

know by now that the Governor is not a part of the Government.

SHRI BHUPESH GUPTA: He is the head of the State.

SHRI HUMAYUN KABIR: My hon. friend should make a distinction between the head of the Government and the head of the State. An experienced lawyer and politician like him should not make this confusion.

The only other" substantial change that I am introducing is a clause giving the Central Government the power to issue directives to Trustees on matters of general policy. The House is aware that in all . . .

DR. H. N. KUNZRU: And also to make rules under the Act.

SHRI HUMAYUN KABIR: I was coming to it, and the rules will be placed before the House.

Sir, the House is aware that in all recent legislation the Government have reserved the power of issuing directives on questions of national policy. Such directives are not issued usually but whenever they are issued, they are subject to the control of Parliament. Parliament has an opportunity of expressing its views and I hope that so long as democratic Government functions, Parliament will support such directives. In the case of an autonomous body like the Indian Museum, the power of issuing directives is even more necessary as any directive issued by the Government is subject to parliamentary control while at present the Board of Trustees of the Museum is not responsible to anybody at all. The only way that control can now be exercised is by withholding grants, and I am sure that the House will agree with me that this is the worst method of exercising control. It should be through persuasion and discussion rather than by any such method.

There are two other clauses to which I would like to draw the attention of the House. In the Statement of Objects and Reasons you will find that the Trustees will be required to prepare and submit to the Central Government before a prescribed date their budget estimates for the next financial year. Now, this is so obvious a measure that I do not wish to expand on it and I am sure that the House will accept the need that the Trustees ought to present their estimates sufficiently in time so that they can be included in the budget for the succeeding year.

By another amendment it is proposed to provide that the recruitment and conditions of service of the officers and other employees appointed under the Act shall be regulated by rules made by the Central Government. Now, all rules made under this Act will be placed before Parliament and they will be there for a certain period before they become operative so that Parliament has an opportunity of expressing its opinion on any rules that may be framed. Under the present Act the position is ambiguous.

MR. DEPUTY CHAIRMAN: You will take some more time, I suppose.

SHRI HUMAYUN KABIR: Yes, Sir. Just two or three minutes more.

MR. DEPUTY CHAIRMAN: At 3 I o'clock we have some other business. You will continue tomorrow.

3 P.M.

MOTION RE CLOSURE OF PALAI CENTRAL BANK

SHRI B. K. P. SINHA: (Bihar): Sir, I beg to move the following motion:

"That the situation arising out of the closure of the Palai Central Bank be taken into consideration."

[Shri B. K. P. Sinha.]

Sir, in its Report Trends and Progress of Banking in India in the year 1959' the Reserve Bank observes as follows:

"The system of periodical inspections and constant supervision instituted by the Reserve Bank has been yielding progressively satisfactory results and contributing to the stabilisation of the banking system as a whole."

Sir, within a few months of the publication of this Report we have had two bank failures of not very minor magnitude in this country. That indicates that even now we should not be complacent about our banking situation. There is something wrong somewhere and something wanting in the banking system and those responsible for the banking system and structure of the country should apply their minds to the removal of whatever defects there are. Sir, it is not my purpose to hold any post-mortem examination or autopsy into the affairs of the Palai Bank nor into the actions of those who may immediately be said to be responsible for the liquidation proceedings, for still an endeavour is ruled out or prohibited by the language of the motion itself.

Sir, the Reserve Bank is the custodian of the banking structure of the country. The Reserve Bank is in the full know of all that happens and goes on in this field. If the Reserve Bank, with its full knowledge of the affairs of this Bank and banking in general, decides to take a particular step, I for one would not question the propriety of that step or the wisdom of that step. Moreover, when three senior officers drawn from the same region in which the particular bank that we are discussing is situated decide to take a step, their decision must be based on full knowledge of the banking system and structure

and the banking needs of that region. Therefore, even as to the question of timings, I would not question either its propriety or its wisdom. The Reserve Bank's actions and timings could only be questioned on the ground of *mala fides*, and in the long debate that has gone on over this affair I find no suspicion of *mala fides* has ever been alleged against the Reserve Bank. In the circumstances, I would like that we address ourselves to some of the more important issues that arise out of the closure of this bank

Sir, the deposits of eightyfive thousand depositors, it seems, are now congealed because of that liquidation, and it looks as if in the process of time these congealed deposits may considerably gasify. Five hundred employees have been thrown out of employment; shareholders, it need not be said, have lost in their shares all that they had before. In this debate, Sir, I find that the whole attention has been monopolised by the humanitarian aspects of this debacle. But then there are other more important and fundamental aspects of this bank's closure.

Banking, Sir, is the grease that oils the machinery of the modern industrial state, the modern commercial system. Bank deposit and bank credit is money in circulation. When a portion of that credit, a portion of that money resources, is congealed by some action or by some proceedings, it affects the mobility of the quantum of the money resources that serve modern economic life. Moreover, of late, we have been at pains to mobilise the savings of the people and with this view the State Bank has been directed to open 400^f branches, especially in areas with a population of less than 30,000 and, Sir, a great endeavour has been made in this respect and that endeavour has been successful to a large extent. I feel that because of the failure of the Palai Bank as "also of the Lakshmi Bank this process of mobilisation of savings will be affected; people's faith in general in the banking system will be affected and people may, by and

large, consider it wiser to lock all their savings in fixed assets, gold and other things, instead of putting them in the banks. And if this process goes on, our Plan is likely to be affected, because the success of our Plan depends on this successful mobilisation of small savings in every part of the country, especially in the villages.

Sir, now the main question to which the Finance Minister and the Reserve Bank should address themselves is how to restore the loss that this credit or this monetary structure has suffered, because of its failure. I am told, the quantum of deposits is to the tune of Rs. 8i crores. How to restore the loss of this quantum of monetary resources is the main question to which the hon Finance Minister should address himself. I feel that this can be done profitably by some expeditious disposal of the liquidating proceedings. I find that according to section 39 of the Banking Companies Act the Reserve Bank can be a liquidator, the State Bank can be a liquidator or some other bank indicated by the Reserve Bank can be a liquidator. I do not know what *the exact* proposal in regard to this bank is. I feel that the Reserve Bank or the State Bank should be a liquidator for these proceedings. Then proceedings should be expedited, because as is known generally, they take a very very long time. For this purpose, if necessary, an ordinance may be promulgated after Parliament rises for recess on the 9th of September. Moreover, I feel that there should be a quick assessment of the assets and liabilities of the Palai Bank pending the liquidation proceedings, because a full assessment under the normal procedure prescribed either by the Companies Act or by the Banking Companies Act is likely to take a very very long time. And that quick assessment, in the very nature of things, is likely to be a rough assessment, but based on that rough assessment and quick assessment payment should be made to the large body of depositors whose money is locked today in the Palai Bank.

Then, Sir, the Finance Minister has very charitably proposed to raise the limit of preferential deposits under section 43A from Rs. 100 as fixed before in respect of savings bank deposits to Rs. 250; in respect of all sorts of deposits, Sir, I would urge for his consideration whether it is not possible for him to raise this limit still further, up to a sum of Rs. 1,000. Then again, Sir, I feel that it is not proper to urge for his consideration that extreme step which people have been urging, that this Bank's assets and liabilities should be taken over by the State Bank, because the loss of eighty-five thousand depositors or eighty thousand depositors, whatever that number may be, has in that case to be borne by the large body of taxpayers. I do not think that under the system of private banking this is a very justified step that is being suggested. But then, would it not be possible for some institution to come up and take up the assets of this bank as they are and the liabilities as they are assessed after fully going into the accounts? In that case there would not be a rude jerk to the people affected and this bank, either in a new form or as a subsidiary of the Travancore State Bank, may continue its activities. Now, I feel that it is time that we thought seriously of a scheme of deposits insurance. Deposit insurance is nothing new. I find that in the U.S.A., this has come down from the year 1829 when banking or the industrial resources of the U.S.A. were not very well developed, not even as developed as our resources are today. In 1933 they had a national legislation. The Shroff Committee in 1954, recommended a legislation of this character so far as Indian banking was concerned. We were told that the time was not ripe. I feel that after these two bad failures, it is pretty well indicated that we should have something like the deposit insurance legislation in this country also. If we do not have that, it will be difficult for the faith of the people in the banking system to revive and that will seriously affect the mobilisation of savings and the implementation of our Plans.

[Shri B. K. P. Sinha.]

In the end, I would draw the special attention of the Finance Minister to Borns special features of banking in Kerala. Now, Keraia is a classical State of small banks. It is a State where the largest number of banks opera'e. It is a State where you have the largest number of small banks and the largest number of banking offices. The offices In India are 4,851 and in Kerala only there are 624. It comes to 12 per caït. or 14 per cent. of the total banking offices while the population is only 4 per cent. Out of these 624 banks, the non-scheduled banks have 393 offices and on the population basis, for a population of 25,000 and less, Kerala has the largest number, namely 324. This does not indicate a very healthy system of banking and therefore I find that in 1959, while the total number of offices tha' were closed throughout India was 94, in Kerala only out of those 94, ther ■ were 51. So it seems to me that in Kerala the banking system is of a special type. It has a special problem and therefore it must have some special remedy. I would like to urge on the Finance Minister and the Reserve Bank whether it is not possible to have a special banking legislation for the State of Kerala, aiming at the stabilisation of the banking system aa a whole.

The question was proposed.

MR. DEPUTY CHAIRMAN: I have before me a list of 10 names. We have only 2 hours for the discussion.

SHRI BHUPESH GUPTA (West Bengal): You have 10 names. In the other House, initially two and a half hours were fixed and then, because a large number of Members wanted to speak, the Speaker, was pleased to extend the time. It is at your discretion to extend.

Ms. DEPTTTV rWATRMAN: Hon. Members will each take ten minutes and I will call the hon. Minister to

speak at 5 P.IVJ, and thereafter the Member can reply.

SHRI M. S. GURUPADA SWAMY (Ifyssre): Mr. Deputy Chairman, Sir, we have raised this special debate on this important issue because we felt that the statements made by the Finance Minister and his Deputy during the last few days in regard to the closure of thie bank were not very satisfactory and I, for one, thought that the statements by them do require further clarification. I have got the statement by the Finance Minister—placed before the House on the 22nd August—and he has said there in the last paragraph:

"Suggestions have been made in some quarters that Government should come to the direct assistance of the depositors of this institution. It is not proper to ask the general tax-payers to pay for the loss of an individual concern , .

