as that bank is their bank and they have confidence in that bank or as long as they have business transactions in a large measure in that bank. But as far as the smaller depositors are concerned, the position is this. Now, if I have no confidence in the smaller banks and if I have to invest in these banks for the benefit of getting half a per cent. or three-quarter per cent. more interest on my deposit than I would get in a scheduled bank, I may think of investing in these small banks necessarily. But then when I consider that the risk to be covered by insurance is only up to Rs. 1,500, I will not deposit in that bank more than Rs. 1,500. So, I will be distributing my deposit to several such banks and by not investing a huge sum, I am ensuring that at least this amount of my deposit will be returned to me in the case of the failure of the bank. This necessarily results in a diversion of the deposit amounts in several banks and that will give more work to the banks. But no serious disadvantage results from such a thing. The only reason I can guess for the Government fixing this optimum limit is perhaps the means that would be available to the Corporation in order to cover the risk. If that is so, well, the Government, I think, are in a position to advance more funds to this bank or increase even the insurance premium.

Now, with regard to the several other points covered by the clauses, I have to say that I have to disagree with the Government in making Bombay as the headquarters of this Corporation. Now, Sir, it is a weakness, I should say, of taking every important activity—State development activity, financial activity or indus-

trial activity—to the already crowded cities. Now, Bombay is a place where we have the Reserve Bank, where we have the State Bank, where we have several other banks. Why should this headquarters also go to Bombay alone? They should have thought of another place. I think, properly speaking, they should have diversified these activities and thought of any other place.

SHRI SHEEL BHADRA YAJER
(Bihar): Bangalore.

SHRI M. GOVINDA REDDY: Bangalore? Of course, I would be very pleased if they thought of Bangalore as the headquarters, instead of Bombay. The other qualifications . . .

AN HON MEMBER: Why not Trivandrum?

SHRIMATI T. NALLAMUTHU RAMA-MURTI (Madras): Why not Madras?

SHRI M. GOVINDA REDDY: Any other place, a less crowded place. I am not exercising my privilege of claiming it only for my State.

About the disqualification of the directors, there is moral turpitude. Of course, it is the recognised, standard disqualification. But here in clause 6, they say — “in the opinion of the Central Government”. I think moral turpitude is a term which is very well understood and there are several court decisions to say exactly what moral turpitude is. Now sub-clause (d) says—

“he has been convicted of any offence which, in the opinion of the Central Government, involves moral turpitude.”

I think it is the court which should decide what moral turpitude is. It is generally, as I said, a very definite term. Now, if we say “in the opinion of the Central Government”, then, Sir,

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 We are taking a certain risk. It is quite possible that the officer who will be in charge will be the man who gives the opinion of the Central Government. It depends upon his individual view what moral turpitude is. If one has committed an offence and even if that offence really involves moral turpitude, well, it is open to the officer concerned not to see any moral turpitude in it, and therefore it is quite possible to evade the restriction that is imposed by this sub-clause and then bring in people who have committed offences which involve moral turpitude.

Now, in the matter of preparing the balance-sheet it is said that if the Government thinks it fit, the Comptroller and Auditor-General will be able to audit it. Now, in a Corporation like this which is a Government Corporation, why should not the Comptroller and Auditor-General himself be the auditor and why should it be left to the sweet will and pleasure of the Government that if they think it fit, they can get the accounts audited by him? Of course, every company has the right to select its own auditor. That is true but this being a Government Corporation, a Government Corporation which deals with risks, it would be in the fitness of things that the Government should have the Comptroller and Auditor-General of India to audit the accounts. Sub-clause (4) of clause 29 says:

"Without prejudice to anything contained in the preceding sub-sections, the Central Government may at any time appoint the Comptroller and Auditor-General of India to examine and report upon the accounts of the Corporation, and any expenditure incurred by him in connection with such examination and report . . ."

Why should he not be made the regular channel of audit?

Now, I am glad that they have also declared a tax holiday for this Cor-

poration. It is but necessary. When this Corporation is based on taking risks, it should have to tax holiday. I am very glad of that provision.

There is one other point which I wish to make. Clause 49 says:

"No court shall take cognizance of any offence punishable under this Act except upon a complaint in writing made by an officer of the Corporation generally or specially authorised in writing in this behalf by the Board and no court inferior to that of a Presidency magistrate or a magistrate . . ."

There is no definition of an officer. So, any officer may be empowered by the Board of directors, any officer who takes the oath of fidelity and secrecy appearing on page 19. Well, in my opinion, it should not have been left to the Board; this freedom of empowering an officer should not be left to the Board. It should have been definitely stated here so that no officer of any inferior position should be authorised to file a complaint.

Well, these are all the remarks that I wish to make in this connection. Anyhow, this is a measure which is bound to bring a large measure of good to the public and particularly to the depositors who have been shaken by the recent happenings in the Palai Bank, the Laxmi Bank and other banks. It is very timely, and I hope that this measure will infuse confidence in the depositing public which has been shaken by such events and it will lead to the prosperity of the country.

SHRI J. S. BISHT (Uttar Pradesh):
 Mr. Deputy Chairman, Sir, I welcome this Bill, the Deposit Insurance Corporation Bill, 1961 and, in my opinion, it has not come a day too soon; in fact it was long overdue. The Shroff Committee reported about it as far back as seven years ago, that is, in 1954, but for reasons best known to the Government the matter did not materialise until there were certain crashes recently, namely, those of the

Laxmi Bank and the Palai Bank. It is very necessary, Sir, in a country which has a developing economy, and which requires vast funds for development purposes, that we should be able to attract all the money that is lying hidden in the countryside. It has been the complaint of the economists for at least half a century in this country that the money is very shy, that capital is shy and that the people are very much afraid or rather conservative in the matter of bringing it forward and depositing it in the banks, and the test of it lies in fact that soon after the Second War the price of silver and gold went sky-high. Probably the price of silver and gold was the highest in India as compared to that of the world. I believe the price of gold outside India is about Rs. 62 per tola whereas in India it is about Rs. 132 today, and that shows how much money is being practically wasted in such investments, in the purchases of gold and silver. And why is it so? It is because the common man in the villages, and even in the cities, does not trust the banking institutions, and he trusts only the valuable metal in the shape of silver and gold as his reserve fund in case of necessity or in case of emergency. Therefore it shows that hundreds of crores of rupees are being sunk every year in the purchases of gold and silver; it is also proved by the fact that gold and silver is being smuggled on a very large scale in spite of the best efforts of the Government, and the gold that is being smuggled by sea and by land is tremendous. But for that smuggling of gold, probably the price of gold would have risen to Rs. 150 a tola in the country by now. So that shows the need for channeling this considerable amount of money which is going into the vaults or underground or in the walls in the shape of valuable metal, to bring it into the banking system and thereby to help the whole of the economy of the country in various ways. Now the best way is to give some sort of guarantee to the depositor that nothing will happen to his money, and in that

view I personally think that the sum guaranteed here, namely, Rs. 1,500 is much too small considering the depreciation in the purchase value of the rupee because, in old terms, it amounts to about, say, Rs. 400 at the most. Therefore, a good start would have been made if the sum guaranteed had been at least Rs. 5,000 but, at any rate, something is better than nothing. It is a start, and if the Government is able to build up good funds for the Deposit Insurance Corporation, we may hope that within the space of a few years it will have accumulated sufficient capital in order to be in a position to guarantee larger sums of individual depositors and to that effect, Sir, there is a clause here—I think it is Clause 16—which says:

“Provided further that the Corporation may, from time to time, having regard to its financial position and to the interests of the banking system of the country as a whole, raise, with the previous approval of the Central Government, the aforesaid limit of one thousand and five hundred rupees.”

Therefore, this flexibility that has been allowed according to this law is very welcome and so no particular sum has been fixed in this proviso. It will depend upon the financial position of the Corporation from time to time and upon the approval of the Central Government to raise this sum, and I hope in due course it will be so raised.

Now, one point had been raised in the other House which was again raised today by the Communist Member who spoke from this side, to the effect that the State Bank and its subsidiaries should have been made to contribute to the premium fund of the Deposit Insurance Corporation. I think he forgets the history of the whole thing. In May 1961, the Government issued a brief statement—as far as I remember—to the effect that the deposit insurance scheme will come into force and that the State Bank and its subsidiaries will not be

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made part of the general banking system for the purpose of paying premium to the Deposit Insurance Corporation but—they said—that they will, in the larger and wider interests of the country, be able to contribute some funds towards the deposit insurance scheme. But, then, Sir, later on, Government soon discovered that there were certain difficulties—mostly legal difficulties. It was pointed out to the Government that if, for instance, a depositor of the State Bank were to go to a court of law and ask for a writ that such a contribution cannot be made or ought not to be made out of their funds, there will be difficulties, and so Government then revised its opinion and brought in the State Bank and its subsidiaries. The total amount that the State Bank and its subsidiaries will be contributing towards the premium is, I think, not more than 30 to 35 lakhs of rupees a year. It is nothing for a bank of that stature making that profit, I mean the State Bank of India. When it was the Imperial Bank of India I think the profits usually were high—it declared a dividend of 16-18 per cent., and there is no reason to believe that the profits have gone down. In fact . . .

DR. R. B. GOUR: But the State Bank of India's profits are mainly on Government business.

