

- (vi) Statement No. VII—Twenty-first Session, 1958.
- (vii) Statement No. VII—Twenty-second Session, 1958.
- (viii) Statement No. V—Twenty-third Session, 1958.
- (ix) Statement No. II—Twenty-fourth Session, 1959.

[See Appendix XXV, Annexure Nos. 21 to 29 for (i) to (ix).] MINISTRY OF COMMERCE AND INDUSTRY RESOLUTION re RECOMMENDATIONS OF THE ALCOHOL COMMITTEE

THE MINISTER OF INDUSTRY (SHRI MANUBHAI SHAH): I beg to lay on the Table a copy of the Ministry of Commerce and Industry Resolution No. CH(I)-33 (3)/57, dated the 23rd April 1959, regarding the recommendation of the Alcohol Committee. [Placed in Library. See No. LT-1409/59.]

REPORT ON AVAILABILITY OF SURPLUSES OF CELLULOSIC RAW MATERIAL FOR PAPER INDUSTRY

SHRI MANUBHAI SHAH: I further beg to lay on the Table a copy of the Report of the Ad-Hoc Committee set up to survey the available surpluses of Cellulosic raw material for the Paper Industry. [Placed in Library. See No. LT-1408/59.]

RESULT OF ELECTION TO THE PUBLIC ACCOUNTS COMMITTEE

MR. CHAIRMAN: As a result of the election held on the 5th May, 1959, the following Members are declared duly elected to be members of the Committee on Public Accounts :

1. Shri Amolakh Chand,
2. Rajkumari Amrit Kaur,
3. Shri Rohit M. Dave,
4. Shri T. R. Deogirikar,
5. Shri Surendra Mohan Ghose,
6. Shri Jaswant Singh, and
7. Shri S. Venkataraman.

REFERENCE TO THE VISHNU SAHAI REPORT ON MR. M. O. MATHAI

DR. R. B. GOUR (Andhra Pradesh) : Mr. Chairman, Sir, an assurance was given to the hon. House that the Vishnu Sahai Report on Mr. Mathai will be delivered to us. But from the papers it appears that the report has been submitted to the Prime Minister. As you know, we will be adjourning very soon. We would like to know what will happen to that assurance.

SHRI BHUPESH GUPTA (West Bengal): Let me make it clear. He did not give the assurance that the report will be submitted to the House. The hon. Minister said that he would say something. That was the assurance. Yesterday the papers contained the news that the Report had been submitted to the Prime Minister. We would like to have the Report *plus* the terms of reference and also the information whether Mr. Vishnu Sahai had the power of verification of evidence and witnesses.

THE STATE BANK OF INDIA (SUBSIDIARY BANKS) BILL, 1959

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

"That this House concurs in the recommendation of the Lok Sabha that the Rajya Sabha do join in the Joint Committee of the Houses on the Bill to provide for the formation of certain Government or Government-associated banks as subsidiaries of the State Bank of India and for the constitution, management and control of the subsidiary banks so formed, and for matters connected therewith, or incidental thereto, and resolves that the following members of the Rajya Sabha be

[Dr. B. Gopala Reddi.]
nominated to, serve on the said
Joint Committee:—

Shri K. P. Madhayan Nair, Shri
Tikaram Paliwal, Shri Jaspat Roy
Kapoor, Shrimati Pushpalata Das,
Shri J. K. Modi, ' Dr. Anup Singh,
Shri N. M. Lingam, Syed Mazhar
Imam, Shri J. P. Agrawal, Shri
Niranjan Singh, Shri Perath Narayanan
Nair, Shri Harihar Patel, Shri Mulka
Govinda Reddy, Dr. P. J. Thomas,
and Dr. B. Gopala Reddi."

Sir, in moving this motion, I believe, the House is aware of the circumstances in which this Bill has been brought forward, and it is, therefore, unnecessary for me to go into its previous history.

There is at present a lack of uniformity in the banking and treasury arrangements obtaining in the areas which were formerly included in the Part A States and those which were comprised in the Part B States. While in the areas of the former Part A States, the banking treasuries i.e. treasuries where the cash work is handled by banks, are managed by the Reserve Bank and its agent, the State Bank of India, the arrangements in the areas of the former Part B States vary from place to place. In the areas of the former Mysore and Hyderabad States, we have the Bank of Mysore and the State Bank of Hyderabad, which, under special agreements, are operating as agents of the Reserve Bank, and managing Government work at treasuries and sub-treasuries at a limited number of places. But in the other States, the State Governments are carrying on the cash work either departmentally or through certain

Government or Government-associated banks.

These arrangements are unsatisfactory and inadequate in the context of rapid economic development. In the existing set-up, it has been impossible to follow a dynamic policy, in the matter of increasing the number of banking treasuries, currency chests and small coin depots, or in regard to the provision of remittance and exchange facilities or in the matter of establishing an adequate number of banking offices to undertake development work, such as assistance to the co-operative movement and small-scale industries.

The question of rationalising and integrating the banking and treasury set-up in the two parts of the country, without causing any dislocation in the existing set-up, has been under consideration for some years. The matter was first examined by the Rural Banking Enquiry Committee in 1950, and later on by the Committee of Direction, All-India Rural Credit Survey, which recommended in 1954, the setting up of a State Bank of India, as part of its proposals for the setting up of an integrated rural credit structure.

The Rural Credit Survey Committee's recommendation consisted of two parts, the conversion of the Imperial Bank of India into the State Bank of India, and the integration of certain Government or Government-associated banks with the State Bank. The first part of the recommendation was accepted soon after the publication of the report, and the State Bank of India was established on the 1st July, 1955. As regards the further recommendation of the Committee in regard to the integration of certain Government and Government-associated banks with the State Bank of India, the President announced, in his address to both the Houses of Parliament in February, 1958, that certain State-associated banks would be taken over as subsidiaries of the State Bank of India. Negotiations were started by the State

Bank, in pursuance of this decision and with the authority of the Government, with the managements of the different Government and Government-associated banks, and the present Bill has been drawn up in the light of these negotiations.

In drawing up the scheme which is embodied in the present Bill, we have aimed at preserving all that is useful under the present system, and at the same time, we have made rapid development possible by providing for the exercise of the necessary supervision over the reconstituted banks, and also for the grant of assistance to them, wherever this is appropriate, in order to finance this development.

We have for certain very good reasons decided against the merger of these banks with the State Bank as recommended by the Rural Credit Survey Committee. The existing banks, as the House will appreciate, have their own clientele, and have in each case a somewhat special structure of interest rates. They have worked, and are working, under different conditions, and have been catering to certain purely local needs in the respective areas of their operations.

We feel that the manner in which these banks should be brought to work in association with the State Bank should be one that causes the least disturbance in the present set-up. This point of view, although it has not been sufficiently appreciated in certain quarters, has nevertheless the support of the State Governments as well as the managements of the banks, and the goodwill and cooperation which we have been able to secure as a result are, I believe, important.

We have found it necessary to omit two banks from the proposed scheme of reconstitution, but we have done so, after a careful consideration of the position in the light of the developments since 1954. Although the Bank of Baroda was listed among the State-associated banks by the Com-

mittee of Direction of the All India Rural Credit Survey, this bank has been steadily dissociating itself from the State, ever since Baroda was merged with the State of Bombay, and its position is now like that of any other commercial bank.

As regards the Bank of Rajasthan, its management has not agreed to the reconstitution of this bank as a subsidiary of the State Bank. It is a pity it is staying out but Government are anxious that no unwilling institution should be brought into the scheme. The State Bank and its subsidiaries may be expected quite easily to > take over Government work and the development of banking facilities, to the extent necessary, at the centres which are at present being served by the Rajasthan Bank.

The Bill thus deals with eight banks. Of these two, *viz.*, the State Bank of Saurashtra and the State Bank of Hyderabad, are already incorporated under special statutes. In their case, the Bill, therefore, merely attempts to introduce the necessary changes in the **relevant** statutes, so as to provide that their constitution and working will conform, in future, to the pattern laid down for the subsidiary banks generally. Of the remaining six banks, one, *viz.*, the Bank of Patiala, is a department of the State Government and the other five are registered under the Companies Act. These institutions will be re-established as statutory corporations. Although a provision has been made in the Bill to enable the re-constitution of the banks on different dates, every effort will be made to ensure that the interval between the dates of taking over the different banks is as short as possible.