Before going into the other aspects of the question, I just want to ask him whetiier, before drafting this statement, particularly this paragraph, he has been satisfied thoroughly about the way the Reserve Bank has behaved in dealing with the affairs of the Palai Bank. Sir, in the Banking Companies Act, powers are not wanting to control the affairs of any bank. Perhaps the largest possible powers—very comprehensive indeed—have been given to the Reserve Bank, not only to supervise the affairs of the banks in general but also to intervene under certain conditions. The hon. Finance Minister seems to be under a misapprehension that the powers granted to the Reserve Bank are only supervisory and they only confer certain powers of indirect control. I have no time to go in detail into all the provisions of the Act but I say that the provisions in the Act confer sufficient authority on the Reserve Bank to even interfere. To quote snmp instances, if the directors, managing director or the other officers of a bank mismanage or misbehave.

then action could be taken. Even the appointment of the officers of the executive of the banks has to be done after taking the prior approval of the Reserve Bank. The Finance Minister is perhaps aware that some time back an officer, I think the General Manager, of the United Commercial Bank committed certain wrongs—of a very minor nature—but a directive was issued by the Governor of the Reserve Bank to the United Commercial Bank that that officer should be removed forthwith and he had to be removed within 24 hours. No such action was taken in regard to the Palai Bank although the affairs of the Palai Bank were not very good for many many years. No action was taken in this case, whereas in the case of the United Commercial Bank, the Finance Minister, or the Reserve Bank, thought it fit to take action. Then again, Sir, the Act provides that the Reserve Bank should assist any banking institution if it is in difficulties. It may warn; it may caution and it may prevent or prohibit any bank from entering into any transaction, but I want to know whether any of these provisions were used by the Reserve Bank. I am afraid they were not. We are now faced with a very peculiar situation. Either the Reserve Bank has got vast powers, or it has not. If it has got vast powers, which I believe it has, then these powers have not been exercised by the bank in the past. So, this House is entitled to know as to why the Reserve Bank and the Governor of the Bank had completely failed to take any steps to save this banking institution from going to ruin. If there have been sticky advances, if there has been mismanagement, the bank should have been warned, but, every year, the Reserve Bank had been getting the statements from the Palai Central Bank which were published. On the strength of this publicity, advertisements used to appear in the papers inviting deposits, and the Government and the Reserve Bank permitted the depositors to go and deposit in the Palai Central Bank. If such a thing as mismanagement had been there, the people should have

been warned not to do so. It is a funny thing that the Finance Minister thought that this did not require any warning to be issued to the bank, that this did not require any intervention on the part of the Government or on the part of the Reserve Bank, but yesterday we read a statement issued by the Finance Minister in respect of the Punjab National Bank. That statement was issued to the P.T.I., perhaps; the P.T.I., I hope, did not go and demand a statement from him.

SHRI BHUPESH GUPTA: That has to be found out.

SHRI M. S. GURUPADA SWAMY: That has to be found out, as my hon. friend says, whether the P.T.I. wanted it or whether he himself volunteered the statement.

THE MINISTER OF FINANCE (SHRI MORARJI R. DESAI): Better ask the P.T.I.

SHRI M. H. SAMUEL (Andhra Pradesh): The P.T.I. might have gone and interviewed the Finance Minister on the situation.

SHRI M. S. GURUPADA SWAMY: Perhaps.

SHRI MORARJI R. DESAI: Why perhaps? It is a fact.

SHRI M. S. GURUPADA SWAMY: If it is, I will accept it, but anyway, that statement makes very astonishing reading. The Finance Minister has given a fine chit to the Punjab National Bank in that statement. He says that some mischievous elements are responsible for this run on the Bank, and again says that he has absolutely no doubt about the credit-worthiness or the soundness of this institution. After all, there was a run only for two days on the Punjab National Bank, but, in the case of the Palai Central Bank, there was a run for more than two days, I suppose, there was no statement of the lines of the statement issued in respect of the Punjab National Bank. If the statement was necessary in respect of

[SHRI M. S. GURUPADA SWAMY:] the Punjab National Bank, it was all the more necessary in respect of the Palai Central Bank. I do not know why the Finance Minister has made this distinction, and made such a hurry to issue this statement

SHRI MORARJI R. DESAI: I did not issue any statement.

SHRI M. S. GURUPADA SWAMY: Whatever it is, the statement is there all right. It may be that the P.T.I. asked him to issue or that he made the statement voluntarily; whatever it is, I take it that it is his statement.

SHRI MORARJI R. DESAI: You can say whatever you like.

SHRI M. S. GURUPADA SWAMY: Since the time at my disposal is short, I shall confine myself to one or two points. The first is whether the step that was taken in regard to the Palai Central Bank was proper or not. I feel, Sir, that no alternative was thought of by the Reserve Bank or by the Government. There were many alternatives. It was possible to amalgamate this bank with some other bank. In the past, I think two years back, when the Bank of Bhopal was in trouble, it was amalgamated with the United Commercial Bank. The same step could have been taken in this case also but that was not done.

SHRI K. SANTHANAM (Madras): Was there any bank willing to have this bank amalgamated with it?

SHRI M. S. GURUPADA SWAMY: That has to be explored. I want to know whether this thing was explored. I want to know this from the Finance Minister. Was there any attempt on his part to find out whether amalgamation could be possible in this respect? Again, I want to know whether it was not possible for him to amalgamate it with the State Bank of India. Of course, the Finance Minister says that he cannot take the responsibility of such heavy liability. I do not want him to take this heavy responsibility, but what I want him to do

is to save the bank and utilise the entire machinery of that institution for the benefit of the country. Here, I feel that the Finance Minister should have come forward with the suggestion to have this bank as a branch of the State Bank or to have this bank amalgamated with the State Bank, but that was not done.

Finally, Sir, there are so many doubts about the closure of this bank. The time at my disposal is not enough and, therefore, I cannot go into the details, but however, I want him to set up a committee to probe into the affairs of this episode. We are not satisfied with the statement which he has made, and we are not completely convinced that the action taken by the Reserve Bank in respect of the Palai Central Bank is justified. I feel strongly that a probe is necessary. A committee may be set up to enquire into the whole episode so that we may know the full story, the full truth about this matter. Thank you, Sir.

SHRI T. SRINIVASAN (Madras): Sir, I would begin by appealing to the Finance Minister to reconsider the manner in which he is getting behind the Reserve Bank and supporting their action, because I too believe that there are certain elements in the process by which the winding up of the bank has been ordered which do require reconsideration. For example, Sir, just a couple of months back, the Reserve Bank ordered an inspection of this Palai Central Bank. On the 1st July, they proposed to the bank the appointment of Mr. Sivaraman as the General Manager. On the 21st they wrote to the Palai Bank telling them that there were certain defects which, unless rectified within a period of one year, would make them refuse to grant the licence. They also said that they would give one month for the Palai Bank to reply to this letter. That was on the 21st. On the 25th, the General Manager proposed by the Reserve Bank and appointed by the Palai Bank, issued a circular to all

toe managers of the branches telling them that they should expand their business of lending so as to earn profits for the bank. That was on the 28th, and on the 8th of August the Reserve Bank issued orders for the liquidation of the Palai Central Bank. What has happened between the 21st of July and the 8th of August that a kind of blitzkrieg should have been declared against "he Palai Bank? So I would request the Finance Minister to go into it and act as a kind of an umpire between the Palai Bank and the Reserve Bank as in fact he is bound to do because the Reserve Bank have got powers not merely to inspect but they have got the right and the duty to act as a friend, philosopher and guide of the banking movement in India. The Central Bank in America or in England has got the right and the duty to advise the banks under them and when they go wrong to show the red light and not to take up a knife and apply it to their neck. What I feel is that in this Palai Bank business the Reserve Bank has not acted with the caution and with the restraint and with the impartiality with which the Central Bank of a country ought to act. They are acting as a kind of dry nurse in respect of banking movement ordering suspensions and liquidations. I would propose to the Finance Minister to reconsider whether he cannot make use of this occasion to propose to the Reserve Bank a more constructive role.

Then, Sir, if you would allow me, I would like to place before the House an unseemly aspect. In March, 1958 the Reserve Bank asked the Palai Bank to give details of deposits made by Catholic institutions and churches and also of deposits made by Christian gentlemen or the gentlemen of the Christian faith. With all respect, I ask, is it the business of the Reserve Bank to enquire into these matters? Is it a religious test? Is it an inquisition? Is our money tainted? Why should the Reserve Bank know about the deposits? If they had asked

about the advances taken by them I would say there was at least some justification. Sir, I leave it at that. I leave it to the arbitration of this country and of this House and of the Finance Minister above all in whose shining impartiality we have got the greatest confidence.

Only one thing more and that has been stressed by the hon. Member who spoke before me. Sir, in our country we have to nurse the banking habit. Here is a bank which had attracted Rs. 9 crores of deposits; in my own State of Madras Rs. 98 lakhs and in Delhi about more than a crore. People hereafter will say, 'why should we put money in a bank? And in fact in one or two weeks the repercussions of the closure of the Palai Bank have affected the second largest private bank in India. I would ask the Finance Minister to consider what would happen if the banking habit is discouraged thus in the very beginning.

As regards the figures, I do not want to go into them because I have not got the time but I am afraid the figures also have not been presented in the proper manner. For example, I am connected with a small bank in a very small way. They allowed us to go in the matter of ratio of advances to deposits up to about 60 to 65 per cent. The Palai Bank did not even go up to 60 per cent. The ratio of advances to deposits did not touch 60 per cent. I looked through the last statement which they sent to the Reserve Bank before the closure was ordered and I find that for the Rs. 8 crores or so deposits which they had taken, the clean securities that they had, cash, government securities, balances with other banks, etc. amounted to nearly Rs. 5 crores and if easily realisable assets are also added, even today you could get 12 annas for every rupee of the deposits, if not more. I am afraid the Reserve Bank has been carried away by certain technical considerations. What they meant by sticky advances is this. When you put your advances on land,

[Shri T. Srinivasan.] naturally it is sticky even physically, but remember that land is sky-rocketing in value. What is worth Re. 1 today will be worth Rs. 2 tomorrow. I...am afraid the men sent by the Reserve Bank were not experts in assessing the proper value of the coconut groves, the estates and the rubber Plantations of Keraia. They were merely., accustomed to commercial transactions. I am sure if the Palai Bank were given a decent chance or if it were amalgamated with somebody else instead of being ordered to close down as has been done, every pie of it will be realised. Sir, the Syrians and the Jews are the greatest moneylenders of the world; you are not going to teach them a lesson in lending money. I would appeal to the Finance Minister to consider the non-economic implications of this action. In Kerala troubled by so many political difficulties and which is beset with such a big unemployment problem, we will have a hard and heavy reckoning when we go to them a year and a half hence.

