

## MOTION FOR ADJOURNMENT

RETRENCHMENT OF TECHNICAL PERSONNEL  
OF INDO-STANVAC PROJECT

**Mr. Speaker** There is a notice of an adjournment motion on the mass retrenchment of technical personnel of the Indo-Stanvac oil exploration project. There was a question already.

**Shri Narayanankutty Menon (Mukandapuram):** Regarding this, there was no question.

**Mr. Speaker:** There was a question and it was said that they were going to close it. The hon. Minister said so the other day. Anyhow, I will have the details. I do not want any further discussion.

**The Minister of Mines and Oil (Shri K. D. Malaviya):** It is a fact that they have given us notice that they are going to withdraw and certain arrangements are being discussed as to the formalities of withdrawal that is going to be implemented. As a result of this withdrawal of this Stanvac project, there will be certain unemployment situation created.

The Government have already enquired from the Oil and Natural Gas Commission as to how all these technical people who are going to be thrown out of employment under this arrangement can be absorbed by the Oil and Natural Gas Commission. They are examining the entire arrangement, and I am informed that it shall be the effort of the Oil and Natural Gas Commission to utilise suitable surplus technical personnel to the extent it is possible for us to absorb. I hope, Sir, that too many technical people will not be left without being absorbed.

**Shri Narayanankutty Menon:** Sir, the crux of the matter is this. It is not a question of 300 people being involved. The Government have spent about Rs. 10 crores on the total project and these 300 people have been got trained

by utilising Government money also. If they are retrenched and these technical personnel are taken into private service that means the Government stand to lose the entire money spent on them. On all the projects that the Oil and Natural Gas Commission is taking up today there is a terrific shortage of technical personnel. I wanted to call the attention of the House to the fact that when the Exchequer has spent money for training these personnel the Government should not allow these personnel to be absorbed in private service and they should be absorbed in the Oil and Natural Gas Commission's exploration programme.

**Shri K. D. Malaviya:** I have already stated that it will be the effort of the Oil and Natural Gas Commission to absorb as many technical personnel as we can and we want just now. We shall not allow all these technical people to go out and fritter away their energy.

**Mr. Speaker:** I disallow the adjournment motion.

12.12 hrs.

## PAPERS LAID ON THE TABLE

NOTIFICATIONS ISSUED UNDER ALL INDIA  
SERVICES ACT

**The Minister of State in the Ministry of Home Affairs (Shri Datar):** Sir, I beg to lay on the Table a copy of each of the following Notifications under sub-section (2) of Section 3 of the All India Services Act, 1951:—

(i) G.S.R. No. 945 dated the 20th August, 1960 making certain amendments to the All India Services (Death-cum-Retirement Benefits Rules, 1958.

(ii) G.S.R. Nos. 980 and 981 dated the 27th August, 1960 making certain amendments to Schedule III to the Indian Police Service (Pay) Rules, 1954. [Placed in Library, See No. LT-2354/60].

12-13 hrs.

## RE: MOTION FOR ADJOURNMENT

**Shri Braj Raj Singh (Ferozabad):** Sir, you have been pleased to write to me about my adjournment motion with respect to the judgment delivered on the Nanavati case. My point is that the Centre is involved in this. While the application for leave of special appeal to the Supreme Court was pending, it was the Central Government which advised the Governor of Bombay to suspend the sentence. The Defence Minister also disclosed to the House that they had advanced Rs. 10,000 for the defence of Nanavati.

**Mr. Speaker:** Order, order. So far as Rs. 10,000 is concerned it is not a matter which now arises. It was stated here long ago and a question was also put as to why they ought to have given this advance. The Auditor-General has also remarked on it. Therefore, it is not a matter which can be brought up in an adjournment motion.

The other question is about the judgment of the Supreme Court. The Supreme Court has declared that the matter was *sub judice*, the Governor's authority to suspend the sentence lapsed, there cannot be concurrent jurisdiction for both and that they must be worked in a harmonious manner. Therefore, when both the judiciary and the executive have got jurisdiction over a matter they ought to be worked harmoniously. They do not take exception to the Governor's order before an application was filed in the Supreme Court. That stands. The only question was whether after an application was filed in the Supreme Court the Governor's order can stand as against the authority of the Supreme Court. When a question was put to the Prime Minister he said that he took advice from the Law Minister. Both the Law Minister and the Supreme Court are right. How can there be an adjournment motion on that?

The Supreme Court says that when once a matter becomes *sub judice* the Governor ought not to interfere; that is to say, the Governor has got a right and the Supreme Court also has got a right but they must be worked together in a harmonious manner. Therefore, when once a matter is *sub judice* it ought to be left to the Supreme Court to decide what ought to be done. The Supreme Court does not say that the Governor's order suspending the sentence passed before the matter was referred to the Supreme Court is wrong. Therefore, there is no matter for any adjournment of the House.

**Shri Tyagi (Dehra Dun):** Could the Home Minister clarify the position as to what they are going to do now after the judgment of the Supreme Court?

**Mr. Speaker:** The Supreme Court has taken possession of it and no honourable person has any right to interfere with it.

**Shri Tyagi:** I wanted to know whether they are going to change the Constitution now.

**Mr. Speaker:** We shall go to the next item of business.

12-15 hrs.

PAPERS LAID ON THE TABLE—  
*contd.*DECISION ON RECOMMENDATIONS MADE  
BY COMMITTEE TO ENQUIRE INTO  
AUTOMOBILE INDUSTRY

**The Minister of Industry (Shri Manubhai Shah):** Sir, I beg to lay on the Table a copy of Resolution No. A.E.Ind. 1(90), dated the 6th September, 1960, containing the Government of India's decisions on the recommendations made by the *Ad hoc* Committee set up to enquire into the Automobile Industry. [Placed in Library, See No. LT-2355/60.]

**Shri Tangamani (Madurai):** I beg to submit, Sir, that the decisions of the

Government may be circulated to all hon. Members.

**Mr. Speaker:** Very well, the hon. Minister may place some copies in the Notice Office.

**Shri Tangamani:** The report of the Ad hoc Committee was circulated. I, therefore, request that the decisions of the Government thereon may also be circulated.

**Mr. Speaker:** If he has got further copies he may place them in the Notice Office, so that whichever hon. Member wants a copy may take it from there.

12-16 hrs.

#### CALLING ATTENTION TO MATTER OF URGENT PUBLIC IMPORTANCE

##### DELHI EARTHQUAKE

**Shrimati Ila Palchoudhuri (Nabawdip):** Mr. Speaker, Sir, under Rule 197, I beg to call the attention of the Minister of Home Affairs to the following matter of urgent public importance and I request that he may make a statement thereon:—

“The damage caused by the earthquake which rocked Delhi and other surrounding areas on the night of 27th August, 1960.”

**The Minister of Home Affairs (Shri G. B. Pant):** Sir, an earthquake shock of moderate intensity was felt at about 9:30 in the night on Saturday, the 27th August, 1960. It was preceded by a rumbling sound and followed by two further shocks of slight intensity at about 23:00 hours in the night on the 27th and just about midnight on the 28th. Some slight tremors were also reported to have been felt on subsequent days. This generally happens after an earthquake shock though the tremors become milder with the lapse of time.

The epicentre of the shock on the 27th has been determined to be about

30 miles East to North-East of Delhi. The shock has been recorded by most of the Indian Seismological Observatories.

Delhi lies in the seismic zone which has experienced only slight to moderate damage during earthquakes in the past. The immediate cause of the present earthquake is attributed to the development of strains in the interior rock structure and the slipping of rocks in that region.

The Meteorological Department have stated that while it is not possible to forecast the earthquakes, there seems to be no reason to be alarmed about recurrence now of another shock at Delhi.

One person aged about 40 years sustained serious injuries while jumping from the first floor in a house in Karolbagh, and died in the hospital on the 28th August. A five year old girl was seriously injured in village Palam as a result of house-collapse. She has been admitted in the hospital.

A few persons are reported to have been hurt due to fall of plaster and stones.

The present reports indicate that about ten buildings have been seriously damaged belonging to the Government—I am not giving the names; I have them with me, but if hon. Members are interested I shall read them out—well, all of us are safe luckily.

Amongst the important public buildings which have suffered minor damage or cracks are the kitchen and dining room in the family-wing in the Rashtrapati Bhavan, the Central corridor of the Prime Minister's House, six rooms on the Attic Storey of Parliament House, Palam Airport terminal building, Safdarjang Airport and the Raisina Road Hostel including the Press Club.

There have been hair/plaster cracks in the Janpath Hotel, Asoka Hotel and the Reserve Bank buildings.

[Shri G. B. Pant]

A number of bungalows in New Delhi have developed cracks, the worst affected being on the Hastings Road. Amongst the important ones are the houses occupied by the Minister of Information and Broadcasting, Minister of Parliamentary Affairs, Minister for Labour, and the hon. Speaker of Lok Sabha; two M.P.s' houses in Ferozeshah Road, one M.P.'s flat in North Avenue and one in South Avenue.

Government quarters in a number of other localities in New Delhi are also reported to have suffered minor damage.

A Committee consisting of the Director of Estates, Superintending Engineer, First Circle, and Superintending Engineer, Second Circle, had been set up to visit the affected areas and has since arranged alternative accommodation, where necessary.

It is estimated that the approximate cost of the extra repairs rendered necessary to the Government buildings as a result of the earthquake will be under Rs. 5 lakhs.

Reports received show that a number of private houses in various parts of Old Delhi and New Delhi have developed cracks. Some old houses have also collapsed but their number is very small.

**Shrimati Ila Palchoudhuri:** May I seek one clarification?

The hon. Minister has been kind enough to give a full list, but it has been pointed out in the press that the Red Fort has also been damaged. That is a national monument and it is of great historical importance. I would like to know what the Government is doing to safeguard any portion that may have been damaged and whether that work has already been taken in hand.

**Shri G. B. Pant:** I have made the statement so far as my information

goes. If the Red Fort has been damaged, and the damage can be repaired, certainly suitable action will be taken.

**Shri Joachim Alva (Kanara):** May I just place one aspect of the matter before the hon. Minister? The hon. Home Minister said that it is not possible to forecast earthquakes. There are a number of countries which have faced earthquakes and they have at their disposal a vast amount of scientific knowledge which, if analysed, may perhaps enable one to forecast these things also. In view of this, may I know whether the Government have done anything to exchange scientific information with those countries and also whether they have increased the personnel in these departments?

**Shri G. B. Pant:** I earnestly hope that there will be no more earthquakes in the time of Shri Joachim Alva or my own!

**Shrimati Renu Chakravartty (Basirhat):** We heard that the seismographs and other machines of the meteorological department had been dismantled just at that time and that really we do not have even any records of the recent earthquake.

**Shri G. B. Pant:** These questions do not arise out of my statement.

श्री लुचबत राय (खेरी) : मैं एक बात कहना चाहता हूँ कि जो सूची माननीय मंत्री जी ने पढ़ कर सुनाई है, वह बहुत ही अच्छी है। बहुत से मकान ऐसे हैं, जिन में एम० पी० रहते हैं, जो क्रेक हो गए हैं। मेरा मकान भी क्रेक हो गया है। मैं यह चाहता हूँ कि जो कमेटी बनाई गई है, उसको आदेश दिया जाये कि जितने मकान ऐसे हैं, वह उन का निरीक्षण करे और बताए कि कौन कौन से मकानों को नुक्सान पहुँचा है।

श्री गो० ब० पन्त : यह तो उन को आदेश दिए गए हैं। माननीय सदस्य ने जो कहा है, उस के मुताबिक मैं फिर मिनिस्टर आफ़ हाजर्सिंग को लिख दूंगा।

श्री लक्ष्मण राय : उन को तो मालूम है।

12:22 hrs.

PREFERENCE SHARES (REGULATION OF DIVIDENDS) BILL\*

**The Minister of Finance (Shri Morarji Desai)**: I beg to move for leave to introduce a Bill to regulate dividends on preference shares of certain companies.

**Mr. Speaker**: The question is:

"That leave be granted to introduce a Bill to regulate dividends on preference shares of certain companies."

*The motion was adopted.*

**Shri Morarji Desai**: I introduce the Bill.

12:23 hrs.

INDIAN POST OFFICE (AMENDMENT) BILL\*

**The Minister of Transport and Communications (Dr. P. Subbarayan)**: I beg to move for leave to introduce a Bill further to amend the Indian Post Office Act, 1898.

**Mr. Speaker**: The question is:

"That leave be granted to introduce a Bill further to amend the Indian Post Office Act, 1898."

*The motion was adopted.*

**Dr. P. Subbarayan**: I introduce the Bill.

12:24 hrs.

DRUGS (AMENDMENT) BILL—  
*contd.*

**Mr. Speaker**: The House will now take up further consideration of the following motion moved by Shri Karmarkar on the 30th August, 1960, namely:—

"That the Bill further to amend the Drugs Act, 1940, as passed by Rajya Sabha, be taken into consideration."

Out of four hours that have been allotted, three hours and ten minutes have already been taken. Is the consideration stage over?

**The Minister of Health (Shri Karmarkar)**: Not yet; some hon Members wanted to speak.

12:25 hrs.

BUSINESS OF THE HOUSE

**Shri Braj Raj Singh (Firozabad)**: Sir, before you proceed with the Bill, may I make a suggestion? There was a motion to be taken up today, and it has been postponed. The motion about the floods in Orissa is to be taken up tomorrow. In Punjab also, there have very extensive floods. Since we have saved time on the No-Day-Yet-Named Motion on the Direct Taxation Enquiry Committee Report, would it be possible to allow more time for discussing the flood situation? Floods have occurred all over India. Could not all these things be discussed in the motion that is coming up?

**Mr. Speaker**: I am sure the matter will be communicated to the Minister of Parliamentary Affairs. So far as I am concerned, if there is time, I will allow more time. The Punjab floods may also be discussed then.

\*Published in the Gazette of India Extraordinary, Part II, Section 2, dated 6.9.60.

†Introduced with the recommendation of the President.

12:26 hrs.

DRUGS (AMENDMENT) BILL—  
contd.

**Shri Harish Chandra Mathur (Pali):** Mr. Speaker, Sir, the main purpose of this Bill before us is to enable the Central Government to take over the entire control over the manufacture, sale and distribution of drugs. It definitely and clearly means centralisation of power. Though temperamentally and even otherwise I am opposed to centralisation, I understand that for certain matters where uniform standards have got to be introduced, there is need for some centralisation. As such, on this particular principle, I will not oppose the centralisation of power sought by the hon. Minister in this case. But my objection is based on certain other grounds.

I would like to be informed by the hon. Minister how he could assure us that certain better results would flow from this centralisation of power in his hands, because the past performance in any case does not give us any assurance of that type. Here, we sit in Delhi which is a centrally administered area. I do not think that the state of affairs in the centrally administered areas is any better. As a matter of fact, Delhi is supposed to be one of the homes for the manufacture and distribution of spurious drugs. The Central Ministry concerned with this matter has not given us any better account of its performance here. I would like to know how the hon. Minister proposes to proceed in this matter, because he must have taken note of the very strong feeling in this House about the state of affairs that is prevailing.

The spurious drugs industry is almost an organised industry in most of the metropolitan towns, and Delhi is no exception to it. So, the House would like to be enlightened as to how the hon. Minister proposes to proceed in this matter. If the general feeling is that they cannot manage one

single unit, the question arises as to how they are going to manage the entire country and have their jurisdiction running all over the country.

There is another apprehension which I share with most of the Members that with this dispersal and with this taking over of this power by the Centre, there may be a sort of overlapping jurisdiction with the State Governments. There is an apprehension whether the State Governments would feel the responsibility which they are feeling today or whether the same sort of complaints will arise, as they have arisen in many other spheres, regarding the inspectorates which the Central Government has and the inspectorates and analysts which the State Governments have. It is a common saying that where there are too many cooks, they spoil the broth. I hope there would be a clear demarcation of duties and allocations of functions and responsibilities. What are the responsibilities which the Minister is going to take up and what are the responsibilities which he is going to allot to his inspectors and to his analysts—that has got to be clarified.

Even apart from this, what I feel is if we are to tackle this very serious problem in an effective manner, something much more will have to be done. With the public sector expanding—information has been given on the floor of this House regarding the Russian collaboration and Rs. 20 crores worth project coming up—most of the Drugs being manufactured in the public sector, then I think instead of these punitive measures, a much better method would be to see that we create a special reputation for the medicines which are manufactured in the public sector. We have got Pimpri and other Public opinion in this matter particularly is hypercritical and hypersensitive. There was a lot of suspicion and doubt created about the penicillin of Pimpri, though further tests conducted here as well as outside completely assured that there was absolutely wrong with that medicine.

Though there is a general feeling that bad coin generally puts out the good coin from currency, if we have really good medicines which enjoy a real reputation and if we put them in the market of which the market is assured, then there is a likelihood by a positive action of putting these medicines in the market that this problem could be tackled to some extent. It is not merely by punitive methods that we can do it. We have to take certain positive steps and ensure the supply of pure medicines from our own manufacturing concerns. I would prefer nationalisation in one way. Nationalisation, so far as manufacturing is concerned, can certainly be attempted in regard to allopathic medicines, because I think three-fourth of the sector is already being taken over. These spurious drugs are being put in the market from a thousand and one sources that to me it appears that the only one course is to nationalise completely the drug industry and the distribution of the drugs. Otherwise, it would not be possible to control it by punitive methods. I have no objection to these punitive methods; they must be there, but they will not go very far.

My apprehension will be shared by many, because here it may be much more difficult to control spurious medicines and drugs. We have got the steel control orders. Like my hon. friend, there is another Minister from the Centre who completely controls the manufacture, planning and distribution of steel. Now the Health Minister wants to take this power himself in respect of the medicines. I am giving you the example that even in such a matter as the manufacture of steel where there are hardly half a dozen manufacturing concerns, the planning and manufacture of iron and steel even in these half a dozen concerns cannot be properly managed and controlled by the Minister. Then, how can I feel assured that my hon. friend, the Health Minister, who has got a much more difficult and much vaster field to cover, will be able to do it?