The basis for the determination of compensation in respect of the various banks is indicated at some length in the First Schedule, and we have also provided for a reference to an impartial tribunal, in case a substantial number of shareholders, or the State Governments, who now own certain

[Dr. B. Gopala Reddi.] banks, feel that the principles laid down by Parliament have not been correctly applied in any particular case. The compensation will be payable in cash, or to a limited extent, subject to the conditions indicated in the Bill, in shares of the reconstituted banks, provided that shareholders of the existing banks ask for such shares.

After the reconstitution, the management of each bank will vest in a Board of Directors, which will consist of the representatives of the State Bank, the Reserve Bank and other share-holders. Four out of a total of nine Directors will be Directors unconnected with either the State Bank or the Reserve Bank. Of these, two will be elected by or nominated on behalf of private share-holders.

The higher management of the banks will thus remain predominantly or exclusively with non-officials, who possess the necessary experience. We have, as matters now stand, gone to the extent of excluding a Government servant formally by law, but on reconsideration, it has appeared to us that it may sometimes be an advantage to have one or two officers of the Government of India on these Boards. We shall look into this question in the Joint Select Committee, but an amendment to make this possible, if adopted by the Committee, will only enhance the usefulness of the Boards without offending their predominantly non-official character.

The reconstituted banks are being authorised to carry on all the business which a banking company is authorised to undertake. They will handle Government business as agents of the State Bank. Powers have, therefore, been assumed for Government to restrict or expand their activities in the light of actual experience.

Adequate provision has been made in the Bill to ensure the continuity of service of the staff of the existing banks, except in the case of a few top

officials whose cases will require special examination, and all the existing rights and emoluments of the staff will be fully safeguarded. I hope that when the institutions develop and their activities expand on the lines we have in view, the staff will have several new opportunities.

Sir, this Bill completes the task of integration and reform which, so far as the banking sector is concerned, has remained, for various reasons, unfinished up till now. A great deal of thought and care have gone into the preparation of this Bill, and I believe it will be acceptable to all sections of the House. I commend the motion for consideration.

Sir, I move.

Mr. CHAIRMAN: Motion moved:

"That this House concurs in the recommendation of the Lok Sabha that the Rajya Sabha do join in the Joint Committee of the Houses on the Bill to provide for the formation of certain Government or Government-associated banks as subsidiaries of the State Bank of India and for the constitution, management and control of the subsidiary banks so formed, and for matters connected therewith, or incidental thereto, and resolves that the following members of the Rajya Sabha be nominated to serve on the said Joint Committee:—

Shri K. P. Madhavan Nair, Shri
 Tikaram Paliwal, Shri Jaspat Roy
 K^poor, Shrimati Pushpalata Das, Shri
 J. K. Modi, Dr. Anup Singh, Shri N.
 M. Lingam, Syed Mazhar Imam, Shri J.
 P. Agrawal, Shri Niranjan Singh, Shri
 Perath Narayanan Nair,

"There should be established a State Bank of India by statutory amalgamation of the following:—"

First was the Imperial Bank of India and then follow the other State-associated banks. So, the very conception of the State Bank of India, according to the Rural Credit Survey Committee Report, was that it would be formed through the amalgamation of the Imperial Bank of India and the other State-associated banks. So, Sir, in fact, he has tried to split that recommendation into two, that is, conversion of the Imperial Bank of India into the State Bank of India and then amalgamation of the other State-associated banks. Here again I think it is not fair on the part of the Finance Ministry to suggest that they have implemented the decision or the recommendation of the Rural Credit Survey Committee. In fact, they went to the extent of saying that this Bill completes the integration of the Imperial Bank of India, the State Bank of India and the State-associated banks. In fact, it is not so.

Sir, as regards the State Bank of Hyderabad and the State Bank of Mysore, it is evident that these State-associated banks enjoy greater facilities than the other State-associated banks. These are the two banks which maintain currency chests also on behalf of the Reserve Bank of India. These are the two banks which do a lot of business with the States concerned. These two banks stand on a different footing, on a different level when compared to the other State-associated banks. Even these two banks are sought to be kept out from the amalgamation. Even these two banks are sought to be made only subsidiary. This Bill does not appear to flow either from the Report of the Rural Credit Survey Committee or from the decision of the Finance Ministry. This Bill appears to be only a sort of Bill that has been proposed with the consent of the various managements and we know what these various managements are. They have sought to have all sorts of safeguards

Sir, this position of subsidiary is not either to the interest of the Bank itself or the clientele, or, to the interest of the banking business itself.

Sir, he has said that the Rural Credit Survey Committee had made two recommendations: one about the conversion of the Imperial Bank of India into the State Bank of India and the other about the integration of Government and Government-associated Banks with the State Bank. In fact, he has split the recommendation of the Rural Credit Survey Committee into two. The Rural Credit Survey Committee said about the formation of the State Bank of India—
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[Dr. R. B. Gour.] for themselves and conceded only what they could without touching their own privileges. That is how it has happened. The Bank of Rajasthan is a very glaring example. The Bank of Rajasthan is one of the banks that has been suggested by the Rural Credit Survey Committee Report to be amalgamated in the future State Bank of India but that has not been done. Not only that is not done but it is now sought to be even kept out of the present scheme. Why? The management of this Bank of Rajasthan, I am told, was earlier agreeable but suddenly it has changed its opinion. Why? After all, this Bank of Rajasthan is doing certain business in Rajasthan, which would be only complementary to the State Bank of India, it is doing certain work in Rajasthan which is the work of the Government of Rajasthan. This Bank cannot be kept out in the interest of the work that is being done. It appears that the private share-holders in the Bank of Rajasthan are dictating terms to the Government of India and the Finance Ministry that that Bank be kept out of the purview of even this **Bill**, that not only it should not be amalgamated with the State Bank of India but also that it should not be compelled to become subsidiary to the State Bank of India. The thing is like that.

I would like to point out to the hon. House that here is this Bank of Rajasthan which because of its association with the Treasury work has made a lot of profit. It is not because that certain share-holders are holding the shares that it is making this profit, it is not because that the management is making efforts that it is making this profit, but because this Bank does the Treasury work of the Government of Rajasthan that it is making profit. Since its appointment as the Treasurer to the State Government, the goodwill of the Bank has increased, the profit of the Bank has increased and the dividend distributed

by this Bank has increased. Let us see how all this happened.

Within a year of its appointment as the Treasurer to the State Government, deposits increased from Rs. 73,000 to Rs. 1,73,000 in the Bank of Rajasthan. The goodwill of the Bank increased because the State has come into the picture. Let us see again. Since its appointment as the Treasurer to the State Government, the total deposit increased from Rs. 73,000 to Rs. 4,53,000—since its appointment up to date. Obviously, not through the efforts of the shareholders or the private management of the Bank. It is because the State has come into the picture, it is because it was appointed the Treasurer to the State Government that its goodwill has enhanced and people are coming in with their deposits. This is how the private management by virtue of its being associated with the State Government is making a lot of profit.

Let us see how profits have increased. Profits have increased from Rs. 61,000 to Rs. 2,75,000. From the date it was appointed as the Treasurer to the Government of Rajasthan, the profits have increased to that extent. The number of branches has gone up from 20 to 31. Within the same period the dividend distributed rose from 3½ per cent, to 6 per cent. **Now there** you are, So, the business of the Bank of Rajasthan is expanding since it has become the Treasurer to the Government of Rajasthan. Deposits are flowing in, dividends are going up and the profits are going up. How then are we interested in abiding by the wishes of the private management or the share-holders of this Bank, who want to prevent this Bank from coming within the purview of this Bill?

