TEXT CROSS WITHIN THE BOOK ONLY

UNIVERSAL
LIBRARY

OU_154548

UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 332.1209547 Accession No. 23086

Author S 261 Sarkar, D. S.

Title Joint Stock Banking in India, 1938.

This book should be returned on or before the date last marked below.

JOINT STOCK BANKING IN INDIA

BY

D. S. SAVKAR, B. A. (Hons.), M. com.,
Professor of Modern Economic Development
H. L. College of Commerce, Ahmedabad.

THE POPULAR BOOK DEPOT
GRANT ROAD, BOMBAY, 7.

Printed by S. R. Date, B. A., at the Lokasangraha Press, 624 Sadashiv Peth, Poona 2 and Published by Prof. D. S. Savkar, B. A., M. Com., Hargovindas Laxmichand College of Commerce, Ahmedabad.

PREFACE

This book was originally written as a thesis for part I of the M. Com. examination of the University of Bombay. While writing it I received very valuable suggestions from Prof. S. G. Beri of the Sydenham College of Commerce, Bombay, whom I do not think it is possible for me to thank adequately. My thanks are also due to many authors for making use of their researches in the field of Indian banking. Although there are many books on banking in India, there are only few which deal with its branches in all their details. Hence I feel that the book may be found useful by students as well as the general public interested in the growth, organization and reform of Joint Stock Banking in India. With the same purpose in view an attempt has been made, as far as possible, to bring the book up-to-date.

Whereas Joint Stock Banking in other countries has progressed with strides, in India, it will not be wrong to say, it is just attempting to come out of its swaddling clothes. The policy of drift followed by the Joint Stock Banks in the past will not help them to build a firm structure of banking. Sound practice and firm traditions must be established if Indian banking is to be protected from occasional setbacks.

In the field of banking, India has yet to realise the full importance of the need for and advantages of, specialisation. Time and again it has been proved that progress comes by specialisation. As finance is the lifeblood of economic institutions, and so far as they develop on the lines of specialisation, the institutions providing them with finance should follow the same course. The chances of success are enhanced

by working in specialised fields. India is on the threshold of an industrial renaissance. Banking will have to play its part in it. An attempt, therefore, must be made to develop specialisation in banking.

The author acknowledges his indebtedness to the University of Bombay for the substantial financial help it has granted towards the cost of the publication of this book.

AHMEDABAD,
September 1938.

D. S. Savkar

JOINT STOCK BANKING IN INDIA

SYNOPSIS OF CONTENTS

PART I

Growth of Joint Stock Banks

Chap.		Pages
I	INTRODUCTION.	1– 9
II	HISTORY OF JOINT STOCK BANKING IN INDIA.	10–34

Indigenous Banking : Its origin and development during early Ancient period—Mohammedan period—Decline during the days of the East India Company and causes of same—Position under altered conditions—Recent organization—Extent of their business. European Banking : Agency Houses Multiplicity of their services—Forerunners of Joint Stock Banks—Causes of breakdown. Early Joint Stock Banks: Mainly European—Brief history—Causes of failure. The Presidency Banks: The Bank of Bengal—Nature of business—The Presidency Banks of Madras and Bombay—Quasi Government institutions till 1876. The Government Savings Banks : Beginnings in 1833—Growth and popularity. Military Banks : For military officers—Short career.

III	HISTORY OF JOINT STOCK BANKING IN INDIA (Continued).	35–56

Joint Stock Banks : Application of the principle of limited liability (1860)—Its merits—Bank failures in early sixties—Slow growth till the end of the century—Impetus of the Swadeshi movement. Joint Stock Banks on the Eve of

Banking Crisis (1913–1914) : Causes—Speculative character of business—Sharp practices etc. Presidency Banks (1860–1913) : Abortive schemes of a State Bank—Loss of the privilege of note-issue—Government Treasuries —Special Charter of 1876—Its restrictions—Rigorous nature—Prevalence of high money rates. Exchange Banks (1860–1913) : Two groups—Peculiar position in the Indian Money Market—Penetration in the interior—Enormous increase in deposits and strong financial position.

IV HISTORY OF JOINT STOCK BANKING IN INDIA (Continued). 57–77

Bank failures (1913–1918) : Severe nature of the crisis and its impact—Causes—Inadequate reserves—Stringency in the Money Market—Pernicious system of reciprocal audit—Dishonest methods—Fraudulent mismanagement—Inexperienced directorate—Apathy of Indian share-holders—Lack of quick assets—Unsound business methods—Interlocked directorates—Unsympathetic attitude of the Presidency Banks —Effects of the crisis—Serious setback to new banks and public confidence. The effect of the War on the growth of Banking : Increase in deposits partially due to prosperity and high prices and Government War operations—Increase mostly inflationary—improvement in investments and cash position—High dividends —Increase in the amount of cheques cleared—Growing disparity between capital and business —Need for industrial banks.

V HISTORY OF JOINT STOCK BANKING IN INDIA (Continued) : 78–99

Progress during (1919–1925) : Post-War boom—Increase in deposits followed by decline —An indication of weakness under unfavour-

able conditions. Banking failures (1919–1925): A temporary lull—Important bank failures—Setback to industrial growth. Growth during (1926–1932): All-round increase in number—Record rise in capital, reserves and deposits—Recent bank failures (1926-1934): Decline in failures—Geographical distribution of banks in 1930-1931: Bengal leading. Presidency Banks (1913–20): Progress—Services during the War—Increase in public deposits. The Imperial Bank of India: Early schemes—The Imperial Bank of India Act of 1921—Amalgamation of Presidency Banks—Progress and privileged position. Exchange Banks: Increase in number—Large deposits.

PART II

Organization of Joint Stock Banks

VI BUSINESS OF THE JOINT STOCK BANKS 103–128

A representative balance sheet. Liabilities: Capital—Reserve Fund—Deposits, fixed, current and savings—Lack of sufficient incentive to invest—How deposits can be increased—Advisability of not allowing interest on current accounts—Rebates etc. Assets: Need for liquid resources—Cash credits against self liquidating assets—Common in Bombay—Its popularity—Demand advances—Loans, secured and unsecured—Want of organized agencies giving credit information—Scarcity of trade bills and bank acceptances—Preference for gilt-edged securities—Trade bills and the Reserve Bank—Landed property of banks—Government securities—Short-dated and long-dated—Their advantages to investors—Form liquid assets—Immobile credit—Bonds, Debentures etc.—Treasury Bills—Cash reserve—Percentage balance with the Reserve Bank. Subsidiary

services : Two types—Agency and general utility services—Payment and collection of promissory notes—Valuables for safe custody —Correspondence—Trustees—Buying and selling stocks for customers—Underwriting loans —Letters of credit—Dealing in exchange— Agency for financial advice.

VII THE IMPERIAL BANK OF INDIA AND SOME 'BIG' JOINT STOCK BANKS OF THE INDIAN MONEY MARKET. ... 129–145

I. The Imperial Bank of India : Constitution—Local Boards—Central Board—Their meetings—Functions—Agent for the Reserve Bank—Business not authorized—Freedom under the Act of 1934—Achievements—Success in financing agriculture—Statement of Affairs. II. The Central Bank of India, Ltd., : Essentially an Indian enterprise—Competence of Indians—Growing business of the Bank— Its branches. III. Bank of India : Slow but steady progress—Its branches. IV. Bank of Mysore : Government banker. V. Bank of Baroda : Government banker—Its branches.

VIII JOINT STOCK BANKS AND THE MONEY MARKET. 146–163

Indian Money Market—Two parts, Central and Indigenous—Not highly organized—Dominated by Government—Duel control before the Reserve Bank—Absence of bill market—Lack of co-ordination—Monetary stringency. Relations of the Joint Stock Banks with the Reserve Bank : Functions of the Reserve Bank— Control over scheduled banks—Minimum balances—Bankers' bank—Open market operations to control credit—Effects of the credit policy on member banks—Rediscounting facilities— Remittance facilities—Development of branch

banking—Promotion of organic relations between the constituents of the Money Market. Joint Stock Banks and the Imperial Bank: Competition. Joint Stock Banks and Exchange Banks : Foreign exchange business, a monopoly—Lower rates of interest and competition—Proposed restrictions—Its justification—Exchange business of the Imperial Bank. The second schedule to the Reserve Bank and Scheduled Banks.

IX JOINT STOCK BANKS AND THE MONEY MARKET (Continued). 164–176

Joint Stock Banks and the Co-operative Banks : The co-operative credit movement—Central Co-operative Banks—Provincial Co-operative Banks—Their relations—Link between primary societies and the Money Market—Relations with Joint Stock Banks—Different spheres of activity—Absence of unfair competition—Co-operative Urban Banks for traders, salaried servants etc.—Their scope. Relations between Co-operative Banks and the Imperial Bank: Cash credit facilities—Need for liberal treatment. Joint Stock Banks and the Land Mortgage Banks. Joint Stock Banks and Indigenous Bankers : Nature and extent of the business of the latter—No permanent link with the Imperial Bank or Joint Stock Banks—Temporary link in the busy season—Rediscounting and remittance facilities—Gulf separating them—Desirability of developing the indigenous system—Appointing them as agents—Modification of business methods—introduction of ' Kommandit ' principle. Joint Stock Banks and the Money Market as a whole,

X JOINT STOCK BANKS IN RELATION TO FINANCING OF AGRICULTURE AND INDUSTRY. ... ... 177–20!

Importance—Revival of rural credit—Assistance from banks. Agricultural Finance: Credit needs of agriculturists– Some differences between agricultural and industrial finance—Special treatment to the former—Credit agencies—Small direct part of the Imperial Bank and the Joint Stock Banks– Land, crops etc. unsuitable form of security—Recent sympathetic treatment by the Imperial Bank and a few Joint Stock Banks—Contrast with the 'Big Five' in England—Indirect assistance to the agriculturists—Advances against produce etc.—Suggestions—Absence of co-ordination between different agencies. Financing of Industries: Capital requirements—Two kinds, working and block. Major Industries: Meagre facilities—Divergent views regarding finance —Lack of elastic system of finance. Attitude of Indian capital towards industrial undertakings: Mofussil- Apathy of investing public in industrial enterprises—Capital in big cities mostly invested in Government securities and other bonds—Absence of investment trusts— Banking system inelastic and insufficient— Absence of industrial policy. Joint Stock Banks and Major Industries: Inadequate long-term finance—Conservative policy to underwrite industrial shares—Large margin on current advances—Little personal credit—Absence of technical staff—Higher rates of interest—Racial discrimination by the Imperial Bank—Private deposits and cotton mills.—Cottage Industries: Limited financial accommodation—Government attempt to assist them. German system of industrial finance: Supply of initial capital —'Konsortium' method—Issue of capital

through banks. Suggestions : Development on German lines—Mutual confidence—Closer connections—Liberal policy—Financial help to small industries : Industrial Commission's recommendations. Indian economic problem fundamentally industrial.

PART III

Reform of Joint Stock Banks

XI REFORM OF JOINT STOCK BANKING IN INDIA. 205–222

Joint Stock Banks and their difficulties : Little encouragement from Government— Competition from Exchange Banks—Effects of failures—Laws and customs—Difficulties easy to tackle—Government's progressive banking policy—Bank Act for regulation—New provisions of law—Lack of *esprit de cropse* between banks. Regulation of Banks : Present position—Inadequate control—Need for a special Bank Act—Interest of depositors—Banking regulations and restrictions—Views of Foreign Experts—Difficulties of framing a suitable Bank Act. Proposed Provisions : Licensing—Regulation by Memorandum and Articles of Association—Composition of directorate and distribution of share-holders—Prohibition of the Managing Agency System—Capital—Reserve fund—Cash reserves—Audit and loans—Form of balance sheet—Liquidation of non-Indian banks—Protection of banks from unjust attacks etc.—Beneficial effects of legislation.

XII REFORM OF JOINT STOCK BANKING IN INDIA (Continued). 223–239

Branch Banking : Comparative position—Need for more branches—Branch banking, a logical phase of banking development—Advan-

tages and disadvantages—Extension in the interior. Bank Amalgamations : Present trend —Main advantages. All-India Bankers' Association : Promotion of banking reform and prevention of unhealthy competition—Institute of Bankers. Need for economy and efficiency : Substantial increase in expenses—Salutary effect of the Reserve Bank—Adequacy of services—Need for more banking institutions. Elasticity of Credit : Dangers of over-expansion or stringency of credit—Inelastic credit structure—Responsibility of the Reserve Bank. Clearing Houses and Cheque Habit : Settlement of claims—Inconvenience in clearing cheques—Need for more clearing houses. Other Reforms : Mechanisation—Bank administration—Banking education.

XIII CONCLUSION. 240–245
Appendix A 246–250
Appendix B ... ... 250 A
Bibliography 251–253
Index 254–256

TABLES

Page.

Banks. (1806–1860)—Branches, capital, notes in circulation, specie and bills under discount. 30–31

Banks. (1906–1913)—Head offices, date of registration, paid-up capital and branches. 39

Banks. (1870–1913)—With capital and reserve of Rs. 5 lakhs and over—deposits and cash-balances. 40

Banks. (1890–1913)—Number, capital and reserve, deposits and cash-balances. 41

Banks. (1900–1913)—With capital and reserve less than Rs. 1 lakh.—number and paid-up capital. 43

Presidency Banks. (1870–1913)—Capital, reserve, deposits and cash-balances. 49

Bank of Bombay, Bank of Bengal & Bank of Madras } (1895 and 1913) Capital, reserve, Government deposits, other deposits, cash, investment and dividends. 50

Banks.—Average Bank Rates of the Presidency Banks from 1870–1913. 51–52

Presidency Banks. Area, population and per capita deposits. 53

Exchange Banks.—Deposits and cash-balances in India. (1870–1913). 55

Number of Banks started in the Bombay Presidency between 1906–1912. 57

Banks.—Proportion per cent. of cash to liabilities on deposits of the several classes of banks on 31st December each year (1907–1918). 59

Number of banks liquidated, their Authorised, Subscribed and Paid-up capital (1913–1918). 61

Bank failures and their paid-up capital according to Provinces (1913–1918). 62

Important Bank failures (1913–1918). 64

Number of Banks started in the Provinces during 1913–1916. 70

Banks—Increase in the deposits of the Presidency Banks, Exchange Banks and Indian Joint Stock Banks (1913–1918). 71

Bank deposits during the War compared with those of 1913—percentage increase. 72

Percentage of cash balance to liabilities on deposits of all types of banks. 74

Dividends of banks. 75

Total amount of cheques cleared from Clearing Houses in each year (1913–1918). 76

Capital, reserve, deposits, cash balances of principal Indian Joint Stock Banks in each year (1919–1925). 78

Increase in total resources of Joint Stock Banks (1919–1925). 79

Failures of Joint Stock Banks (1919–1925).—Number and capital involved. 81

Bank failures in different Provinces (1919–1925). 82

Progress of Joint Stock Banks (1926–1934). 84

—Class A— Number, capital, deposits and cash balances.
—Class B—Percentage of cash to liabilities and deposits. 84

Percentage of cash to liabilities on deposits of Joint Stock Banks. 86

Failures of Joint Stock Banks (1926–1934)—Number and capital involved. 87

Dividends of leading Joint Stock Banks. (1927–1935). 89

Progress of the three Presidency Banks during (1913–1920). 92

Individual Progress of the three Presidency Banks, during (1913–1920). 93

Capital, reserve, deposits, and cash balances of the Imperial Bank (1921–1934). 96

Progress of Exchange Banks. (1913–1934). 99

Balance-sheet of the Bank of India 104 A

Tables showing holdings of bills of exchange of the Imperial Bank of India and six Indian Joint Stock Banks. 118

Joint Stock Banks and their branches in different countries. 228

GRAPHS

Pages

Graph showing the Average Bank Rates of the Bank of Bengal, Bank of Bombay, and Bank of Madras. 52 A

Graph showing capital and reserves of the Indian Joint Stock Banks. 84 A

Graph showing Deposits of the Imperial Bank, Exchange Banks and Indian Joint Stock Banks. 86 A

PART I

GROWTH OF JOINT STOCK BANKS

JOINT STOCK BANKING IN INDIA

PART I

CHAPTER I

INTRODUCTION

Shipping, Insurance and Banking may be regarded as the three principal pillars essential for the stability of the industrial and commercial edifice of a great nation. In an Age, when the exchange of raw materials and manufactured articles has overflowed the national borders and has assumed an international form, it is but natural that shipping which helps transport of commodities over the sea, insurance which shoulders risks attached to such transfers and banking which lubricates the wheels of commerce by supplying the necessary finance within and beyond the borders of a nation should be regarded as the main high-roads to prosperity. It is no wonder, therefore, that modern economic progress depends *inter alia* on the effective mobilisation of the savings of the masses. Social interest is best served by ensuring a productive use of these savings through the agency of banks. But in a money economy securing the control of these savings is primarily a question of obtaining the requisite money funds. The essence of the problem, therefore, consists in gathering together all the surplus and scattered money resources of the people and in making them available to the farmer, the artisan, the entrepreneur and the trader so as to secure the highest possible social advantage. This supplies the key-note to the functions of a country's banking system. The encouragement of saving, the gathering together of the amounts thus saved, the promotion of productive investment

and of the effective utilisation of the resulting capital funds are the main services rendered by banks to the community at large.

It is nearly three quarters of a century since India was woven into the international fabric and began to be counted upon as a factor in world economy. Looking back from this distance at the development of banking in the country during this period, one is surprised at the very slow pace at which it has progressed. Although India may be proud of her high banking traditions in the past, she has been slow to modernise her indigenous banking system and found new banking institutions to suit new conditions. Indigenous banking which occupies even to this day an important position in the Money Market of India has failed to tackle the more complex problems of financing modern large scale industries and commerce. Small scale banking as in the case of the village money-lender or the city shroff is inadequate to meet the modern banking needs of the country. At a time when production was carried on in the artisan's cottage, when the market for such goods existed in the village itself or very near it, the village money-lender or the shroff could more readily and adequately finance these small industries and local trade with his own funds than he can do now. It is not meant, however, to disparage the services which the indigenous bankers have rendered to the country as bankers to the community from times immemorial but at the same time, it must be admitted that "organized as they are in disorganization", there is a severe limitation on their capacity to keep pace with modern banking requirements.

It was in the last quarter of the nineteenth century that industries on a large scale were started in India. The number of such industrial establishments increased year after year and the Great War speeded up the pace of progress. To-day when the market for the finished goods of these industries and the raw materials comprises of the whole of India and is often world-wide in its scope, when a great variety of goods is produced in anticipation of demand, it is not surprising to find that the financial needs of such industries could not be satisfied by the existing banking institutions. Moreover, since India was thrown open to the world, India's trade with other countries

has increased by leaps and bounds. The import and export trade, which runs into crores of rupees, alone requires credit facilities on a large scale. The inland trade of India—which is a continent in itself—has also expanded side by side and is believed to be several times her external trade. These changing conditions required that the scattered resources of the country should be pooled together by strong and powerful banks. In one form or another, therefore, it was essential that these banking institutions should collect the savings of the people and thus promote a healthy circulation of credit for the benefit of industries small and large. It was expected that deposit banking, which is the typical form of modern banking, would be given a fillip and that it would inculcate the habit of saving among the people, thereby creating a large reservoir of credit for financing the economic development of the country. Unfortunately these expectations, as will be seen later, were but poorly realized and banking in India is still in a state of infancy.

The development of Indian banking has been not only slow but fitful and marked by intermittent growth. No sooner the principle of limited liability was applied to banking companies in 1860 than high hopes were raised about the development of banking institutions on Western lines. But unfortunately these great expectations were only partially fulfilled and the growth of Joint Stock Banks continued to be very slow till the end of the century. It was only during the first decade of the twentieth century when the Swadeshi movement was very strong that an impetus was given to the starting of banks. Unfortunately, however, for the country banking found itself in the grip of a first-rate crisis in the immediate pre-war years and the war period in some ways intensified the gravity of the situation. Whatever might have been the reasons, there was a widespread failure of banks during 1913-1918. Of all the banking crises this was the most disastrous one. The majority of banks that failed during this period were no doubt small and weak, but the failures did much to weaken public confidence in Indian Joint Stock Banking as a whole and to check the growth of the banking habit in India.

The post-war period is very important from the banking

and of the effective utilisation of the resulting capital funds are the main services rendered by banks to the community at large.

It is nearly three quarters of a century since India was woven into the international fabric and began to be counted upon as a factor in world economy. Looking back from this distance at the development of banking in the country during this period, one is surprised at the very slow pace at which it has progressed. Although India may be proud of her high banking traditions in the past, she has been slow to modernise her indigenous banking system and found new banking institutions to suit new conditions. Indigenous banking which occupies even to this day an important position in the Money Market of India has failed to tackle the more complex problems of financing modern large scale industries and commerce. Small scale banking as in the case of the village money-lender or the city shroff is inadequate to meet the modern banking needs of the country. At a time when production was carried on in the artisan's cottage, when the market for such goods existed in the village itself or very near it, the village money-lender or the shroff could more readily and adequately finance these small industries and local trade with his own funds than he can do now. It is not meant, however, to disparage the services which the indigenous bankers have rendered to the country as bankers to the community from times immemorial but at the same time, it must be admitted that "organized as they are in disorganization", there is a severe limitation on their capacity to keep pace with modern banking requirements.

It was in the last quarter of the nineteenth century that industries on a large scale were started in India. The number of such industrial establishments increased year after year and the Great War speeded up the pace of progress. To-day when the market for the finished goods of these industries and the raw materials comprises of the whole of India and is often world-wide in its scope, when a great variety of goods is produced in anticipation of demand, it is not surprising to find that the financial needs of such industries could not be satisfied by the existing banking institutions. Moreover, since India was thrown open to the world, India's trade with other countries

has increased by leaps and bounds. The import and export trade, which runs into crores of rupees, alone requires credit facilities on a large scale. The inland trade of India—which is a continent in itself—has also expanded side by side and is believed to be several times her external trade. These changing conditions required that the scattered resources of the country should be pooled together by strong and powerful banks. In one form or another, therefore, it was essential that these banking institutions should collect the savings of the people and thus promote a healthy circulation of credit for the benefit of industries small and large. It was expected that deposit banking, which is the typical form of modern banking, would be given a fillip and that it would inculcate the habit of saving among the people, thereby creating a large reservoir of credit for financing the economic development of the country. Unfortunately these expectations, as will be seen later, were but poorly realized and banking in India is still in a state of infancy.

The development of Indian banking has been not only slow but fitful and marked by intermittent growth. No sooner the principle of limited liability was applied to banking companies in 1860 than high hopes were raised about the development of banking institutions on Western lines. But unfortunately these great expectations were only partially fulfilled and the growth of Joint Stock Banks continued to be very slow till the end of the century. It was only during the first decade of the twentieth century when the Swadeshi movement was very strong that an impetus was given to the starting of banks. Unfortunately, however, for the country banking found itself in the grip of a first-rate crisis in the immediate pre-war years and the war period in some ways intensified the gravity of the situation. Whatever might have been the reasons, there was a widespread failure of banks during 1913–1918. Of all the banking crises this was the most disastrous one. The majority of banks that failed during this period were no doubt small and weak, but the failures did much to weaken public confidence in Indian Joint Stock Banking as a whole and to check the growth of the banking habit in India.

The post-war period is very important from the banking

point of view inasmuch as after the crisis of 1913-1918 leading men began to think seriously about the defects and dangers of India's free banking system which had no co-ordinated banking policy to guide it and each bank conducted its business entirely in its own way, without any control from a central banking institution. Co-operation and co-ordination of policy, however, on the part of the Presidency Banks in financing the war operations of the Government during the latter part of the war clearly showed the advantages and need for centralising the banking system of the country. It did not take much time to convince the people of the danger that if the Presidency Banks were to remain isolated from the rest of the banking institutions, powerful foreign banks might secure excessive influence and predominance in the banking system of India in the post-war banking reconstruction in the country. Public opinion in India, therefore, strongly urged the creation of a Central Bank. The desirability of imposing certain restrictions on Joint Stock Banks also received considerable attention during this period and suggestions were offered to provide legal safeguards for protecting depositors as well as the banks themselves. The bank failures also demonstrated the need for having a trained body of men, " as sound banking ", it has been well said, " in the last resort depends not merely on good banking laws but also on good bankers. " Another matter that seriously attracted public attention during this period was the problem of creating confidence among the vast number of the less wealthy and less educated classes in the country who have small savings and who are always nervous about the risk of entrusting them to the care of others. In these circumstances the concensus of opinion in India was strongly in favour of a systematic reconstruction of the banking structure of the country.

This laudable desire was further strengthened by certain world-factors. The establishment of the Commonwealth Bank of Australia, its efforts to develop Australian industries and to strengthen the position of Australian banks came to be watched with interest in this country. Similarly the successful efforts at banking reconstruction in the United Kingdom, particularly in connection with the establishment of the British

Trade Corporation and the several striking bank amalgamations in the recent years showed the possibility of carrying out a similar reform in India. Lastly, the successful experiment of establishing a central banking system in the United States of America by the Federal Reserve Act of 1913 inspired enthusiasm for a similar experiment in India. Encouraged by these attempts elsewhere, all the interests concerned clamoured for a thorough over-hauling of the banking system of the country.

The close of the second decade of this century was marked by the first active step taken in this direction. The Imperial Bank of India Act of 1920 amalgamated the three old Presidency Banks into the Imperial Bank of India which, it was intended, was to be gradually developed into a full-fledged Central Bank. But a new turn was given to this question by the recommendation of the Hilton-Young Currency Commission (1926) in favour of the creation of a brand new Central Bank to be called the Reserve Bank of India in supersession of the Imperial Bank which was not well fitted to function as a Central Bank owing to its numerous branches and commercial character. The Imperial Bank was instead to be left free to pursue its career as a great commercial bank the need for which was also very pressing. The subsequent history of this recommendation and the fate of the two (1927 and 1928) Blackett bills are well known. The attempts at the creation of a Central Bank proved to be abortive owing to acute differences between the Government and the Assembly as regards the Directorate of the Bank. In 1927 a resolution was passed by the Indian Legislative Assembly expressing its extreme dissatisfaction with the progress of banking in India and demanding a comprehensive enquiry into Indian banking. This demand was supported by the Indian Economic Conference, the Federation of Indian Chambers of Commerce and Industry and the Associated Chambers of Commerce of India.

The institution of a comprehensive banking enquiry subsequently in 1929 was an event of great importance in the post-war banking developments. As many as ten Provincial Committees, nineteen committees of the Indian States and an All-India Central Committee surveyed the whole field of banking. Their reports (1930–31) are a veritable mine of information and may

be looked upon as a valuable guide to the reform of the banking system of the country. So far only a few recommendations of the Committee such as the establishment of Land Mortgage Banks and of the Reserve Bank have been given effect to and action yet remains to be taken over a wide range suggested by the various Committees. The successful passing of the Reserve Bank of India Act in 1934 and the inauguration of the Reserve Bank in April, 1935 showed the intention of the Government to remove the defects of the Indian banking and credit system and to secure its development on a sound basis. Again, at the end of four years of the world economic depression the attention of the people has centred round 'reconstruction and recovery.' They have put forward a demand before the Government for the creation of a national economic organization or an agency to plan and carry out a comprehensive programme of economic development and thus make up for the lost opportunities. Since banking is one important phase of the larger economic organization, planning in the field of banking is of no less account.

In view of the great importance which banking has assumed in recent years, it was thought that the problems facing Joint Stock Banking in India could well be studied with advantage by isolating them as far as possible from the rest of the field. These are not quite the same as those in European countries or the United States of America or even Japan. In these countries, the masses of the population are educated, their business capacity and economic achievements are of a high order and they have already built up a satisfactory standard of living for themselves. India, on the other hand, has a far larger population than any of them and the average standard of living here is very low. The first and foremost aim of all our efforts should, therefore, be the economic development of the country. This postulates, however, the provision of adequate capital funds for financing the schemes of economic reconstruction. Joint Stock Banks play a vital part in supplying the sinews required for the economic regeneration of the country. Hence, before any scheme of economic planning is launched, we must see to it that there are adequate banking and credit facilities available in the country.

This book is divided into three parts corresponding to the three main groups of problems raised by the study of Joint Stock Banking in India, *viz.*, growth, organization and reform of Joint Stock Banks. Part one is devoted to the history of Joint Stock Banks in India. The historical survey naturally includes also indigenous banking, a proper understanding of which is essential to any study of the banking system of the country. Accordingly, chapter II includes a resume of the indigenous banking system. This is followed by the history of early European banking in India, *viz.*, the early Joint Stock Banks, the Presidency Banks, the Government Savings Banks and the Military Banks. Chapter III deals with the history of Joint Stock Banks from 1860, when the principle of limited liability was applied to banks, to the outbreak of the Great War which may be regarded as constituting another landmark in the evolution of Indian banking. In the same chapter the history of the Presidency Banks and the Exchange Banks has been traced up to the close of the pre-war period. Chapter IV deals with the war-period the study of which is interesting partly from the standpoint of the severe banking crisis of 1913–1918 and partly from the many far-reaching consequences of the war on the Indian banking system. Chapter V deals with the post-war period and brings down the historical narrative to the present times.

Part two is mainly devoted to the organization of Indian Joint Stock Banking. Chapter VI contains a detailed analysis of the balance sheet of a typical Joint Stock Bank, *viz.*,—the Bank of India, Ltd.—illustrating the nature of its business which is representative of that transacted by similar institutions. The Imperial Bank of India and other *Big* Joint Stock Banks of India have been briefly surveyed in VII chapter. Chapter VIII examines the relations of Joint Stock Banks with the Money Market and its various constituents. The relations with the central part of the Money Market, *viz.*, the Reserve Bank of India, the Imperial Bank and the Exchange Banks are studied in this chapter; while chapter IX deals with the indigenous section of the Money Market, the Indigenous Bankers and the Co-operative Banks. In view of the intimate relationship between banks and industry, a separate chapter X has been

devoted to the study of the relation between Joint Stock Banks and the financing of agriculture and industries.

Part three of this book is wholly occupied with a consideration of the lines on which Joint Stock Banking reform can be carried out. Chapter XI deals with the present difficulties of Joint Stock Banks, their solution and regulation of such banks. Chapter XII is a continuation of the last chapter. It considers the remaining aspects of Joint Stock Banking reform, *viz.*, branch banking, bank amalgamations, need for economy and efficiency, elasticity of credit, clearing houses and the cheque habit, mechanisation, bank administration, banking education and banking statistics. The last chapter XIII contains the main conclusions regarding the future of Joint Stock Banking in India.

A study of these successive chapters will reveal the fact that the present position of Joint Stock Banks in India leaves much to be desired. There is a vast field for the expansion of commercial banking in this country. It is by no means intended to underestimate the need of indigenous bankers and the Co-operative Banks. Their spheres of activity are, however, for a long time to come, bound to remain largely distinct inasmuch as the progress of banking in future may be expected to proceed on the lines of specialisation, probably even more than in the past. Each kind of banking institution caters to a particular banking need of the community. A proper comprehension of this fact should help to avoid clash of interests and embitterment of feelings and to lead to healthy co-operation and common understanding. The economic destiny of a nation would be bright if all the institutions in the country worked towards a common end. It is well said that there is strength in unity. This commonsense maxim is as much true in the banking sphere as in life in general.

Now that the Reserve Bank has been established, it may be hoped that the unification and reformation of the banking system in the country will be more rapidly achieved. In the brief period that has elapsed since its inception the authorities have shown that they are conscious of this aspect of Indian banking. Let us hope that it will not be lost sight of in the years

to come lest we should remain far behind other countries in a world which is fast progressing. One must bear in mind that in the present age 'the race is to the swift and the battle to the strong.' A well-planned and vigorous banking development is the greatest need of India of to-day.

CHAPTER II

HISTORY OF JOINT STOCK BANKING IN INDIA

I. INDIGENOUS BANKING

For a proper understanding of the growth of Joint Stock Banking in India and its present position a brief survey of the history, structure and functions of indigenous banking is necessary.

Banking was known and practised in India at a time when the rest of the world had yet to evolve a medium of exchange in the form of money. This fact alone, among other things, bears testimony to the higher stage of civilisation reached in India. Division of labour and specialisation were not unknown. In fact they were made possible by the use of money. "From times immemorable the banker has been an indispensable pillar of Indian society. There is plenty of evidence to show that even prior to the advent of occidental ideas, India was no stranger to the conception of banking."[1] Even though those banking institutions, which are known as indigenous, have fallen on evil days, the part played by them, directly or indirectly, in shaping banking development in this country is far too great to be easily forgotten. For, "the banking system of a country is determined by local circumstances, partly economic and partly historical. There may not be any conscious design to suit the environment but ultimately the circumstances mould the constitution."[2] The present day banking in India has rather evolved, and has not been consciously created, from the age-long institutions.

Banking in India can be traced back to money-lending in the Vedic period (about 2000 B.C.), but neither evidence

1. M. L. Tannan, Banking Law and Practice in India, p. 21.
2. Report of the Bengal Banking Inq. Comm., para 420.

of its being followed as a profession by any section of the people, nor details about the terms on which money was lent, are available. Banking thus developed through borrowing for private needs or for the game of dice and the failure to repay debts was a matter for condemnation, sometimes entailing slavery on the debtor.

It is from the 5th century B.C. that Indian literature supplies us with definite information about the details of money-lending and of remittance of money in cash or by credit instruments. Information for this period, *i.e.*, from the 5th century B.C. to the 4th century A.D. is mainly derived from the Budhist Jatakas (or birth-stories), the Mahabharata, a few books comprised in the Budhist Tripataka, Kautilya's Arthashastra and the earlier Dharmashastras.

The Budhist works present us with a picture of well-organized banking institutions called *srenis* (guilds) carrying on various commercial and industrial activities. These guilds also served as bankers to the community, receiving permanent deposits and holding religious benefactions, but in course of time they appear to have opened up the field of deposit banking by serving as banks and thus stimulated deposits for charitable purposes.

The *Sresthis* or the prominent indigenous bankers occupied eminent positions in these guilds. Their main function was to finance the traders for the ordinary purposes of their trades, the merchant adventurers who went out by sea to foreign countries or explorers who traversed forests in search of valuable materials and the kings in times of wars and other financial stress. The richer among the *Sresthis* were called the Mahasresthis. The wealthiest among the Sresthis was usually made the royal treasurer.

Money-lending was then the main business and Budhist texts abound in references to these practices. There are also a few instances where money was lent without interest. But the more common practice was lending money on interest. Payments could be made in cash or kind or by performance of an allotted task. Loans were advanced mostly without any written bond or other similar documents. Failure to pay the principal or the interest was visited with imprisonment.

Coming to the early Hindu period, we find that deposit banking was in vogue during this period.[1] Manu devotes two chapters to 'Deposits and Pledges and the Recovery of Debt.' The indigenous banker was the trusted custodian of the deposits of people and royalty alike and he financed not only the trade of the country but also the requirements of the royal treasury.[2] After the first century A.D. indigenous banking begins to prosper and in the fourth century A.D. we find evidence showing that the Multanis had established their position as indigenous bankers.

Coming to the Mohammedan era, the invasions of India which initiated a period of uncertainty and insecurity were bound to affect the old institutions. In spite of this early setback, they received during the Moghul rule a great encouragement from the state, as can be seen from the history of the house of the Jagat Seth in the 17th and 18th centuries. The multiplicity of Kings, Princes and Chieftains in the land gave them their principal occupation as shroffs and money-changers till the days of the East India Company. Bankers have at all times, and in all countries been the pillars of strength to the kings. From the available accounts we find that Indian rulers had also to depend on wealthy bankers in times of financial difficulties. But sometimes the tables were turned against them and these kings and chieftains refused to repay the loans and even plundered some of the banking houses. For example, Grant Duff writes that in 1742 Mir Habib, a general of the Mahrattas, plundered the banking house of the Jagat Seth, then managed by Alamchand, to the extent of the enormous sum of two millions and a half sterling.[3]

With the fall of the Moghul Empire indigenous banking received a rude shock. Already with the advent of the English their position had begun to change. On coming to India, the East India Company could not utilise the machinery of indigenous banking for the financing of trade. They on their side were not conversant with the language of the indigenous bankers, while these bankers had at first no experience of the

1. L. C. Jain. Indigenous Banking in India, p. 8.
2 Report of the Bombay Banking Enq. Comm. Vol. I., para. 251.
3. History of the Mahrattas Part I, page 427.

finance of Western trade. Yet, their important position was recognised and for some time they were treated with great consideration. But by the end of the eighteenth century the indigenous bankers appear to have been shorn of much of their glory. The incessant wars and unsettled conditions of life which marked those days had marred their business. It was no longer safe for people to entrust to them their savings which consequently began to be secreted away in hoards. They were sometimes unable to redeem their promises, some of them were led to adopt questionable devices, while not infrequently they were cheated by their customers. Individual bankers, however, continued to prosper and they usually combined commerce with banking.

Their position deteriorated still further during the later years of the regime of the East India Company when the currency system of the country came to be unified during the first quarter of the 19th century with the establishment of the East India Company as the main sovereign power in place of a number of petty principalities. This did away with the most profitable business of the shroffs, *viz.*, money-changing. They also ceased to be state financiers in consequence of the East India Company transferring its patronage first to the European Agency Houses and later to the Presidency Banks and maintaining its own treasuries. Even though he was affected by early European banking in India, broadly speaking it may be said that the indigenous banker maintained a separate existence without forming any connection with the early European banks. The operations of the early banks were confined to giving facilities for deposits and remittance to Europeans and to financing of the foreign trade. So the two kept apart and no concerted effort was made to co-ordinate them, although, after a time, indigenous bankers found it profitable to increase their capital resources by borrowing from the Presidency Banks and later from the Imperial Bank, or to act as sureties for other borrowers from these banks.[1]

To this day despite the establishment of the Joint Stock Banks a good deal of banking business has remained in the

1. This subject is discussed more fully later.

hands of the indigenous bankers in all parts of the country, as can be seen from a recent remark of Sir George Schuster that 90% of the banking activities are still accounted for by indigenous banking. As it exists, the system of indigenous banking is an institution in itself, with its fine traditions concerning the respectability, resourcefulness and integrity of its members, their hereditary relations and close personal contact with their clientele and simple inexpensive and popular methods of work. As a credit agency that has stood the test of centuries, notwithstanding political convulsions, revolutions and changes in dynasties, it occupies a unique position to-day in respect of the magnitude of its operations and its importance to society. Its development has naturally proceeded on lines suited to the commercial and financial genius of the people, their local requirements, habits, customs and traditions. It is not, therefore, organized on the lines of the modern banking institutions of the country which are modelled on the Western system of banking.[1]

Under the altered conditions, however, the shroffs acted as middlemen between the Presidency Banks, whenever necessary, thus performing functions analogous to those of the bill-brokers of the London money market. Since those days they have served as a connecting link between the vast trading community on the one hand and on the other, the banks which have availed themselves to some extent of their local knowledge and utilized their services in handling the internal bills of exchange.

There are a few indigenous bankers who carry on the business of banking alone. The majority of indigenous bankers, however, combine banking with some form of trade, wholesale or retail. While such a combination is disfavoured by modern banking theory and practice there exist some solid reasons in favour of it. The Bengal Banking Enquiry Committee justify the Indian practice as follows :—

> " The combination of banking with trade existed in the past and the fact that it has been subsisting to-day confirms the opinion that such combination is not unsound and is a special form of banking evolution suitable to the

1. See Report of the Bombay Banking Enq. Comm., para 252.

conditions of the country. The personal relations which grow out of trade have to a great extent been responsible for making the function of banking attractive to the trader as such relations help him to turn his surplus to good account. The lending operations undertaken by him have furthered the indirect and no less important effect of securing an advantage in his trading business, because the loans made to the producers bind them to the lending trader by a tacit or explicit understanding to sell their produce to him. Lastly, the banking business is of paramount importance to the trader in the remittance of his funds and collection of his dues."[1]

The profession of indigenous banking was not, and to-day is not, confined to any particular caste. So far as money-lending is concerned, anyone and everyone takes to it. The class of money-lenders includes Indian women, especially widows, who advance money against the security of gold and silver ornaments.

But in the province of banking proper, the principal caste engaged in carrying on banking operations is the Vaishyas. This includes Jains, Marwaris and Chetties who are the most important bankers in India. There is hardly a commercial town in which they are not to be found. The activities of the Chetties extend beyond India to Burma, Ceylon and other countries. Next to the Vaishyas there are, in the Punjab, the Khatri and the Arora bankers. The Khatris claim to be the Kshatriyas, while the Aroras are one of their sub-castes. There are some minor banking castes such as the Shikarpuri Multanis who flourish in Sind, and the Rehtis, called Bohras, who are to be found working chiefly in Gujarat and in the North-West of the United Provinces. The Mohammedans being forbidden by the Koran to receive interest are conspicuous by the almost negligible position which they occupy to-day in the Indian banking community.[2] But in recent years their outlook has changed a great deal and according to Darling 'the Punjab Mohammedan is beginning to take interest like the ordinary

1. Report of the Bengal Banking Enq. Comm., para 372.
2. L. C. Jain. Indigenous Banking in India, pp. 27–34.

money-lender.'[1] Finally mention may be made of the intinerant Pathan money-lenders, who come to India from across the border and have no fixed homes. But their customers are generally needy small folk such as labourers, grooms, stablemen and other menials. Their methods are also often violent and at times they constitute a social menace.

The indigenous bankers till recently were largely disorganized and even to-day there is very little contact among them. Steps have, however, been taken to start associations; for instance, in Bombay there are the following well-known associations of indigenous bankers[2]:—

(i) The Bombay Shroffs' Association.
(ii) The Marwari Chamber of Commerce.
(iii) The Commission Agents' Association.
(iv) The Multani Bankers' Association.
(v) The Shikarpuri Shroffs' Association.
(vi) The Ahmedabad Shroffs' Association.

These associations render a valuable service in bringing these bankers together and binding them to one another in their common interest. Another service rendered by them is in respect of settling disputes among their members who would otherwise have recourse to the law courts. These associations would prove to be very valuable in forming links with Western type of banks in general and the newly constituted Reserve Bank of India.

The Provincial Banking Enquiry Committees attempted to obtain the statistics regarding money-lenders and indigenous bankers but their reports show that reliable statistics are not available.[3] So also no reliable estimate of the working capital of the indigenous bankers is available; neither is it possible to gauge the volume of business financed by them. But it is a fact universally recognised that although the share of the indigenous bankers in financing the foreign trade of the country is negligible, amongst the agencies financing agriculture and the internal trade and small industries in the Provinces, they occupy a

1. Cf. The Punjab Peasant in Prosperity and Debt by M. L. Darling, p. 229.
2. See. Bombay Committee, p. 195.
3. The Central Banking Enq. Comm., para 257.

predominent position. " The Burma Committee have estimated the total of Chettiyar capital employed in Burma at Rs. 75 crores, of which Rs. 53½ crores are borrowed from non-Chettiyar sources including banks and about Rs. 11½ crores obtained from deposits. The Madras Committee estimated the capital (owned and borrowed) employed in the Presidency by the Nattukottai-Chettiyar agencies at Rs. 11 crores."[1] As regards Bombay, the Bombay Banking Enquiry Committee has said that "on a conservative estimate their share in this business may be computed at 70 to 80 per cent. of the total."[2] The United Provinces Banking Enquiry Committee mention the same difficulties encountered in the collection of statistics regarding capital. " The Income-tax department's estimate of money-lenders capital is 20 crores, and 5 crores for those whose income is between Rs. 1,000 and Rs. 2,000. It is impossible to obtain any accurate figures for the small men whose income is below Rs. 1,000. These estimates are all incredibly low, and the department admit it freely."[3] Because the indigenous bankers and money-lenders are disorganized and scattered without being amenable to any law, any attempt at collecting statistics regarding their capital or number is bound to be defeated. It is, however, essential that steps should be taken as early as possible to collect information in these directions.

It is very difficult to say which of the causes which brought about the decline in the importance of the indigenous bankers was the immediate one. Yet, it is certain that the indigenous machinery, based on conditions which were rapidly changing since India was opened to the world, was bound to creak when it had to face hitherto unknown problems. " The failure of the indigenous bankers to adjust themselves to the new circumstances must be ascribed not to their narrowness or conservatism but to the circumstances of the time. During the latter half of the eighteenth century, when the East India Company was in power without responsibility, most of the foreign trade passed out of the hands of the people. The inland trade was also monopolised by the servants of the company for a consider-

1. Ibid, para 125.
2. The Bombay Banking Enq. Comm., para 257.
3. The United Provinces Banking Enq. Comm., para 450.

able time. As a result of this, the indigenous bankers naturally lost their old predominence....."[1] Even though this may not be an incorrect diagnosis of the deterioration of the indigenous bankers, it cannot be denied that one of the great causes leading to their decline, and which is true to some extent even to-day, was their failure to adapt themselves to changing conditions. The problem before them was either to break or bend and naturally their conservatism caused a break in the established reputation.

With the decline of the indigenous bankers and the gradual progress of English trade and dominion in India, a need was felt for the establishment of banks which would meet both administrative requirements and the demends of trade. This led to the foundation of early European banking institutions.

Even though indigenous banking had reached a certain perfection before the English appeared in this country, as previously pointed out, they could not make use of the indigenous system. It was well-nigh impossible, at least in the earlier stages, to overcome the barrier of language. The gulf created by this handicap was further widened by the lack of knowledge on the part of indigenous bankers to finance the foreign trade on Western lines. Even though an honest attempt was made to overcome these handicaps, the English traders could not wait till a rapprochement between the two systems was effected. They established instead Agency Houses in Calcutta and Bombay.

II. EUROPEAN BANKING

AGENCY HOUSES

Thus with the decline of the indigenous bankers a new chapter concerning European enterprise in the history of Indian banking starts. The Agency Houses started in Calcutta and Bombay were not merely bankers attracting deposits and granting loans. They had combined banking with general trading which was their main preoccupation. They were shopkeepers, ship-owners, proprietors of breweries, tanneries, distelleries, cotton, flour and saw-mills. These houses became the agents for the

1. H. Sinh, Early European Banking in India, p. 165.

civil and military services and also for the European bankers and merchants who settled in the country. According to Crawford they had originally no capital of their own and depended almost wholly on the savings of the servants of the East India Company. These Agency Houses were chiefly formed of gentlemen, who had been in the civil and military services, who finding their habits better adapted to commercial pursuits, obtained permission to resign from the service of the Company and engage in agency and mercantile business. They received the accumulated amounts of their funds in the Company's service. They lent them to others or employed them themselves for the purposes of commerce; they were in fact the distributors of capital rather than the possessors of it. They made their profits in the usual course of trade and by difference of interest on lending and borrowing money and by commission. Besides this they received deposits from the public. They loaned out this money for financing the movement of crops and the indigo business, silk or opium and cotton. The banking business of the East India Company was entrusted to some of these concerns in Calcutta and Bombay. Thus there is evidence to show that as Calcutta gradually rose in importance the money market was shifted to Calcutta from Moorshidabad and in the year 1771 the Treasury or the *Khalsa* was also removed there.

The interest rates charged by the Agency Houses were very high, the average rate being 12 per cent. It could not have been higher since the legal rate of twelve per cent. was the maximum prescribed by law. But several other charges were added, *viz.*, a charge of one per cent. on receipts and disbursements. Altogether the rate the borrowers had to pay was about 18 to 20 per cent. In addition, the borrowers had to insure their lives and for this the charges amounted to the premium. But their business skill enabled them to pocket this premium by taking upon themselves the risk. This was, therefore, a device used by them to enhance the final rate of interest thus avoiding the anti-usury laws which were in vogue at the time.

In addition to these functions, some of them issued paper money which was considered by them as extremely beneficial

for carrying on their operations.[1] In fact this was a very profitable business as there were no rules regarding the reserve which was to be kept against these notes. As stated above they had a virtual monopoly of the whole of the foreign trade of the country which, as far as is known, was then many times bigger than the trade of England. Their position in this respect was still further strengthened by their command over shipping as many of them were ship-owners.

There is no definite information available regarding the number of the Agency Houses, but it is certain that it was considerable. Some of them were famous and the Hon'ble F. J. Shore says that "six or seven of these Agency Houses stood conspicuous in the City of Palaces."

These Agency Houses, which became the forerunners of Joint Stock Banks established on European lines, received a rude shock in 1813 when the trade with India was thrown open by the Charter Act of that year. New firms entered the field and the old ones were bound to experience severe competition from them. The Agency Houses heedlessly continued to indulge in their mercantile speculations as before in the same old style, investing freely in houses in Calcutta, indigo works, coal mines, ships, coffee and spice plantations, clearing desert islands as proprietors of lands, and working cotton, silk and flour mills. By 1825 their position became very risky so that a competent observer, Mr. Trotter, suggested the formation of new Agency Houses in the place of the defective old ones. But this suggestion had hardly any effect and the Agency Houses began to go to the wall one after the other.

The immediate cause of their failure was the withdrawing of money by their constituents on the pretext of sending remittances to Europe. Not long before Messrs. Palmer and Co. failed, this withdrawal of money became insistent and the Houses had to borrow money by pledging property to meet the demands of their constituents. An even more serious cause was the attitude taken by their correspondents in England who refused to honour bills drawn on them. This meant a complete handicap to the Agency Houses in respect of their banking business.

1. The Central Banking Enq. Comm., para 26.

As a result Messrs. Palmer and Co., Messrs. Alexander and Co., and other reputed Houses failed in the crisis of 1829–32.

The general disaster that befell the depositors of the city was almost unparalleled. It brought complete ruin to many widows and pensioners whose savings of a life-time were wiped out before they could take any steps to withdraw them. These Houses had attracted large deposits by offering tempting interest rates which were not warranted by the prevailing conditions. The partners in the Agency Houses did not suffer much as most of them realising the coming storm returned home with fortunes leaving penniless adventurers to take their place in the fallen Agency Houses.[1]

III. THE EARLY JOINT STOCK BANKS

The next chapter in the history of European enterprise in banking in this country opens with the attempts at establishing organized banking institutions on Western lines. According to Cooke probably the first institution of this type was the Bank of Hindusthan started in 1770 by the Agency House of Messrs. Alexander and Co. Later investigations have thrown doubt on this statement and it is likely that one or two attempts were made earlier than this. Most probably the credit of starting the first European managed banking institution belongs to the province of Madras. It was, however, a Government institution managed by its officers belonging to the Council.[2] The bank was probably started in 1688.

Chronologically the next attempt was made at Bombay. Again it was the Government that pioneered the way. The scheme of this bank was duly prepared by Messrs. Brown and Phillips and placed before the Council for approval on 25 July, 1720. The Bank commenced its operations immediately as the scheme was sanctioned at the same sitting. During the scarcity of specie in 1770 the Bank was authorised to issue notes but the total amount of issue was limited to Rupees eight lakhs. The Bank, therefore, planned more ambitious scheme

1. Rau, Present-Day Banking in India, p. 203.
2. Ibid, p. 168.

to attract deposits on current accounts by paying in the beginning a deposit rate of five per cent.

The Bank of Hindusthan was started as stated above by Messrs. Alexander and Co., a leading Agency House, in 1770. There were severe runs on the Bank in 1791, 1819, and 1829; after resisting these runs it failed in 1832 in consequence of the failure of Messrs. Alexander and Co. The Union Bank of Calcutta and the Agra and the United Service Bank arose on the ruin of the Agency Houses. The former closed its doors in 1848. The first Bank of Benares also failed in a short time after it was started.

Cooke gives a list of 39 banks that were started between 1770 and 1870. Besides this he mentions the unsuccessful attempts that were made during this period to start banks in London with the sole purpose of conducting banking business in India. He mentions the attempts of the London merchants to found the 'East India Bank' in 1836. R. M. Martin strove his level best to secure a charter for his projected 'Bank of Asia' in 1840. Similarly in 1852 the London Bank of Australia and India was projected but owing to the opposition of the colonial office in London it failed to secure a charter. Cooke gives no information regarding the Government Bank of Madras, the General Bank and the Carnatic Bank.