I know it for certain that in the matter of iron and steel, the programme in respect of even the projects which are in the core of the plan is not being implemented. We find here under his very nose in Delhi thousands of tons of iron and steel are being sold in the black-market. It must be much easier and much simpler to be able to control it and take action against the distributors. But even if that is not done, how do I feel assured that my hon. friend will be able to control the sale and distribution of medicines by thousands and thousands of persons, simply because we are having this unified control in the Central Government? We have our experience in other fields. So, I would like to be enlightened by the Minister as to how he hopes to go about his job and how he can create a little amount of faith and confidence in our mind that he will be able to do his job best when he has these powers. I am not against these powers being given to him. But I have a genuine apprehension and I would like him to give us a clear indication as to how he proposes to proceed in this matter. I feel it cannot be done until and unless the public sector is enlarged and it takes over the whole industry.

Another point I would like to know is, what would be the relationship regarding the manufacturing concerns which are in the public sector, whether he is going to have a managerial set-up which will ensure that what is coming out of these public sector enterprises is of the highest standard. Some Members suggested that the licensing of these public sector enterprises and of any other manufacturing concerns should be handed over to this Ministry or this Ministry should be a participant in the licencing of these manufacturing concerns. I am totally opposed to it. I do not think it should be made the concern of this Ministry. But I definitely feel that he should have a strong and independent control, as we have in the railways. The railways run the railway administration which is responsible for the operation, but there is a

[Shri Harish Chandra Mathur]

separate inspectorate which is under a different Ministry, the Communications Ministry. Similarly, I want that the manufacturing side should be under the Ministry of Commerce and Industry, as it is. Let the licences be issued through them, but there should be an absolutely independent inspectorate under my friend, the Health Minister. Otherwise, if he is responsible also for licensing and for running these concerns, he will be more concerned about the manufacturing side, how these concerns make profits and everything of that nature. He should be a dispassionate independent inspectorate over all these public sector as well as private sector enterprises. He should have nothing to do with licensing and he should tell the House what sort of agency he proposes to set up to see that everything which comes out of the public sector enterprises as well as from other manufacturing concerns is properly checked in advance at various stages—internal inspection as well as external inspection, and independent inspection by my hon. friend, the Health Minister.

We also feel that the Ayurvedic and Unani medicines should be taken under the umbrella of this Bill. Because, it gives a certain amount of prestige and it gives a certain amount of confidence to the people when they know that certain items are manufactured after proper supervision and control by the Central Health Ministry and what is put in the market has been properly examined. Because, as my hon. friend, Shri D. C. Sharma has very correctly pointed out, the country at large is very much concerned with the Ayurvedic and Unani preparations. By and large, most of the people use them. Since thousands and thousands of persons are manufacturing this, I think it would be very difficult and I can understand the administrative difficulties. But if he cannot take over the entire control,

I do wish that he takes over the control of at least a limited number of concerns and he seals them so that the people should be able to know that these are medicines which are standard medicines which have been made under the inspection of the Health Ministry. Let them make a beginning. Then, we have got certain big concerns, as in Jamnagar, where we have got the Central Institute. Let us also start the manufacture of ayurvedic medicines there. If those medicines are properly examined, properly inspected and properly labelled, that will create confidence in the minds of the people on the quality of the medicine put on the market. I hope these medicines which have your seal of approval will in due course drive out the spurious ones. I think a limited effort should be made in that direction soon.

Lastly, I come to the punitive or penal provisions of this Bill. I was a little amazed when Shri Bharucha referred to a certain proviso which was put in the Bill, because I know that he is a man with legal acumen. Under that proviso a magistrate is given discretion to give sentence for less than one year by recording the reasons. He asked: what is the purpose of putting a minimum of one year when this proviso takes away the stringency of the provision? I am quite prepared to say that more severe punishment should be given to those people who offend in such a matter which is of such a vital importance to the health of the nation. If a man could be saved by an injection, he is allowed to die because there is adulteration in the medicine. I do not minimise in the least the severity of the offence, and I am prepared to say that the severest punishment may be given and, if one year is not adequate, two, three or four years of imprisonment may be given. But, at the same time, it would be wholly against the canons of all justice to deprive a presiding officer of a court from exercising discretion in certain cases when



it may be found that the offence is just a technical one. In such cases, it would be too harsh to impose a punishment of imprisonment for one year. It is good enough that we have given directions and this Parliament has indicated the mind of the country, reflected the mind of the country by telling the magistracy that the least we want is one year's punishment in such cases. But we should not bind the magistracy hand and foot. After all, it must be left to them to come to just decisions after exercising their mind judiciously. We can only give them a direction. I strongly oppose the putting of any such restrictions on the judiciary. We can indicate the mind of the Parliament and the country on the issue but we can never put any obstacles on their discretion to exercise their mind judiciously on each case. That would be most dangerous.

Now the magistrate has been asked to record his reasons if the punishment is of less than one year. Here I might make a suggestion. If the House feels very strongly, we may not leave it at that. We can give discretion to the magistrate to give a lesser sentence but we may change this proviso slightly to say that where the magistrate record his reasons for a lesser punishment, the records must be sent up to the appellate court. The appellate court has jurisdiction to take over cases *suo motu* if they deem fit. After the check of recording his reasons, if a further check is put of submitting such cases to the appellate court, I think that would be more than enough. We can compel the magistracy in all deserving cases to give the proper punishment, which may be one year, two years or whatever it is, but this discretion should not be taken away from the judiciary. The only thing is that the proviso should be amended to that extent.

**Shri Khadilkar (Ahmednagar):** I may be permitted to put a question. In the last session, when Shri Gopalan moved a resolution regarding the nationalisation of the drug industry, a

point was raised and the Minister for Industries, Shri Manubhai Shah replied on that point that there will be a central testing laboratory for all the drugs and unless that laboratory gives a certificate, the quality of that drug will not be ultimately determined. So, I want to know from the Minister of Health how far the scheme of having a central testing laboratory has advanced and, secondly, without such a laboratory how he proposes to have enough controls to have quality medicines.

**Shri Karmarkar:** I am grateful to all the hon. Members who have participated in this debate for the general support that they have given to the two broad aspects of this amending Bill—firstly, the establishment of greater control over any possible misdemeanour in the manufacture or distribution of drugs and, secondly, the advisability of further strengthening the penal provisions by providing for a minimum punishment and making all punishments more deterrent than before.

If I were only to rest content with what has been germane to the discussion, I think I might have thanked the House and the hon. Members and sat down. But, incidentally, certain observations have been made, some of them very useful to us and some of them arising out of a misconception of the actual facts of the case. I shall deny myself the pleasure of referring to each individual point made by each hon. Member, but I shall invite the attention of the House to certain broad points that have been sought to be made.

I shall take up the point that was just now referred to by the last speaker, Shri Harish Chandra Matnur. There has been, if I may say so, a general consensus of opinion on the floor of the House regarding the advisability of not leaving the pharmaceutical industry to the private sector. If we were writing on a clear slate as from today, may be, perhaps we

[Shri Karmarkar]

might have paid greater attention to this fact and proceeded to have this industry wholly in the public sector. I entirely agree with the view that whoever takes up the manufacture of drugs takes it up from the point of view of the profit motive. I am quite sure in my mind that it is not altruism that guides people in their activities in organising this industry. The first motive is to make profit. It is a profitable venture if properly managed. They want to make profit. This is also the complaint in the western countries. Say, in a country like the U.S.A., it is the complaint of the normal user of drugs, the man who suffers, that drugs are getting costlier and costlier than before. An instance was cited. Drugs are becoming versatile. Take, for instance, anaemia. They mix 3 or 4 drugs and make it a multi-pronged attack. One of the drugs will act on the particular type of the disease. That makes it costlier than a simple single drug for a particular ailment would be. I have read something to this effect that for the common man in the advanced countries, it is getting more and more difficult to get the drugs within his means.

Certainly, if we want to make the drugs available to the consumer at the most reasonable prices, perhaps the wisest way would be to nationalise the industry. We have experience of it in the penicillin factory. We have been able to reduce the price much earlier than we thought we would be able to do it. A few years ago, when we were dependent almost entirely on imported penicillin, the drug was costlier. Now the drug is so reasonably priced that it is used rather loosely. I wish sometimes that it is a little costlier than it is to prevent the abuse of this drug.

**Shri S. M. Banerjee** (Kanpur): Do not mention this.

**Shri Karmarkar**: It is there. Therefore, I am one with the opinion expressed on the floor of the House

that as much as possible, to the extent that is possible, this industry should more and more come into the public sector in order to serve the people. But, one cannot change history. Ultimately whether the country is in a position to nationalise all the industries it would like to nationalise is also another question. But, certainly, the Government will note the opinion expressed on the floor of the House for any action in the future. As it is, hon. Members of this House doubtless know that we are having shortly five units in the public sector, namely, synthetic drugs, antibiotics, glandular products, medicinal plants products, and surgical instruments and appliances, in the near future.

Another point was made. That is not exactly, if I may say so respectfully, relevant to the amendments that are being made. I am happy that there was consensus of opinion on the point that just as we are bringing these modern medicines under control, we should bring all other medicines also under our control: that is to say, Ayurvedic drugs, unani drugs and homoeopathic drugs, actually, all drugs that are being used in this country. I am one with all hon. Members who have expressed that opinion, in that particular opinion. In fact, I am happy to tell the House that this being a Concurrent Subject, we have to consult the State Governments, and that we have sent round letters to the State Governments asking for their opinion. So far as we are advised, we feel in the Government of India that all the drugs should come under similar control. Because, unless you bring the drugs under control, you cannot guarantee standardisation. It is no use quarrelling with the fact that drugs are spuriously manufactured and there is a large amount of spurious drugs when we have not taken adequate means to control them. I am hoping that it might be possible for me to bring forward before this House a Bill

in the near future asking for their sanction to control all other drugs also.

A certain fear was expressed, I think, by my hon. friend Shri D. C. Sharma who is, if I may say so with respect, not always, but sometimes prone to put the right thing in a little exaggerated manner. He referred to diarchic administration. As a matter of fact, it is a fact that the arrangement as now envisaged does make it possible for the Central Government and the States to have inspectorates, etc., at the same time. It is not as if we are at loggerheads with each other. There is no difference or opinion between the State Governments and us regarding the advisability of controlling drugs. The whole crux of the matter is that it was not that all States were equally vigilant in exercising the power that they did possess (and that was the reason why we had to come on the scene. We placed this matter before the Central Health Council and the Health Ministers of all the States are there. We took their concurrence for enacting this piece of legislation to enable ourselves to come on the scene. We shall see to it that there is no conflict whatever between any arrangement that the States are authorised to make and any arrangement that we might feel impelled to make. In case we find that the arrangement made by a particular State is completely satisfactory, we may not come on the scene at all, because it may not be necessary. In case the arrangements are not satisfactory, we will certainly come on the scene. But, it will be a wholly harmonious arrangement. I can assure the House that there will be at no stage any conflict between our inspectors and theirs and between our arrangement and theirs.

Some complaint was made, I think it was by my hon. friend Shri Achar, who was rather jealous about the powers of the magistrates before whom cases might come. For a

moment, perhaps, he allowed himself to forget that ultimately this House is a sovereign House. This House just gives the power that it likes to give to the magistracy or to the courts to the extent that it wants to give. If emphasis has to be placed on a particular point of view, this House is sovereign and therefore, it is competent to place it and say what this House actually means. What we have said is that the minimum punishment will be one year in certain types of cases. But, for reasons to be stated in writing, the magistrate can make it less. There may be palliative circumstances. There may be a technical offence. We do not want the magistrate to be in a position not to have any option to give any punishment less than one year. When Parliament says that the normal punishment for an offence will be one year, every magistrate, every judge knows what is the will of the sovereign Parliament. Then, it expects the magistrate or judge or whosoever is concerned with the administration of justice, and it gives them to understand that what is expected of them is a minimum punishment of one year, unless there are justifying circumstances, in which case, for reasons to be stated in writing, the magistrate will give less. Supposing we had left it at that, saying that the magistrate could give any punishment up to a maximum of three years, the intention of the House would not have been clear. What we wanted is that normally, for any offence under the particular section, if it requires this punishment, the minimum will be one year unless for exceptional reasons the magistrate or court has a feeling that the punishment should be less. The general rule is one year minimum. Exception will be less than one year. That discretion, we have left to the courts. This is the same provision as we have put in another Act. There is precedent for that. When we wanted to deal with corruption, we did the same thing.

**Shri Achar** (Mangalore): May I explain what I said?

**Shri Karmarkar**: The point of my hon. friend was very clear, unless he wants to confuse me further. What he has said is clear.

**Shri Achar**: You are meeting an argument which I did not put forward.

The general trend in criminal law is,—take the I.P.C. or any other law—everywhere, the maximum punishment is prescribed. That is why I said that Parliament is showing a tendency not to trust the magistrates or their discretion.

**Shri Karmarkar**: My hon. friend entirely forgets that it is not a question of trust. It is a question of telling the magistrate what we expect him to do and what this Parliament expects him to do. We would have been rigid in saying that the minimum punishment will be one year, whatever the offence.

There may be technical offences. When this Bill is passed, normally the punishment will be one year, but in exceptional circumstances, the magistrate may award a lesser punishment, because we do not want to comment upon what the magistrates or the courts have done. If we do not give them guidance like that, we cannot complain if a magistrate feels that it is open to him to give any punishment he likes. It is not a question of our trusting the magistrates. We trust every magistrate and judge in this country. Actually, what we want is to give notice to every intending offender that if he commits this offence, he will go to jail for one year normally unless there are extenuating circumstances. I am quite sure my hon. friend does not want to be kind to offenders, and will agree with me that there should be a deterrent law on the statute-book to prevent people from even thinking of such offences. So, I am not exactly able to appreciate his argument.

13 hrs.

On the other hand, people wanted to provide for a larger amount of punishment. Ultimately we have to weigh and see how much punishment is enough for a particular offence. We have said that in the case of offences of one kind, the minimum of one year and maximum of three years will suffice. If that is not sufficient, if people are still so foolhardy and wicked as to break the law, we shall come before the House and ask for a larger minimum and a larger maximum, five years minimum and transportation maximum or things like that, but we hope the punishment provided is reasonable and does not err on the side of leniency or harshness.

A comment was made about having an Indian Pharmacopoeia. I can understand if hon. Members who have much else to do are not aware that a good Pharmacopoeia, as a result of years of labour, was published, not this year but about five years ago. We are not being guided by any other foreign Pharmacopoeia. We have not only our own Pharmacopoeia, but also a national formulary of medicines.

**Dr. M. S. Aney** (Nagpur): You have prescribed a minimum. Is the maximum also prescribed there?

**Shri Karmarkar**: Yes. I am happy it satisfies my elderly colleague for whose opinion I have the highest respect.

Sometimes things are said in a hurry without looking into their implications. Something was said about penicillin. People say somebody was injected with penicillin and he died. As **Shri Harish Chandra Mathur** just now said, a dose of that particular penicillin which was given to an esteemed colleague, whose death we all lament, was sent not only to our laboratories here, but also abroad, to an American laboratory, and the whole lot from which that dose came was found to be completely faultless.

The achievement of the Pimpri factory is something of which we can really be proud. Ultimately it is a national factory.

**Shri Narayanankutty Menon** (Mukandapuram): This is the third time he has been telling us that it has sent for chemical examination to different places. If there was nothing wrong with the penicillin, he should tell us what was the real cause of death after injection.

**Shri Karmarkar**: I reaffirm that nothing was at fault with that batch of penicillin from which an injection was given to the hon. Member. As to what happens when a man dies, there are certain things which are never known to any one. Supposing I am allergic, and a dose of penicillin is given to me. Things have happened in foreign countries tragically, and not hundreds but thousands of deaths have taken place. One is not exactly able to know the cause.

**Shri Narayanankutty Menon**: This is the Health Minister of India speaking. There is a definite instruction on the carton itself that the doctor should keep with him antidotes when administering penicillin, and there is a short period of time when the patient to whom penicillin has been injected should be kept under supervision. He says the finding has been arrived at that there was no defect in the penicillin, but were these mandatory precautions taken by the medical officer concerned? Has an enquiry been made into that?

**Mr. Speaker**: I am not going to allow all these matters here. The whole thing is irrelevant to this issue. We are on drugs. One can certainly make the suggestion that the quality of the drug should be as good as possible. Whether the particular doctor took care or not is not the subject-matter of this Bill.

**Shri Karmarkar**: I am deeply grateful to you, Sir, for these observations, because that is really not pertinent to this Bill.

My hon. friend Dr. Sushila Nayar made the point that there are a large number of preparations with more or less the same composition selling under various trade names, and she wanted an arrangement to be made so that such drugs would be sold under their proper names. As a matter of fact, the Act provides for giving the proper name in addition to the trade name. The point made by my hon. friend has a certain merit, and in order to improve the present state of affairs it would be necessary to impress both on the medical profession and the manufacturers of drugs not to popularise the names of drugs not given in the national formulary, so that there would be no confusion. If there is the same name, then things would be simpler.

There is no doubt about the fact that spurious drugs are still being manufactured; otherwise, we would not have come up with this Bill. I do not know if my hon. friend Shri D. C. Sharma meant exactly what he said, but he said that any one moving in any constituency for ten yards would find these things. We have not sufficient good drugs in the country, not to talk of spurious drugs. To say that there are spurious drugs is one thing, and to say that we are flooded by them is entirely another thing. People who have had occasion to deal with these matters know that the law as it has been passed before has had some deterrent effect. We want that deterrent effect to be more.