SHRI J. S. BISHT: Now what difference does it make to the Government? If, as I said, it is in the wider interests, it is in the national interest that people should be encouraged to put their money in the banks instead of keeping it in their pockets or of investing it either in the shape of gold or silver bars, or in the shape of jewellery, then is it not in the interest of the Government and of the country that every measure should be taken to attract this money? And to that end if the Government was prepared to make a contribution out of the State Bank funds, it comes to the same thing if it is paid in the form of premium. If it is not paid, it becomes

discriminatory, so to say, because the other banks had a very just grievance because of the fact that the State Bank and its subsidiaries were being excluded from the payment of premium and to that extent it was a piece of legislation discriminating against them. And that was also a very important point because if all the banks are to function, they ought to be able to function on equal terms.

Then, Sir, there was another point which was raised by my hon. friend, and there he was blowing hot and cold in the same breath. He was quoting certain figures and he was saying that there were so many banks in 1949 and there were so few banks now so that there is a general concentration of capital. On the other hand he was arguing that the smaller banks should be amalgamated. So some sort of compulsion should be exercised over them so that they may amalgamate. And what is that amalgamation? Will it not lead to concentration of capital again? So you cannot have it both ways. Amalgamation is concentration of capital and what happens is that the profits are the same . . .

DR. R. B. GOUR: What happens now is that they eat them away. What I say is that they should come together.

SHRI J. S. BISHT: There is no eating away. What happens is that in the vast rural areas of our country there are no banks at all. In fact it was the village *bania* ruling and he was called the money-lender; he was the bank and he was practising usury, against whom the Usurious Loans Act was passed. He was charging very high rates of interest, and in order to replace him it was quite correct that either there were co-operative banks functioning or that private banks rose up to fill the need. These private banks were doing the work of supplying money to the economy in the rural areas.

3 P.M.

PROF. M. B. LAL (Uttar Pradesh): What is the contribution of private banks to rural credit apart from money lenders?

SHRI J. S. BISHT: Money lending itself is supplying credit. The banks lend money . . .

PROF. M. B. LAL: You are distinguishing between private banking and money lending. Now let us know the contribution of private banking to the rural credit?

SHRI J. S. BISHT: They supply credit to the private farmer, to the private peasant, to the man who wants to run a small centrifugal for instance or some mechanical appliance for which he has not got money or funds and it is to meet these monetary demands in the rural areas that these small banks have arisen. In fact, they have rendered very good service in the Punjab which is responsible for considerable progress in small industries.

There are also small banks. Take these bigger banks. They have arisen . . . (Interruption) Please do not interrupt. They started from small beginnings. Most of these big banks have started with small beginnings. Now in the surrounding areas banks which were not economical were amalgamated. And that was what my friend objected to. There is no harm in it as long as there is no monopoly. As long as there is no monopoly there is no harm in any amalgamation or any scheme . . .

DR. R. B. GOUR: That is monopoly.

SHRI J. S. BISHT: In fact, it is said that oligopoly is always preferable to monopoly. When two or three big combines come up and compete in the same area the interest of the consumer is safe . . .

PROF. M. B. LAL: Oligopoly may be preferable to monopoly but it is not preferable to sound economy.

SHRI J. S. BISHT: . . . and the consumer gets the advantage and there is no rise in prices; there is no control on price on that score. So I submit that these small banks were doing good work and it is, therefore, necessary that they should be encouraged to do this good work. But at the same time care should be taken that the money of the small depositor is not in any way jeopardised, and to that end this law will considerably help. I have no doubt, Sir, when the Deposit Insurance Corporation succeeds—as I am perfectly certain that it will succeed—when it has accumulated sufficient funds, it will be in a position to guarantee even Rs. 5,000 or Rs. 10,000. The Federal Bank in the United States of America which started this insurance scheme for the first time—and we are the second in the world who are doing it—started with a guarantee to the tune of 2500 dollars to the depositors. Now they guarantee 10,000 dollars. Ten thousand dollars is a very big sum. It comes to Rs. 47,000. Therefore, I have no doubt in my mind that this corporation will also prosper and as it prospers, deposits of Rs. 10,000, Rs. 15,000 or even Rs. 20,000 will be guaranteed because I have no doubt that funds that are now going waste more or less in the form of buying silver or gold will all come into the banking system and will be available to the rising industries in a developing economy which we so badly need.

Sir, there are a few points in this Bill on which I wish to have certain clarifications. Clause 13, for instance, lays down:

"The registration of a banking company as an insured bank shall stand cancelled on the occurrence of any of the following events . . ."

That is quite right. That is to say, the registration stands cancelled on the occurrence of any of the events mentioned in sub-clause (a) to (h). But the consequences of that cancellation are not mentioned. When these stand cancelled automatically on the

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happening of these events I could not find anywhere whether the depositors of the bank get any benefit out of this deposit insurance or not. The consequences are not shown anywhere here. For instance, if the bank is amalgamated with any other banking institution or in case of the appointment of a liquidator for looking into the affairs of the bank, in any such eventuality, will the depositor be entitled to claim from the Deposit Insurance Corporation a sum up to the extent of Rs. 1,500?

DR. R. B. GOUR: That is the purpose of the Bill.

SHRI J. S. BISHT: But on the happening of what?

DR. R. B. GOUR: He will get the difference. The amalgamating company or the company that is going into liquidation will pay something and the difference between his deposit and this sum will be paid by the Corporation.

SHRI J. S. BISHT: That I follow. They give you the formula under which the money is to be paid. Now, the limit is laid down as Rs. 1,500. If there is a scheme of amalgamation or reconstruction, for instance, and in that he is to be paid only Rs. 800, they will pay the balance of Rs. 700 to make up that Rs. 1,500. All that has been provided in the case of liquidation, but will it also apply in the case of fresh deposits. . .

SOME HON. MEMBERS: Yes.

SHRI J. S. BISHT: If that is so then I am satisfied and I have no further objection with regard to that but I was very doubtful whether in the case of these things coming automatically into force whether the depositors will be protected or not.

Now, in clause 15 and 16, which seem to be very vital points, it has been provided that "premium payable by any insured bank for any period

shall not exceed fifteen naye paise per annum for every hundred rupees of the total amount of the deposits in that bank at the end of that period". This, I believe, is the maximum amount that has been fixed by law in this case. But from the speech of the hon. Deputy Minister in the other House I understand that he will start with about five naye paise per annum for every hundred rupees. I believe he said that the contribution of the State Bank and its subsidiaries will be about Rs. 30 lakhs to Rs. 35 lakhs on the basis of five naye paise. So, in case you had to raise this premium a little you could also raise the minimum amount of Rs. 1,500 to Rs. 3,000 without any difficulty. I hope that will be done within a very short time because, as I was saying in the beginning, a sum of Rs. 1,500 these days is a very small sum. In this country there is a great need that all the money should be attracted for development purposes and for that purpose we should give every possible encouragement even though in the beginning we may have to make a few sacrifices. In fact, as every businessman knows when he starts a factory, in the beginning he has to pay out of his own pocket until he begins to make profit. Then the factory becomes very profitable at a later stage. So, on that point we should not hesitate in the least.

Now, Sir, my hon. friend made another objection and it was that the whole banking system should be nationalised. I suppose that has nothing to do with this particular Bill. But it is their favourite game to assume that the whole banking system should be nationalised. True that it should be nationalised but it should be nationalised when all the industries are nationalised.

DR. R. B. GOUR: Was life insurance business nationalised along with nationalisation of all the industries?

MR. DEPUTY CHAIRMAN: Dr. Gour, you had your say.

SHRI J. S. BISHT: My hon. friend should not feel very touchy on that point because when the whole thing is to be nationalised everything will be nationalised and we shall also be nationalised; there would not be any further trouble. Then my friend will also be nationalised. I do not know why my friend has got so much love for nationalisation. There is large scope for the private sector. He should not forget that 90 to 95 per cent. of the total production is done by the private sector. The whole agricultural wealth is in the private sector.

DR. R. B. GOUR: That is exactly my point. In the interest of the private sector I want it to be nationalised.

SHRI J. S. BISHT: All the industries in the private sector, all the small scale industries, village industry, all that is in the private sector. Naturally we must have some means to finance those industries and to that end it is necessary that this private sector in the banking system should come up.

As far as the public sector is concerned, it is already very large. The Reserve Bank is the controlling bank. In fact, it is the bankers' bank, so to say. Then, the State Bank, which has put in nearly 400 branches in the Second Five Year Plan, will put in more branches and gradually they will spread over all important projects. Therefore, there should be no difficulty on that account. The public sector is pushing ahead as fast as it can in the banking sphere. It should chew as much as it can digest. There is no use taking over so much when it has not the necessary experience nor the necessary technical staff at its disposal at this stage. My friend should not have waxed eloquent on that particular point. Therefore, I submit that the Bill, as it is today, should be welcome to everybody and no doubt it is a very non-controversial piece of legislation which is welcome and I wish this new Corporation every success and prosperity. I hope that with its increasing prosperity, the

Government will go on insuring higher and higher sums of the private depositors.