The earliest bank unconnected with the Agency Houses was the Bengal Bank. The exact date of the establishment of the Bank is not available, but it is certain that it was different from the Bank of Bengal which was started under the name of the Bank of Calcutta in 1806. It was prohibited from engaging in commerce and the Calcutta Gazette makes this clear. " As the business of the Bank will be continued upon the same plan as Banking houses in England, the Bank will not engage in any commercial concerns excepting the purchase of bullion. "[1]

The General Bank of India was opened in 1786. This was, as far as is known, the first Joint Stock Bank with limited liability, perhaps first in the Empire because this principle was

1. Calcutta Gazette, March 16, 1876, quoted by H. Sinh, Early European Banking in India, p. 8.

applied in England as late as 1855. Even at this date banks were excluded from this privilege. It was only after the crisis of 1857 that this principle was extended to the banks, but care was taken to exclude notes from this principle. The Deed of Agreement, which may be compared to the Memorandum of Association, or the Articles of Association, contained words which clearly showed that the liability was limited. It said "……and these presents are upon this express condition that nothing in these presents, or in the said plan contained, shall extend or be construed or deemed to make the several persons subscribing and executing these presents or their estates, goods, chattels, or effects, liable to pay any loss or losses, debt or debts that may happen or fall upon, or be owing by the said society, further than or beyond the respective share or shares of each subscriber to the said joint stock or capital of the said society …… ."[1] It was a peculiar provision that the cashier and the secretary were also to hold shares of the bank.

The General Bank gradually grew in importance and the Bank of Bengal was relegated to the background. It was appointed bankers to the Government in 1787. In spite of the keen fight put up by the Bengal Bank and the Bank of Hindusthan, the General Bank continued to make headway because it made an honest attempt to stamp out corruption, it enforced strict measures against high officials with a view to prevent abuses. Furthermore, it improved methods of business all the while looking to the creation of efficiency, and offered special facilities.

This competition from the General Bank compelled the Bank of Hindusthan and the Bengal Bank to seek openings in new lines like the exchange business. Another result of this competition was the reduction in the discount rates. The General Bank made a steady progress because of the special features it had developed. The Bank made arrangements for the financing of inland trade for bringing goods from the mofussil to Calcutta.

But with the currency difficulties of 1787, ill-informed aspersions and unjust criticisms were cast on the General Bank. After the famine of 1788 it could not lend money to the Govern-

1. H. Sinh, Early European Banking in India, pp. 22–23.

ment at the usual rate of 8 per cent. Government connection, therefore, with the Bank was severed in 1789. The Bank was voluntarily dissolved by liquidation on 31st March 1791.

Lord Mecartaney made an attempt to start a bank in connection with the settlement of the debt with the Nawab of Carnatic and Tanjore. Information about this bank, which was named the Carnatic Bank, is available from a few lines of Cooke. " This is the name of a Bank in existence at the Madras Presidency in 1791. At present we are without knowledge of the proprietory body and other particulars."[1] " All the later writers including Symes Scutt repeat the same information and have nothing to add. Even in the book on the Early European Banks no mention is made of the Carnatic Bank, which undoubtedly must be considered as one of the earliest European Banks conducting business in the country."[2] According to Mr. H. D. Love, the Carnatic Bank was the first Joint Stock Bank in the Presidency of Madras under the Governorship of Sir Archibald Campbell. The object of the Carnatic Bank was to " receive money, issue bills and notes and discount bills and notes and other securities after the manner of the most respectable bank in London. Its capital was 1,20,000 star Pagodas divided into eight shares held by founders....."[3]

It is very difficult to know when this bank failed. The chroniclers of this period have failed to provide us with any information and authentic record. But it appears that it must have failed immediately after 1808 when Lord William Bentinck's Government Bank started its business in right earnest.

The financial panic in Calcutta in November 1791 upset the working of banks. There was a severe run on the Bengal Bank and the Bank of Hindusthan and the Bengal Bank suspended payment on 28th November. Both the Banks solicited Government help and the latter readily agreed to advance 5 lakhs to the Bengal Bank and 1½ lakh to the Hindusthan Bank at 12 per cent. per annum. The offer of a loan was rejected by the Bengal Bank and ultimately it went into liquidation

1. C. N. Cooke, Banking in India, p. 392.
2. Rau. Present-Day Banking in India, p. 173.
3. Ibid, p. 173.

Coming back to the Presidency of Madras we find that there was another institution, *viz.*, the British Bank working in Madras. Besides this there was also another bank working in 1805 known as the Asiatic Bank. The keen rivalry exhibited by these banks disappointed the general public with their business. Lord William Bentinck, therefore, prepared his plan of the Government Bank in those days when the private credit failed to create the requisite banking machinery.

The second Government Bank of 1805 was started on the recommendations of the second Finance Committee, the first being appointed in 1798. Brunyate considers it "more a treasury than a bank."[1]

The Bank undertook deposit and discount business; it also issued notes. The notes of the Bank were recalled by a proclamation dated 29th November, 1808. The business of the Bank consisted in purchasing bullion for the Mint and managing the remittance business to Bengal. It had no capital of its own. Latterly the Bank had little connection with the Government save for small withdrawals of specie from the Treasury. Mr. J. Octterlony outlined a scheme of reorganizing the Bank. The capital of the new Bank was to be thirty lakhs of rupees of which three lakhs were to be offered by the Government. The Bank was actually started in 1843 as a Presidency Bank. However, the old Bank had been in its days "a great accommodation to the public, a safe depository for unemployed balances and a source from whom the man of principle and integrity has been relieved in a moment of necessity and upon which he has relied with confidence but alike many other good things it has suffered from abuse and a system of dealing and procuring accommodation the most injurious to the man of straightforward dealing and conscientious punctuality."[2]

IV. THE PRESIDENCY BANKS

The Bank of Calcutta, the earliest Presidency Bank, was

1. J. B. Brunyate, An Account of the Presidency Banks, p. 29.
2. A quotation from the Asiatic Journal taken from the Fort St. George Gazette, Sept. 29, 1830, quoted by Rau, Present-Day Banking in India, p. 182.

started on June 2, 1806. It was incorporated for a period of 7 years. The Governor General-in-Council was to exercise control over its administration. The Government had undertaken to guarantee the responsibility of the Bank's establishment. The main object in starting the Bank was to render service to the public without incurring any great risk and without causing any kind of inconvenience, and help the East India Company's Government in its financial embarrassment if and when required. It was also one of the objects of the Bank to supply specie cheaply. It was empowered to introduce paper currency later in 1823. The Government of Bengal contributed about one-fifth of the capital.

According to a notice in the Gazette of may 8, 1806 the Bank was permitted to transact the following business :—

(1) To sell Government Treasury Notes or to advance money upon the security of such notes.

(2) To grant loans.

(3) To issue Government Treasury Bills in exchange for notes.

(4) To issue bills on Provincial Treasuries.

(5) To issue notes.

(6) To discount bills drawn on the Governor General-in-Council.

(7) To open accounts with individuals.

A more ambitious scheme for the Bank was chalked out in 1808 and accordingly some more restrictions were placed on its working. Thereafter the Bank was strictly prohibited from trading and from negotiating purchase and sale of Government securities. The Bank received its charter of incorporation from the East India Company in 1809. Henceforward the Bank came to be known as the Bank of Bengal, the first Presidency Bank. It was followed by the Presidency Bank of Bombay in 1840 and the Bank of Madras in 1843. With the establishment of the Bank of Bengal there dawned a new era of banking in India. Entrusted with the funds of the Government it had a prestige which no other bank had. Its notes alone were re-

cognised by Government and it was easily the premier bank in India at the time.[1]

The charter of the Bank of Bengal was renewed in 1823 with a permission to issue notes upto 2 crores. In 1825 the Bank opened its first agency at Benares. The Bank, therefore, began to issue bank-post-bills by 1826. In the crisis of 1829–32, when many of the Agency Houses failed, it experienced a severe crisis and had to break several provisions of its charter.[2] To avoid the cataclysm of ruin the Bank pursued a policy of expanding loans freely to some of the solvent firms which were involved in difficulties. By the 1836 charter the Bank's captial was raised to 15 lakhs of Company's Rupees.[3] Not finding this capital sufficient to cope with the increasing competition of the Union Bank, it soon obtained permission by the Act XXIV of 1838 to raise it from Rs. 75 lakhs to 112½ lakhs of Company's Rupees. Uptill 1854 much of the business of the Bank consisted in investing in Government securities and lending on Government securities. The first weekly statement of the Bank was issued on January 16, 1856. It throws much light on the nature of the Bank's transactions at that time and is, therefore, reproduced below.[4]

Liabilities	*Rs.*	*As.*	*Ps.*
Bank's Capital	1,07,00,000	0	0
Reserve Fund	1,98,245	8	4
Current Accounts	85,76,740	14	1
Other Claims	97,892	9	10
Bank Notes and Post-Bills	1,46,86,852	9	11
Total Rs.....	3,42,59,731	10	2

1. H. Sinh, Early European Banking in India, pp. 163–4.

2. Even indigo factories had to be taken up in payment of the debt of Alexander & Co. which failed. Cf. Brunyate, An Account of the Presidency Banks, p. 6.

3. After the Sicca rupee the Company's Rupee (the present Rupee) was adopted in 1835 and the Bank of Bengal had to adopt it in its accounts from 1836.

4. Rau, Present-Day Banking in India, p. 648.

Assets	*Rs.*	*As.*	*Ps.*
Government Securities	25,18,796	5	10
Due from Government	22,459	9	10
Mint Certificates	48,94,149	15	11
Cash	61,29,708	4	2
Loans	1,76,08,819	9	9
Government Bills Discounted	94,306	7	7
Mercantile Bills	23,30,187	9	9
Dead Stock	1,63,303	11	4
Total Rs.....	3,42,59,731	10	2

Thanks to the vigilance of the Government directors the Bank of Bengal was not involved in any bad debts during the days of the Great Sepoy Mutiny of 1857. Although the percentage of cash to liabilities went down to 22.5 it escaped disaster.

In the meanwhile the first Presidency Bank of Bombay was started in 1840. The capital of the Bank was divided into five thousand two hundred and twenty shares of Rs. 1000 each. The Government of Bombay contributed about 3 lakhs towards the share capital of the Bank. The charter was closely modelled on that of the Bank of Bengal. Government nominated three directors. Fraud was not uncommon during the years 1848–51 and because it unwisely participated in the wild share specula tion caused in Bombay by the Civil War and cotton famine in U. S. A., after a few years of precarious existence the Bank failed in 1868. After the commission which was appointed under the Presidency of C. Jackson had fully investigated into the causes of the failure, the second Presidency Bank of Bombay was started in 1868 with Rs. one crore as its capital.

The Presidency Bank of Madras was started in 1843 as a result of a resolution to establish a bank passed by the local Chamber of Commerce on May 18, 1840. The capital of the Bank was to be 30 lakhs (3000 shares of Rs. 1000 each) and the business of the Bank was to be conducted on the same lines and under the same restrictions as that of the Bank of Bengal and the Union Bank of Calcutta. Government purchased shares of the value of Rs. 3 lakhs. The new plan proposed to apply

the principles of the Presidency Banks of Bengal and Bombay to the old established Government Bank at Madras.

The establishment of the Presidency Banks in Madras and Bombay put an end to the speculations regarding the possibility of the Bank of Bengal becoming a Bank for all India. All the Presidency Banks had at first a semi-official character, *i.e.*, they were quasi-Government Banks which would afford adequate security to the public, provide for a sound administration of its affairs and enable the Government to obtain in times of sudden emergency necessary financial aid to regain their credit in the money market. Upto 1862 the Banks had the right of note issue, but the right was hedged round in such a way that the total liabilities payable on demand were restricted to a certain multiple (at first three times, later four times) of the cash reserve and the liabilities of all kinds to the amount of the Bank's capital (upto 1839) or the total note issue to a fixed amount (from 1839 to 1862); thus the note issue of the Presidency Banks never became important. In 1862 the management of note issue was taken over by the Government. At the same time the right of the private banks to issue notes was finally abolished. In 1876 the Government relinquished their share of the capital of the Banks and their right of appointing directors. Since then the Presidency Banks lost their official character but remained distinct from other banks in that they were governed by a Special Charter Act, *viz.*, the Presidency Banks Act of 1876, until their amalgamation into the Imperial Bank of India in 1921. The functions and other questions relating to Presidency Banks will be treated at a later stage.

The table on the following pages (30–31), as prepared by R. M. Martin[1], gives detailed information about this period.*

1. See Rau, Present-Day Banking in India, p. 163.

* According to Cooke the following is the list of banks with the dates of their starting :—

Name of the Bank	*Year of its Starting*
The Bank of Bengal	1806, chartered in 1809.
The Bank of Western India	1842
The Oriental Bank	1846
The Oriental Banking Corporation	1851

(*Continued on page* 32)

Name of the Bank	Year of Establishment	Head Office	Branches and Agencies
1. The Bank of Bengal	1809	Calcutta	....
2. The Bank of Madras	1843	Madras	....
3. The Bank of Bombay	1840	Bombay	....
4. The Oriental Bank	1851	London	....
5. The Agra & United Provinces Bank	1833	Calcutta	Agra, Madras, Lahore, Canton, and London.
6. The North-West Bank	1844	,,	Bombay, Simla, Mussuri, Agra, Delhi, and Cawnpore.
7. The London and Eastern Bank	1854	....	....
8. The Commercial Bank	1854	Bombay	Agents in London, Calcutta, Canton & Shanghai.
9. The Delhi Bank	1844	Delhi	Agents in London, Calcutta, Bombay, and Madras.
10. The Simla Bank	1844	....	....
11. The Dacca Bank	1846	Dacca	....
12. The Mercantile Bank	....	Bombay	London, Calcutta, Colombo, Kandy, Canton, and Shanghai.
13. India, China and Australia Bank	....	....	....

Capital subscribed	Paid-up Capital	Notes in Circulation	Specie in coffers	Bills under discount
10,70,000	10,70,000	17,14,711	8,51,964	1,25,251
3,00,000	3,00,000	1,23,719	1,39,960	59,871
5,22,000	3,22,000	5,71,089	2,40,073	1,95,836
12,15,000	12,15,000	1,99,279	11,46,529	29,18,393
7,00,000	7,00,000	....	74,362	....
2,20,560	2,20,000	....	....	....
2,50,000	....	3,25,000	....	....
10,00,000	4,56,000	....	....	....
....	1,80,000	....	....	....
....	63,850	....	....	....
30,000	....	....	....	....
5,00,000	3,28,826	7,77,156	77,239	1,09,547
....	....	....	....	Did not Commence Business

V. THE GOVERNMENT SAVINGS BANKS

(IN PRESIDENCY TOWNS)

From the various lists and tables cited above it becomes clear that there were Savings Banks working in the Presidency Towns. The credit of starting these Government Savings Banks in the Presidency Towns in 1833 is usually attributed to Lord William Bentinck. What was, however, really done by him was to extend the Government Savings Agency which

---

(*Continued from page* 29)

The Bank of Madras	1843
The Government Bank of Madras	1805
The Bank of Bombay	1840
The United Bank	1829
The Bank of Hindusthan	1770
The Commercial Bank	1819
The Calcutta Bank	1824
The Bank of Mirzapore	1835
The Agra & United Service Bank, Ltd.	1833
The North-Western Bank of India	1840
The Delhi Bank Corporation	1844
The Dacca Bank	1846
The Benares Bank	1844
The Simla Bank, Ltd.	1844
The London & Eastern Banking Corporation	1854
The Cawnpore Bank	1845
The Uncovenanted Service Bank, Ltd.	1846
The Agra Savings Fund	1842
The Commercial Bank of India	1845
The Government Savings Bank	1833
The Chartered Bank of Asia	1852
The Mercantile Bank of India, London & China	1853
The Bank of Ceylon	1840
The Chartered Bank of India, Australia & China	1853
The Punjab Bank, Ltd.	1860
The Sind, Punjab & Delhi Bank Corporation, Ltd.	1860
The Central Bank of Western India Nov.	1860
The Bank of Hindusthan, China and Japan, Ltd.	1862
The Bank of Rohilkhand	1862
The Peoples Bank of India, Ltd.	1860
The Comptoir D'escompte of Paris	1860
The Bengal Bank	1790
The Bank of India	1828
The Carnatic Bank	?

was started in 1810 and which was managed by the Accountant General and the Sub-Treasurer. These agencies were started to fill the gap created by the failure of the Agency Houses. Separate District Savings Banks were not created till 1870. The Bank of Bengal was appointed the bankers to the Government Savings Banks in 1856. It continued to be the custodian of the funds of the Government Savings Bank till September 1863, when the management also was handed over to the Bank of Bengal. Later on the Bank of Bengal was informed that the Savings Bank business might be withdrawn at any time on nine months' notice being given to it. Such a notice was given in 1895 and Symes Scutt records that the savings business was actually transferred in October, 1896.

The Government Savings Bank in Calcutta had become very popular. During the first five years, *i.e.*, November 1833 to November 1838, there were 3,899 depositors with roughly about 28¼ lakhs of rupees as deposits. By 1840 the gross operations amounted to 40 lakhs of rupees and the number of accounts exceeded 4,500 in number. The bank was placed originally under the Government control and was open to all classes of people without distinction. The Government reserved the power to raise or lower the rate of interest after six months' notice in the Calcutta Gazette.

Similar Government Savings Banks were working in Bombay and Madras. It is not known whether any branches of the Savings Banks were opened but from a pamphlet, entitled ' Remarks on the Savings Bank, ' which was published in 1840 or thereabouts, it appears that it was contemplated to open branches at Benares, Patna, Allahabad, Cawnpore, Mirzapore, Saugor, Jubbulpore, Agra, Delhi, Bareilly, Farruckabad, Meerut, Ludhiana, Kurnaul, Saharanpore, Almorah and Simla and other big towns. But there is no evidence to show as to whether or not the branches were actually started.

VI. MILITARY BANKS

This review of the history of banking before 1860 cannot be said to be complete without mention being made of the various Military Banks that operated during this period. The

credit of planning the Bengal Military Bank goes to the then Commander-in-Chief. After receiving the Governor General's assent the Bank started work. The main purpose of the Bank was to enable the military officers to remit their monthly savings and to assist the Regimental Savings Banks which were then existing and further to help in the starting of new Regimental Savings Banks. From January 1, 1821 the Bengal Military Bank was authorised to receive deposits from all military officers, commissioned and non-commissioned, or warrant officers, or any other officers attached to the military service of the East India Company.

A similar Military Bank was started in Bombay in July 1829 but it did not work long. As soon as the Government Savings Bank was started in May 1835, the Bombay Government closed down the Military Bank. No information is available regarding the year of the starting of the Military Bank of Madras; but it is certain that such a bank did exist in Madras. The Bengal Military Bank failed in March 1838.

These Military Banks were not commercial banks issuing notes or post-bills. They did not do regular banking business or purchase bullion. They did not receive deposits repayable on demand. They were pure savings banks intended to promote savings on the part of the military officers in the service of the East India Company. They were the outcome of the attempt on the part of the Government to improve the economic condition of the military classes. They earned profits by lending funds to their best advantage on the pledge or deposit of Government paper, public banks' shares and other good securities, so as to realise the highest rate of interest consistent with perfect safety. They must be regarded as the legitimate forerunners of the Government Savings Banks which were later on established in the Presidency towns of Bombay, Calcutta and Madras between 1833 and 1838.

CHAPTER III

HISTORY OF JOINT STOCK BANKING IN INDIA (Continued)

I. JOINT STOCK BANKS WITH LIMITED LIABILITY

It is proposed to deal in this chapter with the history of Joint Stock Banking in India from 1860 to 1913 as both the years constitute landmarks in the history of Indian banking. The principle of limited liability, which is indispensable to the raising of large amount of capital required by modern industries, and which was introduced in England by an Act of 1858, was first applied to Joint Stock Banks in India by Act VII of 1860. It was hoped that the recognition of this principle would attract a better class of shareholders who would ably carry out their responsibility, where previously men of straw without other visible assets had begun to acquire interest in concerns when the liability was unlimited. To all appearances the limitation of liability would have resulted in the curtailment of deposits but this, it was expected, would be counterbalanced by the practice of banks to build reserve funds by setting aside a part of their profits. A second incentive to the depositors was provided by keeping a portion of the share capital uncalled, which constituted a reserve liability, and which would place a definite fund within the reach of a bank in the event of a failure.

Between 1840 and 1850 Joint Stock Banking developed in this country, but as there was unfortunately no control over such concerns except as regards the three Presidency Banks, orthodox principles of banking administration were not always followed. The *laissez faire* policy peculiar to Britain was followed in India as well. The policy was somewhat similar to that described by the Hon. Finance Member of India, when

he said on March 10, 1919 in the Legislative Council, 'I have no objection to see strong banking laws, strong regulations for preventing dishonesty and fraud. But apart from that, it does seem to me that the best way in which a nation can work out its own banking salvation is by its own experiments and its own experience.' This admirably sums up in some ways, not merely the position in 1919, but in the period 1840 to 1876, especially between 1840 and 1850 when complete *laissez faire* led to trouble and to hatching of wild-cat schemes.[1] The Act VII of 1860 indicates that the Government had realised the importance of banking legislation. The limitation of liability serves to minimise the risks which are inseparable from banking undertakings. The Economist writing on the application of the limited liability in England says that "Banks with limited liability have been less subject to failure than banks with unlimited liability. Among all the chartered banks at home which were formed upon the principle of limited liability, we are not aware at the moment of one that has failed; and the case of the colonial Banks which during the last thirty years have been all formed upon that principle, with perhaps one exception of which we are not quite certain, no failure has taken place although the nature of the business is necessarily more hazardous."[2] The history of banking in India after 1860 will prove, or perhaps may disprove, all these merits claimed for the principle of limited liability. But it is certain that the application of this principle came at an opportune time, just three years after the Mutiny of 1857 which had unsettled the country. No banks could have arisen except on the limited liability basis.

Soon after 1860 there was a boom in the cotton trade in India consequent upon the Civil War in America, which led to a wave of speculation. Banking companies, financial associations and land reclamation companies and industrial concerns of all sorts were launched in large numbers. Almost everyone of them went into liquidation. Even the original Bank of Bombay, as we have seen previously, was involved in the disaster and had to be liquidated. This shook the confidence

1. G. Findlay Shirras, Indian Finance & Banking, p. 352.
2. The Economist, 15th May 1858. A. S. J. Baster, The Imperial Banks.

of the public in banking companies. Out of the seven banks that were started, the Bank of Upper India (1863), the Allahabad Bank (1865) and the Bangalore Bank (1868) survived the catastrophe. Although the Allahabad Bank was started in 1865, the first branch was not opened until twenty-three years later, when a branch was opened at Allahabad.

The growth of banks was, therefore, necessarily slow for some time. Between 1870 and 1894 seven more banks were started out of which only four survived. The Alliance Bank of Simla was founded in 1874. Its head office was situated at Simla and it had thirty-nine branches and eleven sub-offices. The Oudh Commercial Bank was registered in 1881. The head office is at Fyzabad and there are two branches. It was the first bank due to Indian enterprise as such. Most of the other banks of the time were promoted by Europeans. The Punjab Banking Company was founded in 1889. The Punjab National Bank was floated in 1894. Later on, in 1901 the Peoples' Bank was founded largely through the efforts of the late Lala Harkinson Lal who was responsible also for founding the Punjab National Bank. Thus before the end of the century, (and perhaps even to-day) there was no conscious designing and planning in the banking development of the country. The progress in the establishment of Joint Stock Banks was thus scarcely satisfactory up to the end of the last century, when there were only nine banks with capital and reserve of over 5 lakhs, their paid-up capital and reserves amounting to 1¼ crore and their total deposits to Rs. 8 crores.[1] One of the factors that impeded the steady growth of Joint Stock Banking during the period was the uncertainty in the monetary world created by the falling rupee and the wild fluctuation in the gold value of the rupee consequent upon the falling rupee.

Between 1894 and 1904 no new banks were founded with as much as 5 lakhs of paid-up capital. But since 1905 there was for some time a great outburst of banking activity. The Swadeshi movement of 1905, which received its impetus from the partition agitation in Bengal gave a fillip to the starting of indigenous Joint Stock Banks. The way was led in 1904 by

1. See The Central Banking Enq. Comm., Para. p. 29.

the foundation of the Bank of Burma. This bank failed in 1911. Two of its directors and the general manager being found guilty of cheating were sentenced to imprisonment in 1913. In 1906 three more banks were founded, all of some importance, the Bank of India (under important Parsee auspices), the Bank of Rangoon and the Indian Specie Bank. Until 1910 these three banks alone were amongst the new creations, having a paid-up capital in excess of 15 lakhs. From 1905 until the banking failure of 1913–14, numerous banks were started amongst the most important of which in respect of paid-up capital may be mentioned the Bengal National Bank (1907), the Bombay Merchants' Bank (1909), The Credit Bank of India (1909), the Kathiawar and Ahmedabad Banking Corporation (1910) and the Central Bank of India (1911). The table on page 39 gives the names of the banks, their head-offices, date of registration, paid-up capital, deposits and branches during this period.[1]

II. THE POSITION OF JOINT STOCK BANKS ON THE EVE OF THE BANKING CRISIS OF 1913–14

We may now form an estimate of the progress made by Joint Stock Banks and their position before the banking failures of 1913–14. The following table from the Statistical Tables relating to Banks in India gives certain statistics regarding the development of banks from 1870 to 1913. Two tables, A and B, are given on page 40; the former contains figures relating to banks with capital and reserve of 5 lakhs and over, and the latter relating to banks with capital and reserve between 1 lakh and less than 5 lakhs.[2]

Looking back over the period from 1860 to 1913, the figures reveal an unsatisfactory state of affairs. As late as 1900 the existing banks were comparatively insignificant. But with the appearance of the new century, they attracted a large volume of deposits which earned them an important place in the bank-

1. Rau, Present-Day Banking in India, p. 207.
2. The Statistical Tables relating to Banks in India, 1917, Table no, 3.

Name of the Bank	Head Office	Date of Registration	Paid-up Capital	Deposits	Branches
			Lakhs of Rupees		
Bank of India	Bombay	1906	100	1019	3
The Indian Specie Bank *	Bombay	1906	75	270	..
The Indian Bank	Madras	1907	12	99	4
The Bengal National Bank*	Calcutta	1907	8	81	4
The Punjab & Sind Bank	Amritsar	1908	4	84	..
The Bharat National Bank	Delhi	1908	2	7	..
The Bank of Northern India*	Rawalpindi	1908	1	6	5
The Bank of Baroda	Baroda	1908	30	2	..
The Bombay Merchants' Bank	Bombay	1909	10	2	..
The Ahmedabad Banking Corporation *	Ahmedabad	1910	7	23	..
The Credit Bank of India*	Bombay	1909	19	51	..
The Central Bank of India	Bombay	1911	168	1396	..
The Standard Bank*	Bombay	1912	10	..	..
The National Financing and Commission Corporation	Bombay	1912	11	36	1
The Bank of Mysore	Bengalore	1913	20	130	7

* These banks have gone into liquidation.

A—Banks with Capital and Reserve of Rs. 5 lakhs and over.

Period	Number of Reporting Banks	Paid-up Capital Rs. 1000	Rest and Reserve Rs. 1000	Total Rs. 1000	Deposits Rs. 1000	Cash Balance Rs. 1000
1870	2	9,83	1,82	11,65	13,95	5,07
1880	3	18,00	3,11	21,11	63,37	16,63
1890	5	35,50	17,59	51,09	2,70,78	55,79
1900	9	82,12	45,60	1,27,72	8,07,52	1,19,04
1905	9	84,57	77,82	1,62,39	11,98,92	1,73,50
1906	10	1,33,94	56,36	1,90,30	11,55,49	11,49,51
1907	20	2,29,61	63,27	2,92,88	14,00,29	1,94,39
1908	14	2,39,72	69,11	3,08,83	16,26,09	2,45,10
1909	15	2,66,07	87,97	3,54,04	20,49,10	2,79,14
1910	16	2,57,66	1,00,55	3,76,21	25,65,85	2,80,25
1911	18	2,85,60	1,26,54	4,12,14	25,29,11	3,62,05
1912	18	2,91,64	1,34,58	4,26,22	27,25,98	4,00,11
1913	18	2,31,33	1,32,94	3,64,27	22,59,19	4,00,17

B—Banks with Capital and Reserve between Rs. 1 lakh and less than 5 lakhs.

1913	23	39,14	11,35	50,49	1,51,15	24,95

ing system of the country. Only six of them date back long enough to remember any real financial crisis in India (for the depression of 1907–8 was not accompanied by symptoms of financial crisis). Growing up, therefore, in comparatively peaceful times, they thought more of attracting deposits than of retaining adequate cash reserves. In the case of smaller banks dealing with clients to whom banking was a new thing, and who were habituated to hoarding, the cash balances, from the available indications, seemed to have been reduced to a limit where they became hopelessly inadequate; and the analysis of the disaster of 1913 will reveal that this was one of the major causes of that disaster. The following table shows how the cash position of the banks was deteriorating year after year.[1]

Period	No. of Banks	Capital, Reserve and Rest	Deposits	Cash Balances
1890	5	Rs. 51,00,000	Rs.2,71,50,000	Rs. 55,50,000
1895	9	94,50,000	5,67,00,000	96,00,000
1900	9	1,27,50,000	8,07,00,000	1,18,50,000
1905	9	1,62,00,000	11,88,50,000	1,74,00,000
1906	10	1,60,50,000	11,55,00,000	1,50,00,000
1907	11	2,92,50,000	14,01,00,000	1,95,00,000
1908	14	3,09,00,000	16,26,00,000	2,44,50,000
1909	15	3,44,00,000	20,49,00,000	2,79,00,000
1910	16	3,76,50,000	25,70,50,000	2,80,50,000
1911	18	4,12,14,000	25,29,11,000	3,62,05,000
1912	18	4,26,22,000	27,25,98,000	4,00,11,000
1913	18	3,64,27,000	22,59,19,000	4,00,11,000

The steady deterioration of the position, as shown in the above figures, is very marked. These figures, even as they are, give a flattering view; if they could be worked out accurately, the proportion of cash available against the private deposits would be far lower than appears superficially from the above table.

Thus the main object of these banks was to attract deposits. The rate offered on the fixed deposits for a year varied

1. Keynes, Indian Currency & Finance, p. 224, Originally in £, turned into Rs. at the rate of Re.1 = Is.4d.

from 4½ to 5 per cent. Some banks offered even 6 per cent. Regarding the rates for shorter periods there is much vagueness. The rate allowed on current accounts was generally 2 per cent., even though in a few cases, it might reach 2½ per cent. Compared to the Presidency Banks and the Exchange Banks these terms were very favourable. There could be no objection to offering high rates, if the funds so attracted were wisely used for more lucrative business. There is no information available indicating the kind of business these banks undertook. But judged from the revelations made by the proceedings of some of these banks in liquidation, many of them either engaged themselves or financed clients who were engaged, in speculative business of the worst description. In this connection the history of the Bank of Burma is instructive. The Bank was started in 1904 under European management by a firm engaged in floating oil companies and other highly speculative enterprises. The Bank's capital was Rs. 17,62,500 and by 1911 when it failed, deposits had been attracted to the extent of Rs. 1,18,90,515 a large part of which were said to have come from Bombay and Calcutta. To obtain these deposits the Bank had offered interest at the rate of 6 per cent. for deposits placed with it for a year. In 1911 the Bank failed. The balance-sheet turned out to be false and one-third of the assets had been advanced against worthless security to a firm in which the directors were interested. Similarly, many of the newly started Joint Stock Banks which fell into inexperienced hands came to grief in the banking collapse of 1913-14.

So at the close of the period ending with 1913 all was not well with Joint Stock Banks in India. In this connection Keynes wrote in 1913, "apart from any deterioration in the proportion of reserves held, the question of Indian deposits is now important. They stand for the first time at a figure which is large in relation to the total trade of the country and to the resources of the Government. If the Banks get into trouble, there will be much more far-reaching effects than could have been the case formerly. This is quite apart from the question whether they are likely to get into trouble than formerly. The question of the reserves they hold matters, therefore, more than it used." The question of Bank failures in 1913–14 is discussed in the following chapter.

The above discussion and the tables cited deal with the reporting banks. They leave out the group of banks whose capital and reserve is less than Rs. 1,00,000. These banks are registered under the Indian Companies Act. The available statistics which are very meagre are as follows.[1]

(Approximate figures)

March 31	Number of Banks	Paid-up Capital
		Rs.
1900	519	4,09,72,291
1905	515	4,40,34,101
1906	515	5,15,90,680
1907	492	6,66,50,326
1908	507	7,31,57,416
1909	492	7,80,45,150
1910	492	7,91,31,641
1911	491	7,86,91,636
1912	513	8,27,97,533
1913	552	7,91,51,400

No statistics are available regarding their deposits. While the capital of these banks increased rather rapidly since 1907, the above figures show that it is not yet substantial enough. Still it is these small Indian Joint Stock Banks which inspire a great hope about the future of Indian Banking, although it must be frankly said that there are more weak spots among them than among the more substantial Joint Stock Banks.

III. THE PRESIDENCY BANKS

The Presidency Banks had survived the Mutiny of 1857 and had proved their mettle as for some time they were in danger of being superseded by a new powerful rival. In 1859 the idea of starting a State Bank received a strong support from Mr. Wilson, the first Finance Member. In his speech in the Legislative Council on the new scheme of Government Paper Currency for India he referred to " the proposals which

1. Statistics relating to Joint Stock Companies in British India and Mysore, 1914-15, p. 12,

have been made for the purpose of establishing, upon a large scale, and with an adequate capital, a national banking establishment, capable of gradually embracing the great banking operations in India, and of extending its branches to the interior trading cities as opportunity might offer. That there is a growing want for such an institution and a rapidly increasing field for its operations no one can doubt."[1] His successor Mr. Laing was also convinced of the necessity for such a bank, particularly for the Government; he observed "the convenience to the state in ordinary times is obvious, and history shows what an important source a bank may be to the Government in times of difficulty. The advantages to commerce, though less obvious are not less real."[2] Mr. Dickson also proposed in 1867 a scheme for an All-India Bank by the amalgamation of the three Presidency Banks but it did not meet with success.

However these schemes proved to be still-born and the Presidency Banks were relieved of the nightmare of being supplanted by a new and powerful institution. It such an institution had been started the lucrative Government business would have been transferred to the new bank which would have meant a death-blow to their erstwhile prosperity. But in 1862 the privilege of note-issue, which thereafter became a monopoly of the Government, was taken away from the Banks. To compensate them for this loss Government for the first time allowed the Presidency Banks the use of the whole of the Government balances at the Presidency towns and at their branches free of interest. But in the meanwhile the Bank of Bombay, as stated previously, failed in 1867. In 1874 the Presidency Banks of Bengal and Bombay were not able to repay the Government balances. This led the Government to establish separate Reserve Treasuries. Under the Act of 1876 Government relinquished their share of the capital of the Banks and their right of appointing directors. Before this, on the ruins of the Bank of Bombay a new Bank of Bombay was formed in the same year with a capital of Rs. 100 lakhs, Rs. 50 lakhs being paid-up in 1868 and the remainder in 1874.

---

1. G. Findlay Shirras, Indian Finance & Banking, pp. 357–58.
2. Ibid, p. 358.

In 1876 a special Charter Act (Act XI of 1876, the Presidency Banks Act) was passed for constituting and regulating the Banks of Bengal, Madras and Bombay. This Act was more elaborate and systematic than the previous charters. The Presidency Banks, as previously seen, worked in the past under rigorous restrictions and these were made stricter by the new Act. The main features of the Act are the restrictions on the kind of business to be transacted and the mode of its transaction, the power of inspection on the part of the Government and the periodical publication of the Banks' balance-sheets. The principal restrictions were the following :—

(i) The Banks could not draw, discount, buy, or sell bills of exchange or other negotiable securities unless they were payable in India or in Ceylon; this restriction cut off the Presidency Banks from dealing in sterling drafts or any kind of foreign exchange; (ii) they could not borrow, or receive deposits payable outside India, or maintain a foreign branch or agency for this or similar purposes, and they were thus prevented from raising funds in London for use in India; (iii) they could not lend for a longer period than six months; (iv) or upon mortgage, or in any other manner upon the security of immovable property; (v) or upon promissory notes bearing less than two independent names; (vi) or upon personal security; (vii) or upon goods, unless the goods, or the title to them, are deposited with the Bank as security. The chief relaxations included permission to invest in (1) railway stock, debentures, or shares of railways or other companies the interest of which is guaranteed by Government; (2) and the debentures of legally constituted municipalities. Branches could be opened at the discretion of the Banks themselves within the respective Presidencies without being required to take the previous sanction of Government.

They also acted as bankers to the Government to a limited extent, *i.e.*, they managed the temporary public debt of the Government of India at Presidency towns. They were also allowed to hold a portion of the Government balances without payment of interest. The use of these balances was first granted them in 1862 as a compensation for their being deprived of the right of note issue. Upto 1876, as stated previously, the Presidency Banks held, subject to certain conditions, the whole

of the Government balances which would have been paid in the ordinary course into Government Treasuries at the places where the head offices and branch offices of the Banks were established. In 1876 Government started their own Reserve Treasuries and since then only a portion of the Government balances was placed with the Banks. Government were entitled under the Act of 1876 to audit the accounts of the Presidency Banks, to call for information and to make it obligatory on them to publish weekly statements.[1]

In placing these severe restrictions the Government never thought of dominating the working of the Banks but were inspired with a view to reserving to themselves the right to interfere in case the Banks went astray. " The Government is bound to come to the rescue of the Presidency Banks " said Keynes, " so long as it keeps large balances outside the ordinary banking system and so long as it manages the note-issue. " It was perhaps also the intention of the Government that all other banks should look upon the Presidency Banks as model institutions worthy of imitation. Inspite of these ristrictions, it is gratifying to note that the relations between the Government and the Presidency Banks were always amicable.

The first two restrictions were laid on the Banks to preclude them from a risky type of business and were also inspired by the jealousy of the Exchange Banks who were anxious to preserve intact their monopoly of foreign exchange and access to the London money market. But after a time the same restrictions were bound to act harshly upon the Banks. The exchange value of the rupee was no longer greatly fluctuating. The Government of India never realised that it was extremely unwise to restrict a growing and expanding business by means of antiquated rules. The first joint memorial of the three Presidency Banks presented in 1877 demanded permission to borrow in London and India and to deal in foreign exchanges. A conference was held in 1899 to discuss these points of grievance, but nothing came out of it, in spite of the fact that public opinion condemned the retention of these restrictions. Even though the question of allowing the Presidency Banks access to the

1. See Jathar & Beri, Indian Economics, Vol. II, p. 424.

London money market was favoured by the Government of India, the Secretary of State always disapproved of any such measure. Even so late as 1914 his argument for preventing the Banks from borrowing in London was supported by many eminent economists in India. The Hon. Mr. H. F. Howard remarked that " the absence of such a thing was not a serious defect but it would be a useful thing. " The plea in favour of borrowing in London was always summarily rejected without due consideration of the merits of the case. Owing to the lack of proper contact between the Government and the Money Market in India and its independent Treasury System the evil of the shortage of working capital to satisfy the different credit needs was accentuated. At the same time the Banks could not borrow in London in the busy season even when they were short of funds. Consequently the money rates in India soared very high (see table on pp. 51–52) and the business community suffered. This inelasticity of the Indian Money Market and the seasonal monetary stringency were partially rectified in 1920 when the Imperial Bank was not only allowed to keep all the treasury balances but was also allowed to borrow from the Controller of Currency in the shape of the issue of emergency note currency.

In spite of these restrictions the Presidency Banks showed a commendable zeal in widening the scope of their activity. It is only fair to add that these restrictions kept the banks on the straight path and ensured their development on conservative lines. Government control and the provision for publicity of the officers of the Banks also did a great deal to inspire public confidence. They opened new branches on the multiplication of which the future of banking depended. India being a country of vast dimensions dotted with scattered villages, it would have become well-nigh impossible to tap the savings of the small investors without a net-work of branches. Further, the banks provided special facilities for the encashment of the currency notes at their branches in order to popularize them. Their association with the Government added greatly to their prestige and helped them a good deal in attracting private deposits and banking business on profitable terms. It also helped them to secure and maintain a position of pre-eminence in the banking system of India.[1]

1. Jathar and Beri, Indian Economics, Vol. II, p. 426.

The following tables deal with the progress made by the three Presidency Banks from 1870 to 1913. While the first table clearly brings out the progress of all the three Presidency Banks taken together, the second one shows their individual progress.[1] The third table gives the average bank rates of the three Presidency Banks for the same period.

1. Tannan and Shah, Indian Currency & Banking Problems, p. 210; also Jathar and Beri, Indian Economics, Vol. II, p. 427.

I—(In Lakhs of Rupees.)

31st Dec.	Capital	Reserve and Rest	Total	Deposits		Total	Cash Balances
				Government Deposits	Other private Deposits		
1870	336	226	362	543	640	1183	997
1880	350	555	405	291	849	1140	741
1890	350	998	448	359	1476	1836	1297
1900	360	200	560	281	1288	1569	504
1905	360	263	623	312	2226	2538	823
1906	360	280	640	308	2745	3053	1095
1907	360	295	655	336	2862	3147	948
1908	360	309	669	326	3265	3188	1039
1909	360	318	678	320	3234	3585	1166
1910	360	331	691	424	3419	3658	1135
1911	360	340	700	438	3584	3858	1358
1912	375	364	739	427	3648	4011	1177
1913	375	373	748	589	4004	4237	1538

II—(In Lakhs of Rupees.)

Year	Capital	Reserve	Government Deposits	Other Deposits	Cash	Investment	Dividend per cent.
Bank of Bengal							
1895	200	68	184	677	422	132	10
1913	200	191	301	1,824	840	319	14
Bank of Bombay							
1895	100	51	76	358	228	105	11
1913	100	106	200	1,015	477	232	14
Bank of Madras							
1895	50	16	45	278	144	45	10
1913	75	73	86	805	219	177	12

III—The following table gives the Average Bank Rates of the Presidency Banks from 1870 to 1913.[1]

Year	Bank of Bengal			Bank of Bombay			Bank of Madras		
	Half year ending June 30	Half year ending Dec. 31	Annual Average	Half year ending June 30	Half year ending Dec. 31	Annual Average	Half year ending June 30	Half year ending Dec. 31	Annual Average
1870	5.47	6.00	5.73	5.53	4.97	5.25	4.50	4.50	4.50
1871	4.94	4.50	4.72	...	...	5.09	4.91	5.00	4.95
1872	6.36	3.56	4.96	...	...	5.10	4.94	6.00	5.97
1873	4.15	3.71	3.93	...	...	4.63	6.00	6.19	6.09
1874	8.74	3.70	6.22	8.85	4.30	6.57	7.89	7.00	7.44
1875	6.48	4.84	5.66	6.55	7.92	7.23	7.00	7.00	7.00
1876	7.42	6.11	6.76	8.35	5.62	6.98	6.75	6.00	6.37
1877	9.49	7.30	8.40	9.03	7.31	8.17	6.00	6.10	6.05
1878	6.53	4.03	5.28	7.18	5.00	6.09	7.00	7.00	7.00
1879	7.27	5.42	6.34	8.05	5.29	6.57	7.00	7.00	7.00
1880	5.39	3.91	4.65	5.72	4.30	5.01	6.47	4.27	5.37
1881	4.86	5.72	5.29	5.40	5.98	5.69	4.67	6.30	5.48
1882	8.18	5.02	6.60	8.08	4.13	6.10	8.29	4.13	6.21
1883	6.99	6.56	6.78	7.00	6.20	6.66	6.97	7.02	6.99
1884	8.81	3.95	6.38	9.03	4.17	6.60	8.42	4.13	6.27
1885	6.76	4.00	5.38	5.90	4.00	4.95	5.71	3.23	4.47
1886	5.92	6.15	6.04	6.35	6.50	6.42	5.48	5.64	5.56
1887	7.48	3.80	5.64	7.78	3.73	5.75	7.92	3.90	5.91
1888	5.74	5.18	5.46	5.90	5.51	5.70	5.78	5.44	5.61
1889	9.31	4.67	6.99	9.46	4.00	6.73	9.62	4.14	6.88
1890	8.26	3.32	5.79	9.21	3.28	6.24	8.14	3.32	5.73
1891	3.50	2.62	3.06	3.88	2.23	3.05	3.60	2.25	2.92
1892	3.88	3.11	3.50	3.97	3.04	3.50	4.03	3.07	3.50
1893	5.68	4.08	4.88	5.97	3.84	4.90	6.19	4.36	5.27
1894	7.42	3.36	5.39	7.55	3.46	5.50	6.72	3.31	5.01
1895	5.07	3.59	4.33	4.30	3.60	3.95	5.02	3.50	4.26

1. G. Findlay Shirras, Indian Finance & Banking, p. 471.

Bank Rates of the Presidency Banks from 1870 to 1913

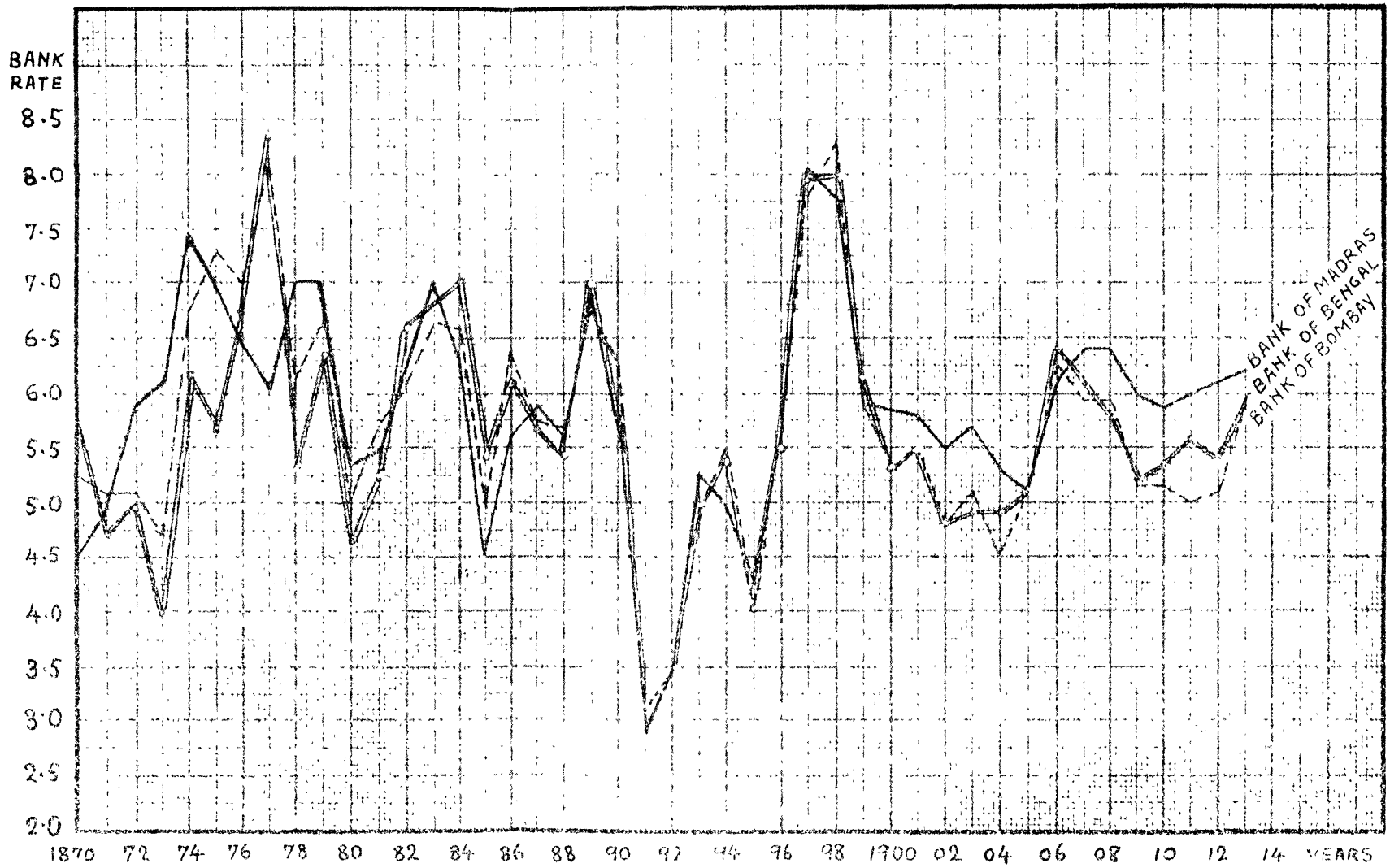
(*Continued*)

Year	Bank of Bengal			Bank of Bombay			Bank of Madras		
	Half year ending		Annual Average	Half year ending		Annual Average	Half year ending		Annual Average
	June 30	Dec. 31		June 30	Dec. 31		June 30	Dec. 31	
1896	5.77	5.61	5.69	5.85	5.10	5.47	6.00	5.28	5.64
1897	9.88	5.97	7.92	10.11	5.64	7.87	9.97	6.00	7.98
1898	11.02	5.11	8.06	12.03	4.55	8.29	11.09	4.51	7.80
1899	6.34	5.49	5.91	6.34	5.42	5.88	6.27	5.83	6.05
1900	6.41	4.27	5.34	6.90	3.79	5.34	7.24	4.50	5.87
1901	6.89	4.07	5.48	7.07	3.83	5.45	7.57	4.09	5.83
1902	6.17	3.55	4.86	6.25	3.43	4.84	7.00	4.02	5.51
1903	6.27	3.49	4.88	6.70	3.48	5.09	7.13	4.27	5.70
1904	5.56	4.19	4.87	5.15	3.82	4.48	6.42	4.07	5.24
1905	5.56	4.63	5.09	5.77	4.42	5.09	6.04	4.19	5.11
1906	6.25	5.88	6.42	7.24	5.28	6.26	7.15	5.04	6.09
1907	7.63	4.58	6.10	7.81	4.11	5.96	8.24	5.54	6.39
1908	7.42	4.24	5.83	7.84	4.02	5.93	8.38	4.38	6.38
1909	6.58	3.91	5.24	6.47	3.82	5.14	7.55	4.41	5.98
1910	6.14	4.51	5.53	6.19	4.14	5.16	7.17	4.65	5.91
1911	6.66	4.36	5.51	6.55	3.52	5.03	7.59	4.35	5.97
1912	6.24	4.59	5.42	6.01	4.10	5.05	7.51	4.59	6.05
1913	6.57	5.33	5.95	7.23	4.62	5.92	7.76	5.54	6.65

The above table no. III gives a good idc about the high money rates which prevailed in the country. The prosperity of the trade and industries of a country depends on the price of money and the mobility of funds. In India, in the rigid conditions of the last century, both were conspicuous by their absence and partially accounted for the decaying industries.

The facing graph has been prepared with a view to clearly bring out the violent fluctuations in the money rates

Graph showing the AVERAGE BANK RATES of the Bank of Bengal, Bank of Bombay, & Bank of Madras.



as between the slack season and the busy season into which the Indian year may be divided, as also the high pitch of money rates in general.

