

Shri Pataskar: Whatever it is, by raising it from four to six, we do not do anything which is in conflict with the provisions of the Constitution.

Mr. Speaker: Out of 50, one-twelfth is four. The article reads:

"as nearly as may be, one-twelfth shall be elected by electorates consisting of persons residing in the State who have been for at least three years graduates of any university in the territory of India or have been for at least three years in possession of qualifications prescribed..."

Shri Pataskar: I will explain it. In article 171 itself there is clause (2):

"Until Parliament by law otherwise provides, the composition of the Legislative Council of a State shall be as provided in clause (3)."

That was the arrangement prescribed in the Constitution until it was decided by Parliament, and now Parliament is going to decide what the constitution of the Legislative Council of Madras will be. When the article was enacted they referred to the existing Council, and there was a provision that until Parliament by law otherwise provides the composition will be as provided under clause (3).

Mr. Speaker: Therefore, now Parliament is making this law.

Shri K. K. Basu: What I am worried about is that we should frame the law with full clarity and there should be no judicial decision knocking off what we have done.

Mr. Speaker: So far as this matter is concerned, in some portions of the Constitution, for example in article 4, it has been provided that notwithstanding the fact that an amendment may affect the Constitution, it shall not be considered to be an amendment of the Constitution for the purposes of article 368. Changing the number of Members of the Legislative Assembly shall not be deemed to be

an amendment of the Constitution. Therefore, in the States Reorganisation Act the schedule was added to the Act instead of amending the Constitution so far as the Schedules are concerned. Similar provision is made in article 171. In the absence of clause (2) of this article, any change in the proportion as set out in clause (3) will have to be made only by amending the Constitution. To avoid that, clause (2) has been inserted there under which Parliament can alter the relative proportions. It is open to this House to say instead of four, we shall have six notwithstanding the fact that it militates against sub-clause (b) of clause (3) of article 171. It is quite in order.

The question is:

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

The motion was adopted.

STATE BANK OF HYDERABAD BILL

The Minister of Revenue and Defence Expenditure (Shri A. C. Guha): I beg to move:

"That the Bill to transfer the share capital of the Hyderabad State Bank to the Reserve Bank of India and to provide for its proper management and other matters connected therewith or incidental thereto be taken into consideration."

This Bill was introduced in this House on the 28th August during the last session, but in spite of our best endeavour, we could not find time to get the Bill passed by Parliament.

[MR. DEPUTY-SPEAKER in the Chair]
14.34 hrs.

In the meantime, States' reorganisation was going to take place which in effect would split up the State of Hyderabad into three different States. So, there would not be any single authority to look after this Hyderabad State Bank and none also to ensure the continuance of its functions and

duities without dislocation and with proper safeguards for the banking and treasury functions which the Bank had been performing as agents of the Reserve Bank of India in Hyderabad State. The State Bank of Hyderabad Ordinance 1956 was therefore promulgated to take care of this situation. Otherwise, there would have been a sort of vacuum as regards the authority to manage the Bank.

The Ordinance was issued on 26th September, 1956 with a few variations from the Bill as presented to Parliament. The Bank has thus already started functioning as a wholly nationalised concern. The compelling necessity for immediate legislation by Ordinance has been explained in a statement already placed on the Table of this House. It is now for the House to consider the Bill and to pass it with a few amendments consequential to the promulgation of the Ordinance.

I shall now mention a few facts about the Hyderabad State Bank. It was established in 1942 under the Hyderabad State Bank Act (No. XLIX of 1350 Fasli). Prior to the financial integration of the Hyderabad State with the Centre, the Bank served more or less as the Central Bank for the former Hyderabad State. By an agreement entered into by the Bank with the State Government, it performed the Government banking and treasury work, managed the public debt, issued new loans and administered the Osmania Sicca paper currency. The Bank had a paid-up capital of Rs. 75 lakhs expressed in Osmania Sicca rupees, divided into 75,000 shares of O.S. Rs. 100 each fully paid. The equivalent of the total share capital in Indian currency is Rs. 64.29 lakhs. Fifty-one per cent of the share capital was held up by the Government of Hyderabad and the rest by the private shareholders. The Bank had ten directors including the President and the Managing Director. Among them, the Hyderabad Government had powers to nominate the President, the Managing Director and three others. Three directors were elected by the shareholders, and two co-opted by

the rest of the directors. The Government of Hyderabad enjoyed various other powers also in regard to the management of the Bank.

In April, 1953, the Government of Hyderabad appointed the Reserve Bank as their sole bankers. A separate tripartite agreement between the Reserve Bank, the Hyderabad State Bank and the Hyderabad Government was also entered into at the same time, according to which the Hyderabad State Bank was appointed as the sole agent of the Reserve Bank in Hyderabad territory and accepted a scheme of control by the Reserve Bank. Copies of these agreements have been placed in the library for reference if required by hon. Members. The Government of Hyderabad also agreed to nominate two officials representing the Central Government and the Reserve Bank respectively as directors on the Board of the Hyderabad State Bank against the quota of three directors which the State Government was entitled to appoint. The Hyderabad State Bank has, under this scheme, been managing, on behalf of the Reserve Bank, the treasury business of the State Government at 33 centres and has been in charge of the currency chests and small coin depots at 25 of its branches. The provisions of the Banking Companies Act, 1949, were not technically applicable to this Bank, but under the tripartite agreement, as I have stated before, the Hyderabad State Bank voluntarily accepted certain control from the Reserve Bank. In this way, the Hyderabad State Bank was following the provisions of the Banking Companies Act, 1949 as if it was registered under the Indian Companies Act of 1913.

The Hyderabad State Bank has enjoyed a special position of importance in the State. It is thus easy to see that there would have been considerable dislocation in the performance of the important functions of the Bank if the Ordinance had not been promulgated before the date of reorganisation of the States.

The currency chests and small coin depots would have been distributed

[Shri A. C. Guha]

over the 3 States and the question of distributing among the 3 State Governments the special powers of control which the Hyderabad Government exercised over the Bank would have presented a difficult problem. It would not also have been possible for the successor State Governments to indemnify the Reserve Bank against losses that might have arisen during this period of transition in the currency chests entrusted to the Bank, as was possible when the Hyderabad Government had special powers of supervision and control over the Bank. The Hyderabad Government undertook a certain responsibility also to indemnify the Reserve Bank in cases of certain losses accruing. But, as a result of the reorganisation, the 3 successor States would not have the same legal responsibility. The Government of India came to the conclusion that the only appropriate solution would be to transfer the ownership and control of the Bank to the Reserve Bank of India so that there might be no interruption of the facilities which the Bank was rendering in the conduct of banking and treasury work over a large area.

I must also refer in this connection to the fact that there has been a certain amount of criticism in regard to the working of the Hyderabad State Bank. The transfer of ownership and control of the Bank to the Reserve Bank of India will enable the Reserve Bank to exercise a more effective and close supervision over its affairs and ensure that it functions on sound lines. The Bank will, in other respects, function on the same lines as the State Bank of India in the areas served by it. As may be expected, the nationalisation of the Bank has entailed considerable changes in the constitution and functions of the Bank. It would now work under the complete control of the Reserve Bank whatever might have been its past history.

Clause 3 of the Bill, however, provides for the continuance of the body

corporate constituted by the Hyderabad State Bank Act of 1950 and it is expressly laid down that the new name namely, 'State Bank of Hyderabad' will not affect the rights or obligations of the Hyderabad State Bank.

The compensation payable to the shareholders of the Hyderabad State Bank has been laid down in clause 6 of the Bill. The rate of compensation has been fixed in consultation with the Reserve Bank. In fact, on an assessment of its assets and liabilities the compensation has been fixed. The Reserve Bank carried out a special inspection of the Bank in order to work out the best possible estimate of the real worth of each share in the capital of the Bank. The total compensation payable will amount to about Rs. 70,71,000. The share of the Hyderabad Government, who hold 38,250 out of a total of 75,000 shares, was paid to them before the reorganisation of the States, that is, before 1st November, 1956. The remaining 36,750 shares are held by private shareholders but no private individual shareholder holds more than 200 shares. Now, compensation will have to be paid to these shareholders.

Clauses 9 and 10 of the Bill deal with the proposal for the reconstruction of the capital structure of the Hyderabad State Bank. Prior to taking over, the paid up capital of the Bank amounted to Rs. 64,29,000. The proposal is that the authorised capital should be fixed at Rs. 1 crore and the issued capital at Rs. 50 lakhs. This capital base is considered adequate for the present but provision for an increase of capital has been made in the Bill, if need for such increase should arise in the future.

The amount in excess of Rs. 50 lakhs in the capital account of the Hyderabad State Bank will be transferred to the Reserve Fund. I would invite the attention of the hon. Members in this connection to clause 27 of the Bill relating to the Reserve Fund. We intend that adjustments should be made in the amount stand-

ing at the credit of the Reserve Fund by way of transfer towards provision for bad and doubtful debts, depreciation of assets and for similar purposes, to the extent to which the Reserve Bank consider that adequate provision for these purposes has not been made in the past. It is not possible for me to indicate the amount that will remain in the Reserve Fund after these adjustments are made.