SHRI K. M. PANIKKAR (Nominated)
: Mr. Deputy Chairman, the crash of the Palai Central Bank has undoubtedly been a tragedy which has attracted a great deal of retention all over India. It has been the subject of very detailed discussion in the other House and in the newspapers all over the country. And the Finance Minister by his firm and decisive statement has set at rest all the jejune proposals which had been made by various people to reconstruct the bank or to do various things which were beyond the realm of practicability. Therefore much of what we do today is by way of post mortem, of looking into what had happened in the past perhaps with a view to seeing that things do not happen in the same manner over again. That is the only justification that could be found for a detailed discussion at the present stage.

Looking into this question from that point of view one thing seems

clear. The affairs of the Palai Bank came to the notice of the Reserve Bank in 1951. The irregularities of procedure or the unorthodoxy of its banking methods became known to the Reserve Bank at that time. Then the deposits of the Palai Bank were only Rs. 4½ crores. The Reserve Bank no doubt began nursing this institution, giving them advice, telling them what to do, asking them to correct their methods, to rectify their procedures and all that. What has been the result? The result has been that the deposits doubled by the time it was decided to intervene and close the bank by a process of liquidation. By that time the public of India had invested Rs. 9,80,00,000 in that bank. Why? Because they were under the impression that the Reserve Bank was advising it, that the credit of the Reserve Bank was behind it, that there was in some form or other the support of the Reserve Bank to this scheduled bank. It is this undoubted fact that gave confidence to the public to go and invest money in the Palai Bank and therefore there is a moral responsibility which the Reserve Bank has undoubtedly to shoulder in the crisis that has arisen. It is no use saying that we did not have the authority to do various things which we should have done. I am told that from 1954 the Reserve Bank had an observer at every Directors' meeting of the Palai Bank. Whenever the Palai Bank Directors met from 1954, an officer of the Reserve Bank was present. He knew everything that was happening. There was nothing that was kept back from him and yet if all that the Reserve Bank could do was to give advice or ask for explanations but not take effective action, then there was certainly something wrong either with the working of the Reserve Bank or with the powers that it possessed. The Finance Minister in his statement said that one had to be very careful in dealing with matters of credit, in dealing with institutions dealing with public credit. One has to go very slow; one has to be very patient. No

doubt one has to be very patient and very careful but if the patience and the care that the Finance Minister and the Reserve Bank show lead only to a very severe action later, lead only to an attack on the bank itself at a later time, then surely that procedure requires some change. Is there no intermediate stage or intermediate procedure between ineffective advice and asking for liquidation? If there is, why is it that the Reserve Bank did not follow that procedure? We know now that two months ago the Reserve Bank was able to have a manager appointed to the Bank. We have also been told that a proper balance sheet was prepared a year ago, which showed Rs. 11 lakhs loss. Surely, this could have been done much earlier. What reason is there to think that a more proper balance sheet could not have been prepared earlier showing the true nature of the Bank's position and why had we to wait till 1958 for that purpose? Again, it seems quite obvious that the Reserve Bank either because it has not had the power or because it did not enforce the power, was not in a position to make the Bank take effective action to rectify its own procedures. If all that the Reserve Bank can do is to point out ineffectively that such and such things are wrong, that such and such things should not have been done, that you should do such and such thing, without being able to enforce the advice given or the direction issued, then surely the Reserve Bank Act requires some change. That is the most obvious thing that strikes one. Why has not the Finance Minister come before Parliament, and said: "Unfortunately the Banking Companies Act in this country does not give us power to rectify the misdeeds of scheduled banks, and therefore we want more power". If such action had been taken, then there was some justification for the point of view which has been put forward that the Reserve Bank was in an ineffective position, that it could only advise, that if that advice was not taken, they could only

take the bank to liquidation. That I do not think is the correct position. The Banking Companies Act, I am told, gives much greater power to intervene; to see that the banks carry on their activities properly, and *if* that is the position, then surely the Reserve Bank could not be said to have come out with flying colours in its dealings with the Palai Central Bank.

There is one further point which I feel necessary to emphasise. We are all told of the miseries of the depositors. Undoubtedly the depositors have to be looked after. They went there for the sake of profit. Because they found that a higher rate of interest was given by the Palai Central Bank, they went and invested their money there. They took the risk. Our sympathies go to them and we should do whatever is possible to see that their interests are safeguarded. But what about the debtors to the bank? The debtors' position is very much more serious. And the honest debtor who took money from the bank for purposes of improving his business, for carrying on his business, is put in a very much more difficult position by the liquidation proceedings that have been started. The Finance Minister has very kindly said that depositors should be paid up to Rs. 250 without further delay. Now, consider the position of the honest debtor of the bank, the man who thought that his business was flourishing, who wanted to improve his business, who wanted to expand his business and for that purpose took a loan from the bank with every intention of paying the due amount of interest. Now, what is it that is going to happen to him? He is to be asked by the liquidator to pay up everything. If he does not pay, his assets are to be sold. So, the man to whom our sympathies should go is not so much the depositor who had the money and put it there, but the honest debtor whose position is rendered impossible by the liquidation proceedings in the case.

[Shri K. M. Panikkar.] You may think this is a strange point of view. But it is far from that. Look at the case of an ordinary businessman. He has his own business which he is carrying on satisfactorily. He goes to the bank and says, "Give me Rs. 2,000 advance, so that I can expand my business". His business is given as a security. Now, suddenly liquidation proceedings are started against him.

SHRI BHUPESH GUPTA: The depositors' money is in his hands.

SHRI K. M. PANIKKAR: Quite true. What do the banks exist for? Banks exist for lending money and it is the person who has taken the money who is now being squeezed. Undoubtedly it is other people's money that is in his hands, and normally he would pay it.

SHRI K. SANTHANAM: He has to pay only in due time. He has got a period of time to pay up.

SHRI K. M. PANIKKAR: But if it is a continuing advance for the purpose of betterment of his business . . .

SHRI BHUPESH GUPTA: Let us first shed tears for the depositors and then if any is left, we can shed them for debtors.

SHRI K. M. PANIKKAR: I do not shed any tears for the depositors. They took the risk out of a desire for higher profits. They will in any case get at least 12 annas or 15 annas in the rupee in due course. But it is the man who has borrowed money for the purpose of improving his business, who has a programme of improvement, who will be squeezed, who will be put to pressure and it is his position that becomes really difficult. After all, how many are the depositors? They are supposed to number eighty thousand but the debtors to the bank will be very much larger. It is the community of business people who are involved and the squeeze, the pressure that is put on them, will

be very much greater. And my own suggestion to the Finance Minister is this. Please also look after the interests of those people; otherwise it is their business that suffers.

SHRI BHUPESH GUPTA: That he will do in any case. He likes businessmen.

SHRI K. M. PANIKKAR: The whole point comes to this. A banking crisis is always a very bad thing because it affects inoffensive people. But I think there are people who are offenders in this matter. I trust they would not be let free to go and cheat other people over again. In a public calamity like the failure of a bank we have to take into account not only the suffering which results, but also to determine the responsibility of those who either by criminal neglect or by misfeasance brought it about. In our sympathy and sorrow for the depositors we will not forget the guilty men; I trust you will keep both in mind.

SHRI JOSEPH MATHEN (Kerala): Mr. Deputy Chairman, I am here just to bring before this House certain facts and figures and circumstances that led to the crash of the Palai Central Bank. I have not the least intention to apportion blame for the crash of this bank, but still it is my duty to point out some of the facts. The bank was started in the erstwhile State of Travancore in the year 1927 and had been successfully functioning till the last day. It had an asset of nearly Rs. 10½ crores and it was functioning in most of the important cities and towns of Kerala. It had a few branches in Madras State, one branch in Mysore and two branches here in Delhi. Hitherto people were under the impression, because of the efficiency of transactions in this bank, that it was doing good business and there was no trouble. Most of the industrialists in our State, the agriculturists, planters and even the co-operatives were depending on this bank for furthering their business. The co-operative societies were

directed even by the State to invest their balance amounts in this bank, whereby more than one hundred societies have invested large sums of money in this bank. Because of the failure of this bank great confusion prevails in the State. Over and above the sufferings of the depositors, people in general in the State have begun to feel that almost all the banks are thoroughly unreliable. It has come to that. On the 21st July 1960, the Reserve Bank sends a letter to the Palai Central Bank advising them to take certain steps which they had pointed out in their inspection report. Thereby the Reserve Bank thought that within one year, if proper steps were taken, the bank would be brought to a normal situation, to a sound condition. So, on the 21st July it is quite evident that the Reserve Bank believed that this Bank could be rectified if proper measures were taken within one year, the measures which they suggested in the inspection report published in the first week of July. They were given 30 days' time to write to the Reserve Bank whether the suggestions given by the Reserve Bank were acceptable or whether they had any comment on the report of the Reserve Bank. But instead of waiting for such an action to be taken by the Palai Central Bank, all of a sudden on the 8th of August the Reserve Bank applied to the Kerala High Court for the liquidation of the Bank, and a provisional liquidator has been appointed and he is now progressing with the liquidation proceedings.

Sir, I do admit as does the Finance Minister that the immediate cause for taking liquidation proceedings against this bank was the run, but I lay the entire responsibility for the run on the Reserve Bank. While the Reserve Bank had given one year's time for this Bank to rectify its mistakes, what business had it to interfere in its administration and to shake the confidence which the people had in this bank by directing it to appoint one of its own staff as the administrator of

this bank? Sir, the appointment of an administrator naturally created a panic in the minds of the people. The depositors will not remain silent and they will not wait to see their luck, whether the bank would survive or not. As soon as the report spread that the Reserve Bank had appointed some administrator to the bank, people began to think that everything was not going on well with the Palai Central Bank, and by creating this confusion among the public by the appointment of this administrator of what they called the General Manager of the Palai Central Bank they have really taken the first step for its liquidation. The run was really caused because of the appointment of the administrator, and the administrator, when he took charge, had to face this run.