Well, here is a Bank that is gaining in strength because of the State aid that it is getting and here is a Bank that is preventing the State from taking control over it. Now, even the Rural Credit Survey Committee Report has said that rural banking can-

not be left to commercial banks because they rarely help rural production. They only think in terms of getting deposits. Now this Bank of Rajasthan is doing business in that area and earning so much profit. I do not know what earthly reason is there not to take over this Bank of Rajasthan and bring it within the scheme of the Bill that is proposed to be sent to the Joint Select Committee. Therefore I very strongly suggest to the Joint Select Committee that clause 2 must be amended in order to include the Bank of Rajasthan also. I think the Minister owes an explanation to the House as to how is it that the Bank of Baroda became a commercial bank. How is it that since integration of Baroda into India this Bank which was an associate bank was allowed to disentangle itself or disassociate and become a full-fledged commercial bank? Are we proceeding towards increasing nationalisation or denationalisation? He must tell us as to why this happened and we must see if we could undo what has happened already in the case of the Bank of Baroda.

Then I will speak about—I cannot say my own Bank but a Bank operating in my State—the Bank of Hyderabad. I don't understand this argument that we must have them only as subsidiary banks because they have a special clientele. This is not the first time when this argument has been put forward but it is also the argument given to me by officials with whom I argued about the question of amalgamation. This is not a very convincing argument. After all the clientele is there—yes, the good-will is there,— yes, but the good-will is increasing more and more with the increasing association of the State Bank of Hyderabad with the State Bank of India or the Government of India or the Reserve Bank of India. The good-will is increasing obviously. If we had allowed the Bank of Hyderabad to function as the Bank of Baroda, we had allowed the Bank of Hyderabad to the depositors or to ordinary people in the Bank. The matter was dis-

cussed when the Hyderabad State Bank Bill was debated. It was discussed with the Reserve Bank team of experts. The good-will is increasing the more, the association becomes closer with the State Bank of India. With integration the good-will will not surely suffer. The argument about the clientele also does not appeal to me because the work that is being done by the State Bank of Hyderabad ought to have been considered by the Survey Report to see whether amalgamation would result in any fall in business or in clientele. I don't think anywhere from this Report the Minister would tell us that such an apprehension was felt by even the experts who went into this question. No. In fact, let us examine this question. The business of the Hyderabad State Bank is not competitive to the State Bank of India branch but complementary. Therefore there should not be any clash of clientele. I would like to know this. In a city you have branches of the various banks, multiple branches of the same bank; but yet all the branches work. I cannot understand how with amalgamation this clientele will clash. Particularly we know there is a certain clientele in the State Bank of Hyderabad which it would be in the interest of the country to get rid of because that clientele is more a burden on the State Bank of Hyderabad than a source of income to them. We know it. But my apprehensions are as to why they have not made it a complete amalgamation and why they want to maintain it as a subsidiary bank. It is because they want to retain certain of the autonomy of the officials of the State Bank of Hyderabad.

MR. DEPUTY CHAIRMAN: There are three more speakers.

DR. R. B. GOUR: I would like to have 3 or 4 minutes more. I know * your other anxiety also. Here they are anxious to retain part of their autonomy. I would like to know this. At present the State Bank of Hyderabad is under the supervision of

[Dr. R. B. Gour.] two masters—the Reserve Bank of India and the State Bank of India and the Chairman of the State Bank of India is the Chairman of the Hyderabad State Bank. Because of two masters, on the one hand what work should expeditiously be done is being hampered because of the growing red-tape and on the other hand, where the supervision should be strict, it is riot there. Autonomy is being mere and more asserted there. Take the question of settling the old dues or arrears with parties. Because of the dual arrangement, you see that certain settlements that should have been arrived at quickly are delayed because matters are investigated by both the masters and time is taken. This is number one. Then because so many people examined it, I am sure that even in matters of settlement proper settlement is not being arrived at because of local autonomy also. That is how things are happening. I want the Government to go into the details, of that famous or notorious secret ledger No. 21 which deals with the question. It is a secret document. Only three officers know of it.

DR. B. GOPALA REDDI: Are you one of the three?

DR. R. B. GOUR: Everybody knows that nobody knows about ledger No. 21 because it is a secret thing between the officers. Now I ask the Government whether the settlements arrived at—supposing 4 annas or 6 annas or arrears are to be paid and the balance is to be written off—would be proper? Could you have got 8 annas when the settlement is on 6 annas? I have my apprehensions because certain interested elements are trying to see that the State Bank of India agree to settle the old arrears of accounts and it is probably being dictated to by certain other elements and forces to arrive at a settlement probably at a lower level when higher income is possible. This is the apprehension in certain circles in Hyderabad. I would like to know whether it is to retain such autonomy that

you are making it only subsidiary? I am open to conviction but I would like to know. This autonomy must go.

In matters of staff relations also, your autonomy in running the subsidiary bank is creating problems. Because we know in Hyderabad, the Secretary has resigned. Normally I would not have worried about the resignation of a Secretary but there are apprehensions there that there is something more behind that resignation. We don't know and I myself do not know. I will not give you the rumours, but the point is that there are apprehensions that in matters of staff relations your autonomy is going to create problems. We know the apprehension among the staff of the Hyderabad State Bank that after merger of the Mercantile Bank the staff coming from the amalgamated bank is getting better facilities and the older staff is being given a raw deal. If autonomy continues and if you do not have powers to go into all those, what will happen? If it functions as a normal branch of the State Bank of India, obviously things will be different. Therefore this autonomy of these subsidiaries particularly when the past of the officials of these subsidiaries is considered, is going to create problems for the development of these banks and autonomy for the subsidiary banks and suzerainty of the State Bank of India over subsidiaries is not going to be a happy combination. In the interest of the Bank itself, it should be a full-fledged amalgamation and that alone would solve the problem.

One word about the employees. If there is no other reason for your retaining the Bank only as subsidiary, why did you include in this Bill a clause that the emoluments of the employees will remain what they are? Why don't you give them the emoluments or working conditions in the State Bank of India? That means, this is an additional consideration for you. If you amalgamate it with the

State Bank of India, then you will have to give them increased emoluments. If that is not so, whether you have it as a subsidiary bank in your own interest or in the interests of the private share-holders, you give us the emoluments of the State Bank of India. The staff relations will be better. If the working conditions and the emoluments of the subsidiary State Banks are the same, then common staff relations will develop and the problem of staff *versus* management will diminish.

I would like to suggest only one point. Why don't you take powers in this Bill that whenever you so desire, you can take over other State-associated banks also. Will you kindly tell me the reason? In this very Bill you could introduce certain clauses that would empower you to take over the other State-associated banks in future or to amalgamate the present subsidiaries into the State Bank of India. It does not appear from the Bill that you have taken such powers in this Bill.

I think these are certain important points which the Select Committee should seriously consider and I do hope that the Government will not stick to the present scheme, but will see that these suggestions are very seriously considered.

SHRI T. S. AVINASHILINGAM CHETTIAR (Madras): Mr. Deputy Chairman, this Bill was an expected one. Even when we considered the State Bank Bill, we promised that nationalising—if I may use that word — of certain banks which were already existing in certain areas, particularly in areas which constituted Indian States, would be considered later. This Bill is in pursuance of the undertaking that was given by Government at that time.

[THE VICE-CHAIRMAN (DR. R. B. GOUR) in the Chair.] 15

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Before I come to the provisions of this Bill, Mr. Vice-Chairman, I would like to make a few observations on certain provisions in the State Bank of India Act, which the hon. Minister-in-charge of the Bill mentioned. He mentioned that one of the objectives of nationalising the Imperial Bank and making it into the State Bank was for giving facilities for rural banking and that about 400 branches would be opened throughout the States. I understand, and I have the authority of the State Bank, that it is progressing according to schedule, that about 280 centres have been opened by now. I hope it will go according to schedule. That is really what is wanted in the rural areas.

Coming to a few provisions of the Bill, one of the most important provisions naturally is the one relating to compensation. Another provision which I shall presently refer to is clause 9 of the Bill. Clause 9 reads as follows:—

"On the constitution of a new bank, all shares in the capital of the corresponding bank, where such corresponding bank has a share capital, shall stand transferred to, and shall vest in, the State Bank, free of all trusts, liabilities and encumbrances."

X may have a share in the Bank of Patiala or the Bank of Mysore which is being nationalised under this Bill. If I have a thousand rupees' share in the Mysore Bank which I have mortgaged to another, through the process of transfer it becomes free of all trusts, liabilities and encumbrances. That means, the State Bank gets the share free from liabilities. And what happens to the man who has really mortgaged it to another? This matter is dealt with in clause 13, sub-clause (12), but that gives no compensation. It says:—

"Nothing contained in this section shall affect the rights *inter se* between the holder of any share in an existing bank, and any other

[Shri T. S. Avinashilingam Chettiar.] person who may have an interest in such share and such other person shall be entitled to enforce his interest against the compensation awarded to the holder of such share, but not against the State Bank."

That means, the man who is the mortgagee of the share has got a right against the compensation that may be granted by the State Bank. To my mind, I do not know whether this proviso—I would like to call it a proviso, because it is a proviso to the right acquired by the State Bank—should come under clause 9 or whether this should come under Chapter III. This is something which the Select Committee must go into, so that this matter may be made absolutely clear. That is, while the State Bank which acquires the Bank will have the right naturally free from mortgages, the man who has a right, who gets the mortgage, who gets a share of the Bank, should not be affected. We are not interested in affecting his right. That must be made absolutely clear. And to make it clear in what portion of this Bill this proviso should come, is something which the Select Committee should go into.

Now, I come to a very important aspect of the question, namely, compensation. Those Members who were in the Parliament at the time the State Bank Bill was introduced know how much discussion there was about this question of compensation. It was said, and rightly I should think, that the value of the share of the State Bank should not be considered to be the value which is rightfully due to the share-holders alone. The State Bank—the Imperial Bank had a prestige. The Imperial Bank was considered to be a State Bank, though it did not have the name then. They acted as the Government Treasury. They acted as the deposit-holders of Government funds. The result was the prestige that it had. The amount of money that it could deal with was

•normous, much more than any shareholding bank or any private bank would be entitled to. And so it was rightly said that the value of the shares was by no means the value which the share-holders would have got. It was because of the prestige and the facilities received from the Government. And so it was suggested that the compensation should take into note this advantage that they had from the State. So, some *ad hoc* arrangement was arrived at and some compensation was fixed. But what I see in the First Schedule of this Bill is this. They have laid down how to take over all the assets and liabilities. The assets ought to be calculated in this way. You will see in every paragraph of that, "where the market value . . .". In sub [clause (c) (iii) it says, "where the market value of any Government security". In sub- clause '(c) (iv) it says, "where the market value-of any security, share". In sub-clause (c) (v), it says,, "where the market value of any security, share. . . .". In sub-clause

(e) it says: "the market value of any land or buildings;". For example,, the State Bank has its building in Coimbatore or Madura. The written down value of that building is very low, but the market value will be very high. The market value will be Rs. 5 lakhs., while the written down value might be Rs. 50,000. These are the secret reserves which any bank has. If you want to give compensation according to the market value, then the secret reserves are being taken into consideration for paying compensation. It was said that it was not the proper thing to do when the Imperial Bank was taken over and it became the State Bank. That sort of calculation was not allowed. We laid down that the market value of these things should not be taken into consideration. But just the opposite is being done in this Bill. I would like the Select Committee to go into this matter in detail. You will see that there is only

one item for which the written down value is taken into consideration. It says in sub-clause (g):—

"the written down value as per books, or the realisable value, as may be considered reasonable, of all furniture, fixtures and fittings."

That is the only item where they take into account the written down value and not the market value. To me, it seems that this difference in this method of compensation between the State Bank of India, I mean the Imperial Bank, and these Banks is not called for. I do not know very much about these Banks, but the Bank of Mysore must have acted as a Government bank. So, also some other banks. If they had acted as Government banks, if they had also received the advantage and prestige and the facilities given by the Government, just as the Imperial Bank had received from the other parts of the country, then it is up to us to adopt a similar form of compensation. I leave that to the Joint Committee to look into and arrive at a proper formula.

There is only one other matter which I would like to mention and that is this: When we took over the Imperial Bank of India and converted it into the State Bank of India, to provide for rural credit facilities for trade and industries, we said that the State Bank must open four hundred branches throughout India. That was a wise move and that was made on the recommendation of the Rural Credit Survey Committee's Report. No such provision is made in any of the clauses of the Bill relating to these six banks. Some service must be available to the rural areas in the area of the erstwhile States. I would also like to know whether this matter was considered. If this was important with regard to the other areas, it must be equally important with regard to these areas also. This is a matter which I would like the Joint Committee to consider.

Thank you, Sir.

SHRI ROHIT M. DAVE (Bombay): Mr. Vice-Chairman, there cannot be any two opinions regarding the fact that it is necessary that all these banks in which the different States own certain shares or in which they have certain interests should be amalgamated with the State Bank of India or perhaps be integrated with the State Bank in one form or another. In bringing this Bill before the House, the Finance Ministry, though belatedly, is trying to give some effect to the recommendations which the Rural Credit Survey Committee of the Reserve Bank made. Sir, there is a rule that when a Bill goes to the Joint Committee, it is assumed that the principle underlying the Bill is accepted by the Houses and that the Joint Committee is normally to deal only with the details of working out that particular principle. I would beg of the Finance Minister at this stage to see that when this Bill goes to the Select Committee they do not put forward the plea that the Houses have accepted the pattern of integration of such banks with the State Bank of India. Really, the principle that has been accepted is one of some sort of integration keeping the form of integration an open question to be gone into in detail by the Joint Committee.

Sir, it has been argued that because of the peculiar nature of the history of these six banks, because of the areas in which these six banks operate, it is desirable that these banks should operate as subsidiaries to the State Bank of India rather than as the branches of the State Bank of India. Sir, if one goes through the Bill properly, one thinks that in order to give expression to this principle of relationship of a holding company and a subsidiary company between the State Bank of India and the other six, banks, the provisions incorporated in the Bill are likely to make the functioning of these banks extremely difficult. Sir, according to clause 24(2) of the Bill, the powers of general superintendence of the con-

[Shri Rohit M. Dave.]

duct of business and affairs of the subsidiary banks are vested in the Board of Directors who, with the assistance of General Managers, are expected to exercise all powers and do all such acts and things as are to be exercised or to be done by the banks. This right of the Board of Directors has been very strictly limited because of certain other provisions in the Bill. Firstly, Sir, as far as the composition of these Boards of Directors is concerned, we have got clause 25 which, if properly analysed, gives the ratio of 7 :2 regarding the officials or other people to be appointed as Directors by the statutory authority and the Directors to be elected by the share-holders. Sir, the Bill contemplates a ratio of 55 :45 of share-holding, that is, the minimum share-holding of the State Bank of India would be 55 per cent, and the rest may hold 45 per cent. If this is to be the distribution of shares, and if the ratio of the Directors to be appointed is 7 for a share-holding of 55 per cent, and 2 for a share-holding of 45 per cent., I am afraid the Board of Directors is very heavily manned with people who have got one particular interest or section of share-holders in mind.

Secondly, Sir, the State Bank of India has also been empowered to decide as to what should be the reserve fund of these various banks, what should be the authorised capital from time to time. Further, the State Bank has got the powers to appoint General Managers for each one of these subsidiary banks and to give instructions which the subsidiary banks are duty bound to follow especially when such instructions come from the State Bank. Even that is not enough. The State Bank, before giving any such instructions and before coming to any one of these decisions, has got to get the concurrence of the Reserve Bank. In this way, Sir, a highly complicated structure is provided for in this Bill for the supervision and management of the subsidiary banks. I do not

understand the reason why this type of relationship should exist. Why can't these banks be directly made branches of the State Bank of India so that a more integrated control is available over all these various banks? What is the use of telling that there will be two Directors while there are provisions according to which even the two Directors will not be available for the Board of Directors or for the share-holders? What is the use of telling the people that they still have got autonomy, they have got a Board of Directors of their own who will be in a position to direct and control the subsidiary bank? If, instead of that, a straightforward solution is attempted and these banks are made branches of the State Bank of India, there will not be any complication; there will not be all this elaborate procedure of the State Bank first thinking of a certain measures, then going to the Reserve Bank for concurrence, then issuing orders to the Board of Directors and the Board of Directors carrying out these orders. Again, Sir, the Board of Directors will never be in a position to know exactly how the State Bank of India's mind is working. It is true that there are going to be representatives of the State Bank on each one of these Boards of Directors. These people will be sitting there. Various questions will crop up in the meetings of the Boards of Directors—that seems to be the general pattern of the working of the Government of India in all such bodies in which the representatives of the Government sit—and these people are expected to apply their minds as Directors of a particular Bank and to see what can or cannot be done with reference to a given problem that crops up before the Board of Directors. That being the case, they will have a split personality. When they will be sitting on the Boards, they will be looking at questions that crop up regarding the management of the subsidiary banks in terms of the general interest of the subsidiary bank; on the other hand, when they go to the State Bank. . . .

THE VICE-CHAIRMAN (DR. R. B. GOUR) : How much time are you 'likely to take?

SHRI ROHIT M. DAVE: I would like to take five minutes more.

THE VICE-CHAIRMAN (DR. R. B. GOUR) : Then let him continue.

SHRI V. PRASAD RAO (Andhra Pradesh): He can continue after lunch, Sir.

THE VICE-CHAIRMAN (DR. R. B. GOUR) : There is no question of any bus leaving now. I think we can sit.

SHRI P. S. RAJAGOPAL NAIDU (Madras): What is the time available still, Sir? I also would 'like to speak.

THE VICE-CHAIRMAN (DR. R. B. GOUR) : There are two more speakers.

We have got forty minutes more.

Well, all right. We shall adjourn now.

The House stands adjourned till 2-30 P.M.

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

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

MR. DEPUTY CHAIRMAN: Yes, Mr. Dave.

SHRI ROHIT M. DAVE: Sir, as I have said before we dispersed for lunch, the Government officers who are appointed on the Board of Directors or Board of Management of other organisations have to develop a double personality, because normally the Government has some say in the direction and control of the organisations on which these officers are appointed, and these officers also have to function as members of the Board of Management or Board of Directors of the various concerns on which they are appointed. So many times, Sir, in the past this has created certain difficulties, and in this particular case the difficulty is likely to be all the more, because it is a banking concern with which we are dealing just now, and

in banking concerns certain delicate decisions have to be taken almost from day to day with regard to the policy and the management of the banking organisation. Sir, over and above this difficulty, of the Board of Directors five members will be Government officials appointed on the Board of Directors, who will be holding the office according to the sweet will of the appointing authority, while there are the other four out of whom two will be nominated and two will be elected who will be holding office for three years. The pattern will be so complex that it will not serve the interests of the banking organisation that we want to serve. Over and above this, Sir, there is the question of the necessity for the sanction of the State Bank in so many cases. Even if a new branch is to be started somewhere or even if an old branch is to be discontinued, the permission of the State Bank will be necessary, and the State Bank will be in a position to give the permission only if the Reserve Bank concurs. In this way the whole process is likely to be so complex that it is very desirable if a straightforward plan of integration is adopted.

Sir, in this connection I would like to draw the attention of the House to section 19 of the Banking Companies Act in which it has been stated that a banking company shall not form any subsidiary company except for certain very limited purposes. Here is a very salient feature because subsidiary companies are normally held by the holding companies. Only in certain circumstances, either because of the question of tax avoidance or because of getting certain supplies for them uninterruptedly or to have a definite policy for the various subsidiary companies, in reference to these, the holding company holds shares in the subsidiary companies.

SHRI H. D. RAJAH (Madras): Does it apply to banks?

SHRI ROHIT M. DAVE: As far as banks are concerned, there is no likelihood of any such contingency arising.

[Shri Rohit M. Deva.] ing, and therefore section 19 of the Banking Companies Act has prohibited banking companies from opening subsidiary companies. I think, Sir, that even with reference to the State Bank of India this salient rule, this salient principle should be followed. After all, why is this complex machinery provided for? It is only to see that the share-holders get two Directors on the Board of Directors which will comprise of nine Directors. These two elected Directors will have hardly any say in the management of the subsidiary company, and the satisfaction that they are likely to get is more psychological than, otherwise. Sir, just for providing that psychological satisfaction it is not desirable that in the case of a banking concern such a complicated machinery for supervision, direction and control should be set up.

Then again, Sir, there is the question of the employees of the subsidiary banks. We are told in the Statement of Objects and Reasons that this particular Bill is being brought forward because of the necessity for making adequate and proper provision for the management of treasuries and sub-treasuries in the areas served by these banks and also because of the need for the expansion of these banks in these areas. This being the case, it is quite reasonable to presume that it is the intention of the Government to see that these new banks that will be coming into existence are expected to develop very fast and to carry on the activities which are normally carried on by the State Bank. It has also been provided for in the Bill that these new banks may take over the assets of other banks and thereby have subsidiary banks of their own. This being the case, there is a general presumption that after this Bill becomes an Act these new banks will develop very fast. Now, Sir, the House knows very well that as far as the bank employees are concerned, the banks have been classified into different categories according to the area they service, according to the

amount of business they handle and according to the nature of business they handle. If the nature and the amount of business are going to change radically, it quite stands to reason that the employees should be given new terms of employment and new conditions of service, because then they will be doing work which is today done by the banks that are in the higher categories than the category of banks in which they are at present. Therefore, Sir, the Joint Select Committee should also take into consideration these aspects and see that a definite provision is made in the Act itself that as soon as these new banks are empowered to carry on the work of the branches of the State Bank, so to say, they will be given the status of the branches of the State Bank as far as the employees are concerned and will be offered the same terms and conditions which are being offered or which govern today the employees of the State Bank.

I thank you, Sir.

SHRI P. S. RAJAGOPAL NAIDU: Mr. Deputy Chairman, we all know that under the recommendations made by the Rural Credit Survey Committee there should have been an amalgamation of all the State-associated banks with the State Bank of India. They are about a dozen in number in our country. As the previous speakers had said, the Rural Credit Survey Committee had recommended the formation of a State Bank of India by amalgamation of the old Imperial Bank of India and also the other State associated banks in India. By a previous Bill we had dissolved the old Imperial Bank of India and had constituted the State Bank of India. We all thought that this Bill that is now presented before Parliament is a Bill which will contain amalgamation of all the State-associated banks with the State Bank of India. But what we find now, Sir, is not a complete amalgamation of all the State-associated banks. We find that it is a reconstitution of the State-associated banks into subsidiary banks

of the State Bank of India. Sir, some of us who had been associated with these banks in the country, particularly the co-operative banks, have some knowledge of the banking system in the country and for us this organisation of the subsidiary banks is something perplexing. We are not able to see the reason behind the whole matter. If we analyse the Bill, we find that firstly there is amalgamation. Under clause 9, we find:

"On the constitution of a new bank, all shares in the capital of the corresponding bank, where such corresponding bank has a share capital, shall stand transferred to, and shall vest in, the State Bank, free of all trusts, liabilities and encumbrances."

So under clause 9, all the State-associated banks which are about six or seven in number, barring two, amalgamate and merge with the State Bank of India and the State Bank takes over all the assets and liabilities of the State-associated banks.

Then under clause 4, certain new banks are created and they are given different names also. I will come to that later. They are considered to be bodies corporate. Under clause 4, it is said:—

"Every new bank will be a body corporate with perpetual succession and a common seal and shall sue and be sued in its name."

I said, Sir, to start with that this Bill is a *little bit* perplexing to me as they first create a subsidiary bank of the State Bank of India by taking over and amalgamating under clause 9 all the State-associated banks and then create new banks with more or less the same name.

Sir, we find under clause 3 that the old Bank of Bikaner has become the State Bank of Bikaner. The time has come when we should forget the old States.

DR. B. GOPALA REDDI: Madras State, Bengal State.

SHRI P. S. RAJAGOPAL NAIDU: I am talking of the 'old Princely States. We are forgetting the old Princely States. But now under clause 3, I think these banks are created with a view to perpetuating the memory of the Princely States which had been lost and forgotten. The Bank of Bikaner becomes the State Bank of Bikaner; the Bank of Indore becomes the State Bank of Indore and all that. After the creation of such banks, they are not organised under the Banking Companies Act or under any other Act. But they are all created as bodies corporate with perpetual succession and a Common seal.

[THE VICE-CHAIRMAN (DR. R. B. GOUR) in the Chair.]

Now, Sir, we shall just analyse the point. If they are all bodies corporate with perpetual succession and a common seal, these banks should be really autonomous. But these banks have been created as subsidiaries of the State Bank of India. And as Mr. Dave has rightly put it, what are the powers that these banks enjoy is clearly shown in clauses 24, 25 and the subsequent clauses in the Bill. Take for instance the management. They are not really autonomous though they are bodies corporate. Clause 24 reads:—

"(1) The State Bank may, from time to time, give directions and instructions to a subsidiary bank in regard to any of its affairs and business, and that bank shall be bound to comply with the directions and instructions so given."

I would like to know, if such a power is vested in the State Bank of India, why create a subsidiary bank at all. They could as well amalgamate and organise the so-called subsidiary banks as the branches of the State Bank of India. Instead of doing that, probably as a sort of compromise between these State-associated banks and the State Bank of India 'on the one side and the Reserve Bank on the other this sort of arrangement has been entered into. I personally feel that a sort of

[Shri P. S. Rajagopal Naidu.] compromise has been arrived at between these banks and this Bill is the result of it. As I had already said, it would have been very well if the State-associated banks had been completely liquidated and amalgamated with the State Bank of India and wherever these State-associated banks had been operating before, the State Bank of India could have treated them as the branches of the State Bank of India and the treasury work could be got on. Instead of that they create a sort of subsidiary bank which is quite novel, and the procedure adopted also is quite novel. Absolutely no independent powers are now given to these subsidiary banks either in the management of their affairs or in regard to the constitution of the Boards of Management. There are no independent powers given, and even in the matter of day-to-day business, we And under clause 36 which deals with the business of the subsidiary banks thus: —

"(1) A subsidiary bank shall, if required by the State Bank, Act as agent of the State Bank at any place in India for—

(a) Paying, receiving, collecting and remitting money, bullion and securities on behalf of any Government in India; and

(b) undertaking and transacting any other business which the Reserve Bank may, from time to time, entrust to the State Bank."

Again under clause 37 about 'other business which a subsidiary bank may transact', it is said: —

"(1) Subject to the other provisions contained in this Act, a subsidiary bank may carry on and transact the business of banking as defined in clause (b) of sub-section (1) of section 5 of the Banking Companies Act, 1949, and may engage in such one or more of the other forms of business, as are specified in sub-section (1) of section 6 of that Act."

Now, a reading of these two clauses clearly indicates that absolutely no

independent power is given to the subsidiary banks and they have got simply to act under the directions of the State Bank of India. It will not lead us anywhere and it will only, on the other hand create a sort of banks, which are quite novel in our country. Further, Sir, two banks had been omitted. I do not know why these two banks had been omitted—the State Bank of Hyderabad and the Bank of Rajasthan. It is said that the State Bank of Hyderabad had declined to do the treasury work and so the State Bank of Hyderabad had been left out. They intend doing it

DR. B. GOPALA REDDI: Not Hyderabad.

SHRI P. S. RAJAGOPAL NAIDU: The Bank of Baroda I am sorry.

It is intending to give up the treasury work, but it is not clear why that procedure had not been followed in the case of the other State-associated banks also. If the other State-associated banks are willing to give up treasury work, why do the Government disturb their structure, why do they disturb their existence? The other banks also could have been treated as the Banks of Rajasthan and Baroda had been treated. Simply because the Bank of Rajasthan had not yielded, this sort of procedure had been adopted.

So, Sir, my point is that these State-associated banks should be completely amalgamated if there is to be amalgamation; otherwise, there need not be any amalgamation at all. If the treasury work is to be taken away from the State-associated banks, the State Bank of India could have negotiated with them, it Could have asked them to give up the treasury work, so that they could exist as ordinary commercial banks or as scheduled banks. Instead of that, a *via medio*—what we call sometimes like *Trisanku swar-gam*', has been organised under this Bill which will create a sort of confusion. I am sure that the subsidiary banks that are being created are going to meet with great difficulties and a

time will Come when another amending Bill to the present Bill will be introduced in Parliament.

Sir, with these few words, I would like the Joint Select Committee to consider deeply even at this late stage to see that either there is complete amalgamation or the treasury work is taken away from these State-associated banks and they are left as they are now.

SHRI H. D. RAJAH: Mr. Vice-Chairman

THE VICE-CHAIRMAN (DR. R. B. GOUR) : Just a minute, if you don't mind. Let me find out how much time is there for the Bill. I understand that the time is up to 3-10. How much time does the hon. Minister want.

DR. B. GOPALA. REDDI: I want ten minutes.

THE VICE-CHAIRMAN (DR. R. B. GOUR) : Mr. Rajah, you will have only five minutes, I am sorry.

SHRI H. D. RAJAH: Even two and a half minutes will do.

Mr. Vice-Chairman, I welcome this Bill, but not in the voluminous form in which it has been brought. First of all, Sir, there is the provision in the Companies Act for a subsidiary company. A subsidiary company is defined in the Companies Act as a company on whose Board of Directors the holding company can nominate a majority of Directors or whose majority of shares are held by the holding company—a very simple definition by which you can make an institution subsidiary to the other institution.

First of all in a way Mr. Rajagopal Naidu is right, namely that this lugubrious process need not have been taken for taking over these State-associated banks under the same control when easily the State Bank could have acquired their shares by a simple process and made all these banks the State Bank's branches, and in turn these banks could have utilised

their powers and privileges to control the treasuries, to make the treasuries and sub-treasuries work effectively or, in the alternative, the entire capital structure could be reconstituted in such a way that the present shareholders would retain their capital and the State Bank could have acquired the shares that were available in the market at the market price, or these banks could have been induced to float fresh shares for the State Bank to take them over. This would have been the simplest method by which you could have made them either as branches of the State Bank or you could have made them subsidiary banks. Probably these State-associated banks had some scheme of their own; they do not want to give up their names—the Bank of Mysore, the Bank of Travancore, the Bank of Maharashtra or the Bank of Jaipur, because these names are attached to the respective States for whom they have some special significance.

Now I see from this Bill that the Bank of Travancore's capital is sought to be raised from Rs. 1 crore to Rs. 2 crores. Absolutely unnecessary. The State Bank's capital is quite adequate to deal with the entire capital structure so far as the State branches are concerned. I know very well for the past ten years the Travancore Bank has not given any dividend to its share-holders. They have stabilised; they are coming up, and today from Rs. 12 which was the fully paid-up value of a single share of that Bank it has risen to Rs. 25 today, normally speaking. For ten years the shareholders have sacrificed their interest; they have not had a pie out of that. The Travancore Bank had built up its reserves and not paid anything to its share-holders and now, if you are thinking of doubling its share capital you should allow the privileges and the benefit of that Bank accruing to its existing share-holders—in which case there is no compensation needed—and you could have maintained a proper and well-arranged standard.

Now, Sir, again the question of compensation arises. Now what is stated

[Shri H. D. Rajah.] in the Statement of Objects and Reasons is that compensation will be payable to the existing share-holders including the State Government or the Reserve Bank of India, as the case may be, on the basis of the excess of the assets over the liabilities. Now it is a moot point. Now when the question of liabilities is taken into account it becomes a matter of grave concern and doubt. Certain investments have been made by the Bank and some people will consider them as good assets and others as bad. (*Time bell rings.*)

Now that you have rung the bell
let the bad effects be removed and
good effects taken into consideration.

[MR. DEPUTY CHAIRMAN in the
Chair.]

DR. B. GOPALA REDDI: Sir, I am really happy that all sections of the House have welcomed generally the principle embodied in the Bill, and they wanted us to go further, not fall back they did not say that the provisions are extreme or anything of the sort; they wanted to have full amalgamation that the other two Banks also must be taken up in the scheme. Therefore, Sir, I say that the House generally approves of the principle of the Bill.

Now, Sir, the main point that was raised by various speakers was: "Why not total merger? Why this subsidiary business, this hotchpotch business? When you are going to take them up, take them up completely as branch offices instead of as subsidiary banks, etc. Or leave them alone as they are, without taking over these banks which are functioning in the ex-Princely States."

