

16.04 hrs.

DISCUSSION RE: CLOSURE OF
PALAI CENTRAL BANK

Mr. Chairman: The House will now take up the discussion on the closure of the Palai Central Bank.

Shri Punnoose (Ambalapuzha): Mr. Chairman, I am sorry to say that the latest statement made by the hon. Finance Minister on the crash of the Palai Central Bank is unconvincing and unsatisfactory. The minimum that we expected from the Finance Minister on this occasion was that he should give us a detailed account of what has really happened. There was trouble in 1951. There was some malady from which that bank was suffering. What was its nature? Was it diagnosed? What was the prescription given by the Reserve Bank and what was the reaction? What happened in 1954? What was the degree of the trouble at that time? How did the Reserve Bank handle the position then and with what result? Again, what was the extent of the trouble in 1956 and what positive steps were taken?

There was inspection by the Reserve Bank when there was trouble in 1959-60. What positive steps were taken? The Finance Minister could have told us—he could tell us at least now—all these things. Was liquidation the only remedy? Was there no other method and were those remedies in the preserve of the Reserve Bank employed? Looking into the Banking Companies Act, I find that there are several means by which the Reserve Bank can tackle a bank or a group of banks. It is open to the Reserve Bank to dismiss all the directors and hand over the bank to directors chosen by them. May I know whether this was tried? It is open to the Reserve Bank to de-schedule a bank. Actually, I remember the Indo-Mercantile Bank was de-scheduled and it was kept out of the schedule for two years or

so and then again brought back to the schedule. Was it not open to the Reserve Bank to try that way? When they found that something was at fault in the Palai Bank in 1951, why did not they think of any of these things? Not only that, at a later date, if I remember right, in 1953, they even sanctioned a branch of this bank to be opened in Madurai, a highly developed commercial town. If the Reserve Bank had taken steps at the proper time to save the situation, it is my firm conviction that the bank would have been saved of this fate and misery and the loss to lakhs of people would have been avoided. These things have not been done and I believe that the Finance Minister would at least in his second statement give us a picture of all these.

I imagine that the Finance Minister has not understood the extent of damage that will follow the crash of this Bank. Most of the 85,000 depositors come from the low-income groups. Many have lost their life's earnings. I know several cases of students who have had to discontinue their studies and many employees, including Government employees, have lost even their salary they got this month.

In 1951, the Reserve Bank found that the Bank's condition was unsatisfactory and its deposits amounted to Rs. 4 crores. They were magnanimous because according to the Finance Minister the plant of credit has to be handled very carefully and the Reserve Bank handled it very carefully! But all the time something else was happening. Deposits were increasing, year by year. More and more depositors were walking into the trap and the deposits went up to about Rs. 10 crores. The Reserve Bank which is supposed to safeguard the interest of the depositors in this country kept quiet. There must be some reason for that. If I understand the position clearly, every three months they get reports. They made several inspections. It is now quite clear that as

[Shri Punnoose]

The Finance Minister said the position was going from bad to worse. What is the explanation of the Finance Minister about the conduct of the Reserve Bank? That is the first question.

The position of the depositors is really deplorable and he holds out nothing for them. He says the taxpayers' money cannot be utilised for this. But the taxpayer has a question to ask. He has a right to expect the Reserve Bank and the Finance Ministry to behave cautiously and vigilantly while handling the affairs of banks and to keep the interest of the depositors in view. It is my firm conviction that the Reserve Bank has failed in its duty in this respect.

I fear that the Finance Minister has not properly appreciated the extent of damage that the crash of this bank would do in Kerala. It is literally true that the crash of this Bank has completely upset that State and even great God cannot prevent it. I know that the Finance Ministry is capable of many things. If this Bank is allowed to go into liquidation then to my mind, nothing under the sun can prevent a general crash in Kerala. He may be getting reports—I do not know.

The Minister of Finance (Shri Morarji Desai): General crash of what?

Shri Punnoose: General crash of banks.

Shri Morarji Desai: All banks?

Shri Punnoose: In Kerala.

Shri Morarji Desai: That is what you want probably.

Shri Punnoose: I wish I am wrong, but I know things there a little pretty well. Sir, the position of banking in Kerala has got certain peculiarities. The Banking Enquiry Commission headed by Shri Ramunni Menon

has reported that. We have got too many banks there. The State of Kerala is over-banked. There is a bank almost in every pakuthi. If there is a bank in one pakuthi another one is started in the next pakuthi the next day and they compete. There are banks started in the name of communities. The various Christian denominations have got banks. Nayar Service Society has got a bank. Whether they function for the community or not is another question, but they function in the name of communities. Some sort of local patriotism is built up, some sort of communal mobilisation is made and banks come into existence.

Another peculiarity of the banks in Kerala is that they have gone into the rural areas. If you will look into the statistics you will see that there are a large number of branches of banks in areas with less than 5,000 population. This is a peculiar feature in Kerala. No doubt, the existence of such a large number of banks affiliated to local areas and communities has given these banks certain advantages to exploit the people. By going into the rural areas they have made the peasant an easier victim of their exploitation. This is all correct. But the banks have played a definite role in the economy of Kerala. Our agriculture, our commercial crops are almost exclusively dependent on banks. We have got rubber, we have got tea and other commercial crops. They are entirely dependent on the banks for any amount that they may require. A pepper dealer, a small man who runs a shop may take loans from the bank pledging something. This has been going on all these years. I am quite sure that the crash of this bank has brought many business concerns, from the smallest to the biggest, to a dead stop. I do not know how much confidence the Finance Minister can inspire into the banking concerns to make more advances to the average man. If nothing is done with regard to this bank, if nothing is done to save the interests of depositors who

have put their money in this bank, it will create a really serious situation which the Finance Minister has to take into account.

Look at the reactions this crash has created in Kerala. One of the peculiarities—I do not say it is a peculiarity for Kerala alone—of our public life is that there is the impact of communal thought and communal feelings on it. People think on communal lines. Of course, they do not take the knife and negotiate but they very often think on communal terms. There is also the feeling strongly prevalent in the State, more rightly than wrongly, that Kerala is a neglected State, that its demands go by the board, that the interests of the State are ignored. It is at such a time that the crash of this bank has happened. The Finance Minister will be interested to know the type of propaganda that is being carried on in such State today. There is a background of psychology which makes it easy for the people to carry on the propaganda also, because at the end of 1937 or the beginning of 1938 there was a bank crash, the crash of the Travancore National and Quilon Bank. At that time it was believed and it is still believed that it was not a real crash but it was a case of crushing the bank. After years of liquidation proceedings, the depositors got 15½ annas in the rupee.

Shri Morarji Desai: 13½ annas.

Shri Punnoose: I stand corrected. This is the information which I got from a leading daily.

Shri Morarji Desai: That is what Shri Mathen stated in his book.

Shri Punnoose: Probably the last instalment was paid after publishing that book.

Shri Morarji Desai: It was written recently.

Shri Punnoose: This is what I read in a leading daily today published from Kerala. Anyway, it is very easy to create the impression that the Palai Central Bank was purposefully crashed and, according to them, by dark or black hands. What should I say, Dr. Krishnaswami?

An Hon. Member: Red.

Shri Punnoose: Yes. They are caught red-handed. Is it so? Sir, I have a statement issued by three Congress MLAs in Kerala—the statement issued by Shri P. C. Cherian, Shri K. M. George and M. V. Govindan Nair, all Congress MLAs of Kerala, appearing in the Malayalam daily, *Deepika*, which is published at Kottayam. The issue is dated the 14th August, 1960. The statement says:

“...It is not yet clear how the move to liquidate the Palai Bank was started. There are so many reasons to doubt whether there is not behind this move a conspiratorial effort to smash up democratic Kerala and its financial stability. It must be found out whether certain forces have not worked to blow up this big institution and following it the other banks of Kerala and thereby sabotage the economic progress of Kerala.”

The statement continues:

“It is said that it was on the 1st of June, 1960 that Mr. Sivaraman came to Kerala to examine the working of this bank, and to supervise the management. The same day a run started in its Thiruvalla branch....”

I would like the Finance Minister to listen to this.

Is it a fact that the run started as a result of some secret information received by some people

[Shri Punnoose]

in Thiruvalla from Bombay, the headquarters of the Reserve Bank?"

These are responsible statements made by responsible M.L.As.

The statement, in another part, says:

"The Central Government must immediately conduct a thorough investigation into the secrets of all his labours...."

that is, Mr. Sivaraman's labours—

"about the preparation of the religious-wise list of depositors...

It is said that a religious-wise list of depositors was prepared.

"and also into what relation there exists between these—

The most interesting part of the statement is yet to come:

"and the determination of the Communists that they shall not rest before smashing this bank and along with it all the other banks."

It is presumed that the Reserve Bank is acting in connivance with the Communists. I should be a happy man to know that my comrades are controlling the Reserve Bank. The M.L.As. have made another observation in the statement:

"If it is a fact that, as is heard, Mr. Sivaraman, while examining the accounts of the bank's Kottayam Branch, coming across the accounts of *Deepika*, Kerala's Catholic Daily, exclaimed: "Oh, is this the anti-Communist paper?", that also gives food for thought."

The statement demands of the Central Government to constitute an investigation immediately and for the time being to keep Shri Sivaraman under suspension. I just read out the

statement not to make a very big point out of it, but to show that this is the type of psychology that can be worked up, and that, I consider is a definite disservice to our people and to our country. Therefore, the Finance Minister must be patient enough to give us a detailed account. Brevity is of course a virtue and especially so with Finance Ministers. But in this case, I think it is not so much of a service. I want him to be a little long. He must give us the full account of what happened, why it was not attended to in 1951, what measures were taken and what measures were taken in 1954, what was done in 1958 and 1959 and how this drastic step was taken at the end.

16.17 hrs.

[MR. SPEAKER in the Chair]

May I ask why the management of the bank cannot be taken up by the Reserve Bank? All sorts of figures are being given by both sides. The Finance Minister has given some figures and the Directors of the bank have from their side given some figures. I do not understand the import of a sentence in the Finance Minister's statement. He says, it is not quite clear from which source the Members got these figures. I do not understand the import of this. Well, the directors of the board are supposed to know the figures and they can give those figures. I do not know why this question was raised.

