

Mr. Speaker: The question is:

"That the Bill be passed."

The motion was adopted.

12.49 hrs.

BANKING COMPANIES (AMENDMENT) BILL

The Deputy Minister in the Ministry of Finance (Shri B. R. Bhagat):
I beg to move:

"That the Bill further to amend the Banking Companies Act, 1949, be taken into consideration."

The house will remember that this Act was amended in March, 1961 in order to confer on the Central Government certain additional powers in relation to the reconstruction or amalgamation of banking companies. In the interval which has passed since then, we have used these powers judiciously, and I may perhaps add, on the whole with restraint. We have reconstructed the affairs of a number of sub-standard banks, amalgamating them with other and sounder and better-managed institutions. We have also brought into force, with effect from the beginning of the current calendar year, a scheme for the insurance of deposits in commercial banks up to a limit of Rs. 1500 in the case of each depositor. This scheme has been very well received.

Partly because of the action which has been taken by the Government, but mainly because the commercial banking system in our country has, on the whole, been sound, the decline in the deposits and working funds of the commercial banks which followed the failure of the Palai Central Bank in August, 1960 has proved to be temporary and short-lived. Commercial bank deposits have been increasing steadily since the end of 1960. Judged by certain other standards, such as the liquidity of the banks, the level of their advances and the provision towards reserves, the banking system today is as healthy and satisfactory as it has been at any other time.

We have considered it desirable, nevertheless, to review the position once again, with particular reference to the provisions of the law regarding the minimum paid-up capital, the statutory reserves, and the cash and other liquid balances, which banks are required to maintain. The relevant sections of the Banking Companies Act relating to these matters were drafted in 1948, when the impact of development planning on our banking system could not have been foreseen or appreciated. The level of bank deposits has increased by more than Rs. 1200 crores since then; and, as there is every reason to believe that this increase will be sustained and appreciable in future years, it seems to be necessary that the standards which were laid down about fourteen years ago, and which may not be wholly appropriate for the current phase of development and growth, should be suitably revised.

The first proposal which has been made in this connection and which clause 2 of the Bill seeks to implement is that both the exchange and the Indian banks should be required to transfer a portion of their profits towards statutory reserves, whether or not the reserves are at a level at which they are already equal to the paid-up capital. The exemption which is now available, according to the provisions of Section 17 of the Banking Companies Act, in the case of banks which have built up their reserves to the level of their paid-up capital, was granted at a time when the ratio of paid-up capital to the deposits was, generally speaking, much higher than it is today. This ratio has however, fallen very considerably since then; and, any standard or criterion which seeks to relate the reserves to the level of the paid-up capital will no longer be adequate and will also be unsatisfactory in a period of rapid growth in deposits and working funds. It is proposed, therefore, that appropriations towards reserves should be made indefinitely in the future, and until such time as an ex-

emption, if any, is granted by the Central Government.

The next proposal which has been made and which is also dealt with in clause 2 of this Bill is that the minimum paid-up capital of any banking company which may commence business hereafter should be five lakhs of rupees. The minimum which is now prescribed by law is, as hon. Members may recall, Rs. 50,000; and, we are proposing a ten-fold increase. Prices have increased considerably during the last ten or fifteen years. establishment costs and working expenses have mounted up and it will be difficult for a company, which does not have adequate funds of the order now in view, to become or continue as a viable unit, or to offer to the depositors the degree of protection which is necessary. The new standard which we are prescribing will, I believe, make it possible for small or medium-sized banks to be organised, if necessary, for helping particular sectors of industry or trade, but it will prevent mushroom or sub-standard institutions from being brought into existence.

The other main proposals which we have formulated and which clauses 4 and 6 of the Bill seek to implement, are, to some extent, inter-connected. Clause 4 provides that in the case of any non-scheduled bank, the cash reserves should be equal at least to three per cent of the total liabilities. This is a change which has been rendered necessary on account of the proposal to abolish, in relation to scheduled banks, the distinction between demand and time liabilities, and to prescribe instead a uniform requirement of three per cent in relation to all the liabilities.

Clause 5 goes on to prescribe that in addition to these somewhat increased and slightly more rigorous requirements as to the level of the cash balances an amount equal to at least 25 per cent of the liabilities should be maintained in the form of cash, gold or unencumbered approved securities, that is, in liquid forms so that they

may be available readily to the banks.

The position which will emerge in the light of the provisions of this Bill and of the other connected Bill relating to the Reserve Bank of India is that as against an overall minimum provisions today of 20 per cent for the maintenance of assets in liquid forms, the minimum requirements in future will be 28 per cent in the case of non-scheduled banks and 28 per cent subject to an increase upto forty per cent, in the case of the scheduled banks.

The House will notice that the arrangements which we envisage provide for a considerable degree of flexibility; and that in deciding on the actual operative level of the cash or liquid balances which commercial banks may be required to maintain in future, it will be possible to take into account a number of relevant considerations, such as the level of the banks' advances, the other competing demands on their funds, the profits earned by the banks and the needs of the economy as a whole.

We have throughout kept in view the general public interest, which we have naturally interpreted as meaning not only the interests of the depositors of the individual banks but also the interests of the Indian people generally. Commercial banks today have vast resources at their disposal. They occupy a strategic position in our economy. The impact of policies with which they are directly or indirectly concerned, or to which they are parties is very considerable and important, and a more effective and purposeful direction of such policies or control over the resources of the banking system as a whole is therefore unavoidable. The present Bill provides for a degree of control which is wholesome and necessary, and which has been very widely accepted as being both fair and reasonable. The House, I believe, will not therefore have any difficulty in accepting these proposals. Sir, I move that the Bill be taken into consideration.

Mr. Speaker: Motion moved:

"That the Bill further to amend the Banking Companies Act, 1949, be taken into consideration."

Shri Prabhat Kar (Hooghly): Sir, I welcome the object of this Bill. The hon. Minister has said that in view of the increase in deposits and the prospect of further increase, it has become necessary to strengthen the capital structure of the banking institutions by setting apart some portion of profits for the reserve. According to section 17 of the Banking Companies Act, 20 per cent out of the profit is to be set apart until the reserve is equal to the capital. In February 1962, the paid up capital of all banks stood at Rs. 239.69 crores and the reserves stood at Rs. 42.73 crores. In 1951 the capital was Rs. 232.10 crores and Rs. 31.20 crores, reserves. I think every one of us would agree with the hon. Minister who said that the banking industry has stabilised its position and unless certain faulty steps are taken by an individual bank, there is no chance of any disaster coming to the banking industry in India. He has also referred to two Bills, the Banking Companies (Amendment) Bill which came in earlier and the amalgamation of the small banks and also the deposit insurance scheme. These steps will further strengthen the structure of the banks and there cannot be any opposition to the question of further strengthening the capital structure of the banks. The Governor of the Reserve Bank, on the 27th of December 1961, wrote a letter to the Scheduled banks making this suggestion. The suggestion or the remark of the Governor was:

"In the last ten years while the deposits of banks have risen substantially there has not been any material increase in their capital and reserves—with the exception of the compulsory appropriations to the reserve funds required under existing legislation in the

case of banks, the reserve funds of which are less than their paid-up capital—with the result that the ratio of paid-up capital and reserves to deposits of scheduled banks has steadily declined from 9 per cent. in 1950 to 5 per cent. in 1960."

