Weekly Notes

Deposit Insurance

ONE line of attack on the problem of bank failures which has been under consideration for some time is the introduction of a scheme of deposit insurance, which would protect depositors against the consequences of the failure of a bank. Such protection is no substitute for measures to prevent bank failures, but nevertheless it is necessary hecause there can never be any absolute guarantee against bank failures, which may be brought about by errors of judgement no less than dishonesty. No amount of supervision by the Reserve Bank can ensure the stability of a bank, given the character of the banking business. Loss of confidence by depositor, whether justified or not, can have disastrous consequences unless there is some assurance that whatever happens the interests of the depositor will be protected. Once a deposit insurance scheme is in operation, there will be no rush to withdraw deposits at the slightest rumour of difficulties facing a particular bank. That is the justification for the introduction of the deposit insurance scheme in this country.

The Bill to set up a Deposit In surance Corporation has now been taken up for consideration by the. Lok Sabha. This provides for the setting up of the Deposit Insurance Corporation as a wholly-owned sub sidiary of the Reserve Bank of India with the Governor of the Reserve Bank as the Chairman. The Coporation will insure the deposits of all the banks in the country including the State Bank and its subsidiaries. All deposits upto a maximum of Rs 1.500 per depositor will be insured for the present. The Union Deputy Finance Minister, Shri B K Bhagat. revealed that 75 per cent of the 6 million deposit accounts would he covered by the scheme, presumably in full, and that the value o the deposits covered would be about 20 per cent of the total deposits in the country. The Bill provides for the raising of the amount insure per depositor above the present figure of Rs 1,500 by a decision of the Corporation in consultation with the Government of India.

New Strength for Banks

AS the Indian scheme is modelled on the scheme of deposit insurance that prevails in the United Stater, it is interesting to note the U 5 experience in this respect. The original amount insured in the United States per depositor was $1,000 This was raised in stages to $10,000, which is the present amount insured. The U S experience of the working of the deposit insurance scheme was very favourable. It remains to he seen whether the U S experience is repeated in this country- If the actual experience of the working of the scheme is favourable, we may expect to see the figure of deposits insured per depositor increase steadily over a period of time.

The Bill does not specify the rate of premium to be charged by the Corporation, but leaves this to be fixed by the Corporation subject to a maximum of 15 nP per Rs 100. Shri Bhagat revealed however, that it is the Government's intention that in the first instance the premium should he fixed at 5 nP per Rs 100, which could then be adjusted from time to time in the light of the experience of the Corporation's working. Utiless, this experience is particularly unfavourable, this rate is unlikely to be raised. At the same time, if the experience is favourable, the Corporation is likely to try and increase the amount of deposits per depositor which is covered. If the premium is initially fixed at 5 nP, therefore, it is unlikely to be changed for many years.

The Bill was generally welcomed in the Lok Sabha, as it deserved to be. Shri Bhagat pointed out that 96 per cent of the deposits of commercial banks in India were with institutions which inspired confidence. It was the other 4 per cen which really needed the insurance. It would be misleading, however, to imagine that the institutions that were sound were thus being made to pay for cover for the unsound ones. The value of the scheme lie in the fact that by maintaining the confidence of the public in the banking system it assists the sound banks as much as the unsound ones A wave of fear emanating from the failure of one or two unsound banks could cause tremendous damage also to those banks which would otherwise be considered sound. The Deposit Insurance Corporation Bill is, therefore, to be welcomed as a measure strengthening the banking system as a whole.

Second Telephone Factory

THE announcement by the Union Minister for Transport and Communications that the Government has decided to set up a second telephone factory must have surprised those who have flipped through the pages of the Third Plan. Neither in the section on 'Posts and Telegraphs' nor in the list of industrial projects to be ui.-dertaken by the Central Government is there any mention of a new telephone factory. The additional demand for telephone instruments i? intended to be met by the expansion of the Indian Telephone Industrie-.. Bangalore, for wluch there is an allocation of Rs 2.8 crores. The total cost of the programmes of the Posts and Telegraphs Department in the Third Plan, including that of the proposed teleprinter factory. is estimated at Rs 79 crores, of which Rs 41 crores are accounted for by expansion of telephone services. The Plan provides for about 2 lakh new direct connections and for the eonversion *of* 50,000 manual lines into automatic lines. Automatic exchanges are to be installed in some 45 towns while existing exchanges are to be expanded in another 32. The programme of trunk telephones, which is expected to cost Rs 6 crores. provides for the installation of 10 automatic trunk exchanges and a number of additional manual trunk exchanges and about 2,000 public call offices. Clearly, therefore, if a second telephone factory is to be established now the allocation for 'Posts and Telegraphs' will have to be increased. Here it must be pointed out that the cost of even the programmes now included in the Plan is Rs 79 crores, as against the actual financial allocation of only Rs 68 crores.

