

[Shri Govind Ballabh Pant.]

Anti-Forgery Squad, etc. The personnel of these squads have acquired specialised experience in the particular types of crime they deal with and consequently investigation of cases is done systematically and with greater speed.

Three new police posts have been set up during the year for facilitating police work.

The question of traffic control has also received attention and special courses have been organised to impart training to the traffic constabulary. These courses will improve the efficiency of the traffic police.

The House will observe from what I have said that the crime situation in Delhi has not shown any deterioration and that the police are taking energetic action.

SHRI DAHYABHAI V. PATEL (Gujarat): Sir, the Home Minister has been pleased to make a statement. We are not given time to say anything on it. I would like to ask a few questions.

MR. DEPUTY CHAIRMAN: There cannot be any discussion.

SHRI DAHYABHAI V. PATEL: I would like to ask a few questions.

MR. DEPUTY CHAIRMAN: You may table them separately. There is no time now. We have other business.

SHRI DAHYABHAI V. PATEL: I have been requesting the Home Minister for a discussion on the crime situation for the last six months. I would like to ask a few questions at least.

MR. DEPUTY CHAIRMAN: Dr. Gopala Reddi.

## THE BANKING COMPANIES (SECOND AMENDMENT) BILL, 1960

THE MINISTER OF REVENUE AND  
CIVIL EXPENDITURE (DR. B.  
GOPALA REDDI): Sir, I beg to move:

"That the Bill further to amend the Banking Companies Act, 1949, as passed by the Lok Sabha, be taken into consideration."

Sir, I do not propose to make a long speech, as the House is, I think, familiar with the main provisions of this Bill. The problems posed by the winding up of banking companies have engaged our attention continuously over a number of years. The dimension of the amounts involved in relation to the size of bank deposits as a whole, is not, I am glad to say, very considerable, but from the point of view of the individual depositors, it is obviously desirable, and in fact necessary, that the most expeditious arrangements possible should be made to realise the assets and distribute the dividends.

Sir, ten years ago, in 1950, we introduced a new Chapter in the Banking Companies Act, 1949 to facilitate the task. A committee under Shri Dhiren Mitra was subsequently appointed to study the problems, and their report led to an extensive redrafting of this Chapter in 1953. The results, however, have not been entirely satisfactory; and as the failure of the Laxmi and Palai Central Banks has necessitated a review of the entire position, we have decided that some more fundamental changes are now called for, in order to expedite and simplify the winding up proceedings.

We have proposed two main changes from this point of view. We have in the first place provided for a time schedule, within which the amounts due to the secured creditors and the prior claimants, ranking above the depositors, will have to be determined. This will make it possible for the assets to be released

in sufficient time for payments to the depositors and within a few months the first dividend will be paid. At the stage of this payment, we also propose to authorise the disbursement to all the depositors a sum of Rs. 250 so that those with comparatively small amounts to their credit may be enabled to get full or at least substantial relief.

The Bill, as it has emerged from the -pneue joum e sepndue, Lok Sabha, ment regarding this point. The proposal which was under consideration at an earlier stage was that the savings bank depositors should be paid in full up to the sum of Rs. 250, while the other depositors should be paid half the amounts standing to their credit, within the overall ceiling of Rs. 250 for the initial payments. The distinction which we sought to make between these two classes of depositors was based to some extent on the fact that savings bank deposits had been treated differently all along, and to some extent on the consideration that it may not be desirable to increase very considerably the quantum of the initial disbursements, which would rank above those of the depositors and other creditors, who might be entitled only to *pro rata* payments.

Certain anomalies which might have resulted according to the earlier formula have however been brought to our notice; and in view of the considerable support in the other House in favour of the uniform treatment of both savings bank and other depositors, it has now been decided that full payment up to Rs. 250 should be made in both the cases, but in the order of priority, savings bank depositors will still rank above all the other depositors. This seems to me to be a reasonable and satisfactory solution and this House, I believe, will also welcome this change.

The liquidation and orderly winding up of banking companies is important from the point of view of the several depositors interested in them, but it does not by itself solve

our problems. There is a widespread feeling, not altogether unjustified by the results of our past experience, that the winding up of banking companies, which is an elaborate and costly proceeding, should not be undertaken, if other alternatives are available.

Sir, we understand and respect this feeling, but unfortunately, as the law stands today, it is not easy to grant a moratorium to a bank which is experiencing difficulties, so that the future course of action in relation to it may be considered at leisure, or to formulate and sanction schemes of reconstruction or amalgamation, within the time-limit for which a moratorium can usually be granted.

We propose, in order that the Reserve Bank and the Central Government may be enabled to explore these alternatives fully, that the somewhat onerous conditions which are now prescribed under the Companies Act, 1956 should be relaxed. The Finance Minister has already said in the other House that in doing so we shall provide, if possible, to all the members and creditors who may be interested, every reasonable opportunity of putting forward their respective points of view. But banking companies, unlike industrial or commercial establishments, are credit institutions in which depositors and the general public, who are third parties, are vitally interested. The ultimate responsibility for the regulation of the affairs of banking companies will, therefore, have to rest with the Reserve Bank and the Central Government.

I do not think that it is necessary for me to take up any more of the time of the House. This Bill has received the unanimous approval of the other House. The proposals on which it is based will enable us to tidy up the affairs of banks which are taken into liquidation and also to improve and strengthen our banking system generally. I am sure, therefore, that they will be supported

[Dr. B. Gopala Reddi.]  
unanimously by this House a Iso. Sir,  
I move.

*The question was proposed.*

1 P.M.

SHRI GOVINDAN NAIR (Kerala):  
Sir, this is the second time during this session that amendments are sought to the Banking Companies Act. Everybody knows that it is the tragedy of the crash of the Palai Central Bank which has necessitated these amendments. I also understand that this is an emergency measure and somehow this Bill should be passed during this session if it is to benefit the depositors. While supporting these amendments as far as they go, let me point out that the steps taken by the Government are not sufficient, not adequate to meet the situation. As far as these amendments are concerned, the Government have conceded that for the preferential payment the amount should be raised from Rs. 100 to Rs. 250. I would request the hon. Finance Minister to see whether it would not be possible to raise this amount from Rs. 250 to Rs. 500 so that the depositors may be helped to a greater extent.

Another point that I would like to raise is with regard to preferential claims. I would suggest that co-operative societies should also be included. You know, just as the banking system in our country, the co-operative system also deserves encouragement at the hands of the Government. In this context, I may say that when the Palai Bank crashed, a number of co-operative societies ceased to function. The reply of the Finance Minister in the other House to this question was completely unsatisfactory. He said if these co-operative societies were also given preference, then there would be other claims like those from charitable institutions, etc. etc. But I do submit, Sir, that co-operative societies stand on a different footing and deserve special consideration at the hands of the Government. To quote

one instance, on the recommendation of the State Bank of India, a Central Co-operative Society deposited nearly Rs. 5 lakhs in the Palai Bank. That was done at the instance of the State Bank of India, and I may add, as many as 62 societies are involved in this one transaction and now all these 62 co-operative societies have ceased to function after the collapse of the Palai Central Bank. And that is to quote only one instance in one place. There may be similar instances in other places also. So, the question deserves special consideration at the hands of the Finance Minister.

Next, Sir, I come to the wider question. Of course, these measures now proposed do give some meagre help to the depositors. But the major casualty in this is the blow received by the Reserve Bank and also the rude shock that the banking system in India has suffered. When the Finance Minister came forward with amendments to the Banking Companies Act, I thought he would be coming with amendments which would at least help the people in regaining their confidence in the banking system as such. Unfortunately that has not been done. I fully appreciate the difficulties of the Finance Minister in this respect because such a comprehensive measure cannot be brought in in such a short time. But what I am demanding is that I may be given an assurance that at least during the next session, a comprehensive amendment to this measure will be brought so that the fears that are in the minds of the general public may be removed and their confidence in the banking system may be regained.

