

12.00 hrs.

Title: Shri S. Jaipal Reddy called the attention of the Minister of Finance and Company Affairs to reported illegal schemes of Japan Life of India and steps taken by the Government in regard thereto.

SHRI S. JAIPAL REDDY (MIRYALGUDA): Sir, I call the attention of the Minister of Finance and Company Affairs to the following matter of urgent public importance and request that he may make a statement thereon:

"The situation arising out of reported illegal schemes of Japan Life of India and steps taken by the Government in regard thereto."

THE MINISTER OF FINANCE AND COMPANY AFFAIRS (SHRI JASWANT SINGH): Mr. Speaker Sir, reports about Japan Life India in the State of Andhra Pradesh and in the Union Territory of Chandigarh, etc. as published in the Press had been brought to the notice of the Government. The allegation is that the activities of this company are in contravention of the provisions of the Prize Chits and Money Circulation Schemes (Banning) Act, 1978 (PCMCSBA).

The PCMCSBA is a Central Act that prohibits any entity from promoting or conducting any prize chit or money circulation scheme or enrolling any member of any such chit or scheme or participating in it otherwise, or from receiving or remitting any money in pursuance of such Chit or Scheme (Section 3 of the Banning Act). Under the provisions of the Banning Act, the State Governments were initially required to frame rules in consultation with the RBI for winding up of the companies which were running in contravention of the Banning Act.

In the past, on receipt of any complaint or any information/brochure, RBI had examined the particulars and if *prima facie* the provisions of the Act were attracted, the RBI informed the police authorities that the scheme appeared to be a Prize Chit or money circulation scheme which was prohibited under the said Act, advising investigation and appropriate action. There have been instances where this advice of the RBI has been treated by some police authorities as a basis for complaint/for filing a complaint. The RBI has now (February, 2003) concluded that any legal opinion, or any scheme run by different entities cannot be given by it as this is not envisaged under the said Act. The RBI has only a very limited consultative role under Sections 11, 12, 13 of the said Act. For example, in respect of exemption, winding up and rule making.

Therefore, the implementation of the Prize Chit and Money Circulation (Banning) Act falls under the purview of the State Governments. The RBI has no role for its implementation and investigation. The scheme run by Japan Life India or any other operator on multi level schemes may be investigated by the concerned States independently and if necessary in consultation with their legal officers or public prosecutors. They may take such action as may be deemed fit without any reference to RBI.

The Ministry of Consumer Affairs, Food and Public Distribution was also consulted in the matter, who have opined, after consulting the Ministry of Law that PCMCSBA are not applicable to companies dealing with distribution of goods including multi level/net work marketing companies. They have also drawn interpretation of various judgements delivered by hon. Supreme Court, which implies that activities of direct/network/multi level marketing do not fall within the provisions of the aforesaid Act.

The matters relating to the activities of this company in Chandigarh, Nalgonda or elsewhere is to be dealt with by the State Government under the provisions of the Act.

SHRI S. JAIPAL REDDY : Mr. Speaker Sir, before I deal with the illegal schemes of Japan Life India, let me refer to the letter I myself wrote to the Finance Minister more than nine months back.

I have long had high regard for the personal integrity, the intellectual ability and the debating skills of the Finance Minister. But my personal association with him has been consistently so good as to permit me to take liberty with him and say that, in the last nine months, no steps have been taken to nab the culprits. On the contrary, this interlude of nine months has been utilised to cover up the crime and defend the culprits.

Sir, Japan Life of India has been perpetrating a huge hi-tech fraud on the people of India through its illegal schemes. In fact, I came to know of its activities through its operations in my own district, Nalgonda. In Nalgonda, the Japan Life of India collected more than Rs. 1 crore through its scheme. In the State of Andhra Pradesh, it has collected more than Rs. 100 crore. May I also tell the Minister that the turnover of Japan Life of India, at the national level, is anywhere in the region of Rs. 700 to Rs.800 crore.

This is a proprietor-run firm run by Mr. Vasant Raj in the name of M/s Frontier Trading, Mumbai. Mr. Vasant Raj is incidentally the son of Shri R.V. Pandit who wrote the famous pamphlet 'Coffingate' or the 'Coffin scam'. I do not like to get into it. The scheme mainly runs through a chain link system. The scheme is absolutely untenable. Hi-tech fraud is inherent in the scheme. It is also based on magic medical claims which have remained unproven.

I may also state that this Company has been able to wrest many customs concessions on the ground that it is a

wonderful medical equipment.

Sir, when the police of Nalgonda district took initiative and went all the way to Mumbai to arrest Mr. Vasant Raj, they were summoned back. I am using this forum to state, with full sense of responsibility, that a senior member of the Cabinet rang up the concerned people in Hyderabad to sabotage this inquiry. I am not mentioning the name because I do not want to politicise the issue. I am merely referring to the wide political connections that this firm enjoys.

