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Title: Discussion on the motion for consideration of the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 moved by Shri Pawan Kumar Bansal on behalf of Shri P. Chidambaram (Motion Adopted and Bill Passed).

1405 hours

MR. DEPUTY-SPEAKER: The House shall now take up Item No.21.

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): Sir, on behalf of my colleague, Shri P. Chidambaram, I beg to move:

"That the Bill further to amend the State Bank of Saurashtra Act, 1950 and the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959, be taken into consideration."

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): Sir, with the introduction of new capital adequacy framework under Basel II, all the banks including subsidiary banks of the State Bank of India may be required to increase their capital base to meet minimum requirements. They will improve the international credibility since banks in many countries were also in the process of adopting these standards.

To enable the subsidiary banks to raise resources in the market, to meet minimum capital requirement under Basel II and expand business, to comply with guidelines of SEBI and Depositories Act, to remove restrictive provisions of the Act, to facilitate more public participation in the shareholding and to make other necessary changes such as fit and proper criteria for elected directors, adoption of balance-sheet in the AGM, increasing the number of elected directors, etc. the State Bank of India Subsidiary Banks Laws (Amendment) Bill 2006 was introduced in the Lok Sabha on 22<sup>nd</sup> of May 2006.

The Bill was referred to the Standing Committee on Finance of the Lok Sabha. The Committee has since presented its report. The Committee, I am happy to report, is in broad agreement with the objectives of amendment proposals which aimed at meeting the requirements of the present day complexities as well as expanding activities of the banking system. The Committee made certain recommendations for modifications in the Bill. The Government has accepted five recommendations made by the Committee and I introduce official amendments for that purpose.

With these words, I commend that the State Bank of India Subsidiary Banks Laws (Amendment) Bill 2006, along with the official amendments proposed, based on the recommendations of the Standing Committee, be taken into consideration by this august House.

MR. DEPUTY-SPEAKER: Motion moved:

"That the Bill further to amend the State Bank of Saurashtra Act, 1950 and the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959, be taken into consideration."

SHRI AMITAVA NANDY (DUMDUM): Hon. Deputy-Speaker Sir, I rise to oppose the objects and reasons as clarified in the State Bank of India Subsidiary Banks Laws (Amendment) Bill 2006.

Sir, it has been referred that the Standing Committee have discussed the Bill and the opinion of the Standing Committee has been considered too. But I want to mention that in the meeting of the Standing Committee, certain proposals were put forward along with one note of dissent. While, various proposals of the Standing Committee have been considered, there is no mention regarding the point for which the note of dissent was being expressed in the meeting of the Standing Committee.

Though the hon. Minister of Finance gave us a long list of objects and reasons for bringing this Bill, comprehensively this reason for bringing this Bill is limited only to, as I want to mention, firstly, to remove the difficulties as faced by the shareholders.[\[r23\]](#)

Its second object is the increase of the capital of the subsidiary banks. These are the two objects – the main purpose – as I felt of bringing these amendments in this Bill. But the provision of the Amendment Bill seeks to make a far-reaching effect; that has not been looked into. For instance, presently, there is no cap on the State Bank of India's holding in subsidiary banks. It may vary from a minimum of 55 per cent to 100 per cent. But, it has been proposed to restrict the shareholding of State Bank of India in subsidiary banks to 51 per cent. It means the shareholders will get the opportunity of making the policy of the subsidiary banks and thereby they will influence over the shareholders meetings in relation to any proposal of the subsidiary banks.

Further, I would like to mention that it has been proposed to raise the cap on voting rights of the shareholders excepting the State Bank of India from 1 per cent to 10 per cent. It will also bring the same opportunity to the shareholders and raise the percentage of voters, thereby they will influence over the decision in making the policy of the subsidiary bank. If these amendments are accepted, the banks will obviously be controlled by the shareholders. That will come obviously. This cannot be accepted. Therefore, I am of the firm opinion that there should not be any cap on the State Bank of India's holding in subsidiary banks.

It has been stated that shareholders of the subsidiary banks other than the State Bank of India are facing problems for lack of dematerialization facilities and transferability. But this can be removed without any amendment of the Act. The extant shares other than of the State Bank of India could be held, transferred in a dematerialized form within the framework of the Securities and Exchange Board. Citing these difficulties, it has been proposed to remove the cap on shareholding by any person up to the extent of 200 in terms of number of shares and one per cent in terms of voting rights. These are not warranted in this amendment.

The Ministry of Finance in their reply to the Standing Committee has stated:

"The Government is also proposing examining to have a comprehensive Act which will regulate all the public sector banks in order to have uniformity in approach among these banks."

I think, the Government's thinking in this matter is based on the recommendation of the Committee on Fuller Capital Convertibility which recommended "separate legislative frameworks for goods of public sector banks should be abrogated." However, when this proposal is under consideration, I do not find any reason to bring this amendment in this manner for the subsidiary banks at present.

Sir, through you, I would request the hon. Finance Minister to withdraw the present Bill and prepare a separate Bill to increase the authorized capital of the subsidiary banks to a level of Rs. 100 crore – now it is Rs. 50 crore only – and also to enable the State Bank of India as a holding company to nominate the Chairman of the Board of the Subsidiary Bank from the Board of the State Bank of India, not by the Chairman only.

With these words, I oppose this present Bill in a manner as presented.

SHRI B. MAHTAB (CUTTACK): Thank you Mr. Deputy-Speaker, Sir. I stand here to discuss the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006.