SHRI ROHIT M. DAVE (Gujarat): Mr. Deputy Chairman, Sir, I rise to support the Bill which has been moved but with certain reservations. The speakers speaking before me have referred to the circumstances which have necessitated the bringing forward of this Bill by the Government before this House and the other House and have also commented upon the need for mobilising to the maximum possible extent the savings in the community. I entirely agree with the remarks made by the speakers but at the same time I would point out that we need not be very proud of the fact that we are the second country in the world to introduce this scheme. That the Central Government had to undertake the responsibility of protecting small depositors against the failures of the banks speaks volumes regarding the functioning of the banking system in our country and also of the capacity of the Reserve Bank to control our banking system and the credit system. In spite of the fact that vast powers have been entrusted to the Reserve Bank to see that our banking structure and the banking system functions properly, we find a series of failures of the banks entailing hardships to small depositors and big depositors alike and it is because of these hardships and failures that this Bill has been brought before Parliament. Therefore, considering the situation as it is, it is to be welcomed that this Bill is before us. But when one goes into the various provisions incorporated in the Bill before us, one finds himself rather at sea to understand what exactly is the nature of the Corporation which is sought to be established under this Bill. I remember that there was some controversy regarding the organisation or the institution that should administer this deposit insurance scheme. There were two possibilities. One was that the Reserve Bank should undertake this responsibility and the other was that

[Shri Rohit M. Dave.]
 a separate Corporation should be established for the purpose. The Government have ultimately decided in favour of establishing a separate Corporation. The hon. Deputy Minister while moving this Bill has not given us any reasons why this particular alternative was chosen. The Reserve Bank in our country have got certain powers, have been entitled to certain information regarding the various banks that are operating in our country. The Reserve Bank have got expert staff to deal with the various problems that arise in our banking system and they are perhaps the best judge to find out which particular bank is working in a sound manner and is in a sound position and which bank does not enjoy this soundness either of working or of position. It was therefore natural and logical that the Reserve Bank ought to have undertaken this further responsibility of administering the deposit insurance funds because they have enough information and enough power to deal with the situation as it might arise from time to time. Instead of entrusting that task to the Reserve Bank, the Government have decided to have a separate Corporation. What is the nature of this Corporation? It is not an insurance company because if it is an insurance corporation, then it would have certain rights regarding the acceptance or otherwise of the particular insurance work that came to it. It is not also in the nature of the compulsory health insurance scheme because there the risk which is insured is such that it is likely to affect almost all the persons that are contributing. There were actuarial considerations involved therein that of all the insured persons, a particular percentage of those insured persons would be entitled to the benefit from the scheme under the rules. In this case we have also brought in the State Bank of India as also a bank which is to be registered as an insured bank. I shudder to think of a time when the depositors in the State Bank were to draw from this Fund in order to be compensated for the

losses that they might incur in case the State Bank ceased to be an insured bank under the provisions of Clause 13. That being the case, we are calling upon to banking institution to contribute to this Insurance Fund, an institution which is not likely or the depositors of which institution are not likely ever to be benefited by this scheme. So here is an insurance scheme in which there is not even the slightest chance for at least a class of contributors to this Insurance Fund to be benefited out of this Fund. On the other hand, there is another class of banks which could be insured under this particular scheme but which has been definitely debarred from entering this scheme. I am referring to the co-operative banks. If there is any likelihood of the failure of any bank, if there is any likelihood of the depositors suffering or if there is a class of banks where this incidence is likely to be the highest, it is the co-operative banks. I know that the co-operative banks are regulated. I know that there are certain special checks on them but the very fact that this Bill is being brought before Parliament shows that these checks and regulations or controls have failed to protect the depositors from the incidence of failure. Therefore, merely because there are certain checks, certain regulations and certain controls, it does not follow that the deposits are free from all risks and therefore, they need not be insured. Therefore, I say here we have a very interesting insurance Corporation in which no criterion of a normal insurance company is applicable, except the fact that premia are to be paid and under certain circumstances compensation has to be given. This is a very superficial and outward aspect of an insurance company or corporation. The basic principles of insurance have not been followed in this particular case.

Then there is another interesting point with reference to this Corporation. This Corporation has got certain liabilities and it is entitled to certain premia. But besides that, it

has got absolutely no say in the working of the insured banks. We have been told that under certain circumstances, the insured banks that are on the Register could be taken out of the Register, and once they have been taken out of the Register, any further liability regarding those companies are no longer a charge on the insurance fund. But what about other circumstances and times, what about the doings or undoings of the people in charge of these institutions before they have been taken out of the Register? I know that if I have insured myself for life, I do not permit my insurance company to tell me what I should eat or drink or what should be my habits so that my life may be prolonged. Certain risks are taken under certain normal patterns of working and to the extent that this Corporation is in insurance corporation, it is quite understandable that the banking institutions functioning as they are and under the circumstances in which they are functioning in the country today, certain risks have to be taken and it is these risks that have been provided for under this measure.

DR. R. B. GOUR: But even a life insurance company will not insure a person with heart disease.

SHRI ROHIT M. DAVE: I am coming to that. But in this particular case, there is also a further question of a compulsory insurance and that compulsion is on both sides. The bank is bound to insure with this Insurance Corporation and the Insurance Corporation is bound to insure, because that is the meaning of clause 10 which says:

"The Corporation shall register every existing banking company as an insured bank before the expiry of thirty days from the date of commencement of this Act."

In this particular case, the insurance is compulsory on both sides; and once this insurance is compulsory on both sides, there are only certain events

which are specified in clause 13 under which the insured bank could be taken out of the list of insured banks. Sir, it only stands to reason that this Corporation must have some say at some stage, in the working of those particular banks with which it has to deal.

I further find that there are some clauses like clauses 34 and 35, which give this Corporation certain powers. Clause 34 gives the Corporation the power to ask for returns from insured banks and clause 35 empowers the Corporation to have access to the records. So information is to be collected by this Corporation. This information may be very damaging information as far as the Corporation is concerned, but the Corporation is quite helpless and it cannot do anything about it. It may be known that a particular bank is following a policy which is disastrous and it is this Corporation that will be called upon to bear the risks that are involved in the bad management of that particular banking unit. But what can the Corporation do? It would have been better if clauses 34 and 35 had not been incorporated in the Bill, because in that case, at least the Corporation would be in blissful ignorance of the happenings and only when something does happen it will have to fork out some money. But in this particular case, with these clauses in the Bill, what can the Corporation do? It can only pass on the information to the Reserve Bank and stop at that. It is for the Reserve Bank to decide whether certain steps should be taken or should not be taken. The Corporation has no say in the matter. If the Reserve Bank had been entrusted with the task of administering the Fund, then the whole thing would have been logical and the whole thing would have been understandable. But as it is, we have two separate institutions. One is the Corporation and the other is the Reserve Bank and the Corporation is absolutely helpless regarding what should or should not be done when a particular bank follows a policy which is not desirable. I do not un-

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derstand what is the meaning of these clauses, clauses 34 and 35, if all that the Corporation can do is to pass on the information to the Reserve Bank and then wait on the sweet will of the Reserve Bank whether it should act or should not act in certain circumstances. Therefore, some of these provisions have bewildered me and I find it very difficult to place exactly this Corporation in the scheme or things.

Then there is another aspect which also needs some consideration. That relates to clause 13. The hon. Member Mr. Bisht has already made a reference to this clause and asked what would happen if an insured bank was taken out of registration. He was not quite right, perhaps, when he said that no consequence would follow at all, because in clauses 17 and 18, certain consequences are said to follow, if it was a question of winding up of an insured bank or if it was a question of reconstruction or amalgamation or of some compromise arrangement regarding the insured bank. Clause 13 speaks of many other things. But what happens if the cancellation is due to the fact that the insured bank had been prohibited from receiving fresh deposits? I tried to find out exactly what will happen.

SHRI K. SANTHANAM (Madras): It ceases to be a bank.

SHRI ROHIT M. DAVE: Yes, it ceases to be a bank, but what happens then? It ceases to be a bank under certain circumstances and I think Mr. Bisht was right in saying that even in such circumstances nothing follows. But suppose there is a bank which has mismanaged or because of some other reasons, whatever they may be, the bank is prohibited from receiving any fresh deposits, what happens to the deposits already received, assuming that those deposits are in danger?

DR. R. B. GOUR: It only means that the next step will be amalgamation or liquidation of the bank and its winding up, because the Reserve Bank cannot wait. It will be either amalgamation or going to the High Court for winding up. In either case the deposit is insured.

SHRI K. SANTHANAM: The Reserve Bank will take the steps.

SHRI ROHIT M. DAVE: I tried to look into the Banking Act, but I could not see this logical consequence; but if that is so, then I have nothing to say on that. If clauses 17 and 18 take care of all the possibilities and wherever there is any danger of the depositors losing, it is provided that within 5 months the depositors will get at least some compensation up to Rs. 1,500 then I have nothing to say on this point. I was only trying to find out whether it logically follows one from the other here, or whether certain other circumstances have to develop before amalgamation or winding up proceedings could be started.

These, Sir, are some of the remarks that I wanted to make regarding this Bill. Of course, what small mercies are given are welcome and desirable and to that extent I welcome this measure.

SHRI K. SANTHANAM: Mr. Deputy Chairman, so far as the purpose of this measure is concerned, it is a welcome one and it is bound to be a popular measure. But I agree with the previous speaker in saying that this objective could be achieved much more easily by simply opening a deposit insurance fund in the Reserve Bank instead of setting up a separate Corporation with many loose ends, as has been mentioned by the previous speaker. Sir, there are already such funds in the Reserve Bank, for agricultural credit, for long-term credit and also for ensuring against losses by

State Governments when they lend money to the land mortgage banks. So another fund—Deposit Insurance Fund—would have been much simpler and it would have cost less. All this establishment and other charges would have been saved and above all much of the harassment to the banks will be avoided. Sir, it has been pointed out that the banks shall have to send statements. This Corporation can ask the Reserve Bank and the Reserve Bank can ask the Corporation to send statements and all this red tape work could have been avoided. Already under the Banking Companies Act and under the Reserve Bank regulations the banks have to send so many statements and the addition of this Corporation will, from the administrative point of view, constitute a needless burden on them.

Sir, on principle of course the inclusion of the State Bank of India is objectionable because it is almost a Government bank. Every deposit in the State Bank of India is insured by the Government. The inclusion of the State Bank of India amounts to an indirect subsidy to this new Corporation.

DR. R. B. GOUR: Already one crore is being advanced by the Government.