Clauses 11 and 12 of the Bill deal with the management of the Bank and provide for the Reserve Bank assuming responsibility for issuing directions to the Board of Directors. The Board will now consist of not more than six Directors, one of whom will be the Managing Director, two will be officials, one from the Central Government and one from the Reserve Bank, and the others are to be nominated by the Reserve Bank with the approval of the Central Government. There will thus be scope for representation of non-official elements on the Board.

Clause 16 provides that the Chairman of the Board will be nominated by the Reserve Bank from among the Directors other than the Managing Director, with the approval of the Central Government. As present, the Central Government's nominee (a Joint Secretary of the Ministry of Finance) has been nominated by the Reserve Bank as the Chairman of the Board under the corresponding provision in the Ordinance promulgated on the 26th September, 1956.

Clause 24 is intended to enable the Hyderabad Bank to function as the agent of the Reserve Bank, if so required, at any place where it has a branch. The clause is modelled on section 32 of the State Bank of India Act, with certain modifications that the terms and conditions on which the agency business will be performed will be determined by the Reserve Bank and not by mutual agreement between the Reserve Bank of India and the State Bank of Hyderabad as has been provided in the State Bank of India Act. The modification is

considered more appropriate in the context of the relationship that will obtain between the Reserve Bank and the Hyderabad Bank. I hope hon. Members will realise that though this Bank also will be owned by the Reserve Bank, this Bank cannot be put on the same category or on the same level as the State Bank of India.

The Hyderabad Bank will be able, under the proposed clause 25, to undertake all forms of business which a banking company can transact under the Banking Companies Act, but it is proposed to reserve powers to the Central Government to extend or restrict the scope of such business, after previous consultation with the Reserve Bank of India.

Clause 28 provides for the transfer to the Reserve Bank of the balance of profits after making the usual provisions, appropriations and adjustments. The accounts will be closed on the 31st December each year as in the case of the State Bank of India. The Bank will belong to the Reserve Bank and so the profits will also accrue to the Reserve Bank. The provision for audit and returns are modelled on the corresponding section of the State Bank of India Act.

Coming to the other important provisions included in the Bill, I may mention clause 32 which would enable the Reserve Bank to review transactions entered into by the Hyderabad State Bank within the two years before the appointed day which do not appear to have been entered into in a *bona fide* manner. It is provided that such review should be completed within a year from the appointed day.

As I have stated, there has been some criticism about the working of the Hyderabad State Bank. Therefore, it is necessary for the Reserve Bank to retain this power that the past activities of the management may be re-examined by the Reserve Bank and, if necessary, proper action also may be taken under this provision.

Clause 34 will enable the Hyderabad Bank to undertake a programme of expansion which can, if necessary, be

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subsidised by the Reserve Bank. A similar provision has been put in the State Bank of India Act—in section 36 of the Act—and there a statutory Integration and Development Fund has been constituted. But a formal statutory Fund of this nature is not obviously necessary for the State Bank of Hyderabad, considering the restricted area of its operation. The Reserve Bank will determine the amount of subsidy which may be actually needed from time to time and arrange to pay it to the State Bank of Hyderabad. This is meant to cover any losses which the Hyderabad Bank may incur in expanding its branches in rural or semi-rural areas.

The other provisions of the Act are generally based on the corresponding provisions of the State Bank of India Act, but with the essential difference that the Reserve Bank will be able to exercise a wide measure of control over the Hyderabad Bank and assume responsibility for close supervision over the conduct of its affairs. There is also an enabling provision, clause 45, to facilitate the subsequent amalgamation of the Bank with the State Bank of India, if such a step should be considered desirable and feasible at some future date.

The present Bill which is justified by the special considerations, as I have explained, applicable to the Hyderabad State Bank, will not in any way prejudice or anticipate any decision which Government may find it necessary to take in regard to other State-associated banks. There are a number of practical difficulties and other factors to be considered in connection with the proposal made by the Rural Credit Survey Committee, and Government do not wish to be regarded as committed to any line of action in regard to the nationalisation of such banks.

With these observations, I move that the Bill be taken into consideration. I have tabled a certain number of amendments, mostly consequential on the issue of the Ordinance on the

26th September, 1956, for the nationalisation of the bank with effect from the 22nd October, 1956.

Mr. Deputy-Speaker: Motion moved:

“That the Bill to transfer the share capital of the Hyderabad State Bank to the Reserve Bank of India and to provide for its proper management and other matters connected therewith or incidental thereto be taken into consideration.”

Dr. Rama Rao (Kakinada): In the ordinary course I would have requested the Finance Minister to consider the State Bank of Hyderabad as a State Bank for the State of Hyderabad, but there are various complications, including the States' reorganisation—our friends, who have gone to Bombay and Mysore would ask for a share, and rightly they have a share in it, and more so for reasons which I am just going to point out.

The State Bank of Hyderabad is in a very shabby condition. It has been managed as if it was somebody's private property. They have made a mess of it. They have covered it up and the worst of it—that is my charge against the Finance Ministry—is that those very persons who were responsible for the misuse of public funds are now put in positions of responsibility.

Before going into further detail, I would request the hon. Minister in charge to see that a thorough enquiry is held into the antecedents of every one of these people and then remove them from those positions of responsibility. The Reserve Bank is well aware of these mischiefs and mistakes. In fact, it seems the Reserve Bank has pointed out to the Hyderabad State Bank repeatedly that the Hyderabad State Bank had gone against the rules, against the Hyderabad State Bank Act. Not only that. The Reserve Bank pointed out the conditions under which the Hyderabad State Bank was appointed as an agent of the Reserve

Bank and those conditions have been violated in regard to advances, in regard to securities, in regard to arrears, in regard to recovery of amounts advanced, in regard to discounting bills and other things. As rumours go, the total amount now found to be locked up should be round about Rs. 4 crores, of which 50 per cent. even may not be recoverable. It is a very sad state of affairs. Of the total bills discounted aggregating to more than Rs. 80 lakhs, more than Rs. 60 lakhs are advanced to three parties, and repeatedly they have violated every rule of ordinary business and ordinary banking. One cannot help pitying and condemning the State Bank officials for being so easily duped by these capitalists. Closer investigation will prove whether they were innocent dupes. Here comes my point. My suspicion is that they are not really so very innocent. Some of them, at least two of them, have been asked to vacate before any action was taken. This was done by the Reserve Bank, and they have left. But there are others whom our Government has placed in positions of responsibility, and it is about these people that we should see whether they were really dupes.

This bungle is the outcome of the reckless lending policy pursued by the Bank in recent years. For instance, when some bills which were discounted in one place, say in Hyderabad, were not honoured or paid up in Bombay, any Bank will stop further discounting bills from that firm or from that individual. But there are records to show that this practice has been continued, and the amount advanced here has been sometimes used to pay up the bills. So many bogus transactions have been gone into. Secondly, these amounts have not been advanced for genuine industrial enterprises. Most of it was for speculation. With their personal influence, they have played many tricks to use the money from the Hyderabad Bank for their own purposes.

It is reported that one industrial concern had a large number of Razakars on its pay roll and used them for political purposes. It paid the money out of these funds and borrowed from the Bank, and when a certain State Finance Minister objected to the large amount of loan that had been outstanding, they inflated the assets and tried to satisfy him. But a further enquiry was held, and what was the result?

When certain persons were asked to go into the financial position of that concern, they did not consider how much money can be lent to that industrial concern, but how much would be necessary to replace that machinery, which is absurd from a banker's standpoint. Anyway, later on, it was found that it was worth much less. In all these cases there have been bills outstanding for a long time and no rules of banking either governing the conditions under which the Reserve Bank appointed the Hyderabad State Bank as an agent or governing the Hyderabad State Bank Act have been followed. I will not mention any names though I have got the names of individuals as well as firms. But I am trying to go into the past because it is very essential for our public morality to be maintained at the high level the Finance Ministry and banking enjoy. As you know, this Bank has been grossly and knowingly mismanaged, and the Reserve Bank knows many of those details. Now that the Reserve Bank is taking it over, I am sure that a thorough enquiry will be made and not a mere whitewashing. In one case reports from the Bombay branch was received that a particular firm was not in a sound condition and that it was likely to go into liquidation. Therefore, the party got the bills transacted through Hyderabad on Calcutta. These things happened with the knowledge of the officers of Hyderabad. That is my point. The officers in Hyderabad received this information from the Bombay Branch and yet connived at these bills being discounted with the Calcutta branch. This was done by the Hyderabad officers

[Dr. Rama Rao]

and those officers are now employed. That is the point. So, I request the Finance Minister to go into these details. Some of the senior officers at the head office are functioning both as primary sanctioning and supervising authority and this has led to a lot of mistakes, waste and connivance. In one case credit has been raised from Rs. 17 lakhs to Rs. 33 lakhs and in this transaction director was interested and that director, I am sorry to state, is again in the good books of our Ministry. These things have to be investigated; I do not want to mention the name of the director, but he does not deserve to be there. Let the hon. Minister instruct the Governor of the Reserve Bank to appoint proper officers and go into the previous reports and records of the officers and then take drastic action. I am glad the Bill provides for a very important clause which on the face of it looks a little unjust. I am referring to clause 7 which provides that all officers shall be presumed to have ceased to be officers. Therefore, they must take this opportunity of getting rid of some of these officers about whom the Reserve Bank or the Inquiry Committee has got bad records to show.