At the outset, I would like to mention that there is no need to restart a debate on the pros and cons of bank nationalisation. Myth has it that nationalisation was required to improve credit delivery to agriculture and small scale industry and establish branches in areas that were not served. If one looks further back, there was the spectre of bank failures between 1913 and 1948 when 1100 banks in our country had failed. But since 1935 and nationalized in 1948 we had the Reserve Bank of India and from 1949 we had the Banking Regulation Act.

The Bill, that is before us for consideration, deals with a number of subsidiaries of the State Bank of India – the State Bank of Saurashtra Act of 1950, the State Bank of Hyderabad Act of 1956, and subsequently the State Bank of India Subsidiaries Bank Act of 1959 – has been in force for more than four decades. These three Acts contain provisions regarding constitution of the State Bank of Saurashtra, the State Bank of Hyderabad and other subsidiary banks of the State Bank of India being the State Bank of Patiala, the State Bank of Bikaner and Jaipur, the State Bank of Indore, the State Bank of Mysore and the State Bank of Travancore, their capital, management, control and other connected matters.

Here, I would like to mention that in all these subsidiary banks of the State Bank of India there is a requirement as stated by the Government to increase their capital base to meet the minimum requirements.

I would like to stress on; there is a need to enhance the capital base to meet the minimum requirements. That is why this Bill

has come; that is why a number of provisions and amendments have been included. The presumption is that there is a requirement to increase, and to achieve the capital adequacy norms under Basel-II, there is a requirement to improve the basic financial health of the banking system and thus improve its international credibility since banks in many countries are also in the process of adopting these standards. I have no quarrel of having Basel-II norms. But at present, the requirement as has been stated for the last four decades is up to 55 per cent, and in this Bill, the attempt is to curtail it down to 51 per cent.

My predecessor speaker also has mentioned about it. What is the urgency of scaling it down to 51 per cent when there is ample scope that with 55 per cent you are not utilizing the total fund that can be accrued. What is the necessity to scale it down to 51 per cent?

Another point, which the Government intends to and which has been stated in the Statement of Objects and Reasons is that it is in order to remove the difficulties faced by the shareholders of the subsidiary banks and to facilitate increase of the capital of the subsidiary banks, to enable them to raise resources from the market. In the present form, the banks have the capacity to meet the requirement. Mr. Minister, you are presuming something in future and this is a speculation. You are not utilizing the provision, which is available today before you. Yet, this Bill has come. I fail to understand the urgency of bringing this amendment.

At the same time, I would like to mention here that the amendments are made with a view to bring in flexibility for the Board of Directors and improve corporate governance and provide powers to the Boards of the subsidiary banks to frame regulations, and the amendments that have been proposed would also bring the operations of the subsidiary banks in tune with the changed scenario and the modern business practices. The Bill not only seeks to bring in seven subsidiaries of the State Bank of India on par with other nationalized banks but also provides for adequate autonomy and independence to the Boards of these banks to make regulations with the approval of the RBI. I support this aspect. These subsidiary banks are functioning, should function as independent banks. In that respect, I fully endorse, which has been proposed in this Bill.

Under the present law, SBI's holding in its associate banks cannot fall below 55 per cent. The proposed amendment will allow it to lower the stake to 51 per cent about which I had just mentioned. Here, Sir, I would like to draw the attention of the House and I would like to hear from you, Mr. Minister. Why do you need to diminish the share from 55 per cent to 51 per cent? The subsidiary banks should have the RBI nominee; this is my suggestion. The Reserve Bank of India should continue having a Director in the Board of Directors, and superseding powers should not be there with the Government. [\[r26\]](#)

There are divergent views on this Bill. When the subsidiary banks are doing well, what is the necessity to bring this Amendment Bill? At least, why you want these amendments should be made very clear.

At present, there are four Acts which are prevalent today, that govern the nationalized banks. Is it not time to synchronize the Acts into one Act? There are service conditions that apply to the State Bank of India. Is it not proper to have the same service conditions that are applicable to the State Bank of India, should be applicable to these subsidiary banks?

When 45 per cent of the share is from the public, why proportional representation will not be made in the Board? There is a need, of course, to strengthen the banking system in the country. The Committee on Fuller Capital Account Convertibility had recommended that all commercial banks be subject to a single banking legislation. Do you not believe that all the public sector banks should be incorporated under one law? I need not mention that it should be a company law. But it should be under one law. There is an opinion that as banks are dealing with commodities and savings, there is a need to develop the banking system and strengthen it and it should become a vibrant social machine for change. I agree that this should not be governed by the Company Act. But at the same time, should not the RBI Director continue? There is an apprehension, as has been expressed inside this House and outside, that by scaling down from 55 per cent to 51 per cent, an attempt is being made that in future there is every possibility to privatize. I would like to get a reply from the Minister, at least that no such attempt should be made.

MR. DEPUTY-SPEAKER: Please conclude now.

SHRI B. MAHTAB : Similarly, by Section 22 of the Bill, a new Section 40A is sought to be inserted. In this Sub-section, this is the expression, "Dividend which remains unpaid." What does this mean? The unclaimed dividends have to be transferred to a special dividend account. Such provisions do not exist in the State Bank of India Act or in the Banking Companies (Transfer and Acquisition) Act. I would like to get a reply on this subject.