The Reserve Bank of India and its Legal Advisor, Shri S.R. Hegde, gave an opinion way back in September, 2001 that the schemes of Japan Life of India are in total contravention of the Prize Chits and Money Circulation Schemes (Banning) Act of 1978. After this opinion was given, to which I made a reference in my letter which I wrote as far back as September, 2002, what did the RBI do? The RBI issued a circular in February, 2003 saying that it has no role to play and its legal opinion should be considered null and void. It is a strange shocking example of regulatory self-abnegation on the part of a premier institution like the RBI. I think Shri Jaswant Singh will take serious note of this somersault of the RBI. I know that RBI is an autonomous institution. Even then, the Minister is responsible and accountable to this House.

It is not only that. What does the RBI say in the second circular? It says that the Prize Chits and Money Circulation (Banning) Act is to be run by State Governments. The State Governments must consult their own Legal Advisors and must depend on their devices. It is fine. But later, the Ministry of Consumer Affairs, Food and Public Distribution sends another circular to all the State Governments to say that multilevel marketing firms are not covered under this Act. The RBI, in its revised opinion, says that everything must depend on the State Governments, but another Ministry says that these firms should not be handled by the State Governments because they are not in contravention of the Act. Which opinion is correct?

Sir, why are they trying to shield this Company? What are the connections? Some State Governments did take action. When the SP, Nalgonda District took initiative, that inquiry was hijacked by the CB CID of the Andhra Pradesh Government. As I said earlier, the Andhra Pradesh Government rescued this firm on account of the intervention of a senior member of the Cabinet.

Dr. M.V.V.S. MURTHI (VISAKHAPATNAM): Do you have the basis for that?

SHRI S. JAIPAL REDDY : Yes, I have it. Do not provoke me to mention names. I do not think that the Finance Minister will take the liberty to answer it.

In Chennai (Tamil Nadu), more than 85 persons have been arrested this year. In Haryana, at least five persons have been arrested and in Indore (Madhya Pradesh), the Government took many steps to nab the culprits.

SHRI SOMNATH CHATTERJEE (BOLPUR): What is Japan and what is Life?

SHRI S. JAIPAL REDDY : Sir, Shri Somnath Chatterjee has put a question. Since he is a senior Member, I cannot but respond to his question.

This Company has been selling magic mattresses. They sell four kinds of beds and they really cost only Rs. 10,000 to Rs. 15,000 whereas they sell at Rs. 1 lakh. They are magnetic beds.

Now, the Ministry of Consumer Affairs, Food and Public Distribution depended on the Supreme Court judgement of 1982 to say that multilevel marketing firms are not covered by this Act. But the Legal Advisor of RBI, in an opinion tendered, as I said earlier, in September, 2001, quotes the same Supreme Court judgement to say that the schemes of Japan Life of India are in contravention of this Act. I may quote from the judgement.

"Money Circulation Scheme means any scheme, by whatever name called, for the making of quick or easy money or for the receipt of any money or valuable thing as the consideration for a promise to pay the money."

The Legal Advisor of RBI categorically opined in September, 2001 like this.

"Independent representatives need to sell products and market them as per the rules and regulations contained in the business plan. An independent representative is prohibited from advertising the products without any written approval from the firm. The independent representatives' job is only to enrol more members so that they can get more commission.

"The business plan clearly indicates that the thrust of the plan is to make easy money rather than to sell any goods or services. "

It further goes on to add:

"An individual purchasing the total sleeping system from the firm is required to pay a huge sum. The only way that he can recover the amount is by promoting the products to the others and imploring them to enable more members. "

Such an activity is clearly and outrightly in contravention of the Prize Chits and Money Circulation Schemes (Banning) Act. The Same RBI, in an opinion given on 1st February, 2003, reverses it. It does not reverse the opinion. It says: "No. We are not competent to give our legal opinion. Please ignore the legal opinion we tendered earlier. Please do not write to us." They are blessing like a bride. But then the Ministry of Food, Consumer Affairs and Public Distribution gushes forth like a bridegroom and says: "No. Do not touch them. They are not under our control nor are they under your control."

Therefore, I am not saying that Japan Life is the only company which is doing this kind of a business. There is another American Company called the Amway which has been prohibited from doing this business in America. It has been able to do this business in India with absolute impunity. In America, they have the Federal Trade Commission as a Regulatory Authority to deal with such offences. In India, these schemes have become a nation-wide menace, a nation-wide financial pest....(Interruptions)

MR. SPEAKER: Shri Jaipal Reddy, there are several other companies also.

