

Shri Tridib Kumar Chaudhuri (Berhampore): It seems that all the forces that we have sent to Congo are under the U. N. Commission. So, have we also taken up this matter at the U. N. end to see that effective steps are taken to prevent recurrence of this kind of thing.

Shri Jawaharlal Nehru: I do not understand this. It is the U. N. which is taking it up. The Chief of Staff is an Indian officer there.

Shri Goray (Poona): This incident may be taken as a symptom of the growing rift between the Prime Minister of Congo and the U.N. Today, in the press, it is reported that the Prime Minister of Congo has said that they are ready to renounce U.N. help. If these things happen, what will be our attitude? We are going there to help the Congo Government. If there is rift between the Congo Government and the U.N., what role can our soldiers play there.

Shri Jawaharlal Nehru: I cannot deal with hypothetical questions. It is rather delicate. I am not prepared to give any answer. If any situation arises, we have to consider. The matter is under the consideration of the Security Council and they are meeting tomorrow evening.

12-10 hrs.

STATEMENT RE: PALAI CENTRAL BANK

Mr. Speaker: The Finance Minister.

The Minister of Finance (Shri Morarji Desai): The statement is six pages long. If you want, I will lay it on the Table of the House. Otherwise, I will read.

Some Hon. Members: Read.

Mr. Speaker: Yes.

Shri Morarji Desai: With your permission I should like to make a statement about the Palai Central Bank.

Hon'ble Members will remember the statement I made on the floor of the House after the Kerala High Court had admitted the petition for the winding up of this Bank and appointed a provisional liquidator. I then gave the House all the facts which were then in the possession of the Government. I have since had the advantage of a detailed discussion with the Governor of the Reserve Bank.

There is considerable misunderstanding about the action taken by the Reserve Bank in asking for the winding up of the Palai Bank. The Reserve Bank has been criticised by some for not taking earlier remedial action and by others for having taken too precipitate an action. There has also been some criticism about the view taken by the Reserve Bank regarding the financial position of the Palai Bank.

I shall first deal with certain general issues which have been raised in in the public discussions following the action taken against the Bank. There appears to be a mistaken belief that because a bank is a scheduled bank, the Reserve Bank or someone else has guaranteed the proper working of the institution and has in some way underwritten its deposits. The mere fact that the bank is entered in the Second Schedule to the Reserve Bank of India Act does not carry with it any such implication. It merely means that the bank is of a certain minimum financial standing, that it has to make certain statutory deposits with the Reserve Bank and because of its inclusion in the schedule it gets the benefit of credit from the Reserve Bank on suitable terms and conditions. The Reserve Bank of India Act by itself does not confer any degree of control or supervision over the affairs of the scheduled banks. The Reserve Bank's powers of supervision and control flow from the provisions of the Banking Companies Act, 1949. I shall have occasion to mention later something about the Reserve Bank's supervision of this bank.

[Shri Morarji Desai]

There is also some confusion regarding the licensing of this bank. The Banking Companies Act provides for the licensing of all new banks. For banks already functioning when the Act came into effect, provision is made for the grant or refusal of a licence after the expiry of three years from the commencement of the Act. Until a licence is refused, the banks are allowed to carry on business. The Palai Central Bank has been functioning since 1927 and the question of giving or refusing a licence to it arose only in 1954, three years after the Banking Companies Act came into effect in the then Part B State of Travancore-Cochin. But in actual fact a licence was not issued to this bank. It had not been refused a licence either in terms of the Act because such refusal would have meant the closure of the bank. I mention this particularly because there appears to be an impression in certain quarters that this bank had been licensed by the Reserve Bank.

The Banking Companies Act provides for the statutory inspection by the Reserve Bank of banking companies, whether scheduled or non-scheduled. These inspections were commenced in 1950 and adequate machinery for continuous inspection has since then been progressively built up by the Reserve Bank. The main purpose of these inspections is to secure that the banks function efficiently and in the interests of the depositors and the Reserve Bank uses them primarily for guiding and advising the management and not as an instrument for the dissolution of these institutions except when this is inescapable in the interests of the depositors. These inspections cover a large number of institutions, most of whom have grown up for a period of years. Not all of them are without defects. Some of the defects are capable of quick rectification while others will take more time. There is also the

question of getting the cooperation of the management which may not always be forthcoming in full measure. In dealing with inspected banks, the Reserve Bank has to take into careful consideration the effect of any drastic action against the bank both on its depositors and on the banking system generally in the area in which the bank functions. Confidence is a particularly sensitive plant and any damage done to it cannot easily be repaired. It is incumbent on the Reserve Bank to take all these factors into account before taking any drastic action. It is bound to take all steps possible to nurse even an unsound institution so long as there is a chance of its being rehabilitated. It is only when there is no chance of this and the depositors' interests are in danger of further damage that the bank will be justified in applying for a liquidation. It is against the background of these considerations that one has to judge the propriety of the action taken by the Reserve Bank and the timing of this action.