Sir, the Finance Minister was stating here that the run was caused not because of the appointment of the General Manager but because of the publication of the balance sheet for the last year. That was in March 1960. Sir, in March the balance sheet was published, but for months* together there was no trouble. There was no confusion among the people, there was no run, and according to the Finance Minister the run started only on the 24th of June. Are we to take it that the shareholders and the people in general after having seen the balance sheet in March had to wait for months together to initiate the run? So, Sir, even if the run was caused because of the balance sheet, I would blame the Reserve Bank for having published the balance sheet with a loss. As Mr. Panikkar pointed out, they could have very well published a loss balance sheet years back if they had taken up the same policy. When they had given an ample opportunity for this bank to revive, when they had given an ample opportunity for the rectification of this bank, where was the necessity to change the policy of publishing this balance sheet according to the direction of the Reserve Bank

LSJiri Joseph Mathen.] just to save a few lakhs of rupees and at the same time to curtail the confidence which the people had in the bank? Sir, as the Finance Minister said, confidence is a very delicate plant. You may be able to gain a few lakhs or lose a few lakhs, but once the confidence is lost, once you disturb the confidence, you may not be able to regain it. Sir, how many more minutes I have?

MR. DEPUTY CHAIRMAN: One minute.

SHRI JOSEPH MATHEN: Sir, I may be given five minutes more. I am from Kerala and I have to say so many things.

MR. DEPUTY CHAIRMAN: There are so many people from Kerala.

SHRI JOSEPH MATHEN: The bank was mainly conducting business transactions in Kerala.

SHRI BHUPESH GUPTA: I hope you are not a depositor.

SHRI JOSEPH MATHEN: I am not a depositor. I have not even a single pie in the bank, in any bank whatsoever.

-Sir, with regard to the calculation of assets, I will have to bring to the notice of this House that the Reserve Bank has shown an attitude to stick on to its former statement by even considering the State security as sticky. There is no provision in any Statute whereby the liquidity of a bank can be defined. So, it has almost become a matter of opinion how the liquidity is defined. The Reserve Bank has defined the liquidity as the cash in hand and the borrowing capacity; that is, cash in hand Rs. 50 lakhs, and borrowing capacity Rs. 1 crore; whereas the State security is there minus the borrowings, and cash in other banks, that is Rs. 62 lakhs plus Rs. 40 lakhs in the Reserve Bank itself. Sir, there is the statutory provision, I know, to keep a percentage of the bank's assets in the Reserve Bank. But what

I say that reserve for if it is not to be used at a time when the bank is engaged in a life and death struggle? When we consider all these facts and the action taken by Mr. Sivaraman there was something wrong somewhere when this action was taken, since the run was initiated by the actions of the Reserve Bank. As the Finance Minister has himself come forward to save the Punjab National Bank and other banks, the Finance Minister of the Reserve Bank could have directly taken up the responsibility for rebuilding this bank to bring it to a normal condition. Sir, it was left alone to face the situation since there was nobody interested to revive it.

SHRI P. A. SOLOMON (Kerala): Mr. Deputy Chairman, I was in Kerala just a few days back and I can understand the real position as the liquidation is on. Almost all the private banks are facing a run actually now. Not only that, people do not deposit their savings now in private banks. I think it is a phenomenon not only in Kerala but it is spreading all over the country.

The statement was mentioned here which was made by the hon. Finance Minister regarding the Punjab National Bank crisis. Sir, I would say that this is the time to rethink about the banking industry in our country. As far as Kerala is concerned, if the Government will take prompt steps to organise the small banks into a corporation or to nationalise the banks, the entire financial structure will be much better. That is the real position. So, I would suggest that some steps should be taken to reorganise the banking industry in our country.

Naturally, our demand that the entire banking industry should be nationalised but it may take time. So in the meanwhile, I would suggest personally that banking corporations must be organised in every State under the direct control of the Reserve Bank so that the existing banks

can function as the units of the corporation and all these financial difficulties can be overcome.

With regard to the closure of the Palai Bank, I would say that the hasty action taken by the Reserve Bank has created so much trouble. Of course, the trouble started from 1951. But if the Reserve Bank was earnest in checking the irregularities of the Palai Bank, they ought to have taken some other steps either to organise it or to check its activities earlier in some other way. They should have taken strong steps to stop the functioning of the bank and thus saved the poor depositors all over the country. That was not done. I must say that the Directors of Palai Bank committed the crime. One of my hon. friends has stated that a man was sanctioned a loan on shares and securities. That is not correct. As far as I know—and some newspaper reports also say that—a number of people got money from the Palai Bank against small securities. One of the interesting reports says that one of the sureties included a land the boundary of which was by the side of a backwater. If that surety was correct, then this backwater must have been included in that portion.

SHRI M. H. SAMUEL: Is it a reliable information or a backwater talk? Newspaper reports can be anything.

SHRI P. A. SOLOMON: I came across this report. I will cite another example. The headquarters of the Palai Bank was established in a private building and that private building was built out of the loan from the Palai Bank. This building was occupied by the bank itself. The owners gave it to the bank for rent and they had taken huge amounts as rent, and there was not a single building of their own all over the country. So, I say there were a number of misappropriations and misdealings in this bank but these things were covered by the Directors of the bank. I would say that those

Directors had some political influence with the Central Government itself. I would like to point out one instance. It was said that this bank was facing a crisis in 1951. After that—^ you may remember this incident—one of the hon. Members of the other House suddenly resigned his membership and that was filled up by the then Managing Director of the Palai Bank on a Congress ticket. After that, the Reserve Bank's report was kept in the cold storage. The situation was like this. There was political pressure exercised by the Directors, directly or indirectly, on the then Central Government and on the Finance Minister, I would say. Of course, the present Finance Minister was not there in that position then. I know that. Anyhow, from 1951 onwards up to 1960 these things were dragging on. Not only that. I earnestly believe that this was done because . . .

SHRI M. H. SAMUEL: You are arguing against yourself.

SHRI P. A. SOLOMON: I am arguing against the Directors of the Palai Bank.

SHRI BHUPESH GUPTA: If the Director came to Parliament that way, well, the presumption is that it was for exerting political pressure and that someone must have vacated his seat.

SHRI P. A. SOLOMON: Anyhow, these things have happened. We are concerned

SHRI BHUPESH GUPTA: And cash.

SHRI P. A. SOLOMON: . . . with the employees of the bank as well as the depositors. Any steps which will help safeguard the interests of the employees as well as those of the poor depositors will be welcomed by us. I would make one suggestion in this direction. Of course, the Finance Minister has already stated that they cannot take steps to reorganise the same bank and that there is no proposal to take steps to amalgamate

[Shri P. A. Solomon.] it with any other bank. My suggestion is that the State Bank must be appointed as the liquidator and that things must be speeded up. That is the thing. Actually, the employees of the bank are between the devil and the deep sea. They do not know what will happen to them and they are actually facing a crisis. So, some steps must be taken to safeguard their interests. They must be absorbed in the State Bank or any other bank and thus, they must be saved from this disaster.

Finally, I would say that we are proceeding in the matter under the Banking Companies Act. That is not sufficient. So, I would suggest that some steps must be taken against the Directors under the Criminal Procedure Code. According to the present law, the liability of the members—not only of the shareholders but of the Directors also—is limited. If we proceed in accordance with the Banking Companies Act, it will affect the shareholders and also the Directors. So, some steps must be taken against the Directors according to the Criminal Procedure Code.

That is all what I want to say.

SHRI JASPAT ROY KAPOOR (Uttar Pradesh): Mr. Deputy Chairman, the failure of the Palai Bank, the favourite of the small depositors, has indeed been very unfortunate, it has hit not only the small depositors but it is also going to hit the large number of employees of this bank which had many branches in different parts of the country. What is worse still is that this failure has shaken the confidence of the general public in the banking institutions of the country to a certain extent, and that is what should attract our attention more than any other aspect of the question. We know, Sir, that during the last two or three days there has been a run on a particular bank, the Punjab National Bank, and more or less there is a run on other banks also though there may be no

valid justification for such a run. In the morning papers we read that the hon. the Finance Minister said something about the financial position of the Punjab National Bank. He is further stated to have said that if he gets an opportunity he would say something more on this subject in Parliament or at least repeat what he is stated to have told to some press correspondents. If the hon. Minister is pleased to repeat what he is stated to have told to the press correspondents, I am sure it will go a long way to reassure public opinion and will create confidence in the public about the various banks in the country.

Sir, the Palai Central Bank has attracted our attention considerably because of the fact that even in the city of Delhi there were about 25 to 30 thousand depositors and most of them, quite a large number of them,—are Government servants coming from the south. They are small and poor people and because of this reason our sympathy specially goes out to the depositors.

The Reserve Bank, Sir, has come under considerable fire though without much justification. It is said that it should have taken active and effective steps much earlier. Some other people said, as the hon. Minister said in his statement, that it has stepped in a little too early. Well, Sir, it would not be wise, I think, for the Reserve Bank to step in at a very early stage in all cases. I do not think there was any undue delay on the part of the Reserve Bank in stepping in. Perhaps it has stepped in at the right time.

Sir, one thing that has emerged out of this incident is that the powers of the Reserve Bank are not effective enough, are not strong enough, are not wide enough to protect the interests of the depositors and it is high time, therefore, to pay serious attention to the question as to in what manner the Reserve Bank Act should be amended so as to vest the Reserve Bank with greater and really effective

powers to see that the various banks in the country carry on their work properly and do not squander away, in some cases, the hard-earned money of the depositors.

Now, what should be done with regard to the poor depositors of this bank? I would submit, Sir, that immediate steps should be taken to pay to the depositors as much as possible. They must be paid immediately as much as may be possible. We should not take a too rigid, a too niggardly and too legalistic a view of things. Immediate steps should be taken to enact the necessary legislation, if it be necessary at all, to see that the largest possible amount is paid in the shortest possible period of time.

Suggestions have been made and rightly, and I agree with them, that some bigger bank—the State Bank, the Reserve Bank or some other commercial bank or a number of them coming to co-operate in the matter—should take over the assets of the Palai Central Bank and should advance against those assets as much money as they possibly can consistent with the value of the assets, not the immediate value but the long-term value of the assets. If we do that, perhaps the sufferings of the small depositors can be alleviated to a large extent.

Then, Sir, as I have already submitted, the question has come prominently before us that the powers of the Reserve Bank are not enough. In * this connection, I would submit that immediate steps should be taken to amend the Reserve Bank Act so that it may have greater and wider powers to see that hereafter banks function properly. I have a few suggestions to make in this connection, and one of them is that as soon as the Reserve Bank finds that the affairs of a bank are not going on properly, it may have the power to nominate one person on the Board of Directors of such banks. No doubt it may be said that immediately a

Reserve Bank director is nominated on the bank, the credit of that bank will go down considerably in the market. No doubt to a certain extent, that objection is valid, but at the same time, I think, the public will begin to feel, the depositors will begin to feel, that hereafter at least the affairs of this bank will be conducted on right lines.