The following table gives the areas and their population served by the Presidency Banks and the per capita deposit in each Bank.[1]

Name of Bank	Area served by the Banks Head Office and Branches	Total Population of the Areas as at the last census	Total Private Deposits in the Bank in 1916	Deposits per head of Population
		(1000)*	Rs. (1000)	Rs.
Bank of Bengal	Bengal, Burma, Bihar & Orissa, C. P., U. P., the Punjab, Delhi, North West Frontier Province and the Hyderabad State.	20,62,88	21,43,61	1.04
Bank of Bombay	Bombay Presidency including Sind, Berar and Indore.	3,31,36	13,67,09	4.13
Bank of Madras	Madras Presidency and Mysore.	5,20,23	9,60,17	1.85

IV. EXCHANGE BANKS (1860–1913)

Even though the Exchange Banks, *i.e.*, banks whose head offices are located outside India, are of foreign origin, their establishment in India, it cannot be denied, has affected, favourably or unfavourably, the growth of banking in this country; hence their existence in this country must be reckoned with in any survey of Joint Stock Banks in this country. These Exchange Banks fall into two groups, those doing a considerable

1. Statistical Tables Relating to Banks in India. Table no. 12.

* The figures refer to the census of 1911 and include the population of Indian States situated within Provincial boundaries.

proportion of their total business in India, and those which are no more than mere agencies of large banking corporations doing business all over Asia.

By 1913 there were in the first group six banks—the Delhi and London Bank (1844); the Chartered Bank of India, Australia and China (1853); the National Bank of India (1863); the Hongkong and Shanghai Banking Corporation (1864); the Mercantile Bank of India (1893) and the Eastern Bank (1910). The dates mentioned in brackets give the years when the various banks were established. Of these, two, the Chartered Bank and the Hongkong Bank, carried on a very large business in other parts of the East, especially China; but this did not prevent their Indian connection from being important. The main part of the business of the other four was carried on in India.

The second group was constituted of the Comptoir National d'Escompte de Paris (1862); the Yokohama Specie Bank (1894); the Deutsch-Asiatiche Bank; the International Banking Corporation (1903); the Russo-Asiatic Bank; the Nederlandsche Indische Handelsbank (Netherlands India Commercial Bank) (1863); Nederlandsche Handel Maatschappiji (1889) and the Hongkong Shanghai Banking Corporation (1867).

The position of these Exchange Banks is somewhat peculiar in the Indian Money Market. On the one hand, they perform their business in India and on the other they conduct banking business in the country of their origin. The bulk of this business consisted at the outset mainly of dealing in foreign bills of exchange or foreign remittances. Later on they showed a tendency to move from the ports to the interior. A few of them have opened upcountry branches and in other places they have tried to secure a footing through the acquisition of shares in other banks. They compete, it has been suggested, with the Indian Joint Stock Banks with the help of cheaper money received from the Indians and engage in ordinary banking business transacted by the Joint Stock Banks. The deposits received from the Indians by these banks have increased enormously of late. The following table gives the figures of deposits received with the cash balances held against them in India,

Period	Deposits in India Rs. (1000)	Cash Balances in India Rs. (1000)
1870	52,00	61,00
1880	3,40,00	1,80,00
1890	7,50,00	3,45,00
1900	10,50,00	2,40,00
1901	11,85,00	3,30,00
1902	13,65,00	3,45,00
1903	16,20,00	3,15,00
1904	16,35,00	4,95,00
1905	17,10,00	3,75,00
1906	18,15,00	5,10,00
1907	18,20,00	5,55,00
1908	19,50,00	3,75,00
1909	20,25,00	4,20,00
1910	24,30,00	4,35,00
1911	28,17,00	4,57,00
1912	29,54,00	6,15,00
1913	31,04,00	5,88,00

The above table clearly reveals two facts. Firstly, the Exchange Banks were able to increase their funds in India by raising deposits locally. Secondly, the cash balances held by these banks against the deposits were gradually decreasing, thus showing the risk taken by these banks in sacrificing safety to profits. In the event of a crisis in India the banks hoped to bring funds from London. But this hope could not have been realized if the crisis were to occur in India and London simultaneously. They stand, however, broadly speaking, in an exceedingly strong financial position supported by large reserve funds. There is no provision, statutory or otherwise, which lays an obligation on these banks to furnish to any authority in India any figures relating to their business in India. Inspite of the latent dangers to the growth of banking in this country which should not be lost sight of, it cannot be denied that

for a number of years they have rendered a yeoman's service to this country in the matter of financing the growing foreign trade of the country. The relation of these banks to the Indian Joint Stock Banks will be considered in a subsequent chapter.

CHAPTER IV

HISTORY OF JOINT STOCK BANKING IN INDIA (Continued)

THE BANK FAILURES (1913–1918)

It was seen in the last chapter that the Swadeshi movement, which began in 1905, gave a great stimulus to banking and between this year and 1913, the number of banks with capital and reserve of over Rs. 5 lakhs increased from 9 to 18, with a total paid-up capital and reserve of Rs. 4 crores and total deposits of Rs. 22 crores. The number of smaller banks established was much greater. There is no information available about the smaller banks, yet some idea could be had from the increase in the number of banks established each year in the Presidency of Bombay alone.

Year	Number of Banking and Loan Companies	CAPITAL[1]	
		Nominal	Paid-up
		Rs.	Rs.
1906– 7	4	3,26,00,000	49,59,295
1907– 8	1	29,970	1,186
1908– 9	2	4,00,000	..
1909–10	5	2,55,20,000	9,21,143
1910–11	4	1,30,50,000	..
1911–12	9	2,30,50,000	..

The above figures, even though they include loan and money-lending companies, give a sufficient idea of the increase

1. Annual Reports on the Working of the Indian Companies Act, 1882, from 1906 to 1912.

of the banking companies, as may be seen from the fact that in five years no less than twenty-five banks were started in the Presidency of Bombay alone. In this connection the Registrar of Companies, Bombay, most significantly remarks that " from the above statement it will appear that there is a noticeable increase under 'Banking' and a decrease under 'Trading' and 'Mills and Presses.' Of the banking companies four are in Bombay (referring to the statement of new companies started in 1910–11) where it appears that such a business is now more attractive." We saw in the last chapter that within a short time after their starting, these banks attempted to increase their profits at the cost of safety. Many of these banks held inadequate reserves against their liabilities and the balance sheets were in several cases good examples of skilled 'window-dressing.' The table given on page 59 shows the cash balances of the various classes of banks for some years before and after 1913.[1]

The table on page 59 shows that the cash balances of the Presidency Banks and the Exchange Banks since 1907 onwards were more favourable than those of the other Joint Stock Banks. Figures regarding the cash balances of the smaller banks are not available, yet if a guesswork may be hazarded their position must have been still worse than that of the major banks. Even though these cash balances compare rather favourably with the cash balances held in other countries, *viz.*,[2]

Name of the Bank	Percentage of Cash Reserves
U. S. Member Banks.	9.5
The London Clearing Banks.	11.5
Four French Credit Companies.	11.5
Swiss Private Banks.	8.0
Chartered Banks of Canada.	11.0
Indian Joint Stock Banks (A Group).	19.0

yet in the peculiar conditions of India and the early stage of banking development, the reserves held by banks, even by

1. Statistical Tables relating to Banks in India, 1921. Table no. 5 p. 7.

2. Burgess, The Reserve Banks and the Money Market, p. 36,

Proportion Per Cent. of Cash to Liabilities on Deposits of the Several Classes of Banks on 31st December Each Year.

	1907	1908	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918
I Presidency Banks	30	33	33	31	35	29	36	46	34	35	45	29
II Exchange Banks* :												
(1) Banks doing a considerable of their business in India.	25	17	20	16	16	20	19	28	19	25	40	20
(2) Banks which are merely agencies of large banking corporations doing business all over Asia.	44	27	23	21	16	24	17	26	41	35	160	44
III Indian Joint Stock Banks :												
(1) Banks having capital and reserve of Rs.5,00,000 and over.	14	15	14	11	14	15	18	21	22	21	25	23
(2) Banks having capital and reserve between Rs.1,00,000 and less than Rs.5,00,000	..	..	..	..	..	..	16	22	22	17	21	24

* The percentages for the Exchange Banks have been calculated on their deposits and cash balances in India.

putting a generous construction on their intentions, could not be said to be adequate. Safety could be ensured in the early years of development only by observing orthodox principles of banking. There is no fixed percentage which could be regarded as safe enough; indisputably it depends on the individual circumstances in each country.

To add to this the Money Market in India in 1912 and 1913 showed apparent signs of breaking under pressure. The price of money was considerably high. The Bank Rate of the Presidency Bank of Bengal ruled at 7 to 8 per cent. from November 28, 1912 to April 17, 1913 and the Bombay Bank Rate was no less than 8 per cent. from December 27, 1912 to April 3, 1913. Trade was active and yet the demand for Council Bills was weak. As a result the exchange rate began to weaken till it touched 1s. $3\frac{31}{32}$d. These conditions were abnormal. The circulation of money did not expand in response to trade. The ordinary method by which the rupees accumulated in the Reserve Treasuries could be released was through Council Bills which failed to expand at a critical time. In such conditions the Government, instead of helping the market, were busy increasing the monetary stringency by pumping out of the market, week by week, the rupees which for the moment they did not in the least want. By the end of February 1913, the total Government balances in India had risen to Rs. 26,10,00,000 and by the end of March to Rs. 28,95,00,000. It was no wonder that these tight money conditions affected the banks. On the one hand they found that the liquid position was getting rigid day by day and on the other they were tempted to make large profits by lending at high rates. The situation was ominous and a mere whisper casting doubt on the solvency of banks was bound to react fatally. It was not long before the clouds which overcast the sky burst and the way was led on the downward path by the People's Bank of India which closed its doors on September 17, 1913.

Of all the banking crises which India has experienced so far that of 1913 to 1918 was the most disastrous one with far-reaching consequences. During the years 1829 to 1832, in 1857 and again from 1863 to 1866 there were indeed several bank failures, and much capital was lost. But compared to the

crisis of 1913–18 they were less significant. No less than 95 banking houses failed during this crisis. The following table gives the authorised, subscribed and paid-up capital of these banks.[1]

Number of Banks Liquidated, with their Authorised, Subscribed and Paid-up Capital, since the Banking Crisis of 1913.

Year	Number of Banks Liquidated	CAPITAL		
		Authorised Rs. (1000)	Subscribed Rs. (1000)	Paid-up Rs. (1000)
1913 (for 2 months.)	12	2,74,00	1,64,56	35,13
1914	43	7,74,00	2,45,61	1,09,12
1915	11	56,50	7,91	4,60
1916	13	2,30,90	20,90	4,23
1917	9	76,50	35,76	25,26
1918	7	2,09,50	4,85	1,46
Total	95	16,21,40	4,79,59	1,79,80

Thus, during these few years alone, as many as 95 banks with a paid-up capital of Rs. 180 lakhs went into liquidation in a country in which banking facilities were not adequate. The above table gives figures for India, but taken by Provinces, they show that the Punjab, the United Provinces and Bombay suffered the most. The table on the next page gives the number of banks that failed during 1913–1918 and their paid-up capital according to Provinces.[2]

The table shows, as said before, that the impact of failures was severe in the Punjab, the United Provinces and Bombay. The total number of banks that failed in the Punjab was 35 with a paid-up capital of 36.74 lakhs of rupees. Next came Bombay

1. Statistical Tables relating to Banks in India, 1917. Table no. 7.

2. Compiled from the figures given in the Statistical Tables relating to Banks in India, 1920.

Province	1913		1914		1915		1916		1917		1918	
	No.	Paid-up capital	No.	Paid-up capital	No.	Paid-up capital	No.	Paid-up capital	No.	Paid-up capital	No.	Paid-up capital
		Rs. lakhs		Rs. lakhs		Rs. lakhs		Rs. lakhs		Rs. lakhs		Rs. lakhs
Punjab	6	15.9	22	18.9	3	1.14	2	.19	1	.01	1	.60
Bombay	4	18.7	7	77.1	1	.82	5	3.21*	2	11.05	2	.20
United Provinces	.	..	5	11.0	4	1.93	4	.56	4	14.1	1	.23
Madras	.	..	2	.52	.	..	1	.5	.	..	.	..
Delhi	.	..	2	1.04	.	..	1	.20	.	..	.	..
N. W. F.	1	.3	1	.51	.	..	.	..	.	..	.	..
Baluchisthan	1	.42	.	..	.	..	.	..	.	..	.	..
Bengal	.	..	.	..		..	.	..	.	..	2	.31
Total	12	35.32	39	109.07	8	3.89	13	4.65	8	25.17	6	1.34

* Figures for two banks not available.

where 21 banks went into liquidation with a paid-up capital of Rs. 111.08 lakhs. The number of banks that failed in the United Provinces was 18 with a paid-up capital of Rs. 27.82 lakhs. It is true that most of the institutions which disappeared were small and weak. Reporting on the working of companies in the Punjab in 1914–15 the Registrar said, " in all probability many of these companies would have come into the hands of liquidators even in normal times but their fall has been accelerated partly owing to the general financial situation in the Province aggravated by the war and partly owing to the new Companies' Act which, *inter alia*, put a stop to the farcical and highly pernicious system of reciprocal audit. The failure of so many companies is no doubt a serious blow to the industrial development of the Province and for some time to come the course and extent of investments may be affected, but in the long run the present losses may prove to have been most beneficial. The removal of a number of rubbish and dishonest concerns will clear the way for the growth of sounder companies under more able management and hedged round by the more stringent provisions of the new Act. "[1] Indeed, the Registrar is perfectly right in holding the view that the weak spots in the field of Indian Banking were removed by the crisis of 1913 and subsequent years. Yet this had its adverse repercussions even on banks which were otherwise strong and would have survived a less serious crisis. Failures of banks have occurred in all countries and they are perhaps unavoidable in the early years of Joint Stock Banking. For example, during the crises of 1726, 1727 and 1728 no less than 1229 banks failed in England and in the United States no less than 517 National Banks failed during the years 1865 to 1911. In India, the crisis was acutely felt because along with the smaller banks some of the important institutions also failed. This brought forth a good deal of unmerited criticism which was most inconsiderately and rashly passed against Indians to the effect that they were incapable of successfully managing Joint Stock Banks of the modern type. It may also be pointed out that among the banks that failed in India from time to time there were some managed by Euro-

1. Report on the Joint Stock Companies for the year 1914–15 (Punjab)

peans, *e.g.*, the first Presidency Bank of Bombay that failed in 1868 or again the Alliance Bank of Simla which came to grief in 1923. It is, therefore, most unfair and unjust to draw an inference from the bank failures in India adverse to Indians as such. The following table gives information regarding the important banks that failed during this crisis.[1]

(In Lakhs of Rupees.)

Name	Paid-up Capital	Reserve	Deposits
Bank of Upper India	10	9	154
Bombay Banking Co.	1	..	15
Credit Bank of India	10	..	51
Deccan Bank Limited	1	..	11
Hindusthan Bank	1	..	11
Indian Specie Bank	75	15	270
Kathiawar and Ahmedabad Banking Corporation.	7	..	23
Lahore Bank Limited	1	..	29
Marwar Bank	2	..	8
People's Bank of India	13	2	126
Pioneer Bank	3.84	..	1.96
Punjab Co-operative Bank	8	2	466
Popular Bank	3	..	19
Total	135.84	28	1130.96

The above figures speak for themselves. Thus, the failure of 13 important and big banks with a total paid-up capital of Rs. 1.35 crores was bound to affect the growth of banking in future. It led many to suspect the soundness of banking as it was run in the country. It was at the same time most unfortunate and almost discouraging that substantial banks or the type of the Indian Specie Bank, the Bank of Upper India, and the People's Bank of India should not have been able to resist the crisis.

1. Tannan & Shah, Indian Currency & Banking Problems, p. 223.

CAUSES OF BANK FAILURES

A close study of the causes of bank failures will reveal the fact that in many cases mismanagement due to inexperience in banking affairs accounts for most of them. The men at the head of these institutions were no doubt energetic and enthusiastic; but they were utterly unfit for the direction of a banking business. In this connection we may quote the following remarks of the Official Committee of Lahore: "the evidence produced before us insisted on the want of business knowledge and inexperience in company promoters, managers and staff as a primary cause of failure. There were few competent managers whether of banks or of industrial concerns. Consequently egregious blunders were committed and some of the so-called dishonesty seems to us very like ignorance, much of it was due to anxiety to cloak losses." In any case when new enterprises were started it was assumed that men who had been successful in other walks of life could as well direct a banking business; and because men with the necessary qualifications were entirely unavailable, these men, in spite of their ignorance and inexperience, were placed at the head of affairs. The earlier English Joint Stock Banks too suffered from similar causes. Gilbert in his book on Banking (Vol. II) most significantly remarks that "this was the greatest handicap of all, both directors and officials sadly lacking in practical experience of the management of a bank." In many of the early Joint Stock Banks none of the directors had had any knowledge of banking methods previous to their appointment on the board of the company. Many of the officials were in a similar position; the supply of highly trained men was entirely inadequate, and to obviate the difficulty, men who enjoyed a high general social standing were employed. The tragic collapse of banks unquestionably proved that the value of special training and experience cannot be exaggerated.

Another cause which unfortunately operated in a few cases was fraudulent mismanagement. The disclosures in law courts attendant upon the first failures showing extravagance, dishonesty, and criminal mismanagement to an unprecedented extent gave a rude shock to the public confidence. It was seen that even though the position of some of these banks was

unsound from the beginning, they fooled the gullible public who believed in their capacity to make large profits in the shortest time with the least trouble. The report of the Accountants appointed in connection with the Specie Bank failure contains the following remarks.[1]

"We have found the books in an incomplete state. They were not written up-to-date..... The general loan ledger contains receipts for miscellaneous advances, chiefly on the security of pearls. If we leave out pearls and share *badla* business, the amount of orthodox banking business pales into insignificance in comparison with the mammoth silver deals.... It is extremely disappointing to have to relate what can only be described as a miserable tale of the lowest form of fraud, the creation of fictitious debtors and the preparation of demand promissory notes in support of these. Summarising our remarks under the heading 'False Accounts,' we might say that the accounts submitted each half year were rendered falsely to shareholders and the means of manipulating were usually applied through Nanabhai's accounts. False entries were carried through the books to and from the account of this Dummy Silver King, by which silver operations were disguised as debtors for loans, in whose hands were placed bogus demand promissory notes for presentation to auditors. When the audit was safely over the disguised figures disappeared and the mysterious Mr. Nanabhai resumed his manipulations of the silver market."

The following abstract from the order of liquidation issued by the District Judge of Lahore, throws light on the failure of the People's Bank[2].: –

"The applicant for compulsory winding up urged four points: (1) that the Directors have grossly mismanaged the affairs of the bank, lending to themselves or to companies in which they are directors or partners; (2) that the mismanagement has been such as to raise strong belief that the Directors' action has not been *bona fide;* (3) that the Directors have committed

---

1. Pioneer, December 21, 1913.

2. Englishman, November 18, 1913, quoted by Findlay Shirras, Indian Finance and Banking, p. 367.

a criminal offence in paying the dividend on December 30 last out of capital; and (4) that in certain cases companies' assets have been deliberately made away with. For the last point the audit shows a debt of nearly Rs. 4 lakhs due from the Ganges Flour Mills, whereas the balance-sheet of that company filed by applicant shows no debt whatever due to the People's Bank. The case of the Cawnpore Flour Mills is similar with regard to all these points. I am not recording any definite finding one way or the other. It is possible that they may be satisfactorily explained. There is, however, a strong *prima facie* case made out which would justify criminal proceedings if proved. Under the circumstances I think that the applicant is entitled to receive compulsory liquidation."

Another point connected with this is the apathy of the shareholders in general, and Indian shareholders in particular. They did not realise their responsibility. Their primary duty is to "put the saddle on the right horse" and see to it that the officers of the bank are discharging their duties entrusted to them in a responsible manner. In the present stage of industrial organization when the potential control is widely diffused and the effective control is only in few hands, if the shareholders concern themselves only about the dividends and remain indifferent to the proper conduct of the business, this is bound to give rise to malpractices. Even though constant meddling with the routine work is admittedly undesirable, the moral check arising from the wariness of the shareholders is very essential.

Many of the banks, again, were performing services which by no stretch of imagination could be called banking operations. Liquidity of funds which is regarded as essential for prosperous commercial banking was altogether ignored by the officials of some of these banks with the result that the assets of the banks were no longer "quick." The bank managers failed to realise the importance, from the point of the soundness of a bank, of the vast difference between "immediate" and "ultimate" convertibility. A trained banker will always keep his eye on immediate convertibility rather than ultimate solvency. Instead of constantly controlling the liquidity of the resources at short intervals by frequent general inventories with the

greatest care, and instead of keeping a proper composition of securities in their portfolios against their total obligations, they locked up their money in "slow assets." According to Reisser "the security and maintaining of the liquidity of the assets is a most essential task incumbent on the banker. Indeed in view of the variety of claims made on the resources of bankers and banks and of the multitude of aims formed by them it is one of the most difficult problems of banking policy. It is all the more difficult since the establishment of the right proportion of the so-called quick assets to the liabilities, specially obligations falling due at anytime within a certain period does not always depend solely on the will and discernment of the bank. Possibilities have to be reckoned with, for instance, that the issue of new shares required to restore the necessary liquidity of the bank's resources after a great increase of business is impossible during bad or critical times; that consequently its assets would be tied up just at the very moment when it might be called upon to realise general embarrassment by proper intervention."[1] Most of the Indian Joint Stock Banks during this period paid very high rates of interest to the depositors. The Bank of Burma, for instance, accepted to pay 6 per cent. as mentioned before. In order to pay these high rates speculative business which is supposed to be more paying often outside the banking line, was undertaken, and this precipitated the downfall of such banks. In the Punjab there was a regular competition between banks to attract deposits. In order to induce widows and minors to deposit their money, banks offered to pay 8 per cent. under various pretexts. They had to lend naturally at very high rates of interest. The result of this shortsighted rivalry forced the banks to resort to illegitimate and unsound business. The Hon. (now Sir) T. Smith pointed out then, that "an institution has no right to be called a bank which undertakes coach-building, ekka repairs, and medical attendance, the manufacture of soap and oil and certain things as machinery or engages in trade or manufactures of any sort even though it be stated as follows :—the leasing, hiring and purchasing of all commodities and substances which can form the subject of purchase and sale." The banker's legitimate

1. Rau, Present-Day Banking in India, p. 219.

profession is to take care of the community's floating cash and to turn it to good account, that is, to make it productive, particularly by placing it at the disposal of others engaged in production.[1]

There were other causes also which were responsible for this country-wide failure of banks. It was seen before that the Swadeshi movement gave rise to the growth of mushroom banks. Some of the Joint Stock Banks were started to satisfy a transitory caprice and did not arise to satisfy the legitimate banking and trading requirements of the people. Then there was excessive interdependence of banking and industrial concerns under a board of common directors as in the case of the Punjab companies and this was bound to produce harmful results. A glaring example of this kind of interlocked directorates was that of the Rangpore Bank. This Bank was started by the Directors of the Rangpore Tobacco Company in order to secure cheap loans. The Rangpore Bank gave loans to this company which was not earning as far as is known any profit at all. Thus the directors of the Bank stood as both creditors and debtors at the same time. The failure of the Bank revealed the unsoundness of the principle of lenders being also the borrowers. Similarly, it was found out that some of the Joint Stock Banks started with enormous nominal capital but could command only small paid-up capital and thus abused the implicit trust placed in them by the public who were favourably impressed by the vast array of figures relating to the nominal capital. In a few cases dividends were paid out of the deposits that were coming into the bank. Then again, as pointed out above, the balance-sheets of some banks were freely manipulated. Some of the banks used all their skill to manufacture blooming balance-sheets showing a large amount of assets whereas they were really tottering on the precipice.

It is necessary to refer to a factor which though not an original cause of banking crisis certainly operated as an aggravating factor. This was the unsympathetic, at times hostile, attitude of some sister institutions in the country. "There was want of co-operation between the Indian banks themselves,

1. See Rau, Present-Day Banking in India, p. 220.

the attitude of the English and Presidency Banks was unsympathetic and hostile and even the Government was an indifferent spectator if not averse to their existence and prosperity. The governments of other countries on such occasions enact special emergency measures and even give monetary assistance to save their credit institutions from, in many cases, unwarranted failures but the State in India did nothing of this sort."[1] The Presidency Banks did not live upto their responsibility in respect of their function of being residuary trustees, and bankers' banks. They may be excused on the plea stressed by Keynes that "they were not strong enough to support the whole burden," considering the magnitude of the failures. Yet they could have helped stop the rot by indicating their intention to stand behind, at any rate, the more deserving Indian banks. The Lahore Committee was justified in its criticism of this attitude during the course of their evidence before the Industrial Commission.

The first effect of the banking crisis of 1913 was to check enterprise in the field of banking. A country-wide failure of banks with huge losses was bound to give a set-back to the starting of new banks.

The following figures give the number of banks that were started during 1913–1916 :—

Name of the Province	1913	1914	1915	1916
Bengal	9	4	2	6
Madras	2	3	4	3
Bombay	3	..	..	3
Bihar and Orissa	2	..	1	..
United Provinces	8	..	..	1
Punjab	5	2	1	1

Thus it becomes clear that the set-back was prominent in those provinces where the failure of banks was most marked. No banks were started in 1914–15 in the Province of Bombay

1. B. T. Thakur, Organization of Indian Banking, p. 33.

and the United Provinces and only three banks were started in the Punjab, these comprising the main area of failures. Of the banks started during these years, the Eastern and Western Banking Corporation (1913), the Amritsar National Banking Company (17 June, 1913), with a paid-up capital of Rs. 1,05.900, the Shilotri Bank with an authorised capital of Rs. 10,00,000 and the Trust of India with a paid-up capital of Rs. 19,10,000 were the important ones.

In addition, the bank failures gave a set-back to public confidence in the existing banking institutions in the country and led to withdrawal of deposits for some time. The loss of paid-up capital and reserves involved in bank failures was great. Many depositors and shareholders were ruined as the savings of their life time were wiped out completely leaving them to the mercy of their countrymen. At the same time it served as an eye-opener to the Government as well as to the leading bankers. Both realised the need for more stringent banking regulation and legislation. It was realised that for the development of banking in India on sound lines it was essential that a Central Bank should be started and entrusted with the control of the banking institutions in the country.

THE EFFECT OF THE WAR ON GROWTH OF BANKING

The general effect of the war on the banking situation in India was twofold :

(1) Increase in the deposits on the liabilities side as can be seen from the following table.

Year	Presidency Banks and Branches	Exchange Banks (Deposits in India only)	Indian Joint Stock Banks	Total
	Rs.(1,000)	Rs.(1,000)	Rs.(1,000)	Rs.(1,000)
1913	42,37,16	31,03,54	24,10,34	97,51,04
1914	45,65,60	30,14,76	18,37,12	94,17.48
1915	43,49,86	33,54,56	18,78,64	95,83,06
1916	49,91,45	38,03,88	25,72,28	1,13,67.51
1917	67,71,74	53,37,53	32,16,00	1,53,25,27
1918	50,97,75	61,85,60	42,14,00	1,54.97,35

(2) The growth in the cash and investments on the asset side was another important effect. This was due to the large war profits earned by firms and mills, especially the cotton and jute mills that supplied large quantities of materials required for the successful prosecution of the war. The increase in the general price level in the country also added to these war profits which found their way into the banks. During 1913–18 the deposits of the Presidency Banks increased by Rs. 7,53 lakhs or 18 per cent.; those of the Joint Stock Banks by Rs. 1,93 lakhs or 10 per cent. and those of the Exchange Banks by as much as £ 24,000,000 or by 55 per cent. The deposits of the Exchange Banks in India increased from Rs. 23,65 lakhs to Rs. 31,54 lakhs or 33 per cent. Discussing the causes of this phenomenal increase in the deposits the Director of Statistics says that, "it is hazardous to offer an explanation of the increase in the deposits in the case of India. It may be that prosperity and higher prices are partial explanations. Favourable monsoons and great demand in belligerent markets for food-grains, raw and manufactured jute and cotton, oilseeds, tea, etc. spell prosperity."[1] In fact, India was not the only country where the war affected deposits favourably. A similar increase was produced, as will be seen from the following table, in other countries as well.

Bank Deposits during the War compared with those of 1913.[2]

(In £ millions sterling.)

Name of the Country	Pre-War 1913	War 1917	Percentage Increase
United States of America	2,101	4,081	94
United Kingdom	1,104	1,872	70
Germany	543	1,472	171
France	266	435*	64
Canada	233	320	37
Australia	150	209	39
India	65	107	65
Japan	185	416	125

Total increase £ 4,265 millions or 92 per cent.

1. Statistical Tables relating to Banks in India, 1917, p. 9.
2. G. Findlay Shirras, Indian Finance & Banking, p. 407.

* Figures for 1918.

Writing on this great increase in the deposits in the United Kingdom the Editor of the *Economist* says:

> "Bank deposits are now generally recognised as having grown not because we were somehow miraculously enriching ourselves while upto our chins in the costliest war that ever was waged, but because our credit machinery has responded with all its marvellous ease and elasticity to the requirements of War Governments which have been short-sighted enough to pay a large part of the war's cost by means of inflation and manufactured money. Not having courage enough to tax drastically or enough power of persuasion to induce investors to cover the war's cost by genuine saving and reduction of consumption, our Government have filled the gap by calling on the banks to provide new money, or buying power, by lending either directly to it or indirectly to customers. This Rake's progress has gone forward with a considerable accelerando movement."

In India, the Government had to finance purchases on behalf of the War Office in London as well as on its own behalf. The large Indian War Loans, the introduction of a large amount of floating debt in the form of Indian Treasury Bills, the considerable expenditure on account of Government and of the Allies, not to mention the large sums left by Government with the Presidency Banks to avoid monetary stringency, forced, as it were, the pace of deposits. When the banks bought War Loan or Treasury Bills from Government they paid for the securities, and this reduced the banks' cash balances and increased their investments. Government used its increased balances to pay debts owing to firms, etc., and these paid the cheques into their bank accounts or in turn to their creditors. The banks thus got back their cash balances at the Presidency Banks and at their own offices, while their deposits were increased by the cheques which were paid in by customers.[1] It will thus be seen that much of the increase in the war-time deposits was of an inflationary character, being the result of the peculiar methods of war finance which India, like other belligerent countries followed.

---

1. See Indian Finance & Banking by G. Findlay Shirras, pp. 411–12.

Another noteworthy effect of the War was the substantial improvement in the cash position of the different classes of banks in the country. The following table gives figures relating to the percentage of cash to liabilities on 31st December of each year.[1]

Percentage of Cash Balance to Liabilities on Deposits.

	1913* %	1914 %	1915 %	1916 %	1917 %	1918 %
Presidency Banks	36	46	34	35	45	28
Exchange Banks:						
(1) Banks doing a considerable portion of their business in India.	19	28	19	25	40	20
(2) Banks which merely are agencies of large banking corporations doing business all over Asia.	17	26	41	35	160	44
Indian Joint Stock Banks:						
(1) Major banks having capital and reserve of Rs. 5 lakhs and over.	18	21	22	24	25	23
(2) Minor banks having capital and reserve between Rs. 1 lakh and 5 lakhs.	16	22	22	17	21	24

This table shows an all-round improvement in the cash position of all the banks, as compared to the low cash reserves maintained before the war. This is particularly marked in the case of the Exchange Banks doing business mainly outside India and having only agencies in this country. The position of the major Indian Joint Stock Banks shows some improvement. There is no noticeable change, however, in the position of minor banks. Whatever rise there was in the liquid assets was a logical consequence of the increased liabilities in the shape of deposits. The Director of Statistics in this connection

1. G. Findlay Shirras, Indian Finance and Banking, P. 415.
* Pre-war year.

says, "this conservative policy is no doubt due to the experience which the outbreak of war brought to bear on banks, an experience which was, with that resulting from the bank failures of 1913–16, not without benefit to our banking system."[1]

A third important effect of the War was a remarkable increase in the investments of the banks, thanks to the great activity of the export trade, purchase of war bonds and Treasury bills by the banks. This enabled the banks to earn considerable profits, especially because money rates ruled high during the war period. They were, therefore, in a position to pay high dividends to their shareholders. In general it may be said that the Indian banks in common with banks in other countries enjoyed a period of prosperity. Of the sixteen banks whose dividends are given below, nine declared higher dividends than in the pre-war year.

Dividends of Banks.*

Banks	1913 Pre-War Year %	1914 %	1915 %	1916 %
Bank of Bengal	14	14	16	16
Bank of Bombay	14	14	14½	15
Bank of Madras	12	12	12	12
Chartered Bank of India, Australia and China	14	17	14	14
Eastern Bank	5	6	5	5
Hongkong and Shanghai Banking Corporation	34	34	36	36
National Bank of India	8	8	8	10
Bank of Rangoon	4½	4½	5	5
Bank of Baroda	7½	7½	7½	8
Bank of India	6	6	6	6½
Bank of Mysore	..	..	5	6
Allahabad Bank	18	18	18	18
Alliance Bank of Simla	14	14	14	14
Central Bank of India	6	3	..	4½
Punjab National Bank	10½	11	11	10

1. Statistical Tables relating to Banks in India, 1917, p. 10.

* The dividends of the Banks of Bengal, Bombay and Madras for 1917, 1918 were 17, 17; 17½, 18½ and 12, 12 respectively.

A fourth important effect of the War was the great increase in the amount of cheques cleared as compared with the pre-war year. The following figures will indicate this.[1]

Total amount of Cheques cleared from Clearing Houses in each year, from 1913–1918.
(In crores of rupees)

Period	Calcutta	Bombay	Madras	Karachi	Rangoon	Total
1913	333	219	24	12	62	650
1914	280	173	22	13	50	538
1915	323	167	19	13	41	563
1916	480	241	25	15	48	809
1917	472	336	23	20	50	901
1918	744	534	25	24	69	1,396

The above table shows that in 1918 there was a very noticeable increase in the total amount of cheques cleared, *viz.*, of 115 per cent. over the pre-war year. The increase in the case of the Calcutta Clearing House was 123 per cent., and in that of Bombay 143 per cent. In 1918 the Calcutta Clearings amounted to Rs. 744 crores or 53 per cent. of the total year's clearings, which was certainly a creditable performance for that great city. Bombay came next with Rs. 534 crores, or 38 per cent. These suggestive statistics are a clear sign of the war-time prosperity.

A fifth noteworthy effect of the War and which can be easily marked from the balance-sheets of various banks was the growing disparity between their own capital which remained stationary and the increasing business transacted by the banks. An examination of the combined balance-sheet of sixteen principal banks on 31st December 1913 and 31st December 1917 will clearly bring out the enormous changes in their position. The combined balance-sheet is set out below.

1. See Indian Finance and Banking by G. Findlay Shirras. pp. 417, 473

Aggregate Balance Sheet of sixteen Principal Banks in India, including the Presidency Banks.[1]
(In crores of Rupees)*

December 31, 1913.

Capital and Reserves	10.5	Cash in hand, etc.	19.5
Deposits, etc.	61.5	Investments	10.5
Other liabilities	1.5	Bills discounted, etc.	42.0
		Other assets	1.5
	73.5		73.5

December 31, 1917.

Capital and Reserves	10.5	Cash in hand, etc.	42.0
Deposits, etc.	105.0	Investments	21.0
Other liabilities	1.5	Bills discounted, etc.	52.5
		Other assets	1.5
	117.0		117.0

A consideration of the effects of the War on the growth of banking will not be complete without a mention being made of how War stimulated interest in the establishment of Industrial Banks and pressed to the front the question of starting a Central Bank in the country. The Indian Industrial Commission was appointed in May, 1916 to examine and report upon the possibilities of further industrial development in India. It came to the conclusion that in the special circumstances of India what was needed was an Industrial Bank which would keep in touch with industrialists, would estimate the prospects of a fairly extensive range of industries and would possess funds which it can afford to lock up for a time in securities not readily realisable.[2] Since then the problem of industrial banks has been engaging the attention of leading men without any significant progress being made towards its solution.

A large number of bank failures during the war period also showed the direction in which an immediate reform of the banking system in India was needed. The concensus of opinion in the country stressed the necessity for a central banking institution in India for securing the development of Indian banking and credit system on a sound and proper basis.

1. See Indian Finance and Banking by G. Findlay Shirras, p. 405.
* £ have been converted into Rupees at £ 1 = Rs. 15.
2. Indian Industrial Comm., 1916-1918, pp. 216-17,

CHAPTER V

HISTORY OF JOINT STOCK BANKING IN INDIA (Continued)

It was seen in the last chapter that the years 1913 to 1918 were a critical period for Joint Stock Banking in India. The number of bank failures was so large that for some time banking came to be regarded as a risky business and bankers worked with considerable caution. But in spite of the fact that they were giving their best attention to the business of banking, the toll of banking failures continued even during the next period, 1919–1935. The remarks in this chapter will amply bear out this statement.

PROGRESS OF JOINT STOCK BANKING during 1919–1925

In estimating the progress of Joint Stock Banking since 1919 the following statistics will be found illuminating. [1]

Capital, Reserve, Deposits and Cash Balances of the Principal Indian Joint Stock Banks on 31st Dec., of each year (1919–1925).

CLASS A—Capital and Reserve over Rs. 5 lakhs.

Year	No. of Banks	Capital and Reserve	Deposits	Cash Balances
		Rs. lakhs	Rs. lakhs	Rs. lakhs
1919	18	7,63	58,99	12,17
1920	25	10,92	71,15	16,31
1921	27	12,40	76,90	15,66
1922	27	10,64	61,64	12,04
1923	26	9,73	44,43	7,37
1924	29	10,71	52,50	11,30
1925	28	10,60	54,49	10,10

1. Statistical Tables relating to Banks in India, 1926, p. 2.

CLASS B—Capital and Reserve Rs. 1–5 lakhs.

Year	No. of Banks	Capital and Reserve	Deposits	Cash Balances
		Rs. lakhs	Rs. lakhs	Rs. lakhs
1919	29	75	2,28	54
1920	33	82	2,33	42
1921	38	1,00	3,26	44
1922	41	1,11	3,38	56
1923	43	1,11	3,26	61
1924	40	1,07	2,67	34
1925	46	10,18	3,42	68

The first fact which emerges from a study of the foregoing table is the post-war boom in banking companies and the unsteady increase in the total resources of the Joint Stock Banks during the period 1919–1925. In fact this tendency of an unstable equilibrium was well marked long ago by Keynes who had pointed out that it foreboded a crisis. It will be more evident from the following summary of the statistics.

(In crores of Rupees)

	1919	1920	1921	1922	1923	1924	1925
Capital and Reserve	8	12	13	12	11	12	12
Deposits	61	73	80	65	48	55	58
Total	69	85	93	77	59	67	70

All the three sets of figures relating to capital and reserve, deposits, and total resources follow throughout the same general trend. The statistics relating to deposits which are a sort of a barometer of the conditions of banking, the movements of which, upwards or downwards, show the position of banks in the Money Market and the confidence they enjoy in it. Starting with 1919 the deposits steadily increased till they reached the figure of Rs. 80 crores, which might be said to reflect the prosperity which banks were regaining during 1919–1922 after the crisis of 1913–1918. But after 1922 there is a striking decline culminating in 1923, when the deposits stood at Rs. 48 crores. This phenomenon may be explained by saying that the years

1919–1922 were exceptional years of inflation which were followed by the post-war deflation during which there were marked movements in the general price-level. However, position of Joint Stock Banking during 1919–1925, in spite of the intervening years of prosperity, was not altogether free from anxiety. The prosperous years may be accounted for by the extraordinary activity in trade and the floatation of new companies in the post-war boom. On looking deeper into the matter the steep fall in deposits in 1923 can only be explained as the result of the world-wide depression which followed the short-lived boom and in which India had her share, coupled with the collapse of the Indian exchange in 1920–1921. In the following two years the deposits show signs of slow recovery. Of course, the economic conditions in India in 1921 and 1923 were exceptional, but the fall of Rs. 32 crores in deposits within two years was a clear indication of the weakness of the Indian Banking System in face of unfavourable conditions. It was partly the result of competition of the Imperial Bank of India, the Exchange Banks, the Co-operative Banks, the Postal Banks and the Cash Certificate system.[1] However, it is gratifying to note that the number of banks was definitely increasing after 1919 as may be seen from the fact that no less than 27 new banks were started in the short period of six years. This was very encouraging as the new banks which were coming to life inspite of the several bank failures were, it may be assumed, bound to learn and profit from the mistakes committed by their predecessors.

BANK FAILURES DURING 1919–1925

Though the severity of the crisis of 1913–1918 had subsided the toll of bank failures continued even during the following period of 1919–1925. That the failures of banks during 1919–1925 do not compare in point of the extent of the severity with the more disastrous failures of 1913–1918 is clear from the following statement, but the fact that their number was 84 in seven years, and involved the loss of paid-up capital of Rs. 5.1 crores is disconcerting.

1. Jathar & Beri, Indian Economics, Vol. II, p. 440.

Statement Showing Failures of Joint Stock Banks from 1919–1925

Year	No.of Companies involved	CAPITAL		
		Authorized	Subscribed	Paid-up
1919	4	52,50,000	6,47,185	4,02,737
1920	3	10,40,000	7,67,700	7,24,717
1921	7	70,40,000	5,80,965	1,25,329
1922	15	10,15,55,000	27,25,744	3,20,991
1923	20	21,80,89,995	9,92,30,480	4,65,47,325
1924	18	6,30,30,000	26,46,370	11,33,623
1925	17	1,89,80,000	25,41,695	18,75,795
	84	41,49,84,995	10,91,40,139	5,11,30,517

There was a comparative lull from the point of banking failures during the years 1919–1920 when the mortality rate of banking companies fell to a low figure. But there was a relapse in the position after 1922 and the number of bank failures increased. The paid-up capital lost in the last three years alone amounted to Rs. 4.95 crores. Of the banks that went into liquidation in 1923, the failure of the Alliance Bank of Simla and the Tata Industrial Bank were by far the important ones. The Alliance Bank of Simla, as was seen before, was started in 1875 and was an "English-managed" enterprise. It had absorbed the Punjab Banking Company, the Delhi and London Bank and the Bank of Rangoon and had 37 branches in 1920. The bank came to grief in April 1923. The Tata Industrial Bank was started in February 1917 with a paid-up capital of Rs. 2,25,15,660 and was the first bank to undertake industrial financing. Because of its transactions in foreign exchange and its bold policy of investment, it went into liquidation in June 1923 and was later on absorbed by the Central Bank of India.

The table on the next page gives statistics regarding failures in different provinces.[1]

1. The Table has been prepared from the information available from the Reports on the Joint Stock Companies in India and the Statistical Table relating to Banks in India, 1920.

Province	No.	1919 Paid-up capital	No.	1920 Paid-up capital	No.	1921 Paid-up capital	No.	1922 Paid-up capital	No.	1923 Paid-up capital	No.	1924 Paid-up capital	No.	1925 Paid-up capital
Bombay	1	2,07,777	.	..	.	..	3	2,10,315	4	2,26,55.303	4	8,42,875	.	..
Punjab	1	1,92,560	.	..	.	..	3	65,62,411	6	21,60,626	5	1,30,630	.	..
United Provinces	.	..	3	7,24,717	2	..	5	35,65,557	4	3,02.598	1	64,540	.	..
Madras	.	..	.	..	2	8,187	1	14,609	2	4,970	5	2,24,250	.	..
Bengal	2	2,400	.	..	.	..	6	7,08.042	5	1,68,46,980	1	..	.	..
Delhi	.	..	.	..	1	.	.	..	1	59,61,000	1	2,000	.	..
Burma	.	..	.	..	1	..	.	..	.	..	.	..	.	..

In the immediate post-war period the main failures occurred, as before, in the Punjab, Bombay, Bengal and United Provinces. These provinces being in the van of industrial development, the failure of banks was calculated to give a setback not only to the growth of banking but also to the industrial prosperity. Not only the industrial and agricultural, but, the general economic advance of a country depends on a firm banking system in the absence of which its future would be bleak and gloomy. This continued failure of banks reinforced the lessons which were taught by the earlier banking crisis, *viz.*, the necessity of a Central Bank to guide the general banking policy. They also indicated that the maintenance of a sufficient cash reserve is the very A B C of sound banking.

GROWTH OF JOINT STOCK BANKING during 1926–1935

Having briefly surveyed the history of Joint Stock Banks from 1919 to 1925, we may now examine their position during the last ten years. It must be pointed out here that the statistical information about banks in India is usually out-of-date as the official source of information, *viz.*, the Statistical Tables relating to Banks in India, generally gives information regarding the banking position two years preceding the date of publication. To certain extent this deficiency is remedied by the information published by the Reserve Bank. According to the latest statistics available (*i.e.* 1935), it appears that in 1935 there were in all 105 Joint Stock Banks from which returns were received by the Government of India. The number of banks belonging to class A, *i.e.*, having a paid-up capital and reserve of Rs. 5 lakhs and over was 38 while the number of banks grouped in class B was 67, *i.e.*, smaller banks with a paid-up capital and reserve of from 1 lakh to 5 lakhs. The following table gives a general idea of the progress of the Joint Stock Banks during 1926–1935.

Capital, Reserve, Deposits, and Cash Balances of the Principal Indian Joint Stock Banks on 31st December of each year.[1]

CLASS A

Year	No. of Banks	Capital and Reserve	Deposits	Cash Balances
		Rs. lakhs	Rs. lakhs	Rs. lakhs
1926	28	10,84	59,68	9,12
1927	29	11,08	60,84	9,70
1928	28	11,10	62,85	8,19
1929	33	11,54	62,72	9,05
1930	30	11,85	63,22	7,67
1931	33	12,03	62,33	7,68
1932	34	12,21	72,34	9,76
1933	34	12,34	71,68	10,92
1934	36	12,67	76,77	11,14
1935	38	13,20	84,45	19,12

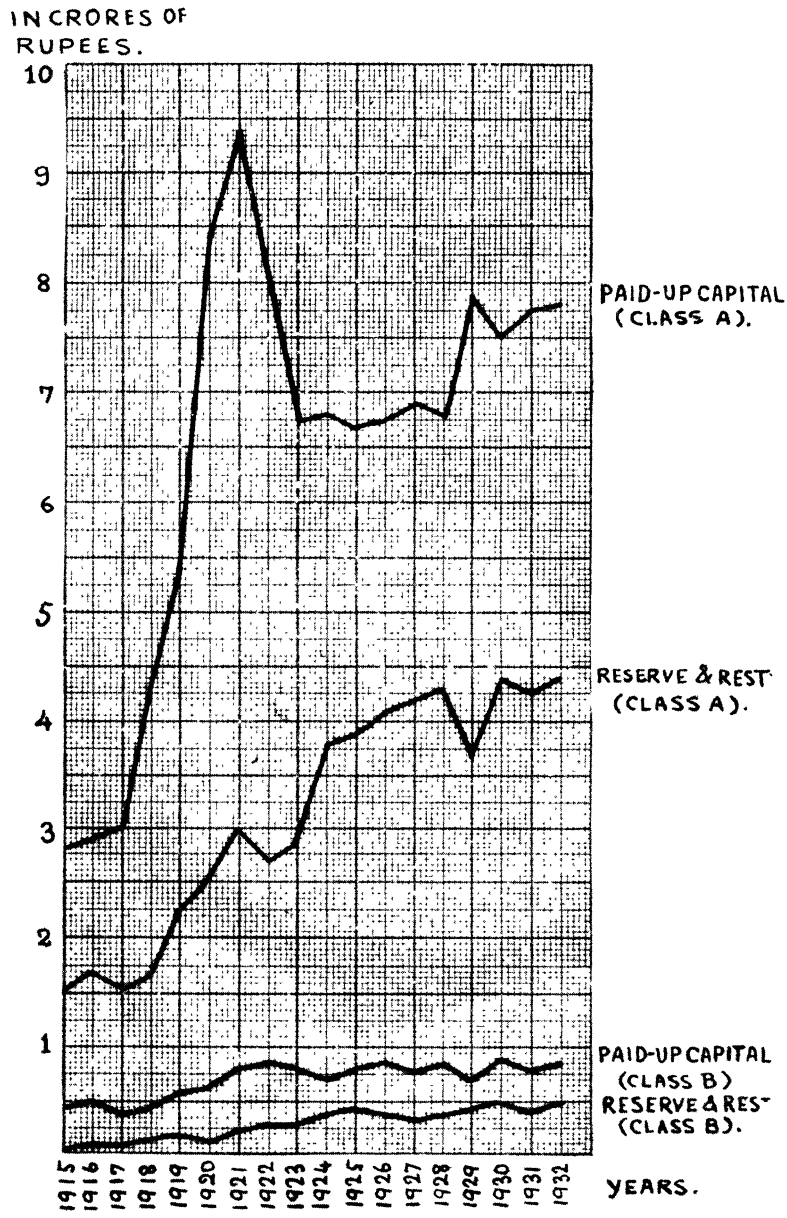
CLASS B

Year	No. of Banks	Capital and Reserve	Deposits	Cash Balances
		Rs. lakhs	Rs. lakhs	Rs. lakhs
1926	47	1,26	3,47	82
1927	48	1,22	3,46	52
1928	46	1,20	3,50	52
1929	45	1,15	3,58	45
1930	54	1,37	4,31	52
1931	51	1,24	3,84	47
1932	49	1,21	3,82	65
1933	55	1,31	4,75	82
1934	69	1,49	5,11	72
1935	67	1,50	5,44	85

The first fact which strikes the eye in the foregoing table is the difference in respect of the growth of the two classes of banks. The number of Joint Stock Banks with a capital of

1. Statistical Tables relating to Banks in India in 1935.

Capital & Reserves of the Indian Joint Stock Banks 1915–1932



over 5 lakhs rose from 28 in 1926 to 29 in 1927, fell to 28 in 1928, again rose to 33 in 1929 and again fell to 30 in 1930; but from 1931 the position, inspite of the unfavourable economic conditions due to the world-wide depression from which India could not escape, has been improving which can be evidenced from the increase in the number of banks in this class to 38 in 1935. On the other hand, the number of banks with a capital and reserve of over 1 lakh but under 5 lakhs rose from 47 in 1926 to 48 in 1927, and though it fell to 46 in 1928 and to 45 in 1929, it rose again to 54 in 1930. But in less than a year this progress was checked and, the position showed signs of relapse resulting into a fall in the number of banks to 51 in 1931 and to 49 in 1932. In 1933 this class of banks, it appears, recovered their lost ground and since then the progress made by them must be regarded as remarkable. Taking both classes of banks together the number rose from 75 in 1926 to 77 in 1927, and although it fell to 74 in 1928, it rose to 78 in 1929 and to 84 in 1930; the number of banks remained unchanged in 1931, but in 1932 it fell from 84 to 83. From this year onwards their number rose continuously till it reached 105 in 1935.

Turning to the resources of the banks, there is, on the one hand, a continuous marked increase in the capital and reserves of the bigger banks, and, on the other hand, a continuous fall in the capital and reserves of the smaller banks until 1929, followed by a sharp recovery in 1930. The latter phenomenon is explicable by the fall in the number of banks themselves, but the decline in the capital and reserve of these banks from Rs. 126 lakhs to Rs. 122 lakhs, while their number increased from 47 to 48 in 1927, is rather surprising. The ground that was gained in 1930 could not be maintained for long as there was a steep fall in the capital and reserves from Rs. 137 lakhs in 1930 to Rs. 124 lakhs in 1931 and to Rs. 121 lakhs in 1932. One is inclined to believe that this set-back was once again the result of the increasing number of failures, particularly amongst the smaller banks, due, *inter alia*, to the withering effects of the great depression which was growing in intensity.