The amendments that are before this House, of course, are keeping more in tune with the time. The subsidiary banks can go to the market and fetch more funds. In some sectors, the SBI of Patiala and the SBI of Hyderabad are doing better

than the State Bank of India. The entire capital of State Bank of Hyderabad, State Bank of Patiala and State Bank of Saurashtra is held by the State Bank of India. Why do you want to scale down your share to 51 per cent? Why do you not stick to 55 per cent? When other four subsidiaries have enough scope available to raise capital, why do you want to scale it down to 51 per cent? For the interest of stake holders, do the proposed amendments make banks prosper and grow ?

The controlling interest will also be with the State Bank of India. I would like to also hear from the hon. Minister how the State Bank of India helps the subsidiary banks.

Lastly, why does the Reserve Bank of India want to have the power of supersession when you have adequate provision to regulate the functioning of the banks? Why is there a need today for raising the capital when there is enough scope available to scale down the SBI's share to 55 per cent and raise the capital? Why is it necessary to scale it down to 51 per cent? Why should there be private placements? Who will take the decision for these placements? Due diligence is the word that is being given. Due diligence is being stated while taking decisions. But there is unpleasant history of aberrations. I would like to know what mechanism is in place to check such things.

Lastly, I would say that the RBI nominee is in a position to hold an independent view. But will he be responsible for the decision that will be taken by the Board? I would like to understand this from the hon. Minister.

With these words, I conclude.

SHRI K.S. RAO (ELURU): Sir, I rise to support the State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. I was always of the opinion that the hon. Minister of Finance can come here very often, keeping in view the changes that are occurring in a very fast manner in the international sector. In fact, this original Bill was made in 1950. That means almost 57 years, or 60 years, have elapsed. Possibly, inherently we are not in a position to make a change in proportion to the international changes. At a time when the globalization has not come into existence here, that was different. Once we have accepted the globalization we have to be on international standards.

The limit of capital of Rs. 20 crore which was there earlier, of course later it was increased to Rs. 1,000 crore, was insufficient in comparison with the international banks. The credibility also will not be as much as the international banks which have got large amounts of equity. On the financial health also, unless the equity is increased along with their asset value and the net worth, the risk is more. If a few cases were to fail, as we have seen many a time, then there would be a discussion on the NPAs in the banks. The NPAs went up to Rs. one lakh crore at one time. The faith in the banks will come down. Naturally, it is a necessity for us to increase the equity base or the capital base. That is what the hon. Minister of Finance is doing now in increasing the base.

Apart from that, having agreed for the private shareholders to own the shares in these banks, I do not understand the reason to restrict their authority of voting in proportion to their shares. If a person were to have, say, five per cent of shares, he must have the authority to exert his right to that extent. We are safe because the share of the State Bank of India in subsidiary banks is more than 50 per cent. That means nothing is going to occur without the consent of the SBI. The interest of the public and the depositors is safe. But at least to have the satisfaction in the minds of the private shareholders, we must give them all the authority to the extent that at least the interest of the depositors is not affected. Those things are provided in this Bill.

I am happy that many of the objects which are mentioned here are very genuine and they are required and they could have been done long time back. [\[MSOffice27\]](#)

I support the increase of equity to Rs. 500 crore in all the subsidiary banks and increase in limit to 10 per cent of the total equity to be held by an individual instead of the earlier provision of 200 shares. Similarly, I support the raising of capital by preferential shares. Sometimes what happens is that the capital has to be increased in a substantial manner to increase its credibility. That can be done by taking equity in preferential way which does not affect the equity base. So, this provision of permitting the banks to raise capital through preferential shares will also serve the purpose of increasing the capital.

In regard to Board of Directors, there was a ceiling that only three Directors can be there from private shareholders. As long as they are restricting their rights, I do not know if it matters whether they are three or more. Also, we are saying about the quality of Directors that are coming into from the private shareholders. When we are checking the quality of directors, even if we increase the number of Directors to more than three, I do not think that we will lose. Added to that, their wisdom, experience, talent, innovative ideas, acquaintance with the international financial sector and methods of working can also be incorporated in these banks. So, I wish the hon. Minister to think whether we can have more number of Directors and whether

it is necessary to restrict their number to three only.

Sir, if I am to repeat, I have to repeat the same thing what is provided in all the clauses, in increasing those things, but in this context, I just want to bring to the notice of the hon. Finance Minister once again that a rich man, a trader, an exporter or an industrialist can afford to pay any amount of interest, be it 12 per cent, 14 per cent or 24 per cent, which was at one time permitted by the present hon. Prime Minister when he was the Finance Minister. So, my humble request to the hon. Finance Minister is that interest rate for farming community must be reduced to four per cent as they cannot afford to pay high interest rate. While I support and I am very happy that he has reduced the interest rate to seven per cent, it must be further reduced to four per cent. Both the Agriculture Minister and the Finance Minister are here. Shri Sharad Pawar is now representing Agriculture Ministry. Agriculturists cannot pay these interest rates. So, he must also bring pressure on the Finance Minister and speak to the hon. Prime Minister to reduce interest rate to farming community. ...(*Interruptions*) All of us are with him and we will bring him to a stage where he must reduce the interest rate.