Then, Sir, another suggestion that I have to make is that there should be a certain proportion between the capital and the reserve of the bank and the deposit that it takes from the general public. Some banks go on indiscriminately opening branches in different parts of the country without their paid-up capital and their reserves being adequate. I would, therefore, submit that they must seriously consider as to what proportion there should be between the capital of the bank and its reserves and the deposits that it draws from the general public. I can perhaps at this stage make a modest suggestion that at least 5 per cent of the total deposits in any bank must be with the bank in the shape of its capital and reserve and it should not be permitted to go on opening new branches and get deposits more and more without simultaneously increasing its capital.

Then, Sir, it is also very necessary, it appears to me, that we must have a definite legislation providing that whenever necessary various small banks may be amalgamated into one, or a big bank may easily in the shortest possible time take over one or more small banks. The law, as it stands at present, is too cumbersome, and in some cases it does not serve the needs of the situation. Therefore, we must request the Finance Minister to bring at a very early date a legislation providing for easy and speedy amalgamation of banks. Now, many banks in the country are running on right lines but surely there are quite a few whose position is not as sound as it should be. Now, the question

[SHRI JASPAT ROY KAPOOR.] arises as to what is to be done with them. It may not be proper to straightway say; "Bring them into liquidation" and yet it may not be safe to allow them to go on. Therefore, if there is an enactment which makes it easy for these small banks to be amalgamated into one big bank or for one big bank to take over the assets and liabilities of the smaller banks—and there may be other similar possibilities—I think many a small bank not very healthy at the moment may be saved from disaster at a subsequent stage. According to me, Sir, what is more important now is not only that the depositors of the Palai Bank should get as much as possible in the shortest period of time, but that we must place our banking industry on safe and sound lines. That is more important than any other thing and, with that end in view, Sir, the suggestions that I have made, I would submit, deserve serious and careful consideration.

DR. H. N. KUNZRU (Uttar Pradesh): Mr. Deputy Chairman, Sir, I have taken some interest in the affairs of the Palai Bank, partly because it was the largest bank in Kerala and partly because of the manner in which it has been dealt with. It does not seem to me that the statements made by the Finance Minister in the other House were quite satisfactory and I feel, Sir, that this is a question which affects not merely Kerala but the whole of India. It is quite clear, Sir, that the affairs of this bank, as they were, had been known to the Reserve Bank for some years. I shall take it that the charge of the Reserve Bank against the Palai Bank that its Board of Directors were carrying on the business of the bank in a way detrimental to the interests of the depositors is perfectly true. But the point is whether action could have been taken earlier by the Reserve Bank or not.

Now, Sir, the Finance Minister said in the other House that before the

amendment of the Banking Companies Act in 1956, the Reserve Bank was not in a position to take any action against the Bank. But it seems to me that the Act as passed in 1948 contained several provisions enabling the Reserve Bank to intervene, and intervene effectively.

SHRI MORARJI R. DESAI: I did not say that they had no powers before 1956. I said that the powers with regard to giving very effective directives came in 1956; there were other powers even before.

DR. H. N. KUNZRU: I understand the Finance Minister to say that the powers given in 1956 were more effective than those given by the original Act of 1949. But what we are concerned with here is the point whether the powers given to the Reserve Bank by the Act as passed in 1949 could have been effectively exercised or not before 1956.

Now, Sir, under section 20 of the Banking Companies Act the Reserve Bank can, by an order in writing, prohibit a banking company from granting any loans or advances or impose such restrictions on the grant thereof as it thinks fit and may, by a later order, direct the banking company to secure the repayment of any such loan or advance within such time as may be specified in the order. If you see section 21 of the same Act, you will find that the Reserve Bank had the power, under the original Act, of issuing directions to any banking company as to the purpose for which advances might or might not be made. Again, Sir, under section 35 after receiving an inspection report the Reserve Bank could go so far as to prohibit the banking company concerned from receiving fresh deposits. Lastly, Sir, under section 36 the Reserve Bank, after receiving an inspection report, could issue an order asking a banking company within such time as might be specified in this order to make such changes in its management as the Reserve Bank might consider

necessary in consequence of the state of affairs disclosed during or by the inspection. I grant, Sir, that the powers of the Reserve Bank were extended by the amending Act of 1956, but were the powers contained in the original Act, which I have already referred to, sufficient in order to deal with this problem or not? I think, Sir, that these powers which the Reserve Bank possessed before 1956 were enough, had they been used to compel the Palai Bank to improve its management.

Then, Sir, the Finance Minister said during the course of the discussion in the Lok Sabha that the Palai Bank, though it was a scheduled bank, had not been licensed under the Banking Companies Act and it seems that he thought that that prevented the Reserve Bank from intervening or from issuing any orders with regard to the Palai Bank.

SHRI MORARJI R. DESAI: I did not say that.

DR. H. N. KUNZRU: It seems so from the report. However, that is only a minor point which can be left out.

The next point that I should like to deal with is the reason given by the Finance Minister for the Reserve Bank's failure to help the Palai Bank to overcome the troubles that it was facing. He said that out of a sum of Rs. 5-65 crores advanced by the Palai Bank, in the opinion of the Reserve Bank, as much as Rs 3 crores were irrecoverable. He was, therefore, asked how it was that with this knowledge the Reserve Bank allowed the Palai Bank to continue to function. His defence of the Reserve Bank was that the Reserve Bank found that after 1954 the Palai Bank had practically ceased to make unsound advances and the Reserve Bank, therefore, allowed it to remain in existence. Now, Sir, I suppose it will be admitted that in 1954 when the bank's business was : appreciably less than it was in 1960

the bad loans formed a good proportion of the loans and advances made by the Palai Bank. But the Reserve Bank, nevertheless, did not prevent the Palai Bank from receiving fresh deposits under section 35 of the Banking Companies Act. That shows, Sir, that there was, in the Reserve Bank's opinion, a chance of its being rehabilitated. Now, the position of the Palai Bank, according to the statement made by the Finance Minister, is no worse than it was in 1954. It is not therefore, to see why the Palai Bank could not be helped to rehabilitate itself in 1960. I draw attention only to one more point in order to show that the Reserve Bank did not exercise that care in connection with this affair that can be justifiably expected from it. In accordance with the orders of the Reserve Bank, the Palai Bank appointed a new Manager on the 1st July, 1960. That Manager wrote to all the branch offices of the Palai Bank on the 25th July as follows:

"We invite the attention of Branch Managers to the imperative necessity to expand the Bank's business in all directions on sound lines and to increase its earning capacity."

Suggestions are made in the course of this communication for increasing the investments of the bank. Not merely did the Reserve Bank not exercise its power under Section 35 to prohibit the Palai Bank from receiving fresh deposits but it allowed the General Manager of the Palai Bank, appointed under its orders, which must have been when all the affairs of the bank were known to the Reserve Bank, to write to the branches asking them to increase or expand the business of the bank. This requires some explanation. This letter was sent on the 25th July and the bank was wound up on the 8th August. This does require more explanation than the Finance Minister has so far given. I humbly submit that this matter because of the way it has been dealt with, requires to be investigated further.

[Dr. H. N. Kunzru.]

I also suggest that in the investigation of this matter, the Kerala Government should be associated with the Central Government. We can then expect that all these questions leading to the liquidation of the bank would be considered from all points of view and that some procedure would be adopted which would make the Reserve Bank come to the help of banking institutions well before they are in a position when, according to the Reserve Bank, they cannot be pulled out of the mire.

I confess that I am usually not interested in the fate of ordinary banking institutions but I have taken a little interest in the affairs of this bank because of the way in which it has been dealt with by the Reserve Bank. I do not doubt the competence and integrity of the Reserve Bank, which is one of the most efficient institutions that we have in the country, but this does not prevent us from pointing out that in a particular case it has acted in a manner which falls short of the standard that can legitimately be expected from it.

PROF. A. R. WADIA (Nominated) : Mr. Deputy Chairman, Sir, the position that has been created by the closure of the Palai Bank is indeed deplorable, deplorable not merely from the standpoint of the poor depositors, deplorable not merely from the standpoint of the new type of sufferers that Sardar Panikkar has brought to our notice namely, the debtors, but it is deplorable from the standpoint of the public in general, because, we have almost lost our confidence in the banking system in India at the present moment. I for one always used to feel secure that there was a Reserve Bank, that with the Reserve Bank functioning, no bank fail in the way in which the Palai Bank has failed. Yet, it has been very prominently brought out by Pandit Kunzru and it is clear from the reports appearing in the papers that the Reserve Bank unfortunately did

not function as it should have functioned. That is a very serious matter. That it could not have had power enough is very doubtful. I think it has abundant powers to have interfered and especially when it knew for as long as 9 years that things were not satisfactory, it was purely the duty of the Reserve Bank to have done something to prevent any further losses to the Palai Bank.

I find that there have been two prominent suggestions made to avoid this sort of catastrophe in the future. One is that the depositors should be paid off by the Government and I am very happy that the Finance Minister has stood out very strongly against it. It is a most deplorable principle that the poor tax-payer should be made to pay for the losses of the depositors, who deposited money, very often, just with a view to getting a little mere interest from one bank rather than from another. The second remedy that has been proposed is the nationalisation of banks. I would consider it also to be extremely deplorable. There is not the slightest doubt that there are many many private banks which have built up their business in an extremely efficient manner. I am not sure that they are in anyway inferior to any bank which has the Government's support at its back. My fear is that the nationalisation of banks might ultimately lead to » nationalisation of inefficiency and that would be a very serious low tide for the country.

I think it was Dr. Gopala Reddi who said, probably in the other House, that the Palai Bank was not a guaranteed bank. I must say that it must have come almost as a bombshell to most of us because we were living under the illusion that all the banks now are more or less guaranteed and if this distinction exists, we certainly do not know what are the implications of this distinction between guaranteed banks and non-guaranteed banks. Why should a non-guaranteed bank be allowed to function at all? If

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non-guaranteed bank is allowed to function, it should be allowed to function on one condition that along with the name of the bank—The Bank of X Y Z—it should also be printed on the board that it is a non-guaranteed bank because that would be a sufficient warning to the people . . .

SHRI MORARJI R. DESAI: **The** only guaranteed bank is the State Bank—guaranteed by the Government. How can every bank be guaranteed by the Government?

PROF. A. R. WADIA: Then what is the use of having a Reserve Bank if we are not going to have the security even of the other banks? There is something wrong about this. I remember, very recently a bank manager was complaining to me that he had been forced to put very heavy amounts in the Reserve Bank just to make the Reserve Bank more strong, and indirectly also to make the other ' banks strong.

