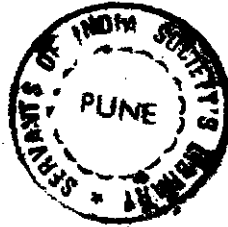


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PRESENT-DAY BANKING IN INDIA

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To

The Hon'ble

SIR ASUTOSH MOOKERJEE,

Kt., C.S.I.

This book is respectfully dedicated
by the Author as a token of his affection,
admiration, respect and gratitude.

PREFACE TO THE THIRD EDITION

Bearing in mind the changes that have taken place during the eventful years of 1925-1927 I have rewritten the second edition pointing out the effects of such changes on the general public, the Imperial Bank of India, the immigrant Banks, the indigenous joint-stock banks and the indigenous bankers of our country. The descriptive material in the different chapters has been brought up to date. The long chapter on Banking Reform has been split up and re-arranged into different chapters. The most important additions are the chapters on the Central Bank of Issue, Organised Banking in the Days of John Company, the Capital Market and the Investment Market, the Loan Companies of Bengal and Recent Monetary Reform.

It is a matter of sincere gratification to note that most of my views, valuable hints and fruitful suggestions offered in the previous edition have been accepted by the recent Royal Commissions on Currency and Agriculture. The 1926 Conference of Registrars of Co-operative Societies have practically endorsed the suggestion for a separate credit organisation for granting long-term credit facilities to agriculture. The idea of starting a separate State Bank for financing agriculture and industries which immature Indian authors generally mechanically repeat has been happily knocked on the head. The recommendations of the Hilton-Young Commission, the External Capital Committee and the Royal Commission on Agriculture which aim at setting right the currency and the financial system of the country, and the reorganisation of the rural credit system of the country have like myself clearly pointed out the necessity of breaking the gauge in the existing banking organisation. Most of my suggestions are repeated afresh by these authoritative bodies. One of my intelligent reviewers, who does not however give me any constructive suggestions, writes that "in his long chapter on banking reform he anticipates a good few of the suggestions made by Sir Basil P. Blackett in his very informing and suggestive address to the Delhi

University, e. g., "the standardisation of the forms of Negotiable Instruments, the use of the vernacular in the printing of the cheques, the need for special banking legislation apart from the general Company Law," etc."

The establishment of the One Reserve System, the abolition of the stamp duty on bills of exchange, the creation of a Central Bank of Issue, the tuning of the indigenous banker as an integral feature of the organised banking system, the undertaking of acceptance business by the Banks and the creation of a discount market, have been pointed out by me and these are some of the very suggestions which are offered by the present-day publicists for the improvement of the banking system. With reference to the exchange, the investment and the discount markets and the reorganisation of the indigenous banker's business I have added further suggestions in the different chapters of this book. I have suggested measures to remedy the defects of the existing law in regard to the responsibility of directors. Means to improve the investment habit on the part of the people have been recommended. The necessity of compelling the exchange banks to afford prospects of a career in banking and thus creating an Indian banking personnel has been pointed out. Some of the present defects of co-operative finance, the unreliability of some of the shroffs, the amount of possible competition between the Imperial Bank and the other Joint-Stock Banks and the dangers underlying the recent merger between the Big Five and the Exchange Banks in our money market, have been outlined. Attention has been drawn to the working of the agricultural banks of other countries, and the lessons that have to be learnt from their example are pointed out. I have indicated the steps by means of which the Central Bank of Issue can gradually secure control over the internal credit situation and I have devoted special attention to free the study of banking organisation from all non-essentials, so that the reader can comprehend it clearly and barring the collection of data and statistics which a Government Committee alone can collect I have endeavoured my level best to make a scientific survey of the existing banking organisation and present a programme on clear-cut lines for immediate attention on the part of

¹ See the *Journal of India*, dated the 6th March 1922.

the bankers, the general public and the Government. Safe and sturdy banking development under the regulation and control of a Central Bank affords the only reliable means for the proper and healthy economic progress of our country.

I have suggested practical scientific remedies for enabling the people to shake off their hoarding habit. I have attempted to probe deep into this "old problem" obscured by an overgrowth of peculiar misconceptions, fads, and exaggerations of specialists and scientific inexactitudes resulting from purposeless or ineffective inquiries. There is no greater prevailing misconception than that India has hoarded, in utter disregard of economic considerations, and that the Indian still persists in the hoarding habit in the same manner and to the same degree. The Indian is not a mere slave to the primeval instinct of acquisitiveness. His hoarding is the direct result of prudence, economic needs and unforeseen contingencies. Doubtless he may be mistaken but he is not perverse. I have proved by a process of elimination that there is no considerable portion of the population which continues to keep its savings in the form of idle cash. As there is still left much of the evil to tackle I have made a list of practical suggestions which would go a long way in ensuring a truly economic use of the national savings. Some of my practical suggestions would go to the root of the matter and act as a sharp spur to economic improvement. I will only add that the usefulness of the Central Bank of Issue will depend on its ability to get into close and living touch with and alter for the better the economic life of the large masses of India's rural population. There is no discussion of this important problem before the Royal Commission on Agriculture and the Banking Committee should not fail to tackle this problem.