As I mentioned in the statement made earlier in this House, the Palai Central Bank was inspected four times in the last ten years, in 1951, 1956, 1958 and 1960. In between there were two rough and quick inspections in 1953 and 1955. The defects noticed in these inspections were taken up with the management and over a long period the Reserve Bank made patient and continuous efforts to make the management rectify the defects, and secure a more efficient functioning of the institution. It is tragic that these efforts proved of no avail. While during this period there had been a progressive deterioration in the bank's position, the Reserve Bank considered, and I think it was right in this view, that drastic action such as refusing a licence or putting the bank into liquidation should not be taken until it was clear beyond doubt that there was no hope of rehabilitating it and that the interests of the depositors were in immediate jeopardy. If the

recent run on the institution had not taken place, even then it would have required many years of patient effort to put this bank on its feet. But the loss of confidence in the institution evidenced by the run and the large sums suddenly withdrawn from it ruled out any hope of rehabilitation and left the Reserve Bank with no option but to ask for a winding up in the interests of the remaining depositors. If action had been taken earlier, it might have been open to the criticism that sufficient time and opportunity had not been provided for those controlling the bank to set their house in order. If it had been deferred, there was every chance of preferred creditors and those with demand liabilities getting away with what was readily available, leaving the other creditors to face a dead loss. One has to balance nicely the various conflicting considerations and with full knowledge of all the factors involved, I have little doubt that the action taken by the Bank and its timing were appropriate.

I shall now deal with the criticism that the financial position of the bank did not justify the authorities in asking for its winding up. I gave certain figures regarding this in my earlier statement to the House. These figures have since been controverted by some of the Hon'ble Members, who have produced certain figures purporting to show the position immediately before the winding up of the bank. The sources from which these figures have been obtained are not clear. It has been stated that at the time the bank was closed it had over Rs. 4 crores as liquid assets made up of Rs. 1.38 crores of cash and bank balances, Rs. 1.7 crores of Government securities, Rs. 5 lakhs in shares and debentures, Rs. 80 lakhs in advances against gold and Rs. 30 lakhs in advances against other saleable assets. But when the position is that a bank has to meet its payments over the counter, the only really liquid assets available to it are the actual cash, the available

Government securities and balances in other banks which could be readily drawn. The position in regard to the balances available with other banks is not clear but the information with the General Manager of the Bank when he met the Governor and senior officers of the Bank in Bombay was that the cash and borrowing powers on securities still available to him were Rs. 50 lakhs and Rs. 100 lakhs respectively. These figures have since been confirmed by him. Even if the available assets were somewhat larger, I do not think this would have made any difference to the final decision of the Reserve Bank. Between the publication of the last balance sheet of the institution and the date of its winding up Rs. 150 lakhs or so of deposits had been withdrawn. The further ready cash and borrowing powers available to the bank amounted to only Rs. 150 lakhs. The other good assets, such as advances on gold, etc. are not really cash and would not have been readily available for payment. The overall position of the bank was also unsound. Out of its total advances of Rs. 5.6 crores as on the 29th July 1960, Rs. 219 lakhs were irrecoverable and Rs. 18 lakhs doubtful. A sum of Rs. 112 lakhs had been locked up in advances not easily realisable, a substantial portion of which is likely to prove irrecoverable. Even before the recent run on the bank, the interests of the depositors had been grievously affected by the large amount of irrecoverable, doubtful and difficult advances and this had been made worse for the remaining depositors by the large withdrawals which had substantially reduced the readily available assets. Any further delay in winding up the bank would have only meant that the run would have continued and the preferred creditors would have got away with whatever ready assets were available. In all the circumstances, I believe that the action taken by the Reserve Bank was inescapable and was not taken a moment too soon.

[Shri Morarji Desai]

The liquidation of any bank and particularly a bank with large deposits is a tragic event which brings in its trail privation and hardship to thousands of people, big and small. It is not that Government are unsympathetic to the plight of the depositors. We have in recent years sought to protect the interests of the depositors by various amendments to the Banking Companies Act. In the light of the present development, we are considering if the interests of the depositors and particularly the smaller ones could not be protected to a greater extent than at present. We are also examining the question of securing quicker initial relief to the depositors of banks going into liquidation. This may involve an amendment of the existing law and while the matter is under urgent examination, the House will appreciate that I am not in a position to make any precise announcement.

I have seen suggestions made in some quarters that Government should come to the direct assistance of the depositors in this institution. It is not proper to ask the general taxpayer to pay for the loss of an individual concern and any concession will have to be extended to other institutions similarly placed. I am sure the House will not consider me as wanting in sympathy for the plight of the depositors if I invite its attention to the wider implications of such a proposal.

Shri Braj Raj Singh (Firozabad): May I put a question?

Mr. Speaker: No.

Shri Braj Raj Singh: May I put a question only about the licensing of the bank? The hon. Minister has disclosed that there were four inspections...

Mr. Speaker: Order, order. The hon. Member may resume his seat. I am going to allow a discussion on this matter. It has been all along

asked for. The statement may kindly be read by all hon. Members. I shall have the statement circulated to every hon. Member.

We shall have a discussion on this, which would commence at 4 p.m. on Monday, the 22nd August, 1960. It will go on till 6.30 p.m. on that day. If I find that there are a number of hon. Members who not merely repeat but certainly add to the discussion, I shall consider the desirability of having it stand over, and we shall take it up on the next day at about 4 p.m. or 5 p.m. and carry on till such time as is necessary. Ample opportunity will be given for discussion. Hon. Members will hold their souls in patience. Let them study every point and then come before the House on Monday.

12.21 hrs.

BUSINESS OF THE HOUSE

The Minister of Parliamentary Affairs (Shri Satya Narayan Sinha): With your permission, Sir, I rise to announce that Government Business in this House for the week commencing Monday, the 22nd August, 1960 will consist of:—

- (1) Discussion on the Draft Outline of the Third Five Year Plan on a motion to be moved by the Minister for Planning;
- (2) Consideration of any item of business carried over from today's Order Paper;
- (3) Discussion and voting on the Supplementary Demands for Grants (General) for 1960-61;
- (4) Consideration and passing of the following Bills:—

The Central Excises (Conversion to Metric Units) Bill, 1960;