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A. B. F. P.
A BANKER'S OFFICE
INDIGENOUS BANKING IN INDIA
INDIGENOUS BANKING
IN INDIA

BY
L. C. JAIN
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Lecturer in Currency and Banking at the
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WITH AN INTRODUCTION BY
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Madras University

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1929
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(Thesis approved for the Degree of Doctor of Philosophy (Economics) in the University of London)

PRINTED IN GREAT BRITAIN
TO
MY REVERED FATHER

BALMUKAND JAIN, Esq.
B.A., C.T., A.C.P. (London)

AN APOLOGY

FOR TWO YEARS’ ABSENCE FROM HOME
PREFACE

In the following pages an attempt is made to describe the present indigenous banking system in India. Literature on the subject is almost non-existent. Such information as is given in works on the Indian money-market is incomplete, largely repetitive and in other ways unsatisfactory. There is sometimes confusion of thought and consequent misrepresentation of facts. For example, when in the usual fashion some writers paint the indigenous bankers as a tribe of 'Shylocks,' they do not know that they have in mind only a type of a 'money-lender' as distinct from a 'banker.' This failure to recognise the difference between a 'money-lender' and a 'banker' is responsible for the somewhat unjust light in which the so-called banking castes are represented, although, so far as money-lending is concerned, there is hardly any caste in India which has not a share in the business.

It is commonly stated and believed that usury is rampant in India—a conclusion with which I have no quarrel—but, when no authentic evidence is given relating to the functions and methods of the indigenous bankers, the rates and forms of interest and the peculiar practices in collecting interest charges, it is difficult to form an idea of the true position.

Furthermore, it is reiterated time and again that the Indian ryot is steeped in indebtedness to the bankers. If this statement is true, we are compelled to ask: What is the attitude of the client towards the banker? What is the
nature of the indebtedness? Is the burden of debt a greater evil to the borrower than the use of the borrowed capital is a benefit to him? If so, why does he borrow to his own disadvantage? What is the total amount of indebtedness? Is this amount stationary or changing? If changing, is it increasing or decreasing, and at what rate? How are the changes in the amount of indebtedness related to movements in the general level of prices? What is the total amount of interest charges received annually by the bankers from their clients?

Again, there are other questions to be investigated. To enumerate the more important of them: What is the relationship of indigenous to joint-stock banking in the Indian money-market? What are the defects peculiar to the indigenous banking system, and what attempts have been made at reform? What is the best policy to pursue, in the immediate future and ultimately, with a view to establishing a sound banking system, such as will satisfy the needs of the country, having regard to the changing character of these needs? Should the indigenous banking system be altogether abolished and replaced by another? Or should it be absorbed in the joint-stock system? Or, again, should it be reorganised and co-ordinated with the other system in a happy combination, if that be possible?

Both as a student of the Indian money-market and also as a member of one of the much maligned banking castes, I have long felt that the veil over the subject of indigenous banking should be removed, as much in the interest of a healthy credit machinery for India as in that of the indigenous bankers themselves. As it is, I believe that, if nothing be done to save the indigenous bankers, they will eventually die out. But I also believe that this will take a long time to happen and, so long as the problem of indigenous banking is not solved, it is idle to think of establishing the sound banking system which India needs.
But when, in 1925, I first formed the plan of studying the subject, there were several difficulties to be reckoned with. In the first place, was it to be an all-India or a provincial survey? India is more like a continent than a country; in no two provinces are the conditions alike. A provincial survey seemed at first to be more suitable. But, as I proceeded with the inquiry, it became clear that the broad facts and problems of indigenous banking were so similar all over the country that the subject in its larger aspects could well be treated from an all-India standpoint.

Then there was the question as to the method of investigation. As has already been pointed out, books on the Indian money-market are of little help. Even statistics on indigenous banking do not exist. The annual *Statement relating to Banks in India*, which is published by the Government, contains no figures relating to the indigenous bankers. A good deal of scattered information is contained in the official and other literature to be found in the libraries of the India Office, the office of the High Commissioner for India, the London School of Economics and the British Museum, and this has been searched for the purpose. The list of the literature of which use has been made in this monograph is given in the Appendix.

In order to elicit local information personal visits were paid to the more important centres of indigenous banking in various parts of the country. Considerations of time and expense naturally made it impossible to cover the whole of the country. Moreover, the indigenous bankers are not, as a rule, willing to disclose their trade methods or secrets or to produce their account-books. The managers of the Indian joint-stock banks and the Imperial Bank branches possess some reliable information, but they are also naturally reluctant to impart it to a private inquirer. I was able, however, through personal connections to obtain some information from interviews with a few indigenous bankers.
At the same time, a questionnaire was framed to embody most of the questions raised above. This questionnaire which is given in Appendix II, was issued on 9th March, 1926, and altogether 520 copies were distributed. It was also published in the *Indian Journal of Economics* and the *Jaina Gazette*, the leading paper of the Jaina community. The replies were disappointingly small—only twenty-three persons responded—but they contained useful and suggestive information. On certain aspects of the problem, which were of too technical a nature to be included in the questionnaire, experts in various parts of the country were consulted.