SHRI MORARJI R. DESAI: Again, my hon. friend does not understand why they were asked to put more there. This was to stop credit unnecessarily being used or wrongly -used. Therefore, they were asked to deposit a large part in the Reserve Bank. It is not that the other banks make the Reserve Bank strong. The Reserve Bank make the other banks strong.

PROF. A. R. WADIA: Quite so. That is exactly the reason why the Reserve Bank should have shown its strength in connection with the Palai Bank. If it is a giant, then like a giant it should have functioned. It should not have allowed a bad bank to function for nine years, to the loss of the people at large. In the banking system as it prevails at present, *here is a good deal to be said for having a Reserve Bank. We have accepted that policy. The Reserve Bank should be made as strong as possible, and if it is found that it has got certain loopholes where it could not function, I do hope

that it will be the business of Finance Minister to bring forward a Bill to give greater powers to the Reserve Bank. That is very very necessary in order to restore the confidence of the public in our banking system. When the Reserve Bank was founded, we were given to understand that it was a sort of guarantee for all the banks in general because all the **banks** would function under the direct supervision and control of the Reserve Bank, and if the Reserve Bank* has failed in that respect, it means that it has failed in a very material respect. Well, Sir, out of evil cometh good. My full sympathies to the poor depositors; it may be that they have suffered, but out of their suffering we have to learn some lessons, and we have to see that the other banks are not allowed to function when the Reserve Bank knows that they are bad concerns.

SHRI EBRAHIM SULAIMAN SAIT(Kerala): Mr. Deputy Chairman, the crash of the Palai Central Bank is, I feel, a tragedy of the first magnitude which has made thousands of depositors, most of them small depositors*, lose all their life-time savings, which has thrown hundreds of persons out of employment, and has in reality shaken the whole financial structure of the State of Kerala. This crash has very seriously affected the economic life of Kerala where the people are losing confidence in the banking system which, if not restored, will have a very devastating effect on all the banks in India in future. I believe, Sir, that the Reserve Bank* cannot escape the responsibility for this tragedy. Had they been more careful and more cautious with all the wide powers at their command, this crash of the Palai Central Bank, I am sure, could have been avoided. The depositors, I am of opinion, have every right to demand why the Reserve Bank failed to take action in time* when it knew that the bank was not functioning properly in 1951. On the other hand, at the time of the

[Shri Ebrahim Sulaiman Sait.] closure, the bank was functioning properly and action taken by the Reserve Bank at this juncture was quite unwarranted and uncalled for. I find, Sir, that the Finance Minister is trying to defend the Reserve Bank and is taking the tragedy of the crash of the Palai Central Bank not very seriously. He has said that liquidation will take its own course and that the depositors would get their money in due course. Sir, such a view, I feel, will not lead to a satisfactory solution, and is not the proper way out of the crash. We must evolve some constructive scheme to solve this grave issue. The Chief Minister of Kerala, and some of the Members of Parliament, put forth an amalgamation scheme. This, in my opinion, is a very constructive suggestion which deserves serious consideration, but the Finance Minister has not paid any attention to this suggestion and has brushed this aside very lightly. It is only proper to take up this scheme of amalgamation; this will, I am sure, give relief to thousands of poor depositors and also save hundreds of jobs who have been thrown out of their jobs.

We have to understand, Sir, that banking conditions in Kerala are quite different from the conditions in the rest of the country. In Kerala, business and agriculture both depend mostly on banks, and banks play a definite role in the economic life of the people. In Kerala, land is considered to be the best form of security, and all banks make advances on the security of land, and to consider these advances on land now as sticky is not very fair, especially in the circumstances when the prices of lands have gone up very high. I have to submit, Sir, that the drastic action taken by the Reserve Bank against the Palai Central Bank at this juncture was uncalled for and unwarranted. The bank came into existence, as has been pointed out, in 1927 and was working according to the Travancore Companies Act. Later on, when the Banking

Companies Act came into force in 1949, the bank came under the control and supervision of the Reserve Bank in 1951. After this, the Palai Central Bank was acting according to the directions of the Reserve Bank. The Palai Bank had at the time of liquidation, liquid assets of approximately 3.5 crores and the demand liability was only 2.35 crores. They now mainly allege that there was a run on the Bank. Actually, the run started towards the end of June and stopped towards the end of July, and when action was taken by the Reserve Bank against the Palai Central Bank asking for the liquidation of this bank, the deposit was Rs. 8.7 crores in the bank. My friend, Mr. Joseph Mathen, has narrated the series of events that took place before liquidation proceedings were started against the Palai Central Bank. On the 1st of July, the General Manager, Mr. Sivaraman, was appointed; on the 21st certain explanations were asked for from the Palai Central Bank, giving them time of thirty days to send in their reply, and on the 25th of July, a circular was sent by the General Manager Mr. Sivaraman, to all the branches which said "While every effort should be made to secure fresh deposits at rates laid down by the Head Office from time to time, the lending side of the business should receive special attention by Managers and other employees of the Bank." Now, while enquiries were being made, while explanations were being asked and while circulars were being issued to raise the advances, something was going on underhand, and on the 8th of August, a petition was filed at once in the High Court of Kerala praying for the liquidation of the Palai Central Bank. These things have had a dramatic development, and therefore I submit my hon. friend Dr. Kimzom, when he demands that investigation should be made in the matter. This is necessary and it should be done. We should know what factors necessitated such a sudden and drastic action.

I, in the end, appeal most emphatically to the Finance Minister to look into the matter once again, to consider the amalgamation scheme, to take a constructive view of the whole thing and to find a way out of this mess which will revive the confidence of the people in the banking system. It will again not only re-employ the hundreds of persons who have lost their jobs, not only solve the miseries of poor depositors but will also have a stabilising effect on the economy and on the finances of the State of Kerala.

SHRI BHUPESH GUPTA: Dr. Gour is not here, but I would like to ask one or two questions. I do not want to make a speech.

DR. H. N. KUNZRU: Your questions become speeches.

SHRI BHUPESH GUPTA: I would like to know from the Finance Minister whether it is a fact that under the additional powers given in 1956 to the Reserve Bank, the Reserve Bank wanted to take some action in the matter of the Palai Central Bank in 1957. When the matter was referred to the Finance Ministry here, the then Finance Minister, Shri T. T. Krishnamachari, advised them, "No such action need be taken". I would like him to throw some light on this matter, because I have come to know it from some reliable sources.

The second point that I would like to know is as to what he proposes to do with the 700 odd employees of the Palai Central Bank, some of whom here in Delhi. Much has not been said about them, but their fate is also more important, and I think it should not be difficult for Government to make arrangements for their absorption in certain other banks. It would be most unfortunate. Sir, if, after long years of service, these employees of the Palai Central Bank were to be thrown into the streets as unemployed. This need not at all happen. The hon. Minister can find some alternative avenues of employment. Some

kind of assurance in this matter should be very much forthcoming and, I think, should be given on the floor of the House. I say this thing, because . . .

MR. DEPUTY CHAIRMAN: Is it a question?

SHRI BHUPESH GUPTA: Well, it is a question. I want an assurance. I will end before five.

MR. DEPUTY CHAIRMAN: You warned to put only a question or two.

SHRI BHUPESH GUPTA: It is a long question, you may say. Now, Sir, I would like to know whether the Government has taken any decision in regard to them. With regard to other matters I need not go into them; already my question is long. There are two important matters on which I seek some light from the hon. Minister.

SHRI MORARJI R. DESAI: Sir, the liquidation of a bank of the size of the Palai Central Bank can never be a pleasant affair for anybody and it is not an affair where there are not great hardships caused to many people. It has caused severe hardship to thousands of people who have been depositors in this bank and it has also been a matter of great hardship for the employees who are there. It is a great calamity no doubt but because a calamity has taken place, it should not take away our sense of proportion in judging the case and in finding out what the reasons for the step taken by the Reserve Bank were. I was surprised to hear the question of my hon. friend opposite, Shri Bhupesh Gupta. I should not be surprised really because I have been hearing all sorts of rumours being circulated in the lobbies in connection with the liquidation of this bank. I have been credited with all sorts of statements to various people by some people. I am fortunate that Shri Bhupesh Gupta has been kind to me.

SHRI BHUPESH GUPTA: My question does not at all relate to you.

SHRI MORARJI R. DESAI: I know; therefore I say he has been kind to me.

SHRI BHUPESH GUPTA: It relates to your predecessor who made way for you.

SHRI MORARJI R. DESAI: When he referred to my predecessor and friend, Shri T. T. Krishnamachari, I was pained by his question, because it has no relation to facts whatsoever. There was no reference made to the Finance Minister at the time and the Finance Minister said nothing at the time as a matter of fact, because there was no question put to him. He has been unnecessarily brought in here and maligned. But this is a privileged position from which it can be done.

SHRI BHUPESH GUPTA: Not maligned; what is maligning in it?

SHRI MORARJI R. DESAI: It is maligning and nothing else.

SHRI BHUPESH GUPTA: How?

SHRI MORARJI R. DESAI: If what he has said was true, there could not have been greater failure of duty on the part of a Finance Minister. And it is all wrong; there is absolutely no basis or any truth in it. Therefore, it is maligning and nothing else.

SHRI BHUPESH GUPTA: Sir, I take very serious objection. I made an enquiry from him; I did not give any opinion and the hon. Minister says it is maligning. It is our privilege here to call in question any action of the 'Government' . . .

SHRI MORARJI R. DESAI: The hon. Member in the first instance is abusing his privilege. He cannot stand up when I am standing.

SHRI BHUPESH GUPTA: It is not for you to say that.

SHRI MORARJI R. DESAI: He has no business to talk to me. He has business to talk to you. Why does he address me, I do not know. (*Interruption*). He can go on talking at random continuously. Well, we are all used to it. Therefore I am not worried but let him also not be worried because he is also used to me by now.

SHRI BHUPESH GUPTA: I am also used to you by now.

SHRI MORARJI R. DESAI: He will have to get used to me.

SHRI BHUPESH GUPTA: But Finance Ministers are very temporary.

SHRI MORARJI R. DESAI: Therefore, this was entirely a wrong question put by my hon. friend. That is all that I can say. He should have tried to verify before he asked publicly a question of this nature and I expect more of a responsible Member of this hon. House. Therefore, I mentioned that and I still maintain it. He may object to it but I object to his question much more than he can object to my reply.