His suggestion was that until the reserves and capital are equivalent to six per cent of the deposits,—even in spite of the fact that the reserve is today equal to the capital—the banks should set apart and continue to set apart 20 per cent of the profits.

13 hrs.

I may here draw the attention of the hon. Minister to the fact that in the banking industry, the totality of capital and reserves plays a very insignificant part. Take, for instance, the United Kingdom or the USA where the bank deposits are to the tune of about 14 to 18 times more than the money in circulation. There, even in the big banks, such as Lloyds or the First National Bank of New York, the capital and reserves of the particular institution extends to the tune of about five to six per cent of the total deposits. Now, when the banking industry is making such an important contribution and when their stability is now being assured, when the Reserve Bank is playing an important part in stabilising the whole banking system, why is it required that they should set apart from the profit more than six per cent? I can understand that the Governor of the Reserve Bank has suggested that until this six per cent is achieved, they should continue to transfer 20 per cent of the profits every year. Today, the Bill has been brought not on the same lines, but to see that it will continue till eternity. The reserves and the capital may be anything from ten to 20 per cent of the deposit. Today, the deposits will increase no doubt, but I do not know why the transfer of 20 per cent out of the profits should continue to be there for eternity.

I may just point out two things here: This thing came at a time when the bonus dispute of the banking industry was being adjudicated upon. For the first time, the letter of the Governor to the scheduled banks was placed before the tribunal by the bankers. I had a very strong reaction to that. But, as I have said, there cannot be any objection to strengthen the capital structure of the banks, because the depositors' money must be safeguarded. But when the letter was placed before the tribunal by the bankers, naturally I had also a very strong reaction. But today, I agree that you can make provision so that it comes to six per cent and stops there. But then there are banks where the reserve is more than the capital. In that case, if you find that it is more than six per cent or near six per cent, you stop any further transfer out of the profits. Look at the position. Today, the shareholders of banks are getting dividends. I am talking of the big banks where the dividends are being paid to the tune of 18 per cent to the shareholders. It may be that today the Government is not thinking in terms of nationalisation. At the time of nationalisation, when it comes, apart from the 18 per cent dividend, which they will continue to get according to the statutory provisions, the reserve and the capital will, according to the present Companies Act, belong to the shareholder and on that you have to pay compensation.

Again, in the banking industry, it is a well-known fact that apart from the open reserves, there are secret reserves provided for, and the rules made under the Banking Companies Act give permission to the banking company not to put into the balance-sheet the amount of the secret reserve. According to those rules, and according to the rules of the Reserve Bank, the banking companies have been allowed to show income, less the provisions made for bad and doubtful debts plus other necessary and usual provisions. Nobody knows

what the necessary and usual provisions are. It is of course necessary to make provisions for the bad and doubtful debts. But a further concession is given to the effect that you can show the income, less those provisions and also the provisions which are necessary and usual. Apart from this, the banking companies have been asked to make provision for open reserves. The secret reserve in any banking institution is not a new thing here. It is a thing familiar to any banking structure.

But I may invite the attention of the hon. Minister to the fact that Rs. 50 lakhs a year have been put in as secret reserve for the issue of bonus shares. What a huge amount must be left in the secret reserves so that in one particular year Rs. 50 lakhs can be taken out for the issue of bonus shares? Apart from that, we are asking the banks to build a reserve, knowing fully well that in the banking industry, the capital always plays a very insignificant part so far as the working aspect is concerned. It is not a peculiar thing here in India. It is so everywhere. Further, it is not impossible, in a growing industrial development where the banking habit develops, when the country develops more and more, with the success of the third Five Year Plan and the fourth Five Year Plan, when we shall be almost on a par with the banking system of other developed countries in the world, where the banking deposits will be ten to 15 times of the money in circulation. In that case, to think that capital and reserves must bear some proportion is a thing which I cannot understand. Even in big banks like Lloyds, which is one of the biggest banks in the United Kingdom, or even in the First National Bank of New York, there also, it is just five per cent or six per cent, and therefore, I do not know why it has become necessary at this moment here to achieve such a proportion, when the hon. Minister himself in his statement, while introducing the Bill, has admitted that

[Shri Prabhat Kar]

today the banking system has been stabilised and that there is little chance of this particular industry facing any difficulties.

This is a matter which requires clarification. As I said, on the question of the principle of strengthening the capital structure, although I had a very strong reaction when that letter was brought out before the tribunal at the time hearing the bonus issue with a view to deprive the employees of the bonus, I have no objection. But the Governor of the Reserve Bank has suggested that it should be discontinued after the proportion was raised to six per cent. Here, in the Bill, there is no such provision although there is a provision that at any stage the Government may do it. I do not know what that stage will be and on what considerations it will be done.

Another thing has to be mentioned. The minimum capital has been raised from Rs. 50,000. They say it has now increased to Rs. 5 lakhs. There are small banks, and we want that the small banks should continue, because they cater to the needs of the small businessmen and the middle-class people. Naturally, in the interests of the country's economy and of the banking system, the small banks should continue. Today if they are asked to raise their capital, I am quite sure it is impossible for them to raise it, because if they try to float shares today, none will purchase those shares. So, it means that those small banks will have to go out. The Minister said that the cost of living has gone up. It is true, but I do not know how it can be linked up with the raising of capital. These institutions have been continuing for a long time serving a limited sphere of small depositors and small clientele. Why is it necessary that their capital should be immediately raised?

I know under section 11, Government has got the power to extend the period and I am also aware that almost

every year, applications are made and the Reserve Bank extends time. But these banking units are kept in perpetual anxiety that the next day perhaps they will have to close down their shops. So, I think that Rs. 50,000 may continue, because in their limited sphere, they are serving a very limited section of banking public, but that is a very material help they are rendering. So, I do not agree that this amount should be raised.

Today the ratio is 20 per cent. It has been raised to 28 per cent in the case of non-scheduled banks and 40 per cent in the case of scheduled banks. I want to have certain clarifications. Generally we call it prudent banking if the proportion is 60 per cent advance, 30 per cent investment and 10 per cent liquidity. Today you have said that 28 per cent should be the liquidity—3 per cent is the deposit with the Reserve Bank and 25 per cent liquidity, which means it would come to 28 per cent liquidity. You are also taking the power to increase it to 40 per cent in the case of scheduled banks. 60 per cent will be divided between investment and advance. The main function of banking is to augment trade and commerce. That function will suffer. Today, out of Rs. 1800 crores, Rs. 1100 crores are being utilised as advance to trade and commerce. If the liquidity is increased to 28 per cent, the advance which is being given to trade and commerce will have to be decreased. When there is more and more clamour that the banks should help the industry and give long-term loans to develop exports, it is essential that more advance should be granted. I do not say it should be granted against stock exchange to speculators against shares, but advance should be given for improvement in the country's trade and commerce and that will suffer if we increase it to 28 per cent.

