IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 28TH DAY OF APRIL, 2026

PRESENT

THE HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE

AND

THE HON'BLE MR. JUSTICE C.M. POONACHA

WRIT APPEAL NO. 1805 OF 2025 (GM-RES)

BETWEEN:

1. SRI G.K. GURURAJRAO
   AGED 68 YEARS, SECRETARY
   SRI GURU RAGHAVENDRA SAHAKARA BANK
   THEVANIDARARA SANGHA
   (REGD. UNDER COOPERATIVE SOCIETIES ACT)
   87, R.K. SWAMJI ROAD, 1ST BLOCK
   THYAGARAJANAGAR
   BENGALURU - 560 028

…APPELLANT

(BY SRI S.P. SHANKAR, SENIOR ADVOCATE FOR
SRI MANJUNATH NAYAK, ADVOCATE)

AND:

1. UNION OF INDIA
   REP. BY ITS SECRETARY
   FINANCE DEPARTMENT
   FOURTH LEVEL, A-WING
   DELHI SECRETARIAT
   I.P. ESTATE, DELHI - 110 002

2. RESERVE BANK OF INDIA
   REPRESENTED BY
   THE REGIONAL DIRECTOR
   PB No.5467, NRUPATUNGA ROAD
   BENGALURU - 560 001

3. DEPOSIT INSURANCE CREDIT
GUARANTEE CORPORATION
REP. BY ITS GENERAL MANAGER
2ND FLOOR, OPP. MUMBAI CENTRAL
RAILWAY STATION BYCULLA
MUMBAI - 400 008

4. SRI GURU RAGHAVENDRA
SAHAKARA BANK NIYAMITHA
NETKALLAPPA CIRCLE
BASAVANAGUDI
BENGALURU - 560 004
REP. BY ITS ADMINISTRATOR

5. STATE OF KARNATAKA
REP. BY REGISTRAR OF
CO-OPERATIVE SOCIETIES
ALI ASKER ROAD
BANGALORE

…RESPONDENTS

(BY SMT. NAYANA TARA B.G., CGC FOR R-1;
SRI MANIK B.T., ADVOCATE FOR R-2;
SRI DHYAN CHINNAPPA, SENIOR ADVOCATE FOR
SRI PRADEEP S. SAWKAR, ADVOCATE FOR R-3 &
SRI K.S. HARISH, GOVERNMENT ADVOCATE FOR R-5)

THIS WRIT APPEAL IS FILED UNDER SECTION 4 OF THE KARNATAKA HIGH COURT ACT PRAYING TO CALL FOR RECORDS IN W.P.NO.2991/2023 ON THE FILE OF THIS HON'BLE COURT AND SET ASIDE THE ORDER DATED 01/09/2025 PASSED THEREIN AND BE FURTHER PLEASE TO ALLOW THE WRIT PETITION AS PRAYED FOR QUASHING THE ORDER THROUGH LETTER DATED 03/01/2022 ISSUED BY DICGC SEEKING REFUND OF THE AMOUNT OF INSURANCE PAID TO 40568 ACCOUNT HOLDERS FROM 8000 ACCOUNT HOLDERS ONLY AND TO HOLD THAT SECTIONS 18A(5), 21(3)(4) AND SECTION 21 OF DICGC ACT 1961, ARE VOID AND UNCONSTITUTIONAL AND TO GRANT SUCH OTHER RELIEF INCLUDING COSTS OF THE WRIT AND WRIT APPEAL PROCEEDINGS.

THIS WRIT APPEAL HAVING BEEN HEARD AND RESERVED FOR JUDGMENT, COMING ON FOR PRONOUNCEMENT THIS DAY, JUDGMENT WAS PRONOUNCED AS UNDER:

CORAM: HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE
and
HON'BLE MR. JUSTICE C.M. POONACHA

C.A.V. JUDGMENT

(PER: HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE)

INTRODUCTION

1. The appellant has filed the present appeal impugning the order dated 01.09.2025 (hereinafter '**the impugned order**') passed by the learned Single Judge of this Court rejecting Writ Petition No.2991 of 2023 (GM-RES), captioned *G.K. Gururaja Rao v. Union of India and Others*. The appellant had filed the said writ petition under Article 226 of the Constitution of India, *inter alia* impugning Section 18A(5) and Section 21(3) and (4) of the Deposit Insurance and Credit Guarantee Corporation Act, 1961 (hereinafter referred to as '**the Act**'), to the extent that those provisions entitle the respondent No.3. (hereinafter referred to as '**the Corporation**' for short) to the reimbursement of the amount in aid paid to depositors, as being violative of Articles 14, 19, 21, 38, 43-B and 300-A of the Constitution of India.

2. The appellant is aggrieved by the Corporation securing reimbursement of the amount paid by it to the depositors of respondent No. 4, Sri Guru Raghavendra Sahakara Bank Niyamitha (hereinafter referred to as '**the Bank**' in short), in priority to the other amounts due to the depositors. The appellant contends that on the principle of subrogation the Corporation cannot be accorded a higher priority to recover the amounts paid to the depositors than the priority of payment of the said dues to the said depositors.

3. The appellant is the Secretary of Sri Guru Raghavendra Sahakara Bank (Ni) Tevanidarara Sangha (hereinafter referred to as '**the Sangha**' or '**the appellant**'), a society registered under the Karnataka Societies Registration Act, 1960, on 21.07.2020. The Sangha claims to have been formed to protect the interests of its members, who are depositors, shareholders, and account holders of the Bank.

4. It is relevant to note that prior to the filing of the writ petition from which the present appeal arises, the appellant had preferred a public interest litigation (**PIL**), Writ Petition No.25989 of 2022 (CS-RES), in this Court, seeking to quash the communication dated 03.01.2022 issued by the Corporation to the Bank demanding repayment of the insurance amounts disbursed by it. By an order

dated 03.01.2023, the Division Bench permitted the appellant to withdraw the said writ petition, reserving liberty to file a fresh petition only to the extent of challenging the constitutional validity of Section 21 of the Act. The Division Bench, however, made it clear that such liberty shall not be treated as permission to challenge the notification dated 03.01.2022 afresh.

5. The present appeal concerns a dispute arising from the demand made by the Corporation for repayment of insurance amounts paid to the depositors of the Bank (hereinafter **the Depositors**). The Bank is a co-operative bank, and the Reserve Bank of India (**RBI**) has frozen its banking activities under Section 35A read with Section 56 of the Banking Regulation Act, 1949, with effect from 10.01.2020, consequent upon the detection of serious financial irregularities. The appellant impugns Sections 18A(5), 21(3), and 21(4) of the Act as introduced by the Deposit Insurance and Credit Guarantee Corporation (Amendment) Act, 2021 (Hereinafter **the Amendment Act**), which enable the Corporation to reimburse the insurance amounts paid to the Depositors prior to the Bank's liquidation.

6. Before considering the reliefs sought by the appellant in the writ petition and the challenge raised in the present appeal, it is

relevant to set out the factual context in which the controversy involved in the present appeal arises.

PREFATORY FACTS

7. The State of Karnataka enacted the Karnataka Co-operative Societies Act, 1959 (hereinafter referred to as '**the KCS Act**'), consolidating and codifying the law relating to co-operative societies. Sections 72A and 72B of the KCS Act, were introduced by Act 39 of 1975. In terms of Section 72A, the Registrar is required to pass an order winding up a co-operative bank, if so required by the RBI in circumstances as set out under Section 13D of the Act, co-operative banks in the State of Karnataka were brought within the ambit of the Act. Section 72B of the KCS Act provides that in case of winding up or dissolution of a co-operative bank, the liquidator would reimburse the Corporation, to the extent and in the manner provided in Section 21 of the Act.

8. The Bank, Sri Guru Raghavendra Sahakara Bank Niyamitha, was established in the year 1998 as a co-operative society under the KCS Act. The RBI granted a licence to the Bank under the Banking Regulation Act, 1949, to carry on banking business. The Bank commenced accepting public deposits and, over the years,

built a substantial deposit base. The term and savings deposit accounts of the Depositors with the Bank were insured with the Corporation. It is stated that most of the Depositors are senior citizens, retired officers and employees of various government and non-government organizations, who were drawn to the Bank due to the higher interest rates offered on savings accounts and fixed deposits.

9. Between the years 2008 and 2019, the RBI conducted statutory inspections of the Bank under Section 35 of the Banking Regulation Act, 1949, with reference to the financial position of the Bank as on the end of the financial years 2009, 2011, 2013, 2015 and 2017, respectively. It is stated that the said inspection reports, including that of the year 2019, did not disclose any fraud.

10. In particular, the inspection report with reference to the Bank's financial position as on 31.03.2015 recorded, inter alia, the following:

> (i) paid-up share capital had increased from Rs.1017.18 lakhs as on 31.03.2013 to Rs.1628.47 lakhs as on 31.03.2015;
>
> (ii) Capital to Risk-weighted Assets Ratio (CRAR) was 10.31% as on 31.03.2013 and had increased to 13.4% as on 31.03.2015;

> (iii) there were no defaults in the maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) during the period of review;
>
> (iv) Gross NPAs stood at 0.7% of gross loans and advances and Net NPAs stood at 0.2% of net advances; and
>
> (v) there were no cases of fraud, misappropriation of funds, embezzlement or defalcation of funds detected or reported during the period covered by the inspection, i.e., up to 31.03.2015.

11. On 01.02.2016, a complaint was filed by a whistle blower before the RBI, alleging that the Bank was involved in certain unethical practices. Since this was not supported by any evidence or documents, it was rejected by the RBI without conducting any independent inquiry.

12. The inspection report with reference to the Bank's financial position as on 31.03.2017 inter alia recorded that:

> (i) there was no incidence of fraud reported or detected in the Bank during the period under review;
>
> (ii) the inspection did not come across any instance of the Bank misleading the public through advertisements; and
>
> (iii) there was no misappropriation of funds, embezzlement or defalcation of funds detected or reported during the reference period.

Subsequently, in the year 2017, after the inspection, the RBI issued licences to the Bank to open seven additional branches. During this period, the Bank claimed to its credit several awards, including the FCBA 2016 Award for Best NPA Management by NAFCUB, New Delhi, and the FCBA 2017 Special Jury Award for overall performance by NCBS, Jaipur.

13. It is relevant to note that the Bank published, in its Annual Report for each year from 2013-14 to 2018-19, that its Gross NPA ratio was: 0.76% for 2013-14; 0.73% for 2014-15; 0.53% for 2015-16; 0.59% for 2016-17; 0.45% for 2017-18; and 0.50% for 2018-19. The audited balance sheet of the Bank as on 31.03.2019 declared a net profit of ₹35.73 crores, with the Bank declaring a dividend of 16% after paying income tax of ₹19.10 crores. The Bank claimed a CRAR of 15.22% as on 31.03.2019, well above the RBI-mandated minimum of 9%.

14. On 31.10.2019, the former Chief Executive Officer of the Bank, one Sri M. Vasudeva Maiya, addressed a letter to the inspecting officials of the RBI, disclosing that since the years 2012-2013, NPA adjustments had been carried out by creating fresh loans in the names of certain parties, some with existing security,

some with new security, and in some cases, new accounts were created in one party's name and the amounts were transferred to others. The said letter further disclosed that advance against deposit accounts had been created without securities in order to adjust NPA accounts. The letter also disclosed that the entire process was known only to the President and Vice-President of the Bank. The details of 435 accounts amounting to ₹846.30 crores (₹443.30 crores principal and ₹402.99 crores interest) were also enclosed with the said letter. It is stated that the said Bank CEO, Sri M. Vasudeva Maiya committed suicide soon after the Administrator was appointed in May 2020.

15. On 04.11.2019, the then President of the Bank, Dr. K. Ramakrishna, submitted a letter to the inspecting staff of the RBI, admitting that the Bank did not have records, files or documents in respect of loans of an aggregate amount of ₹1544.43 crores spread across 2835 accounts (comprising 424 overdraft loan accounts amounting to ₹327.99 crores, 843 mortgage loan accounts amounting to ₹546.90 crores, 1514 advance-against-deposit accounts amounting to ₹652.80 crores, and 54 housing loan accounts amounting to ₹16.74 crores). The said letter further stated that the matter was known only to the President, Vice-President and

the former CEO, and that no other members of the Board of Directors were aware of these transactions.

16. On 09.01.2020, the RBI convened a meeting of all members of the Board of Directors of the Bank. It is stated in the record that at the said meeting, the then President, K. Ramakrishna, and the Chief Advisor, the late M. Vasudeva Maiya, reiterated that they alone were responsible for the entirety of the fraudulent and unethical activities of the Bank, and that no other Director had any role in the acts leading to the failure of the Bank. It is pertinent to note that the RBI, in its report dated 06.01.2020, also recorded observations to the same effect.

17. Consequent upon these disclosures, the RBI conducted a further inspection and noticed that the aforesaid irregularities extended not merely to ₹846.30 crores as initially disclosed, but to ₹1544 crores. It is stated that on 06.01.2020, the RBI formed the opinion that the Bank did not have records for 1602 accounts and that the Bank's projected growth was based on fictitious accounts. The inspection of the Bank revealed serious irregularities including creation of artificial deposits and dummy accounts/entries, diversion of funds to certain beneficiaries, and ever greening of accounts in violation of Income Recognition and Asset Classification (IRAC)

norms. The consequential additional provisioning requirements and losses resulted in a negative Capital to Risk-weighted Assets Ratio (CRAR) and negative net worth.