Shri Nanjappa would like to penalise, through this Bill, advertisement of mis-branded drugs. The fact of the matter is the advertisements of drugs are comprehensively covered by the provisions of the Drugs and Magical Remedies (Objectionable Advertisements) Act, and therefore it was not considered necessary to make any provision in this Bill for that purpose.

These were the important points that were raised in the debate. There

[Shri Karmarker]

was general agreement about the purposes underlying the Bill, namely to make the manufacture of spurious drugs and their distribution more difficult and to strengthen the penal provisions. There was also a fear expressed that there might be a conflict of jurisdictions. Apart from that, there was general support for strengthening our inspection machinery and for the Central Government taking powers in that regard.

It was not possible for me within the time at my disposal to deal with each point of each Member, but we shall certainly give the best consideration to all the points raised in the debate whenever occasion arises. I thank the Members who have taken part in the debate.

**Shri S. M. Banerjee:** In the course of my speech, I referred to the fact that in industrial places like Kanpur, in the name of drugs like tincture ginger actually liquor was being sold. I wanted to know whether an enquiry was possible, whether he would at least enquire from the State Government. This thing is a curse.

**Shri Karmarker:** I shall forward the remarks of my hon. friend to the State Government and I hope that they will look into the matter.

**Mr. Speaker:** That was what I heard also in my own town. It is prepared all over.

**Shri Assar (Ratnagiri):** It is done in Bombay State also.

**Mr. Speaker:** They prepare what is called tincture ginger and sell it; it is said that it has been sent from Bangalore. I cannot say whether it is from Bangalore or some other place. But many things are passing in the name of drugs.

**Shri Karmarker:** I thought Bangalore was a gentlemen's place. But still, such things can happen.

**Mr. Speaker:** I have nothing to say against Bangalore. My point is only this. My place is quite close to Bangalore. They say that it has come from Bangalore. It may have come or it may not have come from there.

**Shri Karmarker:** That is possible.

**Mr. Speaker:** Possibly, they want to associate the name of Bangalore with it so that fashionable people may take it.

**Shri Warrior (Trichur):** Essences also may be included in this category.

**Mr. Speaker:** Some people drink methylated spirit also nowadays. That is the misfortune.

**Shri Karmarker:** Exactly.

**Mr. Speaker:** The question is:

"That the Bill further to amend the Drugs Act, 1940, as passed by Rajya Sabha, be taken into consideration."

*The motion was adopted.*

**Mr. Speaker:** We shall now take up the clauses. There are no amendments to clauses 2 and 3. So, I shall put them to vote.

The question is:

"That clauses 2 and 3 stand part of the Bill".

*The motion was adopted.*

*Clauses 2 and 3 were added to the Bill.*

**Mr. Speaker:** There is an amendment to clause 4, standing in the name of Shri Raghunath Singh. The hon. Member is absent. Therefore, I shall put clauses 4 and 5 together to vote.

The question is:

"That clauses 4 and 5 stand part of the Bill".

*The motion was adopted.*

*Clauses 4 and 5 were added to the Bill.*

**Clause 6.**—(Amendment of section 23).

**Mr. Speaker:** There is an amendment to this clause, standing in the name of Shri Nanjappa. Does he want to move it?

**Shri Nanjappa (Nilgiris):** No, I am not moving it. I only want some explanation as to why drugs are not going to be seized by the inspector.

**Shri Assar:** That is my complaint also.

13.14 hrs.

[SHRI JAGANATHA RAO in the Chair]

**Shri Karmarkar:** I am sorry I missed that point, because I thought that it was not a very major point. But I find that my hon. friend Shri Nanjappa and also my hon. friend Shri Assar have raised the point today, and they would like that the inspector should be vested with powers to seize the drugs also. They will see that this power is already vested in the inspectors under the provisions of clause (c) of sub-section (1) of section 2 of the existing Act. Therefore, we did not want to duplicate it by putting it here.

**Mr. Chairman:** The question is:

“That clause 6 stand part of the Bill”.

*The motion was adopted.*

*Clause 6 was added to the Bill.*

*Clause 7 was added to the Bill.*

**Mr. Chairman:** Now, we come to clause 8. There is an amendment in the name of Shri Raghunath Singh. The hon. Member is absent.

The question is:

“That clause 8 stand part of the Bill”.

*The motion was adopted.*

*Clause 8 was added to the Bill.*

*Clauses 9 to 11 were added to the Bill.*

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

**Shri Karmarkar:** I beg to move:

“That the Bill be passed”.

**Mr. Chairman:** The question is:

“That the Bill be passed”.

*The motion was adopted.*

13.15 hrs.

CUSTOMS DUTIES AND CESSES  
(CONVERSION TO METRIC UNITS)  
BILL

**The Deputy Minister of Commerce (Shri Satish Chandra):** I beg to move:

“That the Bill further to amend certain laws relating to customs duties and cesses for the purpose of adopting metric units in those laws, be taken into consideration.”

The Bill that is before the House now for consideration is very similar to the one which was passed only last week in relation to the excise duties etc. The purpose of the Bill is very limited. It seeks that the relevant sections of the various Acts such as the Indian Tariff Act, the Indian Lac Cess Act, the Coffee Act, the Coir Industry Act, the Indian Oilseeds Committee Act, the Indian Cotton Cess Act, the Indian Coconut Committee Act and the Tea Act, be amended so as to enable the adoption of the metric system in the levy of the customs duties and cesses which are imposed under those Acts.

The rates will all remain unaltered, but there would be a certain rounding off which is necessitated by the fact that the exact conversion may

[Shri Satish Chandra]

lead to very complicated calculations and run into small fractions of a naya paisa. So, the nearest rounding off is being done here in the same manner as has been done in the other Bill which was passed by the House last week.

From rough and ready calculations, the total effect of all these changes do not lead to any increase whatsoever in the revenues of the various Commodity Boards or Government. According to the calculations which I have seen, they might be a little less in revenue to the extent of a few lakhs of rupees as a result of the amendments which I am now proposing in this Bill. But this is a measure primarily meant for conversion, without making any attempt to change the rates of the customs duties or the cesses which are charged in relation to various commodities.

I do not want to say much and bother the House with calculations. The rates are shown in the amending Bill itself in each case. The lb-cwt system or the maunds-seers system is being replaced by the kilogramme, quintal or metric ton, as the case may be. Yards or feet are now being expressed in terms of metres; instead of gallons, we are providing for the use of litre. In the case of acres, we are replacing it by hectares. That is the only change that is sought for in this Bill.

I commend it for the acceptance of the House.

**Dr. M. S. Aney (Nagpur):** The hon. Minister should have brought some samples of some of these weights and measures and shown them here.

**Shri Satish Chandra:** These weights and measures are widely used in Delhi at least now, and would become compulsory from 1st of October. The old weights will just not be used and they would not be legal

after that date. They have been used for two years now in Delhi. I thought that Members of Parliament would be familiar with them. If they like, an exhibition can be arranged in the Central Hall. Probably, it might be late in this session, but it could be done towards the beginning of the next Session.

**Mr. Chairman:** The question is:

"That the Bill further to amend certain laws relating to customs duties and cesses for the purpose of adopting metric units in those laws be taken into consideration."

*The motion was adopted.*

**Mr. Chairman:** We shall now take up the clauses.

The question is:

"That clauses 2 to 10 and the Schedule stand part of the Bill".

*The motion was adopted.*

*Clauses 2 to 10 and the Schedule were added to the Bill.*

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

**Shri Satish Chandra:** I beg to move:

"That the Bill be passed".

**Mr. Chairman:** The question is:

"That the Bill be passed".

*The motion was adopted.*

13.21 hrs.

**BANKING COMPANIES (SECOND AMENDMENT) BILL**

**The Minister of Finance (Shri Morarji Desai):** I beg to move:

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



The House is aware of the circumstances in which this Bill has been drafted and introduced. The failure of the Palai Central Bank has made it necessary for us to review the procedure which is now prescribed by the law for the liquidation of banking companies and the distribution of their assets.

The House will perhaps recollect that in 1950 an entire chapter containing certain new provisions was introduced in the Banking Companies Act, and that in 1953 this was substantially modified and replaced following the Report of the Banks Liquidation Proceedings Committee presided over by Shri Dhiren Mitra. Experience has shown that these provisions, while they are useful and helpful to some extent, are by no means adequate in relation to the nature and size of the problem and that some fundamental modifications are required if expeditious payments are to be secured to the depositors of banks in liquidation.

In the course of my earlier statement in this House, I have already indicated one or two of the modifications which we have had in view and which are proposed to be made through this Bill. It may perhaps be useful, before I proceed further, if I were to describe very briefly the other main provisions also.

One of the major defects in the existing law is that no time-limit has been prescribed for the completion of the more important preliminary stages in liquidation proceedings. The result has been that depositors have frequently had to wait for months and in several cases for years before the first dividend can be declared and paid. The House will, I am sure, agree with me that these delays which have been the normal feature of liquidation proceedings so far are undesirable and should be avoided. I understand that an important reason, though not perhaps the only one, for these delays is that the claims of secured creditors

and certain other persons entitled to preferential payments under section 530 of the Companies Act cannot be quickly determined. We are taking powers in this Bill to determine these claims within a period of two months, so that realisable assets which are available for payments to the depositors may be released for this purpose as early as possible.

We are trying to ensure that the payment of the first dividend will be made within about three months of the winding up order. The smaller depositors, however, are obviously entitled to some relief in priority to all the other depositors or ordinary creditors; and this principle has, in fact, been recognised already in the existing Act. We propose to extend and liberalise this concession.

The modification which we propose has, I believe, been welcomed already by the various sections of this House. Section 43A of the Banking Companies Act, as inserted in 1953 on the recommendations of the Committee presided over by Shri Mitra, provides that savings bank depositors will be entitled to be paid, after all the prior claims ranking above those of the depositors have been paid, the amounts standing to their credit upto Rs. 100 per mensem. In view of the increase in prices since the provision was first inserted, this amount is being raised to Rs. 250. In order to afford some relief to the other depositors as well, we are providing that 50 per cent of the amount standing to the credit of a depositor in any other account, limited to Rs. 250, should also be disbursed, as a further preferential payment, ranking in the order of priority after the amounts due to the savings bank depositors.

We are hoping that these minimum payments upto Rs. 250 in the case of each person can be disbursed within the next few months. But we are not going to be content with this. We

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want the entire assets of these banks, including those of the Palai Central Bank, to be realised within a reasonably short period, and we are considering the best arrangements which can be made from this point of view, without causing undue hardships, either to the borrowers from whom these amounts have to be realised, or the depositors who will be the beneficiaries of any realisation or subsequent distribution.

The provisions of the Companies Act, and more particularly of section 457 of the Act, are already comprehensive from this point of view, but in order to facilitate the early realisation of the remaining assets and the distribution of further dividends after the initial payment upto Rs. 250 it may be necessary to appoint an individual special liquidator in the case of the Palai Central Bank and also in the case of some other banks. We are, therefore, taking the necessary powers to get such a liquidator appointed on the application of the Reserve Bank.

I would have liked to give retrospective effect to the provisions relating to the new time-schedule and the initial payments to the small depositors. From an administrative and practical point of view, there are, however, numerous difficulties in giving retrospective effect to these changes so as to cover all the banks now in liquidation; and we have had to satisfy ourselves with providing for the new procedure to be brought into force in relation to banking companies which have not so far paid even the first dividend. It will not be difficult, I think, to start the relevant proceedings afresh in these cases. For the information of the House, I should, perhaps, add that the Laxmi Bank will be covered by our proposals regarding retrospective effect.

These are important changes in liquidation procedure, and after these amendments have been enacted by

Parliament, the time taken for liquidation will, I am sure, be considerably shortened. But we have also another and in my opinion even more important object in view, and this is to avoid liquidation, wherever such a course is necessary or possible. The procedure for liquidation even with the changes which I have now indicated, is bound to be costly and elaborate. It will also be rigid and inflexible in the very nature of the circumstances. While liquidation may still be unavoidable in the case of certain institutions, we hope that in the majority of cases, alternative proposals, like a reconstruction of the banks's affairs in the light of its financial position or an amalgamation with some other institution after such a reconstruction, will be possible. Whenever this appears to be the case, we propose to explore these alternatives, so that the delay, suspense, uncertainty and cost which are incidental to liquidation, may be avoided, while the possibilities of keeping the bank in existence, in the interests of the depositors, in the same or in some modified form, may also be ascertained.

If the possibilities of rehabilitating a bank which may be in difficulties are to be investigated fully, it will be necessary to ensure that in all these cases we will have some reasonable time within which these investigations can be undertaken and completed. It is obviously desirable that the bank's position or status should not be adversely affected while the investigations or negotiations are in progress; and it may, therefore, be necessary to grant to the company a moratorium on certain conditions.

Unfortunately, a moratorium can now be granted only if certain onerous procedural and other requirements are fulfilled. We propose that these conditions should in future be simplified and that it should be open to the Central Government, on the recommendations of the Reserve Bank

to grant a moratorium expeditiously, as a condition precedent for the investigation of any feasible proposals for reconstructing a bank.

A moratorium, in the nature of the circumstances, can only be temporary. We do not propose that the period for which it is granted should be unduly long. We are limiting the moratorium to six months, that is, the same period as is now allowed under the existing provisions of section 37 of the Banking Companies Act. As some permanent and satisfactory solution has to be found within this period, the conditions now imposed by various sections of the Companies Act relating to reconstruction or amalgamation will also have to be simplified.

We have introduced some changes in this Bill from this point of view. In the case of credit institutions like banks in which thousands of depositors unconnected with the share-holders are interested, the normal provisions of the Companies Act which are applicable to industrial or commercial companies owned only by the shareholders are out of place.

While it is not my intention to belittle the extent of the shareholders' interest in the institutions with which they are concerned and while we shall consult them wherever this is possible or necessary, the initiative and the responsibility for the reconstruction of financial and credit institutions like banks must remain largely with the Reserve Bank and the Central Government. We are making this quite clear in the relevant provisions of the Bill and I hope that, in actual practice, we shall be able to use these new and amplified powers in a manner which will strengthen the banking and financial system of the country.

The banking system in this country is, as a whole, sound. In the last 10 years or so that the

Banking Companies Act has been in existence, the Reserve Bank has succeeded in devising and enforcing a system of control which has led to the weeding out of the comparatively weak and inefficient institutions and improving the standing and credit-worthiness of all the other banks. The present Bill is merely intended to amplify the powers of the Reserve Bank and the Central Government in certain directions in order to facilitate further the process of this improvement. The Bill, if I may be permitted to reiterate the point, does not indicate the existence of any major weakness. It is only an attempt to recast and modify the legal framework within which the Reserve Bank is now required to function and discharge its duties.

The provisions in the Bill are based on the recent unsatisfactory compromise between the conflicting claims of various sections of the community; and the House, I am sure, will welcome and endorse them as such.

**Mr. Chairman:** Motion moved:

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

**Shri Narayanankutty Menon** (Mukandapuram): Mr. Chairman, Sir, I would have very much liked that this Bill had been referred to a Select Committee. As a matter of fact, I had given notice of an amendment to that effect. But I am not moving that because any reference of this Bill to a Select Committee will delay whatever small relief this Bill could give to about 80,000 depositors of the Palai Central Bank. Therefore, I am content not to move it. At the same time, I wish to invite the attention of the Finance Minister to the serious implications of this Bill to the banking industry as a whole.

The Banking Companies Act has undergone a few amendments since it

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had been enacted by this House; and the last amendment was in 1956, when Shri T. T. Krishnamachari, as the Finance Minister, moved his amendments to section 35 and other sections. When the purpose of the amendment was debated in this House the hon. Finance Minister on 20-12-56 told this House in answer to a specific question that the amendment, especially of section 35, was being brought at that time because the Reserve Bank of India had not enough powers to control banking in this country and those amendments were really meant for giving more powers not only to safeguard the interests of the depositors of the banks — which did exist at that time under the provisions of the parent Act — but in order to give wider control for the Reserve Bank in relation to the general economy of the country. Therefore, by that amendment in 1956, it was admitted that the Reserve Bank got not only complete control over the banking institutions of this country in order to protect the interests of the depositors of those banks but also in order to control the general economy of this country.

Time and again, from this side of the House, we have made categorical demands that the entire banking institutions of this country should be nationalised. The demand for nationalisation was in the context of the new type of economy into which we were entering, when the Planning Commission itself had programmed to have a particular type of economy. If there is a planned economy that is decided upon by this House, in order that effective control is retained upon large finances, which is the corner-stone of that economy, unless the Government itself has got adequate powers to control that economy, it will not be possible to direct correctly, in a correct path, the economy of the country in the particular direction as the Government and the Parliament desire. That was

the basic point on which a demand was made for the nationalisation of the banking institutions of this country. When this demand used to be put before the House, the Finance Ministers, varying in number, used to point out the provisions of the Reserve Bank Act, the provisions of the Banking Companies Act, the provisions of the Indian Companies Act to say that adequate and more than adequate powers were there under all these three Acts, not only for safeguarding the interests of the depositors of those banking institutions but to control the entire financial activities of these banks in relation to the country's economy in general.

But, after 4 years, another Finance Minister has to come before this House and tell us that these amendments have to be brought, not only the amendments in the earlier part of this Bill but the amendments in the later parts also. It is said that powers are now lacking for the Reserve Bank even to amalgamate the banking institutions of this country.

The Finance Minister began quite correctly by saying that the amendment has been necessitated because of the experience gained in relation to the Palai Central Bank. The whole question of the Palai Central Bank has been debated in this House in detail. Going through the debate, I find, one question which was a crucial question as far as the liquidation of the Palai Central Bank is concerned, remains. That is whether the power that still existed in the Reserve Bank to control the economy of these banks to safeguard the interests of the depositors is still there as far as these Acts are concerned; and if those powers are there how those powers have been made powerless in relation to the Reserve Bank because this Palai Bank was allowed to be liquidated and the interests of 80,000 depositors, many

of whom are middle-class people and those who have got very small earnings including a very large number of widows—which the Finance Minister will see if he goes through the list of depositors—were allowed to suffer.