I know that the subject of the crash of the Palai Bank was discussed in both Houses and I also know that on another occasion when the Banking Companies Act was discussed, the affairs of the Palai Bank came up for discussion. Still there are certain doubts in the public mind which the Finance Minister has failed to clear. The main thing on which

everyone seems to agree is that the Reserve Bank had ample powers to interfere in the affairs of any bank, scheduled or otherwise. But unfortunately from 1951 to 1960, this bank was deteriorating, according to the report of the Reserve Bank itself and still none of these provisions were used. Here it is reported in the Press that the directors and others had taken loans on their personal security. Even according to the existing Banking Act, there is a provision against this. Here in section 20 it is stated:

"Notwithstanding anything to the contrary contained in section 77 of the Companies Act, 1956, no banking company shall make any loans or advances on the security of its own shares, or grant unsecured loans or advances to any of its directors or to firms or private companies in which it or any of its directors is interested as partner or managing agent or to any individuals, firms or private companies in cases where any of the directors is a guarantor.

Every banking company shall, before the close of the month succeeding that to which the return relates, submit to the Reserve Bank a return in the prescribed form and manner, showing all unsecured loans and advances granted by it to companies in which it or any of its directors is interested as director or managing agent or guarantor."

Sir, in the Malayalam Press it has been reported that on the personal security of some persons large amounts of loans had been advanced to the directors. One of the managing directors had taken on his personal security nearly Rs. 20 lakhs. That is the report in the Press there. There is another report which says that on the security of 11 cents of land Rs. 5 lakhs had been advanced. There is still another case of an advance of Rs. 20 lakhs on the security of 1½

acres. I do not know how far these things are true, but it has been reported in the Press that these advances were made. Here again, under the provision in the Act which I read out just now, the Reserve Bank had every opportunity of knowing about these things when these advances were made and the same Act gives powers to the Reserve Bank to take the necessary steps to recover these loans.

I wanted to know from the Finance Minister as to whether any such steps had been taken by the Reserve Bank. That question has not yet been answered. The Act puts certain responsibilities on the Central Government. In the other House, the Finance Minister said that the Central Government did not know anything about this thing and that no report was made to them by the Reserve Bank. I think that the Reserve Bank and the Finance Ministry are responsible for this thing not being done. I shall read out extracts from section 35 of the Act.

Section 35(1) says:—

"...the Reserve Bank at any time may, and on being so directed to do by the Central Government shall, cause an inspection to be made by one or more of its officers..."

Section 35(4) says:—

"That Reserve Bank shall, if it has been directed by the Central Government to cause an inspection to be made, and may, in any other case, report to the Central Government on any inspection made under this section, and the Central Government if it is of opinion after considering the report that the affairs of the banking company are being conducted to the detriment of the interests of its depositors, may, after giving such opportunity to the banking company to make a representation in connection with the report as, in the opinion of the

[Shri Govindan Nair.]

Central Government, seems reasonable, by order in writing—

(a) prohibit the banking company from receiving fresh deposits;

(b) direct the Reserve Bank to apply under section 38 for the winding up of the banking company:

Provided that the Central Government may defer, for such periods as it may think fit, the passing of an order under this subsection, or cancel or modify any such order, upon such terms and conditions as it may think fit to impose.

The Central Government may, after giving reasonable notice to the banking company, publish the report submitted by the Reserve Bank or such portion thereof as may appear necessary."

If things were going from bad to worse since 1951, the Central Government should have . . .

THE MINISTER OF FINANCE (SHRI MORARJI R. DESAI): The Palai Bank affair has already been discussed. Does this arise out of this Bill also?

MR. DEPUTY CHAIRMAN: The Palai Bank closure was discussed earlier. Do not rake up all those questions.

SHRI GOVINDAN NAIR: I am bringing forward those points only to show that the Reserve Bank had umpteen powers to go into all these things.

MR. DEPUTY CHAIRMAN: All those points have been urged earlier, and they have come forward with this Bill because the powers that they have so far are found to be insufficient.

SHRI GOVINDAN NAIR: According to the sections which I have read

out, Government have ample powers but still neither the Government nor the Reserve Bank was able to save the depositors. Will the amendments that have now been introduced help you to save a bank from being liquidated? I say that you cannot because, in answer to a question in this House, Mr. Gopala Reddi said that they had not used the powers because if they had used those powers, there would have been an immediate run on the Bank and then the Bank would have had to be liquidated. If that is the position, giving more powers to the Reserve Bank cannot help banks from being liquidated. These amendments only bestow remedial relief after liquidation. The time is now ripe when the Finance Minister should think more seriously about nationalisation of banks.

SHRI DAHYABHAI V. PATEL (Gujarat): Why are you in a hurry? This is the thin end of the wedge.

SHRI GOVINDAN NAIR: It is not.

SHRI DAHYABHAI V. PATEL: You read the Bill, and you will get the answer.

SHRI GOVINDAN NAIR: This question has come up before the Finance Minister very urgently. Instead of bringing forward such small amendments, if you want to revive the faith of the people in the banking system, there is only one way left, and that is the immediate nationalisation of the banks, and I hope that during the next session, the Finance Minister will be coming forward with such a Bill.

SHRI ROHIT M. DAVE (Gujarat): Mr. Deputy Chairman, I welcome this Bill as far as it goes.

MR. DEPUTY CHAIRMAN: Hon. Members will take ten minutes each.

[THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA) in the Chair.]

SHRI ROHIT M. DAVE: This is certainly a Bill which would create greater confidence amongst the investors. There will be a certain amount

of confidence restored to the depositors, as far as the banking industry is concerned, after this Bill is passed, especially amongst those who may be called small depositors, who deposit only small amounts in a bank at a time. Sir, normally it is those who save a few rupees every month and try to utilise the mechanism of the Savings Bank to protect their savings, to earn a small interest on their savings and to generally help thereby the development of a banking habit in the country, a saving habit in the country and also an investment habit in the country, whose psychology has to be taken into account at the present time. It is well known, Sir, that banking in this country has not developed to a point wherein placing all our amounts at the disposal of the banks and drawing various amounts at times when they are needed has become the normal routine, as it is with reference to certain other countries which are more developed and where the banking habit is also more developed. Unfortunately this time, certain banks have failed and the failure of these banks has created a psychology in the country whereby this process of developing the banking habit is being retarded. I am, therefore, Sir, quite certain that the Government is right in bringing forward this Bill immediately in order to restore confidence and in order to ensure the small depositors that the Government is prepared to safeguard their interests as best as they could. Sir, when the Palai Bank failed, the Governor of the Reserve Bank made a speech in which he stated that the Reserve Bank has got very limited powers, that it can only warn a commercial bank and that it cannot do anything more. He also said that the powers did not permit the Reserve Bank to force a commercial bank to adopt a particular policy which might be considered the policy of good management. It is a lacuna in the armoury of powers of the Reserve Bank, and it is desirable that that particular gap is plugged at least to a certain extent. This Bill, therefore,

empowers the Reserve Bank to declare a moratorium in the case of Banks whose affairs are not sound, and it also gives powers to the Reserve Bank to order compulsory amalgamation of small banks in case the Reserve Bank thinks that particular banks are not in a position to function as independent small banks.

Sir, it has been argued that those are drastic powers that have been given to the Reserve Bank and if the banks are forced to amalgamate without the consent of the shareholders it infringes upon the rights of the shareholders who have ultimately to decide whether the banks should be amalgamated or should not be amalgamated. What this argument forgets is that besides the interests of the shareholders there are also the interests of the depositors to be safeguarded and if the affairs of the bank are managed in a manner whereby the interests of the depositors are jeopardised then merely because the shareholders decide not to take action against an erring Director it does not follow that the Government also should be idle and not do anything about it. Sir, the right of the shareholders to manage the concerns in any way they like has not been accepted by this Parliament as the Companies Act, 1956 and certain other amendments that are now being introduced or suggested to that Act would clearly show. The Government has been empowered by this Parliament and this Parliament has already accepted the principle that in certain circumstances, despite the wishes of the majority of the shareholders the Government should act, and if that be true in the case of industrial concerns where it is merely a question of production, where only the interests of the investors are involved, where the public interests are not involved, it is all the more necessary in banking concerns where the interests of the depositors are also involved. I therefore give my full support to this idea of compulsory amalgamation in certain cases and the Reserve Bank has not been given that power absolutely.