18. On 02.01.2020, the RBI issued a directive in exercise of its powers under sub-section (1) of Section 35A of the Banking Regulation Act, 1949 read with Section 56 thereof – All Inclusive Directions (AID) – effective from the close of business on 10.01.2020. The said directions, inter alia, provided that:

> "(a) the Bank shall not, without prior approval of RBI in writing, grant or renew any loans and advances, make any investment, incur any liability including borrowal of funds and acceptance of fresh deposits, disburse or agree to disburse any payment whether in discharge of its liabilities and obligations or otherwise, enter into any compromise or arrangement, and sell, transfer or otherwise dispose of any of its properties or assets;
>
> (b) a sum not exceeding Rs.35,000/- (Rupees Thirty Five Thousand only) of the total balance in every savings bank or current account or any other deposit account may be allowed to be withdrawn; and
>
> (c) the directions shall remain in force for a period of six months from the close of business on 10.01.2020 and are subject to review."

19. The aforesaid directions (AID) were extended from time to time. On 24.04.2020, the RBI, by a confidential communication

bearing No.DOR.AID/RSB-7/12.23.283/2019-20 dated 24.04.2020, addressed to the Registrar of Co-operative Societies, State of Karnataka, sought the supersession of the Board of Directors of the Bank and the appointment of an Administrator therefor, under Section 30(6) of the KCS Act, 1959, stating that the RBI was satisfied that the same was necessary to prevent the affairs of the Bank being conducted in a manner detrimental to the interest of Depositors and for securing proper management of the Bank.

20. On 18.05.2020, in pursuance of the aforesaid communication, the Board of Directors of the Bank was suspended by the State Government, and an Administrator, one Sri K. Diwakar, was appointed to be in charge of the affairs of the Bank for a period of six months. Upon the expiry of his term, the Registrar of Co-operative Societies appointed the present Administrator. It is relevant to note that during the period following the imposition of AID, the RBI cancelled the licences of the seven branches opened in 2017.

21. The financial status of the Bank as disclosed indicates that as on 10.01.2020 (the date of imposition of AID), the Bank's deposits stood at ₹2403.21 crores, loans and advances (including secured and unsecured) at ₹1567.5 crores, and cash on hand, bank

balances including investments (SLR and CRR) and fixed assets (including building) at ₹806.39 crores. As on 17.05.2020 (when the earlier Administrator took charge), deposits had reduced to ₹2377.06 crores, loans and advances to ₹1431.43 crores, and cash and bank balances to ₹786.66 crores. Loan recoveries from 10.01.2020 to 17.05.2020 were stated to be ₹136.86 crores, and from 18.05.2020 to 23.09.2020, ₹13.31 crores.

22. Two PILs, namely, Writ Petition Nos.7350 of 2020 (GM-RES) and 8674 of 2020 (GM-RES) were filed after the appointment of the Administrator. This court passed interim orders, in those petitions, for monitoring investigations, both civil and criminal. Those writ petitions do not form part of the present proceedings.

23. In the meanwhile, the appellant was registered on 21.07.2020 under the Karnataka Societies Registration Act, 1960, bearing Registration No.DRB2/SOR/39/2020-21, with the stated object of promoting and protecting the interests of shareholders, depositors and account holders of the Bank.

24. The statement of objections filed on behalf of the Bank (respondent No.4) disclosed that the Director of Audit of Cooperative Societies, had by letter dated 30.07.2020, directed a

re-audit of the Bank for the years 2014-15 to 2018-19. The re-audit reports disclosed the following losses: ₹873.03 crores for 2014-15; ₹526.27 crores for 2015-16; and ₹423.28 crores for 2016-17, aggregating to ₹1822.58 crores for three years alone. Further, it was found during the statutory audit of 2019-2020 and 2020-2021 that cash was stolen to the extent of ₹58,26,68,300/- (Rupees Fifty-Eight Crores Twenty-Six Lakhs Sixty-Eight Thousand Three Hundred only), which included ₹1,72,00,000/- stolen between 09.04.2020 and 13.07.2020, i.e., after the imposition of Section 35A restrictions.

25. The Union of India introduced the Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill, 2021 in the Rajya Sabha on 30.07.2021. The Bill received the President's assent and was published in the Gazette of India as Act 30 of 2021. By notification S.O.3507(E) dated 27.08.2021, issued by the Ministry of Finance, the Central Government appointed the 1st day of September, 2021, as the date on which the provisions of the said Amendment Act shall come into force.

26. By virtue of Act 30 of 2021 Section 18A was introduced in the Act, which provides for the liability of the Corporation to make interim payments to depositors of an insured bank.

27. Section 21 of the Act, which provides for repayment to the Corporation of amounts paid by it, was also amended by the introduction of sub-sections (3) and (4). Sub-section (3), *inter alia*, provides for prohibition of specified other classes of liabilities from being discharged by the insured bank till such time as repayment is made to the Corporation.

28. Post the amendment, with effect from 04.02.2020, the deposit insurance cover under the Act was increased from ₹1,00,000/- (Rupees One Lakh only) to ₹5,00,000/- (Rupees Five Lakhs only) per depositor per bank.

29. The AID under Section 35A were already in force in respect of the Bank as on the date of commencement of the Amendment Act. Thus, in terms of Section 18A(6) of [Deposit Insurance and Credit Guarantee Corporation (Amendment) Act, 2021 (Act 30 of 2021)], the Corporation became liable to pay to the Depositors of the Bank. It is stated in the petition that there were approximately 40,568 deposit accounts with the Bank which were entitled to coverage of insurance from the Corporation.

30. The Corporation ascertained the willingness of each Depositor to receive the amount due through a consent/willingness

form. Accordingly, the Corporation disbursed the insured amounts to the Depositors. As per the Corporation's letter dated 03.01.2022, an amount of ₹677.82 cores was paid in respect of 20,805 claims submitted by the Bank. It is relevant to note that according to the statement of objections filed by the Bank (respondent No.4), the Corporation made further payments of ₹35.97 crores against additional 1,429 [22,234 (total) – 20,805 (initial)] claims, taking the total amount disbursed to ₹712,35,02,607/- (Rupees Seven Hundred Twelve Crores Thirty-Five Lakhs Two Thousand Six Hundred and Seven only) in respect of 22,234 claims. It is stated that approximately 32,500 accounts were closed upon payment of the insured amount of ₹5,00,000/- each, and approximately 8,000 accounts of Depositors holding deposits in excess of ₹5,00,000/- remained in the books of the Bank.

