[Sh. Anantrao Deshmukh]

Malegaon townships in Akola district of Maharashtra State for providing STD telephone facilities to the. Part of the Infrastructure required for providing STD facility, such as electronic telephone exchange, MSTD facility etc. is already existing in these places. By providing a few more equipments such as (i) 120 lines 8 meghawat microwave tower at Washim (ii) 30 channel VHF towers at Risod and Malegao; and (iii) 10 channel digital VHF tower at Rithad, STD facilities can be made available at the aforesaid places. Therefore, I urge upon the hon. Minister of Communications to take up this work on priority.

MR. DEPUTY SPEAKER: I am sorry that many hon. Members could not be accommodated in the zero hour though only two days are left in this session. I request the Members to take little time and be brief so that many of them could participate.

The House is now adjourned to meet at 3 p.m.

14.06 hrs.

The Lok Sabha then adjourned for Lunch till Fifteen of the Clock.

15.04 hrs

The Lok Sabha re-assembled after Lunch at four minutes past Fifteen of the Clock

[SHRI PETER G. MARBANIANG *in the Chair]*

BANKING COMPANIES (ACQUISITION AND TRANSFER OF UNDERTAKINGS) AMENDMENT BILL*

[English]

MR.CHAIRMAN: We shall now take up the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill. The Minister of Finance may move for consideration.

THE MINISTER OF FINANCE (SHRI MANMOHAM SINGH): I beg to move:

"That the Bill further to amend the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, be taken into consideration"

Mr. Chairman, the Committee on Banking Regulations and Supervisory Practices appointed by the Bank of international Settlements has prescribed certain capital adequacy standards to be followed by commercial banks. These standards have bee accepted for implementation by several countries. The BIS standards seek to measure capital adequacy in terms of the ration of capital to risk weighted assets. For this purpose, weightages have been prescribed for different categories of assets. The recommended norm that is that all internationally operating banks must acquire a capital to risk weighted assets ratio of 8 per cent.

The Committee of Financial System under the Chairmanship of Shri M. Narasimham in its report submitted to the Government last year has inter-alia recommended that the banks in India should reach the BIS norm for capital adequacy in a phased manner. For banks with an international presence, the Committee has suggested

* Published in the Gazette of India Extraordinary, Part II, Section 2 dated 19.8.1992

that the norm should be achieved as early as possible and in any event by March, 1994. The other banks are advised to achieve the capital adequacy norm of 4 per cent by March, 1993 and 8 per cent by March, 1996.

The Reserve Bank of India have recently issued detailed guidelines on capital adequacy measures. In terms of the said guidelines, the Indian banks which have branches abroad should achieve the norm of 8 per cent as early as possible and in any case by 31st March, 1994. The other banks have been directed to achieve the norm of 4 per cent by 31st March, 1993 and 8 per cent by 31st March, 1996. The banks have been accordingly been advised by the Reserve Bank of India to review the existing level of capital funds vis-a-vis the prescribed level and plan to increase the same in a phased manner to achieve the prescribed ratio by the end of the stipulated period.

Despite substantial growth in deposits and advances, it has not been possible for banks, due to various operational constraints, to augment their owned funds to the required level. The low level of profitability and the need to comply with prudential requirements for provisioning leaves them with little surplus for the augmentation of their reserves.

There is an urgent need to augment the paid up capital of the nationalised banks. The ceiling on paid up capital was raised from Rs.15 crores to Rs. 100 crores in 1985 and further to Rs. 500 crores in 1988. At present, therefore the ceiling on paid up capital is Rs. 500 crores. The paid up capital of one bank has already reached this level. Some more nationalised banks are expected to reach this level this year. It is, therefore, necessary to increase the level of the ceiling on paid up capital. The Bill before the House, therefore, seeks to raise the limit on paid up capital of the nationalised banks by amending Section 3(2) (A) and Section 9(2)(A) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. The Bill provides for enhancement of the ceiling on their paid up capital from the present level of Rs. 500 cores to Rs. 1,500 crores. This will enable the Government to strengthen the capital base of the nationalised banks by contributing more funds to their paid up capital. The Bill does not envisage any policy changes. As I mentioned earlier, the ceiling had earlier been raised twice in 1985 and 1988.

With these words, I commend the Bill for consideration of the House.

MR. CHAIRMAN: Motion moved:

"That the Bill further to amend the Banking Companies (Acquisition ad Transfer of Undertakings) Act, 1970 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, be taken into consideration."

MR. CHAIRMAN: There are amendments to motion for consideration. Shri Girdhari Lal Bhargava.

SHRI GIRDHARI LAL BHARGAVA (Jaipur): Sir, I beg to move:

That the Bill be circulated for the purpose of eliciting opinion thereon by the 22nd October, 1992."

[*Translation*]

SHRI DAU DAYAL JOSHI (Kota): Sir, I beg to move:

"That the Bill be circulated for the purpose of eliciting opinion thereon by 23 October, 1992." (2)

[*English*]

MR. CHAIRMAN: Prof. Rasa Singh Rawat - Not present.

Shri Moha Singh , - Not present.