SHRI K. SANTHANAM: This is a definite subsidy, a year-to-year recurring subsidy and to the extent that this subsidy is required, probably this may be an easier way than to put it in the budget though it would be much more honest for the Government to give it as a subsidy.

PROF. M. B. LAL: If there is to be a subsidy, it should be an open subsidy.

SHRI K. SANTHANAM: But then we will object when it goes into the budget. Now when we once pass this measure, this subsidy will go on automatically and nobody will raise his voice about it.

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My friend, Mr. Govinda Reddy, objected to the exclusion of co-operative banks. So far as the district and the provincial co-operative banks are concerned, they could have been included but it would be practically impossible to include every co-operative credit society which is also a bank. To have brought such co-operative societies, about three or four lakhs of them, into this deposit insurance scheme will make its administration impossible. And I suppose the Post Office Savings Bank is also excluded from this? Is that so, Mr. Deputy Minister?

SHRI B. R. BHAGAT: I beg your pardon.

SHRI K. SANTHANAM: So you are not listening. The Post Office Savings Bank is excluded, I suppose.

SHRI B. R. BHAGAT: No they are not included.

SHRI K. SANTHANAM: So it is excluded. I think the exclusion of these things is legitimate.

Now, I have got some doubts which I hope the Deputy Minister will first listen to and then try to clear. The rate of premium has been put at a maximum of 15 pP. per Rs. 100. It is not clear whether this rate is to be uniform for all banks, scheduled, non-scheduled, big, small or whether differential rates can be prescribed according to the nature of the banks. Presumably, on first reading, one supposes that the rate of premium will be uniform for all deposits but on merits one feels that it is desirable to have a differential rate.

DR. R. B. GOUR: Differential rates for different types.

SHRI K. SANTHANAM: Yes; based upon the interest rates. For instance, the scheduled banks are more or less controlled by the Reserve Bank regarding interest rates on fixed and current deposits but many smaller

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banks are not so regulated. The higher the rate of interest which a bank gives the greater the risk. Therefore, I do not see why the premium rate should not be fixed in accordance with the interest rate. If a bank receives deposits on a lower rate of interest, the deposits are likely to be more secure and therefore less premium is needed to cover the risk whereas if another bank says that it is going to get deposits on six or seven per cent. and then gives it to doubtful parties, the risk is greater there. I do not therefore see why uniform rates should be prescribed. I want this point to be made clear whether it is intended to have only uniform rates or . . .

SHRI B. R. BHAGAT: Uniform.

DR. R. B. GOUR: Uniform rate for all deposits, time, current etc.?

SHRI K. SANTHANAM: They may take the total weekly deposits and say . . .

SHRI B. R. BHAGAT: It is very clearly mentioned.

SHRI K. SANTHANAM: How it is clear, I wonder.

SHRI B. R. BHAGAT: I will explain why it is not differential.

SHRI K. SANTHANAM: Where is it said that a uniform rate will be levied for all people?

DR. R. B. GOUR: Here it is said such rate or rates.

SHRI K. SANTHANAM: It is said here that every insured bank shall, so long as it continues to be registered, be liable to pay a premium to the Corporation. There is nothing to say . . .

DR. R. B. GOUR: Please read further. They say, at such rate or rates as may be notified.

SHRI K. SANTHANAM: Is there anything to prevent the Government from publishing a notification saying that the State Bank shall pay only 5 nP., the scheduled banks shall pay 10 nP. and other banks 50 nP.? There is nothing in the Bill itself. The intention may be anything; I do not know. But under the Bill as such differential rates can be levied.

SHRI B. R. BHAGAT: It is not the intention to levy different rates.

SHRI K. SANTHANAM: I do not see why that intention could not be put specifically in this clause. They could have said uniform rate. A single word would have made the whole thing clear.

Then there is another important point. Will the banks be entitled to deduct from the interest dues of the depositors these amounts paid for insurance? I think normally they will try to do that as in the case of the sales tax. Whatever amount has been paid at the rate of 15 nP. or less the bank debit it to the depositors. There is nothing to prevent it and I won't be surprised if they did it. The banks are clever enough and they will say, 'Why should we bear the burden? Let us debit it to the depositor.' That is the natural reaction of any businessman and there is nothing here which says that this amount shall not be deducted from the dues of the depositors. If the amount comes to be deducted by the banks from the depositors then the main object of this Bill will be defeated because you want to save the depositor and as a first thing you start with mulcting him. This point must be made very clear. I want the Deputy Minister—if he cannot make an amendment—to make a categorical statement that the Reserve Bank shall issue definite instructions to this effect. But I am not sure even if the Reserve Bank issues definite instructions, whether it

has any legal power to prevent the banks from deducting these amounts from the depositors.

DR. R. B. GOUR. Or they may reduce the interest. The bank can reduce the rate of interest payable to the depositors.

SHRI K. SANTHANAM: That is different. These are amounts of a different order. So one thing will have no relation to the other.

Then there is the limitation of Rs. 1,500. Many hon Members have spoken about it and I would not say much on that. But I do not see why a slab system should not have been adopted by saying full protection will be up to Rs. 1,500, three-fourths protection up to Rs. 5,000 and half protection up to Rs. 10,000. If such an elastic system had been evolved, it would have been more rational. The result of this fixed sum of Rs. 1,500 will be that everyone will try to have only Rs. 1,500 in one particular bank in one's name. People may spread the deposits in the names of different family members or spread them among different banks so that banking amounts will become smaller and administrative and other expenses will go up. So this is not in the interest of the development of banking. It is also likely to have another adverse effect. My friend, Dr. Gour, said: "This is going to help the larger banks". I think it is going to be the opposite. Every small bank will go and say: "Don't go to the big banks. You are protected only up to Rs. 1,500. If you go and deposit Rs. 10,000, your protection is only up to Rs. 1,500". So the small banks will gain at the expense of big banks and also at the expense of sound banking. That is also a possible development resulting from the fixed limit of Rs. 1,500.

SHRI J. S. BISHT: You mean that greater insurance will be available to the people.

SHRI K. SANTHANAM: No. I think that in the interests of sound banking big banks with branches all over the country are the proper solution. The small banks with a rickety capital have speculative tendencies. They will collect money saying: "The Government has guaranteed your deposit. So, why should you not deposit with us"? So, they can take Rs. 1,500 each from all kinds of people, then lose the money, and then the Reserve Bank or the State Bank will have to pay for it. So, this Rs. 1,500 may have rather a depressing effect on sound banking.

Then, Sir, clause 26 says—

"Provided that the total amount outstanding at any one time on account of such advances shall not exceed five crores of rupees."

Is it intended that if some big bank breaks down and the deposit insurance amount at the rate of Rs. 1,500 is more than Rs. 5 crores, it will not be paid? Why should there be a limitation? So long as the bank functions, all the deposit amounts must be increased. Otherwise, there is no meaning. You cannot give a guarantee and if that guarantee goes beyond Rs. 5 crores, the Deposit Insurance Corporation cannot say: "According to the Act we can borrow only so much from the Reserve Bank, and, therefore, we will not honour the commitments of the statute." This proviso is wholly unnecessary. It is the business of the Reserve Bank to see that no such great risk arises. After all, what is this Corporation? It is merely a factitious Corporation which is operated by the Reserve Bank. The officials are Reserve Bank officials and, therefore, why should there be any limit at all to the advance to this Corporation? If it means that the guarantee given to the depositors is not to be honoured, I think it is not honourable on the part of the Government to put any such limit.

Then Sir clause 44 deals with liquidation. What happens if the

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Deposit Insurance Corporation is liquidated? Has the guarantee lapsed to all the depositors till the date of the liquidation or is it to be honoured? It simply says that the money should be distributed among the banks. What happens to the depositors for whose benefit this thing has come? What should happen is this: On liquidation the Reserve Bank must take over the liabilities so far as depositors up to that date are concerned. They should be responsible for paying up to Rs. 1,500. Deposits made after that date should be uncovered. One need not cover such deposits. But when this Parliament has passed this Bill and when it has covered this risk, every depositor in every bank will have to be compensated up to Rs. 1,500 whatever may or may not happen to this Corporation. But I find that on liquidation, its funds will be distributed and the depositors will be left high and dry.

I, therefore, think that this Deposit Insurance Corporation Bill is rather hasty and rather ill-digested. I wish a few simple amendments had been made to the Reserve Bank Act. To set up this Deposit Insurance Fund it should have collected sufficient data and after an experience of five years or ten years if a separate corporation had been found necessary, it could have been set up. In any case, this is no substitute for sound banking. I hope that steps will be taken to annul the distinction between scheduled and non-scheduled banks. There should be only scheduled banks in this country. There should be no non-scheduled banks. Then, the Reserve Bank's powers to control and regulate them will be complete, and that is the best guarantee to the depositors, not this guarantee up to Rs. 1,500.

Thank you.

SHRI BABUBHAI CHINAI (Maharashtra): Mr. Deputy Chairman, I rise to support the Bill for a Deposit Insurance Corporation. The main features of this Bill have been highlighted both by the mover and other speakers

and I want to draw the attention of the House only to a couple of features which according to me require the attention of hon. Members. This is a Bill which has been brought forward in the light of experience which we had due to the failure of a few banks in the very near past and in order to protect the small depositors this insurance scheme has been brought forward. The premium which is to be paid has to be paid by the banking institutions. It is not the depositors who are going to pay any premium for covering the insurance. So, to that extent the question does not arise whether any banking institution will recover the premium paid to this Corporation from the depositors.

Another point is made out . . .

SHRI K. SANTHANAM: How are you sure? That is my point. Are you legally sure?