Let us now take the question which is before us at present. I am sorry, Sir, that what I said in the Lok Sabha has not satisfied my hon. friend, Pandit Kunzru, for whose care and study of every question I have the highest respect. I do not know whether he read fully what I have said there or whether he relied only on the report that appeared in the newspapers. It is possible that he has read only what appeared in the newspapers but if he had seen fully what I have stated in the Lok Sabha, I am quite sure that he would not have been unkind to the Reserve Bank even in this single instance in which he has been. I am glad that he said that the Reserve Bank is one of the most efficient institutions in this country. That should have at any

rate given him food for thought that such an efficient institution would not fail to take proper care in an important matter like this.

Then, Sir, my hon. friend, Prof. Wadia, strayed into another realm with which he is not familiar and began to criticise very severely without knowing the facts. Well, Sir, it is the business of all of us to concern ourselves with public affairs and we should be very particular in our concern about public affairs when we pass on our opinions, because it does affect other people. When my hon. friend, Prof. Wadia, said that the faith of all people in this country is now shaken in banks, Sir, he made a statement the meaning of which probably he has not been fully aware of. He is creating this sort of a distrust by saying this and it was one of these things which affected also a stronger bank like the Punjab National Bank and for two days there was a run on it. But the bank has been very strong and therefore it kept its doors open until midnight on Saturday and even kept them open on Sunday when it was not obliged to do so and went on paying as much as people wanted.

DR. H. N. KUNZRU: Was that helped by the Reserve Bank?

SHRI MORARJI R. DESAI: There was no question of help; it had its liquid assets on which it can draw and therefore there was no question of anyone going to its help. But if any help is needed, the help would come only in the form of advances against Government securities and that is done for everybody. The position of the Punjab National Bank was so strong that it could have gone on paying until the people were tired of asking for money. That is why it has withstood. It is not my statement which I proffered, as my hon. friend there said without knowing the facts. He only wants to make an allegation. That is all that he wants to do. If a representative of the P.T.I. comes to

tie and puts me a question about this bank, what am I to do? Should I not say that the bank is sound if I know that it is sound? That is all that I said; nothing else.

SHRI M. S. GURUPADA SWAINO: May I know whether he made any enquiries and whether he was convinced that it was sound?

SHRI MORARJI R. DESAI: Yes; I had made enquiries before that because I knew of the run as soon as it took place. It was here in Delhi; otherwise I may not have known of it. I made enquiries with the Reserve Bank and also with the people in the Ministry. I do not make statements without enquiring as my friend has been in the habit of doing. I am more responsible; I have got to do it and that is how I did it. And if somebody had asked me about the Palai Bank when the run took place, I could not have made a similar statement because it was not in that position. I would have then said: "I do not want to say anything". That is what I would have said. I would not have given a wrong certificate to somebody, when it comes to that. I do not think that that is what is expected of the Finance Minister of the country or of any hon. Member in this House or elsewhere. Therefore, when these questions are put, there ought to be more consideration in this matter, especially when allegations are intended. There is no question of any partiality anywhere. Why should there be any partiality?

SHRI BHUPESH GUPTA: You might have directed the P.T.I.—to the Reserve Bank.

SHRI MORARJI R. DESAI: I am not used to manoeuvring, as my hon. friend is. I do things straight and if I want to make a statement, I call the person. I am not ashamed of making a statement. If I have to make a statement, I do not ask somebody to send a man to me and then make a statement. That is left to

[Shri Morarji R. Desai.] him. He knows underground methods very well. I have never done that. He is a master of underground methods, and therefore he suspects everywhere, wherever he sees anything.

SHRI BHUPESH GUPTA: I am not suspecting.

SHRI MORARJI R. DESAI: It is very kind of you that you do not suspect me.

SHRI BHUPESH GUPTA: Over this matter at least.

SHRI MORARJI R. DESAI: Now, let us see what the position is of the Reserve Bank and the various banks. It was said that all people thought that all the banks were guaranteed by the Reserve Bank and, therefore, there was safety. Now, it only means that people do not know what the position is about banks. Before the Banking Companies Act, 1949 came into effect, there was no question of any licence to be taken by any bank. It was only that Act which prescribed licensing and control by the Reserve Bank. At that time there were 620 banks. All these came within its purview. The Banking Companies Act was applied to Travancore in 1951. For three years after the application of the Act, no licence was required. It was only after three years had passed that a licence had to be given by the Reserve Bank. There was also a provision in the Act—because it was a new provision—that as long as a licence was not refused, the bank could go on working. The Reserve Bank, therefore, had to see that all banks which came within its purview worked in such a way that it was in a position to give them licences. If it was not in a position to do so, and if it found that by giving instructions and directing them they could be brought up to a position whereby licences could be given, it should do so. Until then licences would not be refused. It would carry on and then a licence would be given. That is

how it went on

doing its work in order to stabilise the position. I must say that it has done its work very well. Hon. Members in this House do not know that by now 260 banks have already gone out of existence and nobody knows what it means. It means that these banks went out and yet it did not attract attention. It is only when the Palai Central Bank went out of action that much attention has been drawn to it because of various factors. I do not want to go into them. I do not want to hurt people for nothing. I do not want to censure people when they are down and out. I do not want to do that. Therefore, I have been very careful in what I have stated. But when questions are put, one has got to state facts. If they are not stated, then an adverse inference is drawn. One has then got to speak out. I had not spoken deliberately about one particular question raised in the Lok Sabha—deliberately I say—because I did not want to raise any adverse inferences. But the question was again put here by an hon. friend, about asking information about deposits by Christians and Catholics. This was not done by the Reserve Bank itself. This was done by the Inspector who was in charge of inspection in 1956, because he was told that there was a religious appeal made in this bank and, therefore, he wanted to know the structure and composition of the bank. Therefore, it was that he asked the directors to let him have the information which he wanted. Then, the same information was asked in 1958 and 1960, but it was not the Reserve Bank which asked for it. Even then I would say, in spite of this, the Inspector should not have asked this. And that is what I have told the Reserve Bank because it unnecessarily creates all sorts of inferences by people. It is a fact that religious institutions have deposited money in this bank, not only where the bank was functioning, but even from outside distant places. Therefore, they wanted to know it and they did it. I would say that also need not have been done and if the Reserve

Bank had known it, they would not have asked them to do so. From that an adverse inference need not be drawn that there was something sinister behind it or something wrong was done in asking for the information.

SHRI M. H. SAMUEL: May I know, Sir, if the Inspector was working under the direction of the Reserve Bank or the Ministry?

SHRI MORARJI R. DESAI: I have already said that it was an Inspector of the Reserve Bank who went for inspection. He worked under the authority of the Reserve Bank, but it was not done under the direction of the Reserve Bank. The form which is prescribed does not contain this thing. But the Inspector is authorised to get any additional information that he has got to get. Therefore, it was not unauthorised. I do not say that it was unauthorised. He asked me whether he was told to do so and therefore I must clarify further. I thought that I should let the matter stop there, but since a further question is asked, I have to say it again. He was told: "If you allow us to open a bank in Bombay, a crore of rupees would be put by religious institutions immediately in the bank". Therefore it was that the person had to know what the structure and composition of the bank was. Priests used to preside over the general meetings of the bank. Therefore, he had to know the facts. What crime has the man committed?

SHRI JOSEPH MATHEN: Is it a fact that he was allowed to make further enquiries?

SHRI MORARJI R. DESAI: There are different Inspectors, three Inspectors, one of whom is a scheduled caste man. They are not from Kerala at all.

SHRI BHUPESH GUPTA: It is a good thing that he asked for it.

SHRI MORARJI R. DESAI: Now, the question is whether the Reserve Bank has not acted fairly **and** square-it should have done as regards this

bank. It is argued that the Reserve Bank made a sudden, dramatic, swoop on this bank. Is that the history of the Reserve Bank's action? It is asked, when the Reserve Bank found that the management of the bank was deficient from 1951 onwards, why they waited until 1960 to take action. It is a legitimate question. As I said, until 1954 there was no question of refusing a licence. In 1956 the Reserve Bank asked them to appoint an observer. They took two years to get that observer. They found various reasons. It was only in 1958 that an observer was appointed. The observer only attended the meetings of directors and reported what was being done. That is all what the observer did. When he reported certain defects, he also reported certain things which were being done. Now, if it is asked why this is done now, when the wrong deposits or wrong advances were made earlier, the reply is very simple. The Reserve Bank told the bank: "You have got this amount of irrecoverable arrears or advances and this amount of doubtful advances and this amount of sticky advances." The bank disputed the figures all the while. They went on disputing and gave various reasons. Then it is questioned why they were not asked to stop dividends from the very beginning. They were telling them "This is not right. You ought not to show the interest, which you do not actually recover as profits. But you should not show it again in profit and issue dividend on it". They did not do so, but then they went on disputing it. In 1958 when the Reserve Bank asked the bank not to issue dividends or at any rate taper it off quickly—"if you feel it will help, taper it off quickly"—at that time the Director wrote a very strong letter to the Reserve Bank saying that they were wrong, and he disputed the figures again and said that if the Reserve Bank had not hampered, the deposits would have doubled. This is what they said. The Reserve Bank at that time was firm and said "We are not going to agree to that sort of thing. You cannot issue dividends"

[Shri Morarji R. Desai.] Therefore, they did not pay a dividend for the balance sheet of 1959 which was finalised in March, 1960. But it was not published in papers in March. It was published in papers in June. It was laid before the shareholders in a meeting in May, but in papers actually it came out in June. It was then that people knew about it, about the loss of Rs. 14* lakhs or something like that. This being so, to say that the Reserve Bank acted suddenly would not be correct at all. And why did they issue this inspection note or the direction to the bank to take care and to report within 30 days if they objected to something on 21st July? When they asked them to do this on the 21st July, that was because of the result of the inspection of January-February 1960. They did so because they had asked them to appoint two directors on behalf of the Reserve Bank as nominated by them, and the Reserve Bank wanted to see that the direction issued would be discussed in a meeting which would be attended also by them. Therefore, it became late in sending that direction to the Bank and it took up to the 21st of July. Otherwise they knew what was happening.