Replying to the last debate on the Palai Central Bank, when there was a detailed discussion not only about the Palai Central Bank but also about the powers of the Reserve Bank, when asked whether the Reserve Bank would give an assurance to this House and to the country, directly or indirectly, after learning from the experience of the Palai Central Bank, that the banking structure is safe in this country and that Government would vouchsafe that any depositor could go to a bank today and put money into the bank with the belief that he will get 100nP for a rupee and not a rateable distribution after liquidation, the Finance Minister refused to give such an assurance.

To another question put in connection with the Palai Central Bank, the hon. Finance Minister said in the other House that there is no sanctity as far as Scheduled Banks are concerned. Millions of people in this country . . . (*Interruptions.*)

**Shri Morarji Desai:** Where is the question of sanctity about any bank?

**Shri Narayanankutty Menon:** I am coming to the point about sanctity. Millions of people who do not go into the niceties of the law, have got an impression that any deposit that has been made in a Scheduled Bank is a safe deposit. They did not get that impression themselves; that impression has been given to them by categorical declarations made by the Finance Ministers in succession when the parent Act was passed and also when the other amendments to the Act were passed. That impression was created. It is now said that any deposit made in any scheduled bank is not safe; to that extent no

guarantee is given by Government. Therefore, a vacuum has been created as far as the people's confidence in the banking institutions is concerned.

On the 30th of last month, the Governor of the Reserve Bank, Shri H. V. R. Iengar, speaking in Delhi, said that the banking structure of the country is quite safe. He further said that even though the banking structure is quite safe, he would issue a warning that there is no room for complacency at all. We could not understand what the Governor of the Reserve Bank meant by room for complacency, when the entire powers are being vested in the Reserve Bank to see that the banking structure in the country is put on a proper basis.

When the tragedy of the Palai Bank was debated here this was the question before the House. The whole question before us is whether our deposits are safe in the banks with these few amendments alone, whether there is power vested in the Reserve Bank to guarantee the safety of the depositors of the people in the banks. Or will it be the case as happened in the case of the Palai Central Bank, after having so much powers vested in the Reserve Bank and ultimate controlling power with the Central Government they did not exercise that power from 1951 till August 8, 1960 when the Palai Bank was sought to be liquidated? An explanation should be given why the Government and the Reserve Bank failed to have effective control over this Bank from 1951.

**The Deputy Minister of Finance (Shrimati Tarkeshwari Sinha):** May I point out to the hon. Member that a debate took place on this and all the points were replied. So this actually amounts to a repetition. Perhaps the hon. Member was not present here.

**Shri Narayanankutty Menon:** I have got the debate here and I am raising only those questions which were not answered by the Finance Minister. This point has been left open: in spite

[Shri Narayanankutty Menon]

of the powers conferred upon the Reserve Bank and the Central Government by the parent Act why did they not take action? The total deposits of the Palai Bank amounted to about Rs. 5 crores in 1955. It is admitted that the Reserve Bank was interfering in the affairs of this Bank and satisfying itself about the mismanagement of its affairs till 1960 when it went for liquidation. We demand an explanation so that the faith in the banking industry is restored, we want to be assured that the Central Government and the Reserve Bank did take some action. If there is some lacuna in the parent Act, it should be remedied.

The Deputy Finance Minister got a little irritated because she said that the whole matter had been discussed threadbare. The real matter unfortunately as far as the Palai Bank was concerned was not debated and replied to. Here is a banking company and it has Rs. 9 crores of public deposits. The directors have given Rs. 4 crores away on no security. It is clear from the 1959-60 balance sheet that there was no guarantee for some of the advances given by the bank. According to the Finance Minister, the Act gives unlimited powers to the Reserve Bank. But on one fine morning the bank has gone into liquidation and the only hope that the Finance Minister gives is that the depositor in the savings bank account will get Rs. 250 and others will get Rs. 250. There is something more which can be reasonably demanded from the Finance Minister. If one rupee consists of 100 nP and if the Finance Minister is able to give either 50 or 75 nP it is incumbent upon him and the Reserve Bank to tell the country where the 50 or 25 nP has gone. It is a logical, common sense proposition. In spite of all the powers conferred upon the Reserve Bank, all this has been taken away. So long as there is no reasonable explanation given to this question,

there will be no faith in the banking industry, especially as far as Kerala is concerned.

The liquidation proceedings are on. What action is he going to take to recover the money that has been lost in the Palai Bank? Somebody should be held responsible for the money taken away. A few directors or office bearers cannot run away with the money of the people. You have now to tell the House whether there are enough provisions in the Act to bring all the culprits to book and get back the last pie of the depositor. If you say that there are enough provisions, what action have you taken in order to get back the money? If there are not sufficient provisions and there are loopholes, you should have brought, along with this amendment, enough provisions so that the money that has vanished could be found and paid back to the depositors. Otherwise, you are not going to restore confidence in the banking industry in spite of the fact that you are giving more powers to the Reserve Bank.

In the liquidation proceedings, I understand—the Finance Minister also perhaps understands—that nothing has been done to trace the lost money. A specific enquiry as to how the money had been lost could have been done by the Finance Ministry which ultimately controls the Reserve Bank. But nothing has been done under the various provisions of the Act except to file liquidation proceedings in the Kerala High Court. Something could be done under the Banking Companies Act and the Insolvency Act to find out the fraudulent preference transactions. Nothing has been done to verify, enquire and fix the responsibility for this advance of Rs. 2.5 crores given on personal securities and to find whether these are fraudulent preferences or advances given to get unlawful gain for the directors. In

these circumstances, the only alternative before the Finance Minister is to hand over the entire accounts of the bank for an enquiry by the Special Police Establishment when definite allegations are made that fraudulent preferences were given. It should find out whether the office bearers are responsible for this mismanagement. There is no use handing over this enquiry to the Kerala police. The Finance Minister will remember the reaction of the Kerala Government immediately the bank has gone into liquidation. This is a matter of far-reaching consequence and the enquiry should be entrusted to the Special Police Establishment to find out whether any responsibility could be fixed on any of the individual directors or other office bearers for the misappropriations which deprived the depositors of almost half of their deposits.

The second point is this. Almost in every case of a company going into liquidation, it is common knowledge—it is not different in the case of Palai—the directors amass so much of money after they have become directors and this is money, 'unexplainable' money. Could not something be done under these three Acts to recover the money of the depositors of the Palai in this case? If he undertakes to enquire through the Special Police Establishment to enquire into the private assets of each and everyone of the directors of the Palai Bank since the date they acquired the directorship of the Bank and see if they have amassed money quite out of proportion to their normal earnings, then that is the money of the depositors. Have you got any power under the Banking Companies Act or the Companies Act or any other law for the time being in force in order to get the money that they amassed privately? Sir, I demand an enquiry as far as the private assets of the directors are concerned to find out how much they have earned after

becoming office-bearers of this particular company. After finding that out, it will be very easy for the Finance Minister to fix the liability. If that is done, Sir, I am quite sure that the directors themselves are today personally—they have got the capacity—capable of paying every naya paisa in the rupee to all the depositors of the Palai Central Bank. That ought to have been the remedy which ought to have been suggested by the Finance Minister, if he had any care for the depositors.

We on this side, Sir, are equally interested, if not more interested, in the 80,000 depositors of this particular bank. But is it a consolation to give Rs. 250? When large amounts have been deposited, when smaller amounts have been deposited and when there are people who have got no earthly thing left except what is deposited in this bank, to get Rs. 250—which does not enable a man even to commit suicide because the cost of medicine to commit suicide will cost more than Rs. 250—is no consolation. Therefore, the Finance Minister will not be doing a service to the country, he will not be doing service to the depositors by giving the depositors Rs. 250. What he should actually do is, if he is able to get the money under the provisions of this Act, if he has the powers as he says today, he must get that money and then he will be able to pay even to the last naya paisa to all the depositors of the Palai Central Bank.

Now, apart from this question, I have got two more points to submit before the Finance Minister. There is an enigma in the whole affair of the Palai Central Bank, and that enigma is either in the mind of the Finance Minister or in the coffers of the Finance Ministry. The Reserve Bank of India had enough powers. The Reserve Bank of India says that it exercised the power from 1950 onwards as far as this bank is concerned. They made a report in 1955.

**Mr. Chairman:** The hon. Member may confine his remarks to the provisions of the Bill before the House. I think the hon. Member is going on with a discussion on the Palai Central Bank affair.

**Shri Narayanankutty Menon:** What I am saying is, the hon. Minister now wants more powers under this Bill. It is not a question of having more and more powers. The powers were there. It was admitted by his predecessor in 1956 that there were enough powers. Therefore, there is no use coming before this House and telling the House that because you had no powers you could not do anything and you want more powers. My whole point is that the powers were there.

**Shri Morarji Desai:** If more powers are not necessary, then reject the Bill.

**Shri Narayanankutty Menon:** The real difficulty was that whenever the Reserve Bank of India made a report that report was cold shouldered in the Finance Ministry.

**Shri Morarji Desai:** That is all wrong. It is a great calumny, that is all what I can say.

**Shri Narayanankutty Menon:** I put a straight question to the Finance Minister, whether in December 1959 the Reserve Bank did not make a report to the Finance Ministry that the affairs of the Palai Central Bank were so dangerous.....

**Shri Morarji Desai:** It is entirely false.

**Shri Narayanankutty Menon:** The Finance Ministry did not take any action upon that report. Sir, I specifically point out to the provisions in section 35 of the Act. If the Finance Minister says that he has no powers, the powers are there under section 35.

**Mr. Chairman:** Section 35 is not sought to be amended by this Bill.

**Shri Narayanankutty Menon:** So far as the powers are concerned....

**Mr. Chairman:** May I request the hon. Member to confine his remarks to the provisions of the Bill?

**Shri Narayanankutty Menon:** It is with direct reference to the provisions of the Bill, Sir, that I am making these remarks. The Finance Minister in his opening remarks said that this Bill has been necessitated because of the Palai Central Bank affair.

**Shri Morarji Desai:** That does not mean that the whole matter is before the House.

**Shri Narayanankutty Menon:** The only thing is that this Bill is directly as a result of that affair. If the Palai Central Bank episode has taught any lesson to the Finance Ministry....

**Shri Morarji Desai:** Does he mean to say that because I have mentioned the word "bank" all things can be discussed now?

**Shri Narayanankutty Menon:** What I say is, at least the lessons learnt in the Palai Central Bank affair should be incorporated in the amending Bill that he is bringing forward and he should reasonably justify the amendments that he is bringing forward to the original Act with the lessons that he learnt from the Palai Central Bank affair. The amendments that he is bringing before the House do not satisfy even the answers to the small lessons that he has learnt in the Palai Central Bank affair. It is quite legitimate for us, Sir, to point out the lessons that were taught by the Palai Central Bank affair. The amendments suggested are very inadequate.

**Mr. Chairman:** The hon. Member has taken more than 20 minutes. The time allotted for this Bill is only three hours.



**Shri Narayanankutty Menon:** Sir, I will conclude with one more point—that is not in relation to the Palai Central Bank. There are some other banks also in the Kerala State which have not gone into liquidation.

**Shri Morarji Desai:** Do you want to send them into liquidation?

**Shri Narayanankutty Menon:** That is your idea, not our idea, because in spite of all this you decided to send the Palai Bank into liquidation. Sir, there are some smaller banks in Kerala. I shall cite a specific example. There is one small bank, small compared to the large amount the Finance Minister is handling, called the Savings and Investment Corporation having about 13 branches in the erstwhile Cochin State. What happened was that all of a sudden, on the morning of 1st July, the Reserve Bank of India sent a directive stopping all the transactions. It has been admitted that there was nothing seriously wrong with this bank. The co-operative societies and peasants and farmers in the villages have deposited their money in this bank. Nothing is known as to why the Reserve Bank has stopped business in this bank. The bank is not in liquidation, only the business has been stopped. Nothing further is known. I would request the Finance Minister to use his powers under this Act and the powers that he is getting under this amending Bill and see that this bank functions either by amalgamation or by any other process and thus save the large number of small depositors who have deposited their savings in this bank.

Before concluding, Sir, I wish to refer to the two amendments that I have tabled to this Bill. The first one is to raise the limit of Rs. 250 to at least Rs. 500. I think the Finance Minister will agree that Rs. 250 is a very meagre amount to be given in the savings account (*Interruption*). If he does not agree, let him at least allow me to finish my speech. I know he is amenable to reason sometimes.

In the Statement of Objects and Reasons he has said that it was only Rs. 100 in the original Act and now he wants to raise it to Rs. 250 because the prices have increased. Let him consider the magnitude of increase in prices from the time Rs. 100 limit has been incorporated in the original Act till now. Then he will have to raise it to Rs. 1000. I do not want that much, I will be satisfied if he raises the limit to Rs. 500.

The second portion of my amendment is that the scheme of preferential payment should be extended to co-operative societies, and that is with particular reference to the Palai Central Bank. There are hundreds of co-operative societies and smaller societies federated to central societies who have put their entire money in this bank. I can cite the example of the Central Co-operative Coir Society which has got Rs. 5½ lakhs in this bank. This society has to give advances to 62 primary societies. As a result of liquidation of this bank all these 62 primary societies have been closed and 11,000 workers have gone out of employment. Therefore, I would request him that the co-operative societies should also get preferential payment and the smaller co-operative societies who have deposits in this bank should also be given preferred payments.

**Shri A. C. Guha (Barasat):** Mr. Chairman, Sir, I am in a somewhat delicate position. As a private Member in 1950-51 I raised many points regarding the failure of banks, and then in another capacity also I had to deal with bank failures and banking operations.

Sir, I hope the Finance Minister will not be allergic about any criticism of the Reserve Bank. If we make any criticism of the Reserve Bank, surely, we do not criticise the general financial policy of the Reserve Bank or the solvency of Indian economics, but there may be certain points, particularly regarding the part played by

[Shri A. C. Guha]

the Reserve Bank in the banking industry, on which there may be some occasions for difference of opinion—particularly as regards making proper use of the powers in guiding the banking industry.

This Act is intended to give more powers to the Reserve Bank and also to the Government. I think the Bill, as far as it goes, would generally be welcomed by this House. I also welcome the Bill as such. But I think it will be relevant also to raise the question whether the power that was vested in the Reserve Bank under the existing Act was properly used by the Reserve Bank in time.

The general impression, I think, is that the Reserve Bank has not used the powers already existing with it under the Act, particularly in the matter of giving directions and some other things. I believe, if the powers had been properly used, at least the Palai Central Bank might have been saved. I do not like to mention the name of any bank. After the Palai Central Bank, came another big crisis. I do not know what will happen to the Indian economy as such and particularly to the entire banking industry of India, if something untoward happens to the Panjab National Bank. However sound the financial position of a bank may be, if the run on the bank continues for some days, no bank can stand that run. I appreciate the Finance Minister for having issued a sort of statement. . .

14 hrs.

**Shri Morarji Desai:** It was a press interview.

**Shri A. C. Guha:** Yes—and I appreciate also the statement he made on the floor of the House in answer to a short notice question. Without those two announcements—either at the press interview or on the floor of the House—I think the position of the

Punjab National Bank might have been critical, and critical not only to that bank but also to other banks.

Banking is a very delicate matter and the banks depend only on the confidence of the public. I think there have been one or two cases in India where banks have been sent to liquidation. After the liquidation proceedings, which were tortuous and costly in those days, the depositors were paid even more than Re. 1 for every rupee of their deposit. For one rupee, I think in some cases they were paid more than Re. 1, that is to say, Re. 1.06 or something like that. So, it is not always a question of the solvency or the liquid assets of a bank that can cause a closure or failure of a bank. It is a question of the public confidence on the bank, and that confidence has, to some extent, to be guaranteed. Perhaps I should not use the term 'guaranteed'; I wish to say that it has to be protected at least by the Reserve Bank and the Government.

I regret that the Finance Minister on a previous occasion made a sort of statement that the Government cannot guarantee the stability of any bank, scheduled or non-scheduled, licensed or non-licensed. Technically that may be the correct position. But still, such a statement from the Finance Minister, I am afraid, will surely tend to shake the confidence of the public in the banking system and the banking industry of the country. Any statement made on behalf of the Reserve Bank or of the Government regarding the banking industry can influence public opinion this way or that way. So, these things should be carefully worded and—

**Shri Morarji Desai:** Please suggest now.

**Shri A. C. Guha:** I think the statement—that the Government cannot guarantee and all that—might have been avoided or differently worded.

**Shri Morarji Desai:** I was asked about it. What should I do then? I would not have said it otherwise.

**Shri Prabhat Kar (Hoghtly):** It need not have been said.

**Shri Morarji Desai:** You are responsible for all this. You ask questions, and they say I should not reply!

**Shri A. C. Guha:** Sir, there are ways of giving replies. Moreover I do not ask questions. I asked him only one question namely, what would happen to those whom he considers to be mischief-makers as regard the Punjab National Bank. That is the only question I asked.

**Shri Morarji Desai:** 'You' means not you only.

**Shri A. C. Guha:** As I have said, as far as the present Bill goes, it is quite welcome and it is intended to meet a sort of emergency. If Shri Narayanankutty Menon had moved his motion for reference to the Select Committee, surely it would not have been wise for this House to support that motion. He also realised that it would not be proper for him to move that motion and so he withdrew that motion. This Bill has to be passed as early as possible, and there is no question of sending it to the Select Committee. But, at the same time, this sort of *ad hoc* arrangement cannot do for the banking industry as a whole.

The entire pattern of Indian economy has changed during the last nine or ten years. Our national income has increased; our industrial production has gone up tremendously and money circulation has also increased tremendously. So, the banking operations have also increased considerably. Between the deposits in the banks in 1951 and 1959, I think the difference is about, or is more than, 100 per cent. So it is time that Government made a proper review of the entire banking industry in the country and come forward with a comprehensive Bill.