They claim even today the bank is in a position that can be run. Some people say that the liquidation was applied for because there was a terrible run. But the directors contend that liquidation was applied for because it was found impossible to get the bank closed down as a result of the run. So, all facts have to come out and I want the Finance Minister to make a statement. Otherwise, it is going to create very grave misunderstandings among large sections of the people.

The Finance Minister simply comes and says that liquidation will take its own course and the depositors might get their dues in due course. That is no consolation. Can't he make constructive suggestions? I think he is capable of it. He may say that the Banking Companies Act does not provide for it, but I believe that the Act is meant for the people and not the people for the Act. We can amend an Act as we want. For, example, according to the statement of the Finance Minister, a certain percentage of the deposits can be disbursed and there are assets for that. I would make this suggestion. Let the State Bank take it over. Taking it over means taking over all the assets and that amount of liability that can be met with it. With regard to the others, of course, cases will have to be filed and people who have taken loans have to be put in the dock. If you get the money, then you can disburse it. This is the only possible way of coming to the help of the depositors.

There are 500 employees in this bank. The Finance Minister has completely forgotten them. They are useful hands. Whatever else you might say about the Palai Bank, the employees are very useful people, and everybody speaks highly of their service. They are trained hands. What about absorbing them? If as I suggested, the State Bank would take up the assets and also liability to that extent, then I think a number of them can be employed and the rest can be given jobs as and when vacancies arise. The State Bank wants new hands and you can give preference to them. Therefore, these methods have to be thought of and some steps have to be taken.

The Chief Minister of Kerala made a statement yesterday saying that the Reserve Bank has taken all the steps to protect the banks in Kerala. I believe the Reserve Bank is taking steps all these years and this is the result. I am not so optimistic as the

Chief Minister. I request the Finance Minister to take all possible steps to help the banks, lest they should fail. If they crash, the repercussions are going to be serious. It is going to affect even our Plan, because what little money there is for investment either in trade, industry or in agriculture, is now available only through the banks. If they go to dogs, the economy of the State is completely finished. Therefore, we have been careful about it. Then, we have always argued....

Mr. Speaker: I have allotted 2½ hours in the first instance. If the hon. Member takes half an hour, what is the time left for others?

An Hon. Member: The time has to be extended.

Mr. Speaker: But I cannot allow one hon. Member all the time.

Shri Punnoose: The moment you ask me to do so, I will sit down.

Mr. Speaker: I will allow him two more minutes.

Shri Punnoose: Therefore, we stand for nationalisation of banks. I do not want to take very sharp advantage of the misfortune of a bank, but about one thing there can be no difference of opinion. At least in Kerala the only possible proposition is that the State Bank should take it over. Because, we have tried with the present set up and we are fed up with it; we have been let down very badly. So, there is no justification for the Government to say that these banks conducted by private parties should be continued. Therefore, at least in Kerala the banks have to be nationalised immediately. A thorough investigation is wanted in this matter. Whatever statements are made, whatever pains are taken to explain matters. Unfortunately, a deep suspicion has arisen among the people that something wrong has been done but for which the bank would have been working.

[Shri Punnoose]

With regard to the directors, they are giving figures and explanations. I know that their liabilities are limited because it is a limited concern. But they should not forget that their responsibility is unlimited. Their moral responsibilities and obligations cannot be fulfilled by simply giving out certain figures that their assets are more than the liabilities and so the liquidation was uncalled for. If you look into their balance sheet for 1959 you will find that their bad or doubtful or sticky debts, whatever you may call them, amounted to Rs. 16 lakhs. There is another item of Rs. 2 crores and odd that has been given with no security other than personal security—an advance of more than Rs. 2 crores on simple personal security. It is a fact. Here I would ask: what explanation is there for that?

Of course, I do not want to run down the directors now, whatever they might have been doing during the days of their glory. It would be unbecoming of me to run them down today. But they have to come before the people and explain it instead of simply saying "Look at Delhi" or by pointing an accusing finger at Shri Sivaraman. Even thousand Sivaramans cannot do anything to a bank if it is basically sound. They have done permanent damage to the bank and thereby they have dug their own grave. They have let down the country and they have betrayed the people, people who have believed them. This is a fact.

I will conclude with another point. 1951, 1954, 1956, 1959 these are the years of trouble for the bank, and that is given in the statement itself. Curiously enough, these are the years, very significant years, in the history of Kerala also.

An Hon. Member: General elections.

Shri Punnoose: These are years of financial difficulty for the bank.

These are equally years of political trouble in Kerala, rather convulsions. In 1951 there was general election, in 1954 there were elections in Kerala alone, 1956 another general election. In 1959, you all remember very well our discussions here, our Prime Minister went to Kerala and diagnosed the disease as mass hysteria. I want to know whether this hysteria had its effect on the bank. Because, when hysteria comes it affects everybody. And the leading Malayalam daily, *Malayala Manorama* says that the State Government and the Central Government should take immediate steps to reconstruct this bank, because the leaders and organisers of this bank were those who were connected with the liberation struggle. Well, we were speaking about hysteria. When people have hysteria I have seen them throwing out purses and valuables. I do not know whether this bank also threw out money when it was suffering from hysteria.

All these things have to be examined. I also want to know whether the Communist Party has done anything to damage this bank, or they have taken a vow to see that all the banks are smashed. The Home Minister can assist the Finance Minister in looking into this by an immediate enquiry and the facts of the case will come up to the surface. As I suggested earlier, the State Bank must take up this bank. It is not a question of one bank and its depositors. It is a question of the economy of a whole State. That is the justification for taking it up and for the nationalisation of banks in Kerala. With these words I conclude.

Dr. M. S. Aney (Nagpur): Sir, I want your indulgence....

Mr. Speaker: The subject under discussion is Palai Bank. He can sit and speak if he likes. But the subject is Palai Bank. There are other banks also similarly situated.

Dr. M. S. Aney: I am speaking about both.

Mr. Speaker: I am not going to allow it.

Dr. M. S. Aney: I shall refer to the Palai Bank as well as to the Laxmi Bank.

Shri S. M. Banerjee (Kanpur): About the banking industry as a whole.

Mr. Speaker: He may not refer to Laxmi Bank.

Dr. M. S. Aney: I shall make a reference to that also. It is somewhat similar. But I shall speak mainly about the general principles.

Mr. Speaker: He may sit and speak if he likes.

Dr. M. S. Aney: I wish to participate in this debate as I feel that the attitude which the Government takes towards the two banks, namely, the Palai Bank and the Laxmi Bank of Akola, is likely to have far reaching consequences not only on those who are immediately concerned as shareholders and depositors in these two banks but on the general rural economy of those parts of our country in which these banks have been carrying on this business.

I was glad to find that the hon. Minister of Finance tried to approach the problem from the point of view of certain broad principles that should govern the relations between the Reserve Bank and the scheduled banks and the extent of liability which the former bank bears on account of certain powers of supervision and control over the latter under certain provisions of the Banking Companies Act, 1949. One great advantage of such an approach is that the general principles thus clearly enunciated make it possible for the Government to evolve formulae for relief for any banks that may unfortunately come into distress and

leave little ground for a charge of favoured treatment shown to some banks and discrimination made against other banks.

A uniform policy in devising methods and measures of relief of the depositors who are the most innocent victims in the financial crisis, which the liquidation of a bank entails, is absolutely necessary. The faith of the common people in the impartiality of the Government in its dealings with its subjects is as necessary as its generosity to stabilise their loyalty to the sovereign Government and their willing co-operation in the great work of their uplift which the Government has already started by launching the five years' national plans. I have therefore noted with great satisfaction the observation made by him almost at the end of the statement that "any concession will have to be extended to other institutions similarly placed."

Now, I submit that the Government should carefully note that the institutions like Reserve Bank in discharging their duties should scrupulously avoid if not altogether refrain from taking measures which though perhaps technically correct are likely to add to the economic misery of thousands of people and throw a considerable number of them in the category of paupers.

At a time when the Government is making a supreme effort to raise the national income and banish poverty and pauperism from India and proudly claims to have succeeded to some extent in their objects in the last 9 years, by having effectively carried out two five year plans, it is an irony of fate that in the short period of three months in the year of grace 1960, the Reserve Bank of India has taken steps to apply for liquidation to the High Court two Banks, Lakshmi Bank of Akola and the Palai Bank which have been carrying on business for the last 20 years or so mostly in the rural areas of old Madhya Pradesh which included Vidarbha and in the areas known as:

[Dr. M. S. Aney]

the State of Kerala respectively, thereby jeopardising the financial position of a large number of persons who deposited their life-savings in the two banks, feeling the institutions as very safe and secure for investment as they were working as scheduled banks under the supervision of the Reserve Bank.

The Finance Minister has himself very candidly and truly observed,

"The liquidation of any bank and particularly a bank with large deposits is a tragic event which brings in its train privation and hardship to thousands of people, big and small."

How can the Government which calls itself the Government of the people afford to be unsympathetic to the plight of the depositors? As proof of their sympathy towards the depositors, the Finance Minister has very confidently pointed his finger to the various amendments to the Banking Companies Acts made within the last few years. While not lacking in my sense of gratefulness to the Government for what they have done to amend the Banking Companies Act to protect the interests of the depositors and also for such other amendments as they may propose to make in the light of present development hereafter, I beg to suggest that these statutory improvements cannot help the depositors who have to suffer at present owing to the liquidation of Laxmi Bank and the Palai Bank. The improvements in the Act may save depositors of those fortunate banks against which the Reserve Bank has not so far applied to the High Courts for liquidation. Unless retrospective effect is given to the contemplated legislation, it will not help to protect the banks which have been liquidated, now. A hungry man cannot feel any satisfaction by an assurance that the Government is going to start poor houses to provide food to all those who have no income to get it for them-

selves in the near future. Their scheme is complete and even the draft of the necessary legislation to bring it into existence is ready. It will of course require some more thinking for the scheme to be announced and some final touches at the hands of the legal experts for the Bill to be introduced in the legislature. It is a question of some little time. This assurance, however generous and genuine, cannot save the hungry man from the agonies of starvation. He requires food and nothing but food to eat first and everything else afterwards. The position of the depositors of the two banks mentioned above is that of the hungry man.