Of the imperfections of this work there is no one who is more conscious than myself. I do not pretend that it is in any way exhaustive. The only justification for its presentation is that it is the first attempt to survey the field of indigenous banking made by one who is not out of touch with the actual working of the system, and that it may form the basis of abler and more elaborate studies.

My thanks are owing to Messrs. C. D. Thompson and S. K. Rudra, my colleagues of the Economics Department in the University of Allahabad, who made helpful suggestions in the preparation of the Questionnaire; to Sir Basil P. Blackett, who kindly examined the questionnaire and indicated sources of information; and to all those who have helped me by replying to the questionnaire.

Mr. W. H. Moreland made valuable suggestions on Chapter I., Mr. M. M. S. Gubbay on Chapter III, Sir Atul Chatterji on Chapters I and VIII, and Sir Selwyn Fremantle on Chapters V and VII. To all of these I am deeply indebted, as also to Mrs. V. Anstey for the care with which she read through the manuscript in its early shape and to Miss M. E. Bulkley and Mr. V. Giardelli for their able comments on its general arrangement. My esteemed teacher, Prof. A. R. Burnett-Hurst, has given me willing and ready help at every stage of the inquiry. During the period of my research at the
PREFACE

London School of Economics, Professor T. E. Gregory and Dr. Gilbert Slater have afforded me invaluable criticism, encouragement and advice. The latter has placed me under great obligation by writing the Introduction. My thanks are also due to the Editor of the Vira and the Director of the Ganga-Pustakmala Karyalaya, Lucknow, for permission to reproduce a photograph.

L. C. JAIN.

London, S.W. 16
May, 1928.
INTRODUCTION

Mr. Jain’s treatise on Indian Indigenous Banking fills a notable gap in Indian economic literature. Much has been said and written about the deplorable indebtedness of the Indian peasant and the extortionate rates of interest exacted from him by the money-lender. Less has been written about the equally deplorable and less unavoidable indebtedness of the Indian urban worker. Moral indignation has naturally been kindled against the usurers whose greed may turn a temporary calamity or pardonable extravagance on the part of the borrower into the means of his permanent impoverishment. Perhaps more emphasis should have been laid on the broad fact that India is a land of greedy borrowers, with a scarcity of people willing to practise the unattractive economic virtues of thrift and forethought.

In India, as elsewhere, efforts to assist the vast mass of rural and urban workers, crushed under their debts, by measures directly aiming at restricting the activities of the lenders have been of little and of doubtful benefit. Sir Frederick Nicholson in that historic report which begins the history of Indian co-operative banking pointed out the only true line of effective aid. The success of credit banks organised on the lines which he recommended has exceeded reasonable expectations, but the field is so vast and the variety of the credit needs of the people so marked that they must be supplemented by other means. The most notable conclusion to which Mr. Jain’s argument points is that nothing short of the building up of an adequate, efficient and
elastic banking system for the whole country, embracing all
existing agencies, including even the reprobated indigenous
money-lender, will suffice to meet the need. As Mr. Jain
belongs to a religious community which in consequence of
historic causes has largely specialised in banking, he is able
to treat his subject from the inside and this adds greatly to
the value of his survey.

GILBERT SLATER.
# CONTENTS

## I. EARLY HISTORY OF INDIGENOUS BANKING

1. Meaning of 'Indigenous Banking' - - - - 1
2. Indigenous Banking before the Seventeenth Century - - - - - 3
3. Indigenous Banking in the Seventeenth Century - - - - - 11
4. Effect of Contact with the West - - - 16

## II. STRUCTURE AND FUNCTIONS OF INDIGENOUS BANKING

1. Numbers and Distribution - - - - 27
2. Banking Castes - - - - - 27
3. Organization - - - - - 34
4. Functions - - - - - 42

## III. METHODS OF INDIGENOUS BANKING

1. Loans - - - - - 55
2. Deposits - - - - - 69
3. Hundis - - - - - 70
4. Methods of Accounting - - - - 83
5. Trade Signs, Secrets and Superstitions - - 91

## IV. INTEREST CHARGES

1. Rates for Loans and Deposits - - - - 93
2. Hundi Rates - - - - - 97
3. Special Features - - - - - 99
4. Additional Charges - - - - - 104
5. Methods of Collecting Charges - - - 107
6. Evidence of Usury - - - - 110
## CONTENTS

### V. ECONOMIC POSITION OF BORROWERS

1. Indigenous Bankers and Their Clients - - - 115
2. Nature of Indebtedness - - - 122
3. Extent and Growth of Indebtedness:
   (A) Agricultural Indebtedness - - - 124
   (B) Non-agricultural Indebtedness - - - 134
   (C) Summary of the Position - - - 135

### VI. THE INDIGENOUS BANKERS AND THE JOINT-STOCK BANKS

1. Development of Joint-Stock Banking:
   (A) The Calcutta Agency Houses - - - 140
   (B) Early Joint-Stock Banks, 1833-1860 - - - 142
   (C) Joint-Stock Banks, 1860-1927 - - - 146
2. Development of Central Banking:
   (A) The Presidency Banks - - - 162
   (B) The Imperial Bank of India - - - 165
3. Relation of Indigenous to Joint-Stock Banking 173

### VII. DEFECