

[Mr. Speaker]

porations for the purpose of warehousing of agricultural produce and certain other Commodities and for matters connected therewith."

The motion was adopted.

†Shri S. K. Patil: I introduce the Bill.

12-30 hrs.

RESERVE BANK OF INDIA
(AMENDMENT) BILL—Contd

Mr. Speaker: The House will now take up further consideration of the following motion moved by Shri B. R. Bhagat on the 31st August, 1962, namely:—

"That the Bill further to amend the Reserve Bank of India Act, 1934 and to make certain consequential amendments in the State Bank of India Act, 1955, be taken into consideration."

Time allowed was two hours; 1 hour and 25 minutes have already been taken and there are 35 minutes left. Shri Abdul Wahid may kindly continue his speech.

Shri T. Abdul Wahid (Vellore): Sir, as I had said the other day, this is a very welcome measure. It enables the banks to give long-term credit to exporters. On this occasion when this Bill is intended to give more financial facilities to exporters I would make a few more suggestions.

I suggest that the quantum and conditions of financial accommodation to the export industries should be made very liberal. I also suggest that the margin on hypothecation of goods should be instructed to charge the more than 20 per cent. The banks should be instructed to charge the minimum rate of interest from export industries and export business houses so that the cost of export goods may

be kept as low as possible. I want that industries which purely cater for exports should be given as much of long-term finances as possible so that they can modernise and mechanise their industries in order to reduce the cost of production.

These measures will help most of the big export industries and export business houses. I suggest that some measures should be taken to help the small exporters also who are groaning under heavy interest charges which they have to pay to people from whom they borrow money or to whom they consign or sell their goods. I suggest that banks may be instructed to advance loans to small-scale exporters so that they can at least prosper.

These are my few suggestions.

The Deputy Minister in the Ministry of Finance (Shri B. R. Bhagat): Mr. Speaker, Sir, I am very grateful to hon. Members who participated in this debate and have given full support to this measure. Some of the hon. Members raised some points and I would like to reply to them.

Shri Kar said that the Governor and the Deputy Governor of the Reserve Bank should be wholetime officers as provided in the present Act governing the Reserve Bank of India. He objects to the amendment that we are seeking, namely, that they can undertake some functions which are in the public interest and which may not be connected with the Reserve Bank at the request of Central and State Governments. He said that during the decade the functions of the Governor and the Deputy Governor have increased and have become diversified. They have not remained standstill. I agree with him entirely, but the point is that the present provision is absolutely rigid. There may be some functions like an important enquiry or an important work which the Central or the State Government may request them to undertake but because legally it is not a part of their

†Introduced with the recommendation

of the President.

functions they cannot undertake it, although it may be very important and they may be the best persons to do it. In such an eventuality the present provision comes in the way. That is why it was thought wise that the provision should be made flexible. It is merely an enabling provision. It does not mean that the Governor and the Deputy Governor would be doing odd jobs every time. That is not the intention.

Shri Tyagi (Dehra Dun): Flexibility is all right but it should not be elastic.

Shri B. R. Bhagat: No, the intention is not to be elastic. But, as I said, there may be certain important enquiries or commissions connected with economic and other matters which it may be thought wise and in the public interest to entrust to them. In that case the Central or State Government may request them and in such an eventuality they might undertake it. Such an eventuality cannot be an everyday matter. It can be a very exceptional matter which may be very important. That is the idea. It is at best an enabling measure, and is intended to provide for such exceptional or extraordinary situations.

Then, my hon. friend said something about the sterling bills. It is obvious that if they are encashed before maturity, we lose, and in that, we lose a part of the foreign exchange. It is in the interests of the whole country including Government that all foreign exchange should be conserved. But the position is that the present Act or the amending Bill does not provide either that the sterling or foreign bills should be discounted or that they should be held to maturity. This is a matter which has to be left to the discretion of the individual banks, and it cannot be dealt with by law. In practice, the more important banks hold the bills to maturity, and the question of discounting them or of any consequent loss in foreign exchange does not, therefore, arise. That is the factual position. But the question

whether any directions should be given to the banks suggesting that the bills as a general rule should be held to maturity instead of being discounted at a loss, any assistance which a bank may require being obtained, if necessary, in the form of loans from the Reserve Bank, will be examined after this Bill is passed. We are at it, and we are considering what can be done in such a situation.

Then, he raised another point about the cashier contractor system in the Reserve Bank. This system in the Reserve Bank does not work in the same way in which it does in a commercial bank. At certain offices of the Reserve Bank of India, paid treasurers who are officers of the bank have already been appointed. They are officers of the bank, and they have been appointed on contracts as cashier contractors. At other offices, treasurers who are not themselves the employees of the Reserve Bank of India but who have furnished security in the form of cash or Government securities are responsible for the working of these cash departments. Again, even where a cashier who is not himself the bank's employee has been appointed and made responsible for the cash department's working, there are other officers or workmen working under him, and they are employees of the bank and they are posted to his department on a full-time basis.