As for the deposits, on the whole, they show a tendency to rise. The fall in the deposits of the bigger banks from Rs. 62,85 lakhs to Rs. 62,72 lakhs at a time when their number

rose from 28 in 1928 to 33 in 1929 may well give some cause for anxiety; but it is promptly relieved by the rise in the deposits from Rs. 62,72 lakhs to Rs. 63,22 lakhs in 1930, even though the number of banks fell from 33 to 30. The effects of the depression are seen in the fall of the deposits from Rs. 62,72 lakhs to Rs. 62,23 lakhs in 1931, but not long before there is a revival as seen from a very high level touched in 1932. Thereafter, except for 1933, deposits after increasing continuously reached the record figure of Rs. 84,45 lakhs. The deposits of the smaller banks which were Rs. 3,47 lakhs in 1926 fell to Rs. 3,46 lakhs in 1927 and thereafter they increased gradually till the record figure of Rs. 4,31 lakhs was attained in 1930. But in 1931 the deposits fell to Rs. 3,84 lakhs and further to Rs. 3,82 lakhs in 1932. Since then they have also recorded successive higher levels year after year. The following graphs will show the position of the Indian Joint Stock Banks before the depression in respect of the changes in capital, reserve, and deposits as compared to the deposits of the Imperial Bank of India and Exchange Banks, *i.e.*, those institutions which are powerful competitors of the Indian Joint Stock Banks.

RECENT BANK FAILURES from 1926 to 1932

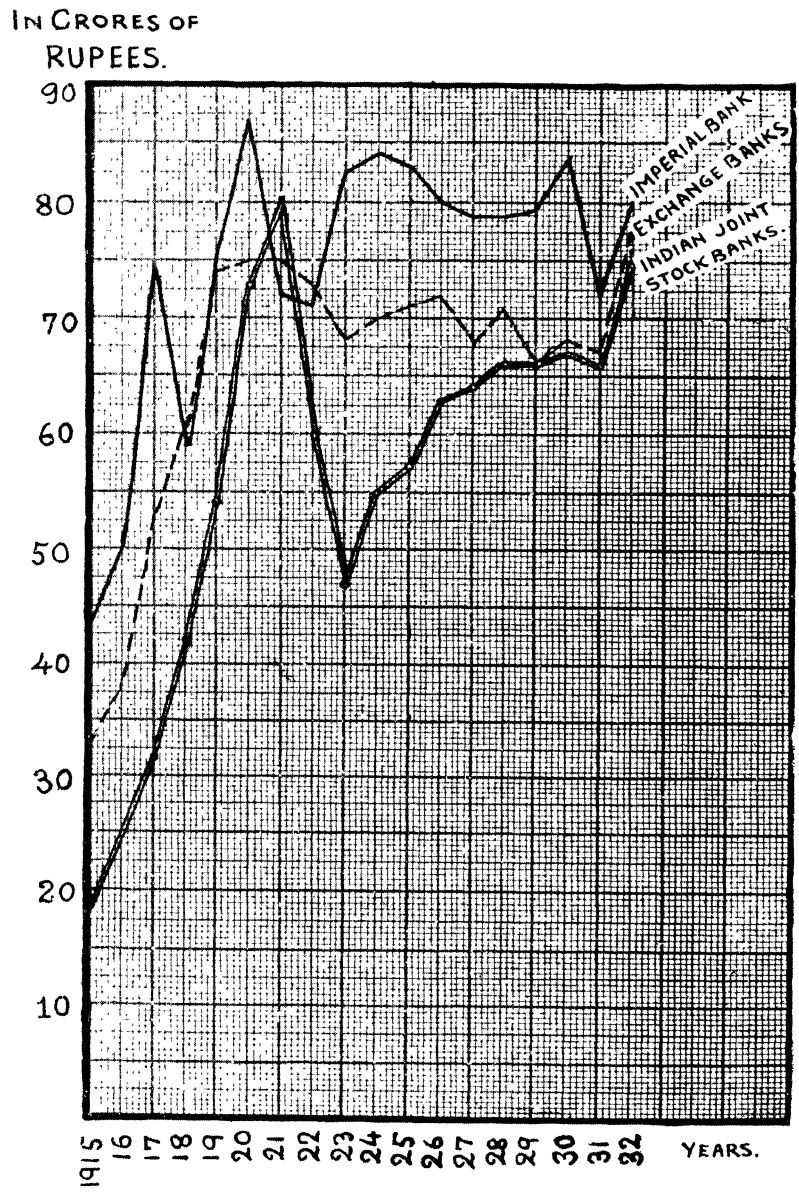
A study of the cash position of the Indian Joint Stock Banks in recent years throws further light on the continuous failure of banks even to this day. The proportion of banks' cash to their liabilities on deposit account is usually a good index of their strength or weakness. The position for the last ten years for which statistics are available is as under.[1]

Percentage of Cash to Liabilities on Deposits.

Joint Stock Banks	1926 %	1927 %	1928 %	1929 %	1930 %	1931 %	9132 %	1933 %	1934 %	1935 %
(A) Capital and Reserve over 5 lakhs.	15	13	13	14	12	12	13	15	15	23
(B) Capital and Reserve between 1 and 5 lakhs.	24	15	15	13	12	12	17	17	14	16

1. Statistical Tables relating to Banks in India in 1932, p. 7.

Graph Showing the Deposits of The Imperial Bank, The Exchange Banks and The Indian Joint stock Banks for 1915–1932.



The proportion in the case of banks with over Rs. 5 lakhs of capital and reserve shows signs of improvement only from 1932 onwards. But the steady fall in the cash position of the smaller banks is remarkable till 1932 when again it shows some signs of improvement. Again in 1934 the gain showed in the previous year is lost. A perusal of the statistics for 1926–35 might lead one to expect a large number of bank failures. From 1932 onwards number of failures is again increasing and the Indian banking system, it seems, is not rid of this wasting disease. The decline in the cash further strengthens the case for statutory regulation of this matter (see below).

During 1926–34 no less than 163 banks failed with a paid-up capital of nearly Rs. 1,11 lakhs representing about 9 per cent. of the total existing paid-up capital and reserves.

Statement Showing Failures of Joint Stock Banks
1926–1934

Year	No. of Companies Involved	CAPITAL		
		Authorised	Subscribed	Paid-up
		Rs.	Rs.	Rs.
1926	14	70,80,000	7,05,815	3,98,145
1927	16	69,30,000	6,88,372	3,10,518
1928	13	81,70,000	31,65,740	23,11,717
1929	11	1,50,50,000	24,99,050	8,18,972
1930	12	6,27,40,000	46,55,445	40,59,644
1931	18	1,60,20,000	26,33,985	15,05,996
1932	23	4,89,20,000	11,62,310	7,92,477
1933	26	1,62,40,000	9,01,774	2,99,948
1934	30	2,42,00,000	14,30,995	6,22,553

This compares quite favourably with the failure of 87 banks in 1913–17 involving a paid-up capital of Rs. 5 crores, or 51 per cent. of the total paid-up capital of the existing banks, or with 91 bank failures in 1918–1925 with Rs. 5.13 crores of paid-up capital. Since 1931, the year of acute depression the

failures show signs of gathering strength though compared to the increasing numbers the paid-up capital involved does not appear to increase in the same proportion. This shows that the main impact of the depression was on the smaller banks.

An analysis of the failures on the provincial basis indicates that the Punjab, the United Provinces and Bombay have suffered more than other provinces from failure of banks. During the above period failures in the Madras Presidency also show signs of increasing in number. The question naturally arises why is it that as regards bank failures these three provinces fared so badly, while some parts of the country, such as the Central Provinces and Burma have an almost clean record. The explanation seems to lie in their commercial importance. The Punjab is the greatest wheat producing province of India, the United Provinces taking the second place. Bombay which has always held the premier position amongst the principal ports, has been a centre for speculation, especially in cotton and in silver. Therefore, during the Swadeshi movement of 1906–1913, and again in subsequent years, most of the new banks were established in these provinces, particularly in the Punjab, in order to take advantage of the growth of the canal colonies there. When the crash came in 1913 and the following years, these were naturally the provinces which were the worst hit.[1]

DIVIDENDS

On the whole the Indian Joint Stock Banks do not appear to be earning increasing or even steady dividends. The following figures of dividends declared by leading banks speak for themselves.[2] It appears that the Bank of India and the Indian Bank only show an improvement in respect of the dividends paid.

1. Dr. L. C. Jain, The Monetary Problems of India, pp. 101–102.
2. Ibid, p. 98.

Joint Stock Banks	Paid-up Capital	Dividends per cent per year.								
		1927	1928	1929	1930	1931	1932	1933	1934	1935
	Rs.									
Allahabad Bank	35,50,000	18	18	18	18	18	18	18	18	18
Bank of Baroda	30,00,000	14	12	10	10	10	10	10	10	10
Bank of Mysore	20,00,000	12	14	14	14	12	6	12	12	12
Bank of India	1,00,00,000	10	10	10	10	10	11	10	10	11
Central Bank of India	1,68 00,000	9	6	6	6	6	6	6	6	6
Indian Bank	12,79,280	10½	12	12	12	12	12	4½*	14	15
Punjab National Bank	31,26,075	12½	8	8	6	..	..		...	...

* First half year.

GEOGRAPHICAL DISTRIBUTION OF BANKS AT THE END OF 1930–31

It will be interesting to know here how the banking establishments are distributed in the various provinces and Indian States (wherever information is available). The following data shows that the (Joint Stock) Banking Companies are fairly well distributed in the Punjab, the United Provinces, Bombay, Madras and Bengal. But there are still large areas where banking facilities are inadequate, and in this respect, the Indian States are the most backward.

Geographical Distribution of Joint Stock Banks in India at the end of 1930–1931.*

No.	*Name of the Province*	*No. of Banks*
1	Bengal	418 ‡
2	Madras	180 ‡
3	Assam	40
4	Bombay	36
5	United Provinces	32
6	Punjab	28
7	Bihar and Orissa	11
8	Burma	6
9	Bengalore	5
10	Delhi	4
11	Central Provinces and Berar	3
12	N. W. F. Province	1
13	Baluchisthan	Nil
14	Ajmer Merwara	Nil
15	Coorg	Nil
	Total for British India	764

* Indian Joint Stock Companies in 1930-31 (1934) Table, no. 3.

‡ These figures include a number of petty banks such as the Loan Offices in Bengal and Chitfunds in Madras.

Indian States

16	Travancore	269 ‡
17	Mysore	44
18	Hyderabad	12
19	Baroda	1
20	Gwalior	1
21	Indore	1
	Total for Indian States	328

THE PRESIDENCY BANKS from 1913 to 1920

The working of the three Presidency Banks until their amalgamation into the Imperial Bank of India in 1921, was based on and controlled by the Presidency Banks Act of 1876, with only minor modifications. During the Great War they rendered meritorious services to the Government in floating its War Loans and Treasury Bills. They were too important to be easily forgotten in the years that followed. Government was anxious to continue the co-operation and the more intimate relations which the war had established between themselves and the Banks. This was now all the more necessary as the Government was faced with the larger question of providing adequate facilities for banking in the country. An indication of this changed attitude is given by the policy which was deliberately adopted during the war, of reducing the amount of the balances held in the Reserve Treasuries and leaving much larger balances than the statutory minima at the head offices of the Presidency Banks to assist the money market. The following table will show the progress of the three Presidency Banks during 1913–1920.

‡ These figures include a number of petty banks such as theL oan Office in Bengal and Chitfunds in Madras.

Progress of the three Presidency Banks during 1913–1920

31st Dec.	Capital	Reserve and Rest	Government or Public Deposits	Private Deposits	Proportion per cent. of Government Deposits (Col. 3) to		Cash Balances
					Total Capital & Deposits (Col. 1–4)	Private Deposits (Col. 4)	
	1	2	3	4	5	6	7
	Rs. (1000)	Rs. (1000)	Rs. (1000)	Rs. (1000)	Per cent	Per cent	Rs. (1000)
1913 Pre-War Year	3,75,00	3,73,07	5,88,66	36,48,50	11.8	16.1	15,37,75
1914	3,75,00	3,89,17	5,61,52	40,04,08	10.5	14.0	20,83,92
1915	3,75,00	3,72,50	4,88,67	38,61,19	9.6	12.7	14,65,14
1916	3,75,00	3,60,99	5,20,58	44,70,87	9.1	11.6	17,27,25
1917	3,75,00	3,67,52	7,71,28	67,71,74	9.3	11.4	33,77,31
1918	3,75,00	3,44,58	8,64,28	50,97,75	12.8	16.9	17,07,62
1919	3,75,00	3,57,81	7,72,24	68,21,37	9.3	11.3	23,62,93
1920	3,75,00	3,77,79	9,02,63	78,01,90	9.5	11.6	26,03,34

Individual Progress of the three Presidency Banks during 1914–1920.[1] (In lakhs of Rs.)

Period	Paid-up Capital	Reserve and Rest	Total	DEPOSITS				Total	Cash Balances	Investments	Dividend for the year
				Government (Public)	Private						
					Fixed	Savings Bank	Current				
					Bank of Bengal						
1914	200	200	400	287	*	*	*	2161	1170	621	16
1920	200	210	410	434	*	*	*	3474	1221	911	19½
					Bank of Bombay						
1914	100	110	210	183	*	*	*	1082	647	201	14½
1920	100	120	220	350	*	*	*	2749	876	300	22
					Bank of Madras						
1914	75	79	154	91	*	*	*	762	267	134	12
1920	75	48	123	119	824	31	724	1579	506	213	18

1. Statistical Tables relating to Banks in India, 1920, Tables 8, 9, & 10.
* Detailed figures are not available.

Column I shows that at the end of 1920 the paid-up capital of the three Presidency Banks was unchanged inspite of the substantial increase in their business and investments. The reserve and rest during the same period touched the highest figure of Rs. 3,89 lakhs in 1914 and thereafter fell gradually till 1918 when the total amount was Rs. 3,44 lakhs. Thereafter it improved and once again exceeded the pre-war level. Government or public deposits fell from Rs. 5,89 lakhs to Rs. 4,88 lakhs during the first two years. But thereafter due to the liberal policy of the Government of maintaining larger balances with the Banks the amount of public deposits gradually increased till in 1920 the highest figure of Rs. 9,03 lakhs was reached. Private deposits during the same period increased from Rs. 36,48 lakhs in 1913 to Rs. 78,02 lakhs in 1920 with a few intermediate ups and downs. In the first year after the outbreak of the war private deposits fell from Rs. 40,04 lakhs in 1914 to Rs. 38,61 lakhs in 1915. But thereafter for reasons already discussed in connection with the effects of war on Indian banking the amount of deposits increased by leaps and bounds, with the exception of the year 1918, till in 1920 the total amount stood at more than double the pre-war figure. The cash balances of the Presidency Banks showed an improvement during this period as may be seen from the increase in the amount from Rs. 15,38 lakhs in 1913 to Rs. 26,03 lakhs in 1920. It appears that the sudden rise in the cash balances in 1917 and thereafter an equally steep fall in 1918 were due to the sudden rise and fall in the Government and private deposits. Moreover, money conditions in 1917 seem to have been easy as there was reduction in bank rates all round except in the case of Madras.

THE IMPERIAL BANK OF INDIA

An event of great importance in the history of Indian banking was the formation on 27th January 1921 of the Imperial Bank of India by amalgamation of the three Presidency Banks of Bengal, Bombay and Madras. The idea of a central banking establishment for British India was mooted as early as 1836, and was the subject of a minute by Mr. James Wilson, when Finance Member, in 1859. Again, in 1867 Mr. Dickson,

the Secretary and Treasurer of the Bank of Bengal, submitted detailed proposals for an amalgamation of the three Presidency Banks. On various later occasions, the matter was brought forward without success. It was discussed by the Chamberlain Commission two of whose members, Mr. J. M. Keynes and Sir E. Cable drew up a comprehensive scheme for the amalgamation of the three Presidency Banks. The scheme appears as an appendix to the report of the Chamberlain Commission on Indian Currency and Finance submitted in 1913. The present scheme which came to fruition in 1921 was however the result of an understanding arrived at on the part of the Banks themselves as a consequence of the experience gained during the war and the realization of the desirability of strengthening and extending the banking system in India, lest powerful foreign banking institutions should obtain a strong foothold in the country.

Under the new Imperial Bank of India Act (XLVII of 1920) the control of the Bank was entrusted to a Central Board of Governors with Local Boards at Calcutta, Bombay, and Madras. Under the agreement with the Government, however, the Governor-General-in-Council was entitled to issue instructions to the Bank in respect of any matter which in his opinion vitally affected the financial policy of the Government or the safety of the Government balances which were now transferred to the Bank.

The capital and reserve of the new Bank was Rs. 15 crores as against Rs. 7 crores which was the capital of the old three Presidency Banks put together. This broadening of the capital basis was a salutory change, which largely removed the old defect of a narrow capital basis in relation to a large volume of business. Of these Rs. 15 crores, Rs. 11.25 crores was authorized capital and Rs. 3 crores and 75 lakhs reserve fund. The authorized capital was divided into shares of Rs. 500 each, the shares being those issued by the new Bank. The old shareholders of the three Presidency Banks became automatically the shareholders of the Imperial Bank, the shares of the latter being issued in exchange for the shares held in the former. An increase in the capital of the Bank was permitted by a provision in the Act. By the Imperial Bank of India (Amend-

ment) Act of 1934 a good deal of change has been effected in its functions, its relations with Government and other banks. This has been separately studied in a later chapter (chapter VII).

The following tables will give an idea of the progress of the Imperial Bank of India during 1921–1934[1]:

A—Capital, Reserve, Deposits and Cash Balances of the Imperial Bank.
(In lakhs of Rupees)

Year 31st Dec.	Paid-up Capital	Reserve and Rest	Public Deposits	Private Deposits	Cash Balances
1921	5,62	4,14	6,80	65,77	13,60
1922	5,62	4,33	14,15	57,00	15,07
1923	5,62	4,55	8,56	74,19	15,01
1924	5,62	4,80	7,50	76,71	15,60
1925	5,62	4,92	5,46	77,83	17,46
1926	5,62	5,09	6,45	73,89	20,90
1927	5,62	5,24	7,20	72,07	10,89
1928	5,62	5,39	7,95	71,30	10,58
1929	5,62	5,48	7,60	71,64	14,00
1930	5,62	5,53	7,37	76,60	13,04
1931	5,62	5,14	8,32	63,86	11,04
1932	5,62	5,42	7,07	68,36	20,97
1933	5,62	5,49	6,44	74,13	18,60
1934	5,62	5,66	6,72	74,28	18,97

From the table A it will be seen that the paid-up capital of the Bank has to this day remained unchanged, while the reserve and rest increased from Rs. 4,14 lakhs in 1921 to Rs. 5,5[illegible] lakhs in 1931 but a set-back was received in 1931, may be due to the depression; thereafter the reserve again increased to Rs. 5,66 lakhs in 1934. As regards public deposits, in less than a year they increased by 112 per cent. but thereafter there was a

1. Statistical Tables relating to Banks in India in 1932 (1934), p. 1.

fall till 1924 when they declined to Rs. 5,46 lakhs. There was again an increase upto 1929 when they received a check. Since then the amount has been fluctuating. Opposite was the case at the end of the first year in respect of the private deposits. In 1921 private deposits were Rs. 65,77 lakhs. They fell to Rs. 57,00 lakhs in 1922. Thereafter they increased rapidly for three years reaching the record figure of Rs. 77,83 lakhs in 1925. Again they fell for three years. This fall was checked for only one year which was again followed by a steep fall from Rs. 76,60 lakhs in 1930 to Rs. 63,86 lakhs in 1931. Since then there has been a slow but steady improvement in the position. The cash position of the Imperial Bank was not unsatisfactory and shows indications of improvement till 1926, but thereafter it received a set-back till 1932 when again there was some improvement. The cash balance in 1934 was Rs. 18,97 lakhs.

B—Statement of the position of the Imperial Bank of India for the week ending March 22, 1935, before the inauguration of the Reserve Bank on 1st April 1935, when the public deposits were transferred from the Imperial Bank to the Reserve Bank, which is now the Government Bank.

Liabilities (000's omitted)	*Rs.*
Subscribed Capital	11,25,00
Capital paid-up	5,62,50
Reserve	5,35,00
Public Deposits	7,44,82
Other Deposits	77,72,95
Loans from the Government of India under Section 20 of the Paper Currency Act against Inland Bills, discounted and purchased per contra	—
Contingent Liabilities	—
Sundries	1,14,94
Total	97,30,21

Assets (000's omitted)	*Rs.*
Government Securities	44,18,53
Other Authorised Securities, under the Act	9,28
Ways and Means advances to the Government of India	—
Loans	7,52,52
Cash Credits	19,70,39
Inland Bills discounted and purchased ...	3,78,39
Foreign Bills discounted and purchased ...	33,55
Bullion	—
Deadstock	2,46,12
Liability of constituents for Contingent Liabilities per contra	—
Sundries	36,08
Balances with other Banks	2,47
Cash	18,82,28
Total ...	97,30,21

In view of the difficulties facing The Imperial Bank in pioneering banking business up and down the country the work done by it must be regarded as satisfactory. Merchants and traders have been making increasing use of the improved facilities for internal remittance. By opening its 100 new branches, in all now 161, in the interior of the country it has been slowly expanding its field of usefulness and is bringing within easy reach of many sound banking facilities. But the Imperial Bank now has lost its privileged position as bankers to Government since the starting of the Reserve Bank of India from 1st of April, 1935. It has been, however, freed from many restrictions which were found necessary for the efficient and safe conduct of its business as a Government banker to some extent. The position of the Imperial Bank under the new Act has been surveyed in a later chapter.

THE EXCHANGE BANKS

The Exchange Banks have been doing quite a lucrative business during the post-war period as can be seen from the high dividends declared and the high value of their shares on the stock exchange. In 1919–21, about six new Exchange Banks opened their business in India and since then their

number has remained steady. They had, however, to pass through a keen struggle for existence as a good deal of propaganda was being carried against them. Their progress can be seen from the following table.

Exchange Banks [1]

Period	No. of Banks	Capital, Reserve and Rest	Deposits in India	Cash Balance
		£1000	£1000	£1000
1913	12	37,825	23,276	4,411
1923	18	140,103	51,332	10,859
1924	18	130,464	52,976	12,275
1925	18	138,311	53,909	7,062
1926	18	148,003	53,354	8,046
1927	18	180,919	49,994	6,098
1928	18	187,927	51,086	6,042
1929	18	227,625	50.604	6,785
1930	18	193,616	54,794	5,782
1931	18	185,964	50.604	6,605
1932	18	173,846	54,799	7,200
1933	18	143,080	53,080	5,040
1934	17 *	141,618	53,550	5,762

An examination of the above statistics reveals several interesting tendencies. To begin with, ever since 1922 the number of the Banks has remained constant at eighteen till 1933, but their capital and reserve have shown almost continuous progress. At the same time their deposits in India which by the way are almost as large as those of the Joint Stock Banks have tended to remain steady in recent years. But the position of the cash balances in India is the least satisfactory of all. In 1923 these amounted to £10,859,000 but in 1934 they had fallen to £5,762,000 inspite of an increase in the amount of deposits.

1. Statistical Tables relating to Banks in India (1934).

* The Imperial Bank of Prussia closed its Indian branch at Bombay on 20th August, 1934.

PART II

ORGANIZATION OF JOINT STOCK BANKS

JOINT STOCK BANKING IN INDIA

PART II

CHAPTER VI

THE BUSINESS OF THE JOINT STOCK BANKS

In the preceding four chapters we have set forth the growth of the Joint Stock Banks in this country. It is now proposed to study banks as individual undertakings and to examine the nature of their business. In accordance with form 9 schedule III of the Indian Companies Act (1913) every banking company incorporated under this Act has to publish every year on the first Monday in February and the first Monday in August details of its business operations. But this form is not at all a detailed one. A little reflection will show that the best method to study the operations of the banking companies in the present state of available information is to study the balance-sheet of one of the " Big Five " of India. We may begin by taking as an example the balance-sheet of the Bank of India as on 31st December, 1934.

We shall now proceed to discuss this balance-sheet as being representative of the balance-sheets of all the leading Joint Stock Banks in the country. A brief explanation of the main items will be found useful in this connection.

I. LIABILITIES SIDE

(1) CAPITAL

(i) *Authorised Capital:* Authorised capital is the maximum amount up to which a bank can raise capital from the public. It is stated in the bank's Memorandum and the Articles of Association which are duly registered with the Government.

(ii) *Issued Capital:* The issued capital is the amount issued to the public for subscription.

(iii) *Subscribed Capital:* The subscribed capital is the amount of the issued capital subscribed for by the public.

(iv) *Paid-up Capital:* The paid-up capital is the amount paid up by the shareholders on the shares purchased by them. A share may be either fully paid-up or partly paid-up. In the above balance-sheet the directors have called up only half of the subscribed capital, *i.e.*, Rs. 50 per share on two lakhs of shares, which is equal to one crore of rupees.

(2) RESERVE FUND

The directors set aside every year a portion out of the profits of the bank since its commencement. This is in other words called the undivided profits of the bank which are being utilised in the bank's business as an additional working capital, and may be described as an 'impersonal liability.' In the above balance-sheet the Reserve Fund stands at Rs.1,00,00,000.

(3) RESERVE FOR CONTINGENCIES

This is the amount set aside for unforeseen liabilities which the bank may be called upon to meet; for instance, liability on bills discounted, liabilities under guarantees, or in respect of unfinished contracts or actions which are pending. In the above balance-sheet this fund stands at Rs. 1,50,000.

(4) DEPOSITS

Receiving deposits is one of the earliest functions of banking houses, and constitutes to-day the essence of commercial banking. The banker would find it impossible to carry on his business on the scale on which it is now conducted with his own money, *i.e.*, with the capital invested by himself or the shareholders. It is with the borrowed money of other people that he conducts his widespread operations. But as regards borrowing the banker is at some disadvantage compared to other agencies in the same market which are also bidding for other people's money, *viz.*, the Government, the local bodies and the industrial companies which are able or willing to offer

much better terms than the banker can ever afford. He cannot, therefore, attract all the money which he needs to carry on his business in the shape of bonds, or debentures or stocks. The nature of deposits of an ordinary commercial bank, therefore, may be described by saying that they represent the floating cash in the hands of the clients of the bank, obtained by the banker for safe custody according to the convenience of the customers, in return for certain services agreed to be performed by the bank and for a small rate of interest. In the last resort it is simply an entry that is made in the books of the bank in order to indicate that the depositor, under whose name the entry is made, has a right to demand from the bank a certain sum of money.[1] From the viewpoint of the depositor himself the deposit is equivalent to cash because it gives him a right to demand cash from a trustworthy agency. From the viewpoint of the bank the deposit is simply a liability, an obligation to pay cash, which in all probability will not be called for some time to come.

There are several convincing reasons as to why people prefer to deposit money in a bank rather than keep it at home. In the first place, a bank deposit is much safer than money on hand or at home. In the second place, a bank deposit offers a more convenient method of payment by the use of modern devices than cash with oneself. It is a relatively simple matter to write out a cheque for a large amount, but the counting out of a large sum of cash in coins or in notes is tedious and takes a long time. Thirdly, payments made by cheques furnish a better evidence of payment of bills due by one's creditors than is afforded by cash payments, particularly when a receipt is not issued or lost. Banks at present accept three kinds of deposits: fixed, savings and current.

Fixed Deposits :

In the above balance-sheet fixed and savings deposits have been shown together. The term 'fixed deposits' means deposits repayable after the expiry of a certain period which ordinarily varies from three months to five years. Fixed deposits are also received for shorter periods than three months, but generally,

1. Agger: Organized Banking, p. 19.

not for less than a month. The term 'fixed deposits' is not commonly used in England as deposits are received by banks subject to seven or fourteen days' notice. In the case of fixed deposits the period is usually fixed at the time the deposit is made. These deposits are very useful to banks which thus get funds for their long term investment. They have also a relatively free hand in utilising these deposits without restraint. This is one of the reasons why fixed deposits are so popular with banks in India.

Almost all banks in India borrow large sums by means of fixed deposits and offer a rate of interest varying according to the supply and demand of money in the different seasons. They pay even six to seven per cent. when money is dear during the busy season. As all the banks do not show separately in their balance-sheets figures of different kinds of deposits it is not possible to state with certainty the proportion between current deposits which are explained later on, and deposits payable after the expiry of a certain period. An examination of the balance-sheets of such banks, as give figures of their deposits separately shows that the ratio may be somewhere between 1 to 2.5 and 1 to 4.

From the point of the customer these fixed deposits mean a sort of investment. They often deposit their money on this basis with the banks because they are likely to require it only after a certain period. This mainly accounts for the large amount of these deposits with the Indian banks, as the great majority of the investors in this country go in for this form of investment in preference to industrial securities of which they know very little. Notwithstanding this the habit of making deposits for longer periods is not sufficiently developed in India. It is, therefore, necessary that early steps should be taken to create the necessary confidence and convince the people of their importance to long term finance. This is all the more necessary as one of the criticisms levelled against the Indian Joint Stock Banks is that, unlike the German banks, they have not sufficiently responded to the needs of industrial finance.

Savings Bank Deposits:

Conducting savings bank business has become a common feature of the Indian Joint Stock Banks. They have found

that it is a paying proposition to take in such deposits however small they may be. These deposits are attracted from the middle classes whose savings are generally small and who want investment without undue risk, being content with low rate of interest. Their advantages to a bank are that a very small reserve is sufficient to meet demands for the withdrawal of such deposits, as generally withdrawals are restricted to a maximum of Rs.100 in any one week. Larger sums may be withdrawn after giving two weeks' notice, but cannot be beyond Rs.500 in one month. Moreover, such accounts are not generally allowed to be operated upon by means of cheques.[1]

There are various limits subject to which a savings account can be opened. It can be opened with the small sum of Re. 1 to the maximum amount of Rs. 10,000. A depositor can open an account in his own name or in the name of himself and his friend, payable to any one of them jointly or severally, or survivors or in himself as a guardian on behalf of a minor. Generally a higher rate of interest is allowed to savings bank depositors, say from 3 to 4 per cent. Interest is calculated on minimum monthly balances, and not on daily balances. However, some banks allow interest on daily balances, just as they do for current accounts. No overdraft is allowed on savings bank account. Banks incur little expense on such accounts (so far as establishment charges are concerned). Very often they give to this class of depositors such privileges as the collection of cheques and safe custody of valuables or securities.

Even though savings bank deposits are becoming popular, they could be made even more popular by removing many difficulties which hinder their progress at present. Encouragement could be given to this type of deposits in the shape of better facilities for withdrawal. There is no reason why savings bank accounts should not be operated by means of cheques as is the case with current accounts. It is true that deposits in saving banks, earning a rate of interest higher than that allowed on current deposits, are not primarily intended to be utilised for commercial purposes; they are essentially savings meant

1. Recently some banks have granted the facility of drawing cheques against savings deposits to its customers, *e.g.*, the Central Bank of India, Ltd.

to be utilised off and on and hence withdrawals must be restricted. Restrictions, however, should not entail difficulties, delay, or inconvenience. It sounds reasonable, therefore, that such deposits should be allowed to be operated by cheques. Restrictions may be imposed on the number and amount of payments to be made by cheques. The object of these restrictions would be served if the amount at any one time withdrawn by cheque from a savings bank account did not exceed say Rs. 100 and if the number of such cheques did not exceed say ten in a month. Several banks impose limits on the maximum amount of deposits that could be made in the course of one year as also on the total amount that could be accumulated in any one such account. It is desirable to remove these limits altogether. It is very difficult to understand why the banks thus seek to restrict the amount of savings deposits particularly when under the present system, the limits could be evaded easily by opening more than one account in the same bank, one in one's own name, another in the name of himself and wife, and a third in the name of himself and son, and so forth.[1]

Current Deposits:

Banks usually receive money from their customers on what is known as a current account. A customer's current account at the bank is the account into which he pays in money daily, or at intervals and upon which he draws cheques as and when required for his business or other purposes.[2] The banker runs a much greater responsibility for these accounts, although they do not contribute to the bankers working capital as large amounts as fixed deposits do, because in the case of current accounts, he incurs the obligation of paying all cheques drawn against him so long as there is balance to the credit of his customer. The customer, on the other hand, pays money in the form of cash, cheques, drafts, postal orders, money orders into the current account. The banker has to keep always sufficient funds in hand to enable him to meet the demands of his customers. Current accounts are very useful to the

1. The Indian Central Banking Enq. Comm. Evidence (written), Vol. II pp. 71-72.

2. Dictionary of Banking (Thomson), p. 165.

merchant who has to make payments pretty often in the course of his business, and as such they are highly welcome to the business community.

In India, most banks allow 2 per cent. interest on minimum daily or monthly balance of Rs. 300 to 1000 provided the interest accrued in a half year is not less than Rs. 3 to 5. It was reduced to 1 per cent. in 1933 on account of the economic depression. Banks make special arrangement with the customers when the amount of the deposit exceeds Rs. 1 lakh. As the banks are required to maintain an elaborate machinery, they sometimes require their customers to maintain a minimum balance failing which they have to pay the bank certain allowance in the form of commission on the annual turnover of the amount. This practice enables the banks freely to use the minimum balance fixed on the account without running any great risk.

Hitherto we have considered the three different forms of deposits—Fixed, Savings and Current Deposits—prevalent in India. It was brought to the notice of the Central Banking Enquiry Committee that the present forms of deposit did not give people sufficient incentive to invest, instead of hoarding their savings. In answer to the questionnaire issued on this point many witnesses put forth in their written statements suggestions to attract small savings of the people. It was proposed that banks should be encouraged to receive "provident deposits" or "specific purpose" deposits for a period of 10 years.[1] The main idea behind encouraging these deposits is that people should be able to lay by money for specific objects like marriage ceremonies, education of children etc. These deposits should not be refunded unless the stipulated object is likely to be or has been accomplished. The problem of giving legislative protection to the depositors also received the attention of the Committee. This will be fully dealt with in a later chapter.

It may be stated here, however, that the problem of how to increase deposits is one for the banks to solve. But it may be suggested here that banks should see to it that its share capital

1. The Indian Central Banking Enq. Comm. Evidence Vol. II, pp. 83, 111 etc.

is held by well-to-do men who patronise the bank. Advertising of the personnel of the bank, particulary the Board of Directors, and publicity will also prove useful in securing deposits. Sound management and public confidence go hand in hand. Periodical publication of balance sheets will be greatly helpful in this connection. The banker should go a step further and try to educate depositors regarding the advantages of different kinds of deposits. Further, it is essential that banks should pursue a uniform policy in respect of interest rates on deposits by conforming to the convention that prevails, for instance, in England to the effect that the deposit rates should follow the bank rate within a definite limit. Time and again, it has been indicated that in India the deposit rates are very high and this has led people to believe that "capital is more productive in India than elsewhere," which certainly is not the case. In order to attract deposits banks have perforce to pay high interest rates even on commercial deposits which are practically payable at call. These high interest rates are necessary because banks in India draw their working capital mainly from deposits, their own (share) capital being very meagre. Moreover, they have to face severe competition from the Government Post Offices, the Co-operative Credit Societies, and industrial companies which attract deposits through their Managing Agents.

In this connection it may be pointed out that it would be advisable for the Indian banks to follow the English practice of not allowing interest on current account deposits. This loss to the depositors may be compensated for by rendering them gratuitous services in the manner of the London banks. It is well-known that the Bank of England does not pay any interest even or its fixed deposits. It will not be very difficult to take this step if all the banks take concerted action.

(5) REBATES ON BILLS DISCOUNTED

At the end of each half year, banks prepare a list showing the discount received but not earned in full on the bills maturing at various dates after the half year. From this amount a portion is returned to the persons who discounted the bills. The amount which has got to be paid in the above manner, but not actually paid, is shown on the liabilities side.

(6) UNCLAIMED DIVIDENDS

At the end of every half year dividend warrants are prepared according to the rates of dividend declared. These are forwarded to the last registered address of the shareholders. Some of these warrants may remain uncashed at the time of closing the books for the year. In the above balance-sheet the amount of Rs. 88,177–14–0 shows the amount of dividend warrants not cashed till 31st December 1934.

(7) BRANCH ADJUSTMENT

This item is not a real liability but constitutes entries not responded at the closing of the half yearly or yearly accounts On the re-opening of the books this entry is reversed.

(8) PROFIT AND LOSS ACCOUNT

This item represents the balance of assets over liabilities. When the business of the bank is prospering its total assets increase during the year in relation to liabilities. In the above balance-sheet, the net amount belonging to this account, after making various provisions is Rs. 14,96,674–3–2.

(9) CONTINGENT LIABILITIES

As the word contingent indicates these liabilities become definite on the happening of some event which may or may not happen; for instance, liability on bills discounted, liabilities under guarantees, or in respect of unfinished contracts or actions which are pending. Such liabilities, not having definitely accrued at the date of the balance-sheet, are not brought into account but are merely shown by way of a note on the liabilities side of the balance-sheet, under the heading of Contingent Liabilities. In the above balance-sheet the amount on account of contingent liabilities is Rs. 6,64,424.

II. ASSETS SIDE

So far an attempt was made to explain the items on the liabilities side in the above balance-sheet. It was seen that the total funds available to the banker for the purposes of his business comprise: (1) The Proprietors' Funds consisting of Paid-up Capital, Reserve Funds and Balance of Profit and

Loss Account; (2) Money lodged by customers on Current, Savings and Deposit accounts. Having raised a share capital and collected deposits the next thing for the banker is to seek the most profitable investment for his funds, since the essence of his business consists in earning a margin of profit by obtaining funds on as easy terms as possible, and lending the same out on the best terms obtainable. But in doing so he has to bear in mind that as the great bulk of his banking funds are represented by deposits repayable on demand or at short notice, he must safeguard the liquidity of his assets. In consequence, limitations are placed on the length of time for which advances may safely be granted.[1] It is true that it is a common practice to invest some resources in securities, but the vast majority of advances are for periods of six months or less. Further, the securities purchased are usually highly standardized (*e.g.*, $3\frac{1}{2}$ per cent. Government of India gilt-edge securities) and possess a wide and ready market so that they can be disposed of without difficulty should the need arise for ready cash. The banker must, therefore, so invest his funds as to be able always to realize them at the shortest notice with the least loss.

The advances given by commercial banks fall under three classes: (1) Advances against marketable security pledged with the bank; (2) Clean advances against personal credit with a second signature to the promissory note or commonly known as two-name paper; and (3) Clean advances against the personal credit of the borrower's note only or commonly known as one-name paper. In India, the first two types of advances are the most common as against that of the third type in the Western countries.[2] This is due to the fact that in India the customer is not willing to reveal to the banks his full financial standing. In order to encourage the banks to undertake this type of advance the business man ought to accustom himself to reveal more freely to his banker his financial position. Secrecy about business affairs is cherished to an excessive degree in India than in Western countries and it acts as a great impediment to modern banking. Information about the customer

1. H. Belshaw, The Provision of Credit, pp. 124-25.
2. The Central Banking Enq. Comm., Vol. I, para 550.

seems to be at present gathered more from hearsay sources and rumours in the bazaar, than from the customer's own statement. Measures to remedy this defect of the present-day banking in India will be considered in a later chapter. In the meanwhile, an analysis of the items on the Assets Side in the above balance-sheet will give us an idea about the distribution of his funds made by the banker.

(1) CASH CREDITS

Banks in India generally advance money in one of the three following forms, *viz.*, Cash Credits, Overdrafts and Loans. Bulk of credit is offered against tangible assets as bonds, shares, and immoveable property because the quantity of two-name paper acceptable to banks is at present limited. The borrowers generally prefer to borrow on what is known as a cash credit account. Under this arrangement an advance is allowed against a promissory note signed by the borrower, vouched for by at least two sureties and sometimes secured by the hypothecation of stocks. Under the cash credit system, interest is paid by the borrower only to the extent to which the credit is availed of from day to day and he can reduce his obligation at any time subject in some cases to a 'minimum interest clause,' by which is meant that the bank would charge its clients interest on a minimum amount which is generally about one-half of the maximum limit of the drawing power allowed to the borrower by the bank. Similarly, the bank can curtail or withdraw the facilities at any time, should it be necessary to do so.[1]

Cash credits are usually granted against self-liquidating assets like cotton, jute, rice, and other exportable produce. When the goods against which cash credits are granted are left in the bank's possession in its godowns, deliveries are made against payments. As the goods pledged are likely to be subject to price-fluctuations, banks prepare a list of goods pledged showing their market value and maintain a sufficient margin for its fluctuations. Thus they make an attempt to safeguard their position by keeping in touch with the market changes.

1. The Central Banking Enq. Comm., Vol, I, para 552.

Borrowing on cash credit account is very common with the Bombay mills. When money is advanced to them on stocks as an additional security, they are stored in mill-godowns and returns thereof are furnished weekly or monthly by mills to the banks. The usual margin allowed by banks is 20 per cent. against stocks in mill-godowns and 40 per cent. against stocks in process. The high margir demanded by banks on advances against stocks in process and in godowns was pointed out by the Secre ary of the Millowners' Association to the Central Banking Enquiry Committee to be a drawback, which would be considerably mitigated, if warehouse companies with large capital resources or the lines of those in America or Japan were formed to take over stocks and keep them in their own warehouses and advance money on them at an appreciably smaller rate of interest. In Bombay the banks ger erally charge ½ per cent. over the bank rate for advances on the cash credit account. But it has been pointed out that the Bombay banks also demand apart from the Government and other Trustee Securities deposited with them, a joint promissory note of the company and its managing agents, as collateral security for advances made.[1]

The system of cash credits has become very popular in spite of the many drawbacks. One of the reasons for this popularity is that it affords many advantages to the borrower as well as to the lender. But the use of this system to enable the exporting houses to secure products for export is bad and is not conducive to the interest of the banker and the ryot. It will be seen at a later stage that this stands in the way of the development of bills and acceptance credit.

(2) DEMAND ADVANCES

Banks generally advance money repayable on demand, although there may be an understanding that the party would be allowed to use the funds for at least a certain period, provided the terms upon which money is advanced are complied with. They also reserve to themselves the power of cancelling or reducing the amounts of advances but generally they have

1. The written evidence of the Secretary, the Millowners' Association, Bombay; The Indian Central Banking Enq. Committee's Report, Vol. II, (written evindence) pp. 591–5, 2. Ibid, p. 348.

to give a reasonable rotice. Both cash credits and overdrafts generally take the form of demand advances. The essential difference between a cash credit and ar overdraft is that the latter is supposed to be for a comparatively short time meant for temporary accommodation whereas the former is used by commercial and industrial concerrs generally for longer durations. When a customer requires accommodation temporarily bankers commonly allow him to overdraw his current accoui t usually against collateral securities. Demand avdances are safe from the poirt of liquidity of funds which is the first principle of sound commercial banking. In the above balance-sheet cash credits and demand advances have been shown conjointly and they stand at Rs. 4,04,479,36–13-2.

(3) LOANS

The Indian Companies Act 1913, as amended in 1936, requires that the loans advanced by a bank should be classified as secured and unsecured and shown separately in the balance-sheet. Even though borrowing against two-name paper as a method of raising funds is encouraged by bankers in India, considering the volume of trade and the financial accommodation required by the merchants, the quantity of such paper acceptable to bai ks is limited; so that, the loans made by the banks on the security of such paper form only a small proportion of the total accommodation allowed by them. Bulk of the credit is, as said above, based on the tangible security of valuable assets such as bonds, shares and immoveable property, or on the security of merchandise deposited either in the bank's godowns or in the godowns of the borrower under letters of hypothecation, but occasionally loans are grarted without any security whatsoever. We shall first consider the secured loans.

Secured Loans:

Banks usually secure their advances by various means such as stock exchange securities, bullion, goods, documents of title to goods, immoveable property and other miscellaneous securities like life policies and accounts receivable. No bank advances an amount equal to the full market value of the securities offered, since the prices of the bulk of securities are liable to fluctuations. These securities may be deposited by

the borrower himself or by some one else on his behalf duly authorised to do so. These collateral securities are welcome to the bank because in the event of bankruptcy of the customer, the banker can prove his claim for the whole debt from the evidence of collateral securities and receive from the customer's estate all he can in the course of distribution of assets by the official assignee or the trustee in bankruptcy, and thus realize the securities in payment of the balance due to him. Modern banking has so highly developed and the securities offered are so numerous that the bank has to spread its risk wisely over a large variety to ensure safety of its funds.

When it is possible, borrowers find it convenient and beneficial to borrow against collateral security. Given good security there is competition between banks to secure customers. Thus the rate of interest charged is never so exhorbitant as it would be if money were advanced on personal credit alone. The position of the bank remains safe because in the event of a panic, it can repledge the securities with other banks and raise the necessary funds.

Unsecured Loans:

Unsecured loans are those for which the banker has to rely upon the personal security of the borrower. The basis of such loans is the business standing and reputation of the party. In India clean advances against personal credit of the borrower only do not occupy an important place. The Central Banking Committee was of the opinion that banks in India should adopt, as far as possible and consistently with safety, a more progressive policy in the matter of granting clean loans on the personal credit of the borrower. In Western countries, with highly developed banking systems, advances of this class are very common. Even though it is generally assumed that a clean advance on a single-name promissory note, unsecured by collateral, is less secure than two-name or collateral paper, in practice a clean loan on personal credit of an individual of undoubted means and character turns out to be just as safe and satisfactory as any other. In India the banks usually prefer to have a collateral security on the principle that in number lies strength. But it will be seen that in the last analysis even in the case of bazaar discounts the basis

of credit is ultimately the bank's confidence in the individual customer. Such confidence in turn has its foundation in a knowledge of the borrower's personal integrity as well as his financial standing and his ability to liquidate the loan at the proper times.

With the growth of large scale enterprise and increase in the number of business concerns, banks would find it difficult to maintain a close personal touch with the borrower. It is, therefore, quite essential for them to supplement their general knowledge by reliable information obtained through other sources. Organized agencies specialised in supplying information concerning the financial standing of borrowers have not yet been started in India. In England Seyds, and in America Duns and Bradstreets, are the principal commercial agencies which make such information available to banks. They collect data concerning the standing and credit position of corporations, firms and individuals and supply the information to their members and subscribers. It was stated before the Central Banking Committee that individual banks in India at present maintain special establishments for obtaining information in regard to their customers. The Committee, therefore, recommended that the problem of pooling this information and organizing some system of collecting reliable information, suited to the needs of Indian customers and conforming, as much as possible, to Indian custom, should be studied and evolved by the banks and the Bankers' Association. Through co-operation and interchange of information in good faith between the banks in the present circumstances credit information can be easily made available.

Different Forms of Unsecured Loans:

There are different forms of loans for which the bank does not get any collateral security. It has to rely on the personal security of the borrower alone or together with that of one or more other persons. The most important form in which banks give accommodation without any collateral security is the discounting of commercial bills.

Bills Discounted and Purchased:

This form of investment is very popular particularly with the commercial banks in the leading European countries. One

of the most important defects in the present mechanism of commercial banking in India, and one which impedes the development of credit facilities, is the scarcity of trade bills and the almost total absence of bank acceptances. Owing to the scarcity of genuine bills, commercial banks in India invest a relatively greater proportion of their resources in gilt-edged securities as compared with bills. On December 31, 1931, 20% of the total liabilities of the Joint Stock Banks of England and Wales was represented in their port-folios by bills discounted during the year. In the case of banks in India similar figures are not available as they do not generally show discounts separately from loans.[1] In the above balance-sheet the amount of bills discounted and purchased stands at Rs. 22,71,501-8-3. The following table will make it clear that banks in India do not hold such bills to any large extent. Such holdings account for a little less than 2% of the total working capital in the case of the six leading Joint Stock Banks and about 13% in the case of the Imperial Bank of India in the year 1928.[2]

Liabilities and Assets	The Imperial Bank of India	Six Indian Joint Stock Banks[3]
	Rs. in Lakhs	
Liabilities		
Capital and Reserves	10,85	6,66
Current & Deposit Accounts	79,25	52,20
Assets		
Investments	19,04	20,06
Bills[4]	12,47	1,23
Advances	51.85	33,42
Cash	10,65	6,83

1. The statement issued by the Reserve Bank of India now shows separately the figures of bills discounted by the scheduled banks.

2. The Central Banking Enq. Comm. Rep., Vol. I, para. 591.

3. Allahabad Bank, Bank of Baroda, Central Bank of India, Bank of India, Peoples Bank of Northern India, and Punjab National Bank.

4. Bills discounted by the scheduled banks in India and Burma as on: 3-1-1936, Rs. 353 lakhs; 1-1-1937, Rs. 496 lakhs; 31-12-1937, Rs. 614 lakhs.

From the above table it becomes clear that in respect of this function banks in India do not play a very important part. This may be due to the necessity which the banks in India feel to maintain a relatively stronger liquid position than with more advanced banking systems. Again, the Government securities give an attractive yield as compared with other forms of investment. It was pointed out to the Central Banking Committee by many witnesses that there are several other causes which have led to the scarcity of bills of exchange in the Money Market of India. The following are the important causes.[1]

(a) Banks prefer obtaining loans from the Imperial Bank against Government securities to rediscounting their bills with that Bank, because of its competitive position and its discount policy.[2] The banks also regarded it as an indication of financial weakness.

(b) The banks sometimes have difficulties in ascertaining the financial standing of the signatories of bills.

(c) Many of the internal bills are finance bills representing money-lending operations and are not genuine trade bills.

(d) The prevalence of the system of cash credit, which is advantageous to the borrower as well as the lending banks, as the borrowers need pay interest only on the portion of the cash credits that they actually use, and as the banks can withdraw the credits, if the financial position of the borrowers goes down.

The growth of confidence in banking institutions followed by a reduction in the present investments in gilt-edged securities of banks must inevitably be a matter of time. In the meanwhile, however, it may be hoped that there will be a very definite tendency to make investment in commercial bills as attractive as Government securities. In the opinion of the Central Banking Committee a fresh impetus will be given to this tendency

1. See Central Banking Enq. Comm., Rep., Evidence Vol. III, pp. 882 and 928. Also Vol. II. pp. 231, 480, and 516.

2. After the starting of the Reserve Bank this difficulty has been obviated to certain extent.

when the Reserve Bank of India will co-ordinate the different elements of the Money Market and remove the existing prejudice of the other banks against the rediscounting of bills by operating fully as a banker's bank. Further, the Reserve Bank can stimulate the use of bills by the banks and bankers by buying or rediscounting first class trade bills or promissory notes of member banks and bankers arising out of *bona fide* commercial transactions, at its published bank rate as the lowest operative rate, and by exercising its discretion to charge higher rates for discounting the bills of traders lacking bank endorsement.[1] So also other drawbacks like the inadequacy of bank offices, absence of public warehouses and the high stamp duty on bills require to be removed to make the commercial bills popular.

When personal security is not considered to be adequate and when no collateral security is forthcoming, banks generally advance money on the guarantee of some other person. This form of security is generally required by the banks when an applicant for loan cannot offer any tangible security or when they find that their customer's position is weakened or when the depreciation in the value of the collateral security has resulted in the bank's advances not being fully secured.

The Indian Companies Act requires all banks in India registered under it to classify debts as good, doubtful and bad. Debts are considered good when the recovery is certain, doubtful when the recovery is more or less uncertain, and bad when definitely irrecoverable. This classification was found necessary to show clearly the position of the bank.

(4) LANDED PROPERTY AT OR BELOW MARKET RATE

Attractive and well-situated premises are the best and most striking advertisement to a bank although a rather expensive form of advertisement. But they are an essential part of the existence for a bank, and must be regarded as a necessary investment of its capital. The large sums which stand in the various balance sheets of the banks represent only a part of what has been really spent, for all the banks make a practice

1. Inspite of the fact that the Reserve Bank of India has been working for the last three years there does not seem to be any fundamental change in the existing position.

of writing down drastically the actual cost of the buildings. As banks regard their premises as a successful form of advertisement, competition between the large banks is particularly keen in this direction. When banks do not possess their own buildings, they have to rent premises as an alternative. In the above balance-sheet the amount stands at Rs. 10,22,934-5-0.

(5) GOVERNMENT SECURITIES

Banks as remarked above generally invest a part of their working capital in Government Securities, *i.e.*, gilt-edge. The securities belonging to this class are the different loans of the Government of India and the Provincial Governments. These securities may be either short-dated or long-dated. The terms as regards the interest and repayment are settled by reference to the conditions prevailing in the money market, and the credit and the state of the finances of the Government borrowing money.

The short-dated securities have their advantages and disadvantages. Government sometimes finds it convenient to borrow for a short period in the hope of repaying it back on the reduction of the general rate of interest. But if the credit of the Government is weak, short-term securities become a source of trouble. From the point of view of a short-term investor, such a security is preferable to a long-term security. From the point of the bank there is a danger latent in the employment of bank-funds in long-dated gilt-edged securities which must not be ignored. The capital value of such securities varies with the movements of the general rate of interest on capital. When the money market is tight and when there is brisk demand for money, and the money rates rise, market prices of stocks fall. Banks, therefore, have to be watchful about the movement of market prices.

These gilt-edged investments are usually looked upon by banks as liquid assets, and in normal times they may undoubtedly be so considered, but in times of war and financial panic, they are not so readily saleable as to deserve the title "liquid." In India the Joint Stock Banks find it necessary to keep a strong liquid position by purchasing Government securities because of the nervousness of the depositors and the possibility of a

run at any time. Credit, therefore, has been to a great extent rendered immobile and requests for loans are sometimes rejected even when the prospective borrower may have in his possession large stocks of goods of value exceeding several times the amount of loan demanded. These circumstances prove beyond doubt that there is some radical defect in the credit organization of the country which prevents the conversion of stocks into mobile credit.[1] In the opinion of the Central Banking Committee this defect can be remedied by the establishment of licensed warehouses and the extention of the bill-habit. In the above balance-sheet the amount of Government Securities stands at Rs. 3,67,32,601-9-0.

(6) IMPROVEMENT TRUST, PORT TRUST AND MUNICIPAL BONDS

Next to Government securities, banks prefer to invest their funds in what are known as semi-Government securities. This class of securities includes Improvement Trust, Port Trust, and Municipal bonds and debentures which have hitherto been considered to be safe. Firstly, because these bodies hold very valuable properties. Secondly, because some of them, like municipalities, enjoy the support of the residents living within their limits. Thirdly, because there is an efficient control over their working through periodical Government inspection. Fourthly, because of the provision of a sinking fund for the repayment of these loans. And lastly, because Government securities, Municipal bonds, Port Trust and Improvement Trusts stocks can be disposed of in fairly large quantities without seriously affecting their market prices. Banks, therefore, find it safe to invest a part of their working capital in the securities of these bodies which may be either in the form of bonds or debentures.

(7) JOINT STOCK COMPANY DEBENTURES, PREFERENCE AND ORDINARY SHARES

Debentures :[2]

Next to Government and semi-Government securities banks

1. The Central Banking Enq. Comm. Evidence Vol. II, pp. 18, 502.

2. The term 'debenture' includes debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not.

prefer to invest a part of their funds in the debentures of joint stock companies because the holders of such debentures possess a priority both as regards capital and interest, not only over the shareholders but also over unsecured loans advanced by creditors. Very often debentures are issued in several series, first debentures, second debentures, and so on. In this case the claim of the holders of the second debentures to payment of capital and interest is post-poned till the claims of the holders of the first debentures are satisfied. So also before accepting debentures a bank has also to ascertain whether they are drawn up in accordance with the provisions of the memorandum of association of the borrowing company and whether they are duly registered with the Registrar of companies. Then again it has to ascertain whether the debentures constitute a specific charge or a floating charge upon the company's property. If these conditions are found to be satisfactory a bank finds it safe to invest a portion of its funds in the debentures of joint stock companies.

Preference Shares :

Next in priority to the debenture holders as regards the payment of interest come the preference shareholders. The holder of a cumulative preference shares obtains a right to the payment of any arrears of interest which may exist before the holders of ordinary shares obtain a dividend.

Ordinary Shares :

Lastly, next to the preference shares come the ordinary shares, whose claim to interest or dividend, as said before, is held over until all the preceeding claims are satisfied. The value of a particular class of stock or share depends upon the class of shares and stock issued by the same company which come before or after it and their rank for dividend or interest. Banks do not prefer to invest a large portion of their funds in shares of companies because the holders of shares are not entitled to the return of their capital except in the event of the liquidation of the company; they have only a right to the interest or dividend on the amount which has been paid. But debenture bonds are in nearly all cases redeemable, either at the time mentioned in the bond, or by drawings spread over a number of years.

(8) GOVERNMENT OF INDIA TREASURY BILLS AT PAR

Treasury bills are short-dated obligations of the Government of India maturing after 3, 6, 9, or 12 months from the date of issue. The main purpose of the Government in issuing these bills is to meet the current expenditure during periods of slack revenue collection. Moreover, it is largely by the issue or withdrawal of its Treasury Bills that the Government controls the Money Market, and carries out its policy of inflation or deflation. Banks offer tenders for them as they are called by the Government from time to time. These tenders are made at rates minutely discriminated. Treasury Bills are a very important defence for the banks in time of need; for in an emergency a bank could always realise its holding of the Treasury Bills by selling them. That, however, is a remote contingency. Moreover, as these Bills are issued by Government usually during the slack season, they offer an excellent outlet for the idle surplus funds of the banks. They can get these funds back during the busy season when the Treasury Bills mature.

(9) CASH IN HAND AND CASH AT BANKERS IN CURRENT ACCOUNT

These items require no explanation. They represent the cash reserve which the banks hold in hand to meet the demands of their customers. It is usually reckoned as a percentage of the banks' liabilities to the public. The amount (Rs. 166 lakhs) in the above balance-sheet is about 9% of the Current Deposit and Contingency Accounts. The banks do not follow any uniform rule in this respect, though most of them aim at keeping a 10% cash reserve. Neither in England nor in India is there any law compelling banks to keep a minimum cash reserve. Many banks, however, made it a practice to hold a part of their cash balances with the Imperial Bank of India before the inauguration of the Reserve Bank of India. The newly passed Reserve Bank Act (1934) requires all scheduled banks to keep with it balances equal to 5% of their demand liabilities and 3% of their time liabilities to the public. Such a provision has been made mainly to enable the Reserve Bank to control the volume of credit by drawing a part of banks' cash reserves to itself and secondarily to safeguard the interest of the depositors. The need for statutory regulation of cash reserves is discussed in a subsequent chapter.

SUBSIDIARY SERVICES OF THE JOINT STOCK BANKS

We have so far considered the principal business transacted by Joint Stock or Commercial Banks in India. We shall now turn to the subsidiary services performed by them. The first business of a bank, as said above, is to receive deposits, so that it may have larger resources than its own capital for making loans which are chiefly intended for facilitating the operations of production and trade. It not only provides a safe depository for the savings of public, but also serves as an agency for giving financial advice and supplying commercial information. It serves as a guide to investors and buys and sells securities on their behalf; acts as an administrator of estates, as a trustee taking care of trust funds and as a guardian to minors; makes and receives payment on behalf of its clients. In fact the progress made by banks in all these directions has brought to banks substantially more business than they would have got otherwise. Banks have become the trusted servants of the public in matters where honesty and competence are essentially necessary. Competition between themselves is probably one of the causes which actuated banks to extend their activities beyond what may be said to be orthodox banking. Banks have thus increased their utility to the public in recent years. These subsidiary services have become a part of the daily routine of almost every leading bank in countries like Great Britain and the United States of America. In India, the important Joint Stock Banks have made substantial progress in this respect.

The subsidiary services of modern banks may be grouped as under :

I. Agency services.

II. Miscellaneous or general utility services.

I. AGENCY SERVICES

Besides the agency services mentioned above, banks usually render the following additional services.

(i) Payment and collection of promissory notes, coupons, dividends, subscriptions, rents, or other periodic receipts and payments, *e.g.*, insurance premia etc.

(ii) Receiving of securities, deeds and other valuables for custody.

(iii) Serving as correspondents or representatives of their customers, other banks or financial corporations.

The customers of a modern bank find it convenient and economical, and at the same time safe, to make and receive payments on promissory notes, or collect dividends, rents etc. through their bankers. So also, investors in countries like England, the United States and Germany have not been slow to realize the advantages of buying and selling securities through their bankers who with a view to encourage their customers generally make no extra charge for services of this kind. The banks have provided themselves with special apartments (safe vaults, strongrooms etc.), where valuables can be safely lodged. Thus the risk from fire or theft is eliminated. The idea of entrusting one's securities to a bank is rapidly becoming popular as a large number of bonds and debentures are issued annually and their owners are saved the trouble and expense of watching for announcement in the advertisement columns of news-papers to see if the bonds and debentures held by them are to be presented for payment on a particular date. Customers also authorise their banks to receive dividends and other securities held by them with a view to saving postage, time, trouble and risk of loss.

Banks nowadays act as trustees, executors and attorneys. In this respect it must be admitted that banks are better fitted to render these services than other agencies. Firstly, banks enjoy, except when threatened with a serious crisis, a continuous existence which may not be true of all persons. Secondly, they can be relied upon for their integrity and work can be entrusted to them with confidence. They surely inspire greater confidence than individuals. Thirdly, banks generally employ experts on their staff, whose specialised knowledge, ripe experience and sound business judgment are available to customers in the administration of a trust property. It is mainly due to these facilities that banks have been able to secure trust business from their clients.

Again, in order to offer facilities to their customers who want to buy and sell stocks and shares, banks maintain a depart-

ment dealing with this business. Even though the charges are not lower, the advantage of such a service is appreciated by customers who prefer not to deal with brokers directly. The banks naturally try to transact business at favourable prices, but it is chiefly because of their intimate and skilled knowledge of such business that their services are useful to customers. Thus banks are generally willing to supply lists of recommended investments and financial information for which, however, they are not prepared to accept any responsibility.

In this connection it may be mentioned that the practice in the Western countries differs from the practice of the members of the Bombay Stock Exchange. Unlike in the former case the brokerage is included in the rate given in the purchase or sale of stock exchange securities. This is an unsound practice and requires to be discouraged in the interest of the investing public.

The services of a bank as correspondents or representatives, although rendered gratis, are valuable. As correspondents of their customers banks carry on correspondence with income-tax authorities. They obtain passports, traveller's tickets and secure passages for their customers. If required, they re-direct letters, and in general aim at becoming more serviceable to their customers.

II. MISCELLANEOUS SERVICES

We may conclude this chapter by adding a few words regarding the miscellaneous subsidiary services rendered by modern banks, *e.g.*, services in the performance of which the bank does not act as an agent of the customer. They are as follows :

(1) Underwriting loans to be raised by Government, public bodies and corporations;

(2) Dealing in foreign exchanges;

(3) Serving as referee to the financial standing, business reputation and respectability of their customers;

(4) Issuing of letters of credit, circular notes, bank drafts, traveller's cheques etc.

The business of underwriting loans required by the Government is entrusted generally to the state banks in several countries. They charge a reasonable commission for this service. Here in India these services were so far sometimes performed by the Imperial Bank of India but hereafter this work will be done by the Reserve Bank of India. The part played by the Joint Stock Banks in India in underwriting loans raised by local authorities, companies or corporations is not considerable. This stands in marked contrast with the Joint Stock Banks in Germany which actively participate in the sale of new industrial securities by underwriting them.

The Indian Joint Stock Banks have not shown any remarkable enterprise in the field of foreign exchanges. They have not been doing this business due to many difficulties in their way of undertaking it. Their progress in this field even hereafter is doubtful due to the presence of powerful foreign Exchange Banks unless heroic efforts are made to overcome difficulties. Of late, however, some of them have commenced this business and if they receive sufficient encouragement, it will not be long before this lacuna in the Indian banking system will be removed.[1] The Imperial Bank of India has already taken the lead and started dealing in foreign exchanges as it has been allowed to do so by the Imperial Bank Act (1934).

Another important service rendered by modern banks is to help the business man with reliable and prompt information regarding the financial standing of the people with whom they are dealing. The information thus supplied by the banks saves them from suffering losses incurred through bad debts resulting from giving credit to persons of little or no financial worth. Banks in India do not render this service to any great extent.

Further, banks in order to increase their utility to their customers issue letters of credit, circular notes, bankers drafts travellers cheques etc. which have now become very popular through their convenience and usefulness. These services are specially appreciated by tourists and other persons travelling in foreign countries.

---

1. The Central Bank of India, Ltd., started an exchange bank in London in 1936. It is reported that the bank is doing good business.

CHAPTER VII

THE IMPERIAL BANK OF INDIA AND SOME 'BIG' JOINT STOCK BANKS OF THE INDIAN MONEY MARKET

I. THE IMPERIAL BANK OF INDIA

The Imperial Bank was established early in 1921 under the Imperial Bank of India Act of 1920 by the amalgamation of the three Presidency Banks of Bengal, Bombay and Madras. This amalgamation may be looked upon as a spontaneous development, being the result of a natural banking evolution towards centralisation of banking in this country. We have already dealt with the history of the Bank from the time it started working till 1934 in a previous chapter. During this period its operations were governed by a special Act, the Imperial Bank of India Act (XLVII of 1920), which, in view of the inauguration of the Reserve Bank of India, was amended by Act III of 1934 known as the Imperial Bank of India (Amendment) Act. It is now, therefore, proposed to study in this chapter its constitution under the new Act which was passed largely because the Bank was solely entrusted with the agency business of the Reserve Bank of India. Being thus privileged and having ample resources, it now occupies the position of being the premier Joint Stock Bank in the country.

(1) CONSTITUTION

The total authorised capital of the Imperial Bank of India is Rs. 11½ crores consisting of 225,000 shares of Rs. 500 each. The paid-up capital, Rs. 3¾ crores consists of 75,000 shares of Rs. 500 of which Rs. 125 are paid, the remaining amount being the reserve liability of their subscribers. The Bank's reserve fund amounts to Rs. 5 crores and 20 lakhs.

To safeguard regional interests and to give the Bank a large freedom to deal with the varying conditions in different

areas the local head offices of the Presidency Banks in Bombay, Calcutta, and Madras have been retained. The general superintendence of the affairs and business of the Bank and the general control of the Local Boards have been entrusted to a Central Board of Directors.

Constitution of Local Boards :

Local Boards have been established at Calcutta, Madras and Bombay. The Central Board is authorised to create additional Local Boards at such other places in British India as the business of the Bank may require. The Local Board consists of a President, a Vice-President and Secretary and ordinary members whose number is laid down by the bye-laws of the Bank.

Constitution of the Central Board :

The Central Board consists of the following Directors, namely :

(i) the Presidents and Vice-Presidents of the Local Boards established by the Act;

(ii) one Director to be elected from amongst themselves by the members of each Local Board;

(iii) a Managing Director who shall be appointed by the Central Board for a period not exceeding five years on such terms as the Central Board may direct and may be continued in his appointment by the Central Board for such further periods not exceeding five years in each case as the Central Board thinks fit;

(iv) such number of persons not exceeding two and not being officers of the Government as may be nominated by the Governor-General-in-Council. Such persons hold office for one year but may be re-nominated;

(v) a Deputy Managing Director appointed by the Central Board;

(vi) the Secretaries of the Local Boards established by this Act;

(vii) if any Local Board is established hereafter under this Act, such number of persons to represent it as the Central Board may prescribe; and

(viii) the Governor-General-in-Council is empowered to nominate an officer of Government to attend the meetings of the Central Board, and such officer is entitled to attend all meetings of the Central Board and to take part in its deliberations but cannot vote on any question arising at any meeting.

The Directors specified in clauses (v) and (vi) can attend all meetings of the Central Board and take part in the deliberations, but cannot vote on any question arising at any meeting. In the absence of the Managing Director, however, the Deputy Managing Director is entitled to vote.

The meetings of the Local Boards are held whenever the President, Vice-President, or in their absence, the senior member of the Board thinks fit. The meetings of the Central Board are to be held not less than once in every four months and at least once in every year at each of the local head offices established at Calcutta, Bombay and Madras. Additional meetings may be held when necessary. One peculiarity in this arrangement is the absence of any definite place for the Central Board. This had to be done, it appears, to avoid provincial jealousies. Although provision has been made for the exercise of Government control through an officer nominated by the Governor-General-in-Council to attend the meetings of the Central Board, the power of the Governor-General under the original Act of 1920 to issue instructions to the Bank in matters vitally affecting his financial policy and the safety of Government balances has been taken away under the new arrangements. Further, now it is not required to obtain his previous sanction for establishing more local head offices and local boards and for certain operations.

(2) FUNCTIONS OF THE IMPERIAL BANK

After the establishment of the Reserve Bank, the Imperial Bank of India has ceased to be banker to Government directly, but under an agreement with the former it has been authorised to act as the sole agent of the Reserve Bank in places where the latter has no branches, as the Imperial Bank has a larger number of branches and pay-offices spread throughout the country than any other bank. According to this agreement it has

been allowed to pay, receive, collect and remit money, bullion and securities as agent for the Reserve Bank of India on behalf of the Government and also to undertake and transact any other business which the Reserve Bank of India may from time to time entrust to the Bank.

In return for the performance by the Imperial Bank on behalf of the Reserve Bank, of the functions which the former performed on behalf of the Governor-General-in-Council before, the Reserve Bank has to pay it a commission on the total of the receipts and disbursements dealt with annually by it on account of Government at the rate of $\frac{1}{16}$ per cent. on the first Rs. 250 crores and $\frac{1}{32}$ per cent. on the remainder during the first 10 years, and at rates to be determined afterwards for every 5 years after examining the cost to the Imperial Bank of performing these functions.

Further, subject to the condition that the Imperial Bank keeps open branches not less in number than those existing at the time of commencement of the Reserve Bank Act, the Reserve Bank will, until the expiry of 15 years from the coming into force of the agreement, pay the Imperial Bank Rs. 9, 6 and 4 lakhs per annum during the first, second and third period of 5 years each respectively. The Imperial Bank cannot open, without the approval of the Reserve Bank, any branch in substitution of a branch existing at the time at which the agreement comes into force, and the Reserve Bank will be free to open its own offices at any places, notwithstanding the fact that the Imperial Bank has up to then acted as its agent at those places.

Other functions which the Imperial Bank is authorized by the Act to carry on are as follows:

(a) the advancing and lending money and opening cash-credits upon the security of

(1) stocks, funds and securities (other than immoveable property) in which a trustee is authorized to invest trust money;

(2) securities issued by state-aided railways notified by the Governor-General-in-Council;

(3) debentures or other securities issued under any Act of a Legislature in British India by, or on behalf of a District Board or a Municipal Board or Committee;

(3a) subject to such directions as may be issued by the Central Board, debentures of companies with limited liability whether registered in India or elsewhere;

(4) goods, or documents of title thereto, deposited with, or assigned to the Bank;

(4a) goods hypothecated to the Bank as security for such advances, loans or cash-credits, if so authorized by special directions of the Central Board;

(5) accepted bills of exchange and promissory notes endorsed by the payees;

(6) fully paid-up shares of companies with limited liability or immoveable property, or documents of title relating thereto as collateral security, where the original security is one of those specified in sub-clauses (1) to (4) above, and if authorized by the Central Board, where the original security is of the kind specified in sub-clause (5).

(b) the selling and realisation of the proceeds of sale of any such promissory notes, debentures, stock-receipts, bonds, annuities, stock-shares, securities or goods which, or the documents of title to which have been deposited with or pledged, hypothecated, assigned or transferred to the Bank as security;

(c) advancing money to Courts of Wards upon the security of estates in their charge, with the previous sanction of the Provincial Government concerned;

(d) the drawing, accepting, discounting, buying and selling bills of exchange and other negotiable securities;

(e) the investing of the funds of the Bank in the securities specified in sub-clauses (1) to (3) of (a) mentioned above;

(f) the buying and selling of gold and silver whether coined or uncoined;

(g) the receiving of deposits and keeping cash accounts;

(h) the acceptance of the charge of plate, jewels, title-deeds or other valuable goods for safe custody;

(i) the selling and realising of all moveable and immoveable property that may come into the Bank's possession in satisfaction of claims;

(j) the transacting of pecuniary agency business on commission;

(k) the acting as administrator for winding up estates;

(l) the drawing of bills of exchange and granting of letters of credit payable out of India;

(m) the buying of bills of exchange payable out of India, at any usance not exceeding nine months in the case of bills relating to the financing of seasonal agricultural operations or six months in other cases;

(n) the borrowing of money for the purposes of the Bank's business and the giving of security for money so borrowed by pledging assets or otherwise;

(o) generally, the doing of all such matters and things as may be incidental or subsidiary to the transaction of the various kinds of business including foreign exchange business as specified before.

(3) BUSINESS WHICH THE BANK IS NOT AUTHORIZED TO CARRY OUT OR TRANSACT

The Bank is not authorized to carry out or transact any other business and in particular :

(a) it shall not make any loan or advances

(1) for a longer period than six months except as provided in (c) and (m) above;

(2) upon the security of stock or shares of the Bank;

(3) save in the case of the estates specified in (c) above, upon the mortgage or security of immoveable property, or documents of title relating thereto;

(b) the Bank shall not (except upon a security of the kind specified in 1 to 4 of (a) above) discount bills for any individual or partnership firm beyond such sums as may be prescribed or lend or advance beyond the sum prescribed;

(c) the Bank shall not discount or buy, or advance and lend or open cash credits on personal security or the security of a partnership firm unless such discounts or advances carry with them the several responsibilities of at least two persons or firms unconnected with each other in general partnership;

(d) the Bank shall not discount or advance money against a negotiable security having a longer period to run than nine months if a bill is drawn for the financing of seasonal agricultural operations and six months in other cases or if drawn after sight, drawn for a longer period than nine months if a bill is drawn for financing seasonal agricultural operations and six months in other cases.

Thus according to the provisions of the Imperial Bank of India (Amendment) Act of 1934, the Imperial Bank has been given freedom in certain respects. They are: (i) it has now been allowed to advance money and open cash credits upon the security of debentures of companies with limited liability whether registered in India or elsewhere, if permitted by the Central Board; (ii) in the case of loans or advances relating to the financing of seasonal agricultural operations the maximum period for which such advance or loan may be granted may be nine months, instead of six months previously; (iii) it may draw, accept, discount, buy and sell bills of exchange and negotiable securities payable outside India without special permission from the Governor-General-in-Council; (iv) it may now borrow for the purpose of the Bank's business even outside India; (v) it has been allowed to buy bills of exchange payable out of India which may run for nine months when they relate to financing of seasonal agricultural operations.

(4) ITS ACHIEVEMENTS

At the time of the establishment of the Bank in 1921, it was expected by the public, the trading community, other banks and Government itself that it would pursue a firm and vigorous policy of expanding banking facilities so as to inspire confidence and create banking habit among the public and thus to mobilise the capital resources of the country. With its large resources, it was also thought, that the Imperial Bank

would stimulate the growth of Joint Stock Banks by promising protection in case of need and promote the financing of the country's trade, agriculture and industries. It was hoped that the Bank would train up Indians in banking business under the guidance of its experts and make them available to other banks.

So far these hopes have been realised to a very limited extent only. Although the Bank followed a progressive policy of opening new branches and fulfilled the undertaking given by it to the Government, *viz.*, opening of 100 new branches within the first five years of its existence, no new branches have been opened since March 1926. The number of its branches is at present 163 as against 59 in 1920. However, the reason for not opening new branches recently seems to be that the Bank desires to consolidate and strengthen its existing branches as many of them have not been paying. before venturing upon new ones.

With regard to financing the movement of crops, reducing the difference between its own hundi rate and the bazaar hundi rate and compelling the indigenous bankers to lower their discount rate, the Bank has been successful to an appreciable extent. Further, the competition of the Imperial Bank has compelled other Joint Stock Banks also to reduce their rates not only in those places in which the Imperial Bank has branches, but in other places also, owing to their fear that the Bank may establish branches there. Moreover, remittance facilities so important to modern business have been provided by the Bank between its head offices and branches at very low charges.

Finally, the Imperial Bank until the establishment of the Reserve Bank in April 1935 acted, as stated in a previous chapter, as a bankers' bank to some extent, and rendered assistance to a few banks that were found in difficulties. For example, in the case of the Alliance Bank of Simla, it promptly undertook to repay 50% of the deposits under a guarantee from the Government of India in 1923. When the Tata Industrial Bank, the Bengal National Bank and the Central Bank of India were faced with a run from the panic-stricken customers, the Imperial Bank readily came to their assistance without any orders from Government. The Bank also discounted bills of exchange

endorsed by reputed indigenous bankers within certain limits. As regards its relations with the Joint Stock Banks, they will be dealt with in the next chapter. In the meanwhile, it is very encouraging to know that soon after it was permitted by the Act of 1934 to deal in foreign exchanges, the Imperial Bank opened a special department for transacting exchange business. This bold step taken by it if appreciated in the right spirit is bound to give encouragement to other Joint Stock Banks in the country. So also it may be expected that the Imperial Bank will be able to set an example to other banks in the field of industrial financing by taking a similar bold step in the not distant future.

The following is the statement of the affairs of the Imperial Bank of India on 28th June, 1935.

Figures in thousands

Liabilities	*Rs.*	*Rs.*
Capital :		
Authorized 2,25,000 shares of Rs. 500 each	11,25,00	
Issued and Subscribed shares of Rs. 500 each	11,25,00	
Called up 75,000 shares of Rs. 500 each fully paid	3,75,00	
1,50,000 shares of Rs. 500 each, Rs., 125 paid	1,87,50	
		5,62,50
Reserve Liability of Shareholders Rs. 375 per share on 1,50,000 shares	5,62,50	
Reserve Fund		5,35,00
Fixed Deposit, Savings Bank, Current and other Accounts ..		72,93,08
Loans against Securities per contra		..
Acceptances for constituents		..
Sundries		1,37,38
Total		85,27,96

Assets	*Rs.*	*Rs.*
Investments :		
Government Securities ..	39,17,55	
Other Investments authorized under the Imperial Bank of India Act, 1920	8,93	39,26,48
Advances :		
Loans	5,37,12	
Cash Credits and overdrafts..	18,63,93	
Bills Discounted and Purchased	2,49,35	26,50,40
Liability of Constituents for Acceptances per contra	..	..
Dead Stock		2,37,36
Sundries		1,20,76
Bullion		..
Cash :		
In hand and with the Reserve Bank of India	15,74,74	
Balances with other Banks ..	18.22	15,92,96
Total		85,27,96

II. THE CENTRAL BANK OF INDIA, LTD.

The Central Bank of India was started in 1911 in Bombay as a result of the enthusiasm infused by the Swadeshi movement and mainly due to the efforts and organizing skill of the late Sir S. N. Pochkhanawala whose keen vision pierced through every aspect of national life.[1] He was very fortunate in securing Sir Pherozshah Mehta as the first chairman of the bank. The capital of the bank was increased in successive stages as the bank progressed till early in the last decade the paid-up capital stood at Rs. 50 lakhs. The amalgamation of the Tata Industrial Bank with itself in 1923 brought up the capital to Rs. 1,68 lakhs, so that the Central Bank has since then been the largest institution amongst the Indian Joint Stock Banks barring of course the Imperial Bank. Its deposit figures also are higher than those of the other banks. In respect of the

1. In his speech at the inaugural ceremony of the Bank of Maharashtra, Ltd., Poona, he said, "true patriotism, in my opinion, consists not only in striving for political power, but also in the more difficult art of resuscitating Swadeshi enterprises and recovering the lost ground in the financial and economic fields."

range of its business, largeness of clientele, new and newer modes of service like the opening of ' Home Savings Accounts ', ' Ladies Department ', Cash Ceritificates, etc., the Central Bank has always been in the forefront.

Although the Central Bank has been faced on many occasions with situations generally considered serious created by some of its critics, it has always triumphed over them and has come out successful and thus demonstrated convincingly the competence of Indians to manage their banking institutions. The ' Central's ' business principles seem to be firm and wise because some of the heavy runs which it had to meet at times, and which would have meant serious difficulties even to bigger commercial banks, did not ruffle the bank in the least. But these tactics of its critics although indirectly helping advertisement of the bank, have made it necessary for it to maintain an unduly large liquid position so as to be prepared to meet runs at any time. Excessive liquid assets mean, however, a smaller margin of profits. Despite such difficulties, the progress of the bank has been continuous. It is really a matter of very great pride that the Central Bank has been successful in achieving outstanding success which is not a little due to the pains and privations undergone by the late Sir S. N. Pochkhanawala whose sudden and untimely death last year deprived Indian banking of one its pillars of strength.

The following balance-sheets for 1931, 1932 and 1933 will give an idea about the growing business of the Bank :

(In Rupees—000's omitted)

Liabilities	1931	1932	1933
Capital	1,68,13	1,68,13	1,68,13
Reserves	70,00	70,00	70,00
Total of Capital & Reserves	2,38,13	2,38,13	2,38,13
Current and Savings Bank Deposits and Bills payable etc.	7,41,38	11,37,97	12,27,21
Fixed Deposits	7,82,59	8,76,60	9,99,46
Total of Deposits	15,23,97	20,14,57	22,26,67
Due to Bankers	2,77,51	2,68	1,71
Acceptances, Bills for collection etc,	1,08,44	92,36	1,00,34

(In Rupees—000's omitted)

Assets	1931	1932	1933
Cash	1,70,33	2,45,15	4,01,80
Gilt-edged Investments	10,52,24	12,22,78	11,83,08
Bills discounted	44,18	31,20	39,43
Total Liquid Assets	12,66,75	14,99,13	16,24,31
Properties etc.	1,19,69	1,10,70	1,19,60
Loans, Advances and other Investments	6,77,68	6,65,25	7,50,01
Acceptance, Bills Receivable per contra	1,08,44	92,36	1,00,34
Percentage of Total Capital and Reserves to total Deposits	15.6	11.8	10.7
Percentage of Total Liquid Assets to Total Deposits	83.1	74.4	72.9

During the last year under review, the total deposits of the bank have increased by about Rs. 2 crores and because of this the ratio of capital and reserves to total deposits has gone down by about 1%. The portfolio of bills has increased by about Rs. 8 lakhs. The bank's profits increased in the year by about Rs. 37,000.

The bank has also been known for spreading its branches and pay-offices throughout the length and breadth of the country. The net-work which has resulted from this can be seen from the following list of local (Bombay) and up-country branches of the bank.

LOCAL BRANCHES

Abdul Rehman Street
Bhuleshwar
Kalbadevi Road
Mandvi
Sandhurst Road
Share Bazaar
Zaveri Bazaar.

UP-COUNTRY BRANCHES AND SUB-BRANCHES

Agra	Gorakhpore	Lucknow
Ahmedabad	Hapur	Lyallpur
Aminabad (Lucknow)	Hyderabad(Deccan)	New Market (Cal.)
Amritsar	Hyderabad (Sind)	Raichur
Aurangabad	Jalna	Rangoon
Bara Bazaar (Cal.)	Jamnagar	Sailu
Calcutta	Karachi	Sambhar Lake
Cawnpore	Lahore	Sargodha
Dacca	Lahore-City	Secunderabad
Delhi	Latur	Sham Bazar (Calcutta)
Surat	Warangal	

PAY OFFICES

Under Lahore	*Under Lyallpur*	*Under Amritsar*
Abohar	Gojra	Batala
Burewala	Jaranwala	Jullundur
Chichawatni	Mianwali	
Dabwali	Phulerwan	
Gujranwalla	Sangla	
Hafizabad	Tandhianwala	
Jagraon	Tobateksingh	
Khanewal		
Mandi Bahauddin	*Under Lucknow*	*Under Delhi*
Mianchannu	Basti	Aligarh
Montgomery	Hardoi	Hathras
Moga	Padrauna	
Okara	Sitapur	
Pattoki		
Vihari		

III. THE BANK OF INDIA, LTD.

The Bank of India, registered in 1906, has a record of smooth working amongst the leading Indian Joint Stock Banks. The Directors have never sought to achieve anything sensational and have been always content with a policy of 'slow but sure' progress. Hence it has come to be regarded as a 'sober' bank having the utmost confidence of its customers. The bank restricted its holdings of Government securities to a comparatively small figure during the years of stress early in this decade,

with the result that while other banks were faced with an exceptionally heavy shrinkage in their portfolio, the Bank of India was the least affected by the debacle in security prices. On the whole the progress made by the bank has been remarkable.

The following are the balance-sheets for 1931, 1932 and 1933.

(In Rupees--000's omitted)

Liabilities	1931	1932	1933
Capital	1,00,00	1,00,00	1,00,00
Reserves	94,00	1,01,50	1,01,50
Total of Capital and Reserves	1,94,00	2,01,50	2,01,50
Current Deposits	4,79,00	6,90,59	6,11,18
Fixed and other deposits	8,16,47	8,17,05	8,38,63
Total Deposits	12,95,47	15,07,64	1,49,81
Assets			
Cash	2,25,64	2,27,23	2,44,78
Gilt-edged investments	6,03,72	8,44,39	8,15,48
Total Liquid Assets	8,29,36	10,71,62	10,60,26
Other Investments	10,89	8,66	10,53
Loans, Advances etc.	6,49,49	6,31,77	5,92,61
Percentage of Capital and Reserve to Total Deposits	15	13.4	13.9
Percentage of Liquid Assets to Total Deposits	64.0	71.1	73.1

Although the number of branches does not look imposing, the business done by those that have been started is very good. The following is the list of local and up-country branches of the bank.

LOCAL BRANCHES

Bullion Exchange,
Shaikh Memon Street
Bandra
Malabar Hill
Hughes Road

UP-COUNTRY BRANCHES

Ahmedabad
Ahmedabad Station Branch
Bandra
Calcutta, Clive Street
Calcutta, Bara Bazaar
Nagpur
Poona
Poona City
Rajkot
Surat

IV. THE BANK OF MYSORE

The Bank of Mysore, started in 1913, is bankers to the Government of Mysore. Its progress has been steady and satisfactory. The paid-up capital is Rs. 20 lakhs; while the building fund stands at Rs. 2.25 lakhs. The Bank has maintained deposits roundabout Rs. 2 crores. With an influential Board of Directors under the chairmanship of Raja Sabha Bhushana Dewan Bahadur Sir K. P. Puttanna Chetty, C.I.E., the intrinsic position of the Bank, judged by every criterion, remains exceptionally strong.

The following are the balance-sheets of the Bank of Mysore for 1931, 1932 and 1933.

(In Rupees—000's omitted)

Liabilities	1931	1932	1933
Capital	20,00	20,00	20,00
Reserves	16,75	17,50	18,75
Total of Capital and Reserves	36,75	37,50	38,75
Current Deposits	77,70	75.94	76,33
Fixed & Other Deposits	1,21,81	1,42,14	1,17,48
Total of Deposits	1,99,51	1,18.08	1,93,79
Assets			
Cash	22,18	27,84	28,21
Gilt-edged Investments	69,81	92,22	65,68
Bills Discounted	7,60	5,61	5.30
Total of Liquid Assets	99.59	1,25.67	99.19
Loans and Advances, Properties etc.	1,39,04	1,38,30	1,37,36
Percentage of Capital and Reserves to Total Deposits	18.4	17.2	20.0
Percentage of Total Liquid Assets to Total Deposits	49.9	57.6	51.2

V. THE BANK OF BARODA

The Bank of Baroda was started in 1897 at Baroda under the patronage of and largely supported by the Government

of H. H. the Maharaja, Gackwar of Baroda. The Bank has 18 branches of which a good number are situated in Baroda State. The Bank is entrusted with the State's Treasury work in the same way as the Imperial Bank of India was carrying out the Treasury work of the Government of India. It has also branches at important centres like Bombay, Ahmedabad, Surat etc.

The paid-up capital of the Bank is Rs. 30 lakhs and the various reserves stand at Rs. 20.75 lakhs. Owing to the heavy depreciation of the Government securities in 1931, it was found necessary to transfer Rs. 5.25 lakhs from the Reserve Fund. But this loss was made up by a subsequent appreciation in their value.

The following balance-sheets for 1931, 1932 and 1933 will give an idea about the position of the Bank:

(In Rupees—000's omitted)

Liabilities	1931	1932	1933
Capital	30,00	30,00	30,00
Reserves	19,40	20,00	20,75
Total of Capital and Reserves	49,40	50,00	50,75
Current Deposits	2,30,14	3,09,24	2,44,14
Fixed and other Deposits	4,40,27	4,23,52	2,95,08
Total of Deposits	6,70,41	7,32,76	5,39,22
Other Liabilities	7,40	8,71	6,20
Assets			
Cash	84,49	92,35	73,56
Gilt-edged Investments	3,85,84	3,97,50	3,37,62
Bills discounted	..	7	20
Total of Liquid Assets	4,70,33	4,89,92	4,11,38
Loans and Discounts	2,39,00	1,99,26	1,65,54
Properties	17,76	17,61	20,54
Other Assets	2,95	84,75	1,76
Percentage of Capital and Reserves to Total Deposits	7.4	6.8	9.4
Percentage of Total Liquid Assets to Total Deposits	70.2	66.9	76.3

BRANCH OFFICES

Ahmedabad	Dwarka	Navsari
Amreli	Kadi	Patan
Bhavanagar	Kalol	Petlad
Bombay	Kapadwanj	Port Okha
Dabhoi	Karjan	Sidhpur
Dharampur	Mehsana	Surat

CHAPTER VIII

JOINT STOCK BANKS AND THE MONEY MARKET

The Money Market in India is divided into two parts according to the origin and functions of its constituents, the European or the central part consisting of the (a) Reserve Bank of India, (b) Imperial Bank of India, (c) Exchange Banks; and the Indian or indigenous section consisting of the (i) Indian Joint Stock Banks, Co-operative Banks and Land Mortgage Banks occupying a position midway between the two, *i.e.*, the European and Indian money markets and (ii) the Indigenous Bankers such as Shroffs, Marwaris, Chetties, Multanis and money-lenders. There is also no one national money market. There are at least two principal money markets one at Bombay and the other at Calcutta. Besides there are several smaller money markets in inland centres like Cawnpore, Ahmedabad etc.

The Money Market of India, even if the term is used in the more usual and restricted sense of an organization consisting of institutions dealing in short term credit, is by no means so highly organized as that of England or America. There are several defects which have to be reckoned with. The central part of the Money Market was until the inauguration of the Reserve Bank dominated to a great extent by the Government which through its operations exercised a decisive influence on the money-rates. It is well-known that before the starting of the Reserve Bank of India the control of credit and currency was in the hands of two distinct authorities, the Central Government and the Imperial Bank. According to this arrangement the Government of India acted as the currency authority entirely responsible for the expansion and contraction of currency; the Imperial Bank of India was solely entrusted with the work of controlling the expansion and contraction of credit. This system with divided control resulted in a serious lack of elasti-

city and stability of monetary conditions. Hence the demand for seasonal currency could not be easily met by the expansion of banking credit. The cheque habit which could have overcome this difficulty to a certain extent has not developed appreciably outside the principal cities. Again, it has been often pointed out that there is not plenty of loanable money in the Money Market to satisfy the various demands for it. Yet, no serious attempts have so far been made to wean away the people from the hoarding habit. It is deplorable that the value of small accounts has not been sufficiently realised by the Indian banks. Further the Money Market in India is conspicuous by the absence of a discount or bill market, lack of proper co-ordination between the various units and consequently the presence of a seasonal monetary stringency. The mere fact that the annual range of interest rates in India is wider than in other countries proves by itself that there are inherent defects in the present system. The absence of a central co-ordinating agency in the Indian banking system so far was to blame for some of them. But now that the Reserve Bank of India has been started it may be strongly hoped that the Indian Money Market will develop on healthy lines.

With these remarks we may briefly survey the connection that exists between the Indian Joint Stock Banks and the rest of the Money Market under the following heads :

The Indian Joint Stock Banks and

(A) 1. The Reserve Bank of India.
2. The Imperial Bank of India.
3. The Exchange Banks.

(B) 4. The Co-operative Banks.
5. The Land Mortgage Banks.
6. The Indigenous Bankers.

(*A*) *I. THE INDIAN JOINT STOCK BANKS AND THE RESERVE BANK OF INDIA*

Owing to the absence of a Central Bank the Imperial Bank of India was hitherto performing some of the functions of a bankers' bank like conducting the clearing houses, declaring bank rate, discounting bills of exchange etc. But the other banks were not bound by law to maintain any balances with

it. Consequently, there was, as said before, no regular connection between the different parts of the Money Market. In order, therefore, to unify the Indian Money Market it was thought necessary since long that a Central Bank should be started. This proposal after it had passed through many vicissitudes finally succeeded when the Reserve Bank of India was inaugurated in April, 1935 under Act II of 1934. It is important to remember that the policy pursued by the Central Bank and the Government has an important bearing on the working of the Joint Stock Banks. But the reactions of this policy will largely depend on the central banking practice and the degree of active intervention by the management of the Bank. As a matter of fact there is practically no function of the Reserve Bank which does not impinge to a greater or less extent on the wider banking problems of the country. Although this is true, it will be convenient to state here some of its functions which will affect the Joint Stock Banks intimately.

FUNCTIONS OF THE RESERVE BANK AFFECTING THE JOINT STOCK BANKS

By Section 17 of the Reserve Bank of India Act the Bank has been authorized to transact the following business :

(1) the accepting of money on deposit from banks;

(2) the purchase, sale and rediscount of bills of exchange and promissory notes, bearing two or more good signatures, one of which must be that of a scheduled bank and complying with other requirements as laid down in the Act;

(3) the purchase from, and sale to, scheduled banks of sterling and bills of exchange (including Treasury bills drawn in or on any place in the United Kingdom) and complying with other requirements laid down in the Act;

(4) the making to scheduled banks loans and advances repayable on demand or on the expiry of fixed periods not exceeding 90 days against the security of (a) trust securities (b) gold or silver, or documents of title to the same; (c) bills of exchange and promissory notes eligible for purchase or rediscount; or (d) promissory notes of a

scheduled bank supported by documents of title to goods which have been transferred, assigned or pledged to any such bank as security for *bona fide* cash credit or overdraft;

(5) the issuing of demand drafts made payable at its own offices or agencies and the making, issue and circulation of bank post-bills;

(6) the borrowing of money from a scheduled bank in India for a period not exceeding one month, provided the amount so borrowed does not exceed the share capital of the Bank;

(7) operating in the open market by dealing directly with any person, *i.e.*, with the public at large, when it is found expedient to regulate credit in the interests of Indian trade, industry and agriculture (Section 18).

On the other hand the Reserve Bank of India cannot undertake certain businesses. By Section 19, except as otherwise provided, the Bank is prevented from :

(1) engaging in trade, or having a direct interest in any commercial, industrial or other undertaking except for the satisfaction of its claims;

(2) purchasing its own shares or the shares of any other bank or company or granting loans upon the security of any such shares;

(3) advancing money on the mortgage of or otherwise on the security of immoveable property;

(4) making unsecured loans or advances;

(5) drawing or accepting bills payable otherwise than on demand; and

(6) allowing interests on deposits or current accounts.

CONTROL OVER THE JOINT STOCK BANKS

It is of the utmost importance that the Central Bank should be given adequate powers to discharge its functions efficiently. But at the same time it is expected that these powers will not be used to hinder unnecessarily the activities of banks under its control. In the Act the relation between the Reserve Bank and Joint Stock Banks has been based on the principle

that the Central Bank should control, but not compete with, the Joint Stock Banks. The real value of this principle will be appreciated when the difficulties of the Joint Stock Banks in their dealings with the Imperial Bank of India, which played for some years the role of a bankers' bank, are known. Owing to the special privileges enjoyed by the latter as the Government banker, the former looked upon it more as an unfair rival than as a friendly coadjutor. Thus they worked in an atmosphere of distrust. There was also no legal provision compelling the other banks to maintain minimum balances with the Imperial Bank and hence its control on their working was practically absent. But now to ensure control by the Reserve Bank it has been laid down that all the member or scheduled banks, *i.e.*, banks included in the Second Schedule[1] of the Reserve Bank of India Act must keep a fixed percentage of their current and time deposits, 5 per cent. and 2 per cent. respectively, with it.[2]

Although the smaller banks may regard this provision as a handicap, the importance of securing proper control of the credit structure of the country and the need for securing a concentration of reserves so as to enable the Reserve Bank to function as the bankers' bank par excellence justify the system which requires certain banks to maintain minimum compulsory deposits with it. The Report of the Committee on Finance and Industry 1931 (popularly known as 'the Macmillan Committee) stated in this connection that the main reason for expecting the banks to keep reserves above the minimum needed for daily convenience is no longer primarily the safety and solvency of the banks themselves, as it was in former times, but the necessity for providing the Central Institution with adequate resources wherewith to manage the monetary system and safely furnish the member institutions with precisely those conveniences for rapidly liquidating earning assets, upon which the latter depend when determining the amount of their cash reserves.[3] Thus the main aim in requiring the member banks to maintain minimum cash reserves

1. This is reproduced in an appendix to this chapter p. 163.
2. These provisions came into force from 1st July 1935.
3. The Report of the Committee on Finance and Industry 1931, p. 158.

with the Reserve Bank is to enable it, firstly, to operate in the direction of creating sound credit conditions in the country by exerting an influence on changes in the volume of bank credit, and secondly, to acquire for itself sufficient funds to carry out banking and credit policy effectively.

Again, to prevent competition with the Joint Stock Banks some provisions have been laid down, the most important of them being that the Reserve Bank can only accept deposits free of interest, that it cannot ordinarily grant advances directly to the public and that it cannot purchase commercial paper unless it bears the signature of a scheduled bank or a Provincial Apex Cooperative Bank. Hence all the bills of exchange which require to be discounted will have to be presented through a scheduled bank. Hitherto, as seen before, Joint Stock Banks did not make it a practice of discounting their bills with the Imperial Bank of India. Whenever they wanted funds, they preferred to take loans from the Imperial Bank of India on Government securities to offering their bills for rediscount with that bank. Because of this and other reasons the Joint Stock Banks did not invest any appreciable portion of their assets in commercial bills.

Although it has been laid down that before a bill can be rediscounted it must have been endorsed by a scheduled bank, the Act provides that under exceptional circumstances, it is open to the Reserve Bank directly to enter the market with a view to enforcing its policy either of contraction or of expansion of credit, and therefore, powers of conducting what are known as open market operations have been granted under the Act. Moreover, it has been often pointed out that while the deposit rates of banks in London follow the bank rate of the Bank of England within a definite margin automatically, in India, there is no such conformity between the two rates although the same causes which result in a change in the bank rate also affect the deposit rate. Close correspondence between the two rates, however, can be brought about only when the Money Market has been highly organized. With the Reserve Bank as its nerve centre the requisite control over the Joint Stock Banks and others can only be acquired by operating in the open market when the bank rate fails to control the situation.

EFFECT OF THE RESERVE BANK'S POLICY

Again, the volume of credit transactions of the Joint Stock Banks will be affected by the size of their balances with the Reserve Bank. Thus, if the Bank makes a loan to a customer (whether it be the Government or a private customer), and the recipient is a customer of a Joint Stock Bank with which he keeps a credit account, the effect will be to increase, first the deposits of the Joint Stock Bank and secondly, cash in hand and at the Bank. The Joint Stock Bank will, therefore, be in a position to increase its advances or discounted bills or investments. On the contrary, if the Bank, instead of increasing its transactions, diminishes them by a reverse movement, the effect will be to reduce the size of the Joint Stock Banking operations. Similar effects will follow when the Bank will make or call back loans and advances which it has been authorized to negotiate with the member banks. In this connection it may be noted here that the Reserve Bank has been authorized to accept promissory notes of a scheduled bank supported by documents of title to goods which have been transferred, assigned or pledged to any such bank as security for *bona fide* cash credit or overdraft. This will increase the balances of the Joint Stock Banks with the Reserve Bank and effects similar to those previously stated will follow. In times of crisis it has often been found that banks are not able to meet the demands made on them for want of liquid assets. This difficulty will be obviated by the above provision. It was seen in a previous chapter that in the crisis of 1913 many banks failed inspite of assets eventually sufficient to meet all creditors. If the Bank acts in the spirit in which the provision was made it may now be hoped that such crisis will occur very rarely.

OTHER IMPORTANT FACILITIES GRANTED BY THE RESERVE BANK : REDISCOUNTING OF BILLS

The rediscounting facilities that will be afforded by the Reserve Bank require to be specially emphasised. No bank will be prepared to buy or discount bills of its customers unless it feels confident that there exists an institution which will always be willing to buy or rediscount them even in periods of monetary stringency. In India, such a confidence can be

promoted by the Reserve Bank alone. Joint Stock Banks and others, when pressed for money, can dispose of the bills by taking them to the Reserve Bank, and thus increase their liquid resources. Another advantage of rediscounting will be that it will increase the lending power of the banks rediscounting the bills and give elasticity to the deposit currency when money conditions become tight. Rediscounting will increase the balances of the banks in the books of the Reserve Bank, and as the balances will constitute their reserve, they will be able to lend more readily to their customers on the basis of the increased margin. The Reserve Bank would not be a competing institution and as its normal business would be to act as a bankers' bank, the Joint Stock Banks could safely rediscount their bills with it.[1]

REMITTANCE FACILITIES

One of the essential services which the Joint Stock Banks are expected to render to the public is to transmit money from one centre to another quickly and economically. The rate charged for internal remittance by the Imperial Bank of India is one anna per cent. on sums above Rs. 10,000. In the case of telegraphic transfers the telegram charges are added. The Joint Stock Banks are allowed a concession rate of half an anna per cent. for sums of Rs. 10,000 and over for transfers of funds between their branches. Although on the face of it this charge appears to be reasonable, the cost of internal remittance in India at the present rates has been higher than in other countries. In Canada internal remittance is allowed free of cost by banks between places contiguous to one another, say within 300 or 400 miles and only a small charge is made if the distance is greater. The cost of internal remittance, is supposed to be an index of the efficiency of the organization of banking in a country. It is most essential that the inland remittance charges should be reduced as far as possible with a view to a better utilization of the resources of the country and a lowering of the rates of interest generally throughout the country. It is gratifying to know that the Reserve Bank of

1. See The Central Banking Enq. Comm, Vol. I, para 593.

India has been allowed to transfer money free of cost for scheduled banks. This will have, it is hoped, a good influence on the equalization of interest rates throughout the country. The Joint Stock Banks among others will benefit greatly from this service as the transfer of funds from the Head Office to their branches and vice versa will be rendered easier.

FACILITIES FOR THE EXTENSION OF BRANCHES

There is considerable scope, as will be seen in a later chapter, for the development of branch banking. The opening of a branch bank may not always be a remunerative business from the beginning and, therefore, the Central Banking Committee recommended that the Reserve Bank should place at the disposal of a new branch of a Joint Stock Bank in India at a centre where there is no Joint Stock Bank, for the first five years, a deposit of such sums on terms and conditions as it may consider necessary. Although this suggestion was put before the legislature when the Reserve Bank of India Act was being considered, it was rejected. But unless some such encouragement is given the branch banking activity of the Joint Stock Banks will not be speeded up.

The lack of an organic relation between the various constituents of the Money Market has hitherto handicapped to no small degree the economic development of the country. For, lack of unity in the Money Market has meant a lack of uniformity in interest rates which is most essential for an all-sided development. The Reserve Bank will meet with difficulties in pursuing an effective credit policy if the Indian Money Market were to continue in its present disorganized state. When the interest rates are not uniform, not only will the credit policy be ineffective, but also the reaction of the price level to changed circumstances will be slow and unnatural. And above all capital will not flow into the most productive channels with the same ease as it does in foreign countries. Hence one feels, and rightly so, that the creation of a Reserve Bank is not an end in itself. The object of its promotion is to establish sound conditions of trade internally and internationally. For these reasons it is necessary that organic relations based on sound principles should be formed not only with the Joint

Stock Banks but also with the rest of the Money Market. The country as a whole will benefit by the establishment of suitable links between the various parts of the Indian banking system. In the interest of the nation, therefore, the Reserve Bank should regard it as one of its primary functions to promote healthy relations between different banks and bankers.[1]

II. JOINT STOCK BANKS AND THE IMPERIAL BANK OF INDIA

Since its establishment in 1921 the Imperial Bank of India acted as the sole banker to Government. It was the custodian of Government funds and was managing the Treasury work free of charge. It also managed the public debt of the Government of India. Moreover, it acted as the bankers' bank and most of the leading banks in India, including the Exchange Banks usually kept a portion of their cash balances on deposit with it. In addition, it provided clearing house facilities in eleven principal cities of India. Now these services have been transferred to the Reserve Bank of India, which has been entrusted with all the central banking functions.

In studying the relations of the Joint Stock Banks with the Imperial Bank of India it is essential to note that it transacted the general banking business like all other commercial banks. It received fixed, savings and current deposits. The other services rendered by the Bank were accepting securities for safe custody; the buying and selling of gold and silver bullion; transacting agency business on commission; the drawing, accepting, selling and discounting bills of exchange payable outside India for, and from or to such banks as may be approved; the issuing of letters of credit and bank post-bills payable in India and Ceylon. Further, the Imperial Bank financed agriculture through the cooperative societies. It also financed internal trade to a great extent. Some of the big industrial companies were also financed by it so far as their current needs for circulating capital were concerned. Very recently the Bank undertook to finance big landlords on personal security with sureties on the security of produce or gold.[2]

1. In this connection mention may be made of the recent efforts of the Reserve Bank to link the indigenous bankers with the Indian banking system.

2. See Bombay Banking Enq. Comm., para 93.

Having regard to all these functions which do not generally belong to a bankers' bank but which affect the business of the other Joint Stock Banks, one may be justified in concluding that the competition between the Imperial Bank and other Joint Stock Banks was too powerful to allow a healthy growth of the latter type of banks. Although the Imperial Bank was expanding its usefulness by trying to bring modern banking facilities within easy reach by opening numerous branches in the interior of the country, the Joint Stock Banks bitterly complained about the resulting competition and suggested that restrictions should be placed on the opening of new branches at places where there were already other Joint Stock Banks operating. As pointed out before the Joint Stock Banks did not sufficiently avail themselves of the discounting facilities provided by the Imperial Bank because it was a competing commercial bank. Although the general public benefited by this competition the field for expansion of the Joint Stock Banks was thus narrowed.

The Central Banking Committee, however, took the view that although the position of the Imperial Bank of India as bankers to Government gave it an advantage over the Indian Joint Stock Banks, its competition with them was not acute. There was no competition as regards the borrowing rates and that in regard to lending rates it was beneficial to the public. There was a general scaling down of interest charges for local trade. Similarly, the branches were instrumental in providing facilities for remittance and assisting in the easy flow of money from one centre to another as the exigencies of trade required. In the opinion of the Committee, therefore, it was not advisable in the larger interests of the country to place any definite restrictions on the branch activities of the Imperial Bank of India.

With the establishment of the Reserve Bank of India the Imperial Bank has been relieved of its work as the Government banker and as the bankers' bank. It remains of course the premier Indian Joint Stock Bank. Under an agreement with the Reserve Bank, as previously stated, the Imperial Bank will be the sole agent of the Reserve Bank at all places in British India where, at the commencement of the Reserve Bank Act,

there is a branch of the Imperial Bank and no branch of the Reserve Bank. In consideration of the performance by the Imperial Bank it will receive, as shown before, from the Reserve Bank commission on the total of receipts and disbursements dealt with annually. In addition, the Reserve Bank will pay the Imperial Bank Rs. 9, 6, and 4 lakhs per annum during the first, second and third period of 5 years respectively subject to the condition that the Imperial Bank keeps open branches not less in number than those existing at the time of the commencement of the Reserve Bank Act.

From this the conclusion may be drawn that with these new concessions the Imperial Bank will still remain a competitor to other Joint Stock Banks. Although this may be true, the privileged position of the Imperial Bank does not give it the advantages it is supposed to derive. In nearly one-half of the places where the Imperial Bank has branches there are no banking offices at all and hence there cannot be any competition. The question of competition, therefore, arises only in those places in which there are branches of the Imperial Bank and other banking offices side by side. There the Joint Stock Banks have lost it must be admitted, their semi-monopoly and the general interest rates have come down and correspondingly the business community has benefited. Again, the advantage which it derives from the agency business of the Reserve Bank is largely offset by the special restrictions which have been imposed on its working. It has already lost the free use of Government balances. In addition it will have to keep open some of its branches whether or not they are paying. On the whole, the relations between the Imperial Bank and other banks appear to be now placed on a fair footing.

III. JOINT STOCK BANKS AND THE EXCHANGE BANKS

The main business of the Exchange Banks is to finance the foreign trade of India. The Imperial Bank was so far prevented by law from dealing in bills of exchange payable outside India and was allowed to make remittance outside India only for the *bona fide* personal needs of its customers. After the establishment of the Reserve Bank the Imperial Bank has been permitted to deal in foreign exchange. The Indian

Joint Stock Banks are not prevented by law from taking to this business. But only a few of them, now defunct, such as the Alliance Bank of Simla and the Tata Industrial Bank, did engage in it to any substantial extent. At present the Central Bank of India undertakes this to some extent through the newly started Central Exchange Bank, London. As a consequence this type of business has become virtually a monopoly of the Exchange Banks.

As regards internal finance, in the case of exports, the Imperial Bank of India, the Indian Joint Stock Banks and the indigenous bankers take part in the financing of the movement of the produce from the collecting centres to the ports. As regards imports, the movement of imported goods from the importing point to the distributing centres in India is generally financed by commission agents, shroffs and the Indian Joint Stock Banks. If the Exchange Banks had restricted their activities to the port centres no serious complaint would have been raised against them. But in recent years Exchange Banks have opened branches at several inland centres like Amritsar and Cawnpore. It has been suggested by many persons that these banks with cheaper deposits received from Indians themselves at these centres offer unfair competition to Indian Joint Stock Banks. As seen in a previous chapter, the total deposits of these banks have increased enormously in recent years which bears testimony to this complaint. At present the Indian Joint Stock Banks have to pay higher rates of interest than the Exchange Banks on deposits taken from the public; and the complaint is that the Exchange Banks through the facility of cheaper money available to them quote lower lending rates when financing inland trade to the detriment of the Indian Joint Stock Banks. But the Central Banking Committee found that the position of the Joint Stock Banks was satisfactory as there has practically been no change in the respective proportions of banking deposits of the Imperial Bank of India, the Indian Joint Stock Banks and the Exchange Banks during the last ten years and that as compared with the pre-war year 1913, the share of the Exchange Banks has not shown any increase. It has been suggested, however, that if it appears at some subsequent date that Indian banking de-

posits are going into the hands of these banks to a greater extent than at present steps may be taken to check such a development. More light has been thrown on this by Mr. Manu Subhedar who estimated that the funds devoted by the Exchange Banks to the financing of internal trade were almost equal to those which the Imperial Bank and the Indian Joint Stock Banks used for the same purpose and that inspite of the fact that the Exchange Banks obtained large deposits in India at low rates and rediscounted their bills in the London market at still lower rates, the exporters and importers in India had to pay higher rates for financial accommodation than their fellows in most Western countries.[1]

Arguing on this point the Managing Governor of the Imperial Bank of India remarked in his evidence before the Central Banking Committee[2] that the result of placing restrictions on the activities of the Exchange Banks would be that they would have to transfer funds borrowed in other countries or borrow from the Imperial Bank of India to replace the Indian deposits which now they have to the extent required for their exchange business. Exchange operations would be hampered considerably and there will be a rise in the exchange margins because of the higher cost of funds. Inasmuch as foreign funds were brought in, the interest on them would leave the country.

Further, there would be an immediate loss to the Indian Joint Stock Banks on their holdings of the securities since they would depreciate when the Exchange Banks were compelled to realise them in order to pay back the deposits in India if they were asked to return their deposits.

Although it may be accepted that the time for placing such drastic restrictions on the Exchange Banks receiving deposits in India has not yet come, immediate action seems to be necessary in other directions. In every country that has a well organized banking system, import bills are drawn in the currency of the country on which these bills are drawn and after being accepted by the drawees are available for discount

1. See Minority Report to the Central Banking Enq. Comm., pp. 188, 215.
2. Cf. Central Banking Enq. Com. Rep. Vol. I, paras 455, 466.

in the discount market of the importing country. These bills are a profitable and safe investment as they are on a D. P. basis and have the signature of the drawers and the acceptance of the drawees on them. As the entire foreign trade of India is financed by the Exchange Banks, the import bills are drawn in sterling in the case of imports from Europe and the U. S. A. and in Yens in the case of those from Japan. The Exchange Banks earn on them at 5 per cent. at least for a period of 2 or 3 months. But being drawn in foreign currency, they are rendered useless for the Money Market in India and are not available to the Indian Joint Stock Banks for investment. They are thus an exclusive monopoly of the Exchange Banks. Had it not been for the strong position of the Exchange Banks the change of the import bills from a sterling basis to a rupee basis would have been, as recommeded by the Central Banking Committee, effected long ago. The Reserve Bank of India Act in anticipation of the development in this direction authorises the Reserve Bank to discount bills drawn on India. But until active steps are taken in this direction, the Indian Joint Stock Banks will be compelled to confine their activities to the financing of internal trade.

On the whole it seems that the criticism that is levelled against the foreign banks that by their competition they render the normal development of national banking institutions more difficult is to some extent justified. The Foreign Experts have admitted in their memorandum that it can scarcely be denied that the Exchange Banks because of their resources and experience are strong competitors. At the same time they have expressed their concern as to whether or not Indian banks could replace the foreign banks considering the large capital and international connections of the latter.[1] But here the question is one of preventing unfair competition. Mr. Subhedar and Mr. Sarkar, therefore, suggested certain terms of license for the Exchange Banks. They are that firstly, the Exchange Banks should be made to bring 50 per cent. of their working capital from abroad, that they should be allowed to receive deposits from Indians only to the extent of the funds that they need for financing the foreign trade in Indian hands, that

1. See The Report of the Central Banking Enq. Comm., Vol. I., p. 646.

they should be made to pay a special tax of one-half per cent. on all fixed deposits received in India[1], that they should be allowed to receive Indian deposits only if they get themselves registered in India with rupee capital and Indian directorate, or that they should be prohibited from receiving deposits in India from Indian firms, companies and individuals. Secondly, Exchange Banks should be prohibited from having any branches in the country except in port towns. Thirdly, they should not be permitted to obtain a controlling interest, directly or indirectly in any Indian bank. Fourthly, they should be prohibited from engaging in trustee business in India, as it would place Indian money in their hands. Fifthly, they should be required to pay full income-tax on their profits earned in India. And lastly, they should be prohibited from forming a ring, pool or combination, or making a working arrangement with any other bank or person, for the purpose of framing business rules, or imposing charges on their Indian customers, or any other object affecting these customers, without the express sanction of the licensing authority. Licensing of foreign Exchange Banks would facilitate the work of the Reserve Bank in the matter of collecting full banking information and statistics regarding their business.

The imposition of at least some of the less drastic among these restrictions would create an additional opening for the Indian banking enterprise. Although in the beginning the Joint Stock Banks would not be prepared to undertake the risky exchange business it would be preferable to have at least a few Indian exchange banks worked solely by Indians and paying heed solely to Indian interests. The Central Banking Committee, after a careful review of the position and of the small share taken by Indians both in carrying on the business of her import and export trade and in the provision of banking facilities for such trade, came to the definite conclusion that it was not desirable that India should rely for all the time on the facilities afforded by non-Indian institutions for the financing of her foreign trade. The financing of foreign trade is, however, international, and in so far as it involves a cooperation

1. See Mr. Shroff's answers, the Central Banking Enq. Comm., Evidence Vol. III, pp. 177-8.

between two countries, there will always be a considerable foreign element in it. But to secure for India her legitimate share in the field of banking and trade, it is necessary to take action in more than one direction. As suggested before, such of the Indian Joint Stock Banks as are well established should open foreign connections useful to their clients. The Imperial Bank of India and the Central Bank have already started dealing in foreign exchange and this lead given by them should be followed by other leading Joint Stock Banks like the Bank of India, or the Punjab National Bank. The German banks under similar conditions adopted the same method and it has much to commend itself as it obviates the necessity of opening full-fledged foreign branches at greater cost. In the second place it has been suggested that the Imperial Bank, now that it has taken up the business of foreign exchange, should take an active share in the financing of India's foreign trade. The agency business which it transacts for some of the Exchange Banks, the amount of inland trade finance connected with foreign exports and imports which passes through its hands even at present and the wide area of operations will facilitate the new venture.[1]

1. See The Report of the Central Banking Enq. Comm., paras 481–83.

In this connection the Central Banking Committee recommended that if the Imperial Bank were unable to participate actively in the financing of India's foreign trade, Government should take steps to secure the establishment of an Indian Exchange Bank. The starting of such a bank, however, was to be conditional on the nonfulfilment by the Imperial Bank of India of Indian aspirations in the field of foreign trade finance. The Indian Exchange Bank was to be started if the participation of the Imperial Bank in the financing of foreign trade had been tried and found wanting. A detailed scheme was prepared by the committee. (Ibid, paras 485-489).

THE SECOND SCHEDULE
TO THE
RESERVE BANK OF INDIA ACT 1934.

SCHEDULED BANKS

Ajodhia Bank, Fyzabad.
Allahabad Bank.
American Express Company Incorporated.
Banco National Ultramarino.
Bangalore Bank.
Bank of Baroda.
Bank of Bihar.
Bank of Chettinad, Madras.
Bank of Hindustan, Madras.
Bank of India, Bombay.
Bank of Mysore.
Bank of Taiwan.
Bank of Upper Burma.
Benares Bank.
Bengal Central Bank.
Bhagwan Das & Co., Dehra Dun.
Canara Bank.
Central Bank of India.
Chartered Bank of India, Australia and China.
Comptoir National d'Escompte de Paris.
Eastern Bank.
Grindlay and Company.
Hongkong and Shanghai Banking Corporation.
Imperial Bank of India.
Imperial Bank of Persia.
Indian Bank, Madras.
Industrial Bank of Western India, Ahmedabad.
Jalpaiguri Banking and Trading Corporation.
Karnani Industrial Bank.
Lloyds Bank.
Mercantile Bank of India.
Mitsui Bank, Bombay.
Muffassil Bank, Gorakhpur.
National Bank of India.
National City Bank of New York.
Nederlandsche Indische Handels Bank.
Nederlandsche Handel-Maatschappij.
Nedungadi Bank, Calicut.
Oudh Commercial Bank.
Peoples' Bank of Northern India.
P. and O. Banking Corporation.
Punjab Co-operative Bank, Amritsar.
Punjab and Sind Bank, Amritsar.
Punjab National Bank, Lahore.
Simla Banking and Industrial Company.
Thomas Cook and Sons.
Travancore National Bank, Tiruvalla.
Union Bank of India, Bombay.
U. Rai Gyaw Thoo and Co., Akyab.
Yokohama Specie Bank.

CHAPTER IX

JOINT STOCK BANKS AND THE MONEY MARKET
(Continued)

(B) IV. JOINT STOCK BANKS AND THE COOPERATIVE BANKS

The Cooperative Credit Movement was officially launched in India by the passing of the Act of 1904. In the period of its infancy it was entirely confined to the provision of credit, but by the passing of the amending Act of 1912 provision was made for the registration of central institutions, like Central and Provincial Cooperative Banks, that were needed for financing and controlling the primary credit societies and also for non-credit societies dealing with production, sale, purchase, insurance etc. Inspite of the encouragement given by the Act, the preponderating element in Indian cooperation is still credit. The cooperative credit structure consists of three kinds of institutions the primary societies, the Central Banks, and the Provincial Banks. In studying their relations with the Joint Stock Banks we are mainly concerned with the Central Banks and the Provincial Banks and to some extent the Urban Banks as the primary societies have no contact with credit agencies other than cooperative.

THE CENTRAL COOPERATIVE BANKS AND THE PROVINCIAL BANKS

The cooperative primary societies in a specified area are federated into a central society which has a number of individual shareholders as its members. It is called a ' Central Bank. ' These banks finance the primary credit societies and also act as balancing centres to them. In addition, they transact commercial banking business to some extent. Their resources consist of their own capital, deposits of various kinds, such as

fixed, current, recurring and prudent; provident and savings deposits; overdrafts and short-term loans from the Imperial Bank of India and some Joint Stock Banks; and loans and advances made by the Provincial Bank and sometimes by other Central Banks. The dividend paid by them is restricted by statutory rules, and does not generally exceed 9 per cent.[1]

The Central Banks have in their turn federated themselves into higher central societies called apex banks or Provincial Banks which usually admit a large number of individual shareholders. These banks are able to collect the funds required for the movement by means of deposits at fairly cheap rates of interest. The Provincial Banks, like Central Banks to primary societies, act as financing agencies and balancing centres to the Central Banks. They obtain their funds much in the same way as the Central Banks do. The Provincial Banks thus establish contact between the primary credit societies in the rural areas and the Provincial Money Markets and make the funds belonging to the latter available to the former. The Imperial Bank and in certain provinces Joint Stock Banks allow these banks the facilities of cash credit and overdraft borrowing. They also get short-term money and call-money from many commercial banks. The Provincial and Central Banks, however, keep small current accounts with the Imperial Bank of India and some Central Banks have similar arrangements with other Joint Stock Banks.[2]

As regards the relations of cooperative banks with Joint Stock Banks, it appears that no serious complaints have been made by Joint Stock Banks of unfair competition. In fact, their respective spheres of activity are so widely apart that there does not exist at present much scope for a close competition between them. There is, however, a growing feeling among the Joint Stock Banks, including the Imperial Bank of India, that the cooperative banks contrary to their expectations, are beginning to compete with them in spheres of banking which are outside cooperation, *e.g.*, opening current accounts, purchasing drafts

1. The Central Banking Enq. Comm. Vol. I, para 157.
2. Ibid, paras, 158 and 573.

and selling remittance, etc. In the matter of deposits particularly, they feel that the cooperative banks, with the Government assistance, concessions and prestige, are competing unfairly. The Provincial Committees enquired into this aspect of the problem and from the figures about deposit rates supplied by them, the Central Banking Committee did not think that the allegation of unfair competition was well founded. Moreover, at present the amount of deposits which the Central Banks accept is limited. The rates of interest offered by them also are not likely to be higher than the lending rate of the Provincial Banks which is mostly 6 per cent., for it will not be wise to attract dearer local money when cheaper money can be had from the Provincial Banks. It may, therefore, be safely concluded that generally speaking there could be no serious competition in the present conditions between them and the Joint Stock Banks many of which confine their activities largely to big towns and commercial centres.

But there is one direction in which there is some scope for competition which is bound to grow in future. It is in the matter of produce loans. It has not so far reached an acute stage; but in future this is bound to undermine the lending business of other institutions so far as it relates to loans against produce. But taking a long view of things, it sounds reasonable that the extension of the coope ative activity in this sphere will be for the ultimate good of the ultivator to whom it will bring with more certainty and in a mu h larger measure the profits of agriculture.[1]

The Managing Governor of the Imperial Bank suggested to the Central Banking Committee that cooperative banks should confine their activities to cooperative banking and should not be allowed to compete in other forms of banking with Joint Stock Banks and other commercial banks. They do not compete to any great extent at present but the competition will become acute if the cooperative banks, as desired by a considerable body of opinion undertake all forms of banking. After considering the pros and cons fully, the Central Banking Committee

1. See Madras Banking Enq. Comm., para 359, and the Central Banking Enq. Comm. para 185.

did not see any reason as to why the cooperative institutions should not be allowed transactions by cheque and granting of credits on current accounts wherever possible. In the opinion of the Assam Committee, Central and Provincial Banks should utilise the services of the larger Joint Stock Banks by depositing with them funds for which they have no immediate need, and the latter should lend funds to the former during the slack season. This suggestion has been supported by the Central Banking Committee.

COOPERATIVE URBAN BANKS

It is commonly known that men belonging to the middle class and desiring to undertake some business need credit for making a start. Similarly, small traders and petty shopkeepers need it from day to day for carrying on their operations. Small contractors whose resources are limited also require money for carrying out their contracts. In addition, salaried servants require credit for the acquisition of 'cottages' or small houses and for special domestic expenditure incidental to births, marriages, deaths, sickness and unemployment. All of them have to obtain it, in the absence of a convenient method, from private sources like the money-lenders, and have to pay them high rates of interest, especially if the security offered is personal.

The Provincial and Central Banking Committees and the Foreign Experts expressed the opinion that cooperative credit societies of the Schultze-Delitzsch type, popularly known as Urban Banks, are the most suitable credit agencies for all these non-agriculturists. The scope for, and the need of, cooperative urban banking are much greater in India than in Western countries, as the only form of organized banking that can be established in taluka and smaller towns is the cooperative bank, owing to the difficulty of establishing branches of the Imperial Bank or Joint Stock Banks in such places and making them pay their own way.[1] At present the number of Urban Banks in the country is small, *viz.*, 3,760 with 675,000 members. The above authorities, therefore, thought it desirable that a larger number of Urban Banks should be established

1. See Bombay and Punjab Comm. Rep., pp. 164 and 104 respectively.

wherever favourable conditions exist, and that they should endeavour to do for the non-agriculturists what the commercial banks have been doing for the larger traders and business men.

RELATION BETWEEN THE COOPERATIVE BANKS AND THE IMPERIAL BANK

The various Provincial and Central Cooperative Banks get cash credit and overdraft facilities from the Imperial Bank of India amounting to about Rs. 2 to 3 crores against Government and other authorized securities, and demand promissory notes of borrowers and the credit societies. It transpires, however, that of late the Bank has shown its unwillingness to give them such help to the same extent as it used to do in the past. But it is prepared to continue the help against the societies' pro-notes for the purpose of short-term agricultural loans only. Its contention for this change in the attitude is that the cooperative banks regard the overdraft facilities from the Bank as their cash in case of need, and that although, owing to the small use of these facilities by the banks in ordinary times, its profit from this source is small, it has always to be ready to meet their demands for funds. The Bank has, therefore, suggested that the pro-notes should be substituted by Government securities if the help is needed for the purpose of the liquid resources of the banks. Another objection of the Imperial Bank in the same connection is that the security offered by the societies is not first class, and hence always a source of uneasiness because many societies are suffering from the effects of excessive overdues, and inefficient audit and control.

Cooperators in reply contend that (a) the pro-notes offered by the societies are sound security, as they are supported by the joint and unlimited liability of the members; (b) the pro-notes only of sound societies and of short maturity are made available to the Imperial Bank; (c) the Imperial Bank allows cash credits and overdrafts only under very stringent conditions; (d) there has yet been no default or delay in the repayment of cash credits and overdrafts obtained from it; (e) as it used to get the free use of large Government balances, it was morally bound to give substantial help to the cooperative movement;

and (f) if the cooperative organization is itself to build up its own fluid resources, the cost of maintaining these resources will increase and, therefore, it will either have to increase the rates charged to the agricultural borrowers, or will at least have to abandon its efforts to lower these rates.

The Central Banking Committee and some Provincial Committees stressed the great importance of the Imperial Bank liberally giving cash credit and overdraft facilities to the Provincial and Central Banks on sound cooperative paper which fulfilled the required standard. The Imperial Bank has expressed its desire to deal with the matter sympathetically. if the paper of sound societies only belonging to class A is offered to it as security.

On the whole, it seems, the relations of the Joint Stock and Cooperative Banks are not altogether very cordial, and attempts must be made to bring about a closer connection between the two. In order that a well poised and consolidated cooperative credit movement should thrive in India full assistance of the Government and other banks is quite necessary.

V. JOINT STOCK BANKS AND THE LAND MORTGAGE BANKS

The total amount of agrarian debt for the whole of British India was estimated in the neighbourhood of Rs. 900 crores by the Central Banking Commitee. Since then, we have every reason to believe that the burden of the debt has still further increased especially in view of the fall in prices. But even taking the figure of Rs. 900 crores and assuming a really moderate rate of interest of 10 per cent., the total interest charges per year amount to Rs. 90 crores. That in itself shows the magnitude of the burden under which the agricultural population is labouring.

Every civilized country in the world has realised the gravity of the agricultural situation and is devising measures to help the farmer in his difficulties. Even in Great Britain agricultural problems are receiving serious attention of the Government. In India although several measures—such as Tagavi loans, Cooperative Credit etc.—were adopted long ago, no adequate action was taken until recently in the direction of

supplying long-term credit through Land Mortgage Banks, whose establishment for redemption of old debts and land improvement, was strongly recommended by the Agricultural Commission and the Central and Provincial Banking Enquiry Committees.

The Government of Bombay recently appointed a Committee under the Chairmanship of Mr. K. L. Punjabi, I.C.S., Registrar of Cooperative Societies. On the recommendation of this Committee, the Bombay Government decided to start 15 Land Mortgage Banks out of which 13 have already been established. The work of organizing a chain of such banks is thus going on apace and may be completed very shortly. Their working is controlled by the Bombay Provincial Land Mortgage Bank, which will try to effect conciliation through District Boards of Directors. The interest and principal of its bonds are guaranteed by the Government of Bombay. Similar action has been taken in Punjab, Madras and Bengal.

The main functions of the Provincial Bank will be to finance the primary Mortgage Banks by issuing debentures, inspect their working and give them advice and help. It will issue debentures at par with interest coupons for periods not exceeding 25 years. In the last (1935) Budget Session, the Bombay Legislative Council passed a resolution authorising Government to guarantee both the principal and interest of the debentures to be issued by the Bank to the extent of Rs. 50 lakhs. Government have, however, provisionally sanctioned the issue of debentures to the extent of Rs. 10 lakhs only. These debentures are now declared to be Trustee Securities and altogether should prove to be a popular line of investment.

From the point of investment, commercial banks generally do not look upon long-term securities very favourably. As the debentures of the Provincial Banks have been declared to possess the status of trustee securities, it may be hoped that the Joint Stock Banks will invest some of their funds in them.

VI. JOINT STOCK BANKS AND THE INDIGENOUS BANKERS

In a preceding chapter we have explained what is meant by the terms ' indigenous bankers ' and ' money-lenders, ' Be-

fore inquiring into their relations with the Joint Stock Banks we will briefly survey the nature and the extent of their business.

Taking the money-lender first, his main function, generally speaking, is to give advances on mutual trust without a document or even a witness. When the amount is large loans are made on promissory notes. Loans are also granted on mortgages of land, houses, ornaments and, on rare occasions, of cattle. His advances to the cultivator are both in cash and kind according to his requirements.

An indigenous banker, in addition to carrying on the operations of a money-lender, receives deposits either on current account or for fixed terms. He also draws and accepts hundies. He finances agriculture through the agency of local sowcars and money-lenders. He plays an important part in financing trade and industry but in doing so he does a good deal of general banking business which is carried on by Joint Stock Banks, such as buying and selling remittance, discounting hundies, and advancing loans against stock in trade. A few indigenous bankers issue cheque books, but such cheques have only a restricted local circulation.[1] Both the indigenous bankers and the money-lenders generally carry on other forms of business such as commission agency and trading.

To a very great extent the money-lenders depend for money on their own funds and in case of need or emergency they borrow from fellow-money-lenders. There is no regular connection between them and either the Joint Stock Banks or the indigenous bankers in the towns. The business of the money-lenders has declined in recent years due to several causes. But this decline is regrettable because they still constitute an important factor of the country's rural economy. If the proposal of licensing indigenous bankers, as stated later on, is thought to be proper, there is no reason why selected money lenders also should not be licensed and entrusted with the agency functions of Joint Stock Banks such as accepting deposits, and making remittances and payments. After a short period of transition during which the methods of modern banking

1. See The Central Banking Enq., Comm. Rep., para 127.

will become known to them, they might serve as regular branches of the banks on the German 'Kommandit' system. To some extent this will solve the problem of branch banking which is beset with many difficulties because of the large number of villages in India.

As regards the indigenous bankers, generally speaking, there is no permanent and regular link between them and either the Imperial Bank of India or the Joint Stock Banks. In Bombay, however, indigenous bankers whose names are on the approved lists of the Joint Stock Banks, including the Imperial Bank of India, get advances from these banks upto certain limits assigned to each. Banks also make advances against hundies endorsed by a shroff on their approved list. During the busy season when the supply of hundies exceeds the capacity of shroffs, a temporary link is established between the Imperial Bank of India and the Joint Stock Banks on the one hand, and selected shroffs on the other, who are on the approved list of these banks. In Bengal, the indigenous bankers of good standing take advantage of the rediscounting facilities offered by the Imperial Bank, the Joint Stock Banks and in some cases by Exchange Banks. In Assam, the indigenous bankers have practically very few dealings with the Joint Stock Banks, nor do they use the branches of the Imperial Bank of India to any great extent. The Imperial Bank and the Joint Stock Banks make advances to Chettiyars in Rangoon in the form of loans and overdrafts, on the security of Government paper and on promissory notes payable on demand. In the United Provinces the accommodation which the indigenous bankers receive from Joint Stock Banks is neither free nor regular, but is sought occasionally and only in the last resort when the banker's own funds are exhausted and other bankers give no further credit. This is explained by the fact that banks find it difficult to assess their true financial position as the indigenous bankers refuse to disclose their accounts or publish a balance-sheet. The position of indigenous bankers in Delhi is more satisfactory as they discount about 25 per cent. of muddati hundis (usance bills) with the Indian Joint Stock Banks including the Imperial Bank of India, and keep deposits with them when the market rate of interest is low. Here they get in times of need more

credit from the Indian Joint Stock Banks than from the Imperial Bank.[1]

In respect of remittance facilities hitherto the Imperial Bank has offered the indigenous bankers the same terms as the general public. But the concessional rates that are extended to the Joint Stock Banks are not given to the indigenous bankers as they do not keep any balances with the Imperial Bank and on the whole transact much less business with it than the Joint Stock Banks do.

Thus, the general impression is that the indigenous bankers do not get from the Imperial Bank and the Joint Stock Banks the recognition due to them as bankers who finance and control the bulk of the trade and industry of the country. The cheques drawn on these bankers or crossed in their name have been often refused by these banks. The indigenous bankers have on several occasions expressed their resentment about the manner in which inquiries about their credit position are made in the bazaars. They have further pointed out that the banks occasionally treat with little sympathy applications for accommodation made by even the established indigenous banking firms and insist too rigidly on the observation of formalities. Thus the gulf that separates the Joint Stock Banks from indigenous bankers will go on even widening unless a system of cooperation is evolved. Until this is done it would be difficult to develop an open market for discounts and the prospects of evolving a coordinated credit policy would be as remote as ever. Whatever might be the prejudices against the indigenous banking as such, there can be no difference of opinion as to the desirability of recognising, preserving and developing the indigenous system and adapting it to present-day conditions so as to make it a part of a national credit system.[2] It is necessary to take an early action in the interests of agriculture, trade and industry of the country. It must be remembered that out of 2500 towns in India, Joint Stock Banks and their branches exist in less than 400 places, and for banking facilities elsewhere agriculturists, traders, merchants and small industrialists have

1. The Central Banking Comm. Rep., paras 132, 133.
2. See Bombay Committee, paras, 264, 265.

to depend largely on indigenous bankers and money-lenders who, as previously observed supply ninety per cent. of the banking needs of the country. In many provinces, even at those places where Joint Stock Banking facilities are available, the indigenous bankers continue to render valuable service in connection with the financing of internal trade and middle sized and small industries and inland remittance work. Thus the financial requirements of a very large section of the community are supplied by indigenous bankers. A study of the growth of Joint Stock Banks in India leaves no doubt about the fact that it will be a long time before India will have a widespread network of Joint Stock Banks or branches of such banks in the vast rural areas of the country. From the progress made by cooperative banks in India it may be hoped that to some extent they will be able to replace the indigenous bankers. But it is futile to expect that they can entirely eliminate them from the field. For a long time to come the services of the indigenous bankers will be of the greatest importance and with that end in view, in the interests of both the general public and the indigenous bankers themselves, steps should be devised to strengthen their link with the Money Market and thus utilise their knowledge, experience and resources for the development of the machinery of credit.

Hence, it is necessary that attempts should be made to develop cordial relations between the indigenous bankers and the Joint Stock Banks. The latter (in addition to the Reserve Bank[1]) should place on their approved list such of the in-

1. The Reserve Bank of India recently announced the terms on which it is prepared to link the indigenous bankers to the Bank. They are :

(1) The indigenous bankers should become self-contained legal entities with reasonable resources of their own, such resources in the opinion of the Reserve Bank being at least equal to those stipulated for scheduled banks.

(2) They would have to maintain separate and properly audited accounts of their banking business with proper legal provision for the segregation of any other business which they might be conducting, so that liabilities incurred in respect of the latter would not affect their credit in respect of their banking business.

(3) Like Joint Stock Banks they should make proper arrangements to ensure proper publicity of their transaction, particularly with reference to their balance-sheets and accounts.

(4) For the purpose of control, they would also have to maintain the same deposits with the Reserve Bank as scheduled banks.

digenous bankers who are pursuing banking proper and give them in future banking facilities more liberally. They should especially discount their bills more freely. Further these bankers may be employed as agents for the collection of bills and cheques. The indigenous bankers on the other hand should themselves take the initiative in this matter and modernise their methods so as to make them conform more and more to those of Joint Stock Banks in respect of accounts and audit, use of bills and cheques, prompt receipt and payment of money, and in general conduct their operations strictly according to legal requirements as this will help them to occupy a position of importance in the Indian banking system. The reports of the Provincial Banking Committees show that the indigenous bankers, inspite of their conservatism, are not averse to modifications of their methods and practices if they are properly convinced that such modifications are practicable and at the same time beneficial. It is also necessary for the indigenous bankers to organize themselves and strengthen existing Associations and form new ones for taking concerted action. Thus, when the business methods of the Joint Stock Banks and indigenous bankers are assimilated, it will not be long before the gulf that exists between them at present will be bridged over and the suspicion of unfair or unsympathetic treatment, which is entertained by the latter, removed. It has also been suggested that local advisory committees consisting of the leading indigenous bankers should be appointed by the boards of directors of Joint Stock Banks at centres where they have branches, in order to assure the indigenous bankers that their applications for financial assistance would receive due consideration from the Joint Stock Banks, and to help the banks to assess their financial position. This will facilitate the exchange of views and the ventilation of grievances, and bring about a rapprochement between the two banking systems.

Another suggestion that received the serious consideration of the Central Banking Committee is about the introduction of the ' Kommandit ' principle already referred to in connection with the reform of money-lenders. Under this principle the bank may enter into a partnership with the indigenous banker. Thus, instead of opening a branch, the bank becomes

the financing partner of a registered indigenous banker whose advantages of unlimited liability and local knowledge are retained without involving the bank in the expense and heavy liabilities of a new branch. If this reform is carried out there are considerable possibilities of mutual benefit for both Joint Stock Banks and their indigenous agencies, as well as benefit to the trading community as a whole by the provision of improved banking facilities.[1]

VII. JOINT STOCK BANKS AND THE MONEY MARKET AS A WHOLE

On the whole, the relations of the Joint Stock Banks with the rest of the Money Market leave much to be desired. Closer relations conceived on sound lines must be encouraged so as to stimulate their progress and expand the field of general banking in India. We have seen that they have to face the competition of a number of banks, particularly the Exchange Banks which have been trying to appropriate a large part of the deposits in the country and internal banking business at the important trade centres. Even amongst themselves the Joint Stock Banks have shown a lack of *esprit de corps* and have suffered from mutual jealousies. The Imperial Bank was, and is still looked upon by the other Joint Stock Banks as their serious rival. It is regrettable that they have shown no inclination to form associations to consider matters of common interest and to decide upon the lines of cooperation for improving banking standards. If unity could be brought about amongst the various Joint Stock Banks it will be possible to take uniform action to develop happy relations with other banking institutions. In the absence of coherence amongst all the units of the Money Market the progress of banking in India will be impeded with harmful results to the prosperity of the country as a whole.

1. See The Central Banking Enq. Comm., para 146.

CHAPTER X

THE JOINT STOCK BANKS AND THE FINANCING OF AGRICULTURE AND INDUSTRIES

Generally banks of one type or the other play an important part in the financing of agriculture and industries of a country. In Australia there are State Banks whose main object is to make advances to rural producers. In Canada Land Banks or Farm Loan Boards have been established for providing long-term loans to settlers and farmers.[1] Similar facilities have been provided in Austria, Denmark, Holland and several other agricultural countries. In India, the problem of rural finance assumes a special importance as the proportion of the population living on agriculture is very large. The first thing that strikes any one studying rural finance is the extreme economic weakness of the Indian agriculturist. Hence the rural credit movement has once again assumed importance in recent years and attempts are being made to make a special provision for financing of rural industries. As in every other country, the cultivator in India needs from time to time some capital either for carrying out permanent improvements or for the purchase of more expensive implements or for current requirements. This capital required by the agriculturists is provided by various agencies like the cooperative banks, the Government, the Joint Stock Banks, the indigenous bankers and others. In this chapter it is proposed to study what part the Joint Stock Banks play in this connection and make a few suggestions as to how they can interest themselves more actively in the problem of rural finance.

The relation between banks and industries will also demand our attention in this chapter. Modern industrial enterprise has made a considerable progress in India in the last fifty years

1. See Parker-Willis, Foreign Banking Systems, p. 318.

and in future the field of industrial activity, it may be expected, may go on widening. Agriculture, as stated above, has been, and may remain for a long time to come, the mainstay of the Indian population. But India cannot afford to continue to depend on agriculture alone for maintaining the bulk of her people if she is to attain a decent standard of living. She must strive her best to build up industries which will open new avenues and create additional employment. The problem, therefore, of providing an elastic system of industrial finance, adequate for the purpose is all the more important. As will be seen a little later the German Joint Stock Banks have played in the past a magnificient part in providing industrial finance. They have been closely associated with commerce and industry and have substantially assisted in the floatation of industrial companies and in granting the necessary business credit from time to time required by them. In Japan also a similar support has been obtained by industries from banks which have received a considerable help from the state. In India the Joint Stock Banks render financial assistance to industries only to a limited extent. But this leaves much to be desired as will be seen presently. We shall, therefore, study the role played by the Indian Joint Stock Banks in the financing of industries and suggest how their services can be made more useful.

I. AGRICULTURAL FINANCE

CREDIT NEEDS OF AGRICULTURISTS

The normal credit needs of agriculturists may be divided into short-term, intermediate and long-term. Short-term credit or current finance is needed for the purchase of manure and seeds, expenses of transportation, weeding, hoeing, reaping and threshing, the payment of land revenue or rent and the day to day maintenance of the peasants, their families and their cattle. Sometimes the agriculturist has to improve his land to get a better yield; for this he has to spend on levelling, deep ploughing, drainage and fencing. Again, he may be required to purchase cattle and new agricultural implements. For this purpose he needs intermediate credit. The long-term credit is generally required by the agriculturists for effecting

permanent improvements of the nature of careful layout, the construction of ' bunds ', the digging of channels to drain out water, consolidation of holdings and the repayment of prior debts.

SOME DIFFERENCES BETWEEN AGRICULTURAL AND INDUSTRIAL FINANCE

Agriculture is an industry and like other industries requires both short-term and long-term and in addition, intermediate finance; but there are some fundamental differences between agricultural and industrial finance a brief mention of which will be useful here[1] :

(1) In agriculture, the unit of production is essentially a one man concern and, therefore, the credit available for the concern is limited to the credit of one man or one family. The fact of persistent small scale organization renders farming more helpless. While the size of other industries goes on ever-expanding, agriculture remains scattered, individualistic, small scale and chaotic. The savings of the general community are relatively inaccessible to him. Further, while the industrialist can bank on estimated earnings of his industry, the agriculturist cannot. The farmer, therefore, cannot raise much of his capital otherwise than by pledging his personal credit.

(2) The operations of a farmer are complex and subject to exceptional risks from weather changes and diseases in addition to the ordinary fluctuations of prices and wages from which he suffers in common with industrialists. Again, in the nature of things he is often isolated and remote from the normal opportunities for obtaining credit. In this respect the industrialist has an advantage over him.

(3) Agricultural production is not elastic from the point of supply and hence it is difficult to adjust the supply to fluctuations in demand. There are devices available for an industrialist by which he can control production. Moreover, a workshop can be readily abandoned, but not so the farm. Thus, in agriculture, the need for

1. See Central Banking Enq. Comm. Rep., Vol. I, p. 67.

finance remains constant although production may be unprofitable.

(4) Even though industry and agriculture are handicapped by the prevalence of the phenomenon of over-production, the latter suffers from special difficulties. For want of convenient facilities the agriculturist, unlike the industrialist, cannot restrict the supply and exercise a certain degree of control over the price.

(5) To secure long-term credit the farmer can only offer his land which is a most unsuitable security for commercial banks to advance money against, for land is not a readily realisable asset. Again there may be difficulties in connection with titles and restrictions, customary or statutory, on the right of transfer. It is obvious, therefore, that an agriculturist will find it difficult to obtain the same financial accommodation which the industrialist can.

(6) In India, farming is mainly in the hands of small peasants. As a result the ordinary credit machinery which serves the needs of industrialists and traders is *prima facie* unsuited to serve the needs of agriculturists. Credit will have to be supplied in small driblets to thousands of borrowers if the cultivators are to be effectively financed.

No aspect of the agricultural problem in India has offered greater difficulties than that of finance. The differences between agriculture and other industries shown above clearly bring out that 'credit for agriculture' is a question which requires a thorough understanding and a special treatment. In no part of the world has the problem of successfully constructing and working the machinery of rural finance and of linking up the agricultural industry and the money market, been found to be easy. In India, the problem, if possible, is even more difficult. It has been generally admitted by those who are in the know of things that lack of adequate credit facilities available just when required has placed Indian agriculture at a great disadvantage as compared with similar undertakings in other countries. But there are several causes, as will be seen later, which have created difficulties in the way of banking enterprise in this country interesting itself in agricultural finance. Although it has been

admitted by all that the Joint Stock Banks render valuable assistance to the agriculturists in indirect ways, a complaint has been made that they do not do so to any appreciable extent.

CREDIT AGENCIES

Rural finance is now obtained from the following sources :

(1) Money-lenders (including sellers on credit), both professional and non-professional.

(2) Indigenous bankers.

(3) Cooperative organizations.

(4) Government.

(5) Commercial banks including the Imperial Bank of India, the Exchange Banks and other Joint Stock Banks.

(6) Loan offices in Bengal.

(7) Nidhis and Chit-funds in Madras.

As we are mainly concerned with the credit supplied by the Joint Stock Banks, we shall leave out of consideration the other agencies. We have, however, already dealt with the relation between Joint Stock Banks and cooperative banks in the last chapter.

AGRICULTURAL FINANCE AND JOINT STOCK BANKS

In India, the Joint Stock Banks play a small direct part and the Imperial Bank, which has now become the premier Joint Stock Bank, much less, in supplying credit to the agriculturists. For the funds required for their lending operations, these banks have to depend almost wholly on the resources which they can secure by attracting deposits from people. Bulk of these are payable on demand. Banks, therefore, cannot afford to forget the fundamental fact that this money, or the greater portion of it, being repayable on demand, it is necessary for them from the point of solvency to maintain a fair margin in cash or in liquid form. Joint Stock Banks as a rule do not look upon agricultural finance as part of their general business owing to the following causes. Firstly, the size of agricultural holdings in the majority of cases is unreasonably small and

unfortunately to this day, their sub-division and transfer have not been checked. Even then Joint Stock Banks cannot advance money on the security of land, as land and other forms of real property are a most unsuitable form of security in commercial banking. Land is not a readily realisable asset and its price is liable to peculiar influences. Moreover, the value of lands cannot be easily appraised without a sound technical knowledge, which the banks do not ordinarily possess. Even if banks provided themselves with expert land valuation staff, they could not advance loans, as stated previously, for longer periods. Such credit can be supplied only by a special type of credit institution, known as the land mortgage bank. There is another difficulty that stands in the way of Joint Stock Banks advancing credit on the security of land. The operation of the Land Alienation Acts in some provinces as in the Punjab, restricts the transfer of land and thus makes it a security of very limited value. Unless the application of these Acts is restricted or modified banks will not be inclined to advance money to agriculturists on landed security.

Amongst other forms or easily realisable and comparatively more liquid assets which the cultivator can give to support a banking credit mention may be made of his crops or live-stock or dairy produce. His implements on the whole are of very small value. Even these are not dependable forms of security owing to the risks which are not unusual to agricultural production such as floods, failure of monsoon. Similarly sometimes pestilence works havoc among live-stock. Under such circumstances even if money were advanced to the farmer by banks, there is no certainty that he will be able to pay back punctually his debt. The bank also cannot recover from the farmer the amount of advances wholly from a year's harvest without starving his other economic needs; the bank, therefore, will have to wait for a number of years before it has recovered the full amount of its loan. But, as stated previously, a Joint Stock Bank cannot afford to lock-up its resources for a long period however much it might sympathise with the economic needs of the agriculturist and feel like giving a helping hand. The security which an agriculturist can offer is, therefore, from the bank's point of view unacceptable.

The Imperial Bank of India has very recently made a bold departure from the established practice and begun to finance big landlords in the Bombay Presidency on personal security with sureties or on the security of produce or of gold. In his evidence before the Central Banking Committee the Managing Governor of the Imperial Bank stated that the policy of the Bank since its inauguration has been to encourage advances at reasonable interest against the personal security of the borrower with at least two good names, supported if possible by the hypothecation of crops, and also against the pledge of agricultural produce and gold. It was, however, felt by some of the borrowers that pledging stocks meant loss of credit; hence, they showed considerable reluctance to avail themselves of the facilities provided by the Imperial Bank of India. But this feeling is gradually being overcome.[1]

As regards the smaller Joint Stock Banks a few of them have shown the courage of associating themselves with agricultural finance. In the Punjab, the Lyallpur Colony Bank which has a working capital of Rs. 6 lakhs does 50 per cent. of its business with agriculturists. The Rajwara Bank has also started experimenting in this direction. The only instance of a Joint Stock Bank providing fixed capital has been the Dawson's Bank, Ltd., the operations of which are confined to the Southern portion of the Irrawaddy delta in Burma. 30 to 40 per cent. of its advances are given as crop-loans. It is entirely independent of the official support and makes arrangements for its own funds. There is another small bank in Meerut in the United Provinces which, besides doing the ordinary business of a Joint Stock Bank, specialises in financing agriculturists on the security of mortgage bonds. It has advanced no less than Rs. 35,000 in a single village on land mortgages. But very recently it had to reduce this part of its business owing to difficulties connected with the tenancy legislation. In the Central Provinces, the Berar Bank, Ltd., with a paid-up capital of Rs. 68,200 is reported to be lending money to the agriculturists directly. Loans are advanced by the Bank on promissory notes backed by security. About 20 per cent.

1. See Bombay Committee, para, 83; The Central Banking Comm. Evidence Vol. III, pp. 928–29.

of the bank's clients are said to be agriculturists. Generally the maximum period of loans to agriculturists has been 3 years. The Joint Stock Banks in Bengal have very rarely advanced money on the security of stocks of agriculture. Their chief business is restricted to discounting of hundis, opening of cash credits and granting loans against various kinds of securities, mostly stock exchange shares. The smaller Joint Stock Banks in Bihar and Orissa which resemble Loan Offices advance money to the professional and agricultural classes at high rates of interest ranging from 12 to 18 per cent. or even 22 per cent. In the province of Madras, some of the Joint Stock Banks grant advances on gold, on produce and immoveable property and hundis and also on pro-notes with or without joint security.[1]

In this connection, it may be worth-while to know what the Joint Stock Banks in other countries have done in the field of agricultural finance. In some of the Western countries, especially in England, a very large volume of rural finance is supplied by the Joint Stock Banks. This they have been able to do because the branch banking system is highly developed facilitating their penetration into the country-side. The Committee on Agricultural Credit in England (1923) found that the "Big Five" in England and Wales had outstanding against farmers loans amounting to a sum of £46½ millions. Of this £20 millions represented loans for the purchase of agricultural land and £20 millions normal loans for current trading.[2] In Russia also, besides the mutual credit societies and city public banks, the Joint Stock Commercial Banks have been known to operate in the field of short-term agricultural credit. A considerable portion of the funds of these banks flow to supply the current needs of agriculture.[3] In the United States, the need for short-term credit has been and is still adequately met by both state and national banks. A farmer can usually obtain from the local bank the necessary short-term loans to meet the expenses connected with preparing his crop for market and in the majority of cases, these loans

1. See The Central Banking Enq. Comm., para 251.
2. Ibid, para, 69; Punjab Committee, p. 35.
3. Parker-Willis and Beckhart, Foreign Banking Systems, p. 921.

are paid at maturity as promptly as any of those which Joint Stock Commercial Banks grant to industrial or commercial enterprises.[1] Although it may be against orthodox principles of commercial banking to grant loans against land and kindred securities for which there is no highly organized market, Joint Stock Commercial Banks in Western countries have undertaken such business with due caution. It may be that in the peculiar circumstances of India the Joint Stock Banks do not think it safe to undertake the responsibilities of financing agriculture.

INDIRECT ASSISTANCE TO THE AGRICULTURISTS

Joint Stock Banks in India (especially the Imperial Bank of India) finance agriculture indirectly to a greater extent through merchants and dealers. The following directions in which indirect assistance is given by the Imperial Bank to agriculture will also indicate the general practice followed by other banks to a limited extent.

(1) Advances against agricultural produce to approved commission agents and dealers at rates varying from 7 to 7½ per cent. based on the official bank rate.

(2) Financing the movement of produce from the mandis (marts) to the consuming centres, chiefly by the purchase of demand drafts, representing the produce despatched, from approved customers.

(3) The financing of the movement of produce from the distributing centres to the exporting ports by purchase of drafts and telegraphic transfers drawn on port towns at low rates.

(4) Loans against gold ornaments.

The Joint Stock Banks and the Imperial Bank of India also render, as we have pointed out before, some help to the agriculturists through the cooperative movement by giving cash credits and advances to cooperative banks.[2]

---

1. James, The Economics of Money, Credit & Banking, page 386.

2. See United Provinces Committee Rep. p. 158; the Central Banking Committee Rep., p. 250, & Bombay Committee Rep., p. 83.

SUGGESTIONS

We have mentioned previously several agencies engaged in supplying agricultural finance. One of the gravest defects of the present system is the unregulated working of most of those agencies and the absence of proper co-ordination between them. Although there is room for making credit more easily available than at present, it is not meant to suggest that credit should be given inconsiderately. At present in fact, lack of proper knowledge regarding the amount of credit given to individual farmers by various agencies may prove a source of danger to these agencies as the loans may ultimately turn out to be bad debts if the borrower abuses his credit and indulges in reckless extravagance. Hence Joint Stock Banks, before they take a larger part in agricultural finance, should ascertain the credit standing of the borrower, the amount of loans granted by other agencies outstanding against his name and his general character. Within the limits of safety these banks can render some useful service to the farmer if they are satisfied about his credit standing. They might start by encouraging the system of advances against precious metals including ornaments and gradually expand it after having come to know the character of the farmers, by granting crop or produce loans. So also Joint Stock Banks, especially the Imperial Bank of India, should discount more liberally agricultural paper and strengthen the existing provision for overdraft on the backing of approved promissory notes of Cooperative Central Banks and primary societies. They may also invest a limited portion of their funds in the debentures of the Land Mortgage Banks recently started, which being guaranteed by Government, both as regards interest and capital, would always command a ready market in case of need. If adequate agricultural credit is not forthcoming it is bound to have adverse reactions on the present lending rates charged to the ultimate borrowers, *viz*, the Indian farmers. To save them from the clutches of the money-lender, it is necessary that these banks should take a keen and active interest in rural finance within limits of safety.