I do not know whether the bankers have agreed to this suggestion, because

so far as they are concerned, last time when you asked for a special deposit with the Reserve Bank over the usual percentage of deposit, at that time there was a clamour by the banking industry that you are taking money which otherwise would have been utilised to give help to the trade and commerce and that you are not paying interest also. Then you agreed to pay the interest. So, here those things will come again. Today the banking industry is in such a stable position. Is it found that the banks will not be in a position to meet the cash requirements at any time, if the situation demands it? When you yourself say that the banking industry is stabilised and there is little chance of its amount being drawn all on a sudden, you should have allowed the 10 per cent liquidity to continue. But you are increasing it to 28 per cent. I do not understand why it should be like this.

The hon. Minister referred to the amendment in the Banking Companies Act in regard to the merger of these small banks. Section 45 was amended like this:

"Provided that the scheme shall contain a provision that—

- (i) the banking company shall pay or grant not later than the expiry of the period of three years from the date on which the scheme is sanctioned by the Central Government, to the said employees the same remuneration and the same terms and conditions of service as are applicable to employees of corresponding rank or status of a comparable banking company to be determined for this purpose by the Reserve Bank."

When the banking dispute was before the Tribunal, a moratorium was declared on many banks, as they were taken out of the provisions of the award. But by this time, the

Desai award has come. Those employees who have been merged in the bigger banks are continuing to get the same emoluments as they were getting at the time when the amalgamation took place two years ago. At that time they were getting less emoluments. Today the situation is, in one particular institution, there are two sections of employees doing the same job, one getting higher emoluments and another getting lesser emoluments. At that time because the bigger banks did not agree to take the load of the employees, this scheme was brought in and we agreed to that.

But today, after the award, those sections which were getting higher emoluments will get further higher emoluments because of the award; those who were getting less—if they were allowed to continue in their own class, they would have got more—will continue to get the same emoluments which they were getting two years ago. The gap existing today will be further increased and the position will be, a clerk of the same institution will be getting less than the subordinate staff of the same institution. An employee working as ledger clerk will be getting less than the subordinate staff who will be attending on him. At that time, it was necessary to safeguard the industry and we agreed to that scheme to see that the small banks do not get into liquidation. But that has changed today. So, this section requires amendment so that at least those employees who would have otherwise got the benefit of the award, to whatever extent it may be, in their class, should be allowed to have that benefit.

Subject to these remarks, I have said generally I agree with this proposition, but I would request the hon. Minister to clarify the points which I have mentioned.

Shri U. M. Trivedi (Mandsaur):
Mr. Speaker, Sir, having noticed the calamities that were caused to several depositors when the banks

[Shri U. M. Trivedi]

failed in the south, naturally one would like to welcome the provisions of this Bill. As far as the amendments go, they certainly, on the face of it, appear to be in the interest of the depositors. But in making these amendments, the Government seems to be going very far. I am referring to clause 5 of the Bill, which seeks to amend section 22 of the principal Act, in sub-section (3), in clause (c). The original clause as it stood required this much:

"22. (3) Before granting any licence under this section, the Reserve Bank may require to be satisfied by an inspection of the books of the company or otherwise that all or any of the following conditions are fulfilled, namely:—

* * *

- (c) in the case of a company incorporated outside India that the Government or law of the country in which it is incorporated does not discriminate in any way against banking companies registered in India, and that the company complies with all the provisions of this Act, applicable to banking companies incorporated outside India."

This provision was on a very sure footing inasmuch as we could have available before us material from which we could judge whether the law in the country in which a particular banking company has been incorporated does not contain a provision of the nature which discriminates in any way against banking companies. It was a positive factor which at any time we could look into by looking into the statute of the particular country in which the banking company has been incorporated. At the same time, we could also find out whether the company was prepared to comply with all the provisions of the Act applicable to banking companies incorporated

outside India. These two factors we could always verify. These were very positive proofs and pieces of evidence which would be visible to the eye and assimilable by study. Unfortunately, we are now amending that sub-clause in these terms:

"...after the words "a company incorporated outside India that", the words, "the carrying on of banking business by such company in India will be in the public interest and that" shall be inserted".

Now, this is a very wide provision. We had ample discussion about this provision, which is of a more or less subjective nature and which can be determined only on the whims and pleasures of the officer or the officers concerned who formulate the report. Just as "public purposes" has been defined as a very wide term and has been interpreted by the various High Courts stretching its meaning to unimaginable lengths, the term "public interest" will also create unnecessary harassment to a banking company, although it might be incorporated outside India, to have an office in India.

The net result of such a provision is, although we might gloat over it for some time saying that we have got such a provision whereby we are putting a stop to the companies from foreign countries operating in our country, difficulty will be felt by our own countrymen who are living abroad. Very recently, Sir, when I had occasion to visit Burma and discuss these matters with certain high Burmese officials, I found that the bar that was placed against the movement of money from Burma to India was, as the officers themselves told me, entirely a copy of the rules and regulations made by India. In other words, this very provision will be incorporated immediately by the countries living by our side, where our nationals are living and are carrying

on business or have got their banking concerns there. This provision will give to any dishonest man a great handle to stop a banking company from carrying on its business. It may or may not happen in our country; that is a different matter. We have enough number of such corrupt people who will take it into their heads of sitting tight over a particular decision and refuse to give a decision. They might even decide in an arbitrary manner and say that they are satisfied that the running of a particular company is not in the public interest. Perhaps, for political reasons they may say so. But this may have repercussions outside and repercussions in the neighbouring countries. They will simply copy the laws that are made in India, and they have an excuse for doing so. Therefore instead of doing any good, it will do some harm to those countrymen of ours who have their business offices outside India. I would, therefore, suggest that this subjective approach for the determination which is laid down in the amendment as suggested in clause 5 of the Bill seeking to amend section 22(3)(c) of the principal Act may kindly be dropped. It will not prove to be of any particular use to us. The provision as it stands today is quite competent for purposes of safeguarding the interests which we want.

There is another amendment suggested to section 35B of the principal Act. In clause 7 it is said:

"In section 35B of the principal Act, in sub-section (2) for the figures and word "268, 269, 310, 311 and 388" the figures, words and brackets "268 and 269, the proviso sub-section (3) of section 309, sections 310 and 311, the proviso to section 387, and section 388", shall be substituted."

Sir, original Act puts a bar on the remuneration of the Chief Executive. This is not a very wholesome change that we are effecting.

This is what has been stated in the "Notes on clauses".

"Clause 7 seeks to amend Section 35B of the Banking Companies Act, so as to make it clear that notwithstanding the provisions of the proviso to sub-section (3) of Section 309 and the proviso to Section 387 of the Companies Act, 1956, as recently amended, the approval of the Central Government shall not be necessary for determining the remuneration of the chief executive officers or other directors of banking companies."

If this healthy provision is taken away, the remuneration of a general manager of a bank may even amount to the same figure as that of the General Manager of the State Bank of India. Small banking companies will certainly be managed by people who are in some way or the other connected with each other by blood relationship or other considerations. As I said, the General Manager of such a bank may even draw a salary equal in amount to that of the General Manager of the State Bank of India. What will prevent him from drawing this very fat salary at the cost of small depositors? It will deprive us of the real income of the company for the purpose of paying his tax. I would, therefore, suggest that no case seems to be made out for bringing forward this provision. Regarding the very purpose of this amendment, it is mentioned in the Statement of Object and Reasons:

"...and is intended to strengthen the financial position of the commercial banks generally and to increase the protection which is available to depositors."