1030(Ai) LSD—7.

This is a very important subject and a thorough study of the entire economy of the country should be made and a proper set-up of the banking industry should be examined from the point of view of the present industrial and economic conditions of the country. I hope the Finance Minister will consider this suggestion and make a sort of enquiry into the banking industry of the country, and if necessary, bring forward a Bill on the basis of the report on the enquiry.

Bank failures are not quite peculiar to India. In other countries also banks have failed. Even in the USA a number of banks have failed. But I think in other countries bank failures are due more to ignorance and inefficiency than to *mala fides* and dishonest tactics. I think the position in our country is just the reverse. Most of the bank failures in India are due to dishonest tactics on the part of the managing authorities.

I come from West Bengal which is perhaps the worst-suffering State in India as regards bank failures. The enquiry which was conducted by D. N. Mitra in 1952-53 gave a complete picture of bank failures in India particularly in West Bengal. One of the reasons for bank failures is also the lack of knowledge and inefficiency of staff. The Reserve Bank has been given the power of inspecting the banks and also of taking proper action on the report of the inspecting staff. That power of inspection should be properly used,—which, I am afraid, has not been done. I think the Reserve Bank must also have been aware from these reports that most of these banks in India are not properly manned, or rather, they are not manned by properly trained staff. As far as I know, there is only one training college to train the personnel of banking industry. There also, there is no compulsion on any bank to send its employees to that college. It is just an optional thing, and most banks, I think, do not take

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the trouble of sending their men and paying the salary of those employees during the period of their training. I think the Reserve Bank and the Government should see that institutes for training the personnel of the banking industry are set up in all States and each bank should be made to contribute a certain portion of its profit, or, there should be some other basis on which it should be made to help the institute. And there should be a compulsory provision that each bank should send its personnel for training in the training institute for banks. I think that would mean also an improvement in respect of *mala fide* or dishonest tactics. If the employees of the bank clearly know the provisions of the Banking Companies Act and the techniques and implications of the banking industry, they would be more careful not to allow the top-ranking authorities to indulge in some dishonest tactics. No managing director or member of the board can indulge in these things without the connivance of the staff, at least at some higher level. So, training of banking personnel is an important matter, to which the Reserve Bank and the Government should give their attention.

This Bill can be divided into two parts. One is regarding the priority claimants and also regarding the liquidation proceedings. I am happy that a time-limit is being put in the liquidation proceedings with retrospective effect, not in all cases, but in some cases.

**Shri Morarji Desai:** Where the first dividend is not paid, it will apply.

**Shri A. C. Guha:** It is there in some cases. I think most of the banks in West Bengal, now in liquidation, have not paid the first dividend. That has also to be seen that for 8 or 10 years, liquidation proceedings have been going on. If they are not in a position to pay, the proceedings should be ended.

The second portion which is more important portion of the Bill deals with amalgamation or merger and reconstruction of banks and also moratorium. I was one of the advocates of amalgamation and merger of banks and I advocated it with all the vehemence at my command while I was a private Member in 1950—52. Even now I welcome this proposal, but at the same time, I should like to say a word of caution. I hope this will not mean that all small banks will be merged into big ones and there will only remain big banks. There is still necessity for small banks. The House should not carry the idea that small banks always mean bad banks or financially unsound banks and big banks always mean sound banks. That should not be the position. In a country like India, there is necessity for small banks. It is not only necessary in Kerala where there are about 150 banks—all of them may not be small, but most of them are—but in other parts of the country also, there is necessity for small banks to serve the small man to whom the big banks' attitude is not very helpful.

**Shri Naushir Bharucha (East Khadesh):** There is no scheme for general amalgamation.

**Shri A. C. Guha:** That is true, but if the tendency is in the direction that small banks are to be amalgamated with big banks, I think that would not be a proper thing. Merger or amalgamation should only be resorted to as a life-saving measure when some bank is running or about to run into trouble. Only then the Reserve Bank or the Government should step in and try to have merger.

In this connection, I also like to suggest that the Government and the Reserve Bank may consider the idea of not only merger, but also of having subsidiary banks. The State Bank has got about 7 or 8 subsidiary banks. If some of the private commercial banks are allowed or are made to

have some subsidiary banks attached to them, that would be a better idea than to have big banks by amalgamating small ones. I fear, under the present Act, that is not permissible.

**Shri Nathwani (Sorath):** It is expressly provided in sub-clause (4) that amalgamation is to be resorted to in public interest.

**Shri A. C. Guha:** 'Public interest' is too wide a term and it may cover anything.

**Shri Heda (Nizamabad):** He is supporting it with a word of caution.

**Shri A. C. Guha:** So, there is necessity for small banks in India and that necessity should be kept in mind, so that the small banks which serve the small men should not be abolished or eliminated.

I think the Reserve Bank should also take some powers about auditors. Under section 30 of the present Act,

"Any person duly qualified under any law for the time being in force to be an auditor can be an auditor of a bank."

Auditing of banks is much more important than auditing of any other companies. Just as the Reserve Bank has to give its consent in the case of managing director or general manager, in the case of auditors also, the Reserve Bank should be consulted. If the present Act does not provide anything in this regard, the over-all authority of the Reserve Bank under section 35A may be utilised for this purpose.

The Joint Committee on company law has also recommended that there should be special audit for joint-stock companies. I think for the banks also, there should be a provision that there should be a special audit and the Reserve Bank should have the authority to have this special audit.

Lastly, as regards the Punjab National Bank, if the Finance Minister has any idea that some of the employees of other banks had been trying to do mischief with the Punjab National Bank, that matter should be pursued and if anything is found against them, they should be debarred from being employed in any banking units in this country. Steps should be taken to see that any such person should not be in the banking industry of the country at all. The banking industry also should develop a code of conduct in such matters. This is a very serious matter that the employees of one bank trying to do mischief to the interests of another bank and also to the interests of the country.

**Shri Heda:** I welcome this Bill and most of the provisions, I am sure, would be appreciated all over the country. Its primary aim is to give relief to small depositors in the banks which are in trouble and which are under liquidation.

**Shri Punnoose (Ambalapuzha):** The time for this Bill should be extended.

**Mr. Chairman:** Let us proceed and see.

**Shri Heda:** Much has been said about guaranteeing the deposits in the scheduled banks. I regret to note a tendency among my friends in the opposition to make a big noise over this issue creating an impression—as if the Reserve Bank Act has made that impression on the depositors—that every depositor is being guaranteed by the Government. I know it for certain that that was not the impression of any depositors. The depositors knew very well that banks are individual independent bodies. The Reserve Bank has only a sort of supervision or control. It watches, but it never guarantees. Since they had been doing this propaganda, I think the Finance Minister was forced to make a categorical statement that Government never guaranteed the deposits. When he comes with that

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statement, again he is blamed. It is said, it was unnecessary for him to say so; it was clear in the Act itself that there was no statutory guarantee and there was no need to say that. I think this is not fair tactics.

Had this impression been among the depositors that every deposit is being guaranteed by the Government, there would not have been this phenomenon, which we find today, that most of the deposits are concentrated in five or six banks.

**Shri Morarji Desai:** May I say that there will be no run on any bank if there is that feeling?

**Shri Heda:** Quite right. The depositors have greater personal contacts with small banks and so the small banks could have attracted more deposits than they are doing now. But that is not the case. At the same time, the very fact that this amending Bill has not sought to take more power than what was in the original Bill, so far as control over the banks is concerned, also indicate that the powers with the Reserve Bank, so far as supervision or watching or having an eye on the banks, whether scheduled or non-scheduled, are concerned are quite adequate. Though those powers are really adequate, what happens is this. The Reserve Bank hesitates to take action when it feels that action is due. I have no exact idea as to what happened in the case of the Palai Central Bank; but the debate gave me the impression that in spite of the fact that the Reserve Bank had come to certain conclusions, it was hesitating to take action in time. Probably, they wanted that those in control of the bank to agree with their assessment, with their viewpoint that such and such number of deposits or such and such percentage of deposits are not good and they are to be written off. At the same time, we must take note of the fact that this was done by them with a view to attract-

ing more depositors by paying a high rate of interest on the ordinary deposits than any other bank did.

Then I come to one small point. The Finance Minister, in his opening remarks, stated that he is not able to give retrospectively effect, so far as the Palai and Laxmi Banks are concerned, because of administrative difficulties. I think the administrative difficulties, particularly with regard to these banks, are not so great. The debate that took place a few days before gave us the impression that there is enough liquid cash with them. Therefore, paying this Rs. 250 to each depositor would not be administratively very difficult. Since the assets of these two banks are adequate, I think the administrative difficulties should not be brought in here. Even otherwise, in spite of this clause regarding not giving retrospective effect, I hope Government's intention is to act as early as possible and to pay to the small depositors a small amount of Rs. 250 as soon as they can. I think that intention of the Government is a very laudable one, and I welcome it.

14.23 hrs.

[SHRI MULCHAND DUBE *in the Chair*]

This occasion has been used to discuss the soundness of our banking system. No doubt, when we compare our banking system with that of other countries, particularly of USA and UK, we find that they are more sound than the banking system of ours. But there is one particular reason for this, and that is this, that our banking system is following a policy which is more conservative than that of other countries. If you look at their *investments*—I am not talking of their attraction of *deposits*—you will find that they have restricted themselves to the urban and industrialised sector. They have not gone to the rural area or the agricultural sector. There are very few branches of banks in the rural sector, and even those branches

are there primarily to attract deposits and not to make any investment. From that point of view, the banking system in other countries is far more advanced and their rural sector is getting more benefits. I hope Government will pay attention to this.

Again I support the Bill and welcome the provisions contained in it.

**Dr. Krishnaswami (Chingleput):** Mr. Chairman, the Finance Minister has been as good as his word. Speaking in the Palai Bank debate he promised this House that he would introduce a Bill on the lines suggested even before we dispersed. I am glad that he has done so. And while I am not oblivious of the merits of this measure, I should like to point out that there are certain misgivings which I have noticed, and I hope he will not consider that any remarks that I am making do not give sufficient credit to his readiness to understand our problems, or that those remarks are meant to cast aspersions on that great body, the Reserve Bank of India. I should like this House to concentrate its attention on two or three aspects of this question.

14.25½ hrs.

[DR. SUSHILA NAYAR *in the Chair*]

What is the purpose underlying this measure? If the object is to save the depositors, then the Bill is not only not adequate but is also likely, in some respects, to be detrimental to their interests. Then this Bill is also meant to simplify and hasten liquidation. But facilitating quick liquidation is not always a good thing for the depositors. Indeed, it often works to the disadvantage of this class of people, for advances made if recalled quickly, may lead to the assets of the depositors being sold at considerable loss, and there would be less in the common pool for the purpose of distribution.

**Shri Morarji Desai:** Assets of those who have advanced loans?

**Dr. Krishnaswami:** Assets of the debtors. I am glad that the Bill has taken action on this aspect of the matter, and if I am again emphasising it, it is because there is a tendency in certain circles to think that we should complete the funeral ceremonies as quickly as possible of a bank and then proceed to some other business, more important and more edifying. But what should be the approach to this question? Our approach should be to protect the rights of the savers or depositors through some measure which makes banking failures absolutely unnecessary. We are, however, concentrating on making liquidation less painful, a useful thing no doubt, but not a substitute for the more constructive measures which we ought to implement.

My hon. friend has pointed out that the opportunity provided by recent failures has given him time to consider amendments to give grant of moratorium to banks experiencing difficulties and to facilitate reconstruction and amalgamation. Of course, these proposals are better than the provisions in the old Act, whereby difficulties experienced by banks led to their immediate liquidation. Merger or amalgamation of course, is better than closing down banks.

But let us, however, consider what the import of this scheme is. This Bill cannot be accepted as a solution to this problem at all. As a temporary stop-gap arrangement this is somewhat satisfactory. We have raised the amount that we pay to the depositors from Rs. 100 to Rs. 250. Now, as I said, while this arrangement is somewhat satisfactory from a temporary point of view, our attention should be concentrated on coming out with adequate proposals for evolving a well-organised banking structure where there are no weak units, where banking failures are rendered unnecessary and where the depositors are protected to a substantial extent. In this Bill, it will be realised, even under the scheme of merger and amalgamation they are not protected to that extent

[Dr. Krishnaswami]

to which we would wish them to be protected. One has only to look at the provisions in this Bill, and I refer now to section 45(6) which says "reduction of the interest or rights which the members or creditors have in or against". That means that, to a certain extent, there can be a scaling down of the depositors' interest.

My hon. friend from West Bengal pointed out that it was necessary to bear in mind the need for encouraging regional banks,—small banks which play a great part in the life of the community. I need not go into the various arrangements for encouraging the growth of small banks. Here, let me point out that it is absolutely necessary on the part of the Reserve Bank to encourage them actively, to make them solvent, to make small banks grow into something bigger. We should not adopt a censorious and critical attitude. In so saying, I am not criticising the Reserve Bank. But, I am only pointing out that there are difficulties in the way of making a small bank grow as fast as we wish. Banking, after all, is a very technical art. It is no use, as some of my friends suggest on laying down a rule of thumb for the Reserve Bank to follow. There is a high degree of vulnerability with a bank that is small in relation to the total banking business of the area in which it operates. The Reserve Bank would probably be right if it insisted on a higher degree of liquidity in the case of a small bank than in the case of a large bank. Certainly, the Reserve Bank, although it has been criticised in recent times for its errors of judgment, has won encomiums of praise from almost everybody who has happened to examine its working. My hon. friend the Finance Minister need have no fears that we in this House are oblivious of the great merits of the Reserve Bank. Every one of his predecessors has gallantly come to the rescue of the Reserve Bank whenever we have attempted to be even slightly critical of its activities. My hon

friend's predecessor on one occasion pointed out in this House that the Governor of the Reserve Bank was but a creature of the Finance Ministry and that we should only concentrate our wrath on the creator, the Finance Minister. His predecessor, Dr. C. D. Deshmukh would have fainted if we had even remotely suggested that the Reserve Bank was not performing its functions properly and it would have required all the arts of healthy nursing of which the Prime Minister is capable to restore him to consciousness. So, you can take it that all of us realise that the Reserve Bank has very powerful people to support it. What I am suggesting is that while I have great respect for the Reserve Bank, I should like my hon. friend the Finance Minister to realise that the administrative activities of the Reserve Bank cannot be considered to be in the same category as the rites performed to the Goddess Isis.

What is it that we want to be done? This measure is only a temporary stop-gap arrangement. As I pointed out a few minutes ago, unless we are willing to face the problem of compulsory deposit insurance, it is not going possibly to give substantial protection to the bulk of depositors in our country. My hon. friend Shri A. C. Guha pointed out that many banks are not properly managed. Of course, the Reserve Bank tries to introduce order. But, more important than management, what is necessary is to ensure the interests of the depositors are safe. And this, for two reasons. Both the Government of India and the monetary institutions in our country are interested in mobilising savings and these savings should be deposited in institutions. A Bank has a vital part to play in our economy. We collect the savings from a large number of small people and then invest these savings in certain branches of activity. Some people point out that a bank



should be more liquid and that it should only concentrate on very short-term assets. While there is some force in that argument, I should like to point out that recent advances in banking have led many people to question the assumption that a bank should concentrate only on short-term advances. As a matter of fact, no bank does. But, the essential principle behind bank advances is that since a bank is an institution which has to surrender the deposits on demand, it should not try to concentrate mainly on investments or advances which are long term in character. One does not know what the creditworthiness of a borrower will be five years or ten years hence and that function had better be left to other institutions like Investment trusts. But, let us not lay down hard and fast rule. The Reserve Bank is quite capable of evolving the criteria. We should like, on a subsequent occasion, if the Finance Minister permits, to have a full dress debate on the report presented by the Reserve Bank and give our reflections on the banking policy which, I think, would be worth while for the Reserve Bank to take into account.

In the fifties of our century, we were discussing whether there should be compulsory deposit insurance. I have not been able to understand why there is a great reluctance displayed by many banks to embark on this scheme. Something should be done, and something should be done soon so that we may have a decision on this matter.

In addition, there is another suggestion which I wish to throw forward and I hope the Finance Minister will consider it sympathetically and it is this. We should have a consortium of banks to create a new institution for the purpose of taking over those banks which are not solvent. Speaking in the debate on the Palai Bank question, I pointed out that we may merge the Palai Bank with the State Bank. Of course, that suggestion was rejected. But, some

of my hon. friends suggested that it would be very difficult for us to think of one bank alone taking over a bank which was not very solvent. Supposing we had a consortium of banks which created an institution of this type, the whole of the losses of that bank would be borne by all the other banks, and the deposits would be fully assured. From the point of view of the community, it is a major interest to protect the interests of the depositors as fully as possible. In this connection, I wish to point out that even the big and solid banks should consider it to be in their interest to form such a consortium. The Reserve Bank will, I hope, play a leading part in bringing together those banks and making them realise that that they have to think a fresh in this matter. Let the big banks realise that the weak can weaken the strong and the collapse of the weak banks itself weakens the other and the better institutions even when the Central bank gives support to the strong. These words are those of Lord Keynes, a practical banker and a great statesman in monetary affairs. I hope these words will percolate into the minds of the big bankers and others and that they will realise that social interest as well as their very security required that they should move in this matter and not propound the old theory of survival of the fittest which, I think, in this generation at any rate, has no vague whatsoever.

I said that when the Palai Bank and the other Laxmi Bank collapsed, there was such a striking loss of confidence as to affect other banks. How did it come about that there was a run on the Punjab National Bank? I am not saying that some mischievous body did start rumours. But, the environment was prepared for it precisely because there were two bank failures in recent times. Because, we did not realise that two or three bank failures of the type, of even small weak banks, can shake the confidence of the community in the banking system.