[Shri Rohit M. Dave.]

The Reserve Bank has to consult the Central Government and has to obtain the consent of the Central Government before any order for compulsory amalgamation can be passed. Therefore this part of the Bill is definitely a step in the right direction.

As far as the stepping up of the preferential treatment to the depositors in savings banks is concerned, the maximum amount that could be given to the savings bank depositors is now being raised from Rs 100 to Rs. 250 and that also is something which is desirable, though I am not much impressed by the argument that has been advanced in support of this provision, namely, that the prices have risen since the original Act was passed. The original Act was passed in 1949 and in 1960 the price structure has not changed to such an extent that this amount ought to be raised two and a half times. There are so many other things which would also have to be done in case this particular argument is accepted but as far as the interests of the savings depositors are concerned, again this is a step in the right direction. I therefore give my whole-hearted support to this Bill and hope that the idea of the deposit insurance which is before the public mind now will also be given earnest consideration by the Government and that in the next session at least a measure will be brought forward to give effect to some such scheme which might restore confidence or which might create further confidence in the minds of depositors so that banking habits might grow, savings habits might grow and capital formation in the country might be helped to the best extent possible.

SHRI B. K. P. SINHA (Bihar): Sir, I compliment the hon. Finance Minister for bringing this Bill with such great expedition. This Bill is inspired by the issues that arose out of the failure of the Palai Central Bank and the Lakshmi Bank. The Bill has some extremely good features which have been recounted by the previous speaker. The best feature is the pro-

vision for a sort of compulsory amalgamation of banks. Sir, our banking system is by and large sound but then there are some banks which fall below the level of efficiency and stability. Our banking operations sometimes exhibit managerial deficiencies. This Bill by providing for compulsory amalgamation tries to remove one of the structural deficiencies from which our banking system suffers. If banks are compulsorily amalgamated, the banks will be strengthened and people's confidence in the banking system could be strengthened. To that extent I welcome it but then there are many other managerial deficiencies from which many banks suffer. I would recount a few of them. They are high rates of interest which banks allow on deposits; extended advance portfolios of some banks; high percentage of advances against real estate; high percentage of clean advances; high percentage of advances having undesirable features; that is, investments which require suits for recovery, etc. These are some of the managerial deficiencies to which naturally this Bill does not address itself. Sir, I feel that there is considerable point in the suggestion of the hon. Member opposite that very soon a comprehensive Bill should be brought forward dealing with these deficiencies which plague some of the banks in the country. It is time—and it has been suggested by many people who are rather experts in the banking field—that we had a statutory control on these advances. As it is, the Reserve Bank by directives, by persuasion and by suggestions tries to control these things, but then as the cases of the Palai Bank and of the Lakshmi Bank showed the Reserve Bank's powers of persuasion or suggestion have not been adequate to meet the situation. Therefore I feel that there is need for statutory control, especially of advance portfolios. If statutory control is not possible, or pending statutory control, I feel that the Reserve Bank should take advantage of the power of issuing directions and directions should be issued to the banks not to

invest a high proportion of their advances either in real estate or on personal securities or securities which are not adequate because my experience has been that most of these bank failures are occasioned by such imprudent advances. I know of a few banks which failed because they invested large sums of money in real estate or on personal security and very often these advances were unrealisable. The result was that the banks came to grief. Therefore it is time that there should be some statutory control of these advances.

Sir, one of the previous speakers pointed out one of the sore aspects of these advances. The Directors and even their family members are even now, in spite of the law to the contrary, getting huge advances—God knows on what security—from banks for their own personal use and for their businesses. This is one of the things which introduce an element of instability in the banking system. I therefore feel that a comprehensive Bill should be brought forward with a view to controlling this aspect of banking also.

Then the bank in the course of its business for the recovery of its dues has to file many suits. Those suits are governed by the Civil Procedure Code which governs all companies including banking companies. But the banking companies have some special features. Their books are reliable, credit-worthy and therefore I would suggest that when commercial suits are brought by banking companies, there should be a provision for the expeditious disposal of these suits.

I find that some of the previous Banking Enquiry Committees had recommended some such step. I do not know why even till now this suggestion has not been incorporated in legislation. I feel that the courts' delays are proverbial and they are proverbially ruinous. It is time that so far as banks are concerned those delays were shortened.

Lastly, I would like to draw the attention of the hon. Minister to the Report of the Shroff Committee, which has strongly recommended a scheme of deposit insurance. And then they gave the details, minor details, of course, of the scheme that they would like to be adopted. They made certain other proposals also and I urge that those proposals should be implemented with great expedition.

With these words, I support this measure.

SHRI P. RAMAMURTI (Madras): Mr. Vice-Chairman, after all this turmoil that had developed in the country, after the failure of the Palai Bank, when there was so much commotion in the country, I had certainly expected that the hon. Finance Minister would think over the deeper implications of this particular event and bring before our House something which would give us an assurance and to the common people of our country that hereafter at least such failures would not take place. But the present Bill has got a very limited scope. It simplifies the procedure with regard to some liquidation proceedings. It enhances the amount payable to depositors and give certain preferential treatment to depositors, and so on. A new procedure is now prescribed for the purpose of amalgamation. These are the simple provisions of this Bill. Therefore, when one reads this Bill, naturally the common people will not be thinking that the Government is sure of preventing these abuses. It only makes provisions for expediting the liquidation proceedings. On the other hand, the Government itself is now almost certain that such liquidation proceedings will take place hereafter and the Government will not be in a position to prevent such abuses. This would be the general impression created on any layman who reads the provisions—not that I do not want the small provision for enhancing the



[Shri P. Ramamurti.]

amount. I would like to ask the Government to consider the psychological effect of just bringing only this much at present. This is one aspect of it which I would like them to very seriously consider. The hon. Finance Minister stated some time back: After all, how could the Government guarantee the good working of the banks? I would like to ask the Finance Minister whether the people should forget that the previous Finance Ministers had stated different things when they moved amending Bills previously. For example, I would like to ask him to go through the speech made by Dr. John Matthai in 1949 when the Banking Companies Act itself was enacted. That Bill itself became necessary as a result of the experience gained in the liquidation of the previous Travancore National and Quilon Bank. Out of that experience they found that the Reserve Bank did not have sufficient powers and, therefore, they found it necessary immediately to bring forward that Bill. As soon as the country attained independence, they brought forward that Bill. I would like to read just one or two sentences:—

“I would like first of all to point out that the object of this Bill is a somewhat limited one. It is to prevent some of the more serious kinds of abuses in the working and management of banks of which we have had experience in recent years.”

It was definitely enacted for the purpose of preventing major abuses. After all, what is a major abuse? Directors using the depositors' money for making advances without sufficient security to their friends and to their relations, and that way sequestering the funds of the common people, is, I suppose, one of the biggest and major abuses by these institutions. And the Banking Companies Bill in 1949 was specifically brought forward for the purpose of preventing this thing. That was the statement made by the mover of the

Bill and the sponsor of the Bill who then happened to be the Finance Minister. And then later in 1956, if I remember aright, Mr. T. T. Krishnamachari, who was then the Finance Minister, brought forward an amending Bill. It was specifically pointed out to him by an hon. Member in the other House, I think Shri Tulsidas Kilachand and somebody else, ‘We have got ample powers now. Why do you want more powers? Why do you want to amend section 35? After all the Reserve Bank has got ample authority to prevent abuses.’ I will just read out what Mr. T. T. Krishnamachari said then:—

“Another point has been mentioned by several speakers, particularly by my honourable friend, Shri Tulsidas. He said the Banking Companies Act is there. Your powers are there; why don't you use those powers now? . . . Our intention originally was to protect the interests of the deposit holders but now we want to use these powers as a tool for the purpose of controlling the economy of the country. It is something much bigger. Therefore, it is no use saying: ‘You have it already. Why don't you use it?’”