Another salient lesson which I propose to emphasise is the necessity to solve our problems in banking, currency and industry by measures which go hand in hand. Fragmentary reform of currency or banking is futile. Simple, intelligible and reliable measures which pay proper heed to the habits of the people are essential.

In the chapter on Organised Banking in the Days of John Company I have succeeded in pointing out the work of a few banking institutions whose names alone are known to the existing contributors

on the subject. I have literally exhumed from the graves in which they have been buried the unrecorded material of some banks of this period and they find a place for the first time in any book on Indian Banking. As students of archæology by finding a bone here, a piece of tessellated pavement there, in another place some pottery or rust-eaten apparel have caught glimpses of our civilisation, so also I have tried to collect heterogeneous facts from published Government records, old books, pamphlets and newspapers of this period and present a comprehensive list of some of the banks working during this period.

In my forthcoming monograph on Organised Banking in the Days of John Company further details and a more comprehensive account of these banks, whose history has been unearthed for the first time, would be presented. The present banking system of India is a very different thing from what it was. It has been my aim to show in this monograph the economic forces at work in this period. Bankers, like other human beings, are creatures of their environment. As heirs of all the past ages it behoves us to know the working of these institutions that did their duty in the dim past for the past always lives on and works on in the present. Lessons will be drawn from the lives of the dead (bankers) and a study of the right inference drawn would go a long way in eradicating unsound banking management in this country.

This book is only a companion volume of my book "Elementary Banking for Indian Beginners" where the theory underlying the successful working of a commercial bank and every other specialising banking concern is taught in a "clear and concise manner" as the American Economic Review puts it. The bibliography at the end of this book would be of use to all who are interested in pursuing their studies further in this direction. I hope readers would judge the work by the accuracy of its recommendations and not by the atmosphere in which they are stated.

It has been my endeavour throughout the book to avoid outlining cut-and-dried schemes either in the matter of framing banking legislation or in the matter of formulating proposals for starting industrial, agricultural or any other kind of specialised banking institutions. Throughout the book the object has been to indicate the theoretical necessity and outline a basis for the new changes and give sufficient

indication of the practice of foreign countries in these lines in support of the line of reasoning adopted by me. I am much obliged to the Syndicate of the Calcutta University for permitting the Punjab Co-operative Union, Lahore, to undertake a translation of the second edition of this book into Urdu.

I desire to express my thanks to the editors of the different Journals, e.g., *Bengal Past and Present*, the *Calcutta Review*, the *Welfare*, the *Mysore Economic Journal*, the *Indian Finance*, the *Cosmopolitan*, the *Servant of India*, the *Indian Journal of Economics*, the *Modern Review* and the *Capital* for permitting me to incorporate some of my recent contributions on banking in this new edition. My thanks are due to Hon'ble Mr. Ramaprasad Mookerjee and Raja Resheecase Law through whose courtesy I could gain access to the Library of the Calcutta Branch of the Imperial Bank of India. I desire to place on record my appreciation of the assistance given me by Mr. J. A. Chapman of the Imperial Library, Calcutta, without whose help I would not have gained access to important books dealing with the chapter on Organised Banking. My thanks are also due to the Consulate Generals of Japan and Germany for enabling me to secure useful information about the German banks that once did and the Japanese Banks that are still doing business in India. Only a portion of much of the material that I have gathered in this way has been made use of in this book. I have added materially much information to the account of the old Presidency Banks which has not been given either by Cooke or Brunyate. I have succeeded in pointing out the individual who was responsible for adding unconsciously the words "payable in India" after the phrase "bills of exchange" thus precluding the Bank of Bengal from transacting foreign exchange business.

B. RAMACHANDRA RAU

SENATE HOUSE CALCUTTA :

February 1929.

POST-SCRIPT

Since I handed over the manuscript to the press several important events have occurred in the banking field. The appointment of the different Banking Committees to enquire into banking conditions was announced and they have begun their work in right earnest. The liquidation of the Bengal National Bank, the sudden ending of the speculative frenzy on the Wall Street, the passing of the New Companies Act of 1929 in the United Kingdom, the Hatry Crash, the passing of the Punjab Money-Lender's Bill, the starting of an International Bank of Settlements and the harmonious manner in which the German reparations payments have been settled, the events which compel the entry of India as a borrower in the London Money Market, are some of the recent financial events. I decided not to attempt to discuss these measures for two reasons. The book has already reached an unmanageable size. Being engaged in the task of investigating the history of some of the older banks I could not find the necessary time to comment on these measures. It is my intention to complete this study later when I recover from my present ill-health and the shock of domestic bereavement. I thank the Superintendent of the Press and the Senior Proof Reader for reading the proofs with care and diligence. I acknowledge with pleasure the unusual ways in which Dr. Pramathanath Banerjee, my chief, has stimulated me in the publication of this book.

B. B.

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Extracts from a Few Select Opinions and Reviews

ON

PRESENT-DAY BANKING IN INDIA (2nd Ed.)

"The book is a scholarly survey of the Indian banking system—Mr. Rau writes with authority and sound theoretical knowledge. It offers constructive suggestions for a solution of the immediate and practical problems of the banking system."—*The Bengal Co-operative Journal*.

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