31. On 03.01.2022, the Corporation issued a communication[1] addressed to the CEO/Administrator of the Bank, demanding repayment of the claim amount of ₹677.82 crores paid by the Corporation, in terms of Section 21 of the Act. The said letter directed that the repayments be made in five equal annual installments commencing from 31.12.2022 and further stated that

[1] bearing Ref.CO.DICGC.RMC.No./173394/05.03.997/2021-22

the repayment period may be reviewed by the Corporation based on the financial position of the Bank or any regulatory action that may be taken by the RBI. The Corporation also noted that Section 21(3) of the Act prohibits discharge of other classes of liabilities by the insured bank until repayment in full is made to the Corporation.

32. On 23.02.2022, the appellant Sangha addressed a communication to the Corporation, inviting reference to the aforesaid demand letter and stating that the members of the Sangha, being beneficiaries under the insurance scheme, would be affected if the funds of the Bank are depleted, particularly in view of the efforts underway to revive the Bank. The appellant contended that the demand was premature and contrary to the object and purpose of insurance. It was also not in Conformity with the provisions of Section 21 of the Act read with Regulation 22, of the Deposit Insurance Credit Guarantee Corporation Regulations, 1961 (Hereinafter **the Regulations**) which contemplate reimbursement on liquidation and distribution of proceeds to depositors. The appellant requested the Corporation not to precipitate the matter and to allow things to develop in the direction of revival of the Bank.

33. On 23.12.2022, the Bank, through its Administrator, issued a letter[2] addressed to the appellant, acknowledging receipt of the appellant's letter dated 19.12.2022 and informing the appellant that the Bank had received a demand from the Corporation (letter dated 03.01.2022) advising the Bank to repay, in terms of Section 21 of the Act, the insured amount paid by the Corporation to the Depositors of the Bank. The said letter stated that the repayment was to be made in five equal annual installments commencing from 31.12.2022. The total insured amount paid to the depositors of the Bank till that date was ₹712,35,02,607/- (Rupees Seven Hundred Twelve Crores Thirty-Five Lakhs Two Thousand Six Hundred and Seven only).

34. The appellant alleges that the aforesaid demand was kept secret by the Bank until 23.12.2022. The Bank, in its statement of objections, has denied this allegation, asserting that the matter was brought to the notice of members during the Annual General Body Meetings held on 01.05.2022 and 19.11.2022.

35. In the aforesaid circumstances, the appellant filed Writ Petition (PIL) No.25989 of 2022 on 26.12.2022 before this Court.

---

[2] bearing No.SGR/PK/2204/2022-23

In those proceedings, on 03.01.2023, the appellant had filed a memo seeking leave to withdraw the writ petition with liberty to file a comprehensive writ petition challenging the validity of Section 21 and other provisions of the Act. On the said date, 03.01.2023, this Court passed the following order:

> "1. The petitioner is permitted to withdraw the writ petition, keeping liberty open to file fresh petition only insofar as challenge to the validity of Section 21 of the Act is concerned.
>
> 2. We further make it clear that by permitting the petitioner to withdraw the present writ petition, the same shall not be treated as liberty is granted to the petitioner to challenge Annexure A afresh in the fresh Petition, which is to be filed by the Petitioner."

36. Availing the liberty so granted the appellant filed Writ Petition No.2991 of 2023 on 02.02.2023, under Article 226 of the Constitution of India, impugning the constitutional validity of Sections 18A(5), 21(3) and 21(4) of the Act.

37. On 14.02.2023, the learned Single Judge ordered that the status quo be maintained. The said interim order of status quo was continued and extended from time to time throughout the pendency of the writ petition.

38. In the meanwhile, several proposals for revival of the Bank were examined by the RBI. The record discloses the following communications:

> (a) By a letter bearing No.DOR.MON. S6391/12-23.283/2022-23 ated 24.01.2023, the RBI informed the Dhanvarsha Group that its proposal for revival of the Bank was not found to be adequate, keeping in mind the level of negative net worth and accumulated losses of the Bank. The RBI further noted that the proposal was not feasible as direct/indirect foreign investment is not permissible in co-operative banks.
>
> (b) By a letter bearing No.DOR.MON. S7674/12-23.283/2022-23 dated 02.03.2023, the RBI informed the Administrator of the Bank that the proposal for revival submitted by Razor pay Software Private Limited (RSPL) was found not to be feasible, inter alia, for the following reasons:
>
> (i) the commitment to bring in only Rs.100 crores initially without specific proposals and willingness to bring in additional amounts was not considered substantive considering the accumulated losses of the Bank which were Rs.2669.21 crores as on 31-03-2021;
>
> (ii) the financial strength of RSPL did not inspire confidence; and
>
> (iii) the regulatory forbearances sought from RBI and DICGC were not reasonable.
>
> (c) By a letter bearing No.DOR.MON. S7507/12-23.283/2023-24 dated 21.03.2024, addressed to the General Secretary of the appellant Sangha, the RBI noted the precarious financial parameters of the Bank as on

> 31.03.2022, which included: negative net worth at (-) Rs.2584.65 crores; CRAR at (-) 4277.74%; accumulated losses of Rs.2761.81 crores; and Gross NPA of 100%. The RBI concluded that the reliability of the facts provided and the probability of projected recovery did not present an adequate financial position capable of revival of the Bank in near term.

39. It is also relevant to refer to the statement of assets and liabilities of the Bank as on 31.03.2025 as set out in the memorandum of writ appeal. The same is reproduced as follows:

Liabilities	**31/03/2025**	**Assets**	**31/03/2025**
	Rs crores		*Rs crores*
Capital	74.85	Cash & Bank balance	0.29
Reserves & Surplus	-2167.61	Balances with Banks	30.50
Deposits	1940.25	Investments	502.89
Borrowings	0	Advances*	
Other Liabilities & Provisions	728.67	Fixed Assets	24.09
		Other Assets	18.39
Total	**576.16**	**Total**	**576.16**
** Bank has provided 100% on its loans and advances*			

40. On the basis of the aforesaid statement, the appellant contends that if the Corporation enforces its demand for repayment

of ₹677.82 crores in priority over the unpaid depositors, the Bank's entire assets of ₹576.16 crores would have to be liquidated and paid to the Corporation, resulting in nil payment to unpaid Depositors.