II. FINANCING OF INDUSTRIES

CAPITAL REQUIREMENTS OF INDUSTRIES

Industries require capital for two purposes: (1) capital for block, *i.e.*, to finance fixed assets and (2) working capital, *i.e.*, to finance floating assets. The newly started large-scale industries in the country, which turn raw materials into finished products, require 'block capital' for an initial outlay on fixed assets like lands, buildings, plants and other appliances of a durable and permanent character. It is also required in the case of established industries when extensions and replacements have to be carried out. The capital that is invested in these fixed assets is more or less permanent.

Working capital is required for the purchase of raw materials, for payment of wages, for stores, for expenses connected with the marketing of finished products, for financing outstandings in respect of goods supplied and for providing the usual day to day requirements. As a general statement it may be said that recurring or current capital is required for sustaining manufacturing processes from the time the raw material enters the factory till it leaves it in a finished form to be sent to markets. It is a practice to regard the working capital that is invested in this way as partly permanent or long-term capital and partly short-term capital.

The proportion between block and working capital depends on the nature of the industry concerned; the more 'roundabout' and complex the processes of production in an industry, the greater is the proportion of fixed to working capital. For example, in cottage industries where the processes are simple, fixed capital is very small compared with working capital. On the contrary, in modern industries like cotton, jute or iron, the proportion of fixed to working capital is much larger.

MAJOR INDUSTRIES

EXISTING FACILITIES

There is a difference of opinion in responsible industrial circles regarding the existing state of facilities for industrial finance. The view held by the progressive Indian school of

thought that our banks do not afford so much assistance to industry as they might or as much as is afforded by the banks in other countries, is not accepted by the conservative school of thought represented by the European Chambers of Commerce, the Exchange Banks' Association and the Imperial Bank of India. The former school criticises that our banks are ultra-conservative and ultra-cautious. The latter school of thought, however, thinks that industries floated in India on sound lines and showing a reasonable prospect of success do not find any difficulty in obtaining the necessary financial assistance for block or working capital from the existing sources of supply. According to this school of thought, every industrial concern should obtain its block capital by means of public or private subscriptions to shares or debentures issued by the undertaking. The commercial banks should come forth to supply the capital needs only when a particular industry has been sufficiently well established and is in a position to present a balance sheet indicative of its soundness.[1] The foreign banking experts connected with the banking enquiry also emphasise that it is not sufficient in itself that an industrial firm should furnish its block capital from public sources in order to approach banks for loans and assistance. Not only block capital but also normal working capital should be furnished out of the firm's own initial capital. Moreover, before the firm is fit for applying for industrial banking or financial facilities, it must have been in operation for a sufficiently long period to prove that it is sound and strong enough. They have emphatically maintained that these two conditions are essential, and that any other course of action is not only unwarranted for the bank but also unsound and dangerous for the industrial enterprise.[2] The general opinion in these quarters seems to be that banks in India give ample facilities if adequate security is forthcoming, but in practice it has been found that borrowers require usually a larger advance than their security warrants. The present facilities fall short by the amount which borrowers require in excess of their securities.

1. The Central Banking Enq. Comm. Evidence, Vol. II., pp. 472 546 and 576; also Central Banking Enq. Comm. Rep., para 339.

2. See Foreign Experts' Report, The Central Banking Enq. Committee, Vol. I. p. 633.

The foreign experts have, however, admitted that, for aught they know, their experience is confined mostly to the presidency towns. If the European industries established in India have no difficulty in obtaining all the financial aid that is needed, this must be due to the close touch that they have maintained with the foreign banks in India. The Indian witnesses before the Central Banking Committee expressed their extreme dissatisfaction with the present state of affairs and maintained that even the major industries were confronted with great difficulties in obtaining the necessary finance. The general concensus of opinion in the country also has endorsed the same views about the lack of an elastic system of industrial finance.[1]

The figures regarding the available initial capital for promoting industries also show that under all circumstances the available investment capital cannot be said to be excessive. The following figures of the net capital invested annually in joint stock companies show that, except from 1919–20 to 1922–23, which were post-war years of inflated currency and feverish activity, the funds available for promoting industrial companies in the shape of private subscriptions to their share capital, have always been small.

	Rs. Crores		*Rs. Crores*
1910–11	2.6	1920–21	41.2
1911–12	5.3	1921–22	66.1
1912–13	2.7	1922–23	29.2
1913–14	4.5	1923–24	5.5
1914–15	4.2	1924–25	10.2
1915–16	4.3	1925–26	1.4
1916–17	5.9	1926–27	–.05
1917–18	8.2	1927–28	–.5
1918–19	7.5	1928–29	2.9
1919–20	16.6	1929–30	7.3*

1. See The Central Banking Enq. Comm. Evidence Vol. II., p. 484.

* Statistics of Joint Stock Companies in India for 1929–30, p. 47.

Attitude of Indian capital towards industrial undertakings

CAPITAL IN THE MOFUSSIL

We may now consider the extent to which capital for financing new enterprises is available in the mofussil. It is commonly known that there are vast differences in the economic conditions which prevail in different parts of India. Banking facilities do not exist at all for the great majority of agriculturists and the cooperative credit movement has only after nearly thirtyfour years, only touched the fringe of the problem. Even where branches of banks exist in mofussil areas, they have not succeeded in attracting the custom of the small trader or of the agriculturist; nor do either of these, under existing circumstances, possess the confidence of these banks. The illiterate and ignorant farmer whose vision rarely reaches beyond the horizon of his village views with considerable doubt the deposit side of a bank's business. The agricultural classes, therefore, generally prefer to use their savings if there are any to obtain ornaments, purchase land, extend or improve agriculture or lend out to neighbours. Whatever remains after this, they hoard it against anticipated future necessities or spend on current household expenses. Even the socalled middle classes who live in the towns, including petty merchants and professional classes prefer to invest their savings in loans to neighbours, landed property or Government, Municipal or Port Trust securities, which are regarded as safe regarding capital and income. The apathy to invest their savings in industrial enterprises shown by these classes is partly due to habit and partly due to the fact that there are no adequate banking facilities or financial agencies like the investment trusts in the rural areas and the smaller towns to bring them into touch with such securities. There are very many small towns, each of which carries on considerable business under these conditions and without the aid of banks. The volume of business would often be considered sufficient to warrant the establishment of a branch bank in the case of a similar town in Western countries, where such banks, to make their work paying, open for business only on one or two days a week. A part of the

savings of the community staying in the mofussil areas, which could have been easily utilised usefully are wasted to-day for want of adequate banking facilities.

CAPITAL IN PRESIDENCY TOWNS AND OTHER BIG CITIES

A section of people residing in the Presidency towns and big towns deposit a part of their savings in banks. But a larger proportion of them think it safe to invest their savings in Government bonds and Municipal or Port Trust securities. One reason for this may be that there are no organizations to facilitate the buying and selling of industrial securities with the exception of Stock Exchanges in Bombay and Calcutta. Moreover, in the absence of institutions ready to lend freely on the security of industrial shares, very often it becomes difficult to sell them and consequently investment of funds in them becomes equivalent to a locking-up of savings. This apathy to invest savings in industrial shares, it was pointed out by some witnesses before the Central Banking Committee, is also the result of the belief that the industrial and fiscal policy in India is not determined by a Government responsible to the Indian legislature. It is also true that the almost total absence of investment trusts or other similar agencies as said before, acts as a handicap to the investment of public savings in industrial securities. Even where banking facilities are available, there is a complaint that the existing banking system is too inelastic and insufficient to meet the needs of the country and that, in respect of industries, development is greatly retarded because of the unsympathetic attitude of the banks.

In such a state of the investment of rural and urban capital it is hardly surprising that, taking into account the disorganized state of credit and the absence of an industrial policy, money for investment in the industries is not readily forthcoming and such wealth as is available is not turned to full account. The difficulty in raising capital for industries is not only an index of the inaccessibility of money, but also of the adverse opinion which its possessors hold of the industrial propositions put before them. It is high time, therefore, that the banks should recognise the importance of adequate financial

facilities for industries and should adjust the banking machinery to that end.

THE PART PLAYED BY JOINT STOCK BANKS IN FINANCING MAJOR INDUSTRIES AND ITS INADEQUACY

(1) Joint Stock Banks in India finance industries at present out of short-term deposits by granting advances for working capital for short periods. This may take the form either of a cash credit or a loan. If the industrial concern has been working satisfactorily and if the security is sound, the banks are always willing to renew these loans. From the point of view of the industrial concern this position has been considered to be rather precarious in view of the fact that being faced with changing conditions it can never be certain of getting a renewal.

(2) Although Joint Stock Banks provide current finance, they do not as a rule provide funds for block capital for industries. There is no reason why such assistance should not be given to new concerns at least by big banks by using their own paid-up capital and reserves, if the security offered is good and adequate as in Germany. They can render great assistance to these industries if their debentures are purchased by these banks from their capital resources with a view to pass them on to the public within a reasonable time. But due to their conservative policy, as a general practice they do not underwrite industrial shares or debentures or lend money to any substantial extent against these securities. The Imperial Bank of India, which is the largest Indian Joint Stock Bank, could not give loans to industrial companies for capital expenditure, because it was prevented by law from granting loans for more than six months, or on the security of industrial shares or immoveable property. Even according to the provisions of the Imperial Bank of India (Amendment) Act of 1934, the Bank has been authorized to lend, as was seen in a previous chapter, on the security of fully paid shares of companies with limited liability or immoveable property etc. only when the original security is one wherein a trustee is authorized to invest trust funds, but not otherwise.

(3) Even in giving loans for current finance against the

security of liquid assets, such as stocks, the Imperial Bank of India keeps a margin of 30 per cent. or more, so that industrial concerns have to provide themselves with not only the whole of the capital required for financing the fixed assets but also 30 per cent. of the working capital or have to borrow it from indigenous bankers at high rates of interest. The other banks also have followed the Imperial Bank in this respect. They insist on maintaining a margin of 30 per cent. in regard to advances against the security of stocks and even a higher margin in regard to stocks in process of manufacture, especially when prices are low. The disregard shown by banks to the existence of valuable block capital as general security for loans increases the hardships of industrial concerns.[1]

(4) Unlike the established practice of many banks in Western countries, banks in India do not take account of the personal credit and honesty of the borrowers at the time of granting loans and insist on a full backing of tangible and liquid assets.[2] But in the national interest banks, after distinguishing between good and bad concerns, should help those whose business probity is unquestionable.

(5) The same banks in India are a common source of finance for trade and industry. Hence there is a keen competition among them, and in this competition it is industry that has fared worse.

(6) Banks in India do not keep on their staff persons possessing the technical knowledge necessary for examining and valuing the assets of an industrial concern which applies for loans and to determine whether it is sound.[3] A prominent witness before the Central Banking Committee stated that this did not prevent the banks from giving financial assistance to large industries about which sufficient information was available through balance-sheets and reports, but that the smaller industries being generally proprietory concerns did not prepare and make available balance-sheets showing their

1. See The Central Banking Comm. Rep. Vol. I, p. 346; also Evidence Vol. II, p. 484.

2. Cf. Walter Leaf, Banking, pp. 170–71.

3. See The Bombay Banking Enq. Comm., para 176.

financial position. Hence, the difficulty was real in the case of smaller industries.

(7) The Imperial Bank is prohibited by law from accepting promissory notes given by borrowing concerns unless they bear two signatures. The other Joint Stock Banks do the same, as in their opinion it gives them additional security. This means that inspite of their solvent position industrial concerns have to provide guarantors before they can obtain a loan from the banks. Where the borrowing concerns are looked after by the managing agents, the second signature is generally supplied by them. But those concerns that have no managing agents find it very difficult to obtain loans from the banks.

(8) The rates of interest charged to industries for loans and advances have been much higher than what they can bear. Hitherto the usual rate of interest used to be at least equal to the Imperial Bank rate and occasionally one or two per cent. higher. As the Imperial Bank rate changed with the seasonal conditions in the Money Market, the borrowing industries were penalised by high interest rates, which moved with reference to the seasonal stringency of money, although such rates were not justified by the inherent conditions of the industries and the security advanced by them. Much higher rates have been charged by smaller banks on their advances on mortgage and personal surety. Loans obtained from Indian Princes, indigenous bankers and merchants have proved still more costly, as a very high rate of commission had to be paid to the intermediaries that arrange for such loans.

(9) Complaints have been made against the attitude of racial discrimination shown by the executive staff of the Imperial Bank of India in the matter of granting applications for credit. It has been pointed out that the European officers of the Bank on account of their mode of living and social habits can keep themselves in much closer touch with their European Customers than with their Indian ones. It has been further pointed out that the Bank advances more freely to European concerns than to Indian concerns. Similar complaints against banks generally have also been made by many Indian industrialists.[1]

[1] See The Central Banking Enq. Comm., Vol. I., para 340.

(10) A far greater part of the finance required by the cotton mills in Bombay and Ahmedabad is obtained by means of private deposits from the public than by means of loans from banks. This is shown by the percentages of the individual source to the total finance:

	Bombay	Ahmedabad
	(Percentage of total finance)	
Amount lent by Managing Agents.	21	24
Amount lent by Banks.	9	4
Amount of public deposits.	11	39
Amount of share capital.	49	32
Amount of debentures issued.	10	1

Although the system of keeping deposits with industrial concerns deserves to be commended and continued as long as such undertakings cannot receive adequate finance from banks, it is fraught with danger when the times are bad, as these deposits are liable to be withdrawn from sound as well as unsound concerns. This aggravates their difficulties at a time when they require a strong financial support to tide over a temporary period of depression. Further, this method is primitive and unsuited to the conditions and requirements of modern industry.[1]

Another point that has been raised in connection with the cotton textile industry is that it has been passing through a critical period due to the general depression. A number of mills in Bombay have suffered heavy losses which have forced them to reduce their capital. Under these circumstances banks have been reluctant to make advances. In such a period of adversity the Managing Agents also find themselves unable to supply the mills with the necessary finance. Banks in other countries would adopt a bolder and more sympathetic policy when such national industries are faced with depression.

FINANCING OF THE MEDIUM, SMALL AND COTTAGE INDUSTRIES

So far the financial difficulties of the major industries of

1. See The Central Banking Enq. Comm. Evidence Vol. III., pp. 432 and 914.

the type of iron and steel, cotton, jute and coal have been dealt with. The financial needs of the smaller industries also require to be considered. The various Provincial Banking Enquiry Committees examined the financial requirements of small, medium and cottage industries, such as, rice, flour and oil mills, match, cigarette, lac, and leather factories, cotton ginneries and presses, the tea industry and glass manufacture. They found that the position of these industries was not encouraging and that they had great difficulties in obtaining the necessary finance. These difficulties are chiefly experienced by the middle-class industrialists who are unable to offer the security acceptable to banks. For this reason the assistance rendered by the Imperial Bank and the Indian Joint Stock Banks to small scale industries is almost insignificant. Even the limited financial accommodation granted by them is not continuous and the formalities of the banks and the terms of advance are considered by the entrepreneurs to be far too exacting. They cannot also obtain sufficient capital from their friends and acquaintances. Consequently, the only agencies available to the promoters of industrial undertakings who cannot raise the required capital by their own resources or public subscription are the money-lenders and the Government. Loans can be obtained from the former for such purposes but their rates are generally far too high to be of much use. In many provinces the assistance obtained from the Government is restricted by the provisions of State Aid to Industries Acts or similar Acts which empower them to render aid to new and nascent industries if they accept to comply with the Government rules. It has been the general experience that the Government's attempt to assist industries has so far met with small response and limited success.

Cottage industries, such as spinning cotton, silk and wool weaving, gold and silver thread, brass-ware, bell-metal, mat-making, rope-making, gur-making, extraction of oil, carpet-weaving, toy-making, dairy and poultry farming, which are still surviving in different parts of India, were investigated into by the various Provincial Committees. As a general statement about the condition of these cottage industries, they reported that the Imperial Bank and the Joint Stock Banks did not

provide such industries with any financial aid. There is no doubt that the small entrepreneur, whether an industrialist or a trader, is put to great hardship by the lack of banking facilities and of finance at reasonable rates. The extension of these facilities has been far too slow and too limited to meet the needs of the country. On the other hand, it is also true that such applicants are often unable to exhibit their financial position in a form intelligible to a bank.

Such industrialists have, therefore, in many cases resorted to money-lenders and sowcars who advance them materials at high prices, lend them cash for their everyday needs and in return, receive their finished goods at comparatively low prices. Thus they have to bear a double loss. Although this system is an old one, it has become a serious menace to the petty industrialists, most of whom can hardly hope to pay off their debts and are, therefore, forced to be subservient to the money-lenders through their whole life.

GERMAN SYSTEM OF PROVIDING FINANCE FOR INDUSTRIES

Before making suggestions for increased banking facilities to industries it will not be out of place here to dwell briefly on the main features of the German banking system in relation to industrial finance. The big Joint Stock Banks of Germany, the Grossbanken, in addition to the ordinary business of attracting deposits, granting loans and discounting bills, usually undertake the supply of capital to promote the founding of an industry. This is because the investing public either require a lead or feel reluctant to take the risk of deciding themselves on participation in an undertaking before it is fully launched. Banks in Germany, therefore, provide in the beginning the greater part of the initial capital and subsequently place it among the investing public either by offering it for public subscription or by direct sale to customers or to banking firms connected with the banks. Since it is risky for a single bank to undertake the whole issue if it is large, it is a common practice with banks to join together in what is called a ' Konsortium ' and pledge themselves to accept a certain portion of the issue. It is important to remember, however, that the investment of

German banks in the shares of industrial companies is not regarded as a long-term investment and is resorted to merely as a safe and liquid investment for a portion of the banks' funds in first class securities. Banks have regarded this participation in the promotion of new industrial companies as useful to build business connections or extend the banks' influence.[1]

It will, thus, be readily seen that whenever industrial concerns wish to obtain new capital they have merely to arrange for its issue through a bank with which they have permanent banking relations. As these banks have also got close relations with the stock exchange, the placing of new issues is greatly facilitated. Thus although receiving deposits from the general public is the most important business of German banks, industrial finance, on the side of investment, occupies an equally important position. Their deposits are systematically collected. The capital reserves and other funds are about one-third of the deposits. The banks as a general rule invest their funds in such a way as to be ready to pay one-third of all outsiders' funds irrespective of whether payable on demand or after a longer or shorter notice. While this remains true more or less in the aggregate, its composition is changing as quickly as market conditions will allow. It follows, therefore, that if the public is not responsive to the offer of securities issued for industrial financing, the banks cannot continue their assistance to industries until the public is again prepared to subscribe to the new capital required.

It is clear from a study of the conditions in India and the experience of foreign countries, that industrial development requires the active support and direction of the Joint Stock Banks. For this they may be required to devise means to attract and mobilise long-term funds. If they succeed in drawing funds from the investing public, they can use their efficient organization, expert care and supervision to regulate investment with a view to minimising the chances of loss of capital.

---

1. See The Central Banking Enq. Comm. Rep., para 387.

SUGGESTIONS FOR EXTENDING THE FINANCIAL ASSISTANCE BY JOINT STOCK BANKS TO MAJOR INDUSTRIES

We may now consider what the Joint Stock Banks in India can do to provide financial assistance to major industries. Among the existing Joint Stock Banks those which are well established and have been doing the ordinary banking business on the safest and soundest lines, might with great advantage to the industries pursue, as far as possible, the German system of issuing shares and debentures of industrial concerns. It is neither in the interest of the Banks nor in the interest of the industries that any of the weaker banks should take part in this new class of business. Its requisites are crystallised experience and a sound banking policy, avoidance of speculative temptations and a large amount of capital. Many of the Joint Stock Banks in India are at present not strong and experienced for this work, and even the larger and stronger ones must develop it gradually with great caution and even then as members of syndicates on the lines of the German 'Konsortium.' The Imperial Bank of India, however, should take an early initiative in this matter and give a lead to other banks. It should be enabled to do so by suitable modifications of the existing Act. With its wide experience and large capital it can take up this branch of banking to the great benefit of the country.

Further, with a view to creating a sympathetic attitude on the part of banks towards industrial enterprises, it is essential that they should keep themselves in touch with the industrial companies and try to develop an atmosphere of mutual confidence. This has been the keynote of success of the German banking policy in respect of industries. In order to maintain a close connection with the various types of industries German banks delegate a member of their management to serve on the boards of directors of the companies. This close connection enables the companies to benefit from the considerable financial experience of the bank delegates, and the banks to protect themselves from losses by anticipating them. Banks in India when they decide to undertake the financing of industries, should copy this successful German model. This may be achieved by appointing the bank's Managing Director or Manager as

one of the directors of the industrial company financed by it. The board of directors of every bank should also appoint local boards for its branches and they should be invested with functions of a purely advisory nature. Leading men in local business and industrial circles, enjoying the confidence of the public and the bank's customers should be appointed to these local boards by the board of directors of the bank.

Some witnesses, as pointed out previously, complained before the Central Banking Committee that banks in India, unlike the German and the Japanese banks, require full backing of liquid assets for their loans and do not take account of the security in the form of valuable block capital. Although the question of deciding the nature and adequacy of the securities offered for loan rests with the bank, hereafter banks should endeavour to follow a more liberal policy in this respect and also to supply a part of the working capital needed by the industrial concerns, if adequate security to the satisfaction of the bank is forthcoming and if the industrial concerns are prepared to repay any moment the whole or part of the amount lent if the banks find such a course of action necessary.

Another complaint made against banks in India is that they are not willing to lend on personal security to the extent banks in other countries do. Of course, it must be admitted that such loans cannot be granted indiscriminately as will be evident from the fact that the grant of advances on personal credit in Western countries is limited to big firms of long standing. But it is gratifying to note that the number of similar large concerns is increasing in India and with this increase it may be hoped that the reluctance of banks to lend on personal security will gradually diminish.

Although it has been strongly advocated above that banks should provide industrial capital, generally speaking, as far as possible, initial block capital for industrial undertakings should be obtained by private or public subscription. Whenever block capital is required afterwards for improvement and expansion, and is not provided out of undivided profits, should be secured by the increase of share capital or by issue of debentures; but until conditions become favourable for such further

issues of share or debenture capital, Joint Stock Banks should give temporary advances provided the security offered is adequate. Further, the undertakings should obtain the minimum necessary working capital out of their initial capital and any extra funds needed over and above the minimum might be borrowed from Joint Stock Banks through short-term advances. For the safety of their funds the banks should see to it that the industrial enterprises maintain a safe and proper relation between their own and borrowed capital. Since we are here mainly concerned with the working of the Joint Stock Banks, it is not proposed to discuss the scheme of special Industrial Banks for supplying adequate long-term finance to large-scale industries.

MEASURES TO PROVIDE FINANCIAL HELP TO SMALL AND MIDDLE CLASS INDUSTRIALISTS

The Joint Stock Banks have no convenient agency, at present, for enabling them to ascertain whether the proprietors of small industrial concerns are working on sound lines and possess a good reputation for honesty and punctual payment. Under these circumstances, the Industrial Commission (1916–1918) recommended that the provincial Director of Industries, assisted by his technical staff and by the advice of a committee of business men, among whom a representative of the lending bank might well be included, should examine the financial standing and reputation of applicants, and should certify those persons whose position was found satisfactory, as suitable recipients for a loan.[1] This would take the form of a cash credit for a definite period and amount with a bank. Suitable limits, both maximum and minimum, would have to be fixed for the cash credit. The Commission also proposed that Government should guarantee the principal sum lent with interest at a rate to be agreed to with the banks. The difficulties experienced by small and medium industries in obtaining financial assistance from existing banks are very great. The scheme proposed by the Industrial Commission, therefore, deserves consideration, at any rate as an interim measure, until industrial banking facilities can be extended.

1. The Industrial Commission Rep. (1916–18), pp. 217–18.

In the preceding paragraphs we have dealt with the Joint Stock Banks and their relation to agricultural and industrial finance. Considering the size and the growing population of India the problems connected with agriculture and industry are so numerous that economic advance for India is possible only if they are closely studied and solved with a firm determination. Amongst all of them the problem of finance, because of the proverbial poverty of India, may be said to be the toughest one. This subject in particular requires attention because we are just on the threshhold of progress and a gigantic field lies unexplored. In the meantime, amid many difficulties, it is probable that industrial banking will be introduced in the not distant future. The Indian economic problem to-day is fundamentally industrial and should be solved by the same methods as have proved successful in countries like the United States of America, Japan, and Canada and latterly also in Soviet Russia. Old industries will have to be renovated, new schemes will have to be planned and encouraged and the small industrialists will have to be assisted. This means that in the first place the state must inaugurate early a bolder industrial policy and in the second place, our banks as national institutions should also realise their responsibilities in the matter and do their bit for the industrial development of the country.

PART III

REFORM OF JOINT STOCK BANKS

JOINT STOCK BANKING IN INDIA

PART III

CHAPTER XI

REFORM OF JOINT STOCK BANKING IN INDIA

So far an attempt has been made to deal with the history and the organization of the Indian Joint Stock Banks. In the light of what has been said before, therefore, now it is necessary to consider their difficulties and suggest remedies. So also it is essential to look a little ahead and suggest some reforms of a permanent nature as it may be expected that during the next few years the attention of the people will centre very largely on the development of banking in India under the leadership and guidance of the Reserve Bank of India. The Joint Stock Banking system, amongst others, may be modified, where such modifications are necessary, in order that it might be best adapted to changing conditions in India. There are certainly several very weak spots in the present system which require to be removed as early as possible. The lessons of the bank failures of 1913 and subsequent years have clearly shown that a greater control of banks either by legislative enactments or by inspection is necessary. The successful efforts at banking reconstruction in the United Kingdom, the United States of America and Canada have further intensified the keenness of those who have been demanding banking reform in India. The following chapters, therefore, have been devoted to a study of the lines on which reform of Joint Stock Banking in India should be effected.

I. DIFFICULTIES OF INDIAN JOINT STOCK BANKS

Although there is a great scope for expansion, the progress made by the Indian Joint Stock Banks so far leaves much to be desired. It must be, however, admitted that their slow progress is the result of several difficulties which they have to face even to-day.

The Indian banks have so far received little encouragement and help from Government, its officials and public bodies. It is lamentable that even the strongest of Joint Stock Banks, of course with the exception of the Imperial Bank which has always held a special position, have not been given the opportunity of keeping the funds of the Municipalities, Port Trusts, Court of Wards, encumbered estates and minors' trusts and other trusts. Further, as pointed out in a previous chapter they have to face the competition of a number of Exchange Banks. The Exchange Banks have not only taken away a large part of the deposits and the profitable internal banking business at important trade centres, but have also been using unfair means to force Indian firms and business men who have dealings with non-Indian firms to prefer the Exchange Banks to Indian banks.[1] To make their position still worse, they have to face the competition of the Imperial Bank with its large resources and numerous branches.

After a large number of bank failures between 1913 and 1935, investment in bank shares has come to be regarded in many quarters as highly speculative one. The effect of these failures has extended further and it has affected the attitude of people towards deposits. In many cases, they prefer to place their deposits direct with merchants and industrialists rather than entrust them to banks. A set-back has also been given to the standing of new banks. Faced with these conditions the banks have attempted to keep their position as 'liquid' as possible by investing large sums in Government securities. But to their utter disappointment, they found out before the Reserve Bank was started, that when they were in need they could neither borrow readily and fully from the Imperial Bank

1. See Central Banking Committee, Evidence Vol. II, pp. 399, 433.

against such securities nor they could afford to sell them in the market at a loss.

There are other difficulties connected with the Hindu and Mohammedan laws and customs regarding succession to, and transfer of rights in, immoveable property, which make it unsafe for the banks to give loans on the security of such property.[1] So also mortgages by mere deposit of documents are the most convenient to banks to advance loans against but such equitable mortgages, as they are called, are valid only in the three Presidency towns and Karachi and any other town which the Governor-General-in-Council may notify. The banks, therefore, find themselves handicapped in important commercial centres other than the four mentioned above.

Unless these difficulties are removed, the Indian Joint Stock Banks cannot progress rapidly and the majority of them will remain more or less in a moribund condition. Most of these difficulties are easy to be tackled with and as pointed out by the Central Banking Committee, banks will flourish with fresh vigour in the new banking atmosphere so created, thus lifting the country from its present position of economic backwardness.

With this end in view, Government of India should chalk out a programme of banking development in the country. To carry out its responsibility in this matter adequately, it should lay down a progressive banking policy and employ measures to make it successful. A *laissez faire* policy is as unsuitable to India to-day in the banking sphere as in the general sphere of economic development. It is gratifying to note that the Government of India seem to have realised this as would appear from the recent institution of an elaborate banking enquiry and the passage of the Reserve Bank of India Act in 1934.

It has been suggested that Government should pass a Bank Act to regulate the organization and business of banks (see below). Smaller banks should be given exemption from stamp duties and registration fees to the same extent as in the case of the cooperative banks. In the case of an amalgamation

1. See Central Banking Committee, para 562.

of two small banks, Government should exempt them from supertax for a limited period, stamp-duties or other taxation. So also Government should carry out its credit operations in such a way that they do not affect the business of banks adversely. Further, the Central Banking Committee and some Provincial Banking Committees have suggested that certain legal provisions of Hindu and Mohammedan laws, which hamper the free operations of the banks, should be suitably amended. So also the provisions of the Transfer of Property Act relating to equitable mortgages should be made applicable to a number of important commercial centres in the country. Regarding other difficulties such as the competition amongst the banks measures require to be taken as early as possible.

The Joint Stock Banks in India have so far, as suggested above, shown a lack of *esprit de corps*, and have suffered from jealousies amongst themselves. In many places where both Indian and Exchange Banks exist, the latter have been selected by Indian banks to be appointed as their agents at those centres. So also the Exchange Banks have been given preference in selling T. T. on other Indian centres, or placing call money. Further, they have shown no desire to form associations to consider matters of mutual interest and cooperation for improving their methods and the general standard of banking, or to remove elements of weakness or to promote the amalgamation of small with large banks. Because of this lack of cooperation and failure to present a united front, the grievances of the Indian Joint Stock Banks have not received sufficient hearing. It is obvious that the strength of the Indian Joint Stock Banks will lie in unity which can be promoted by the establishment as suggested later on, of an All-India Bankers' Association.

II. REGULATION OF BANKS

THE PRESENT POSITION

Joint Stock Banks in India are at present governed by the Indian Companies Act of 1913, as amended in 1936, in regard to all matters except in a few cases where the Act draws a distinction between banking and other companies and pres-

cribes special provisions[1] applicable to the former. Briefly stated these special provisions: (1) prohibit a partnership, association or company of persons exceeding ten (the number permitted in the case of non-banking companies being twenty) in number from carrying on the business of banking unless it is registered as a company or is formed in pursuance of an Act of Parliament or the Government of India or Royal Charter or Letters Patent (section 4); (2) require banking companies to file with the Registrar a copy of the balance-sheet drawn up according to the F form, showing separately secured and unsecured debts without divulging the provision made for bad and doubtful debts (section 136); and (3) provide that the Local Government concerned may appoint one or more inspectors to examine the affairs of a banking company on the application of members holding not less than one-fifth of the shares issued, the proportion being one-tenth in the case of other companies (section 138).

The concensus of opinion in India seems to be that although the Companies Act makes certain provisions for the control of banking, it is not sufficiently wide. Special banking legislation has been enacted in many of the Western countries. In India, the question of legislation for the regulation of banking has engaged the attention of the Government of India and of the public for several years ever since the bank failures of 1913–14 which brought it to the forefront. The replies received by the Central Banking Committee whose terms of reference specifically included the question of regulation of banks, from Local Governments, Chambers of Commerce, and other public bodies were also in favour of such legislation.

NEED FOR A SPECIAL BANK ACT

Banking is a very delicate business inasmuch as its avowed object is to provide repositories in the form of banks for the safe custody of the savings of the people. As it exercises in general a very powerful influence on the economic life of a country, special banking legislation is regarded as essential

1. These special provisions have been extended by introducing a set of entirely new sections from 277 F to 277 N in the amended Act. See Appendix A.

for protecting the interests of the depositors on whose confidence the entire banking structure vitally depends, and for fostering the growth of banking on sound lines. These considerations have a special force in the conditions of India in view of the backwardness of banking in the country. While it is true that no banking regulations and restrictions, however elaborate and wisely conceived, can check unsound management, and prevent failures, the existing provisions of the Indian Companies Act in relation to banks leave much to be desired. Although restrictions at times are likely to do more harm than good by lessening the sense of responsibility of Directors and Managers, and by hampering the growth of banks, it is very necessary that certain important matters like the organization of banks, management, supervision, examination and publication of accounts, cash reserves, the safety of shareholders and depositors and in general the development of banking on sound and progressive lines must be provided for. It does not, however, follow from this that all these matters must be provided by legislation; some of them can be regulated by the memorandum and articles of association of banking companies, subject to the approval of the Registrar of Joint Stock Companies. Certain matters could be left to the discretion of the directors, the auditors and the Reserve Bank. Nevertheless, there will remain certain matters which will have to be embodied in a special Bank Act as recommended by the Central Banking Committee. This Act would in addition to the provisions of the Indian Companies Act also include certain modifications and additions.[1]

The opinion expressed by the Foreign Experts is, however, different. They do not favour the passing of a Special Bank Act as recommended by the Central Banking Committee. They have argued that Banks in the U. S. A. have continued to fail in every crisis inspite of the special banking legislation in that country. If such legislation is evaded, or if it does not prevent bank failures and mismanagement, they ask, where is the need for such a legislation ? The Foreign Banking Experts emphasise their preference for the improvement of the

1. See Central Banking Comm. Rep., para 671; also Evidence Vol. II, pp. 401 and 593.

Indian Companies Act itself, especially as regards the provisions relating to banks.[1] In the special conditions of India, as pointed out above, the policy of free banking is attended with grave risks and special banking legislation as recommended by the Central Banking Committee should be placed on the statute book as early as possible.

But even as it is, the task of framing a suitable Bank Act is beset with many difficulties. In the first place it is by no means easy to define the term 'bank' or 'banker.' Nowhere has a definition been evolved which has met with general acceptance. In India, because of the existence of the indigenous bankers, it is even more difficult accurately to define the term 'bank' or 'banker.'[2] In these circumstances what is needed is a register of bankers without a hard and fast definition. The difficulty with regard to the indigenous bankers can be overcome, as suggested by the Foreign Experts and accepted by the Central Banking Committee, by enrolling them as members of the Bankers' Association and by allowing them the privilege of affixing to their names the title 'Member All-India Bankers' Association.' After this appellation comes into general use, the mere term banker would be shorn of much of the prestige it now conveys.[3]

Banks registered under the Cooperative Societies Act or under any special enactment or charter, such as the Imperial Bank of India Act, will be necessarily free from the operation of the special Bank Act. Banks registered under laws of other countries will also be exempt from many of the provisions of the Act. It would also be open to any firm or individual not registered under this Act, to use the term 'bank' or 'banker' and it appears that it will be difficult to prevent them from doing so.[4]

PROVISIONS OF THE PROPOSED BANK ACT

With a view to ensuring maximum efficiency and to improv-

1. See Report of the Foreign Banking Experts, Central Committee, pp. 628 and 657.
2. The amended Indian Companies Act gives a definition. See Appendix A.
3. See Central Banking Committee Rep., paras 677, 681 and 682,
4. Ibid, para. 682.

ing the position of banking in India the following suggestions, which mainly refer to the Indian Joint Stock (Commercial) Banks, and which have been classified under four heads : (a) Organization, (b) Management, (c) Audit and Inspection, and (d) Liquidation and Amalgamation, may now be considered.[1]

(*A*) *ORGANIZATION*

(1) *Licensing of Banks :*

All banks, Indian and non-Indian, desiring to carry on the business of banking in India, should be required by the Act to obtain from the Reserve Bank of India a licence. It will be incumbent on the licensing authority to see to it that the provisions of the Act and any other conditions specified in the licences are complied with. This provision will give protection to the depositors to some extent as well as enable the Reserve Bank to ensure that the financial position of a new bank and the standing and reputation of its directorate are good. But this does not mean that the Reserve Bank would guarantee the efficiency or integrity of the future management of a newly started bank. The control given to the Reserve Bank over licensing of banks would further facilitate an even growth of banks in all parts of the country and prevent overlapping. The Bombay Chamber of Commerce drew the attention of the Central Banking Committee to the fact that in India the evil of overcrowding of banks at certain places was much pronounced. Hence, with the authority given to it, the Reserve Bank would be able to pursue a policy of stimulating a systematic expansion of banking in areas which suffer from a shortage of banking facilities and to check its further growth in those localities already well served by banks. Further, the Reserve Bank would secure a substantial measure of general control over all banks, in addition to the control obtained by means of its discount rate and its open market policy and get them to conform to certain requirements regarding the preparation and publication of statements of their accounts.[2]

---

1. The Central Banking Enq. Com., Chapter XXV.

2. At present the scheduled banks only supply the Reserve Bank of India with statements regarding their position.

The Foreign Experts do not, however, favour the introduction of a licensing system as, in their opinion, banking ought to be left to free competition and its development ought not to be hampered by too severe legal restrictions. They recognise, however, that if the Reserve Bank is made the licensing authority, it would look after the banking system soundly and impartially. With regard to the banks already established, they have strongly emphasised that licences should not only be freely granted but should also be automatically renewed as long the conditions laid down in the licences are complied with and that they should be allowed to open new branches without any interference from the licensing authority.[1]

It may be also pointed out here that Mr. Manu Subhedar also is not in favour of the licensing system so far as banks registered in India are concerned. He is of the opinion that the Indian banking companies, if they conform to the general provisions of the Bank Act, should have unrestricted freedom to conduct their business. Such a licensing system, therefore, will in his opinion serve no useful purpose.[2] To an impartial thinker, however, the recommendation made by the majority of the Central Banking Committee will appear to be sound for the organization of a well-knit banking system. But the terms of the licences to be granted to foreign banks should be more stringent than those granted to banks registered in India.

(2) *Regulation of Certain Matters by the Memorandum and Articles of Association :*

The Act should lay down that the Memorandum and the Articles of Association of a bank registered under the Act should amply provide for[3] :

(i) prohibiting activities other than banking[4];

(ii) prescribing the period during which a member should have held its shares before being entitled to take part in its proceedings;

---

1. See The Central Banking Enq. Comm. Rep. Vol. I, pp. 619, 657.

2. See Minority Report, p. 376.

3. See The Central Banking Enq. Comm., paras 692, 700, 709, 710, 713, and 714.

4. The Indian Companies Act (1936) has laid down the activities which a banking company can undertake. See Appendix A, Section 277 F.

(iii) prohibiting loans on the security of a bank's own stock, as such loans lead to abuses that ultimately prove disastrous to the soundness of a bank;

(iv) limiting loans to directors, managers, and members of the staff of the lending bank;

(v) the appointment, retirement, disqualification, or removal from office of directors;

(vi) prohibiting the employees of the bank from holding proxies for the purpose of voting on behalf of any other shareholder, without taking away from them the right to vote in their own capacity as shareholder;

(vii) prohibiting the general form of proxy or if allowed, limiting its duration and validity to three months;

(viii) prescribing that copies of the directors' report and the balance-sheet must be posted to the shareholders entitled to receive them not later than ten days before the day of the meeting called for considering them.

These provisions are important from the point of the internal working of a company which is generally regulated by the Articles of Association. The Memorandum of Association lays down the general powers which a company enjoys under the Act, and it can be changed only with the permission of either the High Court or the Local Government concerned. But the Articles of Association can be changed by the shareholders themselves. Hence in order to avoid resolutions leading to unsound management being passed, these provisions should be included in the Bank Act.

(3) *Composition of the Directorate and Distribution of Shareholders :*

The Act should lay down that all institutions doing banking business in British India, except foreign banks, should have a majority of natural born or domiciled Indian directors, and that no new bank, other than a foreign bank, should be allowed to operate in British India unless it has a majority of Indian shareholders. Provisions of such a nature are essential from the national point of view lest the control and management of services of national importance like banking should pass into foreign hands. It would be well-nigh impossible to give effect to any

national policy that might be evolved for the development of banking in the interests of Indians unless non-nationals are prohibited from having a preponderating voice in the management of banks operating in this country. Some of the members of the Central Banking Committee and the Foreign Experts did not approve of this recommendation on the ground that banks started by private initiative should not be subjected to any restrictions regarding the rights of shareholders to elect their own directors and transfer their shares freely. In their opinion, these matters should be provided for in the articles of association as is done in most other countries of the world.[1] Another difficulty is that under the new Government of India Act 1935, no commercial discrimination against British subjects in India would be permitted by law.

(4) *Prohibition of the Managing Agency System:*

The Bank Act should prohibit the organization of a bank on the managing agency system and further, provide that any arrangement made subsequently for conducting the management of a bank under such a system shall be void, as banking is not a business in which the need for such an agency ought ever to be felt unlike in ordinary industries where the managing agents supply directly or indirectly a good deal of finance.[2]

(5) *Capital:*

With the object of preventing the starting of mushroom banks with insufficient capital as in the period 1905–1913, the Act should lay down that a bank registered under it should not commence business until it has a minimum paid-up capital of at least Rs. 50,000[3]; that the authorized capital of a bank should not be more than double the subscribed capital and that the paid-up capital must not be less than 50 per cent. of the subscribed capital. This restriction, however, it is hoped, will not preclude the possibility of opening of small banks in areas which are not served by banks at present.[4] It would also be

1. See The Central Banking Enq. Comm. Rep. Vol. I, para 691 and p. 622.

2. Management of banking companies by managing agents has been prohibited by the Indian Companies Act (1936). See Appendix A, Section 277 H.

3. See Appendix A, Section 277 I.

4. See The Central Banking Comm. Rep. Vol. I, paras, 694, 695.

desirable to prescribe different minima for banks according to the population of the centres where they are situated, there being a higher minimum in the case of larger towns than in that of medium sized ones.

(6) *Maintenance of Shareholders' Register :*

The Act should provide that a banking company should maintain a separate index of the names of its shareholders ready for reference and inspection by the latter and that a similar register of shares owned by non-nationals should also be prepared.

(7) *Registration of Transfer of Shares:*

In order to prevent undue delay in the registration of transfers of shares, the Bank Act should require the directors of a bank to decide within two months of the date of presentation of the transfer deeds to them whether or not the transfers shall be registered.

(8) *Registration of Mortgages, etc :*

The Bank Act should lay down that when a bank either acquires immoveable property which has already been subject to a prior charge or itself creates a charge on its assets, it must file their particulars with the Registrars of the provinces in which it has branches, in order to enable those who deal with the branches to find out fully the nature of such transactions, upon which the credit of the bank largely depends.

(B) MANAGEMENT

(9) *Reserve Fund :*

The Act should prohibit a bank from distributing dividends in any year, unless it has previously set aside, for being taken to the reserve fund, an amount equal to at least say 2½ per cent. of its paid-up capital, until the reserve fund equals the paid-up capital.[1] Although it is true that the prosperity of a bank depends on sound management and that in its absence, no legislative measures for strengthening its reserves or its financial

1. The Indian Companies Act (1936) has provided for this. See Appendix A, Section 277 K.

position would generally be of much avail, such a provision would serve a good purpose in the early stages of the development of Indian banking and make for stability of the banking structure.

Over and above the Reserve Fund prudence requires that a portion of the profits should be set aside as a secret reserve which will not be disclosed in the balance-sheet. This will help a bank to meet unforeseen losses without causing much uneasiness to depositors and shareholders as the reserve fund disclosed in the balance-sheet would remain untouched. The need for such a secret reserve in a well-managed bank cannot be sufficiently emphasised.

(10) *Cash Reserves :*

Several suggestions were made to the Central Banking Committee for requiring banks to hold minimum reserves of cash. But in their opinion the question of the inter-relation of loans, deposits and reserves, and of the maintenance from day to day of an adequate ratio of fluid resources to time and demand liabilities was one which should be left to the discretion of the management and the control of the directors. But any omission of legal provision regarding the minimum cash reserve will be justified only if banking operations are always carried on sound lines. As the business of banking is dependent on the ability of the bank promptly to meet its demand liabilities to depositors, it is very desirable that banks, particularly in a country like India, should maintain a minimum reserve.

There are similar provisions in other countries. Denmark requires a ten per cent. cover in cash and readily marketable paper against demand liabilities. In the United States of America the member banks are required to have the following minimum reserves.[1]

Kinds of Banks	*Deposits*	
	DEMAND	TIME
1. Central Reserve City Banks	13%	3%
2. Reserve City Banks	10%	3%
3. Country Banks	7%	3%

1. M. L. Tannan, Regulation of Banks in India, p. 11.

Some of our banks do not seem to have learnt the importance of maintaining an appropriate cash reserve and have shown a tendency to reduce it to unsafe limits being tempted to earn profits on as large a proportion of their funds as possible. In order to ensure solvency and protect the depositors of banks in India registered under this Act, the Bank Act should prescribe suitable percentage cash reserves which the banks registered under it should maintain.[1]

(11) *Regulation of Loans :*

The Act should prohibit banks from giving short or long term loans with or without security to auditors as it is undesirable that they should have any business connections with a bank whose accounts they have been appointed to audit. It is essential that they should be independent of the management of such banks.

(*C*) *AUDIT AND INSPECTION*

(12) *Appointment, Remuneration of Auditors :*

With regard to the appointment of auditors, and other matters, the Central Banking Committee recommended that the present arrangements under the Indian Companies Act, 1913, should not be disturbed. Accordingly, the auditors should be appointed by the shareholders, they must hold a certificate of the Provincial Government or must be recognised by the Governor-General-in-Council as entitled to act as auditors of companies. The auditors need not audit the accounts of a bank's up-country branches, but can rely upon certified returns supplied by branch-managers. Any person making a false statement regarding any material particular either in any return or report, or balance-sheet or other document shall be punishable with imprisonment or fine or both. As regards the remuneration of auditors, the Committee recommended that it should not exceed the amount fixed at the general meeting of the shareholders.

The Central Banking Committee did not approve of the suggestion either of Mr. Manu Subhedar that even the accounts

1. The Indian Companies Act (1936) has provided for this. See Appendix A, Section 277 L.

of up-country branches should be audited by the local auditors lest there should be fraud[1] or the suggestions of many witnesses that only auditors having long standing and experience should be authorized to audit the accounts of banks, that a restriction should be placed on the period of the appointment of the same auditors, and that there should be two auditors, one selected by the directors and the other by the shareholders. Taking into consideration the importance of an annual audit of the accounts of a bank, the suggestions regarding the standing and experience and the duration of appointment of the auditors seem to be proper. Hence the Act should provide for them.

(13) *Form of Balance-Sheet :*

The Act should lay down that the banks should adopt a revised and detailed balance-sheet[2] in lieu of the existing form F prescribed by the Indian Companies Act (1913). They should show separately in the amended form of the balance-sheet loans granted by the banks to their directors, managers and secretaries; the loans granted to a limited company the directors of which are also the directors of the lending bank; the loans granted to a limited company in which any of the bank's directors are members of the managing agents' firm. The new balance-sheet should classify investments into three classes: (i) gilt-edged and trust securities, (ii) debentures, and (iii) other items. Their valuation should not be in excess of the cost or market price, whichever is lower, so as to enable a bank to build up a secret reserve fund by showing the valuation at a figure lower than the cost or market price, if they prefer to do so. Bad debts should be written off and if a full provision is made for doubtful debts, the figure of loans and advances should be stated in the balance-sheet after deducting the amount of this provision. The method of showing book-debts as secured and unsecured should be abolished since, although the latter are not necessarily unsafe, this is likely to frighten the shareholders and creditors of the bank concerned.

The Act should provide that banks should display a copy of the complete balance-sheet instead of a mere statement in

1. Minority Report, p. 379.

2. See Appendix B for the New Form of Balance-sheet.

form G prescribed by section 136 of the Indian Companies Act and should continue to do so until the next following statement is published. The Reserve Bank should decide whether in addition to the balance-sheet banks should be required to publish other periodical returns and statements of their liabilities and assets, and if so in what form and at what intervals. With regard to the Exchange Banks, they should be made to supply the Reserve Bank of India, in addition to a periodical statement, an annual statement showing their assets and liabilities relating to their Indian business, in a form approved by the Reserve Bank, as a condition of the grant of licences to them. Such a statement should be displayed along with the balance-sheet at every office of the Exchange Bank.[1]

(14) *Annual General Meeting :*

The Act should provide that the annual general meeting of a banking company must be held within three months after the close of each year.

(D) *LIQUIDATION AND AMALGAMATION*

(15) *Liquidation :*

The Act should authorize the Reserve Bank to grant a temporary moratorium to a bank in difficulties so as to allow it some time to reconstruct itself or to amalgamate itself with a stronger bank, thus preventing its untimely and compulsory liquidation. In such matters the Reserve Bank should give, as far as possible, its advice and assistance. Such a course of action would check an incipient banking crisis and prevent it from assuming an alarming magnitude.

(16) *Appointment of Liquidators :*

With a view to safeguarding the position of the creditors of a bank who have probably the largest stake, the Act should lay down that when a bank goes into liquidation, either compulsorily or voluntarily, the liquidator or liquidators must be appointed by, or with the approval of, the Reserve Bank of India and that their work must be inspected by a Committee consisting of the representatives of the bank's creditors.

1, See The Central Banking Enq. Comm. Rep., paras 725–733,

(17) *Liquidation of Non-Indian Banks :*

The Act should provide for an arrangement under which the Indian creditors of a non-Indian bank taken into liquidation should have a prior claim on its assets in India and should be able to share in the distribution of its assets outside the country, if the assets held in India prove inadequate to meet their claims fully.

The Foreign Experts disagreed with this suggestion on the plea that if every country where a foreign bank was working adopted similar legislation, the bank would have to split up its assets against its liabilities in several countries, thereby rendering its own, as well as that of the creditors' position weak. Another direct effect that would follow from this is that the outside funds of the foreign banks available to India at present would be withdrawn. Although the objection appears to have some force, such a provision is necessary to safeguard the interests of the Indian depositors.

(18) *Protection of Banks from Unjust Attacks :*

Many witnesses before the Central Banking Committee suggested that it was desirable that banking institutions should be protected against wild rumours and unjust attacks made by credit-wreckers. The Committee examined this suggestion and came to the conclusion that it was very difficult to provide any efficacious legal remedy regarding it. They thought it advisable to leave the matter for the consideration of the legislature. While framing the new Bank Act the legislature should introduce suitable provisions to protect banks from frivolous proceedings.

(19) *Speculation in Bank Shares :*

The Act should lay down that every seller of bank's shares should give the actual numbers of the shares at the time of selling them, so as to effectively check all attempts to spoil a bank's credit by a bear raid on its shares, and generally to curb speculation in bank shares.

There are several other matters which could well be included in the Memorandum and the Articles of Association but which the Central Banking Committee was inclined to leave

to the option of the promotors. They are in respect of the banks' total borrowings and their relations to the paid-up capital, or total clean advances being restricted to the total paid-up capital, or advances against immoveable property being limited to the total paid-up capital, or the total advances to any single individual or concern being limited to a fixed proportion of its paid-up capital. It was also thought desirable to leave to the option of the promotors whether or not to restrict the power of the bank's directors by provisions in the Articles of Association to refuse to register transfers of shares, without giving any reason, in order to keep out unfriendly persons and restrict the principle of one vote for each share lest individuals or groups of them should obtain a controlling interest in the bank.[1]

There were several other suggestions received from witnesses which the Central Banking Enquiry Committee did not approve of. One of these suggestions was in respect of preventing the non-national banks from obtaining a controlling interest in any bank registered under the Act. The remaining ones were made in a spirit of laying down detailed regulations in order to make the business of banking, as the witnesses believed, safer than safety itself. But the Committee justifiably rejected them as such meticulous legislation would rather hamper than speed up the progress of banking in the country.