The Finance Minister has taken pains to explain the exact implications of the inclusion of the name of any bank as a scheduled bank. The Finance Minister says:

"There appears to be a mistaken belief that because a bank is a scheduled bank, the Reserve Bank or some one else has guaranteed the proper working of the institution and has in some way underwritten the deposits. The mere fact that the bank is entered in the second schedule to the Reserve Bank of India Act does not carry with it any such implications."

Perhaps, legally, the view propounded by the Finance Minister may be correct. The view of the Government is, in short, this. The Reserve Bank is something like a department of police, whose officers move round the city at night in order to protect the life and property of the people. But, if there be a theft, the police will only undertake to investigate into the offence but not to recover the property lost nor to compensate the loss in any other way if the stolen property is not recovered. This is what I may call the police view of the responsibility for security of property. The people feel that one of the main reasons for non-de-

tection of offenders and non-recovery of valuable property even in big cases of theft, robbery and dacoities, let alone petty pilfering and pick-pocketing is absence of responsibility on the part of the State to compensate the man wronged when their agents the police officers fail to detect the offenders and recover the properties lost. According to me, one of the greatest reasons for the existence of corruption in the Police department perhaps on a larger scale than in other departments is this absence of liability to compensate. The rank and file are maintained at the cost of the people, but when they fail to do the service, the master says: he has tried and failed, what can I do? He says this because the law made by him does not fasten that responsibility on him. This police view of responsibility cannot be said to be the correct view in my opinion. It falls short of the responsibility which, looked at from a moral point of view, the Government of a Welfare State should keep before itself and its officers, particularly in regard to those activities which are closely linked with the moral and social welfare and economic uplift of the people. Our Government has a socialistic pattern before it. It should nationalise the banks as it has done the insurance business. If for some reasons the Government does not want to take that step, it should at least exercise strict supervision over the business of the private banks which it permits to exist and carry on. If by the reports published by their supervising agency from year to year a sense of security about the solvency of the bank is created among the people, and the people act upon that belief, it will be wrong from the moral point of view to call that belief a mistaken belief. The Government of India must not merely preach and teach moral principles, their actions in times of real distress should show that they are alive to this high moral responsibility also, and they should not make any attempt to white-wash the

negligence of the Reserve Bank or any other agency that they have set in motion to work for them, taking shelter under the plea of non-liability in law. There is a kind of fiduciary relationship between the Government of a Welfare State and its subjects.

This is the viewpoint from which these disasters have to be looked at. Depositors should not suffer because the Reserve Bank, the warden appointed by the Government, connived at certain wrongs for an unduly long period in the vain hope that in course of time things would improve. In the case of the Lakshmi Bank I learn that a mistake was found in 1946 or 1950,.....

Shri Morarji Desai: No, no.

Dr. M. S. Aney: ...and all these years it has remained unrectified. People who look at Government supervision and certificate for good management as guarantees are misled, to find ultimately that they have lost everything they saved in their lives to support themselves in old age and to bring up their children to proper manhood.

In regard to the crisis of the Palai Bank, I found that the Government of Kerala was very alert and solicitous for the protection of the depositors. It has identified itself with the poor depositors of the State. But I am sorry to find that the State of Maharashtra did not seem to realise their responsibility towards the depositors in the Lakshmi Bank. Was it because most of them are living in Vidarbha? I hope it is not yet too late for that Government to move in the matter and urge on the Union Government to do everything to secure justice to the depositors of the Lakshmi Bank.

Shri Tyagi (Dehra Dun): On a point of order, Sir. I plead that the standing orders and rules of the House should not be compromised to this extent. The hon. Member is reading like an address. I would suggest that you might now ask him to say orally all that is left.

Dr. M. S. Aney: There are only two sentences left, and I will finish.

In the end I fervently appeal to the Finance Minister to take a broad view and solve the problem in the best interests of the depositors in both the banks. I am prepared to discuss with the Finance Minister the whole problem of the Lakshmi Bank in detail, to show that the case of the relief to the depositors of that bank is as good and urgent as that of the depositors of the Palai Bank, if he would give me some time.

I am sure that he will not fail to extend to the depositors of the Lakshmi Bank the concessions which he will ultimately decide upon to give to the depositors of the Palai Central Bank.

I thank you for giving me this opportunity to intervene in this debate and express my views.

Shri C. K. Nair (Outer Delhi): We have two statements by the Finance Minister before us. I have been hunting and hunting for the great secret, but I could not find anything. The whole money is intact in various securities, but the fear is that it is not recoverable. The other fear is that it is sticky. I wonder what Government have done about it. The stickiness has been observed since 1952, that is, for the last eight years. What lubricant have Government applied to remove the stickiness? Ultimately, when the fact comes, they say that the bank should be liquidated. For what reason? For what corruption? For inefficiency, of course; it is almost understood, that is all, but that also has not been proved at all.

We all fear that there must be some secret truth hidden in the statement. I have been waiting for it, but nothing has appeared. In the first statement, it was mentioned that out of Rs. 8½ crores or so due to the depositors, only Rs. 1½ crores were available, and the

rest had gone. We do not know where it had gone.

Then, strong words were also used in that statement. It was said that if Government should come forward to help the bank, it would be like throwing money into the drain, and then, the question of stickiness was also brought in. These were the two strong phrases that were used especially with regard to a bank just on the point of liquidation; when people have been looking forward to Government who are spending crores and crores of rupees for development and for bettering the economic condition of the country, a statement comes here suddenly about the liquidation of a bank which has been doing great work in the State of Kerala; at least, we should know what it was that was troubling Government. We have not heard anything about it so far.

Even on that day, when we read *The Hindustan Times*, we found that a great anxiety was expressed that we should try to help the bank. Today, it is reversed. And they say, no, bad examples should not be set up, and bad precedents should not be created. Why should this happen? I hear today that there is a threat of some resignation by the high officials of the Reserve Bank. That is also a talk of what is called.....

Shri Morarji Desai: May I say that my hon. friend may not depend on all rumours that he has heard? It is absolutely untrue to say that any officer has said anything of that sort.

Shri C. K. Nair: If it is not true, then that should be contradicted. But this was what I heard in the lobbies. All these things point to something like the Mundhra deal. Many lakhs of rupees were spent to find the truth, but the truth is still at large. We have not been able to find the truth. There are so many casualties in that case. For God's sake, let not the truth be hidden in this case. We want the truth, the

truth and nothing but the truth. Let us not create a scare by saying that it is sticky and that it is irrecoverable and what is available would not be sufficient.

I might tell the House that there is great discontent among the public about the manner in which this Palai Central Bank case is being dealt with by Government. Therefore, we have to be very cautious. It is very easy to go and liquidate a bank, but it is very difficult to save it. I hope that our Finance Minister, who is a very capable man, can find ways and means to save the bank or at least to merge it with the State Bank; at least, we expect the truth to be discovered; merely saying that it is sticky and it is irrecoverable is of no use; that is no reason; that is only an opinion. Opinion is not proof. We want positive proof that it is sticky. We want proof at least that it is irrecoverable.

Therefore, although I feel a bit excited because of the way in which the whole case has been dealt with and talk has been going on in the town, I would certainly make a very humble and fervent appeal to the Government to look again into the case and try to find out the full facts. Otherwise, it is going to create further trouble in the future not only for this bank but for other banks. We should try to know the truth. What I fear is that if the liquidation proceedings go on, the truth will never be discovered. If the Government were anxious to find out the truth, the liquidation should never have been hurried. These are the things which I have to submit.

Shri Maniyangadan (Kottayam): I do not want to go into the disastrous effects of the failure of this Bank. The initiator of the discussion has gone into that. From the statements made by the Finance Minister twice in this House, it is clear that he is aware of that. Several thousands of depositors have lost their money; several employees have lost their jobs,

and more than that, the financial structure of the State of Kerala has been shaken. I do not want to deal with these aspects.

I want to deal with the question that arises from the statements of the Finance Minister, also certain statements made or figures given by the authorities of the Palai Bank and the necessity for taking this drastic step. From the statement of the Finance Minister as also from the petition filed before the High Court of Kerala, it is seen that the affairs of the Bank were not being properly carried on from 1951 onwards. But the Finance Minister would say that the Reserve Bank has no responsibility either to the depositors or to the other creditors of the Bank merely because it is a Scheduled Bank. I do admit there is no statutory liability. But I would draw the attention of the House to section 42 of the Reserve Bank of India Act. Section 42(6)(b) gives the power to the Reserve Bank to direct the exclusion from the Schedule of any Scheduled Bank on three conditions. The second condition is: if in the opinion of the Reserve Bank, after making an inspection under section 35 of the Banking Companies Act, the Bank is conducting its affairs to the detriment of the interests of its depositors, action can be taken against it.

I would respectfully submit that if the Reserve Bank after inspecting the Bank under section 35 of the Banking Companies Act was convinced that the affairs of the Bank were not being conducted to the best interests of the depositors, then action should have been taken earlier. On the contrary, this Bank was allowed to open a branch in Madurai in 1953 or 1954. Not only that. There was no whisper anywhere that the affairs of the Bank were mismanaged. We also see from the business of the Bank that the deposits were increasing. So the depositors were led to believe that the Bank was being carried on properly. The power vested in the Reserve Bank gave them confidence that there would

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be no trouble because it is a Scheduled Bank. In the circumstances, the Palai Bank being a Scheduled Bank, the Reserve Bank has a responsibility to the depositors. If the affairs of the bank were not so mismanaged, I would submit that this step should not have been taken. From the figures that are available here, it is stated that on the 5th of August, 1960, the total liabilities, both time and demand, of the bank came to about Rs. 8.77 crores and the bank had liquid assets to the extent of Rs. 3,48,60,417. I do not know how any of these figures could be disputed. This figure was arrived at as follows:

Balance with the Reserve Bank	45,61,758
Balance with the other banks	61,42,674
Money at call	2,00,000
Cash on hand	46,54,574
Investment in Government securities less borrowings	1,73,01,411

So, the bank had liquid assets available for paying to the creditors as and when demanded to the tune of more than Rs. 3 crores. It will be noted that the demand liabilities of the bank was only Rs. 2.34 crores. So, on the 5th of August, the position was that the bank had surplus amount at its disposal after meeting all the demand liabilities. Of course there were the time liabilities. The bank had other assets as well. This was the position. Over and above this, it had Rs. 5.5 lakhs worth shares and debentures. The advances may be sticky and some of them may even be unrealisable. Even then a good part of them also remains. My submission is that this drastic step taken by the Reserve Bank was uncalled for in the circumstances that prevailed on the date on which this petition was moved. Is there any bank in India which is so sound as to meet the demands of tax-payers like this bank? Which bank can have at

its disposal such large amounts? If any bank is faced with so serious a run, there would be some difficulty. If it is a scheduled bank it is the duty of the Reserve Bank as guardian of the monetary affairs of the country to come to the aid of the bank to tide over the difficulties. No financial aid from the Reserve Bank came at all. On the 8th of August when this petition was moved, there was no necessity for the Palai Bank to get any financial aid from the Reserve Bank. On the other hand, they had a surplus amount. Of course subsequently, if this run had continued, there might have been some necessity and the Reserve Bank should not try to kill the bank by these liquidation proceedings. The Finance Minister rightly said that the Reserve Bank was not there for starting liquidation proceedings. I agree with that, but this is exactly what has happened.