SHRI BABUBHAI CHINAI: I am hundred per cent. sure, after having read this Bill and there is no doubt in my mind. There is no reason why the banking institutions should debit the insurance premium to the depositors' account. The insurance is being covered by the banking institutions against the deposit which they have. Compulsory insurance is to be made by the banking institutions and as such no depositor is involved in paying any premium.

Another point is this. A question has been raised whether this Corporation is at all necessary. Suppose a bank goes on taking deposits and then defaults. Then, what happens to this Corporation? Does it come into trouble or not? Who takes care of those deposits? I personally feel that such a situation cannot arise. There are two reasons for that. One is banking and banking institutions are governed by the Reserve Bank of India and the Reserve Bank of India has to keep a constant watch on those institutions. Secondly, this Corporation itself is being governed more or less by the Reserve Bank. If you see

the constitution of the Board of directors, you will find that the Chairman of this Corporation is the Reserve Bank Governor. Another director is the Deputy Governor of the Reserve Bank. The third gentleman is a representative of the Government of India from the Finance Ministry. There will be two non-officials no doubt connected with banking institutions. But all said and done, out of five gentlemen, three would be representing more or less the Reserve Bank and, therefore, it would be in the fitness of things to expect them to guard the interests of the Corporation, both at the Reserve Bank level and at the Corporation level.

Then, Sir, it was asked why this office has been kept at Bombay. So far as I am concerned whether a particular office or a particular organisation is kept here or at Timbaktu it does not matter, but it is a question of efficiently running an organisation. If this Corporation is to be run by those who represent the Reserve Bank of India on this Corporation, then it is in the fitness of things that, the head office of the Reserve Bank being in Bombay, this organisation to be looked after by those responsible for that should be also situated in Bombay. If it is to be looked after by some other people than those who are in Bombay, then I can quite understand that this office may be shifted somewhere else. Therefore, as my friend suggested a few minutes before, a constant watch would be necessary. Otherwise, it is possible that the depositors may come to trouble, and the Corporation itself may come to trouble. Therefore, a twofold watch would be there, firstly on behalf of the Reserve Bank by those who are in charge of the Reserve Bank, and secondly by those very persons who by virtue of their being the Chairman and the directors of this organisation would be also responsible for taking care of the depositors and the Corporation.

Then, Sir, the question is whether the Corporation should have taken

responsibility for more than Rs. 1,500 or not. Nobody would be unhappy if the Corporation can take responsibility for more than Rs. 1,500. But, Sir, as it has been very rightly said, we are making a beginning. If this scheme succeeds in a short time, there is no reason why the Government may not come or should not come before the House for an increase of the limit of Rs. 1,500 to something more. What we want to convey to the small depositors is that their interests in depositing with the banking institution is safe, and thereby we want to bring back the confidence which has been shaken by the recent happenings in the country, in the banking world. Not only that, Sir, but in the Third Five Year Plan we have been told that the planners expect the banking institutions to increase their deposits and thereby finance the Third Plan. If we bring confidence among the small depositors—and I am sure that this will be a Bill which is bound to bring confidence among the small depositors—more deposits will be coming in and thereby the aim of the planners to increase the deposits during the Third Plan will be fulfilled.

Sir, I wonder whether the capital of this Corporation which has been said to be Rs. 1 crore could not have been right from the beginning a little more, say Rs. 5 crores. There is no doubt a provision made that in case of need the Corporation will be loaned a sum of Rs. 5 crores by the Reserve Bank. But why should this Corporation not stand on its own legs right from the beginning, because it is going to get from the banking institutions premia at the rate of fifteen naye paise for every hundred rupees of deposits? There will not be any question of loss or anything in the initial stages of its working, and I think if the capital is raised right from the beginning perhaps the limit of Rs. 1,500 could even be raised by another Rs. 500 or Rs. 1,000.

Sir, it is very rightly said that this is a Bill which is based on a similar

[Shri Babubhai Chinai.]

law in the United States, and that as such a Corporation in the United States is being exempted from income-tax, this Corporation here has been exempted from income-tax. It is also necessary, Sir, that the investment companies which are in the form of banks should be excluded from this Bill. As it is, the finance corporations have been exempted, and we have been told that on the same lines the Madras Finance and Investment Corporation has also been exempted. It is clear from this that the object of the Government is not to delve into the doings of the investment corporations as such but they want to cover the risk and restore the confidence of the small depositors which has been shaken of late.

With these words I support the Bill.

श्री शीलभद्र याजी : माननीय डिप्टी चेयरमैन महोदय, मैं इस विधेयक का तहे-दिल से समर्थन करता हूँ। मुझे खुशी है कि हमारे विरोधी दल के सदस्यों ने भी इसका स्वागत किया है और यह महसूस किया है कि इससे जनता की भलाई होगी। लेकिन मुझे बहुत आश्चर्य हुआ कि हमारे साथी सन्थानम जी ने जूले आम शब्दों में तो इसका विरोध नहीं किया किन्तु इसको अनावश्यक बता कर इसमें बहुत सी खामियों को बूबने की चेष्टा की।

जैसा कि हमारे माननीय सदस्यों ने कहा कि बहुत से जो बैंक फेल हो गये उसके बाद से जो देहातों में रहते हैं या शहरों में रहते हैं उनका बैंकिंग सिस्टम में कुछ विश्वास जाता रहा और इसलिये बहुत सोचने और समझने के बाद, अनुभव के बाद, सरकार ने इस विधेयक को इस सदन के सामने और उस सदन के सामने रखा है। इस बिल पर बोलते हुए हमारे कुछ सदस्यों ने यह भी मांग की कि जिस तरह से यह डिपोजिट इन्श्योरेंस कारपोरेशन बिल लाने की आवश्यकता

प्रतीत हुई वैसे ही जनता का विश्वास प्राप्त करने के लिये और उनके हित की सुरक्षा के लिये जितने गिड्यूल्ड बैंक हैं उनका आज नहीं तो कल राष्ट्रीयकरण करना, नेशनलाइज करना जरूरी होगा और मैं समझता हूँ वह समय अब बहुत जल्द आने वाला है। जब हमारी सरकार ने इस तरह के विधेयक की आवश्यकता को महसूस किया और देश की तरफ से चारों ओर आवाज उठ रही है तो जितने गिड्यूल्ड बैंक हैं उनका जल्द से जल्द राष्ट्रीयकरण होना भी नितान्त आवश्यक है। जब तक ऐसा नहीं होता तब तक जो हमारी जनता है, जो डिपोजिट करने वाले हैं, उनमें आस्था और विश्वास भी उत्पन्न नहीं होगा। दूसरी बात, हमें अपने प्लानिंग के कार्यों के लिये आज रुपये की आवश्यकता होती है तो हम दूसरे देशों की तरफ देखते हैं और यदि हम वह राष्ट्रीयकरण कर दें तो हम उन बैंकों से अपनी योजना को चलाने के लिये रकम भी ले सकते हैं। तो बहुत अनुभव के बाद जब कि बहुत से बैंक फेल हो गये, तब हमारी सरकार ने यह महसूस किया कि इस तरह के मेजर की भी आवश्यकता है। तो इस मेजर की आवश्यकता को समझते हुये हमारी सरकार से और वित्त मंत्री जी से अपील है कि वह दिन भी जल्दी आए जब कि हमारे गिड्यूल्ड बैंकों का राष्ट्रीयकरण हो। और जब तक राष्ट्रीयकरण नहीं होता है तब तक जनता में इस तरह की आस्था और विश्वास पैदा नहीं हो सकता है। यूँ तो हमारे इस हाउस में और बाहर भी इस बिल का विरोध होगा लेकिन जब हमारी सरकार ने देश में समाजवाद की स्थापना करने का अपना ध्येय बना लिया है तो इस तरह की चीजों को चाहे वे इंडस्ट्रीज हों, बैंकिंग इन्स्टीट्यूशनस हों, कल कारखाने हों, सबका राष्ट्रीयकरण और समाजीकरण करना ही होगा। हमारा जो कार्यक्रम है और जिस तरह से हमने अपने लक्ष्य को प्राप्त करना है उसके लिये यह विधेयक बहुत आवश्यक है। उसी

तरह से यह कहना अप्रासंगिक नहीं होगा कि जितने सिंडीकेट बैंक हैं उनका राष्ट्रीयकरण करना नितान्त आवश्यक है। इन सबों के साथ मैं इस विधेयक का स्वागत करता हूँ।

4 P.M.

SHRI B. R. BHAGAT: Mr. Deputy Chairman, I am very grateful to the hon. Members who participated in the debate and who gave their hearty support to this measure. I am also grateful to some hon. Members who have given certain suggestions so as to improve the Bill and the working of it, and I would like to deal with some of their suggestions so as to clear some of the misunderstandings that are there in their minds. But before I do that, I would like to join issue with the hon. Member who has initiated this debate and particularly with the philosophy that he has propounded. It is not a new philosophy because in season and out of season, he has been proclaiming that all these banks should be nationalised. Although he has not said in so many words, he means that the banks should be nationalised. For our part, the Government has made it equally clear on all such occasions that it is not the intention of the Government to nationalise the banks, and it is not considered desirable . . .