The existence of powers necessary for the purpose of preventing abuse and protecting the interests of the shareholders in the Act of 1949 itself was admitted by Mr. T. T. Krishnamachari. And he said that the amendment was necessary not for the purpose of protecting the interests of the shareholders, but because they wanted to go a step further and they wanted to control the entire economy. ‘Today how are these investments going to be utilised by the directors? We want to control that. That is why we want to have this amendment.’ This was the categorical statement made by the Mover of the Bill who then happened to be the Finance Minister.

SHRI DAHYABHAI V. PATEL: It is not said in the Statement of Objects and Reasons of the Bill.

**SHRI P. RAMAMURTI:** It is not said in the Statement of Objects and Reasons of this Bill. Very good. When, after these things our hon. Finance Minister says that the Government cannot guarantee these things, how can the common people take the words of the Government seriously, when one Finance Minister comes forward and negates what has happened, solemn assurances given on the floor of Parliament by the previous Finance Ministers while moving Bills? This is what I do not understand.

**SHRI MORARJI R. DESAI:** There are no words which give a guarantee in the speeches.

**SHRI P. RAMAMURTI:** Our present Finance Minister has felt, despite the fact that the Government wants to prevent these abuses, that the powers existing under the present Act are not sufficient to protect the interests of the shareholders. These abuses will still continue and therefore I want more powers. Therefore he was come with a Bill asking for more powers, and certain other things. We are prepared to give you as much power as possible in order to guarantee that. That you are not doing. All that the Government says is: "We will give you some more money as advance payment, before the liquidation proceedings are finalised. What is it that we are dealing with. It is not a question of natural calamity and things like that. We are not having an outbreak of fire or some such thing. Here is the money of the common people of our country. It is not like dealing with a company. My friend, Shri Dahyabhai Patel said that this was the thin end of the wedge. I do not know what right he and his friends who are directors of banks . . .

**SHRI DAHYABHAI V. PATEL:** I am not a director of any bank.

**SHRI P. RAMAMURTI:** I did not say 'you'. I said your friends, who will be directors of banks or whose interests your Party might sponsor. I would like to know under what right the directors of these banks can get

control of the money of the common people? After all, it is not like the case of a company. There the shareholders come together. They invest some money. They subscribe some money and the shareholders have some sort of control over the company, at least in theory. That is not the position as far as the banks are concerned. The directors and the managing directors of these banks, having perhaps invested about a few lakhs of rupees, in most cases, get control over Rs. 30, Rs. 40, or Rs. 50 crores of public money. This is entirely a different matter. The Reserve Bank, by its monetary policy, and the Government have got a direct bearing on the banking habits of the people. All these have a direct bearing on the depositors in these banks. One or two individuals who do not invest any money, who have no stake in these things get control of the money of the common people. Today Rs. 2000 crores are deposited in these banks and ultimately if the Reserve Bank is not able to prevent these abuses, naturally the question arises, why should some private individual get control of these things. The Government should have control over these things. They should direct how exactly it has to be utilised. If the Government today says that despite all the provisions that have been made in the various Acts so far it is not possible for them to give a guarantee that these banks will not fail, that they cannot prevent these abuses, then it is high time the Government thought—in order to see that these provisions are utilised properly—in terms of nationalisation. It is not a slogan, just to be laughed at. That is why, within the short time at my disposal, I say that the Bill cannot deal much with this problem. That is why this problem assumes tremendous importance today that I would say is that, while I would welcome these small mercies that are shown, the Bank having already broken down, nearly 80,000 depositors are now suffering tremendously. Small mercies are certainly shown, and I would certainly welcome

[Shri P. Ramamurti.]  
them. What is after all that mercy? For 80,000 depositors, 250 multiplied by 80,000, it will work out to Rs. 20,00,000. The total deposits work out to about Rs. 9½ crores. Out of that, Rs. 20 lakhs will be given immediately.

SHRI K. SANTHANAM (Madras):  
It is Rs. 2 crores.

SHRI P. RAMAMURTI: All right, something like that amount. Therefore, we should also seriously think on the lines of providing some immediate relief. I am not saying that these problems should be solved straightway. The Finance Minister should give us an assurance that all these problems are arising and despite the provisions of the Reserve Bank Act and the Banking Companies Act as amended in 1956 we have not been able to prevent these abuses, and we will now more seriously consider and think of the basic remedies we have got to adopt. If that assurance is forthcoming in the House, I shall be very glad.

SHRI K. SANTHANAM: Mr. Vice-Chairman, I have no quarrel with either the principle or the purpose of the Bill. I welcome both. All that I am anxious about is that the Government should not put on the Statute Book a measure which may give rise to unnecessary litigation and confusion. I am convinced, Sir, that clause 6, as it has been drafted, is likely to be declared beyond the powers of Parliament and, therefore, void. I have nothing to say about moratorium. I think it is a good provision, but I do not see how under any principle of jurisprudence the reconstruction of a banking company or its amalgamation with another banking company can be brought about without the consent of the companies concerned. I am told, Sir, that such powers of compulsory amalgamation are provided for in the Companies Act. I have not had the time to look into it carefully, but if, let us imagine, this Bill had been passed two months ago, would it have been open to the Government to say

that it would amalgamate compulsorily the Palai Central Bank and the Punjab National Bank, whether the shareholders of the Punjab National Bank approved of such amalgamation or not? According to this Bill, such amalgamation can be brought about without their consent. I have no objection to any amalgamation with the consent of the parties concerned, and I also have no objection to such amalgamation if an alternative is given to the company, 'if you do not agree, to wind up and get out of the business'. But here it is not done. At least in the Companies Act, in the case of amalgamation there is some provision for compensation for people who are not satisfied or who do not agree to it. But here there is no such provision. It seems to me to be a wholesale invasion of private property rights as we conceive it. I have no objection to such invasion. I do not object to nationalisation of banking as such, but having brought forward this Bill on the last day of the session when we have no time to consider it carefully, I would suggest to the Government that they should consider deeply whether these clauses 6 and 7 should go into the Statute Book. If, after this warning, they think they are right, I have nothing to say. But I would like to mention one or two small points also about the previous clauses.

I do not see any justification in this Bill for authorising any individual to become a liquidator. In the original Act only a banking company could be made a liquidator. Here any individual can be made a liquidator. I do not see why there is any necessity for it. Who asked for it? I think it is a wholly reactionary step. Secondly, I think the provision that, if a person has got a savings bank account and a fixed deposit, he can get only Rs. 250 for both the accounts is not equitable. All savings bank accounts should be treated as one category and fixed deposit accounts should be treated as another category. Simply because a man has not had the wisdom to put one thing in his name

and the other thing in the name of himself and his wife jointly he should be penalised is, I think, not equitable. All the savings bank accounts should be treated as one category, and Rs. 250 should be paid preferentially. All fixed deposits, whether they belong to the same people or other people should be treated on the same basis as the next categories. In that case the maximum which a person could get would be Rs. 500. But even if that principle is not accepted, I have put in an amendment that if a man has two accounts, a fixed deposit account and a savings bank account, he may be paid a maximum of Rs. 400.

**DR. B. GOPALA REDDI:** What about the current account? He may have a current account also?

**SHRI K. SANTHANAM:** I think it must be also treated as a separate category because, when a man opens these accounts he does it according to separate rules of withdrawal and other conditions. When he puts money in current account, probably he would not have waited till all this moratorium, he would have withdrawn his balances, probably he would have got an overdraft account, he would have overdrawn. Therefore, simply because a man has got three accounts, he should not be penalised on that account, I think equity requires that all these accounts should be treated separately. This is almost a hint to all people and amounts to saying 'do not have two accounts in your name; if you want to have a savings bank account, have it in your wife's name or child's name, but do not have it in your name; have only one account in your name'. I do not think that it is a healthy principle for banking, and it is not going to encourage banking if all these accounts are added up in order to give relief whenever trouble comes.