The only difference, as far as the non-official cashier as distinguished from the paid officer-treasurers of the Reserve Bank of India are concerned, is that the nature of the security obtained from the non-official cashier is greater, and such cashiers are responsible under the contracts for making good immediately to the bank any shortage which may be discovered, and in view of this responsibility, they have got a right to be consulted about the persons who are posted in their department, even though they are the employees of the bank, because they have to be necessarily accepted by the cashiers because they take the responsibility for the cash. Then, the

[Shri B. R. Bhagat]

cashiers of the Reserve Bank who are not themselves employees of the bank are not new people or strangers; they have dealt with the bank for a number of years, and the conditions of their service and remuneration are regulated by contracts.

As the system has been working very well and as the interests of the workmen employed are not also affected to any extent, it is not advisable to terminate this system immediately. As and when the non-official treasurers retire, whole-time paid employees are, however, being posted as treasurers at the various offices. So, that system will gradually terminate.

Shri Prabhat Kar (Hooghly): As the hon. Minister has said, it is a fact that in all the branches of the Reserve Bank of India this system is not in existence, but in some branches, it is there. Am I to take it that from the next day after the contractor retires, the branch will be run in the same way as the other branches by the direct officers of the bank?

Shri B. R. Bhagat: When they retire, the new arrangement will come into effect.

Shri Prabhat Kar: That is to say, the same arrangement as in the other branches, where the officers of the bank run the cash department, will come into effect in those branches also?

Shri B. R. Bhagat: It is on a contract basis. As the contract expires, the new arrangement will come into effect.

Shri Prabhat Kar: Does the hon. Minister mean to say that the contract will not be renewed?

Shri B. R. Bhagat: That is our policy. Our policy is that as and when the contracts expire, the department itself should manage it.

Shri Morarka raised one or two points. He asked why the reserves should be raised to 15 per cent or

more although in the past these reserves which were 2 and 5 per cent were not raised at all. That is not true. In March 1960, special deposits were required from banks. Originally these were 25 per cent of the additional deposits and at a later stage, as from May 1960, 50 per cent of such additions to deposits were required. They were discontinued only in January 1961 after the circumstances in which they were originally asked for had changed. Therefore, even in the past special deposits were asked from banks in a special inflationary situation. The Reserve Bank had that power and it has utilised it to siphon off any inflationary pressure in the economy.

He asked about medium credits, whether they will be intended for capital goods or raw materials or consumer goods have also been included therein. It is the intention of Government to restrict it only to exports of engineering and capital goods. Hon. Members would be aware that we appointed a committee to go into this. It recently studied this problem and recommended that these special facilities should not be granted for the export of consumer goods or other exports which can be paid for within a period of a few months. We have accepted this very good recommendation and we have restricted this facility to capital goods or engineering goods export.

Then **Shri Morarka** doubted the validity of having a uniform rate of 3 per cent reserve of total liabilities instead of 2 per cent time liabilities and 5 per cent demand liabilities. He asked why it was being done. Alternatively he suggested raising the reserve in regard to time liabilities to 5 per cent if it was desired to have uniformity. If it was thought that the liquidity ratio would go down, he suggested raising the time liability deposit to 3 or whatever it is, but he said that the total of the liabilities should not be 3 per cent. This is a very technical and ticklish point. In

arriving at the figure of 3 per cent, all sorts of consultations and considerations have prevailed.

As it is, the one important phenomenon which has occurred in the banking world is that time deposits are on the increase. He wanted the figure, in what proportion they have increased. Actually, the ratio of time to demand liabilities, ten years ago was 1:3. It has now become 3:2. In ten years, the proportion has increased enormously. Obviously, in a situation like this, if we maintain the figure of 2 per cent and 5 per cent, the liquidity of the banks is very much affected. Another alternative was to raise it to 3 or 4 or to have some sort of agreement. It is an over-all agreement that has now been arrived at, because if you see the figure of 2 per cent and 5 per cent, if the present liquidity ratio is worked out, it is something more than 3 per cent. In arriving at the figure of 3 per cent, the liquidity is somewhat less than what it is under 2 and 5 per cent. So what we have done is this. There is an overall increase of liquidity ratio from 20 to 25. Then 3 has been added, making it 28. The various banks have been consulted, and it is part of an over-all scheme. Therefore, I would request the hon. Member to appreciate this point and accept it as part of an over-all scheme. The idea is to keep the liquidity of the banks in tact, and make it more refined in view of the new changes in the structure of banking.