Shri Rajendra Agnihotri - Not present

SHRI CHETAN P.S. CHAUHAN (Amroha): Mr. Chairman, Sir, I rise to support this Amendment. This Amendment was necessary for a long time as the Minister has just said that some of the banks have already crossed the limit of Rs.500 crores and as such, there was a need to increase the capital of the nationalised banks from Rs. 5000 crores to Rs. 1,500 crores. This has also been necessitated by the International Conference of the Bank of International Settlements which had recommended to a number of countries for increasing the capital of the banks, especially for those banks which are operating in foreign countries.

Accordingly, the risk weighted assets to the percentage of capital has been asked to be increased. The targets which have been set here are that the bank should reach four per cent by 1993 and eight per cent by March, 1996. I have a lot of doubts about how this capital will be raised. So far the capital of the banks which has been raised has been mostly from the contribution of the Government of India. From 1985 until 1990-91, the Government of India has contributed nearly Rs. 2600 crores. Last year in 1991 also, an amount of Rs. 700 cores was provided by the Government of India to the banks. This year also in the Budget, a provision of Rs. 700 crores has been made. My fear is, with the profit of the nationalised banks going down, more and more burden is coming on the Government. As such, it is high time that the Government looks into the working of the nationalised banks. State Bank of India and also the private banks.

The capital can be raised only through four methods. One is the Government contribution. Second is profit. Third, I can think of is revaluation of assets. And the fourth is, raising money or equity from the market. In the recently held consultative committee meeting of the Finance Ministry the Finance Minister has given an indication that the banks may be going to the market for raising capital.

The most important thing is the profit. Profit is decreasing instead of increasing. There is so much pressure on the banks. The profit which should be ploughed back into the capital is not being done. On an average about Rs. 200 crores profit from the nationalised banks goes back to the Government.

The other fear I have is the malpractices which have come into the banking system. Everyday we hear collusion between the bankers or bank officials and the customers. This is resulting in a lot of loss to the banks. Maximum growth in any Department of the nationalised banks has been the Department of Vigilance. The Vigilance Department has grown about four times since the nationalisation has taken place. The reason for profit going down has been political also. Not in the previous Government, but in the Government before that, *i.e.* Congress Government, there were loan melas. Because of loan melas, a lot of money was given to the people which was not returned. In fact, I still remember way beck in 1983 or so, loan melas were held in Bangalore where the Chairman of the banks were asked to go in procession along with the people who were given loans. These kinds of schemes or wrong policies of the Government, I am sure, will result in a lot of loss to the banks. Similarly, the previous Government has waived loans up to Rs. 10,000 to the small farmers. This also has resulted in a lot of loss. Because of this loss, capital of some of the banks has eroded and as a result, the Government had to contribute to the capital of the banks.

The other thing which would like to state here is, as I spoke in the Scam - I have put in 23 years in banking - the polices which are there in some of the banks are quite disturbing. It is seen that officers are working in a particular Department, at a particular place for 10 years or even 15 years. Especially the Specialist Officers are working for a long time and because of this a nexus is created.

I suggest to the Finance Minister that this system of Specialists should be done away with. If the Officers who look after the specialised jobs could be posted as per the rotation, I am sure, this will help the banks.

The other point which is very common and which is reported not only to me but also to many Members of Parliament is that the recruitment i the banks has bee stopped since 1985. Now it has been allowed and only one per cent of the staff is allowed to be recruited per year. This one per cent is very very meagre because in the last seven year, a number of branches have been opened by the banks and a lot of people have retired. A lot of people have expired and lot of people have left the banks and joined some other organisations.

The other point which has been brought here also is the balancing of books and reconciliation. An amount of nearly Rs.2,40,000/crores is involved all of which is not being used because of the lack of balancing of books and reconciliation. In some cases, the reconciliation is pending for more than ten years. This does not speak very well. This does not speak of a healthy system. The recovery of bad and doubtful debts has also gone down. The recovery is only about 60 per cent. 40 per cent of the loans are becoming bad or doubtful. I had also put in a question about the setting up of special courts and the answer I have got was that the bank is not considering the setting up of special courts. Now that the special courts have been set up for investigating into the scam, I request the Finance Minister that this also should be considered. I do not know the amount which is pending. I had asked a question about this but the information was not given to me. I think there are crores of rupees which are locked up in debts and, I am sure, if these special courts are set up, these cases which are pending for very long can be taken up by the special courts and the matters could be settled amicably and this amount would be recovered.

Another suggestion which I had made earlier also is that the average return of the bank is about 10 per cent only because the banks are giving money at four per cent. The banks have to loan 40 per cent of their deposits to the priority sector. So, the average return is only 10 per cent. I had suggested to the Finance Minister earlier also that Central/State Public Sector Undertakings should not be allowed to bank with the foreign banks because the foreign banks are taking away the cream of the business from the Indian business and, as such, the left-over is remaining with the nationalised banks. If the public sector undertakings are forced to bank only with the nationalised banks, I am sure, the nationalised banks will be able to do some good business and also make profit.

Another point which worries everybody is the frauds which take place in the banks. This is the point I had suggested before also. I would not like to go to the extent of saying that the clerical staff should be transferred but at least rotation should be frequent and, as such, orders must be passed for the rotation of the clerical staff, the supervisory staff and the executives and so on.

[Sh. Chetan P.S. Chauhan]

There was a move to transfer scale four officers in the regional offices and their above offices from one bank to the other bank. This is a good suggestion but somehow this has not been implemented because some of the small banks, the nationalised banks, do not have the required expertise whether it is foreign exchange or advances and also in the share business investment etc. These are very very specialised fields. And, as such, if transfers could take place of Regional Managers and above from one bank to the other bank, I am sure the expertise will be passed on from one bank to the other bank. This will also help in increasing the business and also the portfolio advances especially will become healthier.