41. In the aforesaid context, we may now note the reliefs sought by the appellant in the writ petition. The appellant, in Writ Petition No.2991 of 2023, sought the following reliefs:

> "(a) quash or strike down Section 18-A(5) and Section 21(3) and (4) of the Deposit Insurance and Credit Guarantee Corporation Act, 1961, to the extent the said Sections enable the Corporation (respondent No.3) to seek and obtain reimbursement of the amounts paid to depositors of the Bank (respondent No.4), as being contrary and derogatory to Sub-Sections (1) and (2) of Section 21 of the DICGC Act, 1961 and Regulation 22 of the DICGC Regulations, and being violative of Articles 14, 19, 21, 38, 43-B and 300-A of the Constitution of India, and/or to read down the said provisions to bring them in conformity with the law of insurance, the Main Purpose Rule and the legislative intent of Act 47 of 1961;
>
> (b) direct an enquiry as to whether the payments by the Corporation through the Bank were made only to eligible depositors;
>
> (c) direct an enquiry against the Administrator of the Bank as to what happened to the funds of Rs.136.86 crores stated to have been recovered from borrowers by the earlier Administrator, and to constitute a Board of Administrators to recover the dues of the Bank under various loans and mortgages;"

IMPUGNED ORDER

42. The learned Single Judge, by the impugned order dated 01.09.2025, rejected the writ petition. The learned Single Judge noticed the legislative history of the Act, including the original enactment of 1961 and the amendment introduced by the Amendment Act. The learned Single Judge referred to the decision of the Hon'ble Supreme Court in ***Deposit Insurance and Credit Guarantee Corporation v. Ragupathi Ragavan and Others***[3], wherein the Supreme Court had considered the provisions of Sections 19 and 21 of the Act and upheld the right of the Corporation to recover the amounts paid to depositors, recognizing its preferential right. The learned Single Judge also referred to the decision of the Division Bench of the High Court of Bombay in ***Karad Merchant Sahakari Credit Sanstha Maryadit v. Reserve Bank of India***[4]**,** which repelled the challenge to the constitutional validity of the provisions of the Act. The learned Single Judge held that the provisions of the Act so challenged cannot be declared *ultra vires* the Constitution, in the light of the aforesaid decisions of the Supreme Court and the Division Bench of the High Court of

[3] (2015) 9 SCC 629
[4] 2014 SCC OnLine Bom 266

Bombay, recognizing the right of recovery of the Corporation and the constitutional validity being challenged only qua recovery.

43. The learned Single Judge rejected the submission that the right of the Corporation to recover would arise only after the proceedings for liquidation of Bank commences. And, held that the Corporation has a right to recover the amounts paid to depositors without waiting till the Bank or the insurers are liquidated.

44. The learned Single Judge rejected the contention that the insurer's right is only to salvage the situation and nothing more. The court noted the reason for the establishment of the Corporation and the manner in which it functions. The learned Single Judge observed that the Corporation is sui generis; its financial measures cannot be construed only as an insurance. The Corporation provides a statutory guarantee for small depositors, and it is for this reason that Section 43 of the Act is given overriding effect.

45. The learned Single Judge further noted the communications of the RBI rejecting various revival proposals for the Bank and noted that, as late as on 21.03.2024, the RBI had found that the projected recovery does not indicate revival of the Bank.

46. The learned Single Judge concluded by holding that:

(a) the provisions of the Act so challenged cannot be declared ultra vires the Constitution;

(b) the Corporation has a right to recover and need not wait till the Bank in the insurer gets liquidated;

(c) the impugned provisions cannot be held to be unreasonable or in conflict with the Act;

(d) if the Bank is being restored to its position, it is open to the RBI and the Corporation to decide on the amount to be recovered; and

(e) the right of recovery does not preclude the Corporation from considering the present situation and answering representations of the Bank with regard to immediate recovery or deferment of recovery.

REASONS & CONCLUSION

47. As noted at the outset, the appellant seeks to challenge the constitutional validity of Section 18A Subsections (3) and (4) and Section 21 of the Act (Deposit Insurance and Credit Guarantee Corporation Act, 1961).

48. We may briefly note the contentions advanced on behalf of the appellant in support of its challenge.

49. First, the learned counsel for the appellant contended that the Amendment Act was beyond the legislative competence of the parliament. He contended that Act was enacted in exercise of

powers under Article 246 of the Constitution of India read with Entry 47 of List-I of the Seventh Schedule. However, the impugned provisions of the Act as introduced by the Amendment Act establish that they constitute a colorable legislation, as they exceed the scope of 'insurance' and thus, the Entry 47 of List-I of the seventh Schedules of the Constitution of India. Therefore the Act must be struck down. The learned counsel for the appellant submitted that the provisions of the Act do not work as an insurance inasmuch as an insurer's rights are confined to the right of salvage/subrogation and under the principles of insurance, an insurer is not entitled to any rights higher than those of the insured. He contended that by virtue of Sections 18A and 21 of the Act as amended by the Amendment Act, the Corporation claims priority over the dues of other depositors in regard to its debt. He submits that this places the Corporation in a preferential position as compared to the insured depositors.

50. Second, he submitted that in banking law certain percentages are prescribed as Statutory Liquidity Ratios ('**SLR**') and Cash Reserve Ratios (**'CRR'**) which the banks have to maintain. He submits that presently, SLR and CRR as prescribed by the RBI are 18% and 3%. He submitted that, since it is necessary to maintain

these reserves under the statute, the bank can only lend the remaining balance, which would be about 79% of its resources. Thus, the risk of failure of the bank is to the maximum extent of 79% of its resources. However, the premium is collected on the entire value, which includes the sums that cannot be lent.

51. Third, he submits that the impugned provisions enable the Corporation to unjustly enrich itself inasmuch as it collects premiums on the entire deposits. However, its liability to pay the depositors is confined to a maximum of ₹5,00,000/-. He submits that the Corporation earns over 58% to 59% of its yearly premium on deposits exceeding ₹5,00,000/-, and the collection of this premium is manifestl*y* arbitrary.

52. Lastly, he submitted that the Corporation is a monopoly and its action amounts to abuse of dominance.

53. The appellant's principal grievance is in regard to the priority accorded to the Corporation in recovering the amounts paid by it to all depositors pursuant to its obligations under the Act. Thus, the first question to be addressed is whether the preference in repayment accorded to the Corporation is manifestly arbitrary and violative of Article 14 of the Constitution of India.

54. We may note that the Act was enacted to provide for the establishment of the Corporation for the insurance of deposits, guaranteeing of credit facilities, and other matters connected with it. The primary object of enacting the Act is to protect small depositors from bank failures and to foster financial stability. The Corporation was incorporated as a subsidiary of RBI. Bank failures over the period had underscored the urgent need to protect depositors. In 1960, the failure of Laxmi Bank and Palai Central Bank catalyzed the introduction of deposit insurance in India. The Deposit Insurance Corporation Bill was introduced in Parliament in 1961 and enacted into an Act on 07.12.1961. The principal object of the same was to ensure measures to protect small depositors from the risk of losing their savings due to bank failures and to provide greater stability in the banking system. As observed by the Supreme Court in ***Deposit Insurance & Credit Guarantee Corporation v. Ragupathi Ragavan & Ors.***[5], the Act was enacted with this "laudable object".