15 hrs.

"Loan accounts had to be finally made and determined and when it was found that major part of the advances was not recoverable some namby-pamby security arrangements had to be settled and concluded as the result of negotiations in which the say of the debtors prevailed."

In this connection, there is a very interesting quotation from a well-known Manager of the Bank of England and he says:

"If you owe to your Bank Manager a hundred quid you are under the grip of the Bank Manager, but if you owe a hundred thousand, the Bank Manager comes under your grip".

This is exactly what has happened in the Hyderabad State Bank. These

creditors owed huge amounts, which were beyond all reasonable transactions; the Bank has gone on advancing more and more and probably the loss would be something like Rs. 2 crores now.

I want to say one or two words about some of these officers. A newspaper cutting shows how a Secretary within a few years gets from Rs. 150 (Haly) to Rs. 1,800 (Indian money) he gets 12½ per cent. house allowance, 14 per cent. dearness allowance and Rs. 200 for entertainment allowance. I do not know whether the hon. Finance Minister is aware of these matters.....

Shri A. C. Guha: Who was this man?

Dr. Rama Rao: He is the Secretary of the Bank. This information is from a newspaper called New Outlook.

Shri Heda (Nizamabad): I think that there would be some misapprehension if the hon. Member only says 'Secretary'. I think, he was employed in another bank which was amalgamated with this bank. I think he is referring to that gentleman?

Dr. Rama Rao: I cannot say that because the position here is the Editor of the New Outlook quotes all the salaries year by year, how initially he started on Rs. 150. Shri Heda must be knowing better. I think he may be right. The fact however, remains that he is in service now. That is my information. Then this Secretary has been doing a little business, as it were in motor cars. It will be interesting to note that these officers are allowed a certain loan from the bank to buy a car; that is perfectly reasonable, but you will be surprised when you hear about the number of transactions he had made. In 1950 he buys a Singer after borrowing Rs. 7,200 from the bank. Then on the 23rd April, 1951 he clears the debt and he buys a Buick, borrowing Rs. 10,000 which he adjusts in July. In the same year, he borrows another Rs. 14,400 and buys a Buick. In 1952,

he buys a Morris Sedan for Rs. 8,675 and in 1953 he buys a Buick for about Rs. 12,000. These amounts have been borrowed from the bank. The Buick was brought from America and the parties that buy are under the obligation of the bank. It is for the hon. Minister to go into these details. These transactions of motor cars were very profitable and this Secretary has been giving advances to everyone of his relatives, mother, father, brother, sister, sister-in-law and every sort of people. The fact that he is the son of a Minister should not come in the way of the Reserve Bank of India or our Finance Minister taking drastic action against this man or other people.

Therefore, while supporting the Bill, I want to say one or two points more. The first is about the audit. There was a lot of discussion when we were talking of the audit of the State Bank of India. Still, I would request the hon. Minister to see that the Auditor-General is appointed as the auditor of the bank. If that is not accepted, when the Reserve Bank is authorised to appoint auditors, at least the auditors should not be the auditor of the Reserve Bank so that they would not be under the obligation of the Reserve Bank to be appointed as auditors in the Hyderabad Bank.

I now come to clause 32 which begins thus: "Where the Hyderabad State Bank had at any time within two years before the appointed day." This period I think is not enough, because to cover up the same transaction, they have borrowed money more than what they have to pay and the latest transaction may be within 2 years. Some mischievous transaction may take place before that period. This is a chain of transactions and hence I desire that the hon. Minister should extend the time limit from 2 to 5 years.

Sub-clause 4 under this clause reads as follows:

"No application made by the Reserve Bank under this Section shall be

entertained after the expiry of one year from the appointed day."

I think that it is very easy for one year to expire. It will expire in no time. In the way the red tape works, we can understand how one year would lapse, and after one year the State Government cannot take any action against any of these people responsible for this mischief. Why do you tie your hands before hand, when you are dealing with very capable, very efficient, vested interests who have done a lot of mischief? I suggest that the period should be extended to 5 years.

While supporting the Bill, I request the hon. Minister to look into all these matters, particularly the reports of the Reserve Bank and see that a thorough investigation is done. It may be that he cannot get proper evidence to get conviction against these clever people, but if there is any suspicion against them, they must be removed from positions of responsibility and he must see that this bank works on very healthy lines.

Shri Mohiuddin (Hyderabad City): Mr. Deputy-Speaker, Sir, the Bill was introduced last August and has now come before this House for consideration. The hon. Minister explained in his introductory remarks that the Bill has been introduced on account of the disintegration of the Hyderabad State; he also explained its provisions. But, I expected he would go into some more detail. For instance, the Committee of Direction of the All India Rural Credit Survey appointed by the Reserve Bank of India had submitted a report. An important recommendation of this Committee was that the Imperial Bank of India and the seven or eight other banks whose majority shares were held by the ex-Indian States, should be amalgamated with the State Bank of India. The Hyderabad State Bank was one of the banks that should have been amalgamated as recommended by that Committee.

The ex-Finance Minister had accepted this recommendation without

[Shri Mohiuddin]

any reservation. When the State Bank of India Bill was discussed here, we were told that another Bill would shortly be introduced amalgamating these banks with the State Bank of India. No information is forthcoming as to how it happened that no Bill was introduced to this effect. We do not also know whether the Government proposes to amalgamate them or not. The Chairman of the State Bank of India in his speech to the shareholders last year said that they were considering the amalgamation of certain small banks with the State Bank of India. Which were the banks he referred to, I am not sure. Now, the hon. Minister has, unfortunately, not explained as to why that promise and the recommendation made by that Committee has not been given effect to. That was one point on which I expected him to enlighten us. I hope he will do so in his reply.

The hon. Minister has said that compensation will be paid to the shareholders of the bank. The ex-Hyderabad State Government was holding shares to the extent of 51 per cent. Compensation has been paid to them to that extent on the 1st November. He also said that compensation to the other shareholders would be paid now. He mentioned that the Reserve Bank had assessed the assets and liabilities of the Hyderabad State Bank and that it had recommended that a premium of Rs. 8-9-1 should be paid to the shareholders. The Government of India had also proposed that this premium should be paid. On the one hand it proposes to pay a premium of nearly Rs. 10 to the shareholders; on the other it lays down, for instance in clause 32, that any transaction entered into by the Hyderabad State Bank during the last two years will be gone into by the Reserve Bank of India. If there is any irregularity in the transactions, all the case will be reopened and if necessary, a refund will be demanded. The High Court will be the authority for deciding such cases. If there is a large amount of bad debt—Dr. Rama Rao estimated

that the bad debt would be about Rs. 2 crores.....

Dr. Rama Rao: Ask the Reserve Bank.

Shri Mohiuddin: I have your estimate.

Dr. Rama Rao: Yes. But, now ask the Reserve Bank.

Shri Mohiuddin: I do not know whose estimate it is but Dr. Rama Rao has stated in his speech that the bad debt would amount to over Rs. 2 crores. I hope the Finance Minister will inform us of the estimate made by the new management of the State Bank of Hyderabad or the newly appointed managing director and also the estimate of bad debt made by the Reserve Bank of India.

Dr. Rama Rao: May I point out that what I read was an article from a newspaper? I quoted it; it is there.

Mr. Deputy-Speaker: If the hon. Member reads from a newspaper, he has to take the responsibility.

Dr. Rama Rao: Of course, I do.

Mr. Deputy-Speaker: He must make sure that something written in the newspaper, which he quotes, has some substance.

Dr. Rama Rao: I stand by the words I said.

Shri Mohiuddin: I am glad, Sir, that you have reminded the hon. Member of his responsibility regarding what he says or quotes from newspapers in this House. He should personally examine and make enquiries and satisfy himself that what he says in this House does carry some truth with it. I have read and examined the balance sheets. I will give an illustration from the figures of the balance sheet as to the likely amount of bad debts that may arise. But, I wish the hon. Minister had also given us an indication as to the findings of the Reserve Bank. I may mention that

during the last six years, since the integration or even before, from 1950, the Managing Director of this Bank was a person who was a highly responsible officer in the Reserve Bank of India. As the hon. Minister mentioned, one of the officers of the Finance Ministry was nominated to the board of this Bank. For the last five or six years the Reserve Bank and the Government of India have been directly connected with this Bank.

Now, the point that I wish to make is that, if on the one hand the Reserve Bank of India had found that there is a likelihood of a substantial amount of bad debts arising out of the transactions entered into by the State Bank, why is it, on the other hand it is proposed that there should be a premium on the shares? The shareholders are, after all, responsible for the soundness of the Bank. Why is it proposed that we should pay nearly Rs. 10 as premium to the shareholders? Why should not that large amount of, I believe, about Rs. 17 lakhs be carried to the reserve so that the reserve is strengthened to meet the likely bad debts that may arise in due course?