Regarding revalidation of the assets, I would say that the revaluation, of course, will be a book entry only. No substantial money will come into the bank. But even then with the revaluation of the assets, only the bigger three or four banks which have assets only they will be able to gain. As such revaluation will also not be enough. The market borrowing which the Finance Minister has said just now, it is a good suggestion. The banks may asked to go to the market to borrow money. But then I have a fear that the control on the banks may be diluted because of this. Of course, the amount required is also substantial. The amount required to take this to 8 per cent of the assets, to the risk-waited assets, to the capital ratio will be about Rs. 10,000 crores which will be needed. The only way the Government would do well is to go to the market ad get this money.

What has happened in the Baking Industry? I will just quote here one thing:

"Banking in India, though said to be commercial, is socially-oriented and the lending polices of the banks are in tune with the social objective of the Government. Given the option, banks would steer clear of investing in priority-sectors where the average realisable return is less than 10 per cent and the no-recovery percentage is alarmingly high. But the 40 per cent target imposed on banks force them to lend in these areas compromising on their profitability. With the cost of funds escalating (more accentuated by the hike in the deposit rates) profits in banks are under severe strain..."

Another thing I would like to quote here. It has been said that in the past the bank has not bothered to raise the capital for the simple reason that the banks belong to the Government and any loss or any other pressure which was there on the banks was absorbed by the Government. Also, besides this, the banks were mostly socially- oriented and though they were called commercial banks, in real terms they were not commercial banks. As such, the need to raise the capital was not there. But now that these norms have bee fixed, I am sure, the raising of the capital will help the banks. Also, these banks which have international branches, I am sure, will need more money. The suggestion that some of these small banks or some of the smaller nationalised banks could be merged will also be a good idea because this will strengthen the banks especially when we are competing with the international banks outside India. This will help us to increase our stake and compete with the international banks.

The other thing I would also like to point out here is that some of the branches which are the loss-making branches operating outside India have been asked to close down by the Reserve Bank of India. I say that some of the banks do not have the expertise. It will also be a good idea if some of the banks join together or if the Government can think of forming a Global Bank, an International Bank merging all these branches which are working outside India into one bank and operating in the foreign countries and if it is done I am sure this will give a lot of strength. This will also help us to compete very well with the international banks.

Another thing I would like to point out here. A lot of people have come and they are quite worried about the working of the Rural Banks-they are called as RRBs. The Government had appointed a Committee. I think it was the NABARD or the National Institute of Bank Management which had gone into the terms and conditions of the working of these banks. This will again be a good idea if the Government could form a separate bank for the rural industry which will look after the rural population of the country because usually it is found than any bank, especially a nationalised bank when it opens a branch in a village, for nearly three years, it runs in a loss. It can a be much more also. There nationalised banks are incurring huge losses because of the norms fixed for setting up a branch in the rural areas. There are problems of staff going to rural areas. If a regional rural bank or a separate bank is formed, I am sure, this will not only help the banks which are already there but it will also help the villagers and the farmers quite a bit because people will be available. The biggest problem which is faced by the banks is that the moment a persons are transferred to the rural branches they are not very keen to stay there. People live i a big cities and they come to the branches from there. They are not stationed in those places. As such, the work of the bank suffers.

With these words, I thank you very much for allowing me to speak. I would like to have some clarifications when the hon. Minister replies

SHRI PRITHVIRAJ D. CHAVAN (Karad): Sir, I rise to support the Baking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1992. This Bill deals with raising the upper limits on the paid up capital of the nationalised banks.

The problem of weak capital base of banks has worried the financial community both here and abroad. Inadequate capitalisation is the main cause of bank failures, hostile take-over and financial instability in general. It is well acknowledged that Indian banks are seriously under-capitalised.

Traditionally, deposit taking and lending or the interest payments has been the core business of the banks. But the greater financial deregulation in the world during the eighties, coupled with revolutionary advances in the communications technology, has changed the very nature of baking. It has unleashed greater competitive pressures. Banks are none deriving an ever-increasing percentage of income from sources other than interest from merchant banking operations such as, trading in securities, brokerage, portfolio management services, underwriting, and providing back up liquidity. Greater portion of credit ad liquidity exposure is being incurred by off balance sheet items and inter bank transactions, leading to reduced transparency.

There is a general agreement that the system needed reforms to better suit the needs of supplier and users of funds. The Bank of International Settlements (BIS) based in Basle, which is a Central Baker's bank, had set a Committee consisting of several Governors of the Central Banks- the Committee on Baking Regulations and Supervisory Practices in 1988. This Committee released a broad framework of standards which are known as BIS standards. They are followed by all the banks in the world, particularly those operating in international fields.

The amendment of Banking Compa-

[Sh. Prithviraj D. Chavan]

nies (Acquisition and transfer of Undertakings) Act has become necessary as the original 1970 and 1980 Acts had put an upper limit of Rs. 100 crore on the paid up capital which was subsequently amended and raised to Rs. 500 crore in 1988. Due to increased deposit mobilisation and lending by the public sector banks, it will not be possible to achieve the eight per cent capital adequacy ration unless the present limit of Rs.500 crore is raised. And this Bill intends to raise that limit to Rs. 1500 crore.

