

**EARLY EUROPEAN BANKING
IN INDIA**

WITH

SOME REFLECTIONS ON PRESENT CONDITIONS

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BY

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CERTIFIED ASSOCIATE OF THE INSTITUTE OF BANKERS, LONDON

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PREFACE

This work attempts to fill a gap in our knowledge of European Banking in India. That history is utterly dark in its earliest and most important period. The existing accounts of the subject have been found incomplete and often incorrect in material points. Most of them have repeated the same story and sometimes the same mistakes. I have, therefore, been obliged to reject all second hand materials of this nature, and to rely on the very raw materials of history, *viz.*, the contemporary State records and newspaper accounts.

The Bengal Chamber of Commerce gave me the high privilege of access to its library, which contains extremely valuable old documents not to be found anywhere else in India. Similarly I was kindly given access to the records and library of the Imperial Bank of India, Calcutta. The manuscript records of the Bengal Government Record Office and of the Imperial Records Office in Calcutta, were examined by me for several years. Copies of documents in the India Office and in the library of the Institute of Bankers, London, were also obtained. In spite of many gaps in these sources, the material I have been able to collect is so vast that only a portion could be embodied in the present volume. Valuable data have been secured for cognate subjects, *e.g.*, the early history of the Calcutta Money Market, which are outside the scope of the present work. The portions relating to indigenous banking caused me much anxiety. There is no written account, published or unpublished, of this obscure and complex subject to which the student may refer for guidance. In order to study the recent history and the present organisation of indigenous banking and to trace its connection with European banking, I addressed a *questionnaire* to many Indian merchants and *shroffs* in Calcutta and in the

mofussil and also interviewed some of them. In spite of the natural reluctance of business men to divulge their methods of business many new and interesting facts have been elicited in this way, some of which have been incorporated in this book.

The consultation of old State records and newspapers was no easy task. Although carefully preserved, they are worm-eaten and pasted over with tissue paper to piece the crumbled portions together. They can be deciphered only with the greatest difficulty. There is no index to the newspapers. Files after files had to be waded through to find an obscure notice in the advertisement columns. The editorials of the time did not as a rule comment on current events, but concerned themselves with learned essays in the style of Bacon, translation of Sanskrit and Persian poems, long accounts of the old Court of Delhi and mail news from English papers. There is an index to the Government records down to 1800, but it is not satisfactory, as is only to be expected from the enormous mass of materials that had to be handled. For instance, the papers relative to a single transaction, *viz.*, the coinage of Spanish dollars into *Sicca* rupees, are distributed under as many as five headings:—(i) Bank ; (ii) Bank of Bengal ; (iii) Benjamin Mee (one of the partners of the Bengal Bank) ; (iv) Mint (v) Herbert Harris (Mint Master). It is difficult to compile a connected narrative from isolated references like these. Besides, there are a number of serious errors, not to speak of obvious slips. The Bengal Bank is systematically referred to as the Bank of Bengal with which it had nothing to do. But by a patient search extending over years, I have been able to discover a number of facts which are now presented together, I believe, for the first time. It has, I hope, been satisfactorily established that there was a Joint Stock Bank in India with limited liability long before the incorporation of similar institutions in England ; that the Bank of Bengal was not the first banker of the Government of India, nor

even was its progenitor, the Bank of Calcutta ; that the notes of private banks were recognised by the Government as early as the eighteenth century ; that the theft of bank notes was not an offence till the end of 1809 ; that the Government issued papers akin to Treasury Bills to carry on the War in the South with the help of the banks of the time ; that they readily came to the assistance of banks in times of crises ; that they appointed a Currency Committee with leading bankers as members as early as the eighteenth century. I have also reproduced interesting specimens of old bank notes, bank post bills and other instruments and have tried to show how far they followed similar instruments in England or the indigenous instruments of the country. An endeavour has been made to describe the methods and procedure followed by the pioneers of banking on European lines in India. My only hope is that this account, incomplete as it necessarily is from the disappearance of certain records, will draw the attention of other researchers to the wealth of materials on which I have worked, for the field is wide and the labourers few.