SHRI S. JAIPAL REDDY : Therefore, I would suggest that the hon. Minister should come forth with a new Act to deal with the offences. He must think of organising a Regulatory Authority to deal with these matters. I hope he will rise to the occasion and get the second circular of the RBI withdrawn. Since a Minister of this Cabinet, he must talk to the Ministry of Food, Consumer Affairs and Public Distribution to see that its gratuitous opinion should also be withdrawn.

With these words, I conclude.

SHRI JASWANT SINGH: Sir, I would like to know if any other hon. Member wants to speak.

MR. SPEAKER: One is enough. There are no other hon. Members. He has given a notice.

SHRI JASWANT SINGH: I was given to understand that the notice stands in the name of five hon. Members. It is only because of that that I enquired and it is not for any other reason.

Sir, I will endeavour to answer all the points that have been raised by the hon. Member Shri Jaipal Reddy. Firstly, I am sorry if any inadvertent discourtesy has been caused to him by my not responding to his letter. He says that I did not respond to a letter which he wrote earlier. I checked it back. I was not in Delhi in that particular month. I cannot quite recollect now where I was then. I am not normally guilty of not responding to a letter. I think it might have happened inadvertently. So, this is not done with an intention....(Interruptions)

SHRI S. JAIPAL REDDY : This is not important.

SHRI JASWANT SINGH: It is important when you mentioned it because an act of discourtesy is an act of discourtesy.

SHRI SOMNATH CHATTERJEE : He will be happy now if you take action on that.

SHRI JASWANT SINGH: I am just coming to it. He suggested that there is no response because there was an attempt by the Ministry of Finance or by me personally to cover up any fraud....(Interruptions)

SHRI S. JAIPAL REDDY : It is not by you personally but it is by the Government....(Interruptions)

SHRI JASWANT SINGH: The Ministry of Finance can actually not function if it works on covering up the frauds. We really simply cannot function on these lines. It is as elementary a statement of fact as one can make.

The hon. Member also suggested that there is a certain turn over. Let me explain the certain turn over which is of a very large volume.

I tried to ascertain it. It is the Japan Life company that is incorporated in Japan and they have a product called Japan Life Total Sleeping System which is marketed in India by a company called, Frontier Trading Limited registered in Mumbai. What is being marketed is a sleeping system and because it is a sleeping system, obviously it is a mattress and in the mattress some magnets are embedded. This is what I am informed and I am also informed that because these magnets are embedded, it gives some form of therapy for certain ailments like lumbago or pains in the joints etc.

SHRI S. JAIPAL REDDY : Nobody has certified it so far.

SHRI JASWANT SINGH: You can dispute it. I am not a doctor. I am not a specialist. So far as Customs are concerned, there is a dispute. In fact, what had to be established is whether there is any recognisable therapeutic value in magnets. It was determined that there was a therapeutic value in magnets. Therefore, these mattresses fall in that category. They are still taxed. It is not as if they are not taxed. But there is a differential of tax between a straightforward simple mattress and a mattress that has a therapeutic value. So, there is no fraud as such. I think, the Customs also then went into it as to whether this should not be charged to Customs duty etc. But some dispute has continued in this regard. I do not know what state of adjudication that dispute is now, but it is not as if the Customs did not address themselves to this issue.

Sir, on the two gentlemen that he has named, Shri R.V. Pandit and Shri Vasant Pandit and also their alleged publication of pamphlets etc., I do not think that is entirely central to the question either of Frontier Trading or Japan Life. The hon.

Member said that there are magical qualities claimed in the mattress. I am not aware of any claim relating to magical quality, but certainly, because there are magnets embedded there, it is averred by them that it has beneficial effects.

I want to repeat again that no customs concession, as such, has been made to them other than a recognition that this has a therapeutic value and nobody is shielding anybody in this particular matter. Then, it is also alleged that certain telephone calls went from Delhi to the Superintendent of Police or somebody in Nalgonda. I am unable to comment on it because the hon. Member says this on the basis of information that he has, but the basis of information that I have in this regard does not inform me anything on the telephone calls and the specific issue here relates to the Japan Life company etc.

I do wish to also share with the hon. Members that I obtained this information just now because I wanted to know about the turnover. Shri R.V. Pandit who is the owner and proprietor of Frontier Trading has paid a personal income tax of Rs. 6.21 crore in the assessment year 2001-02 and in the assessment year 2002-03, he has paid a personal income tax of Rs. 6.62 crore. If an individual has paid these taxes, I can only assume from that that the corporation to which he belongs must also have been assessed for tax and must also have been taxed.

This information, I could have certainly sent to the hon. Member subsequently because it will have to be collected.

On the question of Reserve Bank of India having one opinion that they expressed in the September of 2001 and thereafter in the February of 2003 clarifying the issue, I think the hon. Member is perhaps reading too much in the opinion of Reserve Bank of India, the central bank of India. The Reserve Bank of India is, in fact, a bank of very high probity and propriety and if we make allegations about our central bank, our Reserve Bank of India, it will not be good on our part. I have no doubt that the allegation that he has made is because he is impelled by his own convictions. But I do appeal to the hon. Member that when he avers something against the Reserve bank of India, it has to be with extreme and great care.