**SHRI B. D. KHOBARAGADE** (Maharashtra): Mr. Vice-Chairman, this Bill provides to grant speedy

relief to the depositors of banks which fail and which go into liquidation. So far as that object of the Bill is concerned, I welcome this Bill. It has also been mentioned that another object of this Bill is to restore the confidence which the public have lost in the banking system. So far as that object is concerned, I have my doubts, because our past experience tells us that in spite of the wide powers that the Banking Companies Act confers upon the Reserve Bank authorities, we have not been able to avoid the recent crash of two banks, the Palai Bank and the Lakshmi Bank. Sir, if we take into consideration the example of the Lakshmi Bank, we find that this Bank failed because of the criminal negligence of the Reserve Bank authorities. Had they taken necessary steps in time, I have no doubt in my mind that these Banks would have been saved from liquidation. I will make only a few observations as to how the Reserve Bank authorities are responsible for the liquidation of the Lakshmi Bank.

Firstly, in the statement that was made by the hon. Finance Minister he has mentioned that in 1952 the second inspection was made and it was found that the "bank was manipulating its bills portfolio for the purposes of camouflaging the facilities granted to certain parties." There, it is clearly mentioned that the banking authorities—the Chairman of the Bank and the directors—were indulging in such activities which are criminal in their nature. I want to know what action has been taken by the Reserve Bank authorities to stop such criminal activities.

**THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA):** The affairs of the Palai Central Bank have already been discussed, Mr. Khobaragade.

**SHRI B. D. KHOBARAGADE:** I am referring to the Laxmi Bank. Actually I gave notice of a motion to consider the statement regarding the Laxmi Bank and the Chairman

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had assured me that, as we have no time to discuss this matter this time, I will be allowed to raise Laxmi Bank issue while discussing Banking Companies (Amendment) Bill and, therefore, I am referring to the question of the Laxmi Bank. I want the Finance Minister to give an answer to the points that I desire to raise regarding the Laxmi Bank affairs.

Sir, in 1958 it was noticed that one director was wielding undue influence. That has been mentioned in the Report itself. I want to know what the Reserve Bank authorities did to stop this director from yielding this influence. It was because of this influence and because of the criminal activities of the Chairman of the Board of Directors of this Bank that the Reserve Bank authorities decided that one of their representatives should be sent there to attend the meetings of the Board of Directors. It means that their representative knew the situation and the circumstances under which the particular Bank was working in 1959. The Municipal Committee of Akola which had an account with this Bank had passed a resolution in 1959 to close their account with this Bank. I want to know whether this fact was known to the official representative of the Reserve Bank of India and, if it was known, whether the Reserve Bank authorities cared to enquire why the Municipal Committee had passed such a resolution. When the Municipal Committee had passed such a resolution, it means that the Laxmi Bank was not working properly and therefore it was very essential that the Reserve Bank authorities should have taken steps in 1959. Moreover, one Mr. L. G. Suryawanshi informed the Secretary of the Finance Department and the Reserve Bank officials at Nagpur on 29-6-1959 about the affairs of this Bank. May I know what action has been taken on this report of Mr. Suryawanshi? Further, a theft was reported at the Berhampore branch of the Bank. Actually, it was

not a theft, but the same employee of the bank misappropriated the amount and said that there was a it was actually found out that it was an act of misappropriation. If we take into consideration all these series of events, we will find that the Reserve Bank authorities had failed to take adequate steps and measures and therefore ultimately the Laxmi Bank had to go into liquidation.

Again, so far as the audit report for the year 1959 is concerned, it has been mentioned there that the balance sheet does not disclose the true state of affairs of the said company and is therefore unreliable and misleading. This was the comment on the audit report for the year 1959.

I will now refer to another point as to how the fraud was committed by the Laxmi Bank authorities. The Chairman of this Bank was Mr. Gopaldas Mohta. Considering his activities in connection with this Bank, I am constrained to say that Mr. Gopaldas Mohta appears to be a pocket book edition of Haridas Mundhra because he was indulging in all such criminal activities.

SHRI MORARJI R. DESAI: I do not know how all this is relevant.

SHRI B. D. KHOBARAGADE: The Chairman had given me an assurance that while . . .

THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA): How he could have said that you could speak about the Laxmi Bank while on this Bill, I do not understand.

SHRI B. D. KHOBARAGADE: He gave me the assurance like that, Sir. This is relevant because it has been stated that we are trying to restore the confidence of the public in the banking system. I am trying to point out how we cannot restore

confidence among the masses in the banking system, because in spite of the enormous powers that we have given to the Reserve Bank, they never exercise them. What are the special steps that the Finance Minister wants to suggest to create confidence among the masses in the banking system? Therefore I ask, when the Chairman of the Laxmi Bank was indulging in such criminal activities, what was the Reserve Bank doing? For example there are three modes adopted for cheating the depositors.

THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA): It would be better if you speak on the present Bill. Please confine yourself to the present Bill.

SHRI B. D. KHOBARAGADE: I am only referring to this Bill. This Bill seeks to give relief.

THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA): It is not relevant to the present Bill.

SHRI B. D. KHOBARAGADE: While moving this Bill for consideration, the Finance Minister has said that this Bill has been brought before this House because of the recent crash of the Palai Central Bank and the Laxmi Bank. Has not the Finance Minister said that?

SHRI MORARJI R. DESAI: What does it mean?

SHRI B. D. KHOBARAGADE: It means that this Bill was necessitated because of the crash of the Laxmi Bank. It means that we have to go into the causes which have made this Laxmi Bank fail. Therefore, I will take up one or two points only in that connection and then come to the proper Bill.

There were three modes of cheating the depositors. One was that some deposits were shown to have been made into the Bank but actually the cash was not there. It was shown that the cash was paid but the cash was not there. This amount was utilised by the Chairman for his own purpose. The amount involved is

Rs. 2,70,000. Then there is another mode of cheating the depositors. Huge amounts were withdrawn by Mr. Surajmal Singhi, agent of and the Chairman, Mr. Gopaldas Mohta, by drawing cheques in favour of the mofussil branches.

THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA): Mr. Khobaragade, no names please, as far as possible.

SHRI B. D. KHOBARAGADE: All right, I will keep it in mind, Sir.

When cheques are drawn in favour of the mofussil branches, it means that the cash must be paid to the branches, but this amount was not paid to them. It was shown as cash in hand by the mofussil branches. But actually there was no cash and no entries were made in the account books. What is important, these activities were going on for the last so many years and in spite of this, we find that the Reserve Bank had not been able to save the depositors of this Bank by taking necessary steps in time. When the depositors put forward a scheme for the amalgamation of this Bank with some other banking institution, no action was taken. Actually, when there were some other remedies available, they were not resorted to. It is just like cutting your nose in order to remove the cold which you are having. As a matter of fact, this Bank came into trouble because of the activities of the Chairman and the remedy was to remove him and run the Bank by appointing a representative of the Reserve Bank. But it was not done and the Bank went into liquidation.

Apart from that, I am sorry to note that there is no mention in this Bill about the relief to be given to the depositors. If we want to create confidence among the depositors then it is essential to take concrete steps. If any bank fails because of the activities—commercial activities or criminal activities—of the persons who are in charge of the Bank, then it is the responsibility of the Government to give every sort of help to

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the persons who have suffered. Because we have given the Reserve Bank enormous powers and if they do not exercise those powers and save the banks from going into liquidation, responsibility for failure of the bank is that of the Reserve Bank of India and ultimately of the Government. Therefore, I suggest that at least two kinds of reliefs should be granted and a provision should be made to that effect in this Bill. According to the Companies Act, all government dues have priority over all other dues. If there are Government dues outstanding and if they are to be recovered from the bank, Government should not get any such priority. I suggest that the Government should not exercise this priority. Banks have to pay income-tax. So far as the Laxmi Bank is concerned, I understand, they have to pay Rs. 5 lakhs as income-tax. I would urge upon the Finance Minister that they should not collect this from the Bank and they should allow these Rs. 5 lakhs to be distributed among the depositors.

