

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:621  
ANSWERED ON:03.12.2004  
CLOSURE OF PRIVATE BANKS  
Adsul Shri Anandrao Vithoba

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Government are aware that a number of private sector banks have closed down due to their failure during the last three years;
- (b) if so, the details thereof and the number of banks out of them merged with other banks;
- (c) the loss suffered by the depositors due to failure of these banks and the reasons for failure; and
- (d) the steps taken/being taken by the Government to protect the investors' interest?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b) : During the last three years only four private sector banks including one Local Area Bank have failed. They have been amalgamated under section 45 of the Banking Regulation Act, 1949 as per details given below:-

Name of transferor bank	Name of transferee bank	Date of Amalgamation
Benaras State Bank Ltd.	Bank of Baroda	20.06.2002
Nedungadi Bank Ltd.	Punjab National Bank	01.02.2003
South Gujarat Local Area Bank	Bank of Baroda	25.06.2004
Global Trust Bank Ltd.	Oriental Bank of Commerce	14.08.2004

(c) In the cases of amalgamation of Nedungadi Bank Ltd., South Gujarat Local Area Bank Ltd. and the Global Trust Bank Ltd., the interest of depositors had been fully safeguarded. In the case of amalgamation of Benaras State bank Ltd. the liabilities of depositors were to be met on pro rata basis. The major reasons for failure of private sector banks have been due to weak capital structure, improper management, high level of NPAs and high cost of funds etc.

(d) In order to avoid the recurrence of such failures in future, RBI has taken several steps which, inter-alia, include introduction of capital adequacy standards on the lines of the Basel norms, prudential norms on asset classification, income recognition and provisioning; introduction of valuation norms and capital for market risk for investments; enhancing transparency and disclosure requirements for published accounts; aligning exposure / Capital market exposure norms; introduction of off-site monitoring system and strengthening of the supervisory framework;/ introduction of Risk Based Supervision for banks and introduction of a framework for prompt corrective action.