Sir, in Andhra Pradesh, we are giving money to self-help groups at three per cent. Believe me, Sir, that the economy is growing substantially. It is glowing the faces of the women, which is automatically the empowerment of women, which is to be seen and not to be told in this House. That is the case. When the goal of all of us were to grow the economy, change the lot of the poor people and bring empowerment of women, the first thing to be done is to decrease interest rate with respect to all the agriculturists, then small traders and then self-help groups. All these things must be done by the Finance Minister. He must yield and accept this and either in this Session itself or at least by next Session, come with a legislation or an order to reduce the interest rates.

Sir, I support the Bill.

SHRI VIJAYENDRA PAL SINGH (BHILWARA): Sir, I stand to support this State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006. We must get into to find out what is the reason that we have got this Bill. From the days of the nationalised banking, we have come to e-banking. More than that, every village today or at least the larger of the villages in the rural areas of India require a bank, need a bank and ask for a bank. Now, when that is what we have to get to, the State Bank of India itself has lakhs of branches. It has branches not just in India but abroad also. I feel that it is unwieldy to have one bank so many branches and to regulate all that banking is becoming difficulty.[\[s28\]](#) If that is one of the big reasons for these new subsidiaries to open new branches in the rural areas, then I support this in many many ways.

The other reason that has been said is the Basel Capital Accord. We want to conform to it. I will not go into the details of it, but we have come from the age of nationalized banking to the age of competition not just in the nationalized banks, but also with the private banks that have come into the country. If you are going to be in competition with the private banks that are offering so much more, then you need to have more autonomy given to these subsidiaries. I think that these small subsidiaries need to be given more autonomy, more powers, more rights to open new branches, so that they can have a network not just in the urban side, but also on the rural side. They have to be in competition with the private banks. Now, the private banks also want to get into the rural areas. So, they must be there before the private banks come into the rural areas.

I happen to be in Japan a couple of years ago. There was a bank in Japan that was going bust, and that bank was taken over by three bankers from India. Those three bankers had worked in SBI and some other banks, and they really turned it around. What did they do? There is no paper work in that bank. This is a new concept that they have started in Japan, and it has become one of the biggest banks in Japan today. It is totally computerized. E-banking is there, and even the cheque-books are not required as they have gone obsolete there. This is the new system that we have to adopt. Therefore, we need to give more autonomy in the age of competition to these small subsidiaries.

What are we fighting about reducing from 55 per cent to 51 per cent? How does it make a difference? The SBI will still have control with 51 per cent. How does it make a difference whether it is 60 per cent, 55 per cent, etc? The minimum of 51 per cent is what they must hold, and that they are holding.

I fully endorse the way this has been drafted. But what are the regulations of the RBI on all these matters? I am asking this because we have seen the other side of the story also. The Cooperative Banks Bill has come. How do we compare the regulations with those banks? I am asking this because the Cooperative Banks in the rural areas are going to be in competition with them. How are we going to compare it with them? This issue is also to be seen.

I feel that a very valid point has been raised about the nominee of the CMDs and the officials getting into these subsidiary

banks. Are they happy going into these banks or do they feel that these subsidiaries do not give the same facilities as the original parent SBI bank? All those things have also to be sorted out.

I feel that this issue must also be looked into by the Finance Minister. The big banking system of the SBI is going to a comparatively small bank. Are they happy when they go into it? Are they looked after or do they want to get out and get into the private banking system? [\[r29\]](#)

If they are sent there and if they are unhappy, they will go out and join the private bank. We will suffer a loss. These are the points we must look into. Otherwise, I support this Bill.

SHRI SURAVARAM SUDHAKAR REDDY (NALGONDA): Thank you, Sir. This Bill is regarding the State Bank of India and its subsidiaries. I think, these amendments are uncalled for. I am sorry to say that we cannot support these amendments. From time to time, there will be a necessity for some amendments in the banks, banking regulations, etc. But I believe that these amendments this time are being brought to dilute the State Bank of India and its subsidiary banks - State Bank of Hyderabad and others. In fact, some of these subsidiary banks are doing better than many nationalized and private banks. For example, the State Bank of Hyderabad, with a capital of Rs.17 crore, has got deposits of Rs.34,474 crore. It has 959 branches and it got a profit of Rs.427 crore. We are asking as to what is the necessity to dilute these banks with 49 per cent of the share to be issued to private people in the name of public issue. This is a very dangerous step because the total number of shares with the SBI would be only 51 per cent. The difference would be only two per cent - 51 per cent and 49 per cent. We do know that again a number of times - whenever the proposals have come for privatization - some 10 per cent of shares were diluted and went into the hands of the private people.

These banks, for quite a long time in our country, are doing excellent service. I would like say that in the recent period because of the effect of globalization, several private banks are being encouraged. On the other side, these private banks do not have any social obligations; they do not have obligations to give credit to the agricultural sector, small sector; to work in the rural areas but they can work mainly in the urban areas. In spite of all the encouragement of the Government of India, the Reserve bank of India and others, the pampered banks like Global Trust Bank had got totally bankrupt and the Government had to come to rescue it.

The people still have confidence in the public sector banks. Unfortunately, instead of improving the banking regulations and the banking policy, these are going in a bad way. In the name of micro finance, the Reserve Bank of India and many banks are trying to encourage private moneylenders. They are exploiting the people like anything; they are collecting interests at the rate of 24 per cent to 36 per cent. It is there we need amendments; it is there we need the change of the policies. Instead of bringing in such important changes, the shares of State Bank of India and its subsidiaries are getting diluted and they are not given permission to function independently and democratically. I believe that the amendment that is necessary is to make these banks full-fledged banks so that these banks can function as independent banks. [\[r30\]](#)

The State Bank of India can continue to have their share holding and the Reserve Bank should have its control over it. But at the same time in the name of public issue this privatization should not be allowed.