Now, when I said that these people were disputing the irrecoverable arrears and the sticky arrears, the Reserve Bank told them at the end of 1959, that "this time you should sit down with our officer and check every advance and convince us or be convinced that this is so". It was then they accepted" that what the Reserve Bank was saying was true. Till then they disputed all these things. Now, what was the Reserve Bank to do under these circumstances? The Reserve Bank Inspector went into 289 accounts of advances, all major accounts, at that time with them and they had to admit that the classification of the Reserve Bank was correct. But this was done orally, and now some of them can say that they did not agree, but it is a fact that they agreed at that time. Even then the

Reserve Bank did not want to take this bank into liquidation because they thought that they can retrieve, that they can go on making arrangements afterwards, earn more and clear the wrong advances. They would not have taken the bank into liquidation if there had not been a run. The run was not the creation of the Reserve Bank as it is said. On one side it is said that the Reserve Bank should have taken action earlier and appointed people earlier, and on the other side it is now said that because the Reserve Bank said that the Manager should be appointed by the Reserve Bank and sent the Manager on the 1st of July, therefore the run took place. When did the run take place? What is the Reserve Bank to do under these circumstances? The Reserve Bank without being deterred by any other considerations went on doing its work properly. Now, there should have been no reason for people to make a run on the Bank because of the Manager. On the contrary the Manager ought to give greater confidence.

The run took place from the 24th of June and not from the 1st of July when the Manager went in. Therefore, it had no relation to the appointment of the Manager at all. It was the publication of the balance sheet which was responsible for this. Probably that is my surmise, and it is also said that by the time the Reserve Bank decided to take the bank into liquidation, the run had ceased. Nothing can be further away from facts. I would just give the figures.

SHRI JOSEPH MATHEN: In Delhi where we had . . .

SHRI MORARJI R. DESAI: Please wait. I will give the figures. Then tell me anything. I will give you all the figures. You then tell me what has happened. Please do not be impatient about it. These are the figures. In the period from the 6th May to the 1st of July Rs. 12 lakhs were withdrawn. In the week ending 8th July Rs. 17 lakhs were withdrawn. In the week after that ending 15th July,

Rs. 20 lakhs were withdrawn. In the week ending 22nd July Rs. 23 lakhs were withdrawn. In the week ending 29th July Rs. 29 lakhs were withdrawn. In the week ending 5th August Rs. 35 lakhs were withdrawn. It will be seen from these figures that it was a rising run it was not a diminishing run.

Then, Sir, it is said that it was in Delhi that the withdrawal was more and that in the other branches it had tapered off. Even in Delhi, as far as I remember, on the 3rd and 4th August there was a withdrawal of Rs. 5 lakhs on each day, and in that week in the two Delhi branches Rs. 16 lakhs were withdrawn, but Rs. 19 lakhs were withdrawn from other branches. In all there are 26 branches. That means it cannot be said that the run had disappeared anywhere. It was therefore that the Reserve Bank had to consider it at that time for, if they had greater liquidity at the time and if they could have met the run, the Reserve Bank would not have taken any action, just as in the case of the Punjab National Bank they could meet the run squarely and, therefore, there was no question of doing anything about it. Here Rs. 150 lakhs were already withdrawn by this time. Some monies were given even against time deposits which could not be withdrawn, where advances were given. And all that made up Rs. 150 lakhs. The liquid resources there with them, which they could have mustered, was not more than Rs. 150 lakhs. I explained all these figures in the Lok Sabha and nobody had anything to say about them because they are the correct figures. I explained *the* other figures which were circulated to hon. Members, how it does not amount to more than Rs. 150 lakhs which they could have mustered at that time. If these had been allowed to be taken away, then the remaining depositors would not have got a farthing afterwards from the bank. What was the Reserve Bank to do? The Reserve Bank had to act on the 4th of August and take a decision

when they learnt about all this. It was then that they decided on the 8th and they filed the application. Certainly the Directors could not be allowed to know about it. Therefore, it had to be done without their knowledge. The application had to be filed in the High Court

SHRI BHUPESH GUPTA: Here you also went underground.

SHRI MORARJI R. DESAI: There was no underground business. We do not do it underground. There is no question of want of secrecy. Truth does not require to be written on the forehead. It does not require to be written here. It has to be known. My hon. friend has no distinction between what is underground and what is overground. That is his difficulty because he deals only in underground methods and he thinks that what is overground is only underground. For him the world is only an underground world. Therefore, overground he takes as underground. That is his difficulty.

AN HON. MEMBER: All topsyturvy with him.

SHRI MORARJI R. DESAI: Therefore, the Reserve Bank's action was just in time. If they had not done so, they would have failed in their duty and if they had done it earlier, then also they would have caused a difficulty. Therefore, they did not do it. And, as I said, these people went on saying that their figures were wrong. It was only when the figures were pinned down that the Reserve Bank was in a position to issue all the directives about the Managing Director and then they accepted them and appointed him from the 1st of July. Therefore, to say that the Reserve Bank has in any way failed in its duty would be grave injustice to the Reserve Bank which has been doing its work in an admirable manner. If I were not satisfied about it, I would not say that, because the Reserve Bank is the custodian of the economic stability of this country and it requires to be

[Shri Morarji R. Desai:] dealt with with great care. I agree with my hon. friend, Pandit Kunzru, that if it fails in any instance, it is also equally necessary that we should find fault with it, because it must maintain that status and that importance.

SHRI JOSEPH MATHEN: What have you to say regarding the action taken by the Reserve Bank against the Bharanamganam Bank which was liquidated, which could pay the depositors cent per cent, and some percentage to the shareholders? It is the Bharanamganam Bank; a bank near Palai.

SHRI MORARJI R. DESAI: Sir, I have no idea about it. If I am told about it, I will certainly make an enquiry.

SHRI JOSEPH MATHEN: That was mentioned in the Lok Sabha.

SHRI MORARJI R. DESAI: Nobody said about it in the Lok Sabha. They said about Mr. Mathen's Bank. No, the hon. Member is quite wrong. It was said that when it went into liquidation at that time, it paid Re. 0-15-6 in a rupee. That is not true; it was Re. 0-13-6.

This will show what has been done by the Reserve Bank in this matter.

Now, coming to the action to be taken in the future, the suggestions are very helpful. Government have been thinking on those lines to see that we now take action which stabilises all banks and we proceed in such a manner that some smaller banks can be amalgamated and can be made stronger.

SHRI BHUPESH GUPTA: That is, nationalise the whole industry.

SHRI MORARJI R. DESAI: There is no power at present for that. At present, if any banks are to be amalgamated, the shareholders have to agree.

Then there is the question of moratorium which we shall keep in mind

and of how the banks can be saved from ruin. But today if a moratorium has to be declared, the Reserve Bank has to certify that the bank will be able to pay in full its liabilities. Until it is able to do so, it cannot give a certificate. Therefore, it could not have given that certificate to the Palai Bank. They would have taken that step, but they could not do so. I hope, Sir, that all people expect that the Reserve Bank should be honest and not give a wrong certificate to do even the best thing possible. Therefore, the Reserve Bank has to have these powers. Government proposes to come to Parliament very soon to have these powers so that we can make these arrangements for the future.

The point raised by my hon. friend, Sardar Panikkar, about the debtors is a relevant point. It is true that when a bank goes into liquidation, honest debtors also go into liquidation because of pressure applied on them for recovering moneys quickly. Well, Sir, we do not want any such thing to happen. It is, therefore, that we are trying to see that an officer of the State Bank is appointed as liquidator. We will have to move the High Court for it. We also want to simplify the liquidation procedure and for that also, there will be an amendment and then an assessment will be made of how much can be recovered and how much can be paid. Once that is done, it is not necessary to force honest people to pay immediately. The State Bank can take it over, the Travancore Bank can take it over and can pay on a *pro rata* basis to all the people. We also want to see that the smaller people are protected. It is, therefore, that in the savings bank account where there is a provision only for payment up to Rs. 100, we want to raise it to Rs. 250. We might also think of the other deposits to raise it up to Rs. 250. That is the legislation that we are proposing to consider and bring before Parliament, if Parliament accepts the proposition brought before it, then certainly Government will be able to take action accordingly.

There was also a point raised that the other banks could have taken over this bank. Sir, I do not know which other bank could do it. I was told about several other banks having offered to take this over. I asked all those banks and they said, "No." One bank was asked and they said, "We are prepared to take it over if we are allowed to pay four annas in the rupee to everybody." Well, Sir, that was the offer made. How could we have accepted that offer? We are certainly going to pay much more than that. Therefore, that is not the question and one should not believe in all the things that are being circulated or said.

This is a matter of great worry and sorrow to me. I cannot say that this is a matter which can give any satisfaction to anybody. But after all, it is an inevitable thing; one could not help it. I have full sympathy for the depositors. But the depositors wanted to take more interest. What am I to do about it? This bank paid up to 5 per cent, interest on two-year deposits and 4¹/₂ per cent, on one-year deposits, and they used to give advances also against salaries before they were realised. Therefore, there were various things done. Very good service was given, but very good service, if it is not carefully given, can land people in trouble. That is the difficulty. What has one to do?

The question of the employees also is there certainly. But I cannot guarantee that all of them will be employed by me. I have certainly requested the State Bank to see what can be done for them. But I hope, Sir, that all these people will be usefully employed in various other concerns, because they are qualified people and those who are qualified certainly should be utilised and employed. I will try to help them as much as I can but what am I to say beyond that? I cannot undertake it upon myself.

Then the question comes about guarantees and non-guarantees. There is no question of guarantee given by Government. The Reserve Bank does provide supervision and control so that proper steps are taken to see that banks are run well. But even the most intelligent supervising authority can never guarantee that something wrong will not take place; it cannot be completely avoided. Guarantee would mean that Government would have to pay all the money. How can Government pay all the money? It would be putting a premium on inefficiency if Government were to go on giving money to all the failures and the banks will easily feel that they can fail. Therefore, it would not be a proper proposition at all for anybody to put forward and that is why Government is not considering it. But Government is trying to do all it can to help the big and the small depositors and also to see that in future we are able to arrange things even better than we have been doing in the past, so that such incidents do not occur. And if they occur, God help them. That is all that I can say. Beyond that, I cannot make any further promise.

I am very thankful to all the hon. Members who took part in the debate and I am glad also that it took place here. Though at first I thought that it would be a rehearsal here again, it has been usefully done, and I am thankful to hon. Members for the debate.

SHRI BHUPESH GUPTA: What exactly happens now? The bank is under liquidation. What is the proposition about its employees in the various branches and how does the hon. Minister propose to treat them in future?

SHRI MORARJI R. DESAI: They are not my liability, Sir.

SHRI BHUPESH GUPTA: Now, they are in your hands, anyway.

MR. DEPUTY CHAIRMAN: Mr. The House stands adjourned till
Sinha, have you anything to say? 11-00 A.M. tomorrow.

SHRI B. K. P. SINHA: Nothing
more, Sir, alter the lucid and able
exposition of the position by the hon.
Minister.

MR. DEPUTY CHAIRMAN: The
discussion is over.

The House then adjourned at
thirty minutes past five of the
clock till eleven of the clock on
Tuesday, the 30th August 1960.