There is only one Reserve Bank and that belongs to India. It is a repository of the total economic and fiscal propriety of the country. It is an autonomous organisation and a very distinguished Indian has earlier been the Chairman of the organisation. Currently, a very distinguished Indian is the Chairman of the Reserve Bank of India. Ultimately, whatever we say about the Reserve Bank, it devolves, of course, on the totality of the administration of the Reserve Bank, but also inevitably then on the Finance Ministry. We have a responsibility. We do not run the Reserve Bank of India. But we do have a certain role. I think, the hon. Member is right. But that role does not start with the assumption that the activities of the Reserve Bank are wrong. It is in that light that I say that if in September 2001, they expressed a view, it was because the earlier practice was that when such complaints were received, the Reserve Bank expressed an opinion. As I have said in my statement quite often that opinion was treated as some kind of a document on which first FIRs were filed and then the Reserve Bank opined that what they were conveying as an opinion to individual incidents of alleged misdemeanour were, in fact, being used by police authorities, as I have said in my statement, as evidence or as supportive of that FIR to correct that. Therefore, they said what they have. It is as per the provisions of the Banning Act. It is not for the Reserve Bank of India to give advice on the legality of any scheme. It is for the State Governments to take a view and this is very clearly laid down in the Act itself.

Something was said about the Ministry of Consumer Affairs. As it happened, I must admit, there is no conflict of interest here. But I have a very high personal regard for the Secretary of Consumer Affairs. His great father was my Commandant in the Academy and I, therefore, treat the Secretary of the Ministry of Consumer Affairs as my *Gurubhai*. I want to say this. Therefore, when Secretary, Shri Vajahat Habibullah, has clearly said what he has and which I have quoted here, I would request the hon. Member that he must take what is conveyed by the Ministry as their viewpoint and not with as if any evil intent is implied in that. This is the view of the Ministry of the Government India as conveyed by the Secretary, an officer of impeccable integrity. I would appeal to the hon. Member that that is all that is involved. If there is any malfeasance or any wrong doing by this or any other company, we will certainly take a note of it. He suggested that there is some American Company, which is doing this. The Calling Attention did not relate to the American Company, so I am unable to answer that.

He has also suggested that a new Act should be introduced. We will examine whether a new Act is necessary. He also suggested that I advised the Reserve Bank of India to withdraw what they have just circulated in the February of 2003. I think that would be improper on my part to advise the Reserve Bank of India. No doubt, the Reserve Bank of India and the managers of the Reserve Bank would be very carefully noting the discussions that have taken place here and also what the hon. Member has said.

I have no doubt that being the responsible organisation that they are, they will take all suitable actions.

MR. SPEAKER: Now, we go to the discussion.

...(Interruptions)

SHRI S. JAIPAL REDDY : Sir, I have a few clarifications to seek. ...(Interruptions)

MR. SPEAKER: 'Calling Attention' is over after the Minister has replied.

SHRI S. JAIPAL REDDY : Sir, I must clarify in the first place that neither have I cast reflection on the Governor of Reserve Bank of India nor on the Secretary of the Ministry of Food, Consumer Affairs and Public Distribution. What I am trying to

say is that there is a conflict between the step the RBI took in the first place and the step it took later on.

Secondly, there is that unbridgeable conflict between the opinion given by the Reserve Bank of India and the opinion given by the Ministry of Food, Consumer Affairs and Public Distribution. ...(*Interruptions*)

MR. SPEAKER: Shri Jaipal Reddy, you are aware of the rules.

SHRI S. JAIPAL REDDY : Sir, these contradictions need to be explained and I also ask them to think of organising a regulatory authority to deal with such schemes because there are many such schemes floating in the country fleecing the unwary people of this country. Therefore, there is a need for the Finance Ministry to recover money from the Japan Life of India from its total Sleeping System, and wake up to the whole problem.

MR. SPEAKER: 'Calling Attention' is over.

Now, Shri Govindan.

...(*Interruptions*)

SHRI S. JAIPAL REDDY : Let the Finance Minister answer. ...(*Interruptions*)

SHRI SOMNATH CHATTERJEE : The magnets have changed everything, according to you. You order a proper inquiry on the magnets. ...(*Interruptions*)

SHRI JASWANT SINGH: Sir, I just very briefly give my reply. ...(*Interruptions*)

MR. SPEAKER: Mr. Minister, the position is quite clear. The rule clearly says that neither the Member nor the Minister is allowed to speak after 'Calling Attention' is replied to by the Minister.

SHRI JASWANT SINGH: As you say, Sir.