Regarding the appointment of the Chairmen, it is said that the Chairman of the State Bank of India for the time being will be the Chairmen of the subsidiary banks. This 'time being' is continuing for the last 60 years I believe. This type of vague thing is not necessary. They can have independent Chairmen and subsidiary banks officials should also be allowed to become the Chairmen. The Directors should be answerable and accountable. Powers of the RBI to supersede the Boards of the subsidiary banks is too much sweeping power and I think is also not acceptable. I think these amendments should be withdrawn and the new amendments which will help strengthen the public sector should be brought. From the CPI, I would like to say that we cannot support these amendments.

SHRI VARKALA RADHAKRISHNAN (CHIRAYINKIL): Sir, I am not a banking expert but the Minister is, whom I claim to be, an expert in all these matters. For over 40 years I had money transactions in the State Bank of Travancore. Never in my life have I come across any difficulty in the functioning of the State Bank of Travancore. They were doing it well. On going through the Bill and its aims, advanced by the hon. Finance Minister, I have some doubts. I cannot be a party to it. I shall tell you why.

We speak for democratic decentralization. There is no harm if we merge all these subsidiary banks with SBI but retaining them as subsidiary and bringing them under the clutches of the SBI is not proper. I shall tell you why I say this. I can understand if the authorized capital is Rs.500 crore. Share denomination of Rs.100 is also acceptable but the rest of it is becoming a mockery.

There are a number of things. There is a provision, which I find only in the Cooperatives Act, to confer power upon the RBI to supersede the Board of Directors of the subsidiary banks. They can supersede at their whims and fancies. They were functioning all right till now. Why such a power be conferred now for superseding all these Directors elected by the share holders? It is just like the Cooperative Societies Act. I cannot be a party to that. The share holders are the stake holders and they have invested the money. Why their democratic right be curtailed, giving right to the RBI to supersede the elected Board of Directors?

Another thing is to allow the Chairman of the SBI to nominate an official of the SBI as the Chairman of the Board. Even the Chairman will be appointed by the SBI. Is it not a mockery? Even the Directors are elected by the Chairman. He must be removed. It is better to appoint a special officer to be the Chairman of the Board of Directors. Is it worth doing it? I cannot be party to such a situation. He may have reasons. Retaining their identity, and retaining them as subsidiary banks and bringing them under the clutches of the SBI is not acceptable and cannot be accepted.[\[R31\]](#)

It cannot be accepted. Not only that, there are some other provisions also. They can even increase the number of elected Directors representing the shareholders bank. Then what is the meaning of democracy? They are the people who have invested money. They are the stake holders. Why should there be a curtailment in their democratic rights? Annual meeting will be held and an elected body will be there. But even the elected body can be superseded at any time according to the whims and fancies of SBI. It is omitting the provision of nomination of official of the RBI in the Board of Directors. Even if a person who has been elected, he can be removed at any time and a new person who is not in any way connected with the Board of Directors can be instituted. This is unheard of in a democratic State like ours. It is the shareholders who have contributed the money.

Now the subsidiary banks are doing some business in the rural folk. In my State of Kerala, in every village there is a branch of the State Bank of Travancore and the credit is available. All these will be curtailed if these provisions are given effect to. That is the reason why I am opposing this Bill. Either you do away with the Central Bank or you must give them powers and the right to function. That should not be removed. So, on these grounds, I cannot but oppose the Bill.

SHRI P. CHIDAMBARAM: Mr. Deputy-Speaker, Sir, I am deeply grateful to the Members who have participated in this debate. I am especially grateful to the Members who have raised some issues which, as at present advice, think will require them to oppose the Bill. But I am sure when I clarify, they will accept the fact that this Bill is no different from the Bill that we have already passed in respect of nationalized banks. Many of the provisions that we are bringing for State Bank subsidiaries here have already been approved by this House in respect of nationalized banks, and let me explain them.

Firstly, this Bill is not being passed in a hurry. We introduced it in the Lok Sabha and it went to the Standing Committee. I have here with me the Report of the Standing Committee. The Standing Committees had representatives of all political parties including Mr. Sudhakar Reddy's political party and Mr. Radhakrishnan's political party. The Report of the Standing Committee is near unanimous. There was only one Member who appended a Dissent Note and that is for reason which the hon. Member mentioned and which I will deal with. Otherwise, in all respects the Report is unanimous. In fact, Mr. Mahtab is a Member of the Standing Committee and I assume therefore he is a signatory to the Report of the Standing Committee. But I will answer every doubt that they have.