I will submit with very great respect that this cannot be in the interests of the protection which can be granted to the depositors. This is quite the reverse of what is intended by the Statement of Objects and Reasons.

[Shri U. M. Trivedi]

Therefore, the provision that existed before should be maintained as it is. In other respects, I support the Bill.

Shri Morarka (Jhunjhunu): I welcome this Bill for the various salutary provisions that it contains. Some of the provisions are in the interests of the depositors, some in the interests of the shareholders and some, in the ultimate analysis, in the interests of the Government.

So far as the Statement of Objects and Reasons is concerned, in my humble opinion, it is somewhat incomplete. If it had been a complete statement, the doubts which Shri Prabhat Kar raised would, perhaps, have been answered by the statement itself.

It is quite true that the liquidity ratio or the percentage of assets is now being raised from 20 to 28 per cent, a rise of 8 per cent. A rise of 8 per cent on Rs. 2,000 crores, which are the time and demand deposits today, works out to Rs. 160 crores. These Rs. 160 crores with which the banks now can do anything they like i.e., lend to any borrowers, the banks would now be obliged to invest in Government securities. Sometime ago, in the month of July, there was a press statement that the main reason for bringing forward this Bill was to increase the liquidity ratio

13-33 hrs.

[MR. DEPUTY SPEAKER in the Chair]

Then it was stated:

"The main reason behind the step was to support the Government's borrowing programme".

As we know, Government have targeted to borrow Rs. 800 crores during the entire Third Plan, as against a figure of Rs. 700 crores during the Second Plan. In the place of Rs. 700 crores for the Second Plan, the actual amount borrowed by the Government came to Rs. 780 crores. So, as against Rs. 780 crores, Govern-

ment now want Rs. 800 crores for the Third Plan. This appears quite feasible and reasonable, particularly in the developing economy.

But this figure of Rs. 780 crores was somewhat misleading because it included purchase of securities by the Reserve Bank and State Bank of India out of PL 480 funds. If we deduct these two amounts, the net borrowing from the public and commercial banks is less than Rs. 300 crores. As against that figure of less than Rs. 300 crores, the Third Plan budget is Rs. 800 crores, almost thrice what we have borrowed during the Second Plan.

No doubt the recent tendency is that deposits of the banks are increasing according to the expectations. But the banks are expanding their credit to the public to such an extent that instead of investing anything more in Government securities there is actually a disinvestment. They are selling Government securities and investing that money elsewhere in order to meet the demand for credit which has been expanded. That is the latest tendency and the actual amount of disinvestment is Rs. 132 crores out of which if we deduct PL 480 funds, the net disinvestment from commercial banks themselves is about Rs. 25 crores to 30 crores.

This tendency is not very encouraging for the Government's borrowing programme. On the one hand, the deposits are increasing and, on the other hand, the investment of commercial banks in Government securities is going down. From that point of view, it became necessary to take some steps without giving a jolt, without creating panic in the banking structure to bring out a measure which would compel the banks to invest more in the Government securities. That provision is sought to be made in

this Bill by laying down that the liquidity ratio would be increased from 20 per cent to 28 per cent. And a net increase straightaway of 8 per cent on Rs. 2,000 crores would come to Rs. 160 crores. Besides this, there is another margin of 12 per cent which can give you a further Rs. 240 crores. So, according to me, this Bill has a definite purpose, a very practical purpose, and that is the reason why the liquidity ratio is being raised.

Of course, it would also provide security to the depositors, but I agree with Shri Prabhat Kar that no case has been made out why this increased security was found necessary for the depositors. Merely saying in the Statement of Objects and Reasons that the conditions have changed and deposits have increased does not mean that that by itself introduces an element of risk or uncertainty in the banking structure. Therefore, I do not know why the hon. Deputy Minister did not take the House into confidence and say that this step is being taken in order to support the borrowing programme of the Government which is a good and healthy object. There is no reason why it should not be done.

There is one Point which we have to remember in this context. When you take these Rs. 160 crores from the banking companies or you compel them to invest that in Government securities, to that extent, as Shri Prabhat Kar has stated, funds for industries and trade would be contracted. There is no gainsaying that. If you weigh the two things, the borrowing programme of the Government and the needs of the industry and trade for credit which may or may not be genuine, I think the balance of consideration would be in favour of the Government.

I have got some figures which show that between November/December 1959 and December 1961 though the

deposits increased only by about Rs. 100 crores, the bank credit expanded by about Rs. 300 crores. It is for this reason, that is, to meet the demand of this expanded credit, that the banks were obliged to disinvest from Government securities. This position is not always healthy. Sometimes, the banks have a tendency and a temptation to indulge in wreckless expansion because the yield on advances and loans is always higher than what they get from Government securities. Therefore to check this temptation if the Government has increased this liquidity ratio it is a welcome feature.

Another thing that I want to point out to Shri Prabhat Kar is that though today the liquidity percentage prescribed by law is only 20, in fact, the percentage maintained by the banks is about 30. So, straightaway there is not going to be any contraction of credit for trade and industry. It is more a preventive step than actually taking away the credit just now. Even according to the Bill the figure of liquidity would come to 28 per cent whereas the liquidity ratio maintained throughout is 30 or a little more than that. So, the actual credit would not be contracted just now, but it would certainly prevent the expansion of the credit potential which existed till now.

I welcome particularly the provision, namely, that 20 per cent of the profits of a banking company should be transferred each year to the reserves. This provision is not only in the interest of the depositors but it is also in the interest of the shareholders. The shareholders of banking companies stand, rightly, on a different footing from the shareholders of other companies. Banking institutions survive and thrive only on public confidence and public confidence is generated only by the soundness of the policy and the solvency of the bank. The transfer of a definite portion of the annual profits to the reserves would certainly strengthen the finan-

[Shri Morarka]

cial position of the bank and to that extent the solvency of the institution would be ensured. So, it is a very healthy feature and I could not understand why this obligation of building the reserves should stop the moment the reserves are equal to the paid-up capital. If I may so, this was an old and an antique theory when the total liabilities were not likely to be more than a certain proportion of the paid-up capital. Today, as the tendency is that the deposits of these banks are increasing much more than the expectation, there is full justification for requiring the banks to transfer 20 per cent of their profits to the reserves. This 20 per cent which they would transfer would be available for the purpose of expansion of credit. If they fritter it away by way of dividend to the shareholders, the reserves available to the bank would to that extent be depleted. I therefore feel that is a very healthy provision and it has not come a day too soon.