Sir, first of all the Reserve Bank considered the matter very carefully; the State Bank considered the matter very carefully, and they in consultation with the State Governments some times 'or with the banks concerned, came to certain agreed solutions. Sir, we have the goodwill of all these institutions without any compulsion,

without any coercion. They have all willingly come into the scheme. Likewise the State Governments. For instance, the Kerala Government, or the Punjab Government as far as the Patiala Bank was concerned, or the Bombay Government as far as the Saurashtra Bank was concerned, they were also in the scheme of things. They were also consulted and they all came to the agreed conclusion that the State Bank Could take 55 per cent, and leave 45 per cent to the shareholders or to the State Governments, as the case may be, and you can have a direct voice in the management, and things like that. So the goodwill of all these institutions is much more necessary, Sir, than mere compulsion; I mean, we could easily put in the Bank 'of Rajasthan also or, as a matter of fact, we could put in any scheduled bank. I mean, Parliament is all-powerful; we can take over and nationalise any banking institution. But we wanted under this scheme the willing cooperation of the institutions concerned, the willing Consent of their managements and the share-holders also, and wherever the State Government is also concerned, the willing consent of the State Government also. So, Sir, when we got the consent of all these people and the co-operation of all these people, to forego that and to say that we are going to do it, whether you like it or not, because we have got the power, may be taking the big stick. As a matter of fact the original idea emanated from the Travancore Government itself. It may be surprising, but the Travancore Government, after Shri Nambudiripad took over charge, wanted . . .

SHRI N. C. SEKHAR (Kerala): Kerala Government.

DR. B. GOPALA REDDI: I am sorry; it is the Kerala Government. And they wanted that their participation or their interest or their experience, as far as the Travancore Bank was concerned, should be continued, that it need not be left out of the picture. And likewise the other

State Governments also wanted it. As a matter of fact the Government of Punjab wanted that Patiala Bank should be retained with them, and things like that, and they would like to have the power or the holding of the shares, as it is. In spite of that, Sir, because national interest was involved, they all wanted to co-operate, and the scheme that was evolved by the Reserve Bank, the State Bank and the State Governments is certainly more advantageous than a straightaway merger, and the merger has no particular advantages; except it be on the principle of merger, there is no particular advantage in making them branches of the State Bank. On the other hand, immediately they become branches of the State Bank their pay bill will go up; they will have to pay higher wages. Perhaps the Travancore Bank is getting on beautifully well in that part of the country with the pay scales that they are now giving. And once you make them branches of the State Bank, immediately their pay bill goes up, and they will be hampered in their developmental work; they won't be able to open up new branches, as they can under the present scheme. On the other hand they will be hampered; they will be under a handicap, because the pay bill immediately goes up, and there will be an unmerited advantage which the employees also will be getting, not because they have earned it, not because they have toiled more for the welfare of the Bank and things like that, but because Parliament has decided to have this merger. And immediately all the employees will be getting higher emoluments and unmerited perhaps, the advantage and benefit accruing therefrom. Now to that extent the bank also will be handicapped in the developmental work.

Sto, Sir, considering all these points, while I shall certainly welcome the Joint Select Committee to go into all these matters—which they will certainly do—anyhow I feel there is no particular advantage in having them as branches. As I said the present scheme has all the good points of willing co-

operation and Consent of all interests concerned. Moreover, we have to consider their local influence. For instance the Bank of Saurashtra has certain local knowledge and local influence over the people. They know the local conditions; the local experience need not be completely left out. We will be associating some Directors along with other Directors, and their local influence and local experience and all that will be available to the subsidiary bank. From that point of view also it is good that we have the local experience also associated.

As regards the staff, of course, the staff will certainly welcome complete merger with the State Bank because they will have the advantage of higher emoluments. There is always a difference between the emoluments paid by the Reserve Bank and the State Bank and the State Bank emoluments are certainly higher than the Government of India's pay scales.

DR. R. B. GOUR: That is for the officers.

DR. B. GOPALA REDDI: Day before yesterday I was in the State Bank. I made enquiries particularly on this matter. The State Bank's pay scales are higher than Government of India pay scales and Reserve Bank of India pay scales are higher than the State Bank pay scales. Likewise, the State Bank pay scales can certainly be higher than the Hyderabad Bank or Mysore Bank or Travancore Bank and things like that and there may be some difference. We need not raise phrases like "same work, same pay scale". It may be a good phrase but actually the Reserve Bank pays higher pay scales than the State Bank and things like that. These differences need not be thrashed out immediately. We can gain experience and if necessity warrants that these banks should be made the branches of the State Bank, it can be done later. But for the time being we would have the goodwill of everybody concerned.

[Dr. B. Gopala Reddi.] That is more important in a matter like this.

Coming to the Bank of Baroda and the Bank of Rajasthan which have figured in the discussion, the former stands in a very peculiar position, and much has happened since the Report had come out. Since the Baroda State's merger with the Bombay State, this Bank has been shedding its treasury work, so much so that now today it is as good or as bad as any other Commercial bank. Therefore, to say that "since the Report has mentioned Bank of Baroda, it gave your name, therefore, the principle must apply retrospectively and you must come into the scheme" may be unfair to the Bank of Baroda. They do not do any treasury work. It is not a State-associated bank at all and as such stands on a par with other commercial banks. Therefore, the Bank of Baroda cannot come into the picture.

DR. R. B. GOUR: Is the Bank of Rajasthan also going in the same direction?

DH. B. GOPALA REDDI: The Bank of Rajasthan stands on a different footing. We tried to bring it into the scheme of things. The State Bank tried their best to negotiate with the Bank of Rajasthan to get into the scheme of things but they were somehow apprehensive. They were unwilling, and we need not compel them either. After all, its share capital is only Rs. 9.23 lakhs. Its reserves are Rs. 6.82 lakhs and the profits it has made is only Rs. one lakh odd last year. So, when such is the state of affairs of the Bank of Rajasthan, even if it does not come into the picture, it does not matter to us. After all, it can function as a commercial bank. It will shed, of course, the treasury work. Of course, under the directions of the Reserve Bank of India, the Rajasthan Government will see that they do not carry on any treasury work. It will be like any other commercial bank. And, because it does not come into the scheme of

things, we need not get excited about it; we need not get upset about it. The Bank of Rajasthan is a small bank compared to all these banks. In the matter of capital or reserves, compared to all other banks the Bank of Rajasthan is a small bank and there is nothing lost.

DR. R. B. GOUR: Excuse me, Sir. That is not the point at all. The question is that the Bank of Rajasthan thrived because of the help that it got from the State of Rajasthan. Now you cannot allow it to get out of that position and become a commercial bank.

DR. B. GOPALA REDDI: We persuaded them to come into the picture but we do not want to coerce anybody. In other cases the Board of Directors and shareholders have agreed. But here in this case neither the shareholders nor the management were willing to come into the scheme. They wanted to keep their own management and autonomy and things like that. I do not think, Sir, it is very necessary to disturb the entire scheme of things and say: "All other banks have agreed. You have not agreed. Therefore, we compel you to agree". We want to go by the scheme of willing consent of the banks, and while other banks have come into the picture, it does not matter whether the Bank of Rajasthan comes into the picture or not, and we lose nothing. Our policy of expansion, of developmental work in old Part B States does not suffer. There are other two banks which can certainly look after the Rajasthan districts—the Bank of Jaipur and the Bank of Bikaner. They can cover the various districts of Rajasthan through their branches. Our principle that they must come with willing consent need not be disturbed because the Bank of Rajasthan was recalcitrant. Even now it can reconsider its position. It is certainly welcome. There the matter stands.

With regard to the management, viz. 2 versus 7, the point raised by my friend, Shri Dave, it is not always true that they will have 45 per cent.

Our experience of the State Bank of India shows that the private people can hold 45 per cent of the shares and the Reserve Bank can hold only about 55 per cent. That is the minimum. Our experience is that the Reserve Bank is now holding 92 per cent of the State Bank shares and outsiders only 8 per cent. Likewise, here also it may happen that instead of 55 per cent, the State Bank might hold about 75, 80 or 85 per cent. It would not be fair to give greater percentage of representation to the share holders.