Now, regarding the sticky and other funds, I may say that this Palai Bank was started in 1927 and it was the Travancore Companies Act that was in force in that State. Subsequently, the Banking Companies Act of 1949 came into force in 1951 and this Bank also came within the purview of the Reserve Bank. Till that time the Bank was functioning according to the provisions of the statute under which it was incorporated.

17 hrs.

Now, a good amount was advanced on the security of land. It is a well known fact that in South India, especially in Kerala, land is considered to be the best form of security, and every bank used to advance loans on the security of land. This bank also advanced money on the security of land. It is now, I am informed, considered to be 'sticky'. It may be that for proper banking business advancing money on the security of land may not be good—I have no dispute about that,—

but the circumstances that prevailed before the Banking Companies Act came into force or before the Reserve Bank took control over the bank must be looked into and it is only then that a decision should be taken.

As regards the 'stickiness', I may bring to the notice of this House another instance wherein the Reserve Bank refused licence to a small bank in Kerala, a bank by the name Bharananganam Bank. After inspection the Reserve Bank found out or came to the conclusion that the affairs of that bank were not being run in the interest of the depositors because a good portion of the advances were 'sticky'. The licence was refused on 12-2-1957. After refusal of the licence, by 13-8-1957, within a period of six months, that bank was able to pay up all the deposits. Cent per cent of the deposits were paid back within six months of the refusal of the licence by the Reserve Bank. Then, the share capital at eight annas in the rupee was paid on 30-4-1958 and another four annas in the rupee was paid of the share capital on 16-12-1960. A further share capital of Rs. 16,630 remains to be paid but assets to the extent of Rs. 21,512 remain to be realised. I am bringing to the notice of the House this case to show whether the standard fixed by the Reserve Bank for ascertaining whether a bank is sound on advances of money on the security of land—which is considered by the Reserve Bank to be 'sticky'—is correct having in view the special circumstances that prevail in Kerala. Here is a bank which could pay off all the deposits within a period of six months, which could pay off all the share capital and yet have some surplus. Therefore, the standard now adopted by the Reserve Bank is not fully applicable to this bank.

Therefore, my submission is that the question whether certain debts are sticky or not is not very material as far as this bank is concerned, and up to the date on which this petition was moved there was no information to

anybody, to any of the directors that these steps were being taken.

Now, one of the main points alleged is the terrible run on the bank. I may submit that the run started only in July. The total deposits of the bank on 24th June was Rs. 9.82 crores. On the 1st July it increased to Rs. 9.92 crores. So up to 1st of July there was no run on this bank at all. I have got these figures from the petition filed before the High Court. On 1st July one Shri Sivaraman was appointed as the General Manager of the Bank. He was an Agent of the State Bank in some branch. He was appointed as the General Manager as desired or as instructed by the Reserve Bank of India. When Shri Sivaraman took charge of the bank as General Manager, the rumour spread that the Reserve Bank of India as a preliminary step for liquidation of this bank had appointed somebody and he had taken over charge of the bank. Naturally, the run started. It started first at the branch at Thiruvalla. That is Shri Punnoose's place, and the discussion on this subject was started by him. I do not know whether he had anything to do with it or the Communist party had anything to do with it! (*Interruptions*) I do not say that he had anything to do with it. Whatever that be, the first branch of the bank where the run started was the Thiruvalla branch. For three or four days since the run started, they were able to pay all the demands. Then it stopped there. It again started at a place called Chenganacherry. There also, for two or three days, there was a run. It went on like this in two or three other branches of the bank in Kerala. Practically the run subsided by the end of July. Then there was the run in the New Delhi branch. The figures will show that by the time the liquidation proceedings were moved, the run had also subsided, and the bank had started almost normal functioning. This was the actual position on the 8th. Then the Reserve Bank, in their wisdom, thought fit to file the petition.

I do not know what is the reason. Anyhow the final blow was adminis-

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tered on the 8th August. The deposits are, according to the Reserve Bank's petition, Rs. 8.5 crores. On the 5th August, the deposits were Rs. 8.7 crores. So, from 3rd August there has been an increase in the amount of deposits. You will find that several persons who withdrew their deposits had re-deposited the amount in the bank. Several persons who had issued notices for withdrawal of deposits had withdrawn their notice. This was the actual position on the 8th August, when the petition was filed before the high court.

So, my submission is, on this date, there was absolutely no necessity for the filing of that petition. From the proceedings from 1951 onwards, you will find that after the first inspection, the Reserve Bank asked the people of this bank to appoint an adviser in consultation with the Reserve Bank. They did that. A banking expert was appointed and that continued up to the appointment of Shri Sivaraman as the general manager of the bank. There were other officers who were authorised to attend the board meetings of the bank. According to the officers of the bank, after the first inspection, no money has been advanced as unsecured debt. There were instructions issued by the Reserve Bank that no money should be advanced without security. That instruction was followed by the bank. You will find that the amount in the accounts increased because of the interest accrued or added on every year. In the books of the bank, we find that the amount standing as unsecured advance has increased, but it is because the interest on the advances which were made before 1951 accrued every year and it was added on. This was, I think, put a stop to subsequently.

So, the Palai Bank was following all the instructions given by the Reserve Bank. After Shri Sivaraman came to the scene, the Reserve Bank

wanted that two other people should be also co-opted to the Board of Directors and the Reserve Bank sought the advice of the Kerala Government for co-opting the two people. The Kerala Government suggested one retired High Court Judge and one retired District Judge to be co-opted to the Board of Directors. The Bank co-opted Shri G. Kumara Pillai, a retired High Court Judge and Shri K. Padmanabhan, a retired District Judge on the instructions of the Reserve Bank of India. They had the opportunity to attend only one board meeting; that was sometime in the second or third week of July.

After they were co-opted, there was a board meeting. The General Manager was also present at that meeting. Of course, at that time, there was run and all that. They thought, what should be done to make the people feel that the position of the bank is sound. Then the suggestion came that if two or three branches are opened in different parts of India, the confidence of the people would be revived. So, the General Manager was authorised to go to Bombay, meet the authorities of the Reserve Bank and get their permission for opening the branches. So, he went to Bombay, I think on the 28th July. There was a meeting between Shri Sivaraman and the Reserve Bank people at Bombay.

Immediately on returning, he sent telegraphic instructions to the board of directors for a meeting on the 8th afternoon. There was a meeting on the 8th afternoon. The main agenda of that meeting was, what amount should be paid by the Palai Bank to the development loan floated by the Kerala Government recently. That was the main agenda in the meeting which was telegraphically convened by Shri Sivaraman. After the meeting started, he got a telephone message from Ernakulam saying that orders have been passed that the bank is to be liquidated. This message is conveyed to all the other directors, including the nominees.

Shri Tyagi: Dramatic.

Shri Maniyangadan: These are the circumstances in which this bank came into liquidation. My friend stated that there were certain queries asked by the Reserve Bank on a communal basis and all that. I do not attach much value to that. But I would submit it is novel in the history of banking business in India that the Reserve Bank should call for information as to how many Christians have deposited money, how many Catholics have deposited money, etc. But in the case of this bank, that was done. I do not know the purpose why that was done. That was also sometime back.

Considering all this background, I would submit there was something sticky about the position. On the 21st July, after the last inspection by the Reserve Bank, they got instructions and a circular letter. That letter says, the directors of the Palai Bank are asked to submit their explanations within a period of 30 days. The letter is dated 21st July, 1960. Within 30 days they are asked to explain and in case they do not submit their explanations, it will be taken that they have no explanations to submit. Further that letter says, "You are given 12 months' period to rectify the mistakes pointed out in the inspection report". The mistakes were the old mistakes—some advances which were not secure should be made secure and all that. So, they were given on the 21st of July one year's time to rectify the mistakes and 30 days' time to answer the questions raised in that letter. But from 21st of July they did not wait for 30 days and on the 8th of August this has happened.

Further, another circular letter was issued by the General Manager, Shri Sivaraman to all the branch managers on the 25th of July. That circular letter says in the second paragraph:

"While every effort should be made to secure fresh deposits at rates laid down by head office from time to time, the lending side

of the bank's business should receive special attention of managers...of the bank."

This circular is dated 25th July, and this was issued by the General Manager to all the branch managers. It is after this circular that he goes to Bombay and, according to the first statement made by the Finance Minister, reports to the Reserve Bank that no other alternative is left now other than the liquidation of the bank. One fails to understand what was behind the mind of the General Manager when he issued the circular and when he convened the last meeting of the board of directors if he was going to Bombay to say that "the bank must be immediately liquidated, otherwise the whole thing will go to the dogs". My submission is that it is really understandable what happened in between.

Shri Tyagi: Perhaps it was a camouflage action not to enable them to get scent of what was coming.

Shri Maniyangadan: May be, I do not know what was lurking in his mind. But the inspection report and the covering letter dated 21st July cannot be a camouflage. The Reserve Bank gives them one year's time to rectify the mistake. That cannot be a camouflage at that time. And if you examine the previous inspection reports, you will find that there is not much difference between all these reports. It is under these circumstances that the bank happened to collapse.