While I support this Bill fully, still I cannot help making one remark and that is about the reserve of 12 per cent which they have kept. It is true that when there are inflationary conditions you have to exercise greater vigilance on the mechanism of credit, but as our Third Five Year Plan does not envisage deficit financing to any large extent and as the progress both of industry and trade is increasing fairly fast, the dangers of inflation are comparatively less. Whatever you see is only because of the increasing demand. I, therefore, appeal to the hon. Deputy Minister that even though you have taken power to increase this requirement of deposits with the Reserve Bank upto 15 per cent and you are fixing it at present at 3 per cent., I hope that there will be no occasion to exercise this power because if you exercise this power you withdraw upto Rs. 240 crores more from the reserves available to commercial banks for the purpose of trade and industry. That really would be creating a practical difficulty in one sector of our economy. The responsibility of the

Government is to see that the Plan is implemented and that whatever role you have assigned to the different sectors is fully carried out. If you squeeze the funds available to one sector and only fulfil the targets of another sector, you would ultimately be only creating some sort of an imbalance. I, therefore, hope that the hon. Minister will take this into consideration and would issue some departmental instructions or some sort of a guiding note to the Reserve Bank to see that they should be very slow in exercising this right which we are giving to them.

With these words I once again say that I fully support the provisions of this Bill.

Shri Gauri Shanker Kakkar (Fatehpur): Mr. Deputy-Speaker, Sir, I stand to support this amending Bill. I find that it is not only beneficial to shareholders and depositors but it is also going to give to a very great extent a good safeguard and a huge amount to the Government as well. The expansion of agricultural credit, of course, is undertaken by co-operative central banks and apex banks. This provision which has been introduced for the first time in the case of the commercial banks for keeping 20 per cent of the profits in the reserves, I think, is a good measure. But still these commercial banks are lagging behind in comparison to the central co-operative banks which are dealing in rural credit. There, there is a mandatory provision for one-third of the profits going over every year to the Reserve Fund. Here, only 20 per cent has been earmarked. But, still, it is a good safeguard for the depositors and the shareholders. It will, of course, create a very good sum in the Reserve Fund and ultimately for the Government to meet the Plan expenditure.

I have some apprehension with regard to clause 5 which says:—

“In section 22 of the principal Act, in sub-section (3), in clause

(c), after the words 'a company incorporated outside India that', the words 'the carrying on of banking business by such company in India will be in the public interest and that' shall be inserted."

The addition of these words in section 22, I fear, may lead to a huge amount of foreign capital turning shy because we are adding the words 'public interest'. I fail to understand how of all business this banking business will not be in the public interest ordinarily, because its dealings are usually with the public. Then, what will be the qualifications and limitations? I think, it would be quite redundant and, as I have just now submitted, it may go to the extent of just turning foreign capital shy. They may have some sort of a hesitation in investing into this.

Then, I find that measures have been taken in this amending Bill to strengthen the working capital, the paid-up capital and the liquid cover. There has been some criticism by Shri U. M. Trivedi in regard to the raising of the minimum paid-up capital and reserves from Rs. 50,000 to Rs. 5 lakhs in the case of a new concern which might come up. But I welcome this measure. As a matter of fact, we are now passing through such an age where we should give full confidence to the public in order to make them bank-minded, and that is possible only when we have taken measures to safeguard their interests at every step. So, it is a very good measure to strengthen the working capital and the paid-up capital. Further, it is also a healthy sign to build up the reserves; and the proportion between the paid-up capital and the reserves has also been done away with. I think that that is also in the public interest.

In this connection, I would suggest that there should be a universal policy. As I have submitted already, a huge amount of rural credit to the agriculturists is being met by the co-operative sector, the central banks, the apex

banks etc., and there is also share participation by the States. There should be universal rules applicable to all institutions in this behalf. At present, there is keen competition between the working of the Central co-operative bank and that of a commercial bank at the district level. Therefore, on certain items, these district co-operative banks or central banks etc. which are entrusted with the primary duty of supplying full credit to agriculturists are being handicapped, with regard to the commercial aspect. This is only on account of this reason namely that they are primarily concerned with agricultural credit, and they are not being given all those privileges to compete openly with the commercial banks, and, therefore, they are very much handicapped in attracting deposits of private persons. I would suggest that new methods should be devised whereby both these banking systems may be governed by a universal or uniform policy, so that the central banks also may be allowed to grow along with the commercial banks growing side by side.

A good measure has been devised in this amending Bill to earmark and to have a sort of allocation of a huge amount towards the reserve fund, which can ultimately be utilised for the benefit of the country or for the purposes of the Plan.

Therefore, I support the provisions of this amending Bill. I am confident that even if some more revolutionary steps are taken, as I have suggested, to make uniform rules for the working of the commercial banks and the district central co-operative banks it would be in the best interests of rural credit and of the agriculturists as a whole.

With these words, I support this Bill.

Shri Sudhansu Das (Diamond Harbour): I rise to support the Banking Companies (Amendment) Bill, 1962 moved by the hon. Deputy Finance Minister, who deserves congratulations for having brought forward this Bill

[Shri Sudhansu Das]

in time, when it is urgently required for the steady growth and the speedy development of banking institutions in India.

Banks, especially commercial banks, have to play an important role in the development of commerce and industry. They are financial institutions. Their growth and development depend upon the confidence of the public, and upon the continuous support and patronage of the depositors who provide generally the working capital of the bank apart from the shareholders who are also responsible for providing share capital and better management of the bank.

If we trace the banking history in India, and if we take the trouble to find out the reasons for the failures of the banks during the last decade, I submit that we shall find that most of the banks had closed their doors due to inadequacy of share capital, reserve fund and liquid assets. And what was the result? The result was that the unfortunate and helpless depositors, who supported and patronised those banks with their money—practically their live-savings—found one fine morning to their utter disappointment that there was no chance of getting back their money. This state of affairs which was most unfortunate prevailed till the Banking Companies Act of 1949 was passed.

There are provisions in the Banking Companies Act to strengthen the financial position of the commercial banks and to safeguard the interests of the depositors, but the present Bill seeks to provide more effective measures for those purposes.

I welcome the changes sought to be made in section 11 of the Banking Companies Act that a sum of Rs. 5 lakhs shall be required by the banks incorporated in India as minimum paid-up capital before they could carry on banking business. I say that this is the most effective step to check the

mushroom growth of banking institutions in India.

I also welcome the modifications sought to be made in section 17 of the Banking Companies Act, in respect of the creation of statutory reserve fund by transfer of 20 per cent of the annual profit per year. But I cannot exactly follow the reasons for granting exemption from this provision to banking companies, on the recommendations of the Reserve Bank of India, if their reserves are equal to the paid-up capital. The reserve funds are created to strengthen the financial position of the bank, and there will be no harm to the banking business if the reserve exceeds the paid-up capital; on the contrary, it will help in strengthening its financial stability. So, I would request the hon. Minister to look into this matter.

In section 18, a uniform rate of 3 per cent has been prescribed for the cash reserves to be maintained by the banks in respect of their respective time liabilities and demand liabilities, according to this Bill; no distinction has been made between the time liabilities and the demand liabilities in this respect. But I think that in the case of the demand liabilities, five per cent should be prescribed for the cash reserves.

Then, the provision providing for refusing or cancelling licence to foreign banks if their activities are against the public interest is an important change in section 22 of the Act. I would only say that it is well-thought and well-conceived.