[Dr. Krishnaswamy]

I would like all these matters to be gone into by my hon. friend. I do not want to tell him that he should give me an answer immediately. No one has any right whatsoever to compel a Minister to answer. But, one has a right to suggest that the Minister should give due consideration. When we say that the Minister should give due consideration, what we mean is that these suggestions that we make should be examined by the Reserve Bank and other authorities and they should give their advice on these matters as soon as possible. Parliament, apart from legislating on these matters, is intimately interested in the future of deposit banking in our country. If the big banks do not act in time, if a consortium of banks does not create an institution for taking over some of these weaker banks, which are weaker because they are not solvent, then, I say that they will face greater perils in the years to come. I am not one of those who believe that nationalisation of banks is a panacea. I do not agree with those who suggest that this is a panacea. I am not also one of the other extremists who suggest that without having any nationalisation whatsoever, we should pursue a philosophy of *laissez-faire*. Obviously, that cannot be done. But, I would like the Reserve Bank and the big bankers who have had so much experience of practical banking to devote some time to these elementary aspects of the matter. If they can possibly form a consortium and have a new institution, I think they might as well consider taking into account the interests of the Palai Bank and the Laxmi Bank depositors whose interests Parliament, on a previous occasion, advocated but which did not find much favour with the authorities for supposedly practical reasons. I support this Bill as a temporary measure, but I hope the Finance Minister will ponder over these suggestions, and in the coming session bring forward a fuller and a more comprehensive Bill. We want to strengthen the Reserve Bank, and

we want to strengthen it not by giving the role of a finishing governess censorious and petulant, but by giving it sufficient powers and wherewithal to assist the weaker units so that depositors' interests may be fully assured.

**Shri Nathwani (Sorath):** I rise to support the Bill. It is said that the law relating to banking companies in this country is an indigenous growth, and as such it is made up of shreds and patches. In saying so, however, no reflection is cast on our legislation. It means that there has been no precedent, no counterpart in any other country which we are trying to follow in our legislation. This Bill conforms to this pattern of growth of banking law in this country. Therefore, from time to time legislation has been undertaken to meet the situation or situations as and when they have arisen. This Bill has been necessitated by the misfortune or disaster that overtook the Palai Bank.

The first speaker, Shri Narayanankutty Menon, tried to belittle the value of this measure by saying that it gave no new power, that there were already in existence sufficient powers either with the Central Government or with the Reserve Bank whereby the mischief that has been sought to be remedied, by this Bill could have been remedied, or the relief that is sought to be given by this Bill could have been given. I will presently show that it is not so, but before I deal with the main provisions of the Bill, I would like to invite attention to one general aspect.

In 1950 and 1953 two amending measures were adopted with a view to speedily realise the assets of banking companies. Very vast and far-reaching powers were sought to be given. All the difficulties that were contemplated in the way of speedy realisation of the assets were sought to be met thereunder, and still we are told that though some banks have been

under liquidation for the last eight or ten years, nothing has been paid even by way of preliminary or interim dividend. Therefore, we would like to know whether the powers that have been given for speedy realisation of the assets are found to be adequate or not, and if these powers are adequate, why nothing has been done by way of distributing some dividends in certain cases, whether the machinery is moving slowly, or whether some further hurdles require to be met.

The main provisions in this Bill are two-fold. Firstly, it seeks to provide for quick preferential payment to depositors. This is a great relief, since under the Bill it is enjoined that within three months of the making of the winding up order, small depositors will be paid Rs. 250. I consider this period as the shortest possible period. In fact, I have my own apprehensions whether sufficient time has been given to the official liquidator to go through all the formalities. Under Clause 3, for instance, within 15 days from the passing of the order of winding up, the official liquidator has to serve notice upon the preferential claimants. Within 15 days he is expected to ascertain the list of preferential creditors. If one turns to section 530 of Companies Act one will see the numerous categories of persons who occupy that position of preferential creditors. Therefore, I personally think that the three months period within which preferential payment has to be made to small depositors is the shortest possible period, and one cannot improve upon this time limit.

The second main provision is about the declaration of a moratorium. Of course, in the existing law there is provision, but a banking company has to approach the High Court, and it entails some delay, though in substance the final voice rests with the Reserve Bank because it would be the recommendation or the report of the Reserve Bank which would be taken into consideration by the High Court before granting a moratorium.

The other part is about reconstituting the banking companies or amalgamating one banking company with another. Regarding amalgamation of banking companies, there is a provision in the existing law under section 396, but the wide power that has been given in this Clause, the new section 45, is not to be found there. Had these provisions been in existence before the failure of the Palai or the Laxmi Bank, perhaps the disaster could have been averted. Therefore, no one should try to minimise the importance of this Bill, because, armed or equipped with this power, the Reserve Bank and the Central Government would be able to prevent such collapses hereafter.

Then I want to say a few words about the amendments which stand in the joint names of my hon. friend Shri Morarka and myself. The first amendment, I think, is an obvious necessity. There is a lacuna, because under section 43 the official liquidator has to give notice to the secured creditors to lodge their claims or to value their security, and stating if they do not file their statement of claim within a month the claim would be treated as an ordinary claim or if the secured creditors do not value their security, he would value them and such valuation would be dividing upon them but there is no further positive provision in the Bill saying this effect would follow. What is the use of merely stating in the notice that if they do not file their claim within a month it would be treated as an ordinary claim, when no such provision is laid down in the Bill itself. So, I hope the hon. Minister would accept it.

Then, amendment No. 15 seeks to delete the difference that is sought to be made in the class of depositors who have got current account. Of course, in the preceding clause, depositors who have got savings accounts are treated as preferential creditors. But then in the subsequent clause, it is stated that the maximum that can be allowed to a current-account-holder would be Rs. 250. But if the amount is less than Rs. 500, then only 50 per cent of the

[Shri Nathwani]

balance standing to his credit would be given. Really, I cannot follow the line of division that is sought to be laid down here. A man who has got a bank balance of Rs. 500 or over would certainly get Rs. 250, but one who has got less than Rs. 500 would not get Rs. 250 but only 50 per cent of the amount standing to his credit. For instance, if a person has got Rs. 100 as balance standing to his credit, he would get only Rs. 50. We say that our object or our aim is to give relief to the small depositors. Therefore, why should those persons who have got less than Rs. 500 not be allowed the full amount up to Rs. 250? What is the reasoning behind the provision here? I am unable to follow. Our amendment seeks to do away with that difference between depositors who have got current accounts, i.e., those who have got over Rs. 500 in the current account and those who have got less than Rs. 500 in the current account. In all cases, irrespective of the balances standing to their credit, at least they should be paid to the extent of Rs. 250.

There is just one more amendment whereby we seek to provide for notice to be given to members and creditors of a scheme of reconstruction of a banking company or amalgamation, when the scheme is prepared it is to be forwarded to the banking company by the Reserve Bank, and the Reserve Bank will take into consideration the suggestions or objections made by the banking company and also by the members or creditors of such banking company. There is however, an obvious lacuna here. How are the members and creditors of the banking company to know about the scheme that is being considered by the banking company or that is going to be considered by the banking company. Unless they know precisely the scheme that is being considered, they would not be in a position to make their suggestions or observations. I quite understand that it is not the intention of Government or of the Reserve Bank that members or creditors should not know

of such a scheme. But there is no provision made here. They may provide by convention or by practice or by enjoining upon the bank to acquaint its members and shareholders about the scheme. But I believe that some provision should be made in the Bill itself. Our amendment seeks to lay down that banking companies should call a meeting to ascertain the wishes of the members or the creditors. I quite understand that it may not be acceptable because it takes time; a banking company has to follow its articles and it takes time, 21 days etc. before calling a formal meeting. But the whole procedure can be simplified by saying that such notice whether by way of advertisement or otherwise may be given by the banking company in a manner to be prescribed by the Reserve Bank.

That is all that I wish to say.

**Mr. Chairman:** 3 hours have been allotted for this Bill. The discussion on this started at about 1.20 P.M. So, normally speaking, it should conclude at 4.20 P.M. There are six more speakers on the general discussion, in the list before me. I would like to know the wishes of the House, as to how they would like to divide the time between the general discussion and the clause-by-clause discussion.

**Shri Naushir Bharucha:** You may extend the time.

**Shri Prabhat Kar:** The time may be extended by 1 hour.

**An Hon. Member:** It may be extended by 2 hours.

**Shri Naushir Bharucha:** Till 5 p.m. we can have this.

**Shri Ram Krishna Gupta (Mahendragarh):** The time may be extended by 2 hours, because this is a very important Bill.

**Shri Morarji Desai:** May I say that this Bill ought to be finished today.

As long as it is finished today, I have no objection.

**Mr. Chairman:** I suggest that we extend the time till 5 P.M. and let the Bill be passed by 5 P.M. That means, the time will be extended by 40 minutes. How much time would the House like to give for the clause-by-clause consideration, and how much for the general discussion? There are about 20 amendments that have been tabled by Members.

**Shri Maniyangadan (Kottayam):** Half an hour.

**An Hon. Member:** 45 minutes.

**Mr. Chairman:** I hear 45 minutes on the one side, and half an hour on the other side.

**Shri Morarji Desai:** Let it be 45 minutes.

**Shri Ramanathan Chettiar (Pudukottai):** Let me at the outset congratulate the Finance Minister for bringing forward this amending Bill. It has come not a day too soon. Let us pause for a minute and find out why the Finance Minister has come forward with this amending Bill today. But for the Palai Bank tragedy, I do not think he would have brought forward this Bill before the House today.

The Reserve Bank plays a very important part, being the national guardian of banking in this country. But, of late, the Reserve Bank has come in for a lot of criticism not only from this House but from the entire public. People minimise the importance of the role of the Reserve Bank. The Reserve Bank being the central banking authority in this country has not only to protect the interests of the depositors but also take steps from time to time to control the credit structure and also evolve the monetary policy of our country.

The amendments sought to be made are of a twofold character. One is

to enable the banking companies in the future after liquidation, to give Rs. 250 instead of Rs. 100 to the savings bank depositors. The other one is to enable Government to get over the procedural delay in regard to having a moratorium, and also to clothe them with more powers in regard to amalgamation of two or more banks.

14.58 hrs.

[SHRI HEDA *in the Chair*]

These are welcome features, no doubt. Still, I feel that the Reserve Bank is not clothed with enough powers to safeguard the interests of depositors and establish healthy banking traditions.

As the Governor of the Reserve Bank, said soon after the Palai Bank tragedy, in one of his speeches to the bankers' institution in Bombay, there is a lot of difference between operational efficiency and control. What I think he meant was that the Reserve Bank should be clothed with more powers in such a way that they will have more operational efficiency in controlling and also superintending the working of banks in this country.

Here, I would like the Finance Minister and also the Reserve Bank to come out with a statement as to how many banks are licensed, especially in regard to the scheduled banks, because there seems to be an impression in this country that not more than half of our scheduled banks are licensed. If I remember right, the figure is round about 38. If this is the position, there are 93 Scheduled Banks operating in this country and only 38 have been licensed—the licensing procedure started somewhere in 1956 after the amendment that was passed in this Parliament—even after four years of the amendment, I am afraid the progress has been rather slow. I think the processes have got to be expedited and the pace of licensing quickened, so that at least the 93 Scheduled Banks would be licensed within a year or at the most two years. People have

[Shri Ramanathan Chettiar]

a wrong impression that when a bank is not licensed, it is not sound. It takes some time for the Reserve Bank to inspect a bank and go through the records and satisfy itself and then issue a licence. The other day I was told that the Punjab National Bank was not licensed, but on enquiry I find that it has been given a licence. This sort of rumour should not spread, and that is why I am making this humble suggestion to the Finance Minister so that the Reserve Bank will expedite the process of licensing.

15 hrs.

There are one or two other aspects I would like to touch upon. The Reserve Bank should view any matter not merely in the letter of the law but more in the spirit of it. The Reserve Bank should nurse a banking institution. Even when a banking institution is going through a troublesome period, the duty of the Reserve Bank is to help that institution and not take the ultimate course of going to the court and asking for its liquidation. After all, its duty is not only to nurse an institution but also to help it by way of loans, and if the management is bad, remove the management and have a new management, and by other methods try to improve the position of a bank and allow it to grow and protect its depositors. It is not only the question of depositors; there is also a large number of employees. If I remember aright, the banking industry employs about 60,000 people. That means 60,000 families. Their case has also to be taken into consideration. It is not only the depositors that have to be looked after.

I have only one or two other suggestions to make. We have now the system of appointing an observer for a bank when the Reserve Bank feels that the management is not either up to the mark or something otherwise is wrong with it. I think the system of appointing an observer has not

been very satisfactory because the observer is one among 9 or 10 elected directors and his is a minority voice. Excepting that he sends a report from time to time to the Reserve Bank about the proceedings of the meetings of the board or of the committee of that Bank he has no other role of an operational character. I hope the Finance Minister will, in consultation with the Reserve Bank authorities, consider the question of nominating on behalf of Government or the Reserve Bank one or, in some cases, two directors with full powers to be on the boards of such banks which are not functioning properly according to the Reserve Bank. This might enable the Reserve Bank to avert a crisis in time. This is one of my suggestions, and I hope the Finance Minister will either in the next Session or in the Budget Session, when he brings forward a Bill, incorporate this suggestion therein, so that the Reserve Bank will be clothed with more powers in having control of such banking institutions which come in for a lot of trouble.

There are one or two other methods by which the Reserve Bank can avert a crisis in a bank. In the first instance, it can ask the Bank to stop taking further deposits. Then again, it can take action by way of de-scheduling a bank. This was not done in the case of the Palai Central Bank. Mr. Chairman, you must not think that I am saying a lot about the Palai Bank. But the fact is that but for the Palai Bank crisis, there would have been no necessity for this amendment. I think it is due to the Palai Bank that the Laxmi Bank also has come in.

In conclusion I would like to say that we are all disappointed to note that the Finance Minister during the course of his speech this afternoon said that on account of some procedural and other technical difficulties, he is not able to give retrospective effect to these two measures. I wish he

sympathetically considers the question of 88,000 depositors of the Palai Bank and also the depositors of the Laxmi Bank.

**Shri Moraji Desai:** They are covered. There are 77 other banks.

**Shri Ramanathan Chettiar.** I am sorry. I am thankful to the Finance Minister for correcting me.

One other redeeming feature that he has mentioned is that the process of liquidation will be expedited. That is a welcome feature of the Bill. I have great pleasure in supporting this Bill.

15.07 hrs.

[MR. DEPUTY-SPEAKER *in the Chair*]

**Shri Naushir Bharucha:** Mr. Deputy-Speaker, before I speak on the Banking Companies (Second Amendment) Bill, may I take this opportunity offered to me to tell you how very glad we are that you are back in our midst? We hope and trust that you will be able to carry on your activities with the same strength, zeal and vigour as in the past.

The Banking Companies (Second Amendment) Bill has seen the light of day under circumstances which were rather tragic. But the Bill proceeds substantially on the right lines. To my mind, the more important aspect of the Bill refers to the powers given to the Reserve Bank ordering amalgamation or integration of banks, though the powers in connection with priority of creditors are equally important. I am satisfied that the time has come for increasing the limit for giving preferential treatment to small depositors; the amount raised, from Rs. 100 to Rs. 250 is really not much, if we have regard to the fact that the commodity value of the rupee in recent times has gone down. In fact, I was wondering whether it would not have been wiser to have increased the limit still higher, because I am of the opinion that when a poor man loses Rs. 250 or Rs. 400 or Rs. 500, he loses

everything he has in the world. Looking at things from that point of view, I am of the view that this limit should have been raised to at least Rs. 500. It is conceivable that there may occur some anomalies here or there; for example, a rich man having a neglected account—a defunct account—of a small sum may get preferential treatment. But these cases cannot be avoided; and I think, on the whole, the Bill proceeds on right lines.

Then, I come to the question of notice to preferential claimants. If you turn to page 2 of the Bill and see subsection (3) of section 41A, you will find that a secured creditor is required within one month from the date of service of the notice to state what is the value of his security. I am of the opinion that one month is too short a time because often the security may be of a complicated character and the valuation has to be made by competent valuers who may not be available. The property may be located not necessarily where the valuer is and, therefore, the time of one month is too little. Some provision should have been made to extend the time, if necessary. I am of the opinion that it is rather harsh on secured depositors to say that unless they give the valuation within one month the official liquidators shall himself value the security and that such valuation shall be binding on the creditor. This point is, of course, of a minor character; but, still, it may be vitally affecting the secured creditors and that requires to be looked into.

Coming to the provisions regarding the power of the Reserve Bank to apply to the Central Government for suspension of business of a banking company and to prepare a scheme of reconstitution or amalgamation, to my mind, these are very necessary powers and should be given. But, there is certain lacuna, to my mind, which I hope the Finance Minister will look into.

[Shri Naushir Bharucha]

Sub-section (2) of section 45 says:

“The Central Government, after considering the application made by the Reserve Bank under sub-section (1), may make an order of moratorium staying the commencement or continuance of all actions and proceedings against the company.....”

It does not provide any notice to be given to the affected bank that it should show cause against the application of the Reserve Bank. As the section has been worded, it comes to this. When the Reserve Bank feels that the time has come when some moratorium should be prescribed for the bank, it may apply to the Central Government. Moratorium for a bank means definitely loss of prestige. It is conceivable that the bank may not desire moratorium at a particular stage; and the Reserve Bank may precipitate matters. Therefore, it is necessary that a show cause notice must be given to the affected bank to show cause why the application of the Reserve Bank for a moratorium should not be granted.

Coming to the question of the scheme, it is said:

“During the period of a moratorium, if the Reserve Bank is satisfied that—

- (a) in the national interest; or
- (b) in the interests of the depositors; or
- (c) in order to secure the proper management of the banking company; or
- (d) in the interests of the banking system of the country as a whole.....”