I said that I would give some figures that I had noted down from the balance-sheets of the Hyderabad Bank. They have a bearing on the premium that we propose to give to the shareholders. The balance-sheets from 1953 to 1955 have been placed in the library, but I have got with me figures from 1952. The banks are required, under the concerned Act, to give details of the advances. The heads of the details of advances are: (i) debts considered good in respect of which the bank is fully secured, (ii) debts considered good for which the bank holds no other security than the debtor's personal security and (iii) debts considered good secured by personal liabilities of one or more parties in addition to the personal security of the debtor. Now, under the head "debts considered good secured by personal liabilities of one or more parties", in 1952 the advance was Rs. 1,52,43,000. In 1953 it was

Rs. 1,91,32,000. In 1954 this figure jumped up to Rs. 3,53,00,000—nearly Rs. 1½ crores more. In 1955 it amounts to Rs. 3,12,00,000. There are slight changes in the advances made under the first heading, that is, fully secured debts.

What is the reason for this sudden jump in the advances for which securities are taken note only from the debtor himself but personal security from others? This is a disturbing factor which strikes the eye of a person who closely examines the balance-sheets. This leads me to conclude—I am not quoting from newspaper reports as Dr. Rama Rao has quoted—that there may be some important development within the accounts of the Bank which requires a thorough examination and investigation, and which may also lead to the conclusion that there may be certain bad debts.

In spite of the reports which Dr. Rama Rao has quoted, I estimate—and I want the hon. Finance Minister to confirm or contradict—that the bad debts may be about Rs. 80 lakhs. I do not know. I have no chance of examining nor is there any source of information for me. But the Reserve Bank should be able to know better. I want the Finance Minister to give us this information because clause 32 has caused widespread consternation among the depositors of the Bank. Of course the Reserve Bank is now the owner of the Bank but the Reserve Bank does not take responsibility for the deposits. There is no such provision in the Bill nor do I suggest it. But it has caused widespread consternation that the Reserve Bank will open up those transactions which were entered into by the Bank during the last two years.

I do not propose to oppose this clause. It may be necessary. But I want, at the same time, some assurance, some indication that may give some security to the depositors that the Bank is in sound condition. The Finance Minister said that clause 32

[Shri Mohiuddin]

is necessary and he has pressed that it should be passed. I agree with him. I have suggested the assurance that he should give regarding the soundness of the Bank.

I also want an assurance from the Finance Minister that this clause 32 will be enforced, that the Reserve Bank and the Finance Ministry of the Government of India will actually act up to it, will examine the cases and place a report on the Table of the House. If the cases are opened, of course, we will know from the proceedings of the High Court what happens to those cases. If the Government of India, as it usually happens, comes to the conclusion after examination—and I am told that the Reserve Bank of India has been examining the books of this Bank for the last five or six years—that it is not necessary for the Bank to reopen the cases in the High Court, will the Finance Minister give this assurance that in that case they will submit a report to this House as to the basis for the conclusions that they have arrived at?

- * Now, another item in the balance-sheets shows along with generally the bank's assets, any non-banking assets acquired by the bank in satisfaction of its claims against their clients. I have examined the balance-sheet and I find that there is no amount given against this item. The figures for the premises, that is to say, immovable property of the bank, have gone up during the last three years by about a lakh and a half rupees, while the State Bank had constructed a building costing about Rs. 40 lakhs. Of course, that might have been met from the building reserve that the State Bank perhaps has been able to build up. But I was told that the bank, during the last year, had acquired a house which is now the residential house of the managing director. It had been purchased—I am not quite sure about the figures—for about Rs. 2 lakhs or Rs. 2½ lakhs. The house belonged to a client who failed to pay up his loans to the bank. This house was acquired for Rs. 2½ lakhs. The mar-

ket value of this house may be about Rs. 1½ lakhs. I am told that this house was acquired after full consideration, and perhaps it will be within the knowledge of the Reserve Bank of India. In any case, the bad debt in that account would have been about Rs. 1½ lakhs and it was thought desirable and necessary that this building may be acquired so that a part of the bad debt at least may be written off. That has not been mentioned in the balance-sheet under the heading, "Non-banking property acquired in lieu of the claims from the clients". Of course, I do not propose to go into all the details but still, I mention this case because it also falls under clause 32 of the Bill. Clause 32 of the Bill specifically mentions any property acquired by the bank which should not have been acquired by it. This is also another case in which the House has a right to know what will happen within the next year regarding the operation of clause 32.

These are the general remarks that I had to make. Unfortunately, we had no time to submit our amendments. I gave my amendments only this morning and I hope the Minister has received them. There was no time for their circulation.

Now, the paid-up capital of the bank is being reduced. At the present moment, the paid-up capital is Rs. 64,28,000. This capital is being reduced to Rs. 50 lakhs. The general banking principle is that the paid-up capital should bear some proportion to the deposits. The deposits in the State Bank of Hyderabad are between Rs. 16 crores and Rs. 17 crores. They have been between Rs. 16 crores and Rs. 17 crores for the last three years. A deposit of about Rs. 17 crores and a paid-up capital of Rs. 50 lakhs is not a sound basis for a bank. I therefore suggest that the paid-up capital should be raised to Rs. 1 crore, the Reserve Fund now amounts to about Rs. 65 lakhs. The share money has got to be paid to the shareholders with the premium from out of this Reserve Fund. I hope that if

this bank is to run on a sound basis, the reserve will have to be increased. I have also given an amendment to that effect, but still, I do not propose to go into the amendments that I have proposed. I hope, Sir, you will permit me to move the amendments at the time when we consider the clauses.

Dr. Rama Rao: Lest I should be misunderstood as creating a scare from newspaper Reports, can you allow me to say that my information is not an over-estimate? My information is that the Reserve Bank reported as early as 1954 that the advances having undesirable features show a rise of Rs. 3.11 crores to Rs. 4.64 crores. That is 52 per cent. of the total advances. These are the words used: "having undesirable features". Therefore, my estimate of Rs. 2 crores being the loss, is not an over-estimate. It is Rs. 4.64 crores.

Mr. Deputy-Speaker: If the hon. Member has got a firm basis for his information, he need not have any apprehension. Shri Heda may now speak.

Shri Heda: Mr. Deputy-Speaker, the Hyderabad State, in the old days, was known for financial stability. One of her Prime Ministers in those days, the late Sir Akbar Hydari, had laid the financial foundations on a very solid ground, and when the State Bank of Hyderabad was conceived, its working in the first few years was very solid. But, unfortunately, it had to go through a very sad and tragic history. Before the police action, the regime was such that it used the State Bank. The result was that soon after the police action, a good number of loans had to be wiped out and thus the mistakes of the past Government were rectified. It was expected that after the democratic regime in the Hyderabad State, everything would be all right with the State Bank of Hyderabad, but, somehow or other, for mysterious reasons, things did not improve.

The hon. Minister was good enough to tell us the history and the close association of the State Bank of Hyderabad with the Reserve Bank of India. He also told us that the Hyderabad State Bank had an option not to come under the control of the Reserve Bank, but voluntarily, it offered itself, and its working was, in fact, under the control of the Reserve Bank of India. It was expected by the business circles of Hyderabad that after the control of the Reserve Bank of India, the State Bank of Hyderabad could again be pleased on a sound footing, but that did not happen.

Dr. Rama Rao referred to certain transactions. The sad story was repeated again and again and, as he said, the bills were discounted by the very same parties and from one branch of the Hyderabad State Bank they were sent to another branch of the Bank in the name of the very same parties. At that time, the very same party would again forward another bill in the name of another branch of the Hyderabad State Bank. Thus, without any money passing in cash and without there being any real transaction, for speculative purposes a good number of parties used this Bank. It is very doubtful how the conduct of the officers in the Hyderabad State Bank would go undetected at the hands of the Reserve Bank of India, which covered all the losses that accrued. The move was set in that the Hyderabad State Bank might be taken over by the State Bank of India. The negotiations had gone very far and at one stage it was expected that on any day it may be announced that the Hyderabad State Bank has become a part and parcel of the State Bank. That did not happen. I hope the hon. Minister will explain in his reply why it did not happen.

My information is that the State Bank of India went into the details, assessed the assets and liabilities and came to the conclusion that they could not pay the price that the Hyderabad

[Shri Heda]

Government, or for that matter, the Reserve Bank of India, would like them to pay for the shares. According to them—that is my information—the shares were not worth even half the value. Instead, the shares were raised to almost 12½ per cent. premium. Thus, the shareholders' interests had been protected and whatever losses occurred as a result of the past misdeeds by the Hyderabad State Bank had practically been taken over by the Reserve Bank. I know there is a provision in the present Bill that if any losses accrue, it will not be the responsibility of the Reserve Bank. But, the very fact that all the shares are owned by the Reserve Bank—the total share money is that of the Reserve Bank—shows that in practice, in effect, all the losses become the losses of the Reserve Bank. It is very difficult to say what would be the quantum of the losses. What Dr. Rama Rao read from the papers is not unreliable information and I think his estimate may not also be far wrong. The very fact that the Hyderabad State Bank had to take recourse to the personal properties of the clients who had discounted the bills shows that the loans advanced were for dubious transactions and there is every possibility of a good portion of it going as bad debt and ultimately it may have to be wiped off.