In view of the great increase in the deposits and the working funds of the commercial banks, it is desirable that the liquid assets of the bank should be increased. As such, the provisions made in section 24 according to this Bill are essential and are in the interests of banking business. Though in the first instance, it will cause some hardships to some banks, yet, the proposed measures are welcome espe-

cially in the interests of the depositors.

The Reserve Bank of India is called the bankers' bank, and since its inception it has been functioning well, to the utmost satisfaction of all concerned. From my experience and knowledge, having been connected with banking institutions for a considerable period of time, I can say that the directions issued by the Reserve Bank from time to time to commercial banks are well-thought out and are very helpful to banking business. As such, it has been rightly incorporated in the Bill that the public sector banks should be bound by such directions as may be issued by the Reserve Bank of India under section 35A of the Banking Companies Act.

With these words, I support the Banking Companies (Amendment) Bill.

14 hrs.

श्री दे० शि० पाटिल (यवतमाल) :
उपाध्यक्ष महोदय, बैंकिंग कम्पनीज ऐक्ट को संशोधित करने के लिये जो विधेयक आया है, मैं उस का स्वागत करता हूँ। विधेयक के जो उद्देश्य स्टेटमेंट आफ् आब्जेक्ट्स ऐंड रीजन्स में दिये हैं वे इस प्रकार हैं :

"to strengthen the financial position of the commercial banks generally".

यह पहला उद्देश्य है। दूसरा जो उद्देश्य है वह यह है :

"to increase the protection which is available to the depositors".

इस में यही दो उद्देश्य दिये हुए हैं। अगर देखा जाय तो कामर्शल बैंक की आर्थिक परिस्थिति को सम्पन्न करने के लिये और जो डिपॉजिटर्स हैं उन के संरक्षणको बढ़ाने के लिये प्रिंसिपल ऐक्ट में यह संशोधन लाया गया है। इस के लिये मिनिमम पेड अप कैपिटल

ऐंड रिजर्व को बढ़ाया गया है और रिजर्व फंड के बारे में जो लिमिटिंग कंडिशन थी वह निकाली गई है। कॅश रिजर्व २ परसेन्ट से बढ़ा कर ३ परसेन्ट किया गया है। गेनटेनेन्स आफ दि परसेन्टेज आफ लाइविलिटी में २० की जगह २५ परसेन्ट कर दिया गया है। २० परसेन्ट की जगह २५ परसेन्ट करने से फाइनेन्शियल पोजीशन कुछ सुधरेगी। लेकिन उस में थोड़ा सा संशय मेरे मन में होता है कि सरकार उस को जितना स्ट्रेंथेन करना चाहती है उतना नहीं हो नहीं सकेगा।

हमारे यहां कामर्शल बैंक्स की ज़रूरत बहुत काफी है, लेकिन जो कामर्शल बैंक्स हैं उन के प्रति भी सरकार का कुछ कर्तव्य होता है। अगर पार्ट ३ देखा जाय तो उस में वार्डिंग अप आफ बैंकिंग कम्पनीज के बारे में कुछ सेक्शन दिये हैं। उन के मुताबिक सेंट्रल गवर्नमेंट पर इस के सम्बन्ध में जिम्मेदारी आती है। जो बैंकिंग कम्पनीज हैं उन के बारे में तो मेरे मन में काफी संशय है। जो लक्ष्मी बैंक लिमिटेड, अकोला था, जब उस का कारोबार बन्द हो गया तो उस के बाद जो डिपॉजिटर्स और सिक्योर्ड और अनसिक्योर्ड क्रेडिटर्स थे उन का बहुत नुकसान हो रहा है। किसानों में भी इस बात की बड़ी चिन्ता है कि आखिर कामर्शल बैंक को वह अपना कोआपरेशन कितना दें। सेंट्रल गवर्नमेंट का कर्तव्य है कि वह सेक्शन ३९ के मुताबिक इस की एन्वयारी करने के लिये एक आफिसर की नियुक्ति करे। वह नियुक्ति अभी-अभी की गई। प्रिफरेंशियल पेमेंट्स के जो क्लेमेन्ट्स हैं और जो सिक्योर्ड और अनसिक्योर्ड क्रेडिटर्स हैं उन के बारे में मीटिंग बुलाने और डिपॉजिटर्स और क्रेडिटर्स के अकाउंट्स को पूव करने का काम भी नहीं हुआ है।

बैंक में जो डिपॉजिटर्स थे वे खास तौर पर किसानों के थे। एक एक किसान ने २५,००० रु० से ले कर १,५०,००० रु० तक

[श्री द० शि० पाटिल]

के डिपॉजिट्स रक्खे हैं। उन की रकम को वापस करवाने के लिये कोई कार्रवाई नहीं की गई है। इस विधेयक पर विचार होने के समय में माननीय मंत्री जी का ध्यान इस गम्भीर प्रश्न की ओर आकर्षित करता हूँ और प्रिफरेंशल पेमेन्ट डिपॉजिट्स को देने के लिये विनती करता हूँ।

कृषि तो एक महत्वपूर्ण धन्धा है, वह प्राइमरी इंडस्ट्री मानी जाती है। किसानों के लिये कामर्शियल बैंक में डिपॉजिट रखना उन के हित की बात होती है। इसी लिये मैं इस विधेयक का स्वागत करता हूँ और जो लक्ष्मी बैंक, अकोला के डिपॉजिटर्स हैं उन को जल्दी ही वापस करने की विनती गवर्नमेंट से करता हूँ।

Shri B. R. Bhagat: The few hon. Members who have spoken on this Bill have given full support to this measure. I am grateful to them. The only discordant voice was that of Shri U. M. Trivedi. Although he supported one or two provisions, he strongly objected to the amendments being suggested to this Bill. I am sorry to say that on both these points he has completely misunderstood things and read into them just the opposite of what is intended.

As regards the exemption from the Company law proposed so far as banking is concerned in respect of the remuneration of the chief executive officers, he has failed to notice that even in the present Act itself, there are other sections dealing with the remuneration of the directors, chief executive officers etc. These two provisions have been added because the company law was amended after the Banking Act and only sometime back. In order to fall in line with that, this is being done. He further fails to take notice of the position that this salutary provision of making exemptions from the Companies Act is because of the fact that in the case of non-bank-

ing companies, the remuneration is regulated according to the sections of the Companies Act, but in the case of banking companies, it is regulated by the Reserve Bank of India. The Reserve Bank as a specialised institution has the experience and expertise to determine the remunerations and conditions of service of the officers of banks. That is the reason why exemption is being sought from the Companies Act. He completely fails to take note of that.

Then he spoke about foreign banks and said the term 'public interest' was too wide. But here also he does not appreciate the point that there may be some banks which may be indulging in non-banking activities. They may be banks functioning in conformity with all the technical and legal requirements of the situation, and even though in the larger interests of the country, and in the larger public interest, we may think that their activities may be prejudicial to the interests of the country, we are not able to prevent them from indulging in such activities. In order to provide for such a contingency, we have made this provision. I am sorry my hon. friend is not here. But I would urge upon him that this is a very very salutary provision and it should be there and this should be the provision to which he should be least opposed.