55. The mechanism for providing protection was to ensure that every depositor recovers an amount, up to a maximum of

[5] (2015) 9 SCC 629

₹1,00,000/-. This amount was subsequently enhanced to ₹5,00,000/-.

56. To cover the risks involved, the banks are required to pay a premium on the value of the deposits. We are unable to accept the contention that the amount collected by the concerned bank from a particular depositor and paid as a premium to the Corporation must be proportionate to the payout in the event of the bank's failure. The maximum risk covered by the bank for repayment of the sums is capped at ₹5,00,000/-. The premium is collected by the Corporation to fund coverage of the risk in the event of bank failures. The fact that the premium is collected on the value of the deposits and is not proportionate with the risk covered in case of a particular deposit, cannot be considered as manifestly arbitrary. The premiums are charged *ad valorem* on deposits; therefore, depositors who place large deposits are required to pay a larger premium. Considering that the scheme of the Act is to provide a guarantee to small depositors and to strengthen the banking system, the imposition of a fee/premium on an *ad valorem* basis cannot be considered arbitrary or unreasonable. Undisputedly a legislation can be challenged on the ground of manifest arbitrariness. In **Shayara Bano v. Union of**

India[6], the Supreme Court explained the test of manifest Arbitrariness as under:

> "101. It will be noticed that a Constitution Bench of this Court in Indian Express Newspapers (Bombay) (P) Ltd. v. Union of India [Indian Express Newspapers (Bombay) (P) Ltd. v. Union of India, (1985) 1 SCC 641 : (1986) 159 ITR 856] stated that it was settled law that subordinate legislation can be challenged on any of the grounds available for challenge against plenary legislation. This being the case, there is no rational distinction between the two types of legislation when it comes to this ground of challenge under Article 14. The test of manifest arbitrariness, therefore, as laid down in the aforesaid judgments would apply to invalidate legislation as well as subordinate legislation under Article 14. Manifest arbitrariness, therefore, must be something done by the legislature capriciously, irrationally and/or without adequate determining principle. Also, when something is done which is excessive and disproportionate, such legislation would be manifestly arbitrary. We are, therefore, of the view that arbitrariness in the sense of manifest arbitrariness as pointed out by us above would apply to negate legislation as well under Article 14."

Undisputedly, the amount paid to cover the risk is a small fraction of income from interest on deposits. It is also important to bear in mind that income by way of interest is also in proportion to the quantum of

---

6 (2017) 9 SCC 1

deposit. In the aforesaid view we are unable to accept that the impugned provisions are capricious, irrational or bereft of any basis. The imposition of fee/ premium is a statutory exaction and not a voluntary payment for entering a contract of insurance. Thus, the assumption that the levy must be commensurate with the payout in the event of bank defaults is erroneous.

57. As noted above, the appellant's principal grievance relates to the amendments to the Act introduced by Act 30 of 2021. Sections 18A, and 21 of the Act as amended are set out below:

> **18A. Liability of Corporation to make interim payment to depositors of insured bank**.—(1) Where, in respect of an insured bank, —
>
> (i) any direction is issued or any prohibition or order or scheme is made under any of the provisions of the Banking Regulation Act, 1949 (10 of 1949); and
>
> (ii) such direction, prohibition, order or scheme provides for restrictions on depositors of such bank from accessing their deposits,
>
> then, without prejudice to the provisions of sections 16 to 18, the Corporation shall, on the date on which such direction, prohibition, order or scheme takes effect, become liable to pay to every such depositor an amount equivalent to the amount payable by the Corporation to the depositor under section 16.
>
> (2) A list showing the outstanding deposits of each depositor of the insured bank, as on the

date on which the direction, prohibition, order or scheme referred to in sub-section (1) takes effect, shall be furnished by such insured bank within forty-five days of such date of effect, in such form and manner as may be specified by the Corporation and certified to be correct by the chief executive officer of the insured bank.

(3) The Corporation shall, within thirty days of the date of receipt of the list under sub-section (2), verify, through an online platform, to the extent possible, or in accordance with such procedure, as may be prescribed, the genuineness and authenticity of the claims made therein, and ascertain the willingness of each depositor to receive the amount due to him out of his deposit in the insured bank.

(4) Subject to the provisions of sub-section (7), the Corporation shall, before the expiry of fifteen days from the date of completion of the verification under sub-section (3), pay to the depositors who have affirmed their willingness thereunder, the amount payable under sub-section (1) either directly, or get it credited in the account of the depositors through the insured bank:

Provided that the total period of time between the date when the Corporation becomes liable to pay to the depositor and the date of payment to the depositor shall not, subject to the provisions of sub-section (7), exceed ninety days:

Provided further that any amount paid by the insured bank to the depositor during the period between the date on which the direction, prohibition, order or scheme referred to in sub-section (1) takes effect and the date of payment to the depositor, shall be appropriately reckoned by the insured bank before crediting such amount in depositor's account.

(5) Any amount paid by the Corporation under sub-section (4) in respect of a deposit shall, to the extent of the amount so paid, discharge the insured bank from its liability to the depositor in respect of that deposit, but the insured bank shall become liable to the Corporation in respect of the amount paid by the Corporation.

(6) Where, in respect of an insured bank, —

(i) any direction, prohibition, order or scheme under any of the provisions of the Banking Regulation Act, 1949 (10 of 1949) providing for suspension of business of the insured bank is already in force as on the date of commencement of the Deposit Insurance and Credit Guarantee Corporation (Amendment) Act, 2021; and

(ii) such direction, prohibition, order or scheme provides for restrictions on the amounts to be paid by the insured bank to each of its depositors,

then, notwithstanding anything contained in any other law for the time being in force, the Corporation shall, on and from the date of commencement of the Deposit Insurance and Credit Guarantee Corporation (Amendment) Act, 2021, become liable to pay to each depositor of such insured bank, an amount equivalent to the amount payable by the Corporation to the depositor under sub-section (1) of section 16, and the time limit specified in sub-sections (2) to (4) herein for such payment shall be computed from that date.