Of course, I do not know how much amounts are due from the directors and all that. It is said that some amounts are due from the directors. But my information is those amounts were due even from 1951. Some of them were realised subsequently and some of them are outstanding still. I do not know what the present position is, but whatever may be the position, the shareholders and the employees of the bank are in a very difficult situation. What is the way out? This is not due to their mistakes. I am not pleading for the directors of the bank

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here. Neither am I pleading for the Palai Central Bank as such. Here the whole financial structure is at stake. Here so many other institutions are at stake, the country and especially Kerala is facing a crisis on the financial side and its developmental activities are going to be affected by this. So, taking into account all these things, what has to be done?

I read in the papers certain suggestions. There were certain suggestions made in the memorandum submitted by some Members of Parliament that the State Bank should take it over. The Finance Minister has categorically turned down that suggestion. I do not know whether that would be accepted by him subsequently on second thoughts. Whatever that be, I would suggest that something of that sort should be done. I read in the papers that some of the depositors have made a suggestion that they are prepared to leave a part of their deposits as reserve or security for bad or doubtful debts in case the bank is revived and that they need be paid back only after the amounts are realised. I cannot say that it is a firm proposal though I have read it somewhere in the papers. If any such proposal comes up, the experts here should consider such a proposal sympathetically and accept it and allow the bank to function as a running concern. Of the present directors, two are Reserve Bank nominees. There are two other directors one of whom is a banker from Mysore and the other is a retired High Court Judge of Kerala. All the directors may be removed if it is allowed to continue as a running concern. Then the depositors would be safe and the faith of the people in the Reserve Bank and in the financial structure would be restored. So in the circumstances I would submit that the Government should come to the aid of the Bank for its reconstruction.

Dr. Krishnaswami (Chingleput): Mr. Speaker, Sir, there is this merit about the hon. Finance Minister's statement that it states in clear and

unambiguous terms the stark philosophy with which I may not agree but which has its advantages to consider especially as it is shorn of ambiguities. There are two issues which face this House. Was the closure of the Palai Bank justified? Secondly, how are the depositors' interests to be protected fully and adequately? Since I am going to deal with the second issue at considerable length, I will not be in a position to examine the various arguments that have been advanced on the floor of this House on the question of the Palai Bank's assets.

I should like to point out that even if the figures which are given by the directors prove to be correct, my hon. friend, the Finance Minister, has pointed out that in any case the Reserve Bank was bound to liquidate that bank. This is what he states:

"Even if the available assets were somewhat larger, I do not think that this would have made any difference to the final decision of the Reserve Bank."

This is a strange statement to make and I should like the House to underline the importance of this statement. I should also like to point out that the test of liquidity which has been put by my hon. friend is extremely narrow. What would be considered to be liquid by a moneylender is not the same thing as that which should be considered as liquid by a bank. The test of liquidity that has been adopted by my hon. friend is extremely narrow. We may have continuous arguments on this, but at any rate the one effect of having continuous arguments on this matter would be only to have a post-mortem investigation on the affairs of the Palai Central Bank.

The main issue which faces this House is: What is the approach to this important question of deposit banking? How are we going to ensure a mobilisation of savings in our country? In this connection I should like to underline certain aspects of the state-

ment made by my hon. friend, the Finance Minister. In simple language he has stated: We will do our best through the Reserve Bank which is clothed with ample powers of inspection, control and direction. But when we feel that nothing more can be done we think it equitable to stop the bank functioning rather than allow the more enterprising and vigorous lads to walk away with their savings leaving nothing for the bulk of the depositors. Surely a bank failure is basically not a solution and a system which accepts its helplessness in certain circumstances is an inequitable system particularly if the banking habit is to develop in our country.

We have been talking of the mobilisation of savings day in and day out. It is not enough to fall back on the legal argument that neither the Reserve Bank nor the Banking Companies Act stands guarantee to the depositors. Of course, in a court of law no depositor can sue the Reserve Bank. That is clearly understood. But so long as a financial institution is permitted to start or exist the assumption of an ordinary citizen is that he can safely keep his savings or earnings in the bank. This logic should also entail a responsibility on the Reserve Bank and the Union Government to see that banking laws and their administration are such that a depositor's money is protected hundred per cent.

I need not elaborate the aspects of these arguments. But, I do wish to point out that it is necessary in all these cases to take a much more far-sighted view of our obligations to depositors. The lessons of the recent bank failures must go a little beyond, may I say with great respect to those who have preceded me, the immediate issue of protecting the depositors of one bank. We have to look at the whole structure of our banking system and find out in what direction we want it to move. It is absolutely necessary that we should re-examine our ideas of certain aspects of deposit insurance. There was a time when some people

recommended the adoption of deposit insurance. But, one witnessed that no decision was arrived at on this question because we were always up against a classic dilemma, namely, that if the banks are very sound, they do not need to insure their deposits and if the banks are hopelessly rotten, any insurance system will break down. The time has now arrived when we should evolve a compulsory deposit insurance system which would ensure that the funds are safe not only in the scheduled banks, but also in the non-scheduled banks as well. The cost may be a bit high, but it would not be prohibitive. But, the benefit that accrues to society would be considerable. But, the more important question that faces us is a much larger one. I should like to draw the Finance Minister's attention to this matter.

What is the direction in which we want our banking system to move? Normal Unit banking as is understood in the U.S.A. is not in consonance with our history and tradition. As it is, what has happened is, we have a few large banks, about 15 or 20, which are very solid and respectable, which between them account for about 98.5 per cent of our deposits. It is only 1.5 per cent or thereabouts in deposit in the scheduled banks or in the possession of smaller banks some of which are good, and a few of which are not so good. These smaller banks have also got a part to play in our economy. They are regional banks. They attend to regional needs. They fill a gap in the banking service which ought to be taken into account and provided they function efficiently we should allow them to continue. We have to ask ourselves straightaway now whether there is any justification for the discriminating treatment that we have meted out between scheduled and non-scheduled banks in our Banking Companies Act.

As every one realises, the non-scheduled banks are really weaker banks. What are the obligations of the Reserve Bank in the welfare society of ours? The obligations of

[Dr. Krishnaswami]

the Reserve Bank are merely to inspect and not to give any assistance to the weaker banks, the non-scheduled banks in our economy. As regards the other scheduled banks, I suppose, from the statement that has been read out,—the Reserve Bank will inspect, control, and can even remove management, but will stop short of giving assistance when there is a run on a scheduled bank. The Reserve Bank is expected to maintain order in the banking world. If the banks do not listen to their directions, if the banks do not listen to their advices, if the banks do misbehave, then, according to the philosophy of my hon. friend, the depositors largely will suffer. This is an intolerable situation. The time has arrived when we should do some re-thinking on the fate of our depositors in our economy. Certainly, we must have built-in safeguards in our banking policy, safeguards which will protect the depositors, not in a half-hearted way by assuring them thirty Naye paise in the rupee, but fully and completely.

To suggest that the Reserve Bank should exercise the option somehow or other to merge the Palai Bank and even the Laxmi Bank with the State Bank is not such an unwise proposal as some people make it out to be. My hon. friend in the concluding portion of his statement pointed out that it is not proper to ask the general taxpayer to pay for the losses of an individual concern and any concession will have to be extended to other institutions similarly placed. I am sure the House will not consider me as wanting in sympathy for the plight of the depositors if I invite its attention to the wider implications of such a proposal.

I want to make it clear at the outset that not a single naya paise need be paid from out of the Consolidate Fund to the depositors. When some of us say that the State Bank should take up this concern, we have in view the large-scale economies that would flow from the integration of a small bank

with a larger bank. Walter Bagehot once pointed out that what is considered to be a sticky debt in the case of a county bank ceased to be irrecoverable when there was a merger with a larger provincial bank. The State Bank has deposits to the tune of Rs. 380 crores. I am excluding for the moment the counterpart funds which are deposited in it under PL 480. A large-scale bank taking up the assets and liabilities would be in a position really to effect an improvement in our situation. And after all, the percentage of deposits which fall outside those which are solid and durable are about 1.5 or thereabouts, and even then about 40 per cent or so might be the maximum that we shall have to take over.

It might be suggested that the State Bank, which is a strictly commercial concern, should not be authorised to take up this thing, but whoever said that the State Bank was guided purely by commercial considerations? On every occasion we have said that the State Bank is a public institution which, while it respects commercial principles, should also promote social objectives. Was it without reason that we authorised the Finance Minister to place the counterpart funds under PL 480 in the State Bank? Why did we do it? The reason was that if we placed it in a normal commercial bank, a pyramid of credit could be built up, and there would be greater profit for the individual bank. In the case of the State Bank we did not want it to have any such profit, and it has been working on the principle of no-profit.

Secondly, we have authorised the opening of 400 branches, many of which are uneconomic, to spread what I would call the banking habit throughout our country. Even assuming for a moment that we incur losses and thus diminish the rate of profitability of investment in such banks, the benefit of such mergers to society would be more than considerable over a long period, because there would be

no shocks to public confidence, and certainly the State of Kerala which is facing great difficulties would experience few shocks, and it would be a great advantage to the economy of India as a whole if there were this integration.

I cannot resist the reflection that at times the layman is a more profound economist than the technical craftsman in any specialism. I cannot help feeling that my hon. friend, the Chief Minister of Kerala, is one of nature's economists, as he hit the truth when he suggested that this integration would be really useful from many points of view. Financially, it would not be a loss, and certainly in the long run it would be of great advantage. Not a single naya paise need be paid out of the Consolidation Fund. Taking over these branches of these banks which are about 25, in the case of Palai and forty in the case of Lakshmi Bank, would pay ample dividends, over a period since these banks have done pioneering work in many of the rural areas. The depositors' savings would be assured, the shock to confidence would be minimised, and there would be greater mobilisation of savings. In addition, let me also point out to my hon. friend that this option to take over these banks can be exercised only on the recommendation of the Reserve Bank. If it cannot be done immediately without amending the Banking Companies Act let us amend it immediately, for what we do require today is to protect the interests of depositors a hundred per cent and not 30 per cent as some have argued in this House. Commonsense, humanity and even financial wisdom dictate such a course or courses similar to this. There is only one thing which stands in the way of our Government. We are suffering from amnesia. What has happened? We are on the strategic heights, but we have lost all consciousness of the grand principles of strategy. From our point of view, from the point of view of Parliament, from the point of view of the Cabinet, I venture to think that it would be wise and proper to take in hand the

scheme of integrating some of these banks and thus restore confidence. Other measures against those who have been responsible for the misapplication of funds can be resorted to in courts of law, but the main interest of society should be the mobilisation of savings, and unless depositors' interests are protected hundred per cent, there is very little chance of our mobilising savings. The problem of Kerala is also the problem of India.