The first question is, why are these banks subsidiaries of the State Bank of India? That is a legacy issue. The State Bank of India promoted these subsidiaries because over a period of time various banks which were functioning in various regions got consolidated into these banks. That is why, you have State Bank of Travancore. We have State Bank of Patiala and we have State Bank of Mysore. Surely, all these subsidiary banks, if every one agrees, could be merged into the State Bank of India. But I suspect that there will be very serious opposition to that from the respective subsidiary banks which have a regional flavour and a regional character. I think Mr. Radhakrishnan will be the first to stand up and say that the State Bank of Travancore should not be merged with the State Bank of India and my friend from Karnataka will say that the State Bank of Mysore should not be merged with the State Bank of India.[\[R32\]](#)

**15.00 hrs.**

These banks are subsidiary because, this is a legacy issue. However, the State Bank is the virtual owner of these banks. Its shareholding in the subsidiaries cannot go below 51 per cent. Please remember that there is another Bill under which the Government is taking over the RBI shareholding in the State Bank. Eventually, the Government of India will become the majority owner of the State Bank of India and since as a legacy issue, the State Bank of India has these subsidiary banks, indirectly, it is the Government of India which will eventually become the owner of these subsidiary banks. In fact, the Government of India purchase of RBI shares in the State Bank of India is expected to go through in the month of either July or August. When that goes through, the Government of India becomes the majority shareholder in the State Bank and the State Bank of India will always remain the majority shareholder in these subsidiary banks. Indirectly, it is the Government of India which will be the majority shareholder in these subsidiary banks. Let me assure the hon. Members, I have made it clear on more than one occasion, we have discarded, we have abandoned the proposal of the previous Government to take the shareholding to below 51 per cent. I have made it very clear in this House on more than one occasion that the UPA Government is committed to maintain the public sector character of the nationalized banks as well as the State Bank group and at no time the shareholding will go below 51 per cent. These will always be public sector banks.

Sir, the second question was, why the Government is reducing 55 per cent to 51 per cent? It is 51 per cent in the nationalized banks. We are bringing it from 55 per cent to 51 per cent simply for two reasons. One, to bring it on par with nationalized banks, whether it is 51 per cent or 55 per cent does not make any difference. 51 per cent is a critical number, whereas 52 or 53 really do not make any difference because you have control. The other reason as to why we are doing it is that we have to raise capital. If we have to raise capital we have to go to the market and when capital is raised shareholding will get diluted. But as I said, it will never get diluted below 51 per cent. By taking it to 51 per cent we are bringing these banks on par with the nationalized banks where the minimum is 51 per cent. Here also the minimum is 51 per cent. It gives us a little headroom to raise capital. The Standing Committee also has pointed out that in the State Bank group alone we will have to infuse Rs. 3161 crore if they have to meet the Basel II norms. That kind of a money the Government cannot infuse into these banks. They have to go to the market to raise capital. When they go to the market to raise capital, 51 per cent minimum gives them a certain amount of headroom to raise capital. Today, in three of the banks, namely, the State Bank of Hyderabad, the State Bank of Patiala and the State Bank of Saurashtra, the holding is 100 per cent. In four of the other banks, the holding is 75 per cent, 98.05 per cent, 92.33 per cent and 75 per cent. Therefore, there is a considerable headroom. Today to bring uniformity we are making this 51 per cent. I do not envisage going anywhere near 51 per cent for several years into the future. There is enough headroom to go to the market to raise this capital. But we are bringing about uniformity.

Another question raised was, why is the Government raising one per cent to 10 per cent? This again is on par with the SBI banks. In the SBI, the cap is at 10 per cent and in the subsidiaries it is one per cent. We are changing this cap in the subsidiary banks. Anyway the State Bank will control 51 per cent; we are raising the cap to 10 per cent. I will tell you why. The existing Section 19 says and I quote:

"No person shall be registered as a shareholder in respect of any share in a subsidiary held by him in excess of 200 shares or shall be entitled to exercise any of the rights of the shareholders in respect of such excess shares otherwise than for the purpose of selling them."

However, the proviso, of course, excepts the State Government Corporation and insurance companies as defined in the Insurance Act, local authorities, the co-operative societies, the trustee of a public or private religious trust or shareholder of existing banks. However, after excepting these entities that there is a cap of one per cent. Today, even if a State Government owns shares it cannot exercise voting rights of more than one per cent. I am sorry, I made a mistake, in the State Bank of India the cap is at 10 per cent and in the subsidiaries of the State Bank the cap is at one per cent. We are bringing this cap on par with the State Bank of India in shareholding and the shareholders can exercise voting rights up to 10 per cent. [\[R33\]](#)

Sir, as far as voting right is concerned, it makes no difference because the Government through the State Bank will always hold 51 per cent. Therefore, the majority will always be with the Government. These voting rights only give them the right to elect the Director. We have already made an amendment in nationalized banks. We have said that upto 16 per cent, you can have one Director, from 16 to 32 per cent, you can have two Directors and from 32 to 49 per cent, you can have three Directors. So, these shareholders will have a right to elect a maximum of three Directors. The majority of the Directors will always be Directors nominated by the Government through the State Bank of India.

The next question was asked about private placement. Private placement does not mean placement in private hands. Private placement is a term of art and is simply a method of issuing shares. Just as public issue is a method of issuing shares, private placement is a term of art and a method of issuing shares. Suppose for argument sake, for a variety of reasons, we wish to allocate, say, five per cent of the shares to the State Bank of Travancore, to the State Government of Kerala. I am giving you



an example. I do not have to go through a public issue. By a private placement - and you see that the section also says that according to the regulations made by the State Bank - I can allocate it to the State of Kerala. Suppose I want to allocate five per cent of shares in the State Bank of Mysore, to the Government of Karnataka, I can do it by private placement. Let me explain that private placement is not placement in private hands. It is a method of allocating shares and all the methods are provided for in the section. Which method is to be adopted will be decided by the Government from time to time.