(7) Notwithstanding anything contained in sub-sections (1) to (6), in cases where, —

(a) the Reserve Bank finds it expedient in the interest of finalising a scheme of amalgamation of the insured bank with other banking institution or a scheme of compromise or arrangement or of reconstruction in respect of such insured bank, and communicates to the Corporation accordingly, the date on which the Corporation shall become liable to pay every depositor of such insured bank may further be extended by a period not exceeding ninety days;

(b) the restrictions on payment to depositors are removed by the Reserve Bank at any time before payment to depositors by the Corporation under sub-section (4), and the insured bank or the transferee bank is in a position to make payments to its depositors on demand without any restrictions, the Corporation shall not be liable to make payment to the depositors of such insured bank.

** ** **

21. (1) Where any amount has been paid under section 17 or section 18 or Section 18A or any provision therefor has been made under section 20, the Corporation shall furnish to the liquidator or to the insured bank or to the transferee bank, as the case may be, information as regards the amount so paid or provided for.

(2) On receipt of the information under sub-section (1), notwithstanding anything to the contrary contained in any other law for the time being in force, -

(a) the liquidator shall, within such time and in such manner as may be prescribed, repay to the Corporation out of the amount, if any payable by him in respect of any deposit such sum or sums as make up the amount

paid or provided for by the Corporation in respect of that deposit;

(b) the insured bank or, as the case may be, the transferee bank, shall, within such time and in such manner as may be prescribed, repay to the Corporation out of the amount, if any, to be paid or credited in respect of any deposit after the date of the coming into force of the scheme referred to in section 18 or the direction, prohibition, order or scheme referred to in section 18A, such sum or sums as make up the amount paid or provided for by the Corporation in respect of that deposit.

(3) The Corporation may defer or vary the time limit for receipt of repayments due to it from the insured bank or the transferee bank, as the case may be, for such period and upon such terms, as may be decided by the Board in accordance with the regulations made in this behalf:
Provided that such regulations shall also provide for prudential principles to assess the capability of the bank to make repayment to the Corporation and for prohibition of specified other classes of liabilities from being discharged by the insured bank or the transferee bank till such time as repayment is made to the Corporation.

(4) In case of any delay in repayment to the Corporation beyond the time period prescribed under sub-section (2) or extended under sub-section (3), the Corporation may charge penal interest at a maximum rate of two per cent above the repo rate per annum for the amount to be repaid to the Corporation and such penal interest shall rank equally for priority with the amount to be repaid under sub-section (2).

58. The Amendment Act came into effect from 01.09.2021. The Statement of Objects and Reasons of the Deposit Insurance and

Credit Guarantee Corporation (Amendment) Bill 2021 inter alia records as under:

> (a) there had been numerous recent cases of banks, especially co-operative banks, being unable to fulfil their obligations towards their depositors because of imposition of moratorium by the RBI;
>
> (b) genuine depositors continued to face serious difficulties in accessing their deposits despite insurance being in place; and
>
> (c) it was proposed to amend the DICGC Act to enable easy and time-bound access by depositors to their own money, even when there are restrictions on banks.

59. Section 18A of the Act provides for the liability of the Corporation to make interim payments to depositors of an insured bank. Sub-section (1) of Section 18A provides that where, in respect of an insured bank, any direction or prohibition or order or scheme is made under the Banking Regulation Act, 1949 providing for restrictions on depositors from accessing their deposits, the Corporation shall, on the date on which such direction takes effect, become liable to pay to every such depositor an amount equivalent to the amount payable by the Corporation under Section 16 of the Act. Sub-section (4) provides that the Corporation may pay the depositors who have affirmed their willingness within a stipulated

timeline not exceeding ninety days. Sub-section (5) of Section 18A — one of the provisions impugned in the writ petition — provides that any amount paid by the Corporation under sub-section (4) in respect of a deposit shall, to the extent of the amount so paid, discharge the insured bank from its liability to the depositor in respect of that deposit, but the insured bank shall become liable to the Corporation in respect of the amount paid by the Corporation. Sub-section (6) provides a transitional provision making the Corporation liable, on and from the date of commencement of the Amendment Act, to pay depositors of banks already under restrictions.

60. Section 21 of the Act, which provides for repayment to the Corporation of amounts paid by it, was also amended by the introduction of sub-sections (3) and (4). Sub-section (3), inter alia, provides for the prohibition of specified other classes of liabilities from being discharged by the insured bank till such time as repayment is made to the Corporation. It empowers the Corporation to defer or vary the time limit for receipt of repayments due to it from the insured bank or the transferee bank, for such period and upon such terms as may be decided by the Board of Directors of the Corporation, subject to prudential principles to assess the capability

of the bank to make repayment. It also provides for the prohibition of specified other classes of liabilities from being discharged by the insured bank till such time as repayment is made to the Corporation. Sub-section (4) provides that in case of delay in repayment beyond the prescribed or extended period, the Corporation may charge penal interest at a maximum rate of two per cent above the repo rate per annum.

61. The provision for repayment to the Corporation in priority over other deposits does place the Corporation in a better position in terms of priority, than it would have been, if it were accorded the same status as the depositors to whom payments have been made by it. However, in our view, this does not render the statutory provisions vulnerable to challenge on the ground of manifest arbitrariness. As explained by the Supreme Court in **Indian Express Newspaper (Bombay) (p) Ltd v. Union of India**[7] a legislation can also be challenged on " the ground that it is unreasonable, not in the sense of not being reasonable, but in the sense that it is manifestly arbitrary". The priority in repayment accorded to the co-operation is also not violative of Article 300A of the Constitution of India, as argued by the appellant, as the said provision cannot be construed

[7] (1985) 1 SCC 641

as depriving the remaining depositors of their property without the authority of law.

62. It is necessary to bear in mind that the object of the Act is to provide for insurance. Irrespective of the amounts that may be finally recovered, the Corporation is bound to repay the depositors the minimum amount due to them, subject to a maximum of ₹ 5,00,000/-. It merely ensures that all depositors, irrespective of the amounts they may have deposited, will at least recover their deposits up to the minimum amount insured. Even the depositors who have deposited amounts exceeding ₹5,00,000/- are assured of the minimum amount of ₹5,00,000/-. This amount is required to be paid by the Corporation from its resources. The Parliament, in its wisdom, considered it necessary to ensure that failing banks or banks that have defaulted, pay back the amount paid by the Corporation to the depositors in priority. It is apparent that this is to ensure that the funds are replenished for the Corporation to its obligations to banking industry and other small depositors, which are admittedly in the public interest.