(Interruption). I have listened to you with patience, and I would like to be treated likewise. At present on practical considerations or on considerations of any principle, it is not necessary. We have at present the two sectors functioning in banking, the State Bank and its subsidiaries, which account for about 30 per cent. or a little more of the deposits. They are there, and other banks are there. So, already we have the two sectors functioning there, and with all the powers of control and regulation which the Reserve Bank has—and from time to time we are perfecting more and more also the powers of the Central Government—I think that it is not necessary that we should go in for all-out nationalisation because by and large, it has been our experience

during the last ten years or so, and more so in recent years, that the banking system has been adjudged and made to play the role which the Plan wants it to play; whether it is the selective control policy or whether it is the policy of providing finance to the various sectors of the economy, well, they have been playing their role. There might have been certain gaps but in a dynamic situation, when new problems crop up with the advance of the economy, well, certainly we have given thought to it and the banking system has adjusted itself to the needs of the times. So, Sir, this is the answer to the philosophy the hon. Member has raised.

DR. R. B. GOUR: I was not indulging in any philosophy, I was only making a practical suggestion.

SHRI B. R. BHAGAT: I am coming to the practical suggestion, if the hon. Member listens to me with patience. Sir, one of the practical suggestions which he made was that the State Bank and the subsidiary banks should be kept out of the scheme. This question was very carefully considered by the Government in the greatest detail, and apart from the legal difficulty in keeping an important segment of the banking sector out of it, it was pointed out by our legal experts that there might be some legal difficulties whether we kept them out of the whole scheme or not. There were certain very great practical difficulties. The main difficulty was, if you keep the State Bank out, it means that the 30 per cent. of the depositors are kept out of the scheme and the whole Corporation starts in a truncated manner. Secondly, there is no question of the State Bank going into liquidation because I agree with the hon. Member the fiat or the sanction of the Central Government is behind it; the State Bank going into liquidation means the Government of India going into liquidation. That is true, and therefore it has got its pre-eminent position in the banking sector. There is no doubt about it. Though

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the position of major banks is not absolutely safe, their position in the banking structure is such that you cannot think of any crisis coming to them and therefore to discriminate between these banks will not create a very proper atmosphere for a new institution like this to start with. So, this is not the way to launch a novel scheme in our economy, by creating discrimination between one bank and another. So, it was thought proper that it was better if the State Bank comes out with all its prestige and other things in this scheme.

Another point he made was about the Palai Central Bank and he said that no action had been taken in respect of the acts of commission or omission of the directors. Although this is not a very relevant point on this issue, since he has raised it, I would like to clarify the position. It is not true that no action has been taken in respect of the acts of omission and commission of the Board of directors. Copies of a report on misfeasance prepared by the Official Liquidator under section 45 of the Companies Act were filed in the court some months ago and copies of this report and also of a supplementary report prepared at the instance of the court have been obtained with the permission of the court and are likely to be placed very soon on the Table of the House. Therefore, the hon. Member will see that ample action has been taken.

Then, another point which he made was that the small banks must be amalgamated. In this context, he said that perhaps with the view that the smaller banks are unsafe. This is not true. All the small banks are not unsafe. There are quite a number of small banks which are doing very well, and a small bank has equal legal and constitutional right to continue and exist as any other bank, provided it is run in an efficient manner and is able to pay its depositors in full. So long as those banks are paying their depositors in full, well, they have all the rights to stay.

So, I do not agree with the hon. Member that all small banks should be amalgamated and that big banks or bigger banks or medium banks should be created. And this is because he takes an alarmist view that there is a crisis in the banking system and these banks are likely to suffer, particularly the smaller banks, which have a low resilience and they may not be able to meet the situation of the crisis. While moving a motion on this Bill, I explained that we had brought forward this Bill not under the shadow of a crisis. And I want completely to disabuse the minds of hon. Members that there is a crisis facing the banks. The banking system is sound and safe. Occasionally there have been some failures. That is part of the game everywhere. And if you compare the banking failure here with other countries, well, this stands in a very favourable comparison with other countries. To say that the small banks should be amalgamated to make the structure strong and to say that there might be a crisis is wrong and I again take this opportunity of pointing out that there is absolutely no question of any crisis in the banking sector. It is strong, safe and sound.

Then the hon. Member, Shri Govinda Reddy, pointed out, rather asked why all the deposits are not insured. Sir, this question of insuring all the deposits in full would mean levying a premium very much higher than the premium that we have proposed, that is, 5 naye paise for a hundred rupees. In that event the bank might find the cost very prohibitive, and if they find the premium cost high, what are they likely to do? Very likely they may reduce the rate of interest given on deposits. That might be the first inclination, or conversely they may increase the rate of interest on loans and advances. This development will not be good to the growth of the banking system, namely, if it reduced the quantum of deposits or if it reduced the deposits-advances ratio. Both will be detrimental to the growth of the banking system. Rather, our effort recently

has been to increase the rates of interest on deposits and to keep the rates of interest on loans and advances at a reasonable level—they are inter-linked. To do otherwise will give a fillip in the wrong direction and it will affect the growth of the banking system. So just now we cannot take this step of insuring all the deposits in full although we will try that, and as our experience grows and the structure of this Corporation is strengthened, we might go further and further. Just now a deposit of Rs. 1,500 is insured and we may raise it slowly and slowly higher and higher based on our experience, and as it had been in the United States, we also hope to go ahead. For example, even in the U.S.A., when the deposit insurance scheme was first launched, the figure was relatively modest. Slowly, they had gone ahead, and today their minimum cover has been raised to 10,000 dollars—10,000 dollars today, after 20 or 25 years of experience, and if you see how widely the *per capita* income in the two countries varies, 10,000 dollars is not a very high amount for the United States. So, as compared to that, to begin with, Rs. 1,500 is not very low but, as I said, as the Corporation will gain experience and will strengthen itself, the cover may be raised, and it will be raised, and I have every hope that the way it is going to function, the Corporation will do well, and the cover amount will be raised considerably.

Then, Sir, another point made by the hon. Member, Shri Govinda Reddy, was about moral turpitude. He said that the words, "in the opinion of the Central Government" have been taken from the State Bank of India (Subsidiary Banks) Act, 1959. Now, Sir, the courts will go strictly by the legal provisions and the requirements of the Companies Act and may not be in a position to give a reasonably quick finding in all cases. It is desirable therefore that the Government should be in a posi-

tion to decide doubtful cases quickly enough instead of taking all such cases to the courts..

Then there is the point raised by my friend, Shri Dave. He asked why it should be a separate institution and why it cannot be linked with the Reserve Bank. That was partially answered by my friend, who is not present now, namely, that it is very much integrated with the Reserve Bank and that several officers of the Reserve Bank are here also, but to give more flexibility and resilience to this Corporation it was thought desirable to have it as a separate institution in which the expertise of the Reserve Bank and its know-how may be available while at the same time the Corporation functions in a more or less independent manner having all the time the guidance and experience of the Reserve Bank. Also it will function in a more flexible manner and develop its own personality. To enable this Corporation to tackle the problems that may crop up before it and to enable it to grow so as to cover a larger and larger deposit in future and make it a success, it was considered better to have an independent Corporation very closely linked with the Reserve Bank, the premier banking institution.

Then I come to the points raised by my hon. friend, Mr. Santhanam. He referred to the increase in the volume of work because the banks will have to supply many statements. Sir, this matter has been examined and it has been found that some statements may be necessary for the purpose of determining the liability in respect of premium payments or the disbursements due to be made by the Corporation. This information will, in any case, have to be called for, whether a fund in the Reserve Bank is created or a Corporation is established. In any case this information is the minimum required. As regards the extra information, the enabling provision is only for the purpose of mak-

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ing it possible for the extra information to be had by the Corporation; the enabling powers have been taken only to make it possible for the Corporation; it is hoped that it would not be a problem. But ordinarily it would not be a problem to have it in case of necessity. Therefore, there does not seem to be any possibility that additional work will be thrown on the banking system as a matter of course. If there is necessity, the Corporation might call for some more information, in the interest of the work of the Corporation, but in the ordinary course it will not be the case.

Then he said about this premium, that it should not be deducted from the deposits. It is an important point. In the other House also several hon. Members raised this fear, that the banks may charge it to the depositors or add it on to the interest rate chargeable on loans and advances. Sir, we have examined this question also, and it is our intention that this should not be deducted from the deposits or added to the interest rates chargeable by the banks on loans and advances but that the banks should pay it from their own coffers, but then, either to make a declaration or, much less, to provide a specific provision in the Bill to that effect was not considered to be a very practicable proposition, because the banks, if they want to do, they can always find many ways of doing it, of evading such a provision made by law—many provisions of the law can be evaded if one is bent on it—but I am inclined more to agree with the hon. Member who said that the banks would not like to do it. This amount may not be very much and they may not like to do it that way and they may not like to disturb the healthy and congenial relations that they have with their clients. There is one more point also why they will not do so, and it is this. For purpose of income-tax this will figure as an item of expenditure; they can always add it to the items of expenditure and only the

profits that remain after deducting this item of expenditure also will be assessed to income-tax, and so there is not much of a monetary or financial incentive for them to do so. Also it is our intention that they should not charge it to the depositors, and it is our hope that they will not do it, and if from our actual experience we find that they are acting contrary to our intention—well—then we will think of doing something about it. That is the most that we can do at the present moment. Then the hon. Member wanted to know as to what would happen to the approved deposit liabilities in the event of the liquidation of the corporation and he said that this particular provision was vague. Sir, so far as we understand it, the Government's intention is that the exact principle will be decided at that particular time, but the idea is that whatever is the premium paid, that will be distributed to the banks who have paid the premium on a certain basis. The principle whether it should be distributed on the basis of the amount of premium they have paid in a specified period or according to their deposits or whatever that may be will be decided and the rest of the capital will go to the Reserve Bank which has provided the capital.

SHRI K. SANTHANAM: Will it not mean taking away the guarantee of the deposits?

SHRI B. R. BHAGAT: The idea is not to take away the guarantee. It is only to guarantee the deposits in bad banks that this Bill has been brought forward.