I come to another point. Why was it necessary for the Reserve Bank to purchase this bank? Was it simply because that as a result of the States re-organisation, the territory of the former Hyderabad State was going into three different States and the area covered by the Hyderabad State would not be covered by any particular State now? In that case, they could have turned it into a private bank, or liquidated it and paid the shareholders the present price or, if the assessment was still better, the better price; or, they could have amalgamated it—as was the original proposal—with the State Bank of India. All this did not happen. Instead, the Reserve Bank came for-

ward and, contrary to their policy so far, they created a sort of rival to the State Bank. No doubt the provision has been inserted that this Bank may at a future time take to giving banking facilities in the rural and semi-rural areas, and for that, the Reserve Bank may subsidise the transactions or the working of the future State Bank of Hyderabad. I think this and other ways have been found out to cover the past misdeeds and the losses. I feel that the Indian exchequer has been deprived of a good lot of money. Therefore, it is very necessary that a thorough enquiry, which will satisfy not the Finance Ministry, but the popular mind and popular sentiment, should be held. Otherwise, there is every possibility that the elements that had indulged in all these misdeeds for the last ten years or so may go on with the same type of activities, whether in the Bank or in other spheres of life. If evil is to be punished, here is the proper time to make an enquiry and punish it. Instead of doing this, they have been assured of their salaries, positions and all that. The feeling in the circles which are in the know of the past history of the Bank from close quarters is that in this world, if one is clever enough, he can indulge in any sort of anti-social activities and still come to the top. I am very sorry at this state of affairs and I hope even at this late hour, without standing on the question of prestige, the Finance Ministry would undertake a thorough investigation into the whole matter.

I would like to make one or two suggestions before I conclude. I quite agree with Shri Mohiuddin that there is no reason for decreasing the share capital of the bank in the new form. In fact, the share capital needs to be increased. If that is not done today, I am quite sure it will have to be done tomorrow, because even as it is there is an indication that this bank may go to the rural and semi-rural areas and its area of field activity would be very wide. The population of the former Hyderabad State was

1,86,00,000, whereas the present Andhra Pradesh, of which Hyderabad is the capital, has a population of 3,20,00,000. It is a big area with great potentialities. There is lot of irrigated land in Telangana and Andhra side. Therefore, I am quite sure that the activities of this bank will have to be increased manifold. So, the share capital of Rs. 50 lakhs would be very very inadequate. At the first instance it should be increased to at least Rs. 1 crore, as suggested by Shri Mohiuddin. I hope the time may come when even Rs. 1 crore would be found inadequate and it will have to be further increased.

If the idea is that after some time, the so-called bad debts are to be cleared and then the Bank would be handed over to the State Bank of India, as was the original idea, what they would have done was, they would have asked the State Bank of India what are the debts which they deem to be bad and they would have formed a separate company or they would have kept the area of activity of the old Hyderabad State Bank only to collecting those bad debts and the rest of the assets and liabilities would have been handed over to the State Bank of India. Thereby, the smooth working would have been possible and the policy of the Government throughout the country that the small banks in the old Indian or princely States should not be there and they should be integrated with the State Bank of India would have been easily implemented. That was not done. Therefore, I think that the Finance Ministry should make its mind clear. If they aim that the activities of the present Bank should be increased and vast sums should be given to it at subsidised interest, so that it may give credit in the rural and semi-rural areas in the potentially rich Andhra Pradesh, they should think at that level and make the present Bank work on those lines. In that case, again, I would like that commercial banking and the rural credit banking should be separated. If only rural credit is the aim, that

would be still better and we would be able to understand the change of the name and taking over its separate entity, etc. If that is not the aim, if the Finance Ministry thinks that at some stage, may be six months, may be one or two years, this will be integrated with the State Bank of India, then, let only that portion of the bad debts be accumulated at one place and the rest of the liabilities and assets be handed over to the State Bank of India. Let the old Hyderabad State be given the task of collecting what we call bad debts and whatever amount they may get, they may distribute to the shareholders later. In the mean time they would be given the amount assessed by the State Bank of India. I hope the Finance Minister would make his mind clear about the future working of this Bank and take steps accordingly.

Shri A. C. Guha: I am glad that the three Members coming from Andhra Pradesh have practically supported this Bill. Dr. Rama Rao has tried to paint a very gloomy picture about the past performance of this Bank. Of course, I myself stated in my opening speech that there has been some criticism about the working of this Bank. The Reserve Bank also had to conduct some inspection, and under clause 32 we have a provision that within the next one year, the Reserve Bank may re-open the transactions which may appear doubtful to the Reserve Bank,—within two years from the taking over of this Bank. We know that there have been some reports—not very healthy, not very good—about the working of this Bank. At the same time, the picture which Dr. Rama Rao has given us is somewhat exaggerated. He has tried to put the figure of bad debts at near about Rs. 2 crores. I think that is not quite correct. Rather Shri Mohiuddin's figures may be somewhat more correct. I expect that in the ultimate analysis, the amount to be written-off may be near about Rs. 80 lakhs which Shri Mohiuddin has conceded. We are still not very definite about

the figure. But, I expect it may not exceed Rs. 80 lakhs.

Mr. Deputy-Speaker: In one instance, Rs. 1,80,000 may be written off on account of the purchase of the house.

Shri Heda: That is not a bad debt. It has been manoeuvred.

Mr. Deputy-Speaker: When its value is Rs. 1 lakh and some thousands, it has been purchased for Rs. 250,000.

Shri A. C. Guha: There may be some loss in some transactions.

Dr. Rama Rao: It is fraud: not loss.

Shri A. C. Guha: According to the estimate of the book value the total assets, taking into consideration all the losses and liabilities of this Bank are Rs. 129 lakhs. We are paying to the shareholders Rs. 71 lakhs. While estimating this value of the assets and compensation, the Reserve Bank has taken into consideration the possible bad debts and other liabilities. There may be some loss in some transactions. The other transactions may have been somewhat profitable. This Bank has also some reserve funds and hidden profits. Calculating all these assets of the Bank, the Reserve Bank has put the compensation figure at Rs. 71 lakhs.

I think, whatever might have been the past, we should pay more attention to the future for which provision is being made in this Bill. It is not of much use now raking up the past. But, we have also made provision in this Bill to examine the past and if necessary we shall take necessary action. Dr. Rama Rao has said that those who have been responsible for these misdeeds have all been kept in positions of authority. But that is not quite correct. The managing director has gone. All the old directors except one and the Reserve Bank nominee have been changed. The present managing director is a new one who is not connected with any of the alleged irregularities. As for the officers and other employees guilty of malpractices, a thorough investigation will be made and necessary action will be taken.

Shri Heda has taken some objection to a provision in this Bill guaranteeing the present pay and amenities and service conditions to the employees. A similar provision has also been made in the State Bank of India Act. I think that is quite necessary. That does not give any protection to any officer who may be found guilty of some misdeeds in the course of the investigation. This is only a general provision to give protection to the present staff. Anybody who will be found guilty of some misdeeds will be dealt with in the proper manner.

Shri Mohiuddin has said that clause 32 has created a sort of consternation among the depositors. I cannot understand how it could have created a sort of consternation among the depositors. Clause 32 can only affect the officers or managers.

Shri Heda: He said clause 36.

Shri Mohiuddin: Clause 32 simply means that the Bank was very very badly managed. That is how the depositors are affected.

Shri A. C. Guha: It may not mean like that. It means only that the Reserve Bank has some suspicion and doubts. There have been several reports received from different quarters. The Reserve Bank reserves this right to re-open and examine the old cases, if there be any occasion for suspicion and doubt. Anyhow, that can only affect the officers and those who were in charge of management. Rather, it should give a sort of assurance to the depositors that no guilty person would be allowed to escape.

16 hrs.

Shri Mohiuddin has again asked for an assurance about the soundness of the Bank. As I have stated, the assets of the Bank have been estimated at Rs. 129 lakhs and we are paying to the shareholders Rs. 71 lakhs. To that extent, I think he will find the Reserve Bank is satisfied about the soundness of the Bank at least with regards to its future transactions.

Then he has asked that an assurance may be given that in terms of clause 32 the deposits of the depositors are safe. I think the simple fact that the Reserve Bank is taking over the Bank will give an assurance to the depositors that their deposits will be quite safe. Whatever might have been the faults of the past management, the depositors, I think, will have no occasion to suffer as far as the safety of their present deposits with the Bank, is concerned.

Dr. Rama Rao has tried to say that the period of two years to be covered by clause 32 before the appointed day and the period of one year for the review to be completed after the appointed day, are too short, but I think we cannot hang a sword of Damocles over the officers for an indefinite period. I think one year would be quite enough for the Reserve bank to trace the culprit if there is anybody to be punished there.

Then, something has been said about the authorised capital and the subscribed capital of the Bank. The hon. members will find that there is a provision in clause 9 stating:

"Provided that the Reserve Bank may, with the previous sanction of the Central Government, authorise an increase or reduction in the authorised capital of the Hyderabad Bank."