SHRI ROHIT M. DAVE: May I draw the attention of the hon. Minister to the proviso to clause 25(d) which provides for the State Bank to have a higher number of Directors? There is no question of even 2.

DR. B. GOPALA REDDI: We are trying to associate non-officials. We do want private shareholders to be represented by two Directors. It does not mean that the State Bank is going to have all the 7 of them under their thumb. Two are *ex-officio*, and out of the 5 nominated, only 3 can be "their own people." The other 2 Directors can be shareholders or people who have banking experience or some top men in the locality who are available to give their experience to the Bank. Therefore, these 2 people will be some sort of experts. They could be shareholders or they need not be shareholders or they can be anybody who is available. Therefore, to say that it will be 7 against 2 is not fair. It is 5 plus 2. The remaining 2 will be of any category.

SHRI AKBAR ALI KHAN: (Ard-hra Pradesh): Neutral, or they may be shareholders?

DR. B. GOPALA REDDI: They can be share-holders. But that does not preclude the State Bank from nominating two people who do not stand for election. Or these 2 people may stand for election. These may be other people also if their experience is considered advantageous to the bank. Therefore, the State Bank can nominate them.

Then, Sir, Shri Avinashilingam Chettiar has raised the point of market prices. There is no other way of computing the compensation excepting by taking the market price; otherwise it would not be fair. Then, sometimes State Governments come into the picture. The Patiala Bank, for instance, belongs entirely to the Government of Punjab or the Sau-rashtra Bank belongs entirely to the Bombay Government. The Hyderabad Bank belongs to the Reserve Bank. When you are computing the assets and things like that, you must take the market price or the investments. Suppose they have some shares. What is the price of these shares today in the market? What is the quotation in the market must be taken into consideration. We cannot go by any other means. So the market price is the only fair thing. That was the scheme under which the Imperial Bank was also taken over in those days, and the same principle can be extended to these banks. After all, they are not very big; they are small and their investments also may not be very large. It is but fair that we should give them the market price.

With regard to the branches, it is true that when the Imperial Bank was taken over, they said, "you shall have 400 branches in the next five years" and things like this. But in this case they are all small banks. We can certainly go ahead with the scheme of development and we need not think it necessary that we should specify the number. There are certain overlapping jurisdictions. The Bank of Mysore and, perhaps, the Hyderabad Bank have got common jurisdiction in the transferred areas of some of the Hyderabad districts which have gone into the Mysore State. As soon as this Bill is passed, the State Bank will certainly look into the need of opening up new branches and to facilitate that expansion this Bill is very necessary. Members need not find fault with the Bill because

[Dr. B. Gopala Reddi.] we did not specify everything here. Certainly there would be greater expansion. Just now they stand still because the Bill did not go through for so many months. The Hyderabad Bank and the Mysore Bank could not open up new branches. Once the authority is there, the State Bank would go ahead with the expansion work and all that area which is not covered by State Bank branches today will be covered by one of its branches.

The staff need not necessarily get upset simply because we have this new Bill. They would continue to function as they do without any disadvantage except, of course, the Managing Director. He can enter into an agreement with the State Bank and the Reserve Bank. Except him the rest of the staff will continue. They are fully protected and it would not be to their disadvantage.

The subsidiary banks should not be under any worse position than the other scheduled banks under the Banking Companies Act. Under the Banking Companies Act today, if they want to appoint a Managing Director, they have to get the approval of the Reserve Bank of India. The subsidiary banks also will have to function in the same manner. Perhaps they would get the permission from the State Bank instead of the Directors themselves appointing the top man.

The question of autonomy also was raised. They would enjoy the autonomy which the scheduled banks enjoy.

SHRI AKBAR ALI KHAN: I hope not the Tibetan type of autonomy.

DR. B. GOPALA REDDI: Even the so-called provincial autonomy is restricted in a way. The Government of India have certain powers though we say that the States are autonomous. They are certainly bound by certain policies of the Government of India

and then there are the Planning Commission and things like that and they are trying to co-ordinate. Therefore, the question of autonomy need not be raised. As far as local problems are concerned, they would certainly have autonomy but for big things such as the appointment of the Managing Director, the State Bank will have a voice in the matter and, therefore, their autonomy is not stifled at all. Shri Raj Bahadur has raised

DR. R. B. GOUR: My complaint was that the autonomy has been working to the disadvantage of the institution.

DR. B. GOPALA REDDI: I am coming to that, Sir. With regard to the Hyderabad State Bank, my friend has raised a point that their autonomy works to the detriment of the depositors, to the detriment of the work of the bank itself. I do not know whether it is called allegation, or whatever it is, that they had gone into investments which are of a very doubtful character, etc. Whatever it is, all these matters had been gone into very thoroughly by the Reserve Bank of India. They instituted a committee which went into them, it looked into every action, it went thoroughly into everything. I do not think anything could have been done more than that by the Reserve Bank, because they enjoyed autonomy. They were not bound by any Reserve Bank direction but now that they are becoming subsidiary banks, that autonomy would not be to the disadvantage of the national interest and it would certainly serve the local interest and things like that.

I have tried to answer all the points raised but if there are anything else, they can certainly be considered by the Joint Select Committee.

MR. DEPUTY CHAIRMAN: The question is:

"That this House concurs in the recommendation of the Lok Sabha that the Rajya Sabha do join in the

Joint Committee of the Houses on the Bill to provide for the formation of certain Government or Government-associated banks as subsidiaries of the State Bank of India and for the constitution, management and control of the subsidiary banks so formed, and for matters connected therewith, or incidental thereto, **and** resolves that the following members of the Rajya Sabha be nominated to serve on the said Joint Committee:—

Shri K. P. Madhavan Nair,
Shri Tikaram Paliwal,
Shri Jaspat Roy Kapoor,
Shrimati Pushpalata Das,
Shri J. K. Modi,
Dr. Anup Singh,
Shri N. M. Lingam,
Syed Mazhar Imam,
Shri J. P. Agrawal,
Shri Niranjana Singh,
Shri Perath Narayanan Nair,
Shri Harihar Patel,
Shri Mulka Govinda Reddy,
Dr. P. J. Thomas, and
Dr. B. Gopala Reddi."

The motion was adopted.

THE STATE BANK OF INDIA (AMENDMENT) BILL, 1955

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

"That this House concurs in the recommendation of the Lok Sabha that the Rajya Sabha do join in the Joint Committee of the Houses on the Bill further to amend the State Bank of India Act, 1955, and resolves that the following members of the Rajya Sabha be nominated to serve on the said Joint Committee:—

Shri K. P. Madhavan Nair, Shri
Tikaram Paliwal,

Shri Jaspat Roy Kapoor,
Shrimati Pushpalata Das,
Shri J. K. Modi,
Dr. Anup Singh,
Shri N. M. Lingam,
Syed Mazhar Imam,
Shri J. P. Agrawal,
Shri Niranjana Singh,
Shri Perath Narayanan Nair,
Shri Harihar Patel,
Shri Mulka Govinda Reddy,
Dr. P. J. Thomas, and
Dr. B. Gopala Reddi."

SHRI BHUPESH GUPTA (West Bengal): Is it the same Select Committee or a different Select Committee consisting of those members.

DR. B. GOPALA REDDI: The same Select Committee which considers the State Bank of India (Subsidiary Banks) Bill, 1955.

Sir, this Bill is intended merely to clarify certain provisions of the State Bank of India Act. There are only four amendments which raise any points of substance. The rest of the amendments are of a verbal nature.

At present, the only functionaries in the State Bank who are not disqualified to be the Directors or Members of the Central Board and Local Boards of the Bank are the Chairman, Vice-Chairman and the Managing Directors. This debar even the qualified lawyers having the Bank's retainer from serving on these Boards. It is, therefore, proposed, in line with a similar provision in the Companies Act to permit a legal or technical adviser of the Bank, where the circumstances so justify, to be a Director or Member of a Local Board of the State Bank.

The State Bank is now authorized to make regulations for the establishment of pension and provident funds for the benefit of its employees. It has, however, been suggested that the creation of any new pension fund