SHRI K. SANTHANAM: Are you not taking away the guarantee by that provision?

SHRI B. R. BHAGAT: That is not the intention. That question will arise when there will be no need for any assurance. So the question of bad banks or bad deposits does not arise. The stage when the question of liquidation can be thought of will be

the stage when the need for such a thing will be felt. So the question of taking away the guarantee does not arise.

Sir, I think I have covered most of the points. There might be some left out but these are the main points that were made.

As for the uniform and differential rates, as I said, it is the intention to make these rates uniform. But as every law is flexible, it does not mean that our intention is to make the rates differential. With these words I move.

MR. DEPUTY CHAIRMAN: The question is:

"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."

The motion was adopted.

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

Clause 2—Definitions

DR. R. B. GOUR: Sir, I move:

1. "That at page 1, lines 16-17, the words 'The State Bank, a subsidiary bank and' be deleted."

2. "That at page 1, lines 19-20, after the words 'the Madras Industrial Investment Corporation Limited' the words 'and the State Bank and subsidiary banks' be inserted."

3. "That at page 3, line 23, the words 'and includes the State bank and a subsidiary bank' be deleted."

4. "That at page 3, at the end of line 24, after the words 'a defunct banking company' the words 'and the State Bank and a subsidiary bank' be inserted."

The questions were proposed.

DR. R. B. GOUR: Sir, my amendments Nos. 1 to 4 to clause 2 pertaining to Definitions seek to exclude the State Bank of India and its subsidiary banks from the purview of this Corporation. Mr. Deputy Chairman, the points made by either Mr. Bisht or the Deputy Minister are no points at all. In relation to this particular case Mr. Bisht says that there are legal difficulties, that the State Bank of India cannot make certain advances to the Corporation and that a depositor can go to the court, challenge it and all that. Why should the State Bank make certain advances at all? The Government of India itself has made the initial advances and the argument that he makes is that the State Bank has 40 per cent. of the deposit. I think the general deposits of the State Bank of India and its subsidiary banks are 25 per cent. of the total deposits. So, by the State Bank of India being excluded from the purview of this, he says the Corporation will be truncated. If the Corporation is to cover the risks of the private sector banks I do not know how the Corporation gets truncated. It is like arguing that with nationalisation of life insurance the general insurance has become truncated. There is no such thing

SHRI B. R. BHAGAT: But they are different.

DR. R. B. GOUR: But there were certain companies which were running both. Therefore, there is no question of truncating this. He says that if the State Bank and its subsidiaries and the co-operative banks are removed the Deposit Insurance Corporation becomes truncated. The Deposit Insurance Corporation does not become truncated if the entire co-operative banking sector is taken out, but it

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becomes truncated if the State Bank and its subsidiaries are taken out. The co-operative banks are not covered by the Banking Companies Act. The State Bank is covered by the Banking Companies Act. Agreed. But as my friend, Mr. Santhanam says, the district co-operative banks or the State co-operative banks are as good as commercial banks. If they are to be excluded, then for the same reason or for even more valid reasons the State Bank and its subsidiaries could be excluded. The original intention was not to include these banks. Now, they argue that the Central Bank of India and the Punjab National Bank, for example, are also big banks with more than Rs. one hundred crores of deposit each. In fact, the Central Bank of India has got more than Rs. 200 crores and the same is the case with the Punjab National Bank. So if the State Bank of India is secure, the Central Bank of India and the Punjab National Bank are also secure and suggested that the Central Bank of India and the Punjab National Bank could as well demand exclusion from the purview of the Act. This is what he means.

Sir, recently there was a run on the Punjab National Bank. But will there be a run on the State Bank or its subsidiary banks? The amount of deposit in the Punjab National Bank did not prevent the kind of suspicion that was created on certain occasions. Then, there are rivalries among private banks and it is due entirely to rivalries that so many things happen. In fact, the run on the Punjab National Bank was due to the engineering of one gentleman. But this thing cannot be done to the State Bank of India. No individual can shake the confidence in the State Bank of India or its subsidiaries because it is the Government which holds out the guarantee. So, any private sector bank, however big it may be, is not secure from the risks of capitalist operations. Therefore, you cannot equate the State Bank of India with the biggest private sector bank because the guarantees that the State

Bank of India possesses behind its operation are not available to any other private sector bank. Therefore, to give that argument for the retention of the State Bank of India under the scheme is no argument at all. Therefore, Sir, I insist on my amendments and I appeal to the House to see to it that the Government accepts these amendments.

SHRI B. R. BHAGAT: Sir, I am sorry that the hon. Member has twisted my argument. He has conveniently forgotten that I made it a specific thing. Although the State Bank of India occupies a prominent position, being a State Bank having the fiat of the Government, it stands apart from the other units of the banking system. It has been our judgment that it will not be desirable for this new nascent Corporation to function in an atmosphere with a discriminatory treatment between the other bigger banks and the State Bank of India. I said that the other banks are also safe and sound. I made that distinction and he is using and twisting my argument to make his point. So on balance it has been our judgment that it is better to keep all the banks together. To say that the Life Insurance Corporation is not truncated because general insurance is not there, well, Sir, is not on a par with this because life insurance business, as everybody knows—and the hon. Member knows more than others—is different from the general insurance business. It is more complicated and more complex. Therefore, to say that because general insurance is kept out, therefore, the State Bank of India should be kept out is a logic which will hardly appeal to any reasonable person.

DR. R. B. GOUR: I did not say that. I said that co-operatives are kept out.

MR. DEPUTY CHAIRMAN: The question is:

1. "That at page 1, lines 16-17, the words 'the State Bank, a subsidiary bank and' be deleted."

The motion was negatived.

MR. DEPUTY CHAIRMAN: The question is:

2. "That at page 1, lines 19-20, after the words 'the Madras Industrial Investment Corporation Limited' the words 'and the State Bank and subsidiary banks' be inserted."

The motion was negatived.

MR. DEPUTY CHAIRMAN: The question is:

3. "That at page 3, line 23, the words 'and includes the State Bank and a subsidiary bank' be deleted."

The motion was negatived.

MR. DEPUTY CHAIRMAN: The question is:

4. "That at page 3, at the end of line 24, after the words 'a defunct banking company' the words 'and the State Bank and a subsidiary bank' be inserted."

The motion was negatived.

MR. DEPUTY CHAIRMAN: The question is:

"That clause 2 stand part of the Bill."

The motion was adopted.

Clause 2 was added to the Bill

Clauses 3 to 7 were added to the Bill.

Clause 8.—Committees of Corporation

DR. R. B. GOUR: I move:

5. "That at page 6, after line 16 the following proviso be inserted, namely:—

'Provided that no person shall be appointed on the committees under this sub-section who is not qualified to be nominated a director of the corporation under clause (d) of sub-section (1) and sub-section (3) of section 6.'

I hope the hon. Deputy Minister will see that my amendment is absolutely non-controversial.

SHRI B. R. BHAGAT: It is not. It is unnecessary.

DR. R. B. GOUR: You say under clause 6 that the Governor of the Reserve Bank will be the Chairman of this Corporation. There will be a Deputy Governor, then there will be a Government officer and then the other two directors will be non-officials but the non-official directors will be such as would have nothing to do with any private banking company. Under clause 6(3) so many other qualifications are there, for example, he should not be insane. My point is that these are the controls under clause 6. The non-official directors will be disqualified to be non-official directors if they hold any interest in any private bank or are disqualified under sub-clause (3) of clause 6 but I want the same thing to be applied to those non-officials included in such committees that will be formed by the Board of directors for transacting such business as will be delegated to them because clause 8 authorises the Board of directors to appoint some committees consisting of non-officials to transact such business which is theirs but which they can delegate. In such cases the non-officials so appointed should also be subject to the same disqualifications as are mentioned in clause 6. That means they should have the same qualifications to be directors on the Board, because they will discharge certain responsibilities that the Board itself is called upon to take. I hope there will be no difficulty in accepting the amendment.

The question was proposed.

SHRI B. R. BHAGAT: The meaning of the hon. Member's amendment is that all the committees of the Corporation should be constituted only of

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the members on the Board and that no outsider should be there or that there should be no co-option.

DR. R. B. GOUR: My point is that any member who is a non-official may be taken but he should also be qualified to be a director. That means that he should have nothing to do with private banks.

SHRI B. R. BHAGAT: That point will be borne in mind when anybody is taken on the committee.

DR. R. B. GOUR: It should be made clear.

SHRI B. R. BHAGAT: Sir . . .

DR. R. B. GOUR: For example, under clause 8, even an insane person can be taken . . .

SHRI B. R. BHAGAT: It is not necessary for all committees. That may be for the Executive Committee. For the other committees that the Corporation might appoint we can take anybody. To restrict that to only persons, under clause 6 will not be proper. It should be for other committees, not the executive. I am not accepting the amendment.

MR. DEPUTY CHAIRMAN: The question is:

5. "That at page 6, after line 16, the following proviso be inserted, namely—

"Provided that no person shall be appointed on the committees under this sub-section who is not qualified to be nominated a director of the corporation under clause (d) of sub-section (1) and sub-section (3) of section 6."

The motion was negatived.

MR. DEPUTY CHAIRMAN: The question is:

"That clause 8 stand part of the Bill."

The motion was adopted

Clause 8 was added to the Bill.

Clauses 9 to 51 were added to the Bill.

The First and the Second Schedules were added to the Bill.

Clause 1, the Enacting Formula and the Title were added to the Bill.

SHRI B. R. BHAGAT: Sir, I move:

"That the Bill be passed."

The question was proposed.