On the whole it seems that legislation on the lines suggested above will create confidence in the banking institutions in the country and will help to accelerate the pace of progress which as remarked previously, has not been satisfactory. Time and again, it has been pointed out that if it was expected that banking in India should flourish, there is a need for a special banking legislation. The time has now come when it is desirable that such a step should be taken without delay. With this kind of special legislation and with the control exercised by the Reserve Bank of India, it will not take long to link the whole country by a network of banking institutions.

---

1. See The Central Banking Enq. Comm. Rep., paras 699, 707, 708, and 712.

CHAPTER XII

REFORM OF JOINT STOCK BANKING IN INDIA (Continued)

III. BRANCH BANKING

It has already been stated that in the larger interests of the country it is essential that the Joint Stock Banks should pursue a vigorous policy of extending branch banking. It is one of the measures adopted by the more advanced countries of the world and one which, it has been suggested, may be relied on to help India to make the much desired rapid advance in banking. Branch banking is well established in the United Kingdom and the Continental countries. It has not flourished in America because the national and state banking laws of the United States of America have prohibited or discouraged branch banking in favour of the system of unit banks. In recent years, however, a change has come over in the American attitude towards branch banking. The National City Bank of New York was permitted to organize branches in foreign countries. Even the Federal Reserve Banks have now been allowed to start branches in their districts.

Name of the Country	Year	Total number of Banking Offices	
		No. of Offices	Per Million of Population
India	1930	882	2.5
The U. K.	1932	12,557	273
Canada	1931	4,176	417
The U. S. A.	1931	22,071	179
France	1929	2,061	49
Germany	1928	2,166	33
Japan	1929	6,670	103

The statistics on the previous page will give us a comparative idea of the Joint Stock Banks and their branches in various countries.[1] The table shows that India is very backward from the point of banking facilities.[2] Whereas in Canada there are 417 banking offices per million of the population, in India there are only 2.5. The vast bulk (nearly 90 per cent.) of the people in India live in villages where still virtually no banking facilities exist. There are nearly 2500 towns in India, but barely 400 of them have a bank or a branch of a bank. India, therefore, ought to learn by the example set by other countries. All the sound Joint Stock Banks should extend their branches in the interior and establish a net-work of banking offices to serve as connecting links between the various parts of the country. In this connection next to the Imperial Bank, which stands in a class by itself, the bold branch banking policy of the Central Bank of India deserves commendation.

In view of the great need for extending branch banking, the Foreign Experts objected to the recommendation of the Central Banking Committee making the opening of new branches of banks dependent on the approval of the Reserve Bank. But the Committee pointed out that they had fully realised the importance of this need and were in favour of opening of new branches by banks, but that in order to ensure a systematic expansion of branches under the general supervision and control of the central banking institution of the country, they had thought it necessary to make it compulsory for a bank to have a licence before a branch was opened. But at the same time they had emphasised that licences should be freely granted and that normally the Reserve Bank should offer every encouragement for the extension of new branches, say by placing certain deposits with them within the first few years.

---

1. M. Visvesvarya, Planned Economy for India, pp. 412-413.

2. The number of the pay-offices and branches of the Scheduled banks increased from 723 in 1936 to 1138 in 1938. This 'shows that branch banking is developing in India on an increasing scale, though it is obvious that much further progress in this direction will be necessary before India can have a net-work of joint stock banks adequately covering the country.' J. B. Taylor, Governor of the Reserve Bank. Report of the Third Annual General Meeting of the Reserve Bank of India.

It appears that the system of branch banking is the result of a normal logical phase of the development of the banking business of a country. One cannot ignore the large possibilities and the financial advantages which this system bestows on the banking system as a whole. Firstly, the opening of branches will facilitate the shifting about of funds from the branches where the seasonal demand is light to those where the demand is temporarily heavy. This will reduce to a minimum the funds which must be kept idle in reserves. A second closely related, but still distinct, gain arises from the increased economic power to make larger individual loans. Thirdly, as far as it is necessary or desirable that investments should be made in securities of one type or the other, such investment can be made on better terms by a bank with numerous branches than by a small independent bank. A better and more scientific knowledge of investments and the nearness to security markets alone would suffice to realise this gain. Fourthly, banks profit by economy of expenses, owing to the fact that a comparatively smaller personnel suffices to run a branch and that a less pretentious building and less expensive equipment may be used in a branch than in the case of an independent unit bank.[1] Fifthly, the branches will afford the best possible training ground to young people desirous of pursuing banking as a career. And finally, a bank with branches can spread its loans over several industries which are independent of each other. This the unit bank cannot hope to do.

It is not to be supposed, however, that there are no disadvantages. Firstly, the profitableness of branch banking may be reduced through the establishment of far too many branches in the same areas. Secondly, as the branches become more and more widely scattered and as the whole business increases in volume, the expenses of co-ordination and centralization increase.[2] Thirdly, each branch is a source of weakness and loss as a run on one branch may lead to a general run on the whole establishment. Over-branching may lead to overbanking and the stifling effect of modern competition will force

1. Southworth : Branch Banking in the United States, pp. 103, 108.
2. Ibid, pp. 108, 109.

the numerous branches to tout for unsafe and risky business. To a certain extent also there would be delay in the matter of granting loans, as before they are granted, the branches would be required to refer to the head office. Local interests may be neglected and funds transferred to head-quarters to the detriment of local needs.

Many of the disadvantages mentioned above are not so serious as to deter banks from undertaking the extension of branches. It may safely be presumed that the branch banking tendency has already taken root in this country. The Indian Joint Stock Banks were discouraged to some extent in their attempt to increase their branches, as the Imperial Bank in order to fulfil its undertaking given to the Government of India in 1921, was required to increase the number of its branches. So also, the bank failures (1913–35) and the scarcity of trained bank officers account for the slow progress of the Joint Stock Banks in this direction. There are other special circumstances of India which stand in the way of branch banking activities. The late Sir Bernard Hunter remarked long ago that the Indian customers generally go to the branches only for securing loans. As the inflow of money at the branches is not very substantial they act only as an outlet for the remunerative employment of the parent banks' loanable resources and not as feeders to the slender resources of their parent banks. The question of expense has also to be reckoned with. At least five to ten years must elapse before a branch can be made to pay its own working expenses. Emphasising similar difficulties Mr. M. M. S. Gubbay says that branch banking is impossible as sound and liquid investments are not available in the interior of the country and therefore, branches cannot hope to utilise their working capital in sound, conservative and automatically self-liquidating investments.[1]

Any fresh enterprise in this field must realise that hitherto many branches have been opened only in the district places, populous towns and the chief monetary centres, where banks for the most part already existed and not so much in places which did not possess banking facilities. In this kind of situa-

1. Rau, Present-Day Banking in India, p. 473.

tion the extension of banking facilities into the interior of the country is primarily needed. The small agriculturist, the handicraftsman and the small local traders who are generally the victims of the money-lender require to be relieved. It is also their small deposits which require to be productively utilised. In this connection we may once again refer to the ut lity of the ' Kommandit ' principle (see chapter IX, p. 172) which should be followed by our banks.

IV. BANK AMALGAMATIONS

In India, there are many small, local, autonomous and independent banks and loan companies doing banking business and maintaining scattered reserves. They are particularly to be found in the Madras Presidency. Unless these institutions are amalgamated and included in a well-planned scheme of banking reorganization, advantages like efficiency, economy and safety of centralised reserves would not be forthcoming. But this movement need not be confined to smaller banks only. Large banks, where it is desirable and possible, may assimilate the small ones. Great caution is, however, necessary since there is the danger that a reduction of concerns to a very small number might involve the possibility of monopolistic, instead of competitive working. But so far as this movement is devised to expand the resources and scope of the smaller institutions, it cannot be expected to have unfavourable reactions on effective competition and, therefore, on efficiency.[1]

A glance at the English banking system shows that in the past few years there has been a striking change towards amalgamation amongst the banking institutions in the country. But this has not given rise to any violent attempt to eliminate healthy competition. On the contrary, the movement has been successful in creating a very small number of large and powerful banks. The Midland, the Lloyds, the Barclays, the Westminster, and the National Provincial banks owe their present position and prestige to a number of amalgamations

1. See The Present Position of English Joint Stock Banking by Sykes, pp. 114–116.

effected in recent years with important banks.[1] Even in Germany the amalgamation movement has found support from the Deutsche, the Dresdner and other important Joint Stock Banks. To strengthen the foundation of capital and credit by eliminating the weaker links and to cope with the increasing need of trade and industry, it was thought that the remedy was to be found in the creation of strong and powerful banks by effectively absorbing the smaller and weaker ones. The crises of 1873 and 1900 gave a fillip to this movement so that to-day we find as in industry, so also in the field of banking, affiliations, working agreements and complete fusions.

The main advantages of this movement, as far as India is concerned, would be a reduction in the overhead expenses and economical management and tapping of more deposits as the result of an effective and widespread propaganda against the evils of the age-long habit of hoarding, better competitive power to withstand the attack of foreign banks and the introduction of rational business methods. It would also be possible to perfect the banking technique, reduce the unevenness in the interest charges at different places, standardise commissions and fees over vast areas and thus render more useful services to depositors and borrowers.

There would be also other advantages. The work of branch banking will be rendered easy and it will be possible to supply adequate credit to trade and industry. Generally speaking, the amalgamation movement would supply a corrective to the haphazard and ill-balanced loaning methods of the present small scale banking establishments. It is necessary, however, that bank amalgamations should be supervised by a responsible institution like the Reserve Bank of India.

V. ELIMINATION OF UNHEALTHY COMPETITION. THE FORMATION OF AN ALL-INDIA BANKERS' ASSOCIATION

For removing unhealthy competition between the Joint Stock Banks and the Exchange Banks, and substituting a

1. Kenneth Mackenzie, the Banking Systems of Great Britain, France, Germany and the United States of America, pp. 17-18.

friendly spirit, the Central Banking Committee and the Foreign Experts suggested the formation of an All-India Bankers' Association. Such associations exist in England, Scotland, Canada, Australia, South Africa and the United States of America. Their main aim is to provide a common platform and meeting place for the various banks to assemble and discuss common topics. In America, an annual convention of the American Bankers' Association is held to discuss interesting developments and new departures in banking methods.

Amongst other aims of such associations mention may also be made of promotion of banking reform and legislative measures affecting banks, imparting of banking education by means of lectures, classes, libraries, debating societies and reading rooms and the publication of magazines. One of the chief objects of these associations is the elimination of unhealthy competition and rivalry amongst the member banks.

In recommending the formation of an All-India Bankers' Association, the Central Banking Committee had in mind, as stated above, the prevention of unhealthy competition and the infusion of a spirit of entente cordiale between the Indian-managed and the European-managed banks. The powerful foreign banks in India with their large resources have been known to compete effectively with the Joint Stock Banks, and other banks here. The latter have complained about the unfair means used by the former to attract Indian business. The result is that there is want of cordial relations between these banks.

Although an Institute of Barkers has been started in this country (in 1928), it has not done much beyond conducting classes, holding examinations and publishing a monthly magazine. This inadequacy of services has led the Exchange Banks and the indigenous bankers to have their separate associations to look after their interests. The Indian Institute of Bankers, like similar institutions in other countries, should try to bring about a unity of policy, promote common sentiment and help in setting up sound and high standards of banking. It must cooperate with other educational institutions in the country with the object of creating wider knowledge of modern business

methods and initiating the march for secure and orderly national progress.

VI. NEED FOR ECONOMY AND EFFICIENCY

An analytical study of Joint Stock Banking profits and costs will show how far Joint Stock Banks in India observe the rule of economy. Unfortunately, no bank publishes the figures which are essential to make such a study. In view of the absence of sufficient information, any attempt to judge the standards of economy of Joint Stock Banks is bound to meet with insurmountable difficulties and perhaps with violent criticism.

In this connection, attention must be given to a study of the expenses of conducting the banking business. These are mainly incurred for the staff, rent, rates, taxes, insurances, cleaning, lighting; directors' fees, stationery (including the provision of free cheque forms); telephone and telegraph charges; postages; advertising; travelling expenses; other stamps, and other legal expenses; auditors' fees, and other minor items. As for the expenses of agency work, these are generally offset by counter charges or reciprocal agreements for similar services performed on behalf of other banks; but all others are dead weight expenses. The Central Banking Committee pointed out that in recent years the expenses of the Joint Stock Banks have increased substantially and have absorbed a disproportionately large part of the gross receipts. Compared to the methods and expenses of the indigenous bankers, the expenses of conducting the business of the Joint Stock Banks are, in general, undesirably large. The latter must, therefore, incorporate the economy and adaptability of the former with the efficiency and modern methods of the Western institutions.[1]

To be efficient, a banking system must be safe and adequate and yet economical. The history of Joint Stock Banking in India during the last twenty years led the *Banker*, a leading Banking Magazine in the United Kingdom, to remark that the Indian institutions were unsound.[2] It is not fair to charac-

1. The Central Banking Enq. Comm., para 568.
2. The *Banker*, January, 1931.

terise Indian Joint Stock Banks as unsound and therefore, unsafe because of the bank failures, since inspite of several generations that have passed since banking developed in Western countries on modern lines, bank failures persist in the West. Generally speaking the Indian Joint Stock Banks work on traditional conservative lines and are on the whole well-conducted. The cash position of these banks cannot, on the whole, be regarded as unsound inspite of the reduction in the percentage of cash to deposit liabilities. This reduction, however, has been accompanied by an increase in the holdings of the banks in Government securities. The inauguration of a responsible Central Bank, the Reserve Bank of India will in itself act as a salutory check forcing the ordinary banks to conduct their operations on sound lines without a blemish and thus help to raise banking standards.

From the point of rendering adequate services, the Indian Joint Stock Banks cannot be said to be less efficient than, and behind, their confreres in the Western countries. These banks not only transact the barking business proper but have also been increasing their sphere of usefulness by starting departments like the Bond and Stock Department, Information Bureau etc. From the point of the total number of credit agencies, and the amount of credit available, the Indian Joint Stock Banks have no doubt a large scope for expansion. Although this is true, it will not be a travesty of facts to say that they have so far only touched the fringe of the problem and have still a considerable leeway to make up. The Foreign Experts, associated with the Central Banking Committee, held a different view. In their opinion, taking into consideration the predominantly agricultural character of India and the present stage of its economic development, the number of credit agencies and the credit facilities made available by them are not insufficient. But the general opinion in the country is that the advance of Indian Joint Stock Banking has not been in keeping with the needs of the country.

In view of the expanding agricultural, industrial and commercial needs of India, credit facilities will have to be provided in future on a larger scale than now. Hence banking institutions will have to be not only adequate with regard to their

services but efficient also. More banking institutions with a wider field of service will have to be started to provide adequate credit facilities throughout the length and breadth of the country. Thus there is great scope for the expansion of Joint Stock Banks.

VII. ELASTICITY OF CREDIT

Banks perform the very useful and responsible function of supplying a portion of the total media of exchange. This is done in the case of purely commercial banks through the grant of bank credits in the form of deposit credits operated by cheques. The credit supplied by a bank is put to productive uses and is of far reaching importance to economic development. In rendering this service banks have to guard on the one hand against undue stringency and on the other over-expansion which is to be equally deprecated. It is an admitted fact that modern business vitally depends upon the use of credit. Credit stringency is disastrous because it leads to falling prices which makes business men nervous. The consequent alarm and timidity may undermine general confidence and pave the way for a crisis. Over-expansion is also dangerous because it may lead to an inflation of prices, unhealthy speculation and unproductive investment of capital and a weakening of the reserves to such an extent that the whole credit structure is threatened. But the effect of either stringency or inflation of credit on general prices will finally depend upon the volume of credit circulating in the entire community and upon how widely it is diffused.

India is mainly an agricultural country and agriculture is the main source of livelihood for the bulk of her population. With continental dimensions there is the greatest disparity between the different areas of the country in respect of habits. The language areas are not also limited by any natural boundaries. As a result there are fundamental economic differences in the various parts of the country. Further, because of the uneven distribution of banking institutions and the loose banking structure, credit is not sufficiently mobile. Interest rates tend to be high generally, and particularly so when there is a seasonal stringency. Consequently the general price level inspite of the influence of economic forces does not rise to its

full extent. This means that there is a " potential fall in the prices " and to that extent the agriculturist suffers. It has been pointed out by the late Sir Basil Blackett that the monsoon increases the wideness of the margin between the amount of currency and credit required when activity is at its maximum. On the contrary, during the slack season there is a plethora of credit and consequently low money rates. The superfluous credit cannot be quickly withdrawn; the phenomenon thus may be compared to a state of potential over-expansion.

It is thus clear that the credit structure in India is not elastic enough according to the varying demands on it and that the Indian Money Market is not as automatic in its working as it should be. Government realising this great defect provided by the Paper Currency Amendment Act of 1920, further amended in 1923, for the issue to the Imperial Bank, in the busy season, of additional currency to the extent of Rs. 12 crores against the security of inland trade bills. But this provision fell far too short of the requirement because firstly, the quantity of genuine trade bills flowing to the Imperial Bank of India is very small; secondly, the limit of 12 crores was arbitrarily fixed, being smaller than the far larger amount required; and thirdly, the expansion was made conditional on the Bank Rate, the minimum to start with being 6 per cent. rising to 8 per cent.

This was not a happy state of affairs. With the control exercised by the recently started Reserve Bank of India, which is also the new currency authority issuing notes, it may be expected that credit will become elastic according to the needs of trade and business. Its ability to do so is further increased by the special power conferred upon it of conducting open market operations by selling and buying bills and securities directly in the Money Market. Again, to achieve its object of furnishing an elastic currency and credit system in the interests of Indian trade and commerce, the Reserve Bank would supply on the one hand rediscount facilities to such of the Joint Stock Banks as are included in the list of scheduled banks by discounting their commercial paper and giving them loans, and on the other, by the power given to it, would borrow from them. In return for these services the scheduled Joint Stock Banks, would maintain as balance with the Reserve Bank five

per cent. of the demand liabilities and two per cent. of the time liabilities. With these facilities obtained from the Reserve Bank, the Joint Stock Banks, it may be hoped, will be able to make credit more elastic by allowing it to expand or contract with the upward or downward movement of trade and commerce in the year. But without a closer cooperation and greater cohesion between the Reserve Bank on the one hand and the Joint Stock Banks and the indigenous bankers on the other, credit policy will not be substantially effective. The Joint Stock Banks, it may be hoped, would realise this early and help the Reserve Bank to make its policy successful.

VIII. THE CLEARING HOUSE ORGANIZATION AND THE GROWTH OF THE CHEQUE HABIT

The principle of clearing is adopted nowadays in all kinds of transactions involving reciprocal liabilities. It has come to be used in the business of banking in India for a long time. But of the early origin of the clearing house system in India nothing definite can be stated. There are eleven clearing houses at present at important centres in the country. The Imperial Bank of India hitherto conducted the clearing business in all these places by presiding over the meetings of clearing houses. But this business has recently been transferred to the Reserve Bank of India. The present system in India is modelled on the English Clearing House System. A bank can become a member of a clearing house by the consent of the existing members. New members are admitted after a close scrutiny of their balance-sheets by a committee of the existing members. It was brought to the notice of the Central Banking Committee that admission to the clearing house is severely restricted, and that Indian banks find it very difficult to enrol themselves as members, because a large number of the existing members of clearing houses are foreign banks.

It is essential that in order to simplify and facilitate the settlement of claims in inland centres like Amritsar, Lyallpur, Lucknow, Rawalpindi, Allahabad and others, more clearing houses should be started. They should be managed in all details, as in other countries, by incorporated associations of their members having

their own regulations.[1] Now that the Reserve Bank has been entrusted with the management and supervision of all clearing houses, it should take steps to find out and remove legitimate complaints regarding their organization and working.

At present locally payable cheques only are cleared by the clearing houses and the 'out station' cheques have to be sent direct to the paying bank through agents or branches. This results into inconvenience for business men and unnecessary currency movements. The best way to remove this inconvenience is to start provincial clearing houses under the management of the Reserve Bank of India and permit out-station clearing of cheques. Inter-provincial clearings should also be started on the lines of intra-district and interdistrict clearing work done by the Federal Reserve Banks in the United States of America. This will stimulate the growth of the cheque habit in the country and increase the deposits of banks. Further, the Central Banking Committee suggested some measures which would help to spread the cheque habit rapidly. They are that Government should accept freely payment of land revenue by cheques, that municipalities and other local bodies should make and accept payment by cheque on account of salaries to some of their employees and other items of receipts and disbursements, that the cheque forms should be printed in vernaculars etc.[2] Cheques on country side banks would thus become as acceptable as cheques on the city banks. Again, the pressure on the cash reserves of the banks will be reduced through the system of mutual settlements and this, coupled with larger deposits, will enable the banks to give larger and cheaper credit to their customers. Money will also be evenly distributed in the country bringing about steadier interest rates.

IX. OTHER REFORMS

(1) MECHANISATION

In most of the advanced countries of the west adding machines and other mechanical devices for performing the routine and

1. See Mr. Macdonald's oral evidence, The Central Baking Enq. Comm., Evidence Vol. III, p. 876.

2. See The Central Banking Enq. Comm. Rep., paras 663-666.

stereotyped work have become a common feature of banking offices. There are also several other devices used by them for copying letters and documents, for sorting, arranging and filing vouchers, for stamping work of all kinds, machines for subtracting and multiplying and preparing statements and for sorting and counting coins.

The advantages of using machinery for routine work are obvious. The use of machines sets free the bank clerks from routine duties so that their mental faculties are available for being utilized in a better way. Although this is true, no appreciable move in the direction of mechanisation of bank work has been taken in this country because clerical labour is comparatively cheaper and the cost of the imported machines is so high that ordinary banks cannot afford to buy them. But with the increase in the volume of business in the interest of quick and accurate work, the use of these mechanical appliances should be encouraged by banks.

(2) BANK ADMINISTRATION

The working of the Indian Joint Stock Banks is generally under the control of a Board of Directors and the Managing Director or the General Manager. At the meeting of the Board of Directors all matters of importance bearing upon the bank's interests are submitted for their consideration, and a general policy is laid down which the Managing Director or the General Manager has to carry out. A complaint has been made that many of the smaller banks award the directorship to influential people who are likely to bring business and lend to the bank a colour of respectability by their names. Many of these directors unfortunately do not possess the technical knowledge essential for the management of banking business. Generally they have neither the leisure nor the qualifications for handling efficiently the problems arising in the management of banks. An early stop must be put to this state of affairs. Even though it is a practice in many countries to appoint only persons possessing adequate banking knowledge as bank directors, it is difficult to insist on such a step at this stage and subject them to a compulsory examination in banking knowledge before being appointed as directors. But men who already hold half a dozen

or more directorships in trading or other kinds of joint stock companies should be prohibited from being appointed as directors of banks. One of the important reforms approved by the recent Commission on Banking Reform in Japan was to prohibit bank directors or other officers from serving as directors on the boards of other business concerns.

It would go a long way in securing efficiency if it could be made possible for the depositors to appoint their own representatives possessing special qualifications in banking, finance and investment.[1] If it is considered that this would interfere with the smooth working of the bank from day to day, a supervisory council on which the depositors and other shareholders are represented must be created by every bank. Quarterly meetings of this supervisory council should be held to examine the work of management, to make the appointment of qualified men for the higher appointments in the bank. Many of the grave abuses so common to management by the present boards of directors of the smaller banks can be remedied by careful action on the part of the supervisory committee. Such a committee would indeed be an asset of great value to a bank.

At present, the majority of bank employees are deficient in general education and knowledge of the theory and practice of banking. The Joint Stock Banks should adopt the scheme of the Imperial Bank of India of giving practical training in banking to young men of university education. It must be of a nature which will educate the probationers, at the end of their training period, regarding the routine work and general banking practice of the various departments, so as to make them capable of holding responsible posts afterwards.

(3) BANKING EDUCATION

Until the end of the last century commercial education appears to have received little attention in this country. It is only since the beginning of this century that the educated public has shown much interest in the matter, and a substantial provision has been made for imparting of commercial education,

1. The New Citizen Bank of India, Ltd. started this year (1938) has given representation to depositors on the Board of Directors.

including banking. Almost all the Indian Universities have introduced into their curricula subjects relating to commerce and banking. In addition, some of the provinces have commercial schools, Government and private, providing teaching for certificates or diplomas which are granted by Government, the London Chamber of Commerce, the Indian Merchants' Chamber, Bombay, and the English and the Indian Institutes of Bankers, after holding special examinations for the purpose. In Calcutta, Madras and Calicut Government have established commercial institutes. Commercial classes are attached to Government high schools in Bombay and Broach, and to seven high schools in the Province of Delhi. Besides these, there are several other private institutions.

There is, however, no coordination and an understanding between these educational institutions and the banks in India. The former have not given sufficient attention to the problem of making their courses more practical. The latter have a poor opinion of the theoretical instruction provided by the former, and still have not made any arrangements for supplementing it by means of practical training. No bank in India, excepting the Imperial Bank and the Peoples' Bank of Northern India, has any scheme for training young men with a view to employ them in its service.

The Central Banking Committee has, therefore, suggested that the Indian Institute of Bankers should take active part in coordinating the educational institutions and banks, in making commercial courses more practical and in providing employment to trained youths in banks. It has also been suggested that the Imperial Bank should extend the working of its scheme of giving practical training to young men of good education. The Joint Stock Banks should launch and work out similar schemes, according to their capacity. It has further recommended that every University should arrange with recognized institutions for imparting instruction for a degree in commerce, including banking.

(4) BANKING STATISTICS

It was pointed out in a previous chapter that the statistical information regarding banks available in India is far too in-

adequate to enable the country effectively to tackle with the difficult problems of banking extension, safety and legislation. Blue books like ' Statistical Tables relating to Banks in India ', are generally published so late that they have mere historical importance and are of very little use to the serious student of banking problems. The Joint Stock Banks in the country should realise this great lacuna in Indian banking and should not hesitate to give any information which is likely to be useful. It would not be wrong to say that banks control the economic destiny of a nation whose interests are closely bound up with the whole question of the reform of bank operations in the direction of greater publicity. The Indian Joint Stock Banks should be required by law to submit to the Reserve Bank of India, as is done in America,[1] a ' report of condition ' containing all the items of resources and liabilities in a condensed form.[2] Besides the report on condition, every bank should make a half yearly report to the same authority on its earnings and dividends. The Reserve Bank should be asked to analyse, tabulate and publish consolidated figures, as based on the above reports, for the information of the public.

1. Fiske, The Modern Bank, pp. 204, 206.

2. The Reserve Bank of India now publishes every week a statement showing the Consolidated Position of the Scheduled Banks under the following headings: Demand liabilities in India and Burma, Time liabilities in India and Burma, Cash in India and Burma, Balances with the Reserve Bank, Cash and balances with Reserve Bank as percentage of demand and time liabilities, Advances in India and Burma, Bills discounted in India and Burma, Advances and discounts as percentage of demand and time liabilities.

CHAPTER XIII

CONCLUSION

THE FUTURE OF THE JOINT STOCK BANKS

In this concluding chapter an attempt will be made to form an estimate of the future of the Joint Stock Banks in India as far as possible. Whether judged by their numbers or by their deposits or by their paid-up capital their position is none too rosy. The number of Joint Stock Banks, as previously shown, is totally incommensurate with the size of the country and its banking requirements. We have also pointed out how bank deposits in India are very meagre. This is strikingly brought out by the fact that while the deposits per head of the population in England amounted to £60 in 1924, those in India amounted to only Rs. 4 per head in the same year. Moreover, both as regards the growth of their deposits and paid-up capital there is one important consideration to be borne in mind. Leaving out the very recent period (1929–1935) as being abnormal owing to the economic depression, we find that the total deposits and paid-up capital of the Joint Stock Banks of both the classes in India increased from Rs. 18 and 3 crores respectively in 1914 to Rs. 66 and 12 crores in 1928. The price-level, however, in 1928 was higher than in 1914. Taking the Calcutta wholesale price index for 1914 as 100, the index number for 1928 is 145. On reducing the figures of 1928 to the price-level of 1914 we find that the deposits and paid-up capital amounted to only Rs. 46 and 8 crores in 1928 respectively. This does not show any very marked increase either in the deposits or paid-up capital of the banks in view of the country's banking possibilities. While in the absence of reliable and complete statistical information it is not possible to say exactly how our system has been progressing when compared to other banking systems, the comparisons already made in chapter XII (p. 223)

leave us in no doubt as regards the very limited progress made by banking in this country.

During the last five or six years of extreme depression through which Indian trade, commerce and industry have been passing, banking progress has received another set-back. Economic vitality has been impaired throughout the economic structure of this country. Devastating deprec ation has occurred in properties. The amount of 'frozen' or 'doubtful' advances has increased strikingly. There has been paucity of business and keener competition which has compelled the banks to invest large amounts of their working capital in gilt-edge securities. In this they have been further influenced by their desire to keep their position as liquid as possible having regard to the difficulties arising from the general financial situation. Consequently the amounts set aside for the distribution of dividends have declined. Thus there has been a growing uncertainty and sometimes nervousness as to the present and apprehensions regarding the future. It will not, therefore, be wrong to assume that the majority of the Indian Joint Stock Banks are struggling to maintain their position.

Moreover, there does not exist to-day a strong organization among the Indian Joint Stock Banks. They have often been in recent years the target of malicious propaganda and mischievous 'credit-wrecking tactics on the part of their critics and opponents. There is also so far no banking law and no efficient official supervision. The absence hitherto of a Central Bank left them unaided in the hour of need. Indeed, barring the period of post-war boom, Joint Stock Banks have not been able to show any very remarkable progress.

But the urgency of the present Indian economic situation does not allow the continuation of a policy of drift in the field of banking any longer as in the field of industry. With her teeming millions the problem of India is essentially and mainly one of agricultural, industrial and commercial development. It has been readily admitted on all hands that the industrial and commercial reorganization and development are essential elements in fostering India's economic, political and social advancement. This conviction has been given expression to

not only by the leaders of public thought most of whom have realised this many years ago but also by those who are responsible for the good government of the country. For instance, the distinguished authors of that historic document, the Montague-Chelmsford Report, assert, "On all grounds a forward policy in industrial development is urgently called for not merely to give India economic stability, but in order to satisfy the aspirations of the people who desire to see her stand before the world as a well poised, up-to-date country, in order to provide an out-let for the energies of her young men who are otherwise drawn exclusively to Government services or a few overstocked professions; in order that money now lying unproductive may be applied to the benefit of the whole community; in order that too speculative and literary tendencies may be bent to more practical ends and the people may be better qualified to shoulder the responsibilities ....." India has during the last hundred years served as a market for manufactured goods of other countries. But she cannot afford to play this role much longer. Solid economic progress is not possible with a mediæval economic organization such as we have. India cannot prosper except through rapid industrialization. But in so far as banking is really the key to the success of most enterprises, the economic problem of India may to that extent be said to be fundamentally a banking one.

When it is borne in mind that in India there are only two banking offices for one million of population as against 285 in the United Kingdom, that out of 2,500 towns less than 400 possess a bank or a branch of a bank, that the seven lakhs of scattered villages in India have hardly any modern type of bank, it will be readily realised that there is a vast virgin field for the development and extension of banking in our country. In the absence of adequate banking facilities a large amount of capital consisting of small and scattered savings is either lying idle in hoards or is being turned into unwise and unproductive channels. Inspite of the fact that the Post-Office Cash Certificates and Savings Bank schemes are intended to encourage small deposits, increased facilities for investment are required. If economic progress is to be healthy and continuous fresh capital must be steadily attracted. More banks must

be started. There is, therefore, a great future before banking enterprise in the country.

We are, however, not unmindful of the fact that the banking development of a country depends in a large measure on its general economic development. This vicious circle must, however, be broken through so far as this can be done by our banking system. At the same time we would express the need for adopting and pushing through a comprehensive plan of the economic development of the country which in the fullness of time will have favourable reactions on our banking progress.

The responsibility for ensuring a more rapid progress of the Indian Joint Stock Banks on sound lines depends on four main agencies, *viz.*, (i) the Reserve Bank of India, (ii) the Imperial Bank of India, (iii) the Government and (iv) the Public.

We have already explained how the advent of the Reserve Bank is calculated in general to stimulate the growth of Joint Stock Banks in the country. Much, however, will depend upon sound traditions set up by the Reserve Bank and on a sympathetic handling of the whole problem by its authorities. Great expectations have been raised by its establishment and we may express a general hope that the Bank will live up to these. The Rural Credit Department of the Bank which has been organized recently and the contact which the Bank hopes to establish with the Indigenous Bankers of the country in the near future may in general be expected favourably to influence the development of Joint Stock Banks in the country. But the main duty of the Bank will be to lay down sound banking connections, focus the expert banking opinion in the country and in general to hold itself ready to serve as a friend, philosopher and guide to the banks in the country.

As regards the Imperial Bank its position as the premier Joint Stock Bank in the country and its privileged status as the sole agent of the Reserve Bank increase its responsibility towards other banks and towards the country at large. When the agency contract with the Imperial Bank is due for renewal it will be very desirable that the Government and the Reserve Bank should consider how far the Imperial Bank has done its part in this matter.

The future of the Joint Stock Banks also depends in a large measure on the assistance received from the State. It is now widely realised that the time-honoured *laissez faire* policy is as unsuitable in the banking sphere as in the general economic sphere of the country's life. Active support of the Government and wise regulation of banking by the State are essential to inspire the necessary confidence among the people and generally to create a favourable atmosphere for the growth of banks. The recent comprehensive enquiry into Indian banking by a number of Provincial Committees and the Central Committee and the inauguration of the Reserve Bank of India last April may be regarded as an index of the increasing interest which the Government in this country are now taking in its banking progress. Further comprehensive measures on the lines suggested by the Central and Provincial Banking Enquiry Committees must be taken early to reorganize the entire banking structure. The present Joint Stock Banking system must be made safe, economical, adequate and efficient so as to afford maximum utility to all sections of the community. The present is an opportune moment for the formulation of a definite banking policy and an authoritative declaration of such policy would be greatly welcomed. In this connection we may refer to the policy of the Government to assist the Cooperative Banks. We realise that the concessions and privileges which are conferred on Cooperative institutions cannot well be claimed by Joint Stock Banks organised on commercial and capitalistic lines. What we desire, however, to emphasise is more active interest by the State in the growth of the Joint Stock Banks in the country. In view of the vital relation between the growth of Joint Stock Banking and the general economic progress of the country Government should take early steps to enact a Bank Act on the lines suggested by the Central Banking Committee. At the meeting held on 30th August 1935 at Bombay between the Hon'ble Sir James Grigg, K. C. B., Finance Member to the Government of India, and the Committee of the Indian Merchants Chamber, Mr. Manu Subhedar, President of the Chamber, pointed out the directions in which immediate reform was urgently called for. He also emphasised the pressing need for a Bank Act. The Finance Member admitted that

the Bank Act was an integral part of the amendment of the Indian Company Law which was then being studied by a special officer, Mr. S. C. Sen, appointed by the Government. The banking aspects of the problem were taken up in consultation with the Reserve Bank. The Indian Companies Act (1936) has given effect to certain recommendations of the Central Banking Committee but even then there are so many urgent points which have been left out. The hope may, therefore, be expressed that, because of its importance, a suitable Bank Act would be placed on the statute book in the near future.

Lastly, a word may be said about the public. In spite of the fact that public opinion in this country is not a well-organized force owing to the illiteracy of bulk of the masses, it is clear that banking progress must in the last resort depend on the attitude of, and support from the general public. It is the duty of all the public leaders, social reformers and economists actively to help in the formation of a well-organized public opinion in the country in favour of the saving and banking habits and of sympathetic support to banks in general and especially the more deserving and progressive among them.

There is a bright future before our Joint Stock Banks if only they help themselves and are in turn adequately supported by the four principal agencies mentioned above, *viz.*, the Reserve Bank, the Imperial Bank, the Government and the Public.

APPENDIX A

Sections 277 F *to* 277 N *of the Indian Companies Act*, 1936, *Relating to Banking Companies.*

277 F. Definition of banking company. A 'banking company' means a company which carries on as its principal business the accepting of deposits of money on current account or otherwise, subject to withdrawal by cheque, draft or order, notwithstanding that it engages in addition in any one or more of the following forms of business, namely (1) the borrowing, raising or taking up of money; the lending or advancing of money either upon or without security; the drawing, making accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hoondis, promissory notes, coupons, drafts, bills of lading, railway receipts, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not, the granting and issuing of letters of credit, travellers cheques and circular notes; the buying, selling and dealing in bullion or foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others; the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit, or for safe custody or otherwise; the collecting and transmitting of money and securities; (2) acting as agents for Governments or local authorities or for any other person or persons, the carrying on of agency business of any description other than the business of a managing agent, including the power to act as attorneys and to give discharges and receipts; (3) contracting for public and private loans and negotiating and issuing the same; (4) the promoting, effecting, insuring, guaranteeing, underwriting, participating in manag-

ing and carrying out of any issue, public or private, of State, Municipal or other loans or of shares, stock, debentures, or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue; (5) carrying on and transacting every kind of guarantee and indemnity business; (6) promoting or financing or assisting in promoting or financing any business undertaking or industry, either existing or new, and developing or forming the same either through the instrumentality of syndicates or otherwise; (7) acquisition by purchase, lease, exchange, hire or otherwise of any property immoveable or moveable and any rights or privileges which the company may think necessary or convenient to acquire or the acquisition of which in the opinion of the company is likely to facilitate the realisation of any securities held by the company or to prevent or diminish any apprehended loss or liability; (8) managing, selling and realising all property moveable and immoveable which may come into the possession of the company in satisfaction or part satisfaction of any of its claims; (9) acquiring and holding and generally dealing with any property and any right, title or interest in any property moveable or immoveable which may form part of the security for any loans or advance or which may be connected with any such security; (10) undertaking and executing trusts; (11) undertaking the administration of estates as executor, trustee or otherwise; (12) taking or otherwise acquiring and holding shares in any other company having objects similar to those of the company; (13) establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts, and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object; (14) the acquisition, construction, maintenance and alteration on any building or works necessary or convenient for the purposes of the company; (15) selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turing into account or other-

wise dealing with all or any part of the property and rights of the company; (16) acquiring and undertaking the whole or any part of the business of any person or company, when such business is of a nature enumerated or described in this section; (17) doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company.

277 G. Limitation of activities of banking company. (1) No company formed after the commencement of the Indian Companies (Amendment) Act, 1936, for the purpose of carrying on business as a banking company or which uses as part of the name under which it proposes to carry on business the word ' bank ', ' banker ' or ' banking ' shall be registered under this Act, unless the memorandum limits the objects of the company to the carrying on of the business of accepting deposits of money on current account or otherwise subject to withdrawal by cheque, draft or otherwise along with some or all of the forms of business specified in section 277 F. (2) No banking company whether incorporated in or outside British India shall after the expiry of two years from the commencement of the said Act carry on any form of business other than those specified in section 277 F: provided that the Governor-General-in-Council may, by notification in the Gazette of India, specify in addition to the businesses set forth in clauses (1) to (17) of section 277 F. other forms of business which it may be lawful under this section for a banking company to engage in.

277 H. Banking company not to employ managing agent. No banking company shall after the expiry of two years from the commencement of the Indian Companies (Amendment) Act, 1936, employ or be managed by a managing agent other than a banking company for the management of the company.

277 I. Restriction on commencement of business by banking Company. Notwithstanding anything contained in section 103 no banking company incorporated under this Act after the commencement of the Indian Companies (Amendment) Act, 1936, shall commence business, unless shares have been allotted to an amount sufficient to yield a sum of at least fifty thousand rupees as working capital and unless a declaration

duly verified by an affidavit signed by the directors and the manager that such a sum has been received by way of paid-up capital has been filed with the registrar.

277 J. Prohibition of charge on unpaid capital. No banking company shall create any charge upon any unpaid capital of the company, and any such charge shall be invalid.

277 K. Reserve Fund. (1) Every banking company shall, after the commencement of the Indian Companies (Amendment) Act, 1936, maintain a reserve fund. (2) Every banking company shall out of the declared profits of each year and before any dividend is declared transfer a sum equivalent to not less than twenty per cent. of such profits to the reserve fund until the amount of the said fund is equal to the paid-up capital. (3) A banking company shall invest the amount standing to the credit of its reserve fund in Government securities or in securities mentioned or referred to in section 20 of the Indian Trusts Act, 1882, or keep deposited in a special account to be opened by the company for the purpose in a scheduled bank as defined in clause (c) of section (2) of the Reserve Bank of India Act, 1934: provided that the provision of the sub-section shall not apply to a banking company incorporated before the commencement of the Indian Companies (Amendment) Act, 1936, till after the expiry of two years from the commencement of the said Act.

277 L. Cash reserve. (1) Every banking company shall maintain by way of cash reserve in cash a sum equivalent to at least one and a half per cent. of the time liabilities and five per cent. of the demand liabilities of such company and shall file with the registrar before the tenth day of every month a statement of the amount so held on the Friday of each week of the preceding month with particulars of the time and demand liabilities of each such day. (2) For the purposes of sub-section (1) 'demand liabilities' means liabilities which must be met on demand, and 'time liabilities' which are not demand liabilities. (3) Nothing in this section or in section 277 K. shall apply to a scheduled bank as defined in clause (c) of section 2 of the Reserve Bank of India Act, 1934. (4) If default is made in complying with the requirements of section 277 G, section

277 H., section 277 J., section 277 K. or section 277 M. or with the requirements of this section as to the maintenance of a cash reserve, every director or other officer of the company who is knowingly and wilfully a party to the default shall be liable to a fine not exceeding five hundred rupees for every day during which the default continues, and if default is made in complying with the requirements of this section as to the filing of the statement referred to in sub-section (1), to a fine not exceeding one hundred rupees for every day during which the default continues.

277 M. Restriction on nature of subsidiary companies. A banking company shall not form or hold shares in any subsidiary company except a subsidiary company of its own formed for the purpose of undertaking and executing trusts, undertaking the administration of estates as executor trustee or otherwise and such other purposes set forth in section 277 F. as are incidental to the business of accepting deposits of money on current account or otherwise.

277 N. Power of Court to stay proceedings. (1) The Court may on the application of a banking company which is temporarily unable to meet its obligations make an order staying the commencement or continuance of all actions and proceedings against the company for a fixed period of time on such terms and conditions as it shall think fit and proper and may from time to time extend the period. (2) No such application shall be maintainable unless accompanied by a report of the registrar: provided, however, the Court may, for sufficient reasons, grant interim relief, even if the application is not accompanied by such report. (3) The registrar shall for the purposes of his report be entitled at the cost of the company to investigate the financial condition of the company and for such purpose to have the books and the documents of the company examined by an accountant holding a certificate issued under section 144.

BIBLIOGRAPHY

(*A*) *GOVERNMENT PUBLICATIONS*

The Indian Central Banking Enquiry Committee (1931).
Vol. I Part I Majority Report.
Part II Minority Report.
Vol. II Evidence (Written).
Vol. III Oral Evidence.
Vol. IV Discussions with Foreign Experts.

Reports of Provincial Banking Enquiry Committees (Bombay, Madras, Bengal, Punjab, Bihar and Orissa, United Provinces, Assam and Central Provinces).

Statistical Tables relating to Banks in India.

Annual Reports of the Controller of Currency.

Reports of the Joint Stock Companies in India.

Report of the Royal Commission on Indian Currency and Banking (1926).

The Reserve Bank of India Act (1934).

The Imperial Bank of India (Amendment) Act (1934).

Report of the Committee on Finance and Industry (1931). London.

Report of the Indian Industrial Commission (1916–18),

Statistical Abstract for British India 1922–23 to 1931–32.

Annual Reports on the Working of the Indian Companies Act, 1882 from 1906 to 1912.

Indian Companies Act (1913).

(*B*) *GENERAL PUBLICATIONS*

B. Ramchandra Rau — Present-Day Banking in India.

B. Ramchandra Rau — Banks and the Money Market.

B. T. Thakur — Organization of Indian Banking.

L. C. Jain — Indigenous Banking in India.

L. C. Jain — The Monetary Problems of India.

M. L. Tannan — Regulation of Banks in India,

M. L. TANNAN	Banking Law and Practice in India.
M. L. TANNAN & K. T. SHAH	Indian Currency and Banking Problems.
K. T. SHAH	Indian Currency, Exchange & Banking.
J. M. KEYNES	Indian Currency and Finance.
H. SINHA	Early European Banking in India.
S. BHATTER & L. NEMENYI	The Reserve Bank of India and its Functions.
S. R. DAVAR	Law and Practice of Banking (1931 Edition).
S. G. PANANDIKAR	Banking in India.
K. K. SHARMA	The Indian Money Market.
D. E. DADACHANJI	A Reserve Bank for India and the Money Market.
G. FINDLAY SHIRRAS	Indian Finance and Banking.
S. JEVONS	Money, Banking, and Exchange in India.
P. A. WADIA & G. N. JOSHI	Money and the Money Market in India.
A. RAMAIYA	The Reserve Bank of India Act.
M. VISVESVARAYA	Planned Economy for India.
O. S. KRISHNAMURTI	Indian Practical Banking.
JATHAR & BERI	Indian Economics Vol. II.
SIR J. C. COYAJEE	The Reserve Bank of India.
SIR J. C. COYAJEE	India's Currency, Exchange and Banking Problems (1925-28).
S. E. THOMAS	The Rise and Growth of Joint Stock Banking.
S. E. THOMAS	British Banks and the Finance of Industry.
S. D. SOUTHWORTH	Branch Banking in the United States.
J. SYKES	The Present Position of English Joint Stock Banking.
E. SYKES	Banking and Currency.
P. BARRETT-WHALE	Joint Stock Banking in Germany.
A. S. J. BASTER	The Imperial Banks.
WALTER LEAF	Banking.
PARKER H. WILLIS & B. H. BECKHART	Foreign Banking Systems (1930 Edition).

KENNETH MACKENZIE — The Banking Systems of Great Britain, France, Germany and the United States of America.

JAMES — The Economics of Money, Credit and Banking.

H. BELSHAW — The Provision of Credit.

W. R. BURGESS — The Reserve Bank and the Money Market.

KISCH & ELKIN — Central Banks.

E. E. AGGER — Organized Banking.

W. F. SPALDING — The London Money Market (1933 Edition).

A. K. FISKE — The Modern Bank.

The Journal of the Indian Institute of Bankers.

The Annual Report of the Reserve Bank of India (1936–1938).

The Reserve Bank Supplement (Indian Finance).

The Indian Finance Year Book (1934–1936).

The Annual Register, Calcutta.

Statistical Year Book of the League of Nations (1933–34).

W. THOMSON — Dictionary of Banking.

INDEX

The numbers refer to pages

Act.
—Bank (Proposed), 211–22, 244.
—Co-operative Societies, 211.
—Imperial Bank of India, 5, 95, 129, 135, 192, 211.
—Indian Companies, 103, 115, 120, 208, 210, 213, 215, 216, 218, 219, 245.
—Paper Currency Amendment, 233.
—Presidency Banks, 29, 44, 45, 91.
—Reserve Bank of India, 6, 124, 148, 207.
—State Aid to Industries, 196.
—Transfer of Property, 208.
Agency Houses, 13, 18-21, 33.
Agger, E. E., 105.
Agricultural Finance, 177, 178–84.
Banking
—Early European, 13.
—Effect of the war on, 71–77
—Planning in, 6.
—Policy, 4.
—Reconstruction of, 4.
—Services of, 1–2.
—Slow Progress in India, 2, 3.
Bank Failures, 3, 4, 57–71, 77, 80–83, 86–88.
Baster, A. S. J., 36
Belshaw, H., 112.
Blackett, Sir Basil, 233.
British Trade Corporation, 5.
Brunyate, J. B., 25, 27.
Burgess, W. R., 58.

Cable, Sir E. 95.
Cash Credits, 113–14.
Clearing House, 234–5.
Commonwealth Bank of Australia, 4.
Co-operative Banks, 8, 80, 151, 164–9, 181.

Darling M. L., 16.
Demand advances, 114–5.
Deposits, 104–110.
—Current, 108–10.
—Fixed 105–6.
—Provident, 109.
—Savings, 106–8.
—Specific purpose, 109.

Exchange Banks, 42, 46, 53–6, 58, 72, 74, 98–9, 128, 157–62, 181, 219, 228.

Fiske, A. K. 239.

Grigg, Sir James, 244.
Gubbay, M. M. S. 226.

Howard, H. F. 47, 64.
Hunter, Sir Bernard, 226.

Imperial Bank of India, 5, 80, 94–8, 118, 128, 129–38,

155–7, 158, 159, 162, 168–9 172, 173, 181, 188, 192, 193, 194, 237, 243, 245.
Indigenous bankers, 2, 8, 10–18, 181.
—Associations of, 16.
—Capital of, 17.
—Causes of their decline, 17–18.
—Decline of, 12.
—Growth of, 10–12.
—Present position of, 14.
—Relations with Joint Stock Banks of, 170–6.
Industrial finance 187–202.
Institute of Bankers, 229–30.

Jain, L. C., 12, 15, 88.
Jathar, G. B. and Beri, S. G. 46, 47, 48, 80.
Joint Stock Banks,
—Advances of, 112.
—Administration of, 236–7.
—Banking education, 237–8
—Dividends of, 88–9.
—Early, 21–5.
—Economy and efficiency of, 230–2.
—Elasticity of credit, 232–4.
—Failures, see Bank failures.
—Geographical distribution of 90–1.
—Imperial Bank of India and, 155–7.
—Limited liability of, 35–6.
—Mechanisation of work of, 235–6.
—Statistics of, 238–9.
—Swadeshi movement and, 37, 69, 88.

Keynes, J. M., 42, 46, 70, 79, 95.
Konsortium, 199.

Land Mortgage Banks, 6
Leaf, Walter, 193.
Loans, 115–20.
Love, H. D., 24.

Mackenzie, Kenneth, 228.
Martin, R. M. 22, 29.
Mehta, Sir Pherozshah, 138.
Military Banks, 33–4.
Money-lenders, 15, 16, 171–2, 181.
—Statistics of, 16.
Money Market in India, 47, 54, 60, 79, 119, 120, 124, 146–76, 233.

Pochakhanawala, Sir S. N., 138.
Presidency Banks, 4, 5, 13, 14, 25–33, 42, 43–53, 58, 70, 72, 77, 91–4, 95, 129.

Rau, Ramchandra, 21, 24, 25, 27, 38, 68, 69, 226.
Rebates, 110.
Reisser, 68.
Reserve Bank of India, 5, 6, 83, 98, 120, 124, 128, 129, 131, 132, 136, 146, 147, 155, 156, 157, 160, 212, 219, 220, 222, 224, 233, 234, 235, 239, 243, 244, 245.

—Banking reform and, 8.
—Indigenous bankers and, 174.
—Joint Stock Banks and, 147–55

Savings Banks, 32–3, 34.
Scheduled Banks, 163.
Sen, S, C., 245.
Shirras, G. Findlay, 36, 66, 72, 73, 74, 76, 77.
Shah, K. T. 48.
Sinha, H., 18, 22, 23, 27.
Subhedar, M., 159, 244.

Tannan, M. L., 10, 48, 64, 217.
Thakur, B. T., 70.
Taylor, J. B., 224.

Visvesvaraya, M. 224.

Wilson, James, 94.