Sir, in the BIS standards, there is a definition for capital which is based on quality of capital and the capital has been divided into two parts, that is, tier-I or core capital and tier II or supplementary capital. And there is also another provision that the supplementary capital should not exceed the core capital.

On the assets side each funded and non-funded asset is assigned a risk factor. And the aggregate of all risk adjusted value of the assets is to be used for calculating capital ratio. But before this is achieved the Indian banks will have to take a realistic valuation of their present assets portfolio as to which loans are realisable and which are truly doubtful and are likely to be written off.

The Narasimham Committee on Financial System Reforms, in Chapter V, has generally endorsed the BIS standard and the capital adequacy ratio and the asset classification concept. However, it has recommended that this standard should be adopted in India in a phased manner and after minor adjustments are done to suit the Indian conditions.

Sir, on the serious under capitalisation of private banks-even through this Bill deals with the public sector banks- I would like to take a moment. This under capitalisation of private banks is also a matter of grave concern. May small banks are falling prey to hostile takeover by larger monopoly industrial houses. *We have the case of Bank of Sangli is attempted hostile takeover by Mittals;* Madura Bank by Kotak Mahindra; Bank of Rajasthan by Bagurs; Syrian Catholic Bank by the House of Birlas; and Nedugali Bank by the now famous FFSI. We also know that the Bank of Karad was manipulated and controlled by a few brokers only because it had a paid up capital of only Rs.30 lac while it had a business turnover of over Rs. 80 crore. And the whole action knows what happens when the financial and industrial houses get hold of small private sector banks. We have seen how a few banks have really wrecked a havoc with the entire financial system of this country. So, the Government will have to seriously formulate firm guidelines to stop such hostile takeovers which subvert the concept of social control of banks and reverses the spirit of bank's nationalisation which Shrimati Indira Gandhi brought in.

Sir, the topic of capital adequacy ratio raises some issues. The nature of public sector banks operating in India is quite different from those operating internationally. The issue of capitalisation has not been worrisme. In India, banks have been fully backed up by the Government. But those having international operations will have to accept this norm at the earliest.

The Narasimham Committee has recommended rationalisation of Indian banks operating abroad by establishment of a statutory overseas banking corporation. State Bank of India and some three or four large banks could be asked to be present abroad to get into international banking and not too many banks that we have now. Almost every nationalised bank now has a foreign presence. This is a suggestion which merits consideration.

Sir, second question is where from are

we getting the money to achieve eight per cent capital adequacy ratio. We have provisioned Rs. 700 crore in the budget. But some other schemes will have to be considered. Banks going public is one way. It is a contentious issue. there are two opinions on whether the control of banks by the public sector should be diluted. I think we should have a serious debate on partial privatisation of public sector banks to the tune of may ten or twenty per cent to raise capital, because as we know even the State Bank of India, the premier bank of this country, is also partially private owned.

One or two per cent shares of the State Bank of India are owned privately. We will also have to consider capitalisation of reserves of the banks. We also might have to look in to some new instruments like some hybrid debts or subordinated debts which is a commo practice abroad. We can also consider raising some equity from public sector undertakings which are now cash-flush because of disinvestment and also some semi-Government or State Government organisations and corporations, particularly cooperative banks which have got surplus funds with them.

Another question which has to be looked into is about the foreign banks operating in India. Foreign banks being international in nature, will have to be made to accept the capital adequacy ratio of 8 per cent by March 1992.

The next issue about which I am worried is the transparency in financial accounts. There is a grave concern about the financial reporting: the balance-sheet and the profit and loss statements. The Ghosh Committee, which the RBI had set up, has made some changes in the format of the balance-sheet at the profit and loss statement. We have amended the Banking Regulation Act last year to incorporate this new format. This format has indeed increased the transparency in the accounts. But more needs to be done.

There is also a proposal by RBI to invite foreign experts to get some help to frame "inspection manual" by RBI inspectors. We all know that because of the failure of proper inspection and to carry out the follow-up action after the inspectors found some lacunae in the operation of banks, that the scam took place. There is no harm if we invite the experts from abroad to guide us. It is just like a technical collaboration in a industrial company. We can invite them ad utilise their experience in checking this kind of frauds and mis-operation.

We are going in for increased automation. We all know that computers necessarily help in speeding up the paper work. But they are also prone to major frauds. There have been major frauds with computerised banking. We are new to this field. We will have to get some foreign experts and wherever the expertise is available even in the private sector in India to stop modern day electronic age fraud.

Then main objectives of the Basle Committee on capital adequacy was firstly to strengthen the soundness and stability of the financial system and banking industries and secondly to establish the broad framework which would be fair and consisted throughout the world and to smoothness the competition inequality,. The BIS standard has acheived that. There is a universal acceptance of the BIS norm by all countries. This Bill is a step towards achieving the international financial environment. But this alone will not help. A modern, efficient, computerised and automated system and advanced communication network is also equally important if we have to compete globally.

[Sh. Prithviraj D. Chavan]

Finally the reform suggested by Narasimham Committee should be debated in this House. We have today made a beginning to implement the changes and the reforms suggested by bringing in this amendment to help the public sector banks for raising capital limit.