Coming to that point, I am of the opinion that the expression ‘national interest’ is very wide. I could under-

stand the interests of the depositors; I could understand, ‘in order to secure the better management of the banking company’ or even ‘in the interests of the banking industry as a whole’. But I fail to see how the scheme for the amalgamation of 2 or 3 banks would be in the national interest. Surely, amalgamation of two or three companies, or even of half-a-dozen companies does not vitally affect national interests, particularly when these are small banks. Therefore, I think that the place given to ‘national interest’ in sub-section (4) at page 6 is not quite appropriate. But the power given to the Reserve Bank to formulate the necessary scheme for integration or amalgamation or to change the directorate—all these—are on sound lines; and they will help in the development of the banking system on sounder basis.

Assuming that in a particular case the Central Government has, on the application of the Reserve Bank, taken action, after the action has been taken and the scheme has been framed, it is provided that copies of every scheme made shall be laid before both Houses of Parliament as soon as may be after the scheme has come into force.

I do not understand what is the sense of placing the scheme before the Houses after it has already come into force. I submit that once the scheme has come into force, nothing can be done because action will have been taken by the banking executives concerned and vested interests would have been created and it would be almost impossible to retrace the steps taken by the bank. I, therefore, submit that some provision should be made for the scheme being placed before the Houses of Parliament at least for a week. I could understand that in such cases it is very necessary that the matter should be dealt with expeditiously. But, surely, a week’s time is not going to matter much. Some sort of provision should be made here that the scheme would be placed before the Houses for a week during which



time anybody may move an amendment or revision of the scheme.

Taking everything into consideration, I think the Bill is on sound lines except for some sort of infirmities which I have pointed out. I hope the Finance Minister will look into them.

**Dr. M. S. Aney** (Nagpur): Sir, I only wish to make a few observations. Before that, I would express on behalf of the House our welcome to you, for having come back to us hale and hearty.

I support this Bill whole-heartedly. I do not think that those friends who have opened this debate after the speech of the hon. Finance Minister had properly grasped the nature of the Bill and the purport of it when they remarked that there is nothing in this Bill, and all the powers that are contemplated here have been conferred already. My hon. friend, Shri Nathwani, has categorically pointed out to them, taking clause by clause, how each power mentioned here was one not contemplated and not covered by the original Act. Here is a Bill which has conferred certain new powers on the Reserve Bank, certain new powers with a view to do justice in a greater way to the depositors and other persons concerned with the banking companies which have gone into liquidation.

The main object of the Bill, as has been mentioned, is to facilitate the expeditious payment of certain minimum amounts in the case of depositors and to suitably modify the procedure relating to the liquidation of banking companies. Every one of us knows—most of us at least know—that whenever any bank or any company goes into liquidation, it takes some time. It is not a question of days; it is not a question of months even; it becomes a question of years before you hear as to what they have done and how they are going to distribute the assets among the shareholders and all persons concerned. This long time makes all those who are concerned extremely miser-

able. Therefore, it is a great relief that expeditious relief is being provided. I am sure those people—the depositors—will derive some benefit.

Another great importance which I would give to this Bill is this. There has been the liquidation of two banks within a short time—three or four months. It has created a sense of insecurity in the minds of all those depositors who have dealings with other banks also. The cry was raised here about the security of the Punjab National Bank. After the proceedings of the Palai Bank it was heard that the position of these banks, although they are scheduled banks, is not sound, and they are going into liquidation. A natural feeling is created in the country and the condition of the whole banking structure becomes extremely precarious. It was right, therefore, that the hon. Finance Minister had come out with a statement assuring the people that the Punjab National Bank was sound despite the things that were going on.

The present Bill has got this tendency to restore confidence in the minds of a large number of depositors that the banking system that is at present working in the country is sound. From that point of view, the introduction of this Bill is very important. I look at this question not merely from the point of the depositors and shareholders though their interests must be paramount in dealing with a matter of this kind. In my opinion, there is a larger view from which this matter should be viewed. We know that the country is preparing itself for carrying out important schemes of reform and the Government wants a good deal of money for it. It borrows money from foreign countries in thousands of crores. But unless there is also money from the people, from which the Government can draw, it will not be possible to carry through these schemes successfully. For that there must be a tendency on the part of the people to invest money and not to hoard it as before. Formerly, they used to invest

[Dr. M. S. Aney]

in land and unfortunately those who have invested the money in land are now repenting. If those who have invested money in banks should feel secure, it is necessary that the Government should come forward with a measure which can assure them that the investments in banks will be cared for by the Government very vigilantly. The Reserve Bank should not merely exercise a casual supervision and inspectorial tour here and there but examine in detail the conditions and give proper direction. Some sort of an assurance is needed.

I do not say that the present Bill does all that but the provisions here open a new road and a new line for the Government to review the entire policy. As some hon. Members thought, the Government ought to come soon with a Bill which shall give all the necessary powers to the Reserve Bank so that it shall really stand watch on the banking industry of this country.

I thank the hon. Minister for coming forward with a Bill that will restore some confidence and for having made an honest effort to do at least partial justice to those depositors who have had great anxiety over this matter. I support the Bill.

**Shri Rajendra Singh (Chapra):** Mr. Deputy Chairman..... (*Interruptions*).

**Mr. Deputy-Speaker:** I have been absent for a long time.

**Shri Rajendra Singh:** Mr. Deputy-Speaker, it is a matter of great rejoicing for me and for the Party which I represent here that you are amidst us today and we shall fervently hope that you will be with us for many long years to guide us and direct us..... (*Cheers*)

**Mr. Deputy-Speaker:** Not too much of it.

**Shri Rajendra Singh:** The hon. Finance Minister has come out with a

piece-meal legislation and so far as it goes, I welcome it. With the crash of the Laxmi and the Palai Banks, a new situation has arisen and there are grave misgivings and apprehensions about the banking institutions in this country. We hope that the Finance Minister will come out with a Bill which will at least adequately take note of the prevailing situation and meet it squarely. In that respect this Bill is quite disappointing. The confidence of the people in the banking system of this country has been rudely shaken. In a developing economy where we have to scrap up for every pie, it is imperative that we should inspire confidence in the minds of our people to deposit their money in some institution where through that money would be utilised for the bigger purposes that are ahead of us. Therefore, it was very necessary for us to have devised a measure so that the depositors, present and prospective, could have a feeling that there would be no repetition of the Laxmi or the Palai Bank.

Though this Bill seeks to give some more power to the Reserve Bank, they are not, as the Government itself has expressly stated, enough to ensure and assure the people that their deposits would be 100 per cent safe. I feel very sincerely that the crash of these two banks had been to a very large extent due to the carelessness, negligence, inefficiency and ineptitude of the Reserve Bank itself. It had enough power within the provisions of the existing law to have taken care to see that no such contingency arises. But at long last it came. Even when it came there is no assurance that the creditors would get their money back. So, what is the sense in giving power of supervision and some control to the Reserve Bank when it cannot go even to the extent of giving a sense of assurance to the depositors.

In America in 1933 when the banking industry was in a none too good state, the Government came out with

the provision of an institution which ensured the depositors against any mishap. Now we are in the year 1960 and we are supposed to be under a socialist Government. What America, a capitalist country could do several decades before, cannot be done here in a so-called socialist regime in 1960! It is apparent that the Government does not have any idea or any feeling for the depositors, much less any feeling for the needs of the developing economy where the depositors have to be given a sense of assurance about their deposits.

It is said that Rs. 250 would be given to the depositors instead of Rs. 100. I do not think it does have any meaning today, in the sense that the Rs. 250 level provided is too low. What has been provided for the fixed depositors and depositors in the current accounts is ridiculous. We had hoped that if the Government cannot ensure or give a sense of assurance to the depositors about their full deposits at least it would take certain measures which would go a long way in removing the fears of the small depositors. By "small depositors" I do not mean people with deposits of Rs. 200 or Rs. 250. At least there should have been a provision whereby depositors up to Rs. 500 should have been given a complete sense of assurance. The Government has not done that. Even then many hon. Members on that side have congratulated the Finance Minister. I do not know whether they have paid compliments for political purposes or whether they have paid compliments because of their sincere feelings.

There is a provision whereby the Reserve Bank has been given the right to impose moratorium on certain banks, so that if the Reserve Bank finds that certain banks are not functioning properly or are not in a good state it can impose a moratorium on those banks. Now, so far as it goes it is quite good. But, Sir, so far as a bank is concerned its status is something like that of a

woman. Once a woman's modesty is touched that woman goes out. Similarly, once the confidence in a bank goes away it goes away for ever. Therefore, if a moratorium is placed on a bank I do not think by any measure or device that bank would be revived. Under the circumstances, I do not think that this provision is a very salutary one. Therefore, some other method should be devised so that, if a bank is found to be in a bad state or the state of affairs in a bank is going wrong, without injuring the confidence of the people in that particular bank the bank could be put on right lines.

**Shri D. C. Sharma** (Gurdaspur): That part of the argument we have not been able to understand.

**An Hon. Member:** Do you appreciate the simile?

**Shrimati Renuka Ray** (Malda): I would request you, Sir, to see that hon. Members who speak in this House do not use the kind of language which the hon. Member has used just now. I would suggest, Sir, that that portion may be expunged from his speech.

**Shri Rajendra Singh:** I have said nothing.

**Mr. Deputy-Speaker:** Order, order. He may continue now. Nobody expected that he would go to the extent of comparing as he has done.

**Shri Rajendra Singh:** When a lady Member rises.....

**Mr. Deputy-Speaker:** Then he himself feels that he has done something wrong.

**Shri Rajendra Singh:** Then, Sir, there is a provision whereby the Reserve Bank is given powers to amalgamate some of the small banks which are found not functioning properly or whose affairs are not in a good state. I think there is enough of scope for small banks to operate in this country, and that would be good for our

[Shri Rajendra Singh]

developing economy. There is a large amount of small fortunes lying scattered all over the country and it is necessary for us to tap all those small fortunes and bring them to the central pool or some institutional pool which will accelerate the pace of our industrial development or at least meet some of the urgent demands of our economy.

15.36 hrs.

[SHRI JAGANATHA RAO in the Chair]

श्री रामकृष्ण गुप्त : सभापति महोदय, इस में कोई शक नहीं है जैसा कि मेरे से, पहले बोलने वाले माननीय सदस्य ने कहा कि इस अमेंडिंग बिल की बहुत ज्यादा जरूरत थी और यह सही दिशा में कदम बढ़ाया गया है, अभी पिछले दिनों जो दो बैंक फेल हुए हैं उन के तजुबों की रोशनी में जो हमारा मौजूदा बैंकिंग कम्पनीज ऐक्ट है उसको एमेंड किया जा रहा है।

मैं इस के बारे में दो तीन तजवीजें हाउस के सामने रखना चाहता हूँ। सब से पहले मैं हाउस का ध्यान क्लाज ६ का जो सब क्लाज ५ है उस की तरफ दिलाना चाहता हूँ। सब क्लाज ५ में कहा गया है:—

“The scheme may provide for the appointment of a new Board of directors—

- (a) of the banking company on its reconstruction, or
- (b) of the other banking company with which it is amalgamated in accordance with the scheme.”

इस के साथ-साथ जो क्लाज ७ है उस में इस के बारे में कहा यह गया है कि जो पुराने बैंक हैं, उन के जो मेम्बर हैं, बोर्ड आफ डाइरेक्टर्स को जहां तक मुकर्रर करने का सवाल है अगर किसी मेम्बर के बारे में कुछ एक्स्लाफ

हो या उसके काम के बारे में कुछ शिकायत हो तो हाई कोर्ट में उस के मुताल्लिक दरखास्त दी जायेगी। अब मैं इसके खिलाफ नहीं हूँ कि जो पुराने डाइरेक्टर्स हैं उनको मुकर्रर न किया जाये लेकिन अगर इन दोनों क्लाजेज को साथ-साथ देखा जाये तो ऐसा पता लगता है कि उनको जरूर मुकर्रर किया जायेगा, इसके मुताल्लिक मैं सिर्फ यह कहूंगा कि जिसके बारे में जांच पड़ताल हो चुकी है और अगर उस के खिलाफ कोई चीज है तो फिर उस को मुकर्रर नहीं किया जायेगा। इस के बारे में मेरी सिर्फ इतनी ही तजवीज है कि मुकर्रर करने से पहले उनके कंडक्ट के बारे में अच्छे तरीके से जांच पड़ताल और एग्जामिनेशन कर लिया जाये क्योंकि आज हमारे सामने यह एक बड़ा ग्रहम सवाल है। अभी मेरे से पूर्व वक्ताओं ने भी इस बात का जिक्र किया कि आज जब कोई बैंक फेल होता है तो जो रुपया उसमें पबलिक का जमा था वह कहां गया और उसके लिए कौन जिम्मेदार है, इसकी इनक्वायरी की सबसे ज्यादा जरूरत है। इस वास्ते मेरी अपील है कि इस सैक्शन को इस ढंग से एमेंड किया जाये ताकि जो भी डाइरेक्टर मुकर्रर किया जाये अगर वह पिछले बैंक का हो तो जब तक कि उस के कंडक्ट के बारे में और उस बैंक के फेल होने में उसका कितना हाथ है इस तमाम मामले पर इनक्वायरी और तहकीकात न हो जाये उसको हरगिज भी मुकर्रर न किया जाये वरना बैंक का इंतजाम दुरुस्त न हो सकेगा।

दूसरी बात जो कि इस में बारे में कहना चाहता हूँ वह यह है कि जहां तक इस अमेंडिंग बिल का यह मकसद है कि बैंक डिपाजिटर्स को १०० रुपये की जगह पर २५० रुपये का मिनिमम पेमेंट बैंक के फेल हो जाने पर दिया जायेगा वह स्वागत योग्य कदम है और मैं भी इसकी ताईद करता हूँ लेकिन जैसा कि मेरे माननीय मित्रों ने भी कहा है कि आज जो मौजूदा हालात हैं और जैसे कि चीजों के दाम बढ़ते जा रहे हैं तो इस मंगहवाई के जमाने

में यह २५० रुपये की रिलीफ काफी नहीं रहेगी और मेरी वित्त मंत्री महोदय से पुरजोर अपील है कि वह इस २५० रुपये की लिमिट को बढ़ा कर कम से कम ५०० रुपये अवश्य कर दें।

तीसरी तजवीज जो मैं हाउस के सामने रखना चाहता हूँ वह यह है और जैसा कि कुछ मेरे दोस्तों ने अमॉडमेंट्स भी पेश किये हैं मैं हाउस और मंत्री महोदय का ध्यान उन दो अमॉडमेंट्स की तरफ दिलाना चाहता हूँ जो कि श्री नथवानी और श्री मुरारका ने पेश किये हैं। उस अमॉडमेंट में क्लॉज ६ म ये शब्द ऐड करने के लिए कहा गया है—

“No action or proceedings shall be commenced or continued against the company during the period of the order of moratorium.”

जहाँ तक इस अमॉडमेंट का ताल्लुक है, मैं इस के सख्त खिलाफ हूँ, क्योंकि मेरी समझ में यह बात नहीं आई। मैं तो इसका मतलब यह समझता हूँ कि अगर इस अमॉडमेंट को एक्सेप्ट किया गया, तो उस का यह रिजल्ट होगा कि जिस मकसद के लिए यह बिल पेश किया गया है, वह बि कुल खत्म हो जायेगा। इस बिल के स्टेटमेंट आफ् आबजेक्ट्स एंड रीजन्स में यह कहा गया है—

“The procedure now prescribed under the Banking Companies Act, 1949 read with the Companies Act, 1956 for the liquidation of banking companies is somewhat elaborate,....”

इस बिल को इस लिए पेश किया गया है कि मौजूदा प्रोसीजर को सिम्पलीफाई किया जाये, उस को सिम्पल बनाया जाये। अगर इस किस्म की अमॉडमेंट को मन्जूर कर लिया जाता है, तो इस बिल का जो वाहिद मकसद है, वह खत्म हो जायेगा।

**Shri Morarka (Jhunjhunu):** I do not want to interrupt my hon. friend, but I think he has not understood our amendments properly. Our amendments Nos. 16 and 17 must be read together not individually. Amendment No. 16 is part of the provision which exists in the Bill itself. The Bill says:

“staying the commencement or continuance of all actions and proceedings against the company”.

That is part of the provision which is already there in the Bill. All that we say is, the Central Government should not have the power to stay the proceedings which are pending before any court. Only the high court or any other court should have the power to stay the proceedings which are pending before them. The Central Government should not have the power to stay the proceedings. That is the only purpose of our amendment. We are not making any substantial change. It is only a drafting change. When he reads amendment No. 17, let him also read the clause itself and the portion which is mentioned in our amendment No. 16 particularly.