DR. R. B. GOUR: Sir, at the third reading stage I have got only a few remarks to make. The hon. Deputy Minister, in his answer to the first reading debate, was kind enough to say that I was indulging in a feat of philosophy when I demanded nationalisation of banking. I think that gentlemen of his thinking, gentlemen on the opposite Benches, would remember that when we demanded nationalisation of life insurance, then also it was said that we were indulging in a feat of philosophy, that we were doing certain acrobatics, etc. Suddenly one fine morning we did find that the Government of India had taken a decision to nationalise life insurance. So let them not say anything or point an accusing finger at us that we are talking out of certain doctrinaire considerations or that we are speaking out of certain philosophical aptitudes of our minds. Here, as I said, we are not going to get anything. France has nationalised banking. That does not mean that she has gone socialist. The French rulers had no idea of adopting socialism. They would not even dream of it whereas our Government, the ruling party, are never tired of talking of socialism, even though the Finance Ministry will not utter that word because that would create difficulties for its friends. But the question is, when we are committed to socialism, we have to think in terms not merely of a banking system but a healthy banking system

that is conducive, that helps us to propel the country towards the ideal that we have placed before the country. You are insuring the deposits, you are doing so many things but the biggest insurance will flow from nationalisation of banks. The biggest guarantee for the economy will flow from nationalisation of banks. I do not know—perhaps the probably thought—and he is right in thinking like that and he is definitely going to have it—that ‘The Hindustan Times’ will give him banner headlines such as ‘The Minister says no nationalisation’. Tomorrow we will find it. He will get good publicity.

SHRI B. R. BHAGAT: You know it.

DR. R. B. GOUR: You will get good publicity in the press which is not Congress. On all crucial occasions they will betray you. But you have also to think of the people who do not read the newspapers. Please do not forget that. When you say that banking has been co-operating with you and the Plan, you are putting something to the House which is not a reality. Banking has not even co-operated with certain State Governments in financing the State loans. That is why the Finance Minister of Maharashtra, Mr. Wankhede, burst out in a Nagpur meeting that banking would have to be nationalised if the bankers behaved like that. I hope he has seen what the Finance Minister of Maharashtra said in Nagpur. And then all the private banks burst out against the Finance Minister. All that the Finance Minister said was due to the fact that the banks are not doing certain things that they should and because certain social obligations that they have got to fulfil they are not fulfilling. Mr. Bisht said—and I don’t know from where he got that information—that the small banks cater to the small scale industries. That is nonsense because the financing of the small scale units is done by the State Bank and the co-operative banks and funds are made available to them by the Reserve Bank and the State Bank of India. There is actually an uproar

in the country that the banks are not giving industrial finance to the small industries. Somebody said even that cottage industries get money from banks. I don’t know where they got that information. As a matter of fact, this needy sector is absolutely lacking in funds and the State Bank and the Reserve Bank have got to come to their rescue, as also the co-operative banks. Even then they are not able to do all that is needed for the small scale industries. So even in the interest of the small scale industries in the capitalist system, this nationalisation of the banks is necessary. I don’t know how Mr. Bisht could say that the private sector in industries is responsible for 95 per cent. of the production. If that be so, then let banking also be in the private sector. After all, every small scale unit in the private sector will require banking assistance. Now, this help has to come from the State Bank of India or the Reserve Bank or the co-operative banks. To say that the banking system in our country has been co-operating with the purposes of the Plan and with the social aims that we have placed before ourselves is to say something novel and only the Deputy Finance Minister could say it, as he wants banner headlines next morning.

And then the hon. Deputy Minister also says that the small banks have a right to exist and certain fundamental rights have suddenly come to the mind of the Deputy Minister.

SHRI B. R. BHAGAT: Sir, is this a debate on banking?

DR. R. B. GOUR: The small banks have got a right to exist and they have the right to do whatever they like, because of the fundamental rights. As my hon. friend Mr. Santhanam said, the small banks may have the fundamental right to exist, but then it is not a healthy policy and it does not add to the health of banking institutions. The small bank cannot pay as much interest to the depositors as a more secure and bigger bank can. The small bank cannot give advances

[Dr. R. B. Gour.]

as the big bank can give and the small bank, above all, cannot pay its own employees as much as a more secure and bigger bank can do. So the entire work of the banking system has to be looked into and taken into consideration.

It was said that the small banks are also useful. Well, in that case, in the Second Plan, why do you want to amalgamate all these small things that you mention? The amalgamation of small banks is a necessity. We have more than 250 non-scheduled banks.

MR. DEPUTY CHAIRMAN: You are repeating your arguments.

DR. R. B. GOUR: Sir, I am not repeating. I am only answering the points raised by the hon. Deputy Minister. We have more than 250 non-scheduled banks. The hon. Minister has not answered my point that this deposit insurance scheme might further dampen the Reserve Bank and the Reserve Bank authorities, because even at it is, they are not at all enthusiastic about amalgamation. But amalgamation has become a necessity and that is why there was an Ordinance and then later on an amendment of the Banking Companies Act. The deposits will be insured. But amalgamation will not be attempted. What will be attempted will be the voluntary winding up.

श्री हर प्रसाद सक्सेना (उत्तर प्रदेश):
जो दूसरा आपका स्लोगन है उसको
श्री जो रिपोर्ट कर दीजिये कि
nationalisation is the sole remedy for it.

DR. R. B. GOUR: So the tendency will be to go to the High Court in order to wind up these banks rather than amalgamate them, because, after all, the deposits have been insured. This is the warning that I want to give now and I want an assurance from the hon. Minister that such a tendency will be checked and winding up will not be attempted. But I am afraid the moment the Corporation

comes into being with this Rs. 1 crore from the Government of India, the tendency would be to wind up the banks and the deposits would be paid off. That danger is there. Winding up may be a good proposition from the arithmetical point of view, but from the point of view of public confidence in banking, it will not be a sound proposition and it is not a good business proposition and it is not a good proposition from the long-range point of view. My fear is—and I repeat it—that this deposit insurance scheme will be taken as a sort of a pretext or excuse for trying to wind up small banks rather than try to amalgamate them. They should use the recent powers that have accrued to the Reserve Bank from the Banking Companies Amendment Act, for amalgamation of the small banks. That is our point. I therefore hope that the Government of India will keep a vigilant eye on this and that the Reserve Bank will keep a vigilant eye on those powers that have been given to them by the Act of Parliament and those will be fully utilised for amalgamation of banks—I am sure they will not go about amalgamating all the banks—when that is necessary, that necessary steps will be taken when those steps are called for. Otherwise, the tendency will be to go to the High Court to wind up the banks rather than amalgamate them. I want to check that tendency. This is all I have to say, Sir, at this stage.

SHRI B. R. BHAGAT: Sir, the hon. Member at the third-reading stage has tried to convert this debate into a debate on the nationalisation of banking. It would have been a better proposition to have tabled a motion for the nationalisation of banks and we could have discussed it in all its details. Now I can only say that we can do it when the House permits such a discussion. But I take serious objection to the remark of the hon. Member where he himself objected to my remark that the banking system is co-operative. Firstly, I want to say that the hon. Member always twists my statements. I hope the hon. Member

will listen to what I am saying now. I say that he always twists my remarks or statements. I said that on practical considerations there is no need for the nationalisation of banks, because, firstly, we have the public sector banks which have about 30 per cent. deposits and our powers of regulation and control are such that we have been able to use them to subserve the interests of the Plan and the banks have adjusted themselves to the needs of the country. It is quite possible that the Finance Minister of Bombay . . .

DR. R. B. GOUR: Not of Bombay but of Maharashtra.

SHRI B. R. BHAGAT: I am sorry, of Maharashtra. I stand corrected. It is quite possible that he in his speech at Nagpur, in his home-town might have remarked that banks were not co-operating enough. It is quite possible in one's home-town, one may in his enthusiasm make some remarks. The hon. Member, I know, does so in Hyderabad and he can do it.

DR. R. B. GOUR: You also make a speech at Patna.

SHRI B. R. BHAGAT: That is what I say. All of us are prone to make indiscreet remarks in our own home-towns and homes; but that cannot be called a policy. I think the hon. Member will agree with me . . .

SHRI A. D. MANI (Madhya Pradesh): Will I be right in inferring that the Government dissociates itself from the remark made by Mr. Wankhade at Nagpur?

SHRI B. R. BHAGAT: I have not completed my sentence. I am only saying that the charge cannot be laid on the private banks that they are non-cooperating. Now, in the portfolios of banks,—I am speaking subject to correction—I think on a rough

estimate, these hold about 27 per cent or 28 per cent. in public loans. Of course, the State Bank has a higher portfolio of about 40 per cent. But that is for different reasons. As I said, these hold about 27 per cent. or a little less than one-third deposits in public loans. On this you cannot say that the private banks are not co-operative. I do not know what remarks Mr. Wankhade might have made at Nagpur, but it was easy for the hon. Member to use it. The fact remains that my statement that we have enough powers of control and regulation to make the banks play their role and to subserve the interest of the Plan is correct. So whatever argument the hon. Member has used does not prove his point.

The second point which he made—and I would like to correct it—is that this deposit insurance may be used for slowing the process of amalgamation and it may make the banks wind up. It is not the policy. As I said, this is a positive measure, not a negative measure. It will restore confidence and it will strengthen the banking system and the bad banks will become much less. We have a fixed policy and from time to time we have been coming to the House and reporting about amalgamation. Already I think more than 30 banks have gone through that process. It is not the intention and therefore linking the two is not—I would very mildly say—fair. We have no other intention and the Reserve Bank is positive on that.

MR. DEPUTY CHAIRMAN: The question is:

“That the Bill be passed”.

The motion was adopted.