Then again in clause 10(2) it has been stated:

"The Reserve Bank may, with the previous sanction of the Central Government, authorise an increase in the issued capital of the Hyderabad Bank, and such increased capital shall be provided by the Reserve Bank."

So, we have taken enough care to see to it that without amending the Act the Reserve Bank and the Central Bank can increase the authorised as well as the subscribed capital. So, there should not be any fear on the score that the subscribed capital would be too small for the purpose of this Bank.

Shri Heda has mentioned about the natural resources and future prosperity of Andhra Pradesh and that this Bank will have to take up all those responsibilities. I can give him this assurance that whenever this Bank needs further capital, the Reserve Bank and the Central Government will take appropriate action under the provisions of the Bill before the House.

Shri Mohiuddin has referred to the Rural Credit Survey Committee Report and asked what about the other State Banks. I think he was not quite correct when he said that the previous Finance Minister accepted that recommendation without reservations. That is not at all correct. He may read the Government statements on that matter made on different occasions. I think in December 1954 the first statement was made by the then Finance Minister, and later at the time of passing the State Bank of India Act I also made certain statements. Nowhere have we stated categorically that the other State Banks would be taken over by the Government or the Reserve Bank. We have only stated that we have in principle accepted this recommendation and we shall examine the proposal and wherever possible and whenever necessary we shall surely implement it.

On this point I would refer the hon. Member to the position of the other State-affiliated Banks. There are nine or ten banks out of which the Bank of Baroda has to be left out due to some legal difficulty. The Saurashtra Bank and the Bank of Patiala are wholly under the State Governments. The entire capital has been subscribed by the two State Governments in these two Banks. There was previously some difficulty about the State Government managing a Bank, some constitutional difficulty, when banking was a Union subject; but that difficulty has been removed. Now, the two State Governments will run these two Banks. The Bombay Government will run the Saurashtra State

[Shri A. C. Guha]

Bank and the Punjab Government will run the Patiala State Bank.

So, there now remain only six other Banks of which this one we are taking over. Of the other Banks, in the case of two there is not a single pie contributed by any State Government to the share capital—that is in the case of the Rajasthan Bank and the Mysore Bank. In four other Banks the share of the respective State Governments does not exceed 34 per cent. In one case it is 5 per cent, in another it is 25, in another 34.5, in another 16.4. So, it can hardly be said that they are really State Banks. We have examined how far they can be helpful for the purpose of spreading rural credit, and I think it is yet premature to say that Government or the Reserve Bank would consider these banks to be the quite appropriate machineries to give rural credit. But we have not come to any definite decision. We shall decide in appropriate time. But, I think the programme of the Reserve Bank and the Central Government about rural credit will not be delayed. That has been proceeding; and the State Bank of India has undertaken to open branches in rural areas and semi-urban areas. That question should not be tacked on to this Bank. We are now nationalising it primarily, if not solely—I should rather say solely—because of States' reorganisation. Hyderabad State has been split into three States. So, the nationalisation of this bank should not be tacked on to the question of rural credit survey recommendation. It is just in its own merit that it has been decided to nationalise this Bank.

I think I have covered almost all the points mentioned by the three hon. Members. I hope now the Bill may be taken up for consideration.

Shri Heda: I had enquired whether there was a talk going on with the State Bank of India to take over this Bank, and if so, what happened to those negotiations?

Shri A. C. Guha: There is a provision here under which, without amending the Act, this Bank can be amalgamated with the State Bank. I have stated that in my opening speech.

Shri Heda: Did the negotiations take place in this regard?

Shri A. C. Guha: There is no question of negotiations. Now the Bank will belong to the Reserve Bank and whenever the Reserve Bank feels it necessary, it will simply transfer it to the State Bank.

Mr. Deputy-Speaker: The question is:

"That the Bill to transfer the share capital of the Hyderabad State Bank to the Reserve Bank of India and to provide for its proper management and other matters connected therewith or incidental thereto be taken into consideration."

The motion was adopted.

Clause 2— (Definitions)

Amendment made:

Page 2—

for lines 2 and 3, substitute:

'(a) "appointed day" means the 22nd day of October, 1956;'

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

"That clause 2, as amended, stand part of the Bill".

The motion was adopted.

Clause 2, as amended, was added to the Bill.

Clauses 3 to 5 were added to the Bill.

Clause 6— (Compensation to Shareholders etc.)

Shri A. C. Guha: Sir, I have an amendment. There is a slight typographical error. Instead of 'the shares in the capital of the Hyderabad State

Bank of the Reserve Bank', it should be 'to the Reserve Bank'.

Here, the position is this. Under regulation 49 of the Hyderabad State Bank, a shareholder may claim a minimum dividend of 3 per cent. We want to overcome that difficulty. Here we are providing that no such claim shall be entertained. But any dividend which has been declared by the Hyderabad State Bank but not yet been paid, that liability, of course the Reserve Bank takes over. But, for any period for which the Hyderabad State Bank has not declared a dividend, we do not like to entertain this liability of any shareholder claiming a minimum dividend of 3 per cent under regulation 49. Of course, if on examination the Reserve Bank finds that there is sufficient money for it, sufficient profit, then, it can declare the dividend. I hope the amendment will be accepted.

Shri Mohiuddin: May I know whether 3 per cent. was guaranteed by the Government of Hyderabad or was it only in the regulation?

Shri A. C. Guha: It was only in the regulation. I do not think it was in the Act.

Mr. Deputy-Speaker: There is an amendment in the name of the hon. Member, Shri Mohiuddin; does he want to move it?

Shri Mohiuddin: No, Sir.

Amendment made:

Page 3—

for lines 11 to 22, substitute:

"(2) Notwithstanding the transfer of the shares in the capital of the Hyderabad State Bank to the Reserve Bank, any shareholder who, immediately before the appointed day, was entitled to payment of dividend on the shares of the Hyderabad State Bank held by him shall be entitled to receive from the Hyderabad Bank all dividends declared by the Hyderabad State Bank in respect of his shares for any year which ended before the appointed day and remaining unpaid.

(2A) Notwithstanding anything contained in the Hyderabad State Bank Act, 1350F, no such shareholder shall be entitled as of right to any dividend on the shares of the Hyderabad State Bank held by him in respect of any period before the appointed day for which that Bank had not declared a dividend:

Provided that the Central Government may, in respect of any such period, authorise the payment of dividend at such rate as it may specify if it is satisfied that there is sufficient balance of profits available after such provisions and contributions for the purposes referred to in section 28 as the Reserve Bank considers necessary have been made."

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

"That clause 6, as amended, stand part of the Bill."

The motion was adopted.

Clause 6, as amended, was added to the Bill.

Clause 7—(Certain officers of the Hyderabad State Bank to vacate office.)

Shri A. C. Guha: There is a Government amendment, Sir. That is also consequential on the Ordinance. The Bank has already been taken over by the Reserve Bank.

Amendment made:

Page 3, line 41—

after "if his employment had ceased" insert, "on the appointed day".

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

"That clause 7, as amended, stand part of the Bill."

The motion was adopted.

[Mr. Deputy-Speaker]

Clause 7, as amended, was added to the Bill.

Clause 8 was added to the Bill.

Clause 9.— (Authorised Capital).

Mr. Deputy-Speaker: There is an amendment to clause 9 by Shri Mohiuddin.

Shri Mohiuddin: Sir, I move:

Page 5, lines 3 and 4—

for "one crore" substitute "two crores".

Shri A. C. Guha: I am not prepared to accept it, Sir. I have stated that there is already provision in the Bill.

Mr. Deputy-Speaker: The question is:

Page 5, lines 3 and 4—

for "one crore" substitute "two crores".

The motion was negatived.

Mr. Deputy-Speaker: The question is:

"That clause 9 stand part of the Bill."

The motion was adopted.

Clause 9 was added to the Bill.

Clause 10.— (Issued Capital).

Shri A. C. Guha: In clause 10, there is an amendment No. 6. It is only for clarification. This is also made in the Ordinance.

Amendment made:

Page 5, line 11—

after "Hyderabad Bank and" insert "such capital".

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

"That clause 10, as amended, stand part of the Bill."

The motion was adopted.

Clause 10, as amended, was added to the Bill.

Clauses 11 to 17 were added to the Bill.

Clause 18.—(Remuneration of directors)

Shri A. C. Guha: Sir, in clause 18, there is a Government amendment, No. 7. This is also simply for clarification. It was introduced in the Ordinance also. The word 'Government' will include State Government officers as well. There is no specific provision in the Bill for the nomination of the State Government Officers on the Board and if one of the Directors to be nominated by the Reserve Bank happens to be a State Government Officer, it will be for the State Government to regulate his travelling and other expenses. So, we make a distinction between the State Government and Central Government Officers.

Amendment made:

Page 8, line 13—

for "Government" substitute "Central Government".

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

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

The motion was adopted.

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

Clause 19 to 23 were added to the Bill.

Clause 24— (Hyderabad Bank to act as agent of the Reserve Bank)

Shri A. C. Guha: Sir, there is a Government amendment to clause 24, No. 8.