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Secondly, I would like to request the Finance Minister that the expense of liquidation proceedings must be borne by the Reserve Bank of India or the Government of India because when there is any sort of calamity the Government comes forward and gives every sort of assistance and help. In this case also the failure of the Bank is a sort of calamity for which the depositors are not responsible. They are made to suffer because of the inactivity of the Reserve Bank. Therefore, why should you not provide for the expenses of liquidation to be paid by the Government of India? I think these two provisions should be made there. At least so far as the Laxmi Bank is concerned, it should be done because, as I have already pointed out, that bank failed because of the criminal negligence of the Reserve Bank. I urge upon the hon. Finance Minister to grant relief of income

tax, and to exempt this bank from payment of income-tax. I understand that income-tax assessment cases are pending for the last three or five years. So, firstly, you should exempt them from payment of income tax and secondly, the liquidation expenses of this particular bank must be borne by the Government.

SHRI DAHYABHAI V. PATEL: Sir, I am sorry that the Government has thought it fit to bring a Bill of this nature at the fag end of this Session without taking into consideration the interests of the persons concerned. Unfortunately, Sir, the Government's mind, like the mind of some hon. Members in this House, seems to be clouded by the failure of the two banks. Sir, I am not heartless, I do feel that a number of poor people have suffered because of the failures of these banks. But I do not like the people, however, to say that it is not their fault. The depositors must be people who discern things. Why do they not go to the Postal Savings Bank when the Government guarantees all the money, or why do they not choose a better bank? There are banks and banks in this country. If depositors do not use their sense, do not look round, how can they put the blame on the Government and ask them to pay all that? That is a very wrong attitude.

There are also certain other things about these two banks which I would not go into, but I hope the enquiry will reveal the real reason for their misfortunes. It is wrong for the people to ask the Government to pay for the failures of these directors.

SHRI B. K. P. SINHA: The hon. Member's logic is that if a man over-eats and develops cholera, let him die.

SHRI DAHYABHAI V. PATEL: If a man over-eats, he should be first sent to a proper doctor and then he should be told that he should not eat too much. It is a bad habit to eat too much. Unfortunately, the habit of eating sweets in Delhi is too prevalent

and, therefore, the hon. friend opposite seems to have hit upon the analogy. I wish he and his friends, particularly in this season when cholera and enteritis troubles are there, to be slightly slow in eating sweets in Delhi.

**SHRI P. RAMAMURTI:** I would ask a question of my hon. friend. Would you also ask the people in the country who have money to keep it carefully; they should be careful and see that they are not robbed?

If somebody wants to rob them let him rob. If somebody allows himself to be robbed, let him be robbed. Why should the Government intervene? Therefore, Government need not enact any law. Is that your contention?

**SHRI DAHYABHAI V. PATEL:** My contention is that the Home Minister should deal with robbers firmly. Unfortunately, I did not get an opportunity to speak today. I have been repeatedly asking for consideration of the law and order situation and I am afraid.... (*Interruption by Shri B. D. Khobaragade.*) **Mr. Vice-Chairman,** I do not yield. Every person has been given a little common sense by the grace of God. If he looks around and sees, he will find better institutions where he can put his money. Why should he put his money in any bank that he comes across? There is the Postal Savings Bank. I would accuse the Government of not publicising this so much particularly on occasions like this. This is the occasion, Government have a big machinery. They want to sell Prize Bonds. They want to sell National Savings Certificates. Why do the people not put their money there which has a guarantee by the Government and not burn their fingers by putting their money in banks whose stability is not known, whose directors are not functioning properly?

Sir, my objection is not to the powers that are being sought to be given to the Government under this. My only

grave objection is to the manner in which this House is being rushed into it. This is a serious matter and I would like to ask the Government whether they have consulted the banks who have experience, about the repercussions and implications. Sir, it is the normal practice of the Government to allow interested concerns to make their representations before enacting any measure of this type. Will the hon. Finance Minister tell us in his reply whether this has been done?

Sir, we have got a good banking system in India in spite of many faults that exist in this country, faults of character and many other things. Yet, by and large, there are certain banks which have done very well in this country. There is the Bankers' Association operating in this country. Has the Government of India asked their opinion about some of these things? Of course, there are certain objectionable things. If perhaps this House was given more time, if proper interests were consulted, they would have known about it.

Sir, this Act provides for the amalgamation of any two banks. It is a marriage of compulsion which I can understand people of the mentality of hon. Members like Mr. Ramamurti, who think in those terms, and those countries that try these things. They are marriages of compulsion. But let me tell him and friends like him that all wise people, even Socialists, do not like it. In this connection I remember an incident. A very beautiful young lady went to George Bernard Shaw and said, 'We should have a child. I am beautiful and you are a wise man. So the child that comes out of this union will be very beautiful and very wise'. Mr. George Bernard Shaw, as you know very wise and very witty, said, 'Madam, suppose the reverse is the case—he has my looks and your brains. What will happen?' Is this not a tragedy of that type that is befalling our country at every stage? Apart from the lighter side of it, I seriously feel, Sir, that this



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is a tragedy that is baffling our country at every stage. Because the insurance companies were not doing well, Government appointed a Superintendent of Insurance in an insurance company. The Superintendent of Insurance quietly stayed in the high hills of Simla. He did not bother as to what happened to the insurance company. Now, some insurance policy-holders complained. He wrote a letter to the insurance company and the insurance company sent their officers, their lawyers, auditors, everybody to Simla with all that expense to the poor insurance company. Something or the other was explained to the Superintendent and time was given by him. In this manner this insurance company went on.

The Government have powers. They have the right to appoint administrators. In the case of a good insurance company of Bombay, an experienced officer of the Government was appointed as Administrator. What did he do? He went on a world tour with his wife at the expense of the Government when he was the Administrator of that company. Sir, in this country human failings in high bankers, in businessmen as well as in Government servants are there. Government servants are not all saints. Therefore, if there are faults there are faults on both sides. If directors of banking companies are likely to go wrong, so also are officers of the Government likely to go wrong.

Reference was made once or twice to the Governor of the Reserve Bank, that the whole thing was hatched in the office of the Governor. What was he doing? And this Reserve Bank is going to look after all this. We want to give him such wide powers. Sir, giving such very drastic powers in this hurried manner is objectionable.

SHRI B. D. KHOBARAGADE: On a point of information, Sir. You have also a grievance about the Reserve Bank authorities.

SHRI DAHYABHAI V. PATEL: I do not yield, Mr. Khobaragade. This

power of amalgamation is very objectionable and needs to be looked into. If this is the way that Government can help certain banks, then I am sorry. Surely there is a way. The Finance Minister has a way of doing things, I know. If in a certain case he wants amalgamation, I would suggest that he should do it by persuasion of directors on both sides and I am sure he will be able to manage it, but doing it this way is objectionable. The whole feature of this Bill is trying to rush it through, and not give any chance to anybody else. The only persons who are right in this country are the high Government officials, they are infallible and what they order the people of this country must carry out. This is very wrong.

My friend, Shri Ramamurti, wants to protect the depositors. I suggest that trying to protect the depositors of every bank is like trying to protect the people who walk recklessly on the streets when we have so many vehicles or wanting to save somebody wanting to fall over a precipice. How is the Government to protect people who want to fall deliberately over a precipice or walk in front of Delhi buses? How can you protect them? People have been given senses and they must use them. Certainly you can ask the Government to educate people. There I am one with them. The post offices and the national savings schemes are there. All the officers of the Government are there to do propaganda that people should use them but this is not the way.

Shri Rohit Dave seemed to welcome this Bill. He was up against the failings of directors of Banks. I am willing to agree with him on that. I do not say that all directors are ideal men. As I just now said, I am not a shareholder of any bank nor am I a Director.

SHRI D. A. MIRZA (Madras): Are you a depositor?

**SHRI DAHYABHAI V. PATEL:** Yes, in a small way. Only I use my head and put my money in a proper Bank, here in the Reserve Bank and in Bombay in the Bank of India or the Central Bank. You just use your brain and you will not go wrong, my friend. Thank you.