There should be a wide debate in the House on the Narasimhan Committee report and also preferably a wide-ranging national debate. After such a debate we should implement the financial system reforms forthwith in order to keep the bankig and the financial sector of the country competitive.

With these words, I support the Bill.

MR. CHAIRMAN: Now, Shri Syed Shahabuddin. Two Members are there from your party to speak and twelve minutes is the total time. It is just to remind you.

SHRI SYED SAHABUDDIN (Kishanganj): Mr. Chairman, Sir, I have no difficulty in supporting this Bill because it is, by and large, as technical Bill. But, if I may say so, it merely reflects the fall in the purchasing power of the rupee or the exchange value of the rupee. Therefore, it is something that we have got to live with and the Finance Minister has really o option in the matter and therefore we have also really no option in the matter.

But, Sir, I do wish to utilise this opportunity, with your permission, to present a brief critique of the banking system, not that the Finance Minister is not aware of it, but perhaps to reinforce his own endeavours to cleanse the stables so. This critique is the critique of a non-specialist, from the common man's point of view because I do not propose to present myself as an economist, particularly when I am faced with an economist of international reputation, Dr. Manmohan Singh.

We never get tired of saying that there has been a phenomenal growth in banking since independence or since nationalisation. That is a fact and I do not have to quote figures for that. But, at the same time, there is a growing feeling that there has been a phenomenal growth in inefficiency of the banking system, in the level of fraud and bad loans and in terms of corruption in the banking system. Well, I do not propose to dwell deeper into that; we have already appointed a Joint Parliamentary Committee for that purpose which I hope, will look beyond the recent securities scam into the malaise that really affects the banking system.

Sir, to my mind, one of the basic reasons for the deterioration in the banking system is the unorganised, unsystematic and perhaps to some extent, deliberate expansion which has created a lot of overlap, duplication and multiplicity. We have this peculiar situation in which each nationalised bank is practically operating throughout the country. Now, that has an inbuilt element of infrastructural problems because the resources in terms of staff, in terms of management capacity, in terms of inspection are all distributed over a very wide area; ad therefore they became ineffective and inoperative.

Sir, apart from that fact, we have to pay the economic cost. After all, the people are transferred from one end of the country to the other including the lower staff; that costs public money. Apart from it, when you have got branches which are controlled from a particular economic centre and they have got branches in a rather economically undeveloped area. I do not think that the central office has the real feed of the requirements and the needs of the underdeveloped area where their branches are operating. Therefore we pay higher costs and we receive less return because of this phenomenal expansion across the country right up to the lowest ices.

Therefore, there is a need for rationalising the banking structure. There is a need for developing a national system of banking in which there should, of course, be specialised bank which operate throughout the country like the agricultural bank the industrial bank, the housing bank perhaps an internal trade bank and external trade bank which can operate from various major centres where these economic activities are located, maybe right upto the district level; but they need not have branches all over the country, in every place. But at the same time, the general public is more concerned with the general banking system and the general banking system must be rationalised and must be- shall we say- regionalised, so that each bank has a clearly defined regional jurisdiction in which it operate whose need of overall banking, it takes care of an whose development becomes its real concern. That sort of a regional division of work among the various banks must be brought about. At one stage, the Reserve Bank of India did think about it. In fact, it informed me that it was going to bring it about in one way or the other and in whichever State particular bank does not have too many branche, it will have to swap those branches with another bank which has a larger concentration in that area. Over the years, the lead bank system has been eroded. To restore the lead bank idea and then to relate each nationalised bank with a particular region, consisting may be of one or more states, depending upon the size and population, these two ideas need to be knit together. And through swap arrangement among different banks, let each bank specialise in a given area and in its problems and deliver the goods. This is one basic suggestion that I want to make for the consideration of the hon. Minister.

Sir, once the bank is related to a particular area, the head office also will be located there. The recruitment pattern also will certainly change and the reorientation will meet the aspiration of the local people and the regional aspirations better than today, once we have got such a regional banking system.

As for the foreign operations, I am also of the view that there should be one specialised bank, call it overseas bank or international bank of India. It should have branches wherever necessary and not as every branch or every bank wants to have today they call in French '*pied-a-terre*' a place where they can land the Managing Director or the Chairman, on a world circuit, at certain places where everyone goes. You may even find whether there is multiplicity of branches of Indian banks in places which are very well known, for reasons other than banking.one sees a certain pattern.

I would rather have a single bank specialised in international banking as has been suggested and that could be an independenct bank and that bank can maintain intrnational standards, keeping to internatioal norms and coordinate with other international banks in that area. The opening of the branches and to that i may add, the openig of the foreign bank branches in India should be based on the principle of reciprocity. There should not be open door policy in that respect. We cannot have a unilateral open door policy vis-a-vis other big baks in the world. Let us have a federal system or reciprocity. So, with regard to foreign banks, my suggestion is firstly, on our side, we should have one international of overseas bank which concentrate on activities in foreign countries and secondly we should certainly allow foreign countries and secondly, we should certainly allow foreig banks to operate in India in terms of reciprorcity and not in terms of any IMF direction or Dunkel draft callig for a total open door policy.