Then I come to my hon. friend. Shri Prabhat Kar, to whose knowledge of banking I paid a compliment the other day. I still feel that on questions connected with banking, his contributions are very informed and helpful. But in this particular matter, I do not know why he has not been able to appreciate the real value of the amendments suggested. Probably the greater love he has for the bankmen, apart from the banking industry as such, may have detracted from the objectivity which he usually displays because his entire approach—he dealt with all the points—was restricted because of his special

consideration for the benefits which will accrue to the bank staff as against the banking industry as such. I am all with him in giving more wages to, or safeguarding the rights of, the bank employees, but on a Bill like this it is not that attitude, but a wider attitude towards the banking industry as such, that should prevail.

Shri Prabhat Kar: I have generally lent my support to the Bill, and I said I agree with the strengthening of the capital structure of the banking industry. I have agreed with it.

Shri B. R. Bhagat: I am only saying that if he extends that point of view, he will find that the objections which he has raised are not valid.

I agree with him that the Statement of Objects and Reasons may not explain everything, because in the very nature of things it has to be concise, but the real point is that this Bill seeks to consolidate the structure of the banking system, whether it deals with minimum reserve or paid-up capital or anything else, so as to meet the situation of the present times.

He referred to some directive of the Reserve Bank that the paid-up capital and reserves should be 6 per cent of the deposits. That is true, and it is a fact that the present ratio is near about 5 per cent., but the idea was that as the deposits were rising, an effort should be made informally, as the Reserve Bank has no power in that regard, to raise their paid-up capitals, and all the banks are doing it. We have been receiving applications from various banks to raise more capital, either fresh capital or out of the premium account, and we are giving sanctions to them, and it is a happy sign that the capital structure of the banks is widening. That has been the salutary effect of that directive, and the Reserve Bank is at it. But he raised the question: will this mean that you are raising it to 6 per cent till eternity? It is not till eternity. As he himself referred to it, we have taken powers for the Reserve Bank to give

exemption in suitable cases. Where we feel that the bank's paid-up capital and reserves have reached a proportion which is quite adequate, we may give exemption. If the banking system as a whole—I am not speaking of only the good banks which may have very adequate capital structures—has an adequate capital structure, at that moment it may be considered, and we may give exemptions on a liberal scale, but the point today is that the capital base of the banks has got to be augmented, and we have taken powers for that.

Then he asked why we are transferring 20 per cent of the profits to reserves, when we think that the banking system is sound. He does not object to it on pure merits, but he is thinking of nationalisation of banks which he takes for granted. We on this side do not take things for granted, we judge things on merits and our minds are open, but he takes things for granted. In the event of nationalisation of banks after a few years, he is afraid the share of the shareholders with regard to compensation will become larger. I think that is not a very reasonable view to take. His point is that the employees should get more bonus, but for that from time to time there are the bank awards, like the Desai Award, which increase the emoluments of the employees. Their emoluments are going up, and I am happy they are going up. Some of the banks complain that the burden on them is a little more, but so far as we are concerned, we are happy, but that should not make him retard the consolidation of the capital structure of the banking system. That is my grouse against the hon. Member.

Dr. M. S. Aney (Nagpur): May I ask the hon. Minister to explain one provision? Section 11(2) of the Act requires that the aggregate value of the paid-up capital and reserves shall not be less than fifteen lakhs of rupees, and that it can be either in cash or in the form of securities. That is the general rule laid down. But then, the

[Dr. M. S. Aney]

new sub-section (2A) that you are introducing, says:

"Notwithstanding anything contained in sub-section (2), the Central Government may, on the recommendation of the Reserve Bank, and having regard to the adequacy of the amounts already deposited and kept deposited by a banking company under sub-section (2), in relation to its deposit liabilities in India, declare by order in writing that the provisions of sub-clause (ii) of clause (b) shall not apply to such banking company for such period as may be specified in the order."

I would like the hon. Minister to throw some light on this particular provision giving discretion to the Central Government to exempt on the recommendation of the Reserve Bank in certain cases.

Shri B. R. Bhagat: That obviously concerns foreign banks, and we have taken powers to exempt in cases where we think necessary, but we will come to it at the second reading stage. At present I am dealing with the general points raised.

Then, a point was made by him that raising the liquidity ratio to 40 per cent will mean that advances will be restricted to 60 per cent., and that might starve trade and industry. That was the fear. This is the first time I find the hon. Member being solicitous about trade and industry. I am glad the hon. Member at my back answered that point.

Shri Prabhat Kar: I said the bankers might raise this point.

Shri B. R. Bhagat: The bankers have agreed to it. They have not raised this point.

Shri Prabhat Kar: I am not holding their brief, you will understand.

Shri B. R. Bhagat: I am glad. The main point is that there is absolutely

no cause for any disquiet or concern that the resources for trade and industry will become less as a result of this provision, because, as the hon. Member pointed out, what is the position today about liquidity? The position is that although 20 per cent is provided for, the over-all liquidity ratio is something like 32 or 33 per cent. It is true the State Bank maintains a very high liquidity ratio, 50 to 52 per cent, but in the case of the other banks also, it is near about 28 per cent, and the over-all ratio is more than 30 per cent. To say that as a result of this provision the figures that the hon. Member has collected have been taken out of the credits or advances is not true. As I explained earlier, it is a part of an over-all scheme, taking into consideration the economy, the needs of the banking system, the expansion in the banking system that is likely to occur etc. Taking all these into consideration, we have fixed an over-all ratio of liquidity, and this has been done in consultation with the banks. They are in general agreement with it, they have welcomed it. It is not that they have any grouse.

The hon. Member fails to appreciate the point that today the total deposits are Rs. 2,000 crores, but as a result of the implementation of the Plan over the Third Plan period we envisage a rise of 33 per cent in the deposits. So, there will be Rs. 700 to Rs. 800 crores of fresh deposits. Further advances and credits can be taken care of by these fresh deposits. It may be incidental that as a result of this the borrowing programme of the Government may be helped, but it is not as if we want to raise the liquidity ratio so that the banks may be compelled to invest more and more in Government securities, so as to help our borrowing plan so far as the Third Plan period is concerned. That can be taken care of by the additional deposits to Rs. 700 to Rs. 800 crores over the five year period that will be accruing to the banking

system. The idea is that the borrowing programme and the needs of the particular industry will be met out of the growing increase in the deposits and the reserves of the banks. And, with a view to that, we are trying to have such a capital structure and such liquidity ratio so as to fit in with that. The hon. Member should not fail to notice or ignore this point.

It is true that the banking structure is sound; it is true that the banking system, as a whole, is doing very well. As a result of the various measures, we have protected them and insulated them against any crisis.

I would remind the hon. Members that just before the Palai Bank crash, nobody in the country or in the House here realised the dark clouds coming on the horizon. Suddenly, with the crash of the Palai Bank, serious concern was expressed in the House and the country and the entire banking system received a shock. We have provided for all circumstances and all eventualities. But, the banking system being a credit mechanism that functions on the public confidence, even if a minor part of it is shaken, and the Palai Bank was only a small bank in one remote corner of the country, it shakes the entire system. We should not forget it.