The next question is about supersession. Please look at the section. Today if a Board of Directors commits grave default, grave acts of negligence and even criminal acts, there is no power to remove that Board. So, all that we have said is, on the recommendation of the SBI, the RBI may supersede the Board for a maximum of six months which, in extraordinary cases, can be extended upto 12 months. But in six months, they will constitute a new Board of Directors after cleaning up the affairs of the Bank. This power is available in cooperative societies. If you look at the State Cooperative Societies Act, the Registrar of Cooperative Societies has the power to supersede the Board and then elect a new Board. This power is a necessary power to take disciplinary action or a penal action against the Board which is violating the law and which is committing acts of negligence or acts of default.

These are the major issues which I think require clarification. There are of course a number of provisions and if hon. Members will look at the notes to the clauses to the Bill, they will find that each of the clauses has been explained as to why we are introducing it. I can very quickly, in about three or four minutes, run through the various provisions and explain why they are being done. For example, I have explained voting rights.

Secondly, we are allowing dematerialization of shares. This is a world wide process. Shares are no longer held in material form. We are introducing a section to allow for dematerialization of shares. Then we are saying that Chairman of State Bank need not be the Chairman of the subsidiary and he can appoint a full-time Chairman of the subsidiary. That is a progressive step and in fact, people have been pleading for autonomy. The Chairman, State Bank being the Chairman of a subsidiary restricts autonomy. But if you appoint another person â€¦...(*Interruptions*)

SHRI AMITAVA NANDY : Will the Chairman himself appoint or the Board of State Bank will appoint him?

SHRI P. CHIDAMBARAM: The Chairman of the State Bank will now nominate any official of the State Bank as Chairman of the subsidiary or any executive of the subsidiary can also be nominated as the Chairman of the subsidiary. Earlier, provision is State Bank Chairman himself will be the Chairman of the subsidiary. How much time can he devote to each one of the seven subsidiaries? He has got the State Bank to run. Today we are authorizing him to nominate either a SBI official or a subsidiary's official as a full-time Chairman of the subsidiary.

SHRI AMITAVA NANDY : Why are you not authorizing the Board of the State Bank?

SHRI P. CHIDAMBARAM: But the Chairman, State Bank would not nominate somebody without consulting his Board. Obviously, he will consult his Board. But the point is, you cannot have an election within a Board to nominate. State Bank Chairman must be trusted to choose an official to nominate for a subsidiary. Today Gramin Bank is floated by nationalized bank. The Chairman is nominated by the Chairman of the nationalized bank and he nominates the Chairman of the Gramin Bank. [\[MSOffice34\]](#) But surely he will consult the RBI nominee and the Government's nominee and then will appoint. All this cannot be done without the Government's approval and the Government nominee's approval. Isn't it? So, they will be consulted, but the nomination will be made by the Chairman of the State Bank.

An important Section, Section 25 (a), has been included. It says that the Director shall satisfy the "fit and proper" criteria. This provision is already there in the Nationalised Banks Act. We are introducing it. Anybody cannot be appointed as a Director. He must satisfy the "fit and proper" criteria. If he ceases to be "fit and proper", then he can be removed from the directorship.

We have a new Section called, Section 25 (b). It says that in exceptional cases, if RBI wishes to nominate an additional Director, it can nominate a Director in the interest of banking policy and in the interest of depositors.

I have already dealt with supersession.

Then we are saying that "unpaid dividend" will go to Investor Protection Fund. Similar provision is there in the Companies Act. Unpaid dividend will go into the Investor Protection Fund after seven years. That is to bring it in line with the Companies Act. Otherwise, there is a question as to what happens to the unpaid dividend when there is no claim. That now goes into the Investor Protection Fund.

There are procedural sections, like the Balance Sheet shall be signed by the Chairman and the majority of Directors, etc.

Let me assure everyone that there is nothing in the Act which either restricts the autonomy or takes away the public sector

character or in any way interferes with the larger policies of the Government of India.

These provisions bring the subsidiaries on par with the other nationalized banks. The intention is to allow greater degree of autonomy to the subsidiaries so that they can function virtually like the nationalized banks.

Some questions were asked about the number of branches that these banks have. They have a large number of branches. In fact, today the seven subsidiaries have, among them, 4,688 branches. The State Bank main has 9,143 branches. It means for every two branches of the State Bank main, there is a subsidiary branch. It is half the size of the State Bank. The seven subsidiaries, together, are one-half of the size of the State Bank.

Therefore, it is important we allow them to have a full-time Chairman; we allow them autonomy; we allow them to function so that they can grow, and open more branches. I am assuring the House that it is my intention to allow these banks to grow to full measure and compete with nationalized banks and become very strong banks.

The larger question whether they should merge among themselves or they should be merged with the State Bank of India, I think, has political, regional and State overtones. We will defer the question for another day. Let these seven subsidiary banks flower into full-fledged banks with larger powers, with larger autonomy and grow from strength to strength.

With these words, I would request the hon. Members not to press for their amendments but to support the Bill.

MR. DEPUTY-SPEAKER: The question is:

"That the Bill further to amend the State Bank of Saurashtra Act, 1950, and the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959, be taken into consideration. "

*The motion was adopted.*

MR. DEPUTY-SPEAKER: Now, the House will take up clause by clause consideration of the Bill.

The question is:

"That clauses 2 to 12 stand part of the Bill".