[Sh. Syed Shahabuddin]

Now, I come to the question of flow of credit. I have a feeling that the State-wise picture shows a lot of disparity. Even in terms of credit deposit ratio, certain States are disadvantaged and certain States are not. I do not have to quote the figures as you know, Sir and the hon. Minister is also aware of it. There is also a bia if you see from the perspective of urban-rural dictomy much more credit is flowing into the urban area which is inevitable to a certain extent. But I believe that the rural areas are not getting their due and they are getting starved. Some States are getting starved. Generally rural areas are getting starved. And there are certain sections of the people who are geting starved. We do evolve a certain policy and we formulate a national programme but when it comes to actual implemensation, if the hon. Miinster will make a check on his own about the flow of credit to weaker sections, Scheduled Castes and Tribes, the disavantaged areas, the miorities and even the population living below the poverty line or the unemploymed youth- these are the five or six categories which come to my mind-he will find that the flow of credit is almost negligible. It is like an act of occasioal charity it is like a crump that we throw from the economic power to them, to silence them and to keep them in good humour. Actually, it is not being done in a spirit in which the national policies were devised. Therefore, I would suggest that there should be a a annual statement by the ho. Finance Minister in the Parliament about the quanturm and level of flow of credit to the disadvantaged sections and regions.

Thirdly, I would suggest humbly, for the consideration of the hon. Minister, one more aspect. I get comments from many bankers I have met that they operate on banking principles and commercial principles and how can they fulfil the Government's social demands? Government has to give a subvention subsidise it. That should be done. So, why not have a special banks like we have the bank for Agricultural development and bank for industrial dvelopment. We should have a separate sepcialised Bank for Social Development and let it operate deliberately in the principle of subsidy. So we would know what subsidy we are giving and to whom. We would know precisely where the flow is; what is the quantum of flow and what is the direction of flow. As we would know this, we can precisely target on achieving the objectives of social development. That can be much better achieved by one single instrument than by a myltiplicty of the instruments at the command of the Goverment. Therefore, I plead for the establish of national Bank for Social Development.

Sir, I have to say a word about the banking practices. I am sorry to say, that I have lived abroad for about 20 years, when I enter into the portals of a bank in India, believe me the envioronment - I would like to point out to the Minister is hardly that of a bank. It is that of a bazar and worse than that perhaps of a Machali Bazar, with due respect to my friends from Calcutta. There is so much of noise that you cannot hear across the counter. Everybody is shouting. Everybody is running around all over the place. You think as if you are at a railway platform and not inside a bank. I suggest that something ought to be done. to create a proper atmosphere in every bank. when such is the atmosphere, what can one say of the public relation.

Every single District Magistrate I have come across throughout the country, complaints about the behaviour of the bank managers. They say that the bank managers are not responsive, are totally impatient, uncooperative and banks are like empire unto themselves or a State within the State.

Banks are part of the State. Banks are part of our economic structure. We debate them here and yet they behave as if they are independent entities. There is no coordination at all at the district level. Certainly you can not even think of proper coordination at the block level. Although, technically there is supposed to be a block banking Committee. But in many cases the bank managers never listen to the advice of the BDOs. I would suggest the hon. Minister that in every block and in every district there ought to be a Public Advisory Committee to look after only the social aspects of the banks and nothing more. They should not interfere but see to it that at least the Government policies, the social policies accepted by the nation should be implemented by the banks. And, for that you have to have some sort of political control and you have to establish a relationship between the administration, on one hand and bank on the other.

As for the banking practices, we have heard a lot about abandoning the practice of reconciliation which is not taking place over months and years Accounts are not audited at all. There are recruitments which are sometimes not based on appropriate criteria. I also believe that there is lack of uniformity in terms and conditions of service of different banks. Why cannot we have a uniform set of terms and conditions of service for all the banking sector and why cannot we have some sort of a National Banking Commission rather than having one Committee for one bank and another Board for other bank.

Finally, Sir, I would plead with the hon. Minister on another point. I have always received a reply in the House that on frauds he cannot have control because they are commercial in nature and they are confidential in nature, at least he hon. Minister must have access to that information at least once in a year. So long as the is satisfied, I would be satisfied. But even he apparently does not have complete information before him as to how much bad loan is there at the end of a year in every bank or how many cases of frauds have come up and what is the status of those cases. I am sure he does not have that information. He must have statutory authority for collecting that information and at least certifying to this House that everything is all right and within manageable limits.

So many posts of Chairmen, Managing Director and Chairman-cum-Managing Directors are vacant for not only months and months but for years. One reason, I maintain, Mr. Chairman, for the fall in the efficiency of the banking system is the fact that a few officers rule the roost. There is no public control at all. There is no Board of Directors to control their activities. I think if the hon Minister were to appoint people of his confidence, people of integrity, people of eminence, I am sure they will be able to control the activities of these banks in a much better manner.

These are the points which I wanted to make and offer to the hon. Minister as a critique from a common man's point of view. We know that the banking system is essential for the country. It is the spinal cord of the economy. We fully appreciate it but we wish it will be healthy and run on efficient lines; run in terms of integrity, in terms of credibility and in terms of commanding the confidence of the community.

[*Translation*]

SHRI GIRDHARI LAL BHARGAVA (Jaipur): Mr. Chairman, Sir, the hon. Minister of Finance wants to increase the paid up capital from the present level of Rs. 500 crores to Rs. 1500 crores through the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, 1992, presented by him. I would like to tell that under this amendment the Government wants to

[Sh. Girdhari Lal Bhargava]

increase share capital of the banks having branches abroad from 4 percent to 8 percent equivalent to international bank standard. This is the basic purpose of the hon. Minister that he wants to fulfil.