Mr. Speaker: Now, Shri Mohammed Imam.

Shri Tyagi: May I speak?

Mr. Speaker: First, I shall give opportunities to Members from Kerala and then I shall call others.

Shri Tyagi: Shri Mohammed Imam is from Mysore.

Mr. Speaker: Mysore is on the border of Kerala.

Shri Mohammed Imam (Chitaldrug): I come from Mysore, and I do not hold any brief for the Palai Bank, nor have I ever been one of its constituents, but still, I must state that the closure of the Palai Bank had had its own repercussions in the State of Mysore, because a large number from the public took advantage of this bank, and many of them had invested their earnings in this bank. I must state that this abrupt closure of the Palai Bank has given a very rude shock to the banking public of not merely this bank but to the public and people who have been dealing with other banks also. It has to a certain extent unnerved and created a certain amount of nervousness amongst the public as to whether they should come forward with their deposits and whether they should deposit them at all. Anyhow, it has made them think twice before they undertook to deposit in any bank.

I have heard the statement made by the Finance Minister, and I have also read the literature supplied by some of my friends who have had an intimate contact and connection with

[Shri Mohammed Imam]

the Palai Bank; I have also listened to the speeches of some hon. Members who had intimate and close contact with the working of the Palai Bank. On going through all these things, I am constrained to come to the conclusion that the Reserve Bank have rather acted arbitrarily. They have shown undue haste, and to put it more effectively, I may state that they have used a sledge-hammer, in the way they have done it. You know, Sir, that when the sledge-hammer is used, the entire object is crushed, and there is no chance of its revival.

Liquidation proceedings are taken in extreme cases, when banks are concerned. Banks are strong in their own way, and they are also vulnerable in their own way. Banks are strong as long as public confidence is sustained and maintained, but when this confidence is impaired, then the bank, however long-standing it may be, and however high its position may be in the financial world, becomes vulnerable. If there is a sudden run on the bank by the banking public, on account of some misapprehension or misgiving that may be created by some outside agency, no bank of any standing will stand that state. Supposing there is a sudden run on the State Bank of India, even the State Bank cannot meet that sudden run. That is the position. So I submit that the Reserve Bank, which is the *maa-baap* of all the banking institutions, which is supposed to nurse all the banking institutions, must be very careful in its dealing with all these banks whose destiny and future are entrusted to its care. If it finds any bank or its directors misusing their position, there are other remedies. It is only after exhausting all these remedies, it is only when it finds that its position is so irreparable that it cannot be rectified without intervention, it is only then that it should step in, and step in effectively. But I would like to know from the Finance Minister what other remedies did they adopt to set right matters in this banking institution. Did they find out exactly what

its conditions are and what its financial position is? He has not disclosed these to us. Perhaps he himself is ignorant of what its financial position is. Even on the first day of his statement, he was not in a position to give this House information as to its actual working or what its assets and liabilities were. In the circumstances, I do not know how the Reserve Bank made up its mind to apply liquidation proceedings to this Bank. Sufficient reasons are not forthcoming.

This banking institution is an old one. It was started in 1927 when the Reserve Bank was not in existence. After the Reserve Bank came into existence, when the Banking Companies Act was passed, this Bank did observe and conform to all the regulations of the Reserve Bank. It paid its statutory deposit to the Reserve Bank. It conformed to all the rules. The Reserve Bank also inspected this Bank periodically and sent directions and instructions to it. The directors and the authorities in charge of this Bank, according to the information available, did their best to rectify things. Now and then officers of the State Bank or some of them who had retired were posted as General Managers, perhaps at the instance of the Reserve Bank. I understand that the personnel of the directorate seem to be very highly respected. It was composed of retired High Court Judges and District Court Judges and people of eminence and standing, whose integrity we have no reason to doubt. In spite of all this, without consulting them, without even letting them know what the attitude of the Reserve Bank would be, to apply this closure is really very uncharitable.

The Bank and the public have been taken by surprise. Shri Sivaraman was posted there as representative of the State Bank of India. He went there and took charge, I think, on the 1st of July. Meanwhile, some instructions and directions had been issued by the Reserve Bank and the Bank was definitely asked by the Reserve

Bank to rectify these matters. One year's time was given. But this officer, Shri Sivaraman, came there. I do not know his share of the responsibility in initiating liquidation proceedings. He was there for one month. I do not know what report he made. It looks to me that the entire Reserve Bank and the Finance Minister have been guided by the report made by him. Within one month of his arrival liquidation proceedings were abruptly announced in the meeting of the directors. Was it not incumbent on the Reserve Bank or the duty of the general manager to consult the directors to take them into confidence and ascertain from them the actual state of affairs and how they would meet them. They were all kept in the dark. They were summoned by telegram and they were made to sit before him and they were told: you are all dismissed because liquidation proceedings are going to be taken. This is very unfair.

The Minister said that the bank had to be closed because there was a run on the bank and some preferential people should not get away with all their money. If anybody is responsible it is the Reserve Bank's attitude. When that person was posted there under certain circumstances which appeared to be suspicious, the run started. For this, I must hold the Reserve Bank responsible.

It is true that thousands of people are going to suffer. But they must have taken one thing into consideration. Some people have supplied the data regarding their assets and liabilities and I find that the assets correspond to the liabilities and in some respects they exceed the liabilities also. They have kept enough reserves, they are having securities. They have about Rs. 45 lakhs in the Reserve Bank and Rs. 61 lakhs in the other banks. All these liquid assets come to about 3.5 crores. The bank was in a sound position. In these circumstances it is very unfair and uncharitable and the unkindest cut on the part

of the Reserve Bank to have instituted liquidation proceedings.

I am one of those who feel that this bank must be rehabilitated. It should not be made to suffer on account of the faults of the Reserve Bank. They want to sound a death-knell to this Bank. It should not be. If necessary they can dispense with the present directors and appoint their own but this bank must be revived in its old name. Let the Government take charge of the management and let them subscribe to it. That will create some assurance in the minds of the depositors. If necessary we may tell them that the Government will look to their interests and the Government may assure them that their money is safe. Then, the confidence will be created and this bank will not come to an end. Otherwise this creates other problems pointed out by Dr. Krishnaswami. I am reminded of the crash of the Travancore-Quilon Bank under different circumstances. The creditors got two annas more than what they invested for every rupee though it was proclaimed in the initial stages that the position was bad. Similar thing may happen here also. It is only lack of confidence that has brought about this run. It is for the Finance Minister and the Reserve Bank to restore this confidence. In that case, I am sure the bank can be rehabilitated and made to work as usual and it will be useful to the public.

Shri Goray (Poona): Mr. Speaker, I cannot speak with the intimate knowledge with which hon. Members from Kerala have spoken on this occasion. But I must admit that the crash of the Palai Bank has given all of us a rude shock. Three questions arise in my mind.

The first question is, what happens to the thousands of depositors in the Palai Bank as well as the other scheduled bank, the Luxmi Bank which also went down. The other question is, what should be the solution which will save the economic life of Kerala

[Shri Gorey]

where the impact of the crash will be felt that greatest? The third question is, what could be the relation or what should be the relation between the Reserve Bank and the other banks in this country?

Sir, so far as the depositors are concerned, I think that the country is passing through a very crucial stage. Yesterday the Finance Minister told us, and very rightly, that confidence is a very delicate plant and once any harm is done it is very difficult to restore it to its former health. I found that during the last ten years we are creating a banking habit amongst the people. Here are some of the figures. The deposits in the banks in 1950 were Rs. 860 crores and in 1960 they have gone up to Rs. 2,000 crores. Personal deposits in savings bank accounts in 1955 were Rs. 140 crores and in 1959 they have gone up to Rs. 213 crores. Time deposits were Rs. 175 crores and now they are Rs. 360 crores. The banking habit is spreading and we find that the number of deposits in the savings banks has grown from 6,75,000 to 9,28,000. This is all to the good. But, as the Finance Minister said, if the confidence of the people in these institutions is shaken how will we try to recreate it? Sir, so much money is being jockeyed up in ornaments, so much money is being locked up in gold, and we find that it will be very difficult for us to tap internal resources if the habit persists. Therefore, we must see to it that the people's confidence in the banks and institutions of this nature is not shaken.

Sir, the local implications are very obvious. Kerala is not a very rich State. It is a poor State. But I found from my brief study of the people there that they have a habit of coming together, they are in the habit of running co-operative institutions and small banks. I think this is a habit which ought to be encouraged.

I do not want to take advantage of my position as a Member of Parliament and throw aspersions on the officers of the Reserve Bank, but I hope, Sir, you will pardon me if I say that from the facts that are made available to us . . .

Shri Morarji Desai: Are they facts?

Shri Goray: Well, you have given us some facts, others have given us other set of facts, and it is for you to refute that what has been supplied by others is not true.

Shri Morarji Desai: I shall try to do that.

Shri Goray: When I went through the Banking Companies Act I found that ample power has been given to the Reserve Bank to control and inspect the business and activities of the bank. My hon. friend over there has very clearly stated the whole case. In spite of it, with all the controls in their hands, why is it that they went on allowing this bank to function as it was functioning? What is the role of the Reserve Bank towards these banks? Is the Reserve Bank to act as a police constable, namely, catching the person after he has committed an offence, or is it to play the role of a doctor who gives a preventive medicine? You find that there are sections after sections in the Banking Companies Act by which the Reserve Bank has been empowered to exercise the right of inspection, control, etc. I do not know how it was that this Bank was allowed to open a branch in Madurai in 1954. How was it that after July, the Deputy Chief Officer of the Reserve Bank sent a letter to the manager of the bank saying that the directors would be given so much time to submit their explanations and that they will be allowed twelve months' time for rectifying their mistakes? We find that the manager who was an officer of the State Bank was asking his officers to expand the business of the bank. If really all thi

was happening, if the Reserve Bank knew that this bank was leading towards a crash, how does it square with these circulars and letters of the officers of the Reserve Bank? They ought to have pulled them up, but then it seems that they were giving them a long rope and when they found that the bank could not be saved at all, they hanged it by the same rope. It is very surprising that this gentleman, Shri Sivaraman, convened a meeting and the only thing that he did at the meeting was that he announced to the directors that the bank was liquidated.