63. When we consider that the resources of the Corporation are required for public purposes, the impugned provisions, which accord a higher priority for repayment to the Corporation over other

liabilities, cannot be considered as manifestly arbitrary. It is necessary to bear in mind that the appellant's challenge is to the constitutional validity of a statutory enactment. A challenge on the grounds of manifest arbitrariness would require the appellant to establish that the impugned provision has no nexus or relation with the object of the legislation. We do not find that the challenge to Section 18A or 21 of the Act can be sustained on this ground. This is because the priority accorded for repayments to the Corporation is clearly in line with the object of ensuring its resources are used to the benefit of a maximum number of depositors and to provide stability to the banking industry. It would be erroneous to state that the priority accorded to the Corporation to recover its dues must be confined to that which would be available to the depositors to whom the amounts have been paid, and to the said extent. This argument overlooks that the amount payable to the Corporation is payable by virtue of a statutory prescription, and not solely on the principle of subrogation.

64. Additionally, the appellant also seeks to challenge Section 18A and Section 21 of the Act on the ground that it is contrary to Regulation 22 of the Regulations (Deposit Insurance Credit Guarantee Corporation Regulations, 1961). It is important to note

that the Regulations were also amended and Regulations 21A and 22A were inserted. Regulations 21, 21A, 22 and 22A of the Regulations are set out below:

> "Regulation 21. Waiver of interest due to the Corporation-
>
> The Corporation may at any time waive any payment due to it by way of interest on such conditions and for such period or periods as it may deem fit.
>
> 21A. (1) The insured bank, while furnishing the list and the certification under sub-section (2) of section 18A, shall submit in such form as specified by the Corporation, the name and account details of depositors who have affirmed their willingness to receive the insured amount in respect of their deposit in the insured bank, and that form shall also contain a declaration signed by the chief executive officer/the person in charge as to the correctness of the contents thereof along with a confirmation as to availability of the declarations signed and submitted by the depositors, and an undertaking to preserve and submit the said declarations to the Corporation, within such time and in such manner as specified by the Corporation.
>
> (2) The insured bank shall obtain willingness of the depositors in such form as may be specified by the Corporation, which shall necessarily include an express declaration of willingness signed by the depositor to receive the insured amount along with a certification by the chief executive officer/the person in charge as to the correctness of the contents thereof, and the forms so obtained shall be submitted to the

Corporation within such time and in such manner specified by the Corporation.

(3) Where the insured bank receives willingness of a depositor after submission of the Form under sub-regulation (1) but within the period specified in the first proviso to sub-section (4) of section 18A, it shall submit the details thereof in the same format specified under sub-regulation (1) within such time and in such manner specified by the Corporation in the same format specified under sub-regulation (1).

(4) The claim settlement procedure adopted by the Corporation with the approval of the Board, for verifying the genuineness and authenticity of the claim made by the liquidator under section 17 and the transferee/insured bank under section 18 shall mutatis mutandis be applied for verification of the genuineness and authenticity of the -

(a) claim made in the list furnished by the insured bank under sub-section (2) of section 18A; and

(b) the forms and declarations referred to in sub-regulations (1), (2) and (3), for ascertaining the willingness of the depositor."

Regulation 22. Repayments to the Corporation-

The amounts repayable to the Corporation under sub-section (2) of section 21 of the Act shall be paid from time to time by-

(a) the liquidator as soon as the realisations and other amounts in his hands, after making provision for expenses payable by that time, are sufficient to enable him to declare a dividend of not less than one paisa. in the Rupee to each depositor.

(b) the insured bank or the transferee bank, as the case may be, as soon as the realisations and other amounts in its hands, after making provision for expenses payable by that time in respect of such realisations or other amounts in its hands are sufficient to enable after the date of coming into force of the scheme referred to in section 18 of the Act, to pay or credit in respect of each depositor a sum not less than one paisa in the Rupee.

22A. (1) Notwithstanding anything contained in Regulation 22, where the Corporation is satisfied about the financial position of the insured bank or the transferee bank, as the case may be, and keeping in view the expected time period that would be sufficient to generate cash flows, capital infusion, liquidity, business profits, sale of assets, restructuring of the insured bank, to pay the stakeholders including uninsured depositors and other creditors, makes an assessment that the bank is not capable of making repayment to the Corporation, then it may defer or vary the time limit for receipt of repayments due to it for such period and upon such terms as the Board may specifically decide.

(2) The decision of the Board referred in sub-regulation (1) shall be binding on the bank and till such time as repayment is made to the Corporation, the insured bank or the transferee bank, as the case may be, shall be prohibited from discharging the classes of liabilities, other than those specified in terms of the decision of the Board.

(3) The Corporation may, for the purpose of assessment of the financial position and the capability of the bank to make repayment, call upon the bank, from time to time or periodically, to submit such records or statements and

> furnish such information as the Corporation considers it necessary and expedient and the bank shall comply with the same."

65. It is apparent that Regulation 21A of the Regulations is in conformity with Section 18A of the Act. Further, by virtue of the non-obstante clause in Regulation 22A, the amounts paid by the Corporation to the depositors are required to be repaid on priority, and the provisions of Regulation 22 are overridden to the extent that they are not consistent with regulation 22A of the Regulations stipulated.

66. The appellant also questions the legislative competence of the Parliament to enact the Act. According to him the enactment far exceeds the subject of insurance. This contention is also flawed. It is well settled that the Parliament and the State Legislature derive their power to enact laws under Article 246 of the Constitution of India, and the entries in the List I, II and III are only indicative. The question whether the Parliament, or the State, or both have the power to legislate has to be ascertained with reference to the pith and substance of the legislation. The assumption that a law which in pith and substance may be relatable to insurance must necessarily confine itself to the principle of subrogation and Parliament is precluded from departing from the same, is without any basis. The

Parliament's power to legislate is not confined to legislation that must embody the principle of insurance. The Parliament also has the power to legislate on subjects not listed in any of the three lists of the Seventh Schedule of the Constitution of India.

67. The next aspect to be examined is the appellant's challenge to the premium collected. It is the appellant's claim that the premium collected is excessive. As noted above, the appellant's claim that the quantum of the premium collected amounts to an abuse of dominance. This conclusion is also premised on the basis that the Corporation has a strong balance sheet, and, according to the appellant, it is not necessary for the Corporation to now raise additional funds to guarantee credit facilities or insure deposits. We may note at this stage that there is no allegation that the Corporation has utilized its funds for a purpose other than its objects. The question as to what is the appropriate premium to be collected is a matter for the Corporation and the rule-making authorities. We do not think it apposite for this Court to judicially review the quantum of insurance premium collected by the Corporation. The fact that the Corporation's balance sheet is strong only indicates that the Corporation is in a position to discharge the obligations that it has undertaken and may be in a position to

expand its reach. This Court cannot examine as to what should be the optimum reserves to be maintained by the Corporation. That decision would be outside the scope of judicial review.

68. We find no merit in the present appeal and the same is accordingly dismissed.

Sd/-
(VIBHU BAKHRU)
CHIEF JUSTICE

Sd/-
(C.M. POONACHA)
JUDGE

KPS/AHB..