This is being done on the recommendations of Narasimhan Committee. There is discontent against this committee in the banking sector. Trade Unions of the banks have gone on country-wide strike three times, staged demonstration and organised rallies against this Narasimhan Committee. The committee has not paid attention towards the amount of Rs. 20,000 crores of recovery in the banks at present. This committee has also not considered how the amount will be returned which was waived by the Government. This amount was also more than Rs. 1400 crores, which the banks gave to the people in the name of loan waiving.

Then, I would like to say that the Regional Rural Banks are running in loss of more than Rs. 552 crore. This committee has also not mentioned as to how this loss will be recovered and as to how their future will be determined. Inviting the foreign banks in the country and giving them the function of class banking and the function of mass-banking to the Indian banks will prove to be wrong action and heavy loss will occur.

If foreign banks come here, there will be deposits of huge amount in those Banks and more than 50 per cent of employees of rural banks and other banks, who deal in the transaction of Rs. 5 or 10, will be rendered jobless. As per the recommendations of the Narsimhan Committee, the Government is inviting foreign banks. It is my submission that the All Indian Rural Workers Organisation has made valuable suggestions to meet the deficit of regional rural banks and asked for the setting up of an Indian Rural Bank. But the Government has not declared a clear-cut policy so far. With the result, Rural Bank officials and employees are bent upon launching an agitation again.

I would like to request that the rate of interest being charged by Indian banks is the highest. When you go abroad, you find that the rate of interest is very low there. The poor people will not be able to derive benefits due to high rate of interest. Only the rich will derive benefit from these banks. Similarly, once the Government has said that it would reinstate those employees who had put in 84 days' service. I has also tabled a resolution to this effect under Rule 377. The hon. Minister may consider it.

In the end, I would like to submit that the news pertaining to scandal of Rs. 300 crore in various branches of the State Bank of Bikaner and Jaipur has appeared in many national dailies prominently.

16.00 hrs.

But the Government is keeping mum even on this matter. On the other hand, the officials who were involved in scandal of Rs. 300 crore were promoted to higher posts. It means if one wants to go up or get promotion, one should involve oneself in scandals and become dishonest. The clippings of all the newspapers are with me. I think the hon. Minister will throw light on this as a special case. With these words, I conclude and thank you for giving me time to speak.

SHRI RAJVEER SINGH (Aonla): Mr. Chairman, Sir, there is no quorum in the House.

[*English*]

16.01 hrs.

MR. CHAIRMAN: The bell is being rung.

Now there is quorum.

Prof. Susanta Chakraborty.

PROF. SUSANTA CHAKRABORTY (Howrah): Mr. Chairman, I rise to oppose the Banking Companies (Acquisition and Transfer of Undertakings) Amendment Bill, which seeks further to amend the Banking Companies Acts 1970 and 1980. The Banking Companies Acts of 1970 and 1980, as is seen from the statement of objects and Reasons, reveal that those Acts were brought in order to control the heights of economy and to meet progressively and serve better the needs of development of the economy in confirmity with the policy of the State towards serving the principle as laid down in clauses be and c of Article 39 of the Constitution.

The present amendment negates all that was given by those Acts and the present Act runs contrary to the views held by this Act which spoke against the concentration of industry, trade and finance in a few hands.

The Bill proposes to raise the capital adequacy norms to eight per cent of the aggregate of the weighted capital assets of a bank in response to the Basu Committee's recommendations. A sum of Rs. 700 has been set aside in this year's Budget for the purpose. This provision in the Budget of this year is an investment in the equity capital of the nationalised banks. The Bill says, this investment will be simultaneously invested by the banks in the interest bearing securities issued by the Government. And the provisions of the Bill do not provide for any other expenditure. The question is where from the gap will be made out. Where from the money will come. The bank is conspicuously silent on the matter. The answer can be found from the recommendations of the Narasimhan Committee, which suggests that the banks are now free to straightaway approach the capital market for enhancement of their capital.

The norms of the Basle Committee, the international norms, indicate that each bank should have capital equal to 8 per cent more of risk weighted assets on balance sheet or and off balance sheet items. Capital is defined according to quality, the Tier I, the core capital and Tier II the Supplementary capital. The total of the two should be equivalent to at least 8 per cent of the aggregate of the weighted assets.

The Narasimhan Committee suggests that while the BIS norms are desirable, this will have to be phased over time in our case. The Committee, therefore suggests that the banks and the financial institutions should achieve a minimum of 4 per cent capital adequacy ration in relatio to risk weighed assets by March 93 and 8 per cent ratio by 1996.

True, many large banks in Europe may meet the norms within the deadline suggested by the Basle Committee, but the banks in USA even are not in a comfortable position at present and we apprehend that those banks in USA shall not be able to conform to these norms.

About the banks in India, we have a capital adequacy ratio of only 2 per cent. How do we expect to raise this to the level of 8 per cent by 1996, I do not know. Only this can be done that if the Government of India just meet the requirements of the public sector banks so that they can conform to the international standard. The question is, is it inevitable. What purpose will it serve by those norms?