**SHRI MORARJI R. DESAI:** Sir, I am thankful for the general support given to this Bill and while hearing the arguments in favour of certain suggestions made, I must admit that I was disappointed at the criticism that this Bill had been brought forward in a hurry. When the Palai Bank liquidation was discussed in this House, I had mentioned that the Government proposed to take certain steps in order to see that in future such situations were better managed and I got an impression at that time from the House that that suggestion was welcomed and it is on the basis of that suggestion that this Bill has been brought forward. There is no question of stampeding this House or the other House into passing this Bill. The House is welcome to say that it wants to postpone it. Even the hon. Member who says this has not brought in any motion either for circulation or for reference to a Joint Select Committee. It has not struck him at all but he says this only to criticise. Some criticism is welcome, all criticisms are welcome as a matter of fact but the criticism must have some validity also if it is to be accepted. In this particular matter I do not know where the hurry is made. Even as regards amalgamation, which the hon. Member has referred to, I wish he had read the clause as it is laid down. Amalgamation will be proposed in cases where a moratorium is applied. It is not to be proposed in all cases. He seems to have not noticed it or he has perhaps deliberately given it up in order to have the general criticism that there is going to be a general amalgamation. If this Government wants to amalgamate banks and wants to nationalise banks, it

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will do so openly. It will not go by the backdoor certainly where it is necessary to do so but there is no such proposal. Of course my hon. friend, Shri Ramamurti, wants and his friends want that banks should be nationalised as quickly as possible.

**DR. B. B. GOUR** (Andhra Pradesh): One day you will do it also.

**SHRI MORARJI R. DESAI:** I do not know, when that one day will be. Somebody else may do, not I. I do not know. If it is necessary, certainly I would also do it but I do not see where it is necessary. Why should it be necessary? The banks have been working on the whole soundly in this country and have been doing well. There are some cases where these things happen. Well, all human things have a mortality. There is nothing which has no mortality. Therefore to say that there should be no mishap anywhere and that the Government should guarantee that there shall be no mishap anywhere is something, to my mind, which does not stand to reason at all, and from that, to argue that the Government has failed because there has been a mishap is also not justified at all if there is any consideration for logic or reason. I do not propose to go into the case of the Laxmi Bank as proposed by the hon. Member from Nagpur. That is not the relevant issue in this case. I do not know why he was sleeping for two long months and did not raise this question. I do not know what he was doing. They seem to have been galvanised only after the Palai Bank question came up. The Laxmi Bank did not affect him at all but then perhaps his constituents must have said, 'What are you doing for us' and therefore he comes up immediately.

**SHRI B. D. KHOBARAGADE:** No. I had given notice before. . . .

**SHRI MORARJI R. DESAI:** I do not yield.

DR. R. B. GOUR: He says that he gave notice earlier, even before the Palai Bank affair came about.

SHRI MORARJI R. DESAI: I know when he gave it. Therefore it is no use saying that. Nobody woke up about the Laxmi Bank before the Palai Bank affair arose. That is a matter of fact. Therefore it is no use contradicting that.

SHRI B. D. KHOBARAGADE: I think it can be verified from the Rajya Sabha to when I had given the notice.

SHRI MORARJI R. DESAI: The hon. Member can send a copy of that to me. I will certainly apologise to him if he is right but I dare say that he is not right. It is wrong to say that the Reserve Bank has been remiss in doing its duty. I explained it very clearly and carefully in the debate on the Palai Bank. After all there is a limitation within which every supervising institution has to work, as this Government also has to work, as this hon. House also has to work. This hon. House is the supreme authority. It is also responsible for all the good or ill that goes on in the country, and yet what happens? There are also some faults or other on all sides, not only on one side. Can we say that because of that, all of us lack brains? I do not think so, but the brains are limited. That also must be realised and as one man's brains are limited, another man's brains are also limited. It is no use finding fault with some limitations and excusing one's own limitations. Therefore we ought to be more charitable in this as we are charitable to ourselves, but in this particular case the powers which are now sought to be taken were lacking. If the power of moratorium had been there with the Reserve Bank at the time, if moratorium could have been applied when the run took place, then it would not have been necessary to take the Palai Bank or the Luxmi Bank into liquidation. Then moratorium

would have been applied and steps would have been taken to see that it was reconstructed properly or it was wound up in a very decent manner and that liquidation proceedings were not taken. But that power was not there. Therefore this power is now sought to be taken. The power of moratorium was there but that power was very much limited and hedged in by many conditions and one of the conditions was that the Reserve Bank had to certify, if moratorium was to be applied, that the dues would be fully paid and that that was the condition of the Bank and then and then only the moratorium could have been applied. Well, we have provided for that in the amendment that we are making and I believe that this will be welcomed by all sides.

As regards amalgamation, that also cannot be called unconstitutional. My hon. friend Shri Santhanam for whose study of law and other matters I have great respect, seems to have missed article 31 A of the Constitution where it has been specifically provided thus:

"Notwithstanding anything contained in article 13, no law providing for—

(c) the amalgamation of two or more corporations either in the public interest or in order to secure the proper management of any of the corporations

shall be deemed to be void on the ground that it is inconsistent with, or takes away or abridges any of the rights conferred by article 14, article 19 or article 31."

AN HON. MEMBER: Does it provide for compulsory amalgamation?

SHRI MORARJI R. DESAI: It does not preclude compulsory amalgamation, for whether it is voluntary or compulsory, anything can be brought in this law. It is clear.

DR. R. B. GOUR: Does the Reserve Bank compulsorily amalgamate two banks?

SHRI MORARJI R. DESAI: That is why this amendment is brought in here.

DR. W. S. BARLINGAY (Maharashtra): Has the hon. Minister consulted the Law Department about this matter?

SHRI MORARJI R. DESAI: The law has been drafted by the Law Department, not by me. It is not my law.

DR. W. S. BARLINGAY: But this particular point probably did not strike the framers of this Bill.

SHRI MORARJI R. DESAI: My hon. friend has himself run a Government once upon a time and he knows that no law is put before the House unless it is properly examined and scrutinised by the Law Ministry. He knows that. He ought to know that very well and so how can it even be imagined now that this law would have been brought here before the Law Department had applied its mind to it?

DR. W. S. BARLINGAY: The point is whether this particular point struck them.

SHRI MORARJI R. DESAI: Other people are not dense and my hon. friend is not very quick. All these people do see these small points and also these big points very quickly.

DR. R. B. GOUR: During the tenure of his office, he never brought in a single Bill.

DR. W. S. BARLINGAY: That is a very unfair remark.

SHRI MORARJI R. DESAI: There is already provision in section 396 of the Companies Act which provides for compulsory amalgamations. Therefore, this is not the first time that it has come. It is already there.

SHRI K. SANTHANAM: There is compensation provided for.

SHRI MORARJI R. DESAI: There is no question of compensation here. And here let it be understood that the

shareholders form a small part of a bank. It is not like other companies, and the depositors are many. And so their interests are far greater than the interests of the shareholders. And so I do not know why the shareholders should be given additional importance. I don't see how this is necessary.

SHRI K. SANTHANAM: I would beg his pardon and say that I do not care if the shareholders are paid off or not. But the point is you cannot take away their rights arbitrarily and involuntarily. That is the only point I wanted to make.

SHRI MORARJI R. DESAI: There is nothing arbitrary when it is under the law. How does the hon. Member call a law passed by this House arbitrary? I would say it is contempt of the House. It cannot be said. Nothing is arbitrary when it is passed by the House. I am not doing anything beyond the law. If a law is passed properly by the Houses and is assented to by the President, then action under it cannot be called arbitrary. If that is done, then this House has no meaning. Therefore, I say it is not proper to call it arbitrary.

SHRI K. SANTHANAM: The law gives the Minister arbitrary powers.

SHRI MORARJI R. DESAI: It is a law passed by the hon. Member himself. What is the meaning of saying it is arbitrary?

DR. W. S. BARLINGAY: We must distinguish between arbitrary action of the Government and arbitrariness of the law itself.

SHRI MORARJI R. DESAI: Sir, if we go on only with verbal arguments, there will be no end. I grant hon. Members have quicker wits than myself and I do not want to defeat them. So I do not want to pit myself against them in this matter. But the thing is obvious and any man with common sense can see it. That is all I can say.

Next I come to the question of providing for the payment of Rs. 250/-.

[Shri Morarji R. Desai.]