Mr. Speaker: Have any of the directors or all the directors made any statement so far?

Shri Goray: No; I have not, at any rate, in my possession anything to that effect.

Mr. Speaker: The directors are not to explain the position?

Shri Goray: I have got a copy of the circular.

Mr. Speaker: The directors must be in the know of things; once they feel a sense of humiliation that the bank has been liquidated, have they come forward and said: "The assets are there"?

Shri Goray: I think the directors are keeping silent because they think that perhaps the Government may come to help them and that if they open their lips, their case will be prejudiced. It is quite possible. It is only a conjecture. But what I feel is that the relation of the Reserve Bank with the other banks in this country ought to be defined. I think they have given them ample powers and it is expected that the Reserve Bank will act in a manner which will create confidence among the depositors. After all, the depositors come from the rural areas, from the lower income groups: not all of them, of course, for some of them come from the upper classes also.

I was told only yesterday that a big officer came back from leave and when he got the salary for two or three months, he deposited the entire salary on the 3rd or 4th August in the Bank; on the 8th the whole thing was wiped out. It seems he told somebody that he had only Rs. 15 in his pocket. He did not know what to do. So, it is not a solitary instance; there must have been hundreds and thousands of such cases—whether they had deposited in the Luxmi Bank or in this bank—where their whole fortune or their life savings had been wiped out.

The question was raised as to why the Government should come to the help of the depositors: whether it is not the responsibility of the Reserve Bank to save all these depositors. The answer is very simple. We have come across in this House cases where not only hundreds, thousands and lakhs but crores of rupees have been wasted. Only today Shri Range gave an instance. We tried to have fabricated houses or something of that kind and Rs. 2 crores were wasted. The answer was that we learn by experience! Whose money was that? That was also tax-payers' money. So, I say that if it is a question of restoring confidence among the depositors, and if you are launching on big schemes, the five year Plans, one after the other, where the confidence of the people is a commodity which must be considered to be invaluable, then, a lakh of rupees or Rs. 2 lakhs or Rs. 10 lakhs or even a crore of rupees must be spent to see that this confidence is revived.

I would support my friend, Dr. Krishnaswami, who said that it should be merged with the State Bank. You can remove the directors whom you suspect of misdeeds. But at the same time, you must see to it that the thousands of depositors who come from a very important section of the people are protected. They are the peasants, the workers and clerks who have developed the habit of saving.

[Shri Goray]

It is these people who are going to be hit and I say they are the most valuable assets so far as our Plans are concerned.

18 hrs.

So, without taking much of your time, I would say, let the Finance Minister be straight and firm. But let him also see to it that firmness does not always lie in a sort of brushing aside of the plea that has been made on behalf of the depositors here. Let him also tell the Reserve Bank people that the powers given to them should be exercised in such a way that the banks are warned before the crash. Let them not say after the crash, "You did not behave". Anything you tell them after the crash is just waste. It harms the confidence of the people in the monetary system that we are building up.

Shri Tyagi: Sir, my friends who have spoken about this affair have so far justified the case of the bank and have criticised the Reserve Bank for its delayed actions or hurried actions. Banking is a trade which is too sensitive. It is not possible in the case of banks to make announcements about their day to day financial positions. There are banks and banks and people do not know as to how they are faring except that these banks are sound and such confidence alone draws the depositors to deposit their money.

The circulars which have just been given to a few Members on behalf of those who stand for this Palai Bank have, I must say, made out a very good case. They say that the Reserve Bank had knowledge about the conditions of the bank since years and how is it that suddenly the Reserve Bank came on the scene, pounced on the bank and finished with the whole show? I think a convincing answer is needed. I must say that so far the statements made by the Government from the treasury benches have not

been able to convince the public about the justification of the action taken. I would, therefore, appeal to the Finance Minister to make it quite clear as to how things stood. Because while a circular comes from the Reserve Bank that a year's time is given to improve matters and expand their business and all that thing is going on, suddenly they pounce on the bank and it is practically liquidated.

Only one answer that I find from the statement of the Finance Minister which convinces me is that the Reserve Bank came on the scene when there was a run. This alone is most convincing. How can the Reserve allow the depositors to draw the money and allow a run, so that those who come afterwards find there is nothing left? So, if it was a fact that the Reserve Bank came to the rescue of the depositors when they observed that there was a run, it was rightly the duty of the Reserve Bank to just lock up the rest of the money to be saved for the depositors. I think that the action of the Reserve Bank deserves congratulations, because they have saved many other depositors who have had no chance to go to the doors of the bank to demand their money. And if that was their duty, they should not be criticised for discharging their duty. On the other hand, the Reserve Bank must be congratulated for the prompt action they have taken. On the complaint that the "Reserve Bank had waited for years", I must submit that in the case of banks it is not proper or fair that as soon as some information about the bank's affairs comes to the knowledge of the Reserve Bank immediate action should be taken. That is unfair. Every bank must be given a fair chance, and the attitude of the Reserve Bank must be one of a nursing bank, helping them and feeding them towards soundness. So, the Reserve Bank must act as the guardian of the banking system in India. With that responsibility, I

Central Bank

must say the Reserve Bank carry, heavier responsibilities even than the whole Cabinet,—they are the guardians of the whole monetary policy of the country. And if banks go phut everything goes phut. Government cannot stop them. Therefore, the responsibilities of the Reserve Bank are much greater and I think they have performed their functions and duties fairly well in this case. If they came on the scene only when they had the knowledge that there was a run, "delayed action", cannot be criticised because it is the duty of the Reserve Bank to see that every bank is not pounced upon immediately as a report comes. They must be given a fair chance to improve the conditions.

Shri Braj Raj Singh (Ferozabad):
For how many years?

Shri Tyagi: There is no question of years, because from the figures I find that this bank was improving its position.

Shri Punnoose: May I ask a question of the hon. Member? In 1951 there was something defective about the bank and their liabilities amounted to Rs. 4 crores. The Reserve Bank kept quiet. In 1959 when it became Rs. 10 crores the Reserve Bank permitted so many people to walk into that trap. What is your explanation?

Shri Tyagi: I think the Reserve Bank did the right thing because from year to year and month to month the bank was making progress. Since the bank was improving its condition. How could action be taken by the Reserve Bank. So, they went on giving them chances to improve and they were improving. Suddenly the run came. Here I am basing my plea on the statement of the Finance Minister. The Finance Minister says that the Reserve Bank acted only when there was a run. If there is a run it is the duty of the Reserve Bank to step in, whether the institution is sound or not. They must do the needful.

But there is the question of 85,000 depositors. It is also a social problem. From the statistics which have been supplied to us, I do not think the condition of the bank is in any way bad, although there was a run. When I go through the figures I find that the bank is not at all unsound, because there are many other banks in a worse condition. I challenge that if the Reserve Bank call for statistics from other scheduled banks they will find that this bank is in a better position and can compare favourably with many other banks which are not sound. Therefore, I do not think the position of the bank was unsound.

Now that the liquidation proceedings have been taken, all the staff have to be retrenched. They have to be paid compensation etc., for each year of service. So, whatever assets are at present available, a big chunk of it will have to be distributed that way and for months the proceedings will go on. On that also expenditure has to be incurred. Therefore, I agree with the proposal of my hon. friend from Kerala that we must go to the rescue of the depositors. I do not agree to the suggestion that the State Bank must take over all the liabilities. It is unfair. The State Bank practically means the taxpayers' money. Then, if we have a precedent of this nature, some banks have already become bankrupt and there may be others also in the queue. How can the State Bank take this responsibility. Also we cannot, in Parliament, establish such a sort of precedent.

It will be detrimental to the cause of the taxpayer altogether. But this must also be realised that the State Bank is a public institution and more than 90 per cent. of its shares are held by the Government themselves. The State Bank gets the best facilities possible. Wherever the State Bank opens a new branch the Reserve Bank pays for the losses. Other banks do not demand the losses from the Reserve Bank but in this case the

[Shri Tyagi]

Reserve Bank acts as a mother and so pays for all the losses of those branches.

Then again, the biggest benefit which this Bank enjoy is that: the State Bank is actually speaking competing in the market with the rest of the smaller banks. It is the biggest competitor. Therefore its profits must be larger. Let that also be realised. There are Rs. 350 crores at the disposal of the State Bank from the PL-480 funds. It is a very little rate of interest that they have to pay. With such a huge amount of money at the disposal of the State Bank, I think it is but fair that we ask the State Bank to take the responsibility, if not to share the losses, at least to take over the assets and assure the depositors that to the extent to which the assets are available every pie of their deposit shall be paid to them.

Shri C. D. Pande (Naini Tal):
Twelve annas.

Shri Tyagi: Yes. Twelve annas in the rupee can safely be announced. From the statistics I understand that the Bank is in a position to paying twelve annas forthwith if the State Bank takes it over. So if the State Bank takes it over, it only takes over the Bank and does not shoulder any liability of paying the losses. It pays only to the extent to which the assets are still available. Of course, it will be for the State Bank to realise the bad debts etc., to look after them and to see that they are realised in due course. All these staff people who are to be paid otherwise may be taken over by the State Bank. The State Bank is already thinking of opening many other branches in future. These employees can be put in some other branches. So the State Bank can safely take it over.

If the State Bank takes it over there is not a single pie of strain. My proposal does not put any strain on the exchequer. It does not put any strain, even of a single *naya Paisa*,

on the State Bank. What I want is that the State Bank may take it over so that the employees may also be given some jobs here and there and the depositors may have the assurance that whatever has been left safe will be paid over to them. If there are any debts which are sticky and which are to be realised later on, whenever they are realised the depositors will again have the right to bring their claims against them. Therefore that is the only proposal that I make and I think that it is very sound. Government must in all fairness accept it. Thereby they will help the depositors and also the banking system in India.

Mr. Speaker: Shri Guha.

An Hon. Member: One ex-minister after another.