*The motion was adopted.*

*Clauses 2 to 12 were added to the Bill.*

#### Clause 13 **Amendment of**

#### **Section 25**

*Amendments made:*

Page 6, for line 12, *substitute*"

"an official of the State Bank or of the subsidiary bank nominated by him as Chairman, with the". (3)

Page 6, for line 14, *substitute--*

'(b) for clause (b), the following clause shall be *substituted*,

namely:--

'(b) one director, possessing necessary expertise and experience in matters relating to regulation or supervision of

commercial banks, to be nominated by the Reserve Bank.";'. (4)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

"That clause 13, as amended, stand part of the Bill."

*The motion was adopted.*

*Clause 13, as amended, was added to the Bill.*

*Clause 14 was added to the Bill.*

SHRI P. CHIDAMBARAM: Sir, with your permission, in clause 15, we are accepting the Standing Committee's recommendation. We are keeping the provision that the RBI will nominate a Director. Therefore, clause 15 of the (amendment) Bill, the Government intends to negative it. Therefore, our Treasury Benches will vote against the clause 15. I request all of you to please vote against clause 15.

MR. DEPUTY-SPEAKER: The question is:

"That clause 15 stand part of the Bill.

*The motion was negatived.*

MR. DEPUTY-SPEAKER: The question is:

"That clause 16 stand part of the Bill."

*The motion was adopted.*

*Clause 16 was added to the Bill.*

SHRI P. CHIDAMBARAM: Sir, clause 17 is just like clause 15 – nominee of the RBI. We are accepting the recommendation. We are keeping the nominee of the RBI. Therefore, we are voting against clause 17.

MR. DEPUTY- SPEAKER: The question is:

"That clause 17 stand part of the Bill."

*The motion was negatived.*

**Clause 18 Amendment of  
Section 34**

*Amendments made:*

Page 8, after line 9, *insert* -

`(a) for sub-section (1), the following sub-section shall be substituted, namely:-

"(1) The Board of Directors of a subsidiary bank shall meet at such time and place and shall observe such rules of procedure in regard to the transaction of business at its meetings as may be prescribed; and the meeting of the Board of Directors may be held by participation of the directors of the Board through video-conferencing or such other electronic means, as may be prescribed, which are capable of recording and recognizing the participation of the directors and the proceedings of such meetings are capable of being recorded and stored:

Provided that the Central Government may in consultation with the Reserve Bank, by a notification in the Official Gazette, specify the powers which shall not be exercised in a meeting of the Board of Directors held through video-conferencing or such other electronic means.": (5)

Page 8, line 10, for "(a)", substitute "(b): (6)

Page 8, *omit* lines 13 and 14. (7)

Page 8, after line 14, insert -

`(c) for sub-section (3), the following sub-section shall be substituted namely:-

"3) All questions at the meeting of the Board of Directors of a subsidiary bank shall be decided by a majority of the votes of the directors present in the meeting or through video-conferencing or such other electronic means and in the case of equality of votes the Chairman of Board of Directors of a subsidiary bank or, in his absence, the person presiding at the meeting shall have a second or casting vote:": (8)

Page 8, line, line 15, for "(c)", substitute "(d)" (9)

Page 8, line 19, for "(d)", substitute "(e)". (10)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

"That clause 18, as amended, stand part of the Bill".

*The motion was adopted.*

*Clause 18, as amended, was added to the Bill.*

*Clauses 19 to 21 were added to the Bill.*

#### **Clause 22 Insertion of new**

#### **section 40 A**

*Amendments made:*

Page 9, line 24, for "2006", substitute "2007". (11)

Page 9, line 36, for "2006", substitute "2007". (12)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

"That clause 22, as amended, stand part of the Bill ".

*The motion was adopted.*

*Clause 22, as amended, was added to the Bill.*

*Clauses 23 to 27 were added to the Bill.*

**Clause 28 Amendment of  
section 63**

*Amendment made:*

Page 10, for lines 20 and 21, *substitute-*

“(a) for sub-section (1), the following sub-section shall be substituted, namely: -

“(1) The Board of Directors of a subsidiary bank may, after consultation with the State Bank and with the previous approval of the Reserve Bank, by notification in the Official Gazette, make regulations not inconsistent with this Act and the rules made thereunder, to provide for all matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of this Act or any other law for the time being in force.”;

(13)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

“That clause 28, as amended, stand part of the Bill”.

*The motion was adopted.*

*Clause 28, as amended, was added to the Bill.*

**Clause 1 Short title and  
commencement**

*Amendment made:*

Page 1, line 6, for “2006”, *substitute* “2007” (2)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

“That clause 1, as amended, stand part of the Bill. ”

*The motion was adopted.*

*Clause 1, as amended, was added to the Bill.*[\[a35\]](#)

(p2/1520/rcp/sb)

**Enacting Formula**

*Amendment made:*

Page 1, line 1, for “Fifty-seventh”, *substitute* “Fifty-eighth”. (1)

(Shri P. Chidambaram)

MR. DEPUTY-SPEAKER: The question is:

"That the Enacting Formula, as amended, stand part of the Bill."

*The motion was adopted.*

*The Enacting Formula, as amended, was added to the Bill.*

*The long Title was added to the Bill.*

MR. DEPUTY-SPEAKER: The hon. Minister may now move that the Bill, as amended, be passed.

SHRI P. CHIDAMBARAM: I beg to move:

"That the Bill, as amended, be passed."

MR. DEPUTY-SPEAKER: The question is:

"That the Bill, as amended, be passed."

*The motion was adopted.*

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