**श्री आ. कृष्ण गुप्ता :** जहाँ तक इस अमॉडमेंट का ताल्लुक है, उस से हमारा प्रोसीजर और ज्यादा इलेबोरेट हो जायेगा और उस में काफी देरी लगेगी। बहुत से ऐसे केसिज भी होंगे, जिन में क्विक एंड इम्पीडिएट एक्शन लेना पड़ेगा। इस अमॉडमेंट का उन पर भी असर पड़ेगा। इसी लिए मैंने यह बात हाउस के सामने रखी है।

हमारी जो बैंकिंग इंडस्ट्री है, हमारा जो मौजूदा बैंकिंग सिस्टम है, उस की बड़ी अहमियत है। मैं चाहता हूँ कि इस एन्टायर सिस्टम की धारो एनक्वायरी हो, क्योंकि जिस ज़माने में हम गुजर रहे हैं, उस में पब्लिक सेक्टर बढ़ता जा रहा है और हमारी थर्ड

[ श्री राम कृष्ण गुप्त ]

फाइव यीअर प्लान के लिए काफी से ज्यादा रीसोर्सिज की जरूरत है। इस लिए हमें आज यह देखना पड़ेगा कि हमारे मौजूदा बैंकिंग सिस्टम में क्या डिफ़ेक्ट्स हैं। इस लिए यह जरूरी है कि इस मामले पर पूरा विचार किया जाये और इस बारे में एक कान्फ़िडेंसिबिल बिल हाउस के सामने रखा जाये। पिछले दिनों भी इस एक्ट को अमेंड करने के लिए एक बिल पेश किया गया था। हमारा यह सिस्टम बन गया है कि जब कोई डिफ़िकल्टी आती है, उस वक़्त एक्ट को अमेंड किया जाता है और इस तरह एक्ट को बार-बार अमेंड किया जाता है। उससे हमारा मकसद हल नहीं होता है। इस लिए मेरी अपील है कि एक ऐसा बैंकिंग एन्वयरी कमीशन मुकर्रर किया जाये, जो तमाम देश का दौरा करे। बड़े-बड़े बैंकों पर क्तिन का कंट्रोल है, उन में पब्लिक का कैपिटल कितना, जो लोग उस पर कब्जा किए हुए हैं—बोर्ड ऑफ़ डायरेक्टर्स, उन का उस में कितना हिस्सा है, इस तमाम मामले की एन्वयरी करने की बहुत ज्यादा जरूरत है, ताकि बैंकिंग सिस्टम के उन नुक्सों को दूर किया जा सके, जो यहां सोशलिस्टिक पर्टी ऑफ़ सोसायटी को कायम करने के हमारे मकसद के अगैस्ट और कान्टेरेरी हैं, और इस सिस्टम को ज्यादा इफ़ेक्टिव और मुफ़ीद बनाया जा सके।

मुझे पूरा विश्वास है कि इस तजवीज़ को जरूर स्वीकार कर लिया जायेगा और एक ऐसा कमीशन मुकर्रर किया जायेगा, जो हमारा तमाम बैंकिंग सिस्टम की एन्वयरी करे और उस के डिफ़ेक्ट्स को हमारे सामने रखे और हम यह जान सकें कि किस तरीके से बैंक्स के जरिये डिस-आनेस्टी होती है, बैंक्स फेल होने के क्या कारण हैं। पिछले दिनों हाउस में भी यह सवाल उठा था और माननीय मंत्री जी ने भी यह कहा था कि जहां तक पंजाब नेशनल बैंक की मौजूदा फाइनेंशियल

पोजीशन का सवाल है वह साउंड है। मैं मानता हूँ कि वह बिल्कुल ठुस बात है, लेकिन हम यह जानना चाहते हैं कि दिल्ली में ही नहीं, तमाम देश के मुखलिफ हिस्सों में जो इतना ज्यादा रुपया बैंक से विदड़ा किया गया, उस का क्या कारण था। इस लिए मैं समझता हूँ कि इन तमाम तजवीज़ों पर विचार करने का एक ही वाहिद तरीका है कि एक ऐसा कमीशन मुकर्रर किया जाये, जो तमाम बैंकिंग सिस्टम को रीव्यू करे, स्टडी करे और अपॉरि रिपोर्ट इस पार्लियामेंट के सामने पेश करे।

**Mr. Cha'rman:** Shri Maniyangadan. He will finish within five or six minutes. I shall call the hon. Minister at 3.50.

**Shri Maniyangadan:** I am generally in support of this Bill. The Finance Minister, while speaking in the course of the discussion on the Palai Central Bank, was saying that more than 200 banks had failed and there was not much noise then. I am glad that because of this noise that was caused by the failure of the Palai Central Bank the Government has brought forward this Bill. The main point is, confidence of the people in the banking structure of our country rather than in any individual bank. I would earnestly plead that people's confidence in the banking system of the country should be maintained.

As far as the amendments are concerned, I think they are good as far as they go, but I do not think this amending Bill will serve the whole purpose. It is not disputed that the failure of a bank is a disastrous thing, whether it be a small bank or a big bank. As a consequence of bank failures, several new problems are also raised as could be seen by the failure of the Palai Central Bank and from certain amendments which have been brought in here, especially amendment Nos. 9 and 10. We find that several co-operative societies who had deposited their money in the Palai Central

Bank are now facing ruin. These co-operative societies deposited their money as directed by the State Government; the State Government directed that they should deposit their money in a scheduled bank. Similarly certain small banks in Kerala had their accounts with this bank and it was on account of the failure of the Palai Central Bank that these small banks also are facing difficulties. I would submit that I am in general agreement with the two amendments which are to the effect that these two institutions, namely, small banks and co-operative societies, should be brought under the purview of preferred creditors.

Coming to the question of preferred creditors, there is also another difficulty. It has been provided that in the matter of savings bank account, the depositors must be paid Rs. 250 in full or the balance at their credit, whichever is less. There is one other aspect. The persons who have deposited more money in the bank are going to lose more by this. It is in a way robbing Peter to pay Paul. I would submit that it does not help the system as such or help to regain the confidence of the people in the system as such. Therefore, the point is, something must be done by which the people must have some confidence in the banks, especially in the scheduled banks.

As regard the Palai Central Bank, there are certain proposals even now. We find from the newspapers that creditors' meetings are held here and there and suggestions are made for reconstruction of that bank. I would submit that these suggestions made by the depositors and other creditors of the bank should be taken into account very seriously and something must be done for the reconstruction of the bank. Otherwise, all the problems that have arisen now will continue and there will be a terrible catastrophe. So, it is highly necessary that it should be avoided. If a scheduled bank fails, in view of the statement

made by Government that the Government is not at all responsible to any of the depositors in any scheduled or non-scheduled bank, people will begin to feel, what is the security? I would submit the managing directors or any other officers of the bank who are found to be responsible for any mismanagement must be very severely dealt with and they must be removed. The Reserve Bank must be vested with necessary powers for dealing with such contingencies and ultimately, the object must be to avoid as far as possible failures of banks. With that object in view, I have no objection to the Reserve Bank being given more powers.

But as regards the judgment of the Reserve Bank also, we find at times they have made mistakes. I am not finding fault with the Reserve Bank, but they may not be aware of certain local conditions. When I spoke on the Palai Bank failure, I referred to a bank called Bharanganam Bank. The Finance Minister said in the other House that nobody referred to the Bharanganam Bank in this House. I myself referred to that Bank. This bank was refused licence in 1957. What happened was, within a period of six months, they were able to pay all the depositors in full. The licence was refused on 12th February, 1957 and by 13th August 1957 all the depositors were paid. 8 annas in the rupee were paid to the shareholders by 30th April, 1958 and 4 annas in the rupee by 16th February, 1960. We find there is a balance of Rs. 16,630 remaining to be paid as against which there are Rs. 21,512 yet to be realised. So, we find that the judgment of the Reserve Bank is not always correct. Local conditions must also be taken into account.

As regards the Palai Central Bank, Shri Narayanankutty Menon was utilising this opportunity to speak against the Government, the Reserve Bank, the directors of the Palai Bank and others. I may at the outset submit that I am not pleading for the directors of the Palai Bank. They may have committed many mistakes. Suitable action must be taken against

[Shri Maniyangadan]

the directors if they have done any mismanagement. But my friend's attitude seems to be, he is not concerned with the financial structure of the State at all. He is not concerned with the consequences that flow from the failure of the bank. He is now concerned only with the prosecution of the directors or finding fault with the Reserve Bank or the Government. He found fault with the Kerala Government for the attitude they took. I would very humbly submit that the Kerala Government having in view the financial position of the country..

**Shri Narayanankutty Menon:** I did not say what I ought to have said. I did not say what the Kerala Government did.

**Shri Maniyangadan:** I am not finding fault that he did not say what he ought to have said. I am only saying about what he said. I am surprised to find that he has lost his confidence in the Kerala police so soon.

**Shri Narayanankutty Menon:** Not in the police, but in the police minister.

**Shri Maniyangadan:** It is not the police minister who conducts the inquiry; it is the police. I have no objection to any matter being entrusted to the police. What I plead very humbly is, the present situation in that State which has arisen as a result of the bank failure must be viewed impartially and some solution found to remedy that. That is all what I said. I am not saying that the Palai Bank directors must be let free if they have mismanaged or misappropriated. I have no sympathy at all for them. Let anything be done against them. But there are the depositors and so many people who are affected by that. It is not only with regard to the Palai Bank, but it will be the case with any bank failure. So, as far as possible, bank failures should be avoided and for that the confidence of the people in the present banking system must be revived. For that purpose something must be done.

**Shri Narayanankutty Menon:** As a matter of explanation, I would like to say that I referred to the Kerala Government because in all papers in Kerala, reports appeared that the Home Minister of Kerala threatened the Advocate-General for accepting the advice of the Reserve Bank and filing the petition in the High Court, without informing it.

**Shri Maniyangadan:** No responsible paper published such a news. Perhaps any paper he owns might have published it.

**Shri Morarji Desai:** I am thankful to the hon. Members who spoke on the Bill for the support they have given to the Bill on the whole. It is suggested that I should have come here with a more comprehensive Bill, which would deal with all future contingencies and not only with the present contingencies. In a developing country and in a developing economy, it is impossible to foresee what contingencies might arise. If in 1956 my predecessor considered that there were sufficient powers, it was not because he thought that there would be no necessity of any powers in future. It only shows the anxiety of this Government not to take more powers than necessary at the time. We do not want to be armed with omnibus powers for all times to come, because that leads to a different sort of society. It is, therefore, that we come to the House only when we find it necessary.

If, as suggested, I tried to go into all the ramifications of the situation today and tried to come before the House also for some police powers as suggested, I do not think it would have been possible for me to consider this Bill at this time. It would have taken a much longer time to consider all those things and they are not immediately important. I do not say they are not important, but I am saying, that they are not so immediately important that I must delay also the consideration of this Bill. It was neces-



sary that the House should approve of the steps being taken by Government in the matter of not only dealing with the liquidation of the Palai Bank and other similarly situated banks, but also dealing with situations in future, so that such a situation does not arise. That is the main purpose of this amending Bill. We have only to consider whether this purpose is served or not. I believe that that purpose is amply served by the Bill that has been brought before this House.

**Shri Punnoose:** He said in the Rajya Sabha that 289 accounts of the Palai Bank were examined by the inspector of the Reserve Bank and a majority of them were either irrecoverable or sticky. May I know whether the Reserve Bank has got powers now to deal with such cases and book the offenders?

**Shri Morarji Desai:** It is the liquidator who will have the powers, not the Reserve Bank. That also must be known. Hon. Members are very much aware of the processes of law. I do not know why he wanted to put this question. They are even more aware of it than I am. Therefore, this question was not very relevant just now.

**16 hrs.**

But, as I had said at that time, I would again repeat, that Government would not be lax in pursuing those who deserve to be pursued and who can be pursued according to law. It is one thing to say that some persons are responsible for this debate, it is another thing to bring them within the four corners of law. If they do not come within the four corners of law, Government can do nothing. But Government can certainly find out all the ways and means whereby those who can be brought to book are brought to book, and that is what this Government will attempt to do. I do not think that any amount of powers which are given to this Government will achieve that object, unless we change the whole system and

say that wherever the Finance Minister is convinced, or some other authority is convinced, he or it can deal with the persons as he or it likes. That situation is available only in another form of Government, not in this form of Government. And I do not think my hon. friend will arm me with such powers, because he will know, or he will suspect that those powers will be utilized for some other purpose. Therefore, I do not want to be suspected for that and I do not want to come forward with powers like that which will create a suspicion. It is because of this that one has to come with a limited Bill of this nature, which will be effective for carrying out the purpose which all of us have in common.

It was because of this that my hon. friend also thought it wise not to press for reference of the Bill to a Select Committee. I am thankful to him for that. It is better that the powers which are given to the Government are given unanimously so that they can be more effectively carried out, and from that point of view I am very happy that he has not pressed his amendment for reference to a Select Committee. Ordinarily, I myself would want such Bills to go to the Select Committee, because several things can be seen and scrutinised and Bills can be improved when they go to the Select Committee. But today there is no time for it, nor is it necessary to send a Bill of this type to the Select Committee, because the provisions are very simple. It is true that no new powers are being sought and only amplification of extension of the powers is being sought. Therefore, also it is not necessary to examine any principles from the start and so also a Select Committee would not be necessary.

That is also one of the reasons why we do not want to have any very omnibus Bill to be brought in at this stage. I do not know whether it is necessary also. That will be examined now at leisure as to what requires to be done. But I cannot say that Government will not come again to this House for an amendment

[Shri Morarji Desai]

of this Act, if necessary, in future. As I said, it is not proper that we should imagine all sorts of contingencies and take all the powers necessary now, because it will lead to a situation which might, perhaps, create more confusion. It is, therefore, better that as powers are necessary, they are given to Government by this House.

The question around which there was some agreement among some hon. Members, and also disagreement with the Bill, was about the sum of Rs. 250 which is prescribed here as the minimum to be returned or the maximum to be returned fully, to the savings bank account people, and it was also suggested that the same may be done to the other depositors. In this matter, we have got to consider that this will be also done by larger depositor subsidising these payments; it will not be done otherwise. How far the subsidy should be taken from the larger depositors also is a matter for consideration. Then, the larger depositors are not always individuals; there are many institutions. Some institutions were mentioned and it was suggested that co-operative institutions may be given full amounts. Then why not charitable institutions be given full amounts? Then why not some other institutions also which are doing a public purpose not be given full amounts? There is no end to it. Therefore, we cannot distinguish between depositors and depositors in this matter. When we are trying to give small amounts back fully up to Rs. 250, we are only trying to see that only those people who have not much with them are given fully. The others will not get a *pro rata* dividend when the assets are realised or even before the assets are realised, when the assets are ascertained as could be realised. Therefore, I am not in favour of extending this limit of Rs. 250 any more.

As regards extending it fully in the same manner to the other depositors also, I would say that it will only lessen the sum to be given to the other

people out of whom there would be many deserving charitable institutions and other institutions, banks and other things like that. Whether that should be done also can be considered by the House. I am not going to take a rigid attitude about that particular suggestion. But my own advice would be that we should stick to the provision in the Bill as it is, if we do not want to involve ourselves in further difficulties and if we do not want to do injustice to other people in our zeal to do good to some people. As a matter of fact, the smaller deposits would be only generally in the savings bank account. The other deposits would be not up to Rs. 250 but more than Rs. 500 or so. That is my own experience. It was said that up to Rs. 5,000 everything should be given, that was the suggestion of one hon. Member. I do not see how it could be done. If that is done I do not know how any liquidation proceedings are necessary. We can do that and finish the whole affair by paying to a certain limit and be done away with that. I do not think that is a correct procedure at all in a matter like this. It must be based on some principle.

I do not think it is necessary for me to speak at length in reply because there have not been many questions raised. There were one or two questions raised about the confidence of the people in banks and some reference was made to what I have said in the past. I did not volunteer to say that Government does not guarantee all these. I only said that when I was forced to do so by several questions being asked. I was reluctant to speak at length, as my hon. friends are aware. But whenever I was reluctant to speak, they attributed all sorts of motives to me and it was, therefore, that I had to come out with some specific statements, and I do not see how I am wrong. My hon. friend, Shri Guha, admits himself that it is technically correct. Then, what is not factually correct, I do not know. What

is the difference between technical and factual?

**Shri A. C. Guha:** Strategically he was not correct.

**Shri Morarji Desai:** Any strategy which is not correct technically is no strategy at all, that is how I look at it. I do not know what he means.

**Shri Narayanankutty Menon:** He means "tactically".

**Shri Morarji Desai:** Well, that is the same thing as technical.

**Shri Narayanankutty Menon:** There is a lot of difference between the two.

**Shri A. C. Guha:** Shri Morarji Desai is ingenious enough to be able not to give a direct answer to a straight question. He might not have replied to that question in that categorical manner.

**Shri Morarji Desai:** As I said, if I had done that any longer after several questions have been put, it would be said that I am not respecting the hon. Members as I should, and I do not want that charge to be levelled at me. I respect the hon. Members and I try to satisfy them as much as I can, at least as far as I can. But, it is said that all the people before had thought that these deposits are guaranteed and, therefore, they were putting them. If that was so, why should there be a run, I do not understand. If everybody was given that delusion, then who took away that delusion? It is the run which took away the delusion, and if there had been no run there was no question of this point arising. There was no question of even the Palai Bank going to liquidation if there had been no run, as I explained at that time. Therefore, it is not that the people had this confidence that it is all guaranteed completely. Nobody can guarantee it without undertaking the liability of making payment in full. Then, the Government must take up that liability in all cases. Then and then alone the Government can

guarantee. Otherwise, how is the Government going to guarantee all deposits in all banks? It is not possible. With whatever arrangements we make, we only try to see that banks are managed well and managed efficiently, and where it is not done so, we try to take steps in time. That is what we are trying to do. We try to improve from time to time.

As I said, it was a bad legacy to the Reserve Bank when they got all the powers and they had to make the best of them. I think they have made a good job of the whole thing. When I say that, it does not mean that they guaranteed all people. How can they do so? As I said last time, when 260 banks went out of existence, nobody realised anything. It is only when the Palai Bank goes out of existence, then and then only everybody sits up. I am glad that they sat up then.

My hon. friend was finding fault with the Kerala Government. But Kerala Government was not singular in this. My hon. friends there also were very vehement in denouncing the Reserve Bank. They were also one with them in creating all that noise. It is only afterwards when I explained the whole situation that hon. Members were satisfied.

**Shri Narayanankutty Menon:** That shows that when we hear you; we are reasonable.

**Shri Morarji Desai:** Again, when time goes by, that satisfaction begins to lessen. That is all that I say.

In this particular matter, we always learn by experience. It is not possible for anybody to imagine whatever is required for all future contingencies. Therefore, we have come forward with this proposition. Especially the power for giving moratorium is a power which will prevent such debacles in the future. Because, the moment anything like that happens, moratorium can be applied and the run ceases. Then, one can find out ways and means of how to sustain the bank. Or if it is not sustained, licence