It has been provided that the terms shall be settled by the Reserve Bank. We cannot leave a vacuum till the terms and conditions are finally settled. So, it has been provided in this clause for the interim period. It provides for the continuance of the present arrangement; this will be till the new arrangement is made.

Amendment made:

Page 10, after line 14, add:

“(4) Until a new arrangement is made under this section, the Hyderabad Bank shall continue to act as agent of the Reserve Bank at the same places where and for the same purposes for which, and on the same terms and conditions on which, the Hyderabad State Bank was acting as the agent of the Reserve Bank immediately before the appointed day.”.

—[Shri A. C. Guha]

The motion was adopted.

Mr. Deputy-Speaker: The question is:

“That clause 24, as amended, stand part of the Bill”.

The motion was adopted.

Clause 24, as amended, was added to the Bill.

Clauses 25 and 26 were added to the Bill.

Clause 27— (Reserve Fund)

Shri Mohiuddin: I beg to move:

Page 11, after line 28, insert:

“(aa) rupees fifty lakhs which will be transferred by the Reserve Bank of India to Hyderabad Bank on the day this Act comes into force; and”.

I have suggested that the paid-up capital should be raised to Rs. 1 crore but the hon. Minister has not accepted it. I suggest that the base of the Bank—Rs. 50 lakhs is the paid-up capital now—may be strengthened by the transfer of Rs. 50 lakhs from the Reserve Bank to the reserve fund of the State Bank so that there is more confidence in the public and others concerned. I hope the Minister will accept my amendment. There is no departure from our policy. The Government of India made available a sum of Rs. 5 crores straightaway when the Reserve Bank was formed.

Shri A. C. Guha: It will be rather easier for me to swallow his previous amendment than this one. I am not able to accept the amendment.

Mr. Deputy-Speaker: The question is:

Page 11, after line 28, insert:

“(aa) rupees fifty lakhs which will be transferred by the Reserve Bank of India to Hyderabad Bank on the day this Act comes into force; and”.

The motion was negated.

Amendment made:

Page 11, line 27—

for “sub-section (2)” substitute “sub-section (1)”.

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

“That clause 27, as amended, stand part of the Bill”.

The motion was adopted.

Clause 27 as amended, was added to the Bill.

Clause 28 was added to the Bill.

Clause 29— (Closing of annual accounts)

Shri Mohiuddin: I beg to move:

Page 12—

Omit lines 11 and 12.

I propose by my amendment to delete sub-clause (a).

Mr. Deputy-Speaker: That is not necessary; that will be a negative vote.

Shri Mohiuddin: (a) is only part of the clause. I shall explain the reasons for it. The reasons are these. The Hyderabad State Bank accounts are now closed on the 30th September. According to the Banking Act, the accounts of banks should close at the end of December every year. It is for this purpose that it is provided that the accounts of the State Bank should also close on the 31st December. But if in any year it may not be

[Shri Mohiuddin]

possible to close the accounts on the 31st December, the enabling clause is introduced here—"close and balance its books on any other day of the year or for any period other than a calendar year." That is sufficient. The sub-clause "not close or balance its accounts on the thirty-first day of December in any year, or" is unnecessary. I hope the hon. Finance Minister has thought over this. Sub-clause (b) is quite sufficient according to the Act, and two negative clauses are not necessary. Sub-clause (b) is sufficient.

Shri A. C. Guha: No, I think it is necessary, because the previous provision is an obligatory provision for the bank to close its accounts on the 31st December. I think the first part also is necessary.

Mr. Deputy-Speaker: The question is:

Page 12,—

omit lines 11 and 12.

The motion was negatived.

Mr. Deputy-Speaker: The question is:

"That clause 29 stand part of the Bill."

The motion was adopted.

Clause 29 was added to the Bill.

Clause 30— (Audit)

Shri A. C. Guha: My two amendments to this clause are only seeking to make verbal changes, and they are Nos. 9 and 10.

Amendments made:

(1) Page 13, line 11—

for "An" substitute "The".

(2) Page 13, line 29—

for "profit and loss" substitute "profit or loss".

—[Shri A. C. Guha]

Shri Mohiuddin: My amendment is No. 24. I beg to move:

Page 12, lines 24 and 25—

Omit "with the approval of the Central Government".

I have suggested that the words "with the approved of the Central Government" may be omitted because the Reserve Bank is responsible for it, and the Government of India has, under a subsequent clause the authority to appoint its own auditor. There is no meaning in the Government of India approving one auditor who normally audits and then appointing another Auditor for special audit. There is no meaning in the Government of India coming in in both these clauses.

Shri A. C. Guha: I cannot accept the amendment suggested by the hon. Member.

Mr. Deputy-Speaker: The question is:

Page 12, lines 24 and 25—

omit "with the approval of the Central Government".

The motion was negatived.

Mr. Deputy-Speaker: The question is:

"That clause 30, as amended, stand part of the Bill."

The motion was adopted.

Clause 30, as amended, was added to the Bill.

Clause 31 was added to the Bill.

Clause 32— (Right of Reserve Bank to seek relief in respect of certain transactions)

Shri Mohiuddin: Instead of the words "within two years before the appointed day" I have suggested that the appointed day should be brought in, that is, before 22nd October, 1956. If this Act comes into force from the end of December or even it may take some longer time and the period will still be reduced. I thought that a minimum of one year should be pro-

vided and I wanted to calculate it from the 22nd October 1956, on which the Ordinance came into force.

Shri A. C. Guha: The Reserve Bank is already looking into this matter and whatever action is necessary, they might have started to take it.

Mr. Deputy-Speaker: The Minister is not prepared to accept it. Does the hon. Member wish to move his amendment in the circumstances?

Shri Mohiuddin: I do not move it, Sir.

Mr. Deputy-Speaker: The question is:

"That clause 32 stand part of the Bill."

The motion was adopted.

Clause 32 was added to the Bill.

Clauses 33 to 38 were added to the Bill.

Clause 39—(Exercise of powers and functions on behalf of the Reserve Bank)

Shri A. C. Guha: Sir, I have an amendment to clause No. 39. It just follows the line taken in the Ordinance. Under the Reserve Bank of India Act, the Deputy Governor may perform certain functions of the Governor during the latter's absence. So, he may perform those functions under the present Bill also. It also clarifies that other officers may exercise only certain well-defined and restricted powers and functions as are given to them.

Amendment made:

Page 16, lines 33 and 34—

for "or such other person or persons as may be prescribed" substitute:

"or, in his absence, a Deputy Governor nominated under subsection (3) of section 7 of the Reserve Bank of India Act, 1934, or, subject to such conditions and limitations and in respect of such matters as the Governor of the

Reserve Bank may specify, such officer or officers of the Reserve Bank as may be prescribed".

—[*Shri A. C. Guha*]

Mr. Deputy-Speaker: The question is:

"That clause 39, as amended, stand part of the Bill.

The motion was adopted.

Clause 39, as amended, was added to the Bill.

Clause 40 was added to the Bill.

Clause 41—(Power of Central Government to make rules)

Shri A. C. Guha: I have two amendments Nos. 12 and 13 to clause 41. The first is just a sort of a clarification to make the meaning quite clear and define the rule-making power more precisely. The other amendment seeks to delete the sub-clause which has been considered unnecessary, the other sub-clause being considered sufficient to cover the case of the Hyderabad Bank. These changes are in line with the Ordinance.

Amendment made:

(1) Page 17; line 6—

for "the procedure for" substitute "the manner of, and the procedure for".

(2) Page 17—

(i) line 23, omit "and"; and

(ii) omit lines 24 and 25.

—[*Shri A. C. Guha*]

Mr. Deputy-Speaker: The question is:

"That clause 41, as amended, stand part of the Bill."

The motion was adopted.

Clause 41, as amended, was added to the Bill.

Clause 42 was added to the Bill.

Clause 43—(Amendment of certain enactments)

Shri A. C. Guha: For clause 43, I have an amendment No. 14. This is also a sort of a clarification which makes clear the meaning. The amendments suggested shall take effect not on the day on which the Ordinance was promulgated but on 22-10-1956. These provisions will take effect on that day.

Amendment made:

Page 19—

for clause 43, substitute:

“43. *Amendment of certain enactments.* — The enactments specified in the Second Schedule shall be amended in the manner directed therein and such amendments shall be deemed to have taken effect on the appointed day notwithstanding anything to the contrary contained in section 43 of the State Bank of Hyderabad Ordinance, 1956.”

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

“That clause 43, as amended, stand part of the Bill.”

The motion was adopted.

Clause 43, as amended, was added to the Bill.

Clauses 44 and 45 were added to the Bill.

Shri A. C. Guha: There is an amendment for the insertion of a new clause—clause 46. It is only to repeal certain Acts and there are some saving clauses in respect of certain actions that might have been taken in connection with that bank.

New Clause 46

Amendment made:

Page 20—

after line 12, add:

“46. *Repeal and saving.*—(1) The State Bank of Hyderabad Ordinance, 1956, is hereby repealed.