My hon. friend Shri Saraf has tabled an amendment which will be taken up in the second reading stage, in which he wants the word "may" to be substituted by the word "shall" in respect of the payment of interest on any reserves in excess of the statutory reserves, but he fails to appreciate that there are three points involved in this; firstly, that no interest will be paid on 3 per cent, that is agreed; secondly, interest shall be paid on any normal increase if the increased requirements are satisfied; and thirdly, interest may be paid as a

matter of grace in the increased balance even though the increased requirements are not fully satisfied. Legal provisions have got to be flexible, they cannot be rigid. That is why the word "may" has been put in and not "shall".

Then, as regards the period for paying the penalty, he said it should be 21 and not 14 days. There also, I think he is not correct. He says transfers may take place, and it may take time to reach the head office, but he fails to realise that most, if not all the banks, have dealings and have accounts with the regional office of the Reserve Bank. It is not as if a Bank in Delhi will have day to day transactions only with Reserve Bank, Bombay. They will rather deal with the regional office of the Reserve Bank. Similarly with any bank in Kanpur or Calcutta. So, they can pay the penalty at the regional office of the Reserve Bank, and no long-distance transfers are needed. The period of 14 days is quite sufficient and warrants no increase.

Mr. Speaker: The question is:

"That the Bill further to amend the Reserve Bank of India Act, 1934 and to make certain consequential amendments in the State Bank of India Act, 1955, be taken into consideration."

The motion was adopted.

Mr. Speaker: I had some notice of amendments, but that hon. Member is absent. Therefore, all clauses can be put together.

The question is:

"That clauses 1 to 7, the Enacting Formula and the Title stand part of the Bill".

The motion was adopted.

Clauses 1 to 7, the Enacting Formula and the Title were added to the Bill?

Shri B. R. Bhagat: I beg to move:

"That the Bill be passed."

Mr. Speaker: The question is:

"That the Bill be passed."

The motion was adopted.

12.49 hrs.

BANKING COMPANIES (AMENDMENT) BILL

The Deputy Minister in the Ministry of Finance (Shri B. R. Bhagat):
I beg to move:

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

The house will remember that this Act was amended in March, 1961 in order to confer on the Central Government certain additional powers in relation to the reconstruction or amalgamation of banking companies. In the interval which has passed since then, we have used these powers judiciously, and I may perhaps add, on the whole with restraint. We have reconstructed the affairs of a number of sub-standard banks, amalgamating them with other and sounder and better-managed institutions. We have also brought into force, with effect from the beginning of the current calendar year, a scheme for the insurance of deposits in commercial banks up to a limit of Rs. 1500 in the case of each depositor. This scheme has been very well received.

Partly because of the action which has been taken by the Government, but mainly because the commercial banking system in our country has, on the whole, been sound, the decline in the deposits and working funds of the commercial banks which followed the failure of the Palai Central Bank in August, 1960 has proved to be temporary and short-lived. Commercial bank deposits have been increasing steadily since the end of 1960. Judged by certain other standards, such as the liquidity of the banks, the level of their advances and the provision towards reserves, the banking system today is as healthy and satisfactory as it has been at any other time.

We have considered it desirable, nevertheless, to review the position once again, with particular reference to the provisions of the law regarding the minimum paid-up capital, the statutory reserves, and the cash and other liquid balances, which banks are required to maintain. The relevant sections of the Banking Companies Act relating to these matters were drafted in 1948, when the impact of development planning on our banking system could not have been foreseen or appreciated. The level of bank deposits has increased by more than Rs. 1200 crores since then; and, as there is every reason to believe that this increase will be sustained and appreciable in future years, it seems to be necessary that the standards which were laid down about fourteen years ago, and which may not be wholly appropriate for the current phase of development and growth, should be suitably revised.

The first proposal which has been made in this connection and which clause 2 of the Bill seeks to implement is that both the exchange and the Indian banks should be required to transfer a portion of their profits towards statutory reserves, whether or not the reserves are at a level at which they are already equal to the paid-up capital. The exemption which is now available, according to the provisions of Section 17 of the Banking Companies Act, in the case of banks which have built up their reserves to the level of their paid-up capital, was granted at a time when the ratio of paid-up capital to the deposits was, generally speaking, much higher than it is today. This ratio has however, fallen very considerably since then; and, any standard or criterion which seeks to relate the reserves to the level of the paid-up capital will no longer be adequate and will also be unsatisfactory in a period of rapid growth in deposits and working funds. It is proposed, therefore, that appropriations towards reserves should be made indefinitely in the future, and until such time as an ex-