In the second part of the book I have attempted to deduce certain conclusions from the events recorded in the first part and apply them to the present day problems. After this part had been set in type, the report of the Royal Commission on Currency and Finance was published. It is a matter for sincere congratulation that all the members including Sir Purshotamdas Thakurdas emphasise the importance of banking development as the foundation for a thorough reorganisation of credit and currency. In this they simply enunciate the lesson taught by the history of the Calcutta Money Market during the last quarter of the eighteenth century as given in the present volume. Great stress has also been laid in the book on the importance of the organisation of a discount market under the aegis of a strong central institution. It has been pointed out that cash reserves need no longer be regarded

as inadequate, if banks are able to rediscount their holdings of bills freely. This view has received the support of the Commission. There is another point on which all the members of the Commission are agreed, *viz.*, that the issue of notes should be taken out of the hands of the Government. It has been pointed out in the first part of the present volume how Sir James Steuart recommended this measure as early as 1772. Lapse of time has not detracted from the strength of his contention. There are certain other reforms suggested in the second part, which have also been recommended by the Commission, *viz.*, the establishment of a one-reserve system, in fact as well as in name, the abolition of the stamp duty on cheques and the standardisation of indigenous bills of exchange.

There is only one point discussed in the second part of this volume which is somewhat at variance with the majority report when it states that "the mere fact of putting gold into circulation would not develop the banking and investment habit." In an abstract sense this is probably right. But in the peculiar conditions of India, until public confidence is created by a courageous currency reform even amounting to the establishment of a comparatively expensive gold currency, people will not be weaned from uneconomic habits of hoarding, nor initiated in the use of any form of credit currency, although the notes may bear a double guarantee, that of the Reserve Bank and of the Government of India. It is not excessive pessimism which makes the present writer cherish serious misgivings about the future of the proposed Gold Bullion Standard. Nor is he convinced by the reasons given by the Commission for rejecting the scheme prepared by the Finance Department of the Government of India for introducing a gold standard with gold currency.

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GLOSSARY.

- ARATDAR: a dealer, who gets a certain commission on the price of goods temporarily stored in his *arat* or godown by a wholesaler.
- ARCOT RUPEE: the rupee originally coined by the Nawab of Arcot in the Madras Presidency and afterwards by the English, French and Dutch East India Companies. The weight varied from 171 to 177 grains and the quantity of pure silver from 160 to 170 grains.
- ASWIN: name of a month according to Indian calendar.
- AURANG (also AURUNG): a place where goods are manufactured; a *depôt* for such goods.
- BADI: the dark fortnight, that of the moon's wane from full to the new moon.
- BANIA: (from Sanskrit *Vanij*, merchant) a merchant-banker, who generally trades with his own capital.
- BANTO: a class of persons in JAPAN, who resemble the *banyans* of India or the *compradors* of China.
- BANYAN: (from Sanskrit *Vanij*) present meaning, an Indian broker attached to houses of business; formerly, a person in the employment of a private European gentleman doing analogous duties.
- BATTA: (from Hindi *Batta*) agio; difference in exchange or discount on coins not current.
- BATTAH: (also BHATTA) a special allowance granted to military officers under the East India Company.
- BEPARI: an Indian wholesale-dealer.
- BHATTA: modern form of BATTAH, q. v.
- BUDLER: a simultaneous purchase and sale of foreign exchange, etc.
- BUNNEAH: see BANIA.
- CHURAWALLAH (also CHURUWALLAH): a class of up-country dealers in Calcutta, whose main business is the financing of consignments to the United Provinces.
- COMPRADOR: (from Portuguese *Comprador*, purchaser) a responsible person who engages servants and acts as the pay-master of foreign merchants in China; the guarantee-broker and cashier of banks in China.
- COOTEE: a branch or an agency.
- DHANIJOG HUNDI: an inland bill of exchange written in vernacular payable to the purchaser or his representa-