A suggestion was made that this amount should be raised to Rs. 500|-. Sir, it is a question of striking a balance between the interests of the big depositors and the smaller depositors. After all, it is the larger depositors who are going to subsidise the payment of Rs. 250 to the smaller depositors and how far that subsidy can be given is a matter of balancing. Also, I believe, Sir, whether the full amount would be paid, or whether the proposed half amount would be paid or more than that may be paid, is not certain. And when it is not certain what is to be paid, it is not proper to raise the minimum to Rs. 500. Therefore, it is not possible to accept that suggestion.

My hon. friend, Shri Santhanam, said that if there were more accounts than one, then Rs. 250|- should be paid in the case of each of the accounts. But that is not the purpose of this amendment. The purpose of the present amendment is to give minimum relief and if a person has several accounts, it means that he is rich enough. Therefore, there is no question of giving him relief. Here it is only a question of giving relief. It is not a question of giving any compensation. And so this relief would be given only for one account and not for three accounts. So what this Bill does is just and if we did otherwise, it would be unjust. That is what I would like to say. Therefore, it is not possible for me to accept this suggestion either.

Sir, these are not powers which are there in the existing Act and so these powers are now sought to be taken. However, these are not new powers either. These are only an amplification of the powers which are already there. They were not found to be exhaustive and therefore we are making these amendments.

There was a suggestion that we should come forward with some exhaustive Bill. I do not know what that exhaustive Bill would contain. Let suggestions come in and we will certainly examine them. But Govern-

ment does not believe in arming itself with more power than is necessary. It seeks those powers which seem to be necessary at the time and for future contingencies as they are envisaged. But we do not want to envisage all kinds of contingencies and take powers and act in a rather arbitrary manner which is rightly objected to. We are ourselves very keen that we should not act in an arbitrary manner. Therefore, we do not want such powers.

That powers which are there are not properly utilised is one of the arguments. As I explained during the course of the debate on the Palai Central Bank at that time, the Reserve Bank could not have done anything in those circumstances that obtained at that time. It was from that that we have come to this conclusion.

SHRI B. D. KHOBARAGADE: The position of the Lakshmi Bank was the same.

SHRI MORARJI R. DESAI: I am not here for a debate on the Lakshmi Bank, and its activities. This is not the occasion for a debate on the Lakshmi Bank, and though the hon. Member may want it, I cannot accommodate him in this matter. That would require a separate item.

SHRI B. D. KHOBARAGADE: You referred to the Palai Bank and that is the reason why I referred to the Lakshmi Bank.

SHRI MORARJI R. DESAI: Yes, he feels he must not be left out. He is free to see that he is not left out. But why should I say it? Therefore, I do not want to be drawn into a debate on that.

Sir, I hope that after the explanations that have been given, all the doubts that were there in the minds of certain hon. Members will have disappeared and that this Bill will be assented to unanimously.

SHRI P. RAMAMURTI: Sir, the hon. Finance Minister said that he has got

to balance between the interests of the small depositors and the bigger depositors and, therefore, he has fixed upon this figure of Rs. 250|- and he cannot accept the figure of Rs. 500. I concede he may not be able to accept Rs. 500. But will he consider enhancing this figure of Rs. 250|- to some other figure, to whatever figure he may like to fix?

SHRI MORARJI R. DESAI: Is it a *sauda*? No bargaining here.

SHRI P. RAMAMURTI: We did not bring in any amendment because we did not want it to be rejected. Therefore when it is a question of balancing the two, will he reconsider the position and try to meet the viewpoint of the small depositors? It is no *sauda* and I am not bargaining on behalf of anyone.

SHRI MORARJI R. DESAI: After all, any figure we may fix is going to be rather arbitrary, for there is no complete logic about any figure whether it be Rs. 200 or Rs. 250 or Rs. 300 or Rs. 500 or Rs. 1,000|-. Therefore, I stick to the figure Rs. 250|- that we have fixed.

SHRI B. D. KHOBARAGADE: The hon. Finance Minister said he wants to give speedy relief to the depositors by raising Rs. 100 to Rs. 250. So what about my two suggestions, that the payment of dues to the Government should be postponed and the expenses of liquidation should be borne by the Government and the Reserve Bank of India? If we are bringing this measure before the House in order to give relief to the depositors, then why not accept these two suggestions of mine?

SHRI MORARJI R. DESAI: Sir, does this arise after my reply?

THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA): I don't think it arises.

SHRI B. D. KHOBARAGADE: Is there no reply for that?

SHRI MORARJI R. DESAI: I do not accept that. That is all that it means.

THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA): The question is:

"That the Bill further to amend the Banking Companies Act, 1949, as passed by the Lok Sabha, be taken into consideration."

*The motion was adopted.*

THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA): We shall now take up the clause by clause consideration of the Bill.

*Clause 2—Amendment of section 39*

SHRI K. SANTHANAM (Madras): Sir, I move:

"That at page 1, line 10, the words 'or any individual' be deleted."

Sir, I want an explanation as to why these words "or any individual" have been inserted. Was there any necessity for this? Without any explanation, these words have been inserted in the Bill.

*The question was proposed.*

SHRI MORARJI R. DESAI: It has been found, after careful consideration, that it is not possible for the State Bank to function in this way. It cannot be a liquidator in many cases; it can be at the most in one or two cases, but even then, no banking institution can get involved in this sort of thing. It is only an official of the Bank who can be appointed as a liquidator. Therefore, it has to be an individual and not a bank. Therefore it is that the word "individual" has been introduced here.

*The amendment was, by leave, withdrawn.*

THE VICE-CHAIRMAN (SHRI M. P. BHARGAVA): 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 10 were added to the Bill.*

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

SHRI MORARJI R. DESAI: Sir, I move:

"That the Bill be passed."

*The question was put and the motion was adopted*

### THE CENTRAL EXCISES (CONVERSION TO METRIC UNITS) BILL, 1960

THE MINISTER OF REVENUE AND CIVIL EXPENDITURE (DR. B. GOPALA REDDI): Sir, I beg to move:

"That the Bill further to amend certain laws relating to duties of excise for the purpose of introducing metric units in such laws, as passed by the Lok Sabha, be taken into consideration."

This is, in essence, a simple conversion measure and I do not, therefore, propose to dilate at length on its various provisions. The House will, no doubt, recall that the Standards of Weights and Measures Act was placed on the Statute Book in 1956. It contained specific provision that the metric system should be adopted in the country within a period of ten years. The provisions of that Act have already been brought into force in many parts of the country and in respect of a number of industries. The time has now, therefore, come to adopt that system for the purpose of levying and collection of the Central excise also.

As the House is aware, the bulk of Central excise duties is collected under the Central Excises and Salt Act, 1944. However, some of these duties are also levied under other Acts, such as the Additional Duties of Excise (Goods of Special Importance) Act, 1957 and the Mineral Oils (Addi-

tional Duties of Excise and Customs) Act, 1958. As the duties under all these Acts are levied and collected through the same agency, namely the Central Excise Department, it has been proposed to amend all these Acts through a single Bill, so that the units of assessment in respect of all the commodities liable to a duty of excise under these various Acts could be expressed in terms of metric units.

In respect of many of the commodities, the exact metric equivalents of the existing units and rates work to fractional figures running into several places in decimals. The adoption of these exact equivalents in such cases will cause considerable inconvenience by way of additional arithmetical calculations both to the tax-payer as well as to the Administration. Some rounding off resulting in marginal variations in the incidence of duty is thus inescapable.

DR. R. B. GOUR (Andhra Pradesh): By this rounding off you will get more money.

DR. B. GOPALA REDDI: No, not much.

In such cases, an attempt has been made, therefore, to round off the converted rates to the nearest whole and half naye paise. In a few cases however, it became necessary to depart from this broad principle of rounding so as to avoid major variations in revenue and the figures have been rounded to the nearest first place in decimals.

This opportunity has also been taken to re-arrange the tariff schedule on a more rational basis. It is also proposed to delete from this schedule certain preferences in rates in favour of the small-scale units producing paints and varnishes, woollen fabrics and matches. In common with most other items where too, such preferences are enjoyed, these concessions will, however, be