To say that the banking system is all right and there is no necessity for insulating it against such risks by providing higher ratio or better capital structure and all that is not correct. We do not want to take any risk because if there is danger to any small unit, a small sector of the industry, the entire banking system is in danger. We have seen it very recently and we should not forget it.

The point, therefore, is that whatever provisions we have made is with a view to strengthen the banking system so that in the Third Plan and in future also they are able to play their part which they are expected to play; that is, to have more deposits, to strengthen their reserves.

The basic point of any banking system is that if the bank deposits go up, as we think they will go up and they are going up, every year, out of the increased resources the increased needs of trade and industry and the workers and the employees and everybody will be looked after. That is the main reason underlying the new innovations. There is no other subjective motive involved in this. Therefore, to say that industrial credit will be crippled is not true.

Then, the hon. Member, Shri Prabhakar Kar asked, 'Why are you increasing the capital to Rs. 5 lakhs?' If it is kept at the amount of Rs. 50,000, the small banks which are there may not suffer because they may not be able to raise the capital to that figure. The point is this. This is for future; and it would not apply to the existing banks who are operating in the country. This is not to be applied retrospectively. It will be for the new banks. Although we do want small banks, they must start with a higher capital structure. The hon. Member said that the cost of living should not be a relevant consideration. But he should realise that the cost of living is important because it pushes up the establishment expenses. It is only if the working funds are reasonably high that the income from such funds will be sufficient to enable the banks to meet their expenses. So, it is important that a bank should be a viable unit even if it is a small one. Fifty thousand rupees might have been reasonable in 1949 or even earlier, but not now. Therefore, I think it is necessary that the capital structure should be Rs. 5 lakhs.

With these words, I commend my motion.

Mr. Deputy-Speaker: The question is:

"That the Bill further to amend the Banking Companies Act, 1949, be taken into consideration."

The motion was adopted.

Mr. Deputy-Speaker: Now, we shall take up clause by clause consideration of the Bill.

I find there are no amendments to the clauses. I will now put all the clauses together. The question is:

"That clauses 2 to 8 stand part of the Bill."

The motion was adopted.

Clauses 2 to 8 were added to the Bill.

Mr. Deputy-Speaker: The question is:

"That clause 1, the Enacting Formula and the Title stand part of the Bill."

The motion was adopted.

Clause 1, the Enacting Formula and the Title were added to the Bill.

Shri B. R. Bhagat: Sir, I beg to move:

"That the Bill be passed."

Mr. Deputy-Speaker: Motion moved:

"That the Bill be passed."

Shri Prabhat Kar: Sir, I am extremely sorry that the points that I raised have not been taken in the light that I expected them to be taken up by the hon. Deputy Minister. It is true that I have pointed out certain things, taking into consideration the effect it will have on the wages of the employees. At the same time, I must remind him that I lent my support to the Bill on the broader consideration of the development of the industry.

So far as the employees are concerned, I said all the time that they were interested in the development of the industry and that is why they have supported all the measures that Government have taken, to extend the power of the Reserve Bank to effectively control some of the affairs of the banking institutions. The failure of the Palai Central Bank or the Lakshmi Bank or any other bank

for that matter is due to the fact that all the time the banking magnates in the country were violating the provisions which the Parliament had passed and also the rights and powers conferred on the Reserve Bank of India. We want the industry to develop and to play its part effectively in the development of the country's economy. That is why I lent my support to it.

But I brought certain things to the notice of the Minister because I am apprehensive that after this Bill is passed, the banking magnates will come before the Finance Ministry and it may be that the power of the Reserve Bank may be relaxed or some of the provisions may be relaxed. That was why I wanted that when you take these things into consideration, you should also take into consideration the clamour that would be made by the banking public.

I am not pleading for the magnates. But I do not also agree that by this back-door method, as Shri Morarka suggested, the Government is forcing the banking industry to invest in government securities.

The Deputy Minister said that I was taking it for granted that the banks will be nationalised. I am not taking it for granted in the course of the next 2 or 3 years. But, as a result of this country's socialist ideology of developing the economy of the country, it will have to nationalise the industry. And, at that time, it may be difficult. They may have to pay higher compensation because the reserves also will have to be compensated. That is why I brought these things to his notice.

As I said before, I agree with the general proposition that has been put forward in the Bill; and I lend my support to it.

Shri Sham Lal Saraf rose—

Mr. Deputy-Speaker: Does the hon. Member want to speak now, at the third reading stage?

Shri B. R. Bhagat: Sir, I made a promise to an hon. Member and I would seek your indulgence to reply to the point raised by him. He asked about a particular section, why it was there, and asked me to explain it.

The point is this. We have taken powers in the Bill so that 20 per cent of the profits will be transferred to the special reserve. That is the general power we have taken through this Bill. Therefore, by this section (2A) we are taking powers to give exemptions in case of foreign banks when we think it is necessary. We are taking similar powers for giving exemptions in the case of Indian Banks under clause 3, section 17 (1A). When we think that the banks have adequate reserve and it is not necessary that this continual transfer should take place, we can give the exemption at that stage. That is the general policy. 11 (2A) deals with foreign banks and 17(1A), with the Indian banks.

Mr. Deputy-Speaker: The question is:

"That the Bill be passed."

The motion was adopted.

15:30 hrs.

SUGARCANE CONTROL (ADDITIONAL POWERS) BILL

The Minister of Food and Agriculture (Shri S. K. Patil): Sir, I beg to move:

"That the Bill to empower the Central Government to amend the Sugarcane (Control) Order, 1955 with retrospective effect in respect of certain matters, be taken into consideration."

First, I would like to give a brief history of clause 3A of the Sugarcane Control Order which it would be necessary to amend retrospectively and for which powers are now being

sought under this Bill. Clause 3 of the Sugarcane Control Order provides for the payment to the grower of a minimum price of his sugarcane. One of the factors required for determining his price is the price of sugar. Clause 3A of the Order was inserted in September, 1958 making it compulsory for the sugar manufacturers to pay an additional price to the sugarcane grower over and above the minimum price. Between 1953-54 and 1957-58, when sugar prices were running very high, at first voluntary schemes for these additional payments were in force in the northern and southern regions. In the southern region it used to be called the SISMA formula. These were worked out in the south between growers and manufacturers and in the north by Government in consultation with the growers and the industry. In Maharashtra, that formula not only worked then but it is working even now beautifully. There has been peace in the industry and there was a sort of an understanding between the industry and grower in the beginning of the year or periodically. In 1957-58, as a result of that arrangement, more than a crore of rupees was given as additional bonus or deferred payment, whatever you may call it, to the growers. There were complaints and disputes, and to resolve these, the Gopalakrishnan Committee was appointed in 1955—Gopalakrishnan being an officer of the Agriculture Ministry which submitted its report in 1956. That committee made certain recommendations in regard to adjustments of costs and also suggested a formula for compulsory application when there was an undue rise in the price of sugar. This report was accepted by Government and its formula was incorporated in the statute; but unfortunately in regard to one matter, namely, the determination of the share of the cultivator, the formula did not specify precisely how that share was to be determined, that is, whether with reference to any cost schedule which was operated, or whether with reference to the actual costs of each factory on the basis of recovery and duration of the season. This is an impor-