- tive. (See also **SHAHJOG HUNDI**).
- DIWAN**: the chief financial minister of the State or of a province vested with large judicial powers (during Muhammadan rule).
- DURSANI (DURSUMNI)**: an on demand inland bill of exchange.
- DUSTOOR (DUSTOORY)**: (from Hindi *Dastoor*, custom) the commission on a cash transaction charged by an agent of payment, with or without the knowledge or consent of his principal; a customary fee or perquisite.
- FARMAN (FIRMAN, FIRMAUN)**: (from Persian *Farman*) an order, patent or passport issued by the sovereign.
- GOMASTAH**: (from Persian *Gumastah*, appointed, delegated) an Indian agent or factor.
- GUCCHIT**: a deposit, generally for safe custody.
- HAT CHITA**: a ledger account opened by Bengali or other Indian *Mahajans* in the name of their borrowers.
- HOONDEE, HOONDY, HUNDI**: an inland bill of exchange written in vernacular.
- JAGAT SETH**: literally, 'banker of the world'; a title of great honour for an Indian banker.
- JOKEMI HUNDI**: a bill of exchange and an insurance policy rolled into one; "A Jokhmi hundi is in the nature of a policy of insurance with this difference that the money is paid beforehand, to be recovered if the ship is not lost"—Bayley, J. in *Raisey Merchand v. Jusraj Virzpal*, Bom., 25th July, 1871.
- KALKATTIAH**: a bill of exchange written in vernacular drawn and payable in Calcutta.
- KHALSA**: treasury.
- KHATA PETI (new)**: a clean overdraft in the books of an Indian indigenous banker.
- KHATA PETI (old)**: a compulsory deposit system in which deposits have to be accepted during the slack season at a stipulated rate in return for accommodation received during the busy season.
- KHAZANCHEE**: chief Indian cashier, frequently a guarantor of all loans granted, and of all bills discounted, by a bank.
- KHOKA**: the original *hundi* or inland bill of exchange written in vernacular.
- MAHAJAN**: (from Sanskrit *Mahá-jan*, a great person) an Indian merchant-banker of standing, who generally deals with other peoples' money as well as his own.
- MEJUR NAMA**: the fourth "copy" of a bill of exchange issued when the original, second "copy" and third "copy" have been issued, one after another, and all lost.
- MOFUSSIL**: the country stations and districts as opposed to the Presidency.
- MUAZZAF**: fixed revenue.
- MUDDAT HUNDI**: a usance inland bill of exchange written in vernacular.
- MUNJUR NAMA**: same as *MEJUR NAMA*, q. v.
- MUQUASEMA**: share of crops.
- MUTSADDI (also MUSADDI)**: another name for *BANYAN*, q. v.
- PAIT**: the second "copy" of a bill of exchange in vernacular, issued when the original has been lost.
- PALANQUEEN**: a box-litter used for travelling in, with a pole projecting before and behind which is borne on the shoulders of 4 or 6 men.
- PARIAH**: name of a low caste in South India, hence an untouchable.
- PAR-PAIT**: the third "copy" of a bill of exchange in vernacular, when the original and the second "copy"

- have both been lost. [The meaning given in Wilson's *Glossary* is incorrect as explained in the book.]
- PODDAR** : a money-changer or a teller; an employee of a bank whose duty was to weigh money and bullion and appraise the value of coins.
- PURJA** (in European banks) : an on demand joint and several promissory note along with a letter from the makers (generally two in number) undertaking to pay off the note on a stipulated date.
- PURJA** (among Indian indigenous bankers) : an unstamped request to pay addressed to an Indian indigenous banker carrying a stipulated interest, sometimes "discounted" among indigenous bankers.
- RYOT** : (from Arabic *Ra'iyat*, from *Ra'a*, to pasture) a tenant of the soil.
- SAMBAT** : year of Hindu calendar, dating from King Vikramaditya.
- SETH** : (from Sanskrit *Sresthi*) an Indian merchant-banker of standing.
- SHA** : (from Hindi *Sah*) an Indian merchant-banker of standing.
- SHAJOG HUNDI** : an inland bill of exchange written in vernacular, generally payable through a *Shá* or a respectable merchant-banker.
- SHROFF** (from Arabic *Sarráf*) an Indian banker of the highest grade dealing in bills; sometimes loosely used for the chief cashier or his assistants or even *poddárs* q. v.
- SICCA RUPEE** : (from Arabic *Sikká*, a coining die) a newly coined rupee.
- SOWCAR** : (from Hindi *Sáhu-kár*) an Indian merchant-banker of some standing. [Wilson mentions a facetious etymology in Marathi, viz., *Sávakár*, from *sá*, six and *vakár*, the letter *v*, i.e., "the six words beginning with *v*, which characterise the opulent banker,—*vastra*, dress, *vaṇu*, portly person, *vidyá*, knowledge, *vinaya*, decorous behaviour, *váni*, fluency of speech and *vitta*, wealth."]

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