To say this is not, of course, to sit in judgment over the proposed telephone factory, In fact, looking to the likely increase in demand for

telephone services, it is possible to argue for a considerably bigger programme than has been included in the Plan. According to estimates made by the Department of Posts and Telegraphs the unsatisfied demand for telephone connections at the end of the Second Plan was of the order of 2 lakh connections. Taking into account the estimated additional demand for 5 lakh connections during the Third Plan, the Department had estimated that the Plan would have to provide 7 lakh new telephones in all With a programme of this magnitude in mind, the Department had asked for an allocation of Rs 175 crores in the Plan. Set against this the actual allotment of Rs 68 crores is ridiculously small, as is the target of 2 lakh new telephone connections which, 'unless the Posts and Telegraphs Department's estimates are totally wrong, would no more than satisfy the backlog of demand at the beginning of the Plan and will leave the demand for some 5 lakh new telephones unsatisfied at the end of the Plan. It is difficult to believe that the target for telephones was ever taken seriously by the Government, Soon such instances are bound to multiply and the by now-familiar spectacle of some programme.; bulging at the seams arid others, not strictly on merit, being axed will begin to unfold. And then, to add insult to injury, some Minister will come along and call the whole thing "flexible planning'!

Response to State Loans

WITH the total subscriptions for the thirteen State loans amounting *to* Rs 91,12 crores against the issued amount of Rs 80 crores, the borrowing programme of the States for 1961-62 can be said to have been remarkably successful. The response to the different State loans has, however, been varied and though each of the States reserves the right to retain upto ten per cent of excess subscriptions received, the total retention will probably amount to Rs 84.96 crores and not Rs 83 crores. This is because while the. loans of some States have been overwhelmingly oversubscribed, those of others have not been favoured by any significant oversubscription. The subscription to the Orissa loan amounted to Rs 7.26 crores against Rs 5 crores issued, to the Uttar Pradesh loan to Rs 9.18 crores against Rs 6 crores issued and to the Andhra Pradesh loan to Rs 12.13 crores against Rs 10 crores issued, Yet Orissa will be able to retain only Rs 5.50 crores, Uttar Pradesh only Rs 6.60 crores and Andhra Pradesh only Rs 11.00 crores. In contrast, Gujarat, Kerala and Madhya Pradesh have each received only Rs 4 lakhs more than the issued amounts against Rs 60 lakhs, Rs 40 lakhs and Rs 50 lakhs respectively that they would have been able to retain if the response to these loans had been better,

Five of the States had loans maturing for repayment during the current year and had offered eonversion facilities for these loans. A feature of the final results to which attention needs to be drawn is the relatively poor response to the conversion offer in spite of the overwhelming cash response to the new issues. Of Rs 12,96 crores maturing during the year, holders of only Rs 4.95 crores worth of securities availed themselves of the conversion offer. Encashment of maturing securities during the year will thus amount to a little over Rs 8 crores If the maximum amount of excess subscription that can be retained by the States is in fact retained by each State, the total retention will amount to Rs 84,96 crores as stated above and the net borrowing during the year will amount to Rs 72 crores. The States have thus made a good beginning in the direction of achieving their Third Plan target of Rs 325 crores of net borrowing, which works out at Rs 65 crores per annum on average.

The success of the State loans was no doubt assured by the somewhat more favourable terms on which they were issued. Conditions in the money market have been remarkably easy in contrast to the *extreme* pressure on funds that was felt during the preceding busy seasor. Though it is widely felt that the money market will be even tighter during the next busy season than it was during the last conditions for the present are such that the banks have to seek out avenues for the investment of their funds. In spite of these facts banks do not appear to have responded very significantly to the second Central loan that was issued during the year. Exclusive of the State Banks, the investments of the commercial banks actually went down during the relevant week showing that encashment of maturing securities was greater than subscription to new securities on the part of these banks. Presumably, they anticipated the more favourable terms of the State loans. It is not unlikely, therefore, that their response to the State loans was quite large. The withdrawal of deposits by other subscribers to the State loans has also added to the difficulties of the banks, which are reflected in a rise in the inrer-bank call money rate to 4 per cent on Thursday. This situation may not last; on the other hand, it may well signal the beginning; of the pressures associated with the commencement of the next busy season.

Jute Polemics

SIR John Brown, in his statement at the 136th Annual General Meeting of the Howrah Mills Company Ltd (see p 1411), sheds much light on the problems of the jute industry which recently has been the centre of controversy. In view of the criticism which has been levelled against the jute mills and the Indian Jute Mills Association over the restriction of production by the mills in the last few months, it is natural that Sir John should concentrate on presenting the mills' case. The last two years have been far from normal for the jute industry, mainly because of two successive short crops. That the supply of jute, including imports from Pakistan, has been inadequate to meet the demand is reflected in the sharp rise in the price of raw jute. The index of wholesale price of jute rose from 118 in June 1959 to 187 in June I960 and reached a peak of 280 in February this year. After February it declined somewhat but continued to be substantially higher than the level two years ago.

The short supply of raw jute led to serious depletion of the stocks held by the jute mills and, as Sir John points out. mills' stocks were generally reduced to the equivalent of barely four weeks' consumption by the end of June. To meet the shortage the I J M A proposed blocjv closure of all jute mills for a week each in June and July. Both the Central Government and the Government of West Bental recognised the gravity of the situation facing the mills and permitted the block closures. By the end of July, however, the new crop started to reach the Calcutta market. It way in the con-