Public sector banks in India are socially oriented and the lending policy of the banks is in tune with the social objectives of the Government. Now, given the option, these banks would steer clear of investment in priority sectors. The criteria would, therefore, encourage banks in the long run to

[Prof. Susanta Chakrabort y]

become risk sensitive in appraising investment proposals. It would be good for the Indian economy. I want an answer from the hon. Finance Minister. Again in India the public sector banks run their business, we have confidence in them. I would like to cite certain cases. The Bank of India has a total of capital and reserves of Rs. 513 crores; the business transacted by this bank is Rs. 28,763 crores; the capital to business ratio is only 1.78 per cent. In the case of Syndicate Bank, while the total of capital reserves is Rs. 115 crores, the business transacted is Rs. 11,323 crores and the capital to business ratio is 1:01 per cent.

Is it essential that this should have to be maintained in order to maintain the confidence of the banking system?

In the case of foreign banks too, this is the position. Even foreign banks operating in India do not find the need for excessive capitalisation in relation to the business transacted. The Standard Chartered Bank as of March 1991 had a capital base of Rs. 26 crores for a business of Rs. 1856 crores while for the Bank of America the figures are Rs. 29 crores and Rs. 1755 crores. This is the picture.

Now, investments in priority sectors by banks in India are protected against losses up to 60 per cent by the guarantee scheme.

16.11 hrs.

[SHRI SHARAD DIGHE *in the Chair*]

These unique features of the Indian banking system make the concept of capital risk asset ratio seem different from the one intended, while in the West, the confidence and public trust in banks which are mostly private owned rest to a good measure on the capital asset ratio, in India it is hardly so.

In view of this, I am of the opinion that it is not necessary for all banks to raise their capital adequacy ratio. But so far as the overseas banks are concerned, they required to conform to the norms, as otherwise they may not be able to carry on their business. For these reasons, I will request the hon. Finance Minister to ponder over whether all these overseas branches may be brought under a separate statutory overseas banking corporation owned either by the Reserve Bank of India or the Central Government. But, before that the Finance Minister should have consultations with the representatives of the workers belonging to the banking sector.

If the Reserve Bank of India is so keen on the compliance with the BSI norms, then the only option open to the Government is to pump in more capital. The Government's commitment to contribute Rs. 700 crores to increase the capital base will enable the banks to maintain only four per cent of the capital adequacy ratio. This is again half way from the goal which we want to reach. Is the Government in a position to invest more capital, when it has commitments to the IMF to bring down the revenue dudgetary deficit? Is the Government in a position to contribute that much of capital? We want to know this. Someone has suggested that a realistic evaluation of the assets position may be made. It may marginally increase the capital adequacy ratio.

I have again suggested that the banks can shed most of their loans to the public which carry a one hundred per cent risk structure and substitute them by Government loans with zero risk. Now, capital base would be raised by this way. But the banks will then be handmaidens to Government and I am opposed to that move.

The Basle Committee said that the objective of raising the capital adequacy ratio is to strengthen the soundness and stability of the banking structure. The Narasimhan Committee recommended it because they believed that this measure along with the other measures they suggested would enforce discipline in the financial system.

The Narasimhan Committee, in the name of raising capital assets ratio of banks, as per BIS norms of banks whose operations have been profitable and which enjoy good reputation in the market, recommended that such banks may approach the capital market, by issue offresh capital to the public. Subscribers to such issues may include mutual funds, profitable public sector undertakings and employees of the institutions besides the general public.

Later in its recommendations the Committee suggested, I quote:

> "The capital market should be generally opened up to foreign portfolio investment and simultaneously efforts should be initiated to improve the depth of the market by facilitating issue of new type of Equities and innovative debt instruments. In our view, these recommendations, if implemente, will radically change and dilute the character and composition of the Public Sector Banks and will defeat the very purpose, objectives and aims of nationalisation of Banks. The achievement of BIS norms by Banks in the country is not sacrosanct nor it is a highly essential requirement for Banks owned by the Government."

Therefore, I oppose this Bill.

If this is accepted, I warn the Government that in that case please be prepared for a rude shock which you have already experienced in the form of securities scam by your measures in regard to capital market reform ans the speared of equity cult in the country, a shock from which the country will not recover for many years. By throwing the Banks to the market you are not going to do any good to the country.

Pool of funds being limited, allocation of funds in terms of market preference cannot be allowed. India cannot allow such a luxury. The Amendment will therefore, accentuate the evils of concentration of economic power arising from the use of substantial portion of funds by a few private entrepreneurs, by a few private individuals and the attendant corrupt practices associated with monopolies. Again for this purpose, I oppose this Bill.

Sir, if the Security Scam has given any lesson, then it is regulating the economy. It is with the participation of the workers who are working in various fields, which are necessary. It cannot be done from above. If it is left as it is today in the whims and caprices of certain bureaucrats; and if this is allowed to function in the way it is done; if the corrupt practices that are there in the banking system are not corrected, then only by implementing the recommendations of the Narasimham Committee and by increasing the capital adequacy ratio of our banking system, you cannot correct it; you cannot stabilise the financial system: and you cannot bring the confidence of the people into the banking system.

So, through you, Sir, again I would request the Finance Minister to reconsider the issue, to withdraw the amount and not by a back door method bring these public sector banks into the hands of the private individuals and please do not allow them to secure capital from the open market in the way the Narasimham Committee has suggested.

With these words, I oppose this Bill.

MR CHAIRMAN: At this stage, may I allow Shri Arjun Singh to move his Motion for referring a Bill to a Joint Committee?