Shri A. C. Guha (Barasat): **Mr. Speaker,** Sir, the liquidation of a bank, particularly of a scheduled bank, is a serious matter not only from the point of view of depositors but also from the point of view of general economy of the country. The failure of two banks in quick succession, the Palai Bank and the Laxmi Bank, will give a rude shock to the saving habits of the middle class people. Much of our plans would depend on the saving habits of the middle class people and so from that point of view also this question should be considered and a more generous and imaginative view should be taken about the problem.

I would agree that the Reserve Bank at best has taken a hasty action in this matter i.e. without making an accurate estimate of its assets and liabilities. On the first day the hon. Finance Minister announced that the liquid assets of the Bank stood only at Rs. 1,50,00,000. The statement he made on the 20th does not give practically any figure of the liquid assets of the bank according to the calculation of the Reserve Bank. The estimate of Rs. 1.50 crores has been questioned from various quarters and the Finance Minister has not categori-

cally repudiated the figure given by the other side as Rs. 4.50 crores nor has he given any figure of his own.

As far as the liabilities are concerned, I do not know how much of them would be time liabilities and how much would be demand liabilities. The Finance Minister's statement should have contained some indication as to that. The liquid assets of the bank should be considered only in the background of the demand liabilities of the bank. The time liabilities need not be paid immediately. So, the assets of the bank which may not be easily realisable or which, in the words of the Finance Minister, may be considered 'sticky' may also be utilised, after proper processing for the repayment of the time liabilities. I find from the statement given to us that the demand liabilities stood at only Rs. 2.34 crores. Even on the statement of the Finance Minister, taking the liquid assets at Rs. 1.50 crores, there was only a gap of about Rs. 84 lakhs.

The figure of the Finance Minister has been disputed and other assets have also been mentioned which may be considered almost immediately available: balance with the Reserve Bank Rs. 45 lakhs, balance with other banks Rs. 61 lakhs. Some mention has been made in the Finance Minister's statement about Rs. 80 lakhs in advances against gold. I do not know whether the Reserve Bank has made any assessment about what is the amount of advances against gold, or whether this gold is gold bullion or gold ornaments. Whatever it may be, even if it is gold bullion, I think the present procedure for banks is to value it at Rs. 80 per tola whereas the present market rate for gold is Rs. 134 or 135 per tola. Whatever amount may be invested against the security of gold must give to the bank at least 50 per cent more than the amount already advanced.

An Hon. Member: What can be called gold.

Shri A. C. Guha: Gold is gold. The Reserve Bank has not said that it is not gold.

Shri Sadhan Gupta: (Calcutta—Eas That has to be tested.

Shri A. C. Guha: They should have made a correct assessment before applying for liquidation of the bank. The Reserve Bank should have made a correct assessment of its demand liabilities and also the assets immediately available and the time liabilities and the assets which may be available after some time. In the two statements of the Finance Minister, we have not been able to get any such thing. So, I should say, at the best, the Reserve Bank's action in this regard has been hasty.

In the statements of the Finance Minister, both on the previous day and on the 20th, he has mentioned repeatedly about drastic action, and drastic action. In the previous statement, he suggested two actions, refusal of licence and the next is application for liquidation of the bank. Besides these, there is no indication that the Reserve Bank has ever thought of any other measures to be taken for the proper guidance of these banks. In a report of the Government of India about the Reserve Bank, it was stated that the Reserve Bank should cherish the sound banks, should nurse the sick bank and should bury the dead bank. Cherishing a sound bank is not very difficult. Anybody can cherish and be proud of a good child. But, nursing a sick bank should be the main function of the Reserve Bank. Since the enactment of the Banking Companies Act in 1949, I think, there have been four amendments of that Act. And by all these amendments, powers were given to the Reserve Bank, not on the initiative of this House but on the asking of the Reserve Bank, to guide the banking industry properly and in a healthy manner if powers are not properly and timely used, why these were asked for by the Reserve Bank?

Mention has been made by several Members of some of these powers. In his first statement the Finance Minister has stated that the Reserve Bank sent instructions to the Palai Bank, but under the Banking Companies Act, the Reserve Bank can send directions.

[Shri A. C. Guha]

It is authorised to send directions to a bank or banks and the bank or banks as the case may be shall be obliged to comply with the directions. From the papers supplied to us from the other side, I find that on the 21st July this year some directions were sent to this bank by the Reserve Bank, but the statements of the Finance Minister do not mention whether any direction was sent to this bank by the Reserve Bank. Under section 35B of the Banking Companies Act, the Reserve Bank is authorised to send directions if after the inspection report it is not satisfied with the state of affairs of the bank, and the bank is obliged to comply with the directions. If it does not do so, there are provisions in the Act authorising the Reserve Bank to take penal measures against the bank and also against the officials and the directors concerned. I think it is a relevant thing for this House to know whether during all these years the Reserve Bank has ever issued any directions except on the 21st July, 1960. If directions were issued, how did the bank react to them. Did the bank refuse to comply with them? I do not think any bank can dare refuse to comply with the directions of the Reserve Bank. But if directions were not issued, why the Reserve Bank abstained from using its powers in time?

There are various other sections in the Banking Companies Act, and I do not like to mention them, but in 1959 section 10 of the Act was amended by which the Reserve Bank, in certain cases, can also remove the directors and others from the management of the bank. Under section 36, the Reserve Bank could have placed one or more of its officers in the management of the bank. I do not think the Reserve Bank has done anything like that. The statements of the Finance Minister only mention negative measures, refusal of licence and liquidation of the bank; other positive and constructive measures which the Reserve Bank could have taken under the Banking Companies Act were not

thought of, were not applied, at least there is no mention the two statements of those measures having ever been applied to this bank. The Finance Minister has been silent in this point.

Mention has been made about licensing banks. I do not know why banks should be allowed to continue for such a long period without getting a licence. I think the Reserve Bank should have taken measures to see that the banks comply with the requisite conditions to qualify themselves for the licence. The general public may at least know that this is a scheduled bank, this is not a scheduled bank. Now hardly anybody knows which bank has been licenced and which not. I am not sure if some of the top-ranking banks, the topmost five or six, have all got licences. If even some of the top-ranking banks have not got the licence yet, I think it is a serious matter, and I think the licensing provision of the Banking Companies Act should be taken into consideration seriously by the Reserve Bank and measures should be taken to see that the banks qualify themselves to get the licence.

I think this bank has made some advances against agricultural commodities. Agriculture in Kerala is highly commercialised; I do not know, but I expect this bank also must have given some advances against agricultural commodities. Those commodities might then be in the godowns of the Palai Central Bank. What will happen to those commodities? If those commodities also are to wait for the liquidation proceedings, or for the liquidator to dispose of them in his tardy and slow process, then, most of these commodities would be spoilt; that will mean not only loss for the depositors, but loss for the cultivators and loss for the country also. I hope the Finance Minister and the Reserve Bank will see that if any agricultural commodities are pledged with this

bank and they are now in the godowns of this bank, then they should be quickly disposed of after proper evaluation, and the money may be deposited to the credit of the bank.

Under sections 44 and 45, I think, of the Banking Companies Act, there are provisions for amalgamations and also for some scheme of arrangements. Of course, arrangements have to be made with the sanction or the permission of some court. Up to 1952, I know that a large number of banks were under the scheme of arrangement, and some of those banks have done quite well, and they have recouped their losses; of course, some have not been able to do that. This bank also might have done well, if the amalgamation or the arrangement scheme could have been attempted by the Reserve Bank earlier; then, it would have been much easier than now, and I think the entire liability of the bank would have been recovered through such a scheme. But even now it may not be impracticable.

Even now, I think the suggestion should be considered that either the State Bank or some other big commercial bank, but preferably the State Bank, should be asked to take over the assets and liabilities, and *pro rata* the State Bank should make payments. Without sending it into liquidation the State Bank may take over this bank with its assets and liabilities, and I am sure the depositors will agree to scale down their demands, in the light of the assets of the bank as will be realised after some time. If, instead of that, this bank or the Laxmi Bank is sent into liquidation, that will be the worst thing that could be done. We have some experience of banks being sent into liquidation in Bengal; they are in liquidation for the last nine or ten years. Even the amendment of the Banking Companies Act could not help much in that matter.

So, instead of sending these two banks into liquidation, the Finance Minister may personally take some interest in this matter, and see that the

State Bank takes over these two banks, and on the basis of the assets as would be realised after proper assessment, the depositors will surely agree to scale down their demands in respect of their deposits. I think practically every Member has made this suggestion, and the Reserve Bank and the Finance Minister should consider this suggestion. By doing so, they will be trying to help not only the depositors, but also the banking industry and the economy of the country as a whole. So, from the broader point of view also, this should be attempted.

Mr. Speaker: How long does the Finance Minister propose to take for his reply?

Shri Morarji Desai: About half an hour.

Mr. Speaker: Tomorrow, we have the discussion on the Draft Outline of the Third Five Year Plan, and that will go on till 5 p.m. This discussion ought not to interfere with the discussion on the Plan both tomorrow and the day after. Still, a number of hon. Members may want to take part in this debate.

Shri Radhelal Vyas (Ujjain): May I submit one thing with regard to this discussion? You have started a new convention now. In this case, you may just appoint a committee of some of the Members to meet and discuss with the Finance Minister, and if they can arrive at a workable solution, it may be better. This is a fit case to be examined like that. This may kindly be considered.

Mr. Speaker: The analogy in this case is not proper. Hon. Members have made their suggestions. There is no harm if hon. Members would request the Finance Minister to sit with them and discuss. There is the Central Hall, big enough, where they can go and sit with him and discuss the matter. But, for me to appoint a committee is not good.

There is one thing more. The hon. Minister wants half an hour to reply.

[Mr. Speaker]

I can call him straightaway tomorrow at 5 P.M., unless hon. Members are willing to sit for a longer period. But if Members are willing to sit, I am willing to sit till 7 P.M., allowing hon. Members to speak till 6.30 P.M. and calling the hon. Minister then. But I have noticed that what a few hon. Members spoke at first is being repeated and nothing new is being add-

ed to the debate. Therefore, we shall start at 5 P.M. and conclude at 6 P.M. unless a few more minutes have to be allowed.

18.31 hrs.

The Lok Sabha then adjourned till Eleven of the Clock on Tuesday, August 23, 1960/Bhadra 1, 1882 (Saka).