(2) Notwithstanding such repeal, anything done or any action taken (including any appointment, order, rule or regulation made or direction or instruction given) in the exercise of any powers conferred by or under the said Ordinance shall be deemed to have been done or taken in the exercise of the powers conferred by or under this Act, as if this Act were in force on the date on which such thing was done or action was taken.”

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

“That Clause 46 be added to the Bill.”

The motion was adopted.

Clause 46 was added to the Bill.

Schedule I was added to the Bill.

Second Schedule

Shri A. C. Guha: I have an amendment to the Second Schedule No. 16. It is simple and clarifies the position with regard to the Hyderabad State Bank *vis-a-vis* the Reserve Bank. In these amendments, wherever simply the word ‘Bank’ has been mentioned, it will refer to the Reserve Bank.

Amendment made:

Pages 22 and 23—

for lines 23 to 34 and lines 1 to 6 respectively, substitute:

‘3. Section 45 shall be renumbered as sub-section (1) thereof, and—

(i) in sub-section (1) as so renumbered, for the proviso, substitute the following, namely:

“Provided that nothing herein contained shall affect the provisions of any agreement subsisting on the 1st day of July, 1955, between the Bank and any other banking institution for the conduct of Government business or other matters.”; and

(ii) after sub-section (1) as so renumbered insert the following sub-sections, namely:

"(2) Notwithstanding anything contained in sub-section (1), the Bank may employ or continue to employ as its agent—

(i) the Hyderabad Bank as defined in the State Bank of Hyderabad Act, 1956, at such places where and for such purposes for which, the said bank was the agent of the Reserve Bank immediately before the 1st day of November, 1956; and

(ii) any other banking institution notified by the Central Government in this behalf for the conduct of Government business or other matters at such places in India as may be approved by the Central Government.

(3) Notwithstanding anything to the contrary contained in any agreement between the Bank and the State Bank, it shall be lawful for the Bank to exclude from the operation of such agreement any place where any of the banking institutions referred to in sub-section (2) may have an office or branch."

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

"That the Second Schedule, as amended, stand part of the Bill."

The motion was adopted.

The Second Schedule, as amended, was added to the Bill.

Shri A. C. Guha: There is an amendment to clause 1 and also in the Preamble we want to omit the word 'impending' as it is not now very appropriate as the States' Reorganisation has taken place.

Amendment made:

Page 1—

for lines 20 and 21, substitute:

"(2) It shall be deemed to have come into force on the 22nd day of October, 1956."

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

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

The motion was adopted.

Clause 1, as amended, was added to the Bill.

Mr. Deputy-Speaker: Now there is the Preamble. The hon. Minister has already explained the amendment that he wants to make.

Amendment made:

Page 1, line 1—

omit "impending"

—[Shri A. C. Guha]

Mr. Deputy-Speaker: The question is:

"That the Preamble, as amended, stand part of the Bill."

The motion was adopted.

The Preamble, as amended, was added to the Bill.

The Enacting Formula and the Title were added to the Bill.

Shri A. C. Guha: Sir, I beg to move:

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

I think the Members coming from Andhra State will now be reassured that under the control and supervision of the Reserve Bank of India this Bank will function properly and will attend to the needs of the new State which has got immense possibilities for economic and industrial development. I hope the House will be pleased to pass the Bill as amended.

Mr. Deputy-Speaker: Motion moved:

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

Shri U. M. Trivedi (Chittoor): Sir, it is an irony of fate that the Government, having promised in the beginning, when the State Bank of India Act was passed by this House, that so many other Banks which were functioning and were carrying on the duties of Government in the various States, which then went to form the whole of the Indian Union may be taken over by the State Bank of India should have come forward with this Bill.

Mr. Deputy-Speaker: The hon. Member was not here when the hon. Minister explained all those things.

Shri U. M. Trivedi: I do not know. What I know is this. This is known as the State Bank of Hyderabad.

This is not known as the State Bank of India.

Shri Heda: Now its name will be the State Bank of Hyderabad.

Shri U. M. Trivedi: That is what I say. I want that it should be completely merged with the State Bank of India.

Mr. Deputy-Speaker: I only referred to his previous point as to why other associated banks had not been nationalised or brought into this.

Shri U. M. Trivedi: My objection at present is only to this State Bank of Hyderabad. There was a desire that all these banks should be amalgamated with the State Bank of India. On one excuse or the other the various banks are still allowed to function. The Rajasthan Bank is working in certain parts of Rajasthan, the Jaipur Bank in certain parts of Rajasthan and the Indore Bank in the old Madhya Bharat, now Madhya Pradesh. We have now this State Bank of Hyderabad which was working as the State Bank for the whole of Hyderabad. Now it is not being taken over as part and parcel of the State Bank of India but as a separate entity in itself entitled the State Bank of Hyderabad.

My objection is only this. If the Government of India so desires, if the Government is very anxious that the whole control of Government business in the country should only be handled by one bank, then there was no necessity whatsoever to have this new Act to control the State Bank of Hyderabad. It ought to have gone the whole hog, to the same length to which it went in respect of

the State Bank of India. In other words, the State Bank of Hyderabad ought to have been amalgamated with the State Bank of India so that there would be uniform working all over India in regard to Government business.

That is all what I want to say. Although it is at a very late stage, I do not know whether the measure that is now contemplated will serve the purpose for which it has been made.

Dr. Rama Rao: Sir, I want to take only one minute. I shall be the happiest person if my estimate of Rs. 2 crores in respect of bad debts will be proved wrong. I hope it will be wrong. Anyway there are many skeletons in the cupboard of the Hyderabad State Bank and it requires very thorough examination, and very quick and prompt examination. Sub-clause (4) especially, of clause 32, puts a handicap on the Reserve Bank of India. I am referring again to the same point. Now that the Minister has not been pleased to extend the time of one year the Reserve Bank may immediately go into this matter. Therefore, the Government of India must go into this matter very quickly so that all these matters can be cleared and whatever applications have to be brought before the High Court may be brought within one year.

Sir, I join the hon. Minister in the hope that this State Bank of Hyderabad will be a great asset to Andhra Pradesh in its industrial development.

Mr. Deputy-Speaker: I do not think the hon. Minister wants to say anything.

Shri A. C. Guha: No, Sir, except that I thank the hon. Members for welcoming this Bill.

Shri U. M. Trivedi: Sir, I want to point out that there is no quorum in the House.

16-46 hrs.

Mr. Deputy-Speaker: The bell is being rung.

There is quorum now. I shall now put the motion to the vote of the House.

The question is:

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

The motion was adopted.

ABDUCTED PERSONS (RECOVERY AND RESTORATION) CONTINUANCE BILL

The Minister of Works, Housing and Supply (Sardar Swaran Singh): Sir, I beg to move:

"That the Bill to continue the Abducted Persons (Recovery and Restoration) Act, 1949, for a further period be taken into consideration."

Shri U. M. Trivedi (Chittor): Sir, I rise on a point of order. This Bill is known as the Abducted Persons (Recovery and Restoration) Continuance Bill, 1956. It is a new Bill in itself and this provides for the continuance of a certain Bill of which a copy has not been supplied to us. That point I will raise later on. But the first question that arises is this. Any continuation of the work of recovery and restoration of abducted persons will require expenditure to be incurred from the Consolidated Fund of India. As such a recommendation for the consideration of this Bill—I do not know whether there was any recommendation at the introduction stage—from the President is required under article 117, clause (3). This is a very important provision of law which is wanting in this case. Therefore, I should say that this Bill cannot be considered at this stage.

Mr. Deputy-Speaker: It would not be beyond anything that we are incurring already. Does the hon. Member mean to say that because the previous Bill would expire and this one seeks to continue the work, therefore a certain expenditure shall have to be incurred?

Shri U. M. Trivedi: Certain expenditure will have to be met over and above that for which the Bill provided and for which consideration was made, when the original Bill was introduced. This is a new Bill. I would have accepted the proposition if the Bill's heading was "Abducted Persons (Recovery and Restoration) Amendment Bill", and I would not have raised this point at all. But now, this Bill has got a new name entirely. This is a new Bill—"The Abducted Persons (Recovery and Restoration) Continuance Bill, 1956". It is an entirely new Bill, and is not an amending Bill. So, within the spirit and letter of the law, I say that this Bill cannot be considered.

Sardar Swaran Singh: So far as the recommendation by the President is concerned, it is not a money Bill of the type which attracts the provisions of the Constitution. The expenditure which may be incurred for setting up the institutions is not of that type or case which comes within the purview of the relevant article of the Constitution which has been referred to by the hon. Member. The Bill will be enacted and if there is not already a provision in the budget, a supplementary demand or the like can be brought forward. It will be stretching this point too much, if one were to say that expenditure will be incurred. After all, whatever may be the legislative provision that is undertaken, some expenditure may be incurred. For instance, a larger number of offences may be created, as coming under the law, by an Act, but that does not mean that a larger number of courts are to be established and that therefore that legislation becomes a money Bill.

Shri U. M. Trivedi: I never said, "money Bill".

Mr. Deputy-Speaker: He will come to that, when he refers to the amendment.

Sardar Swaran Singh: So, there is no such contingency as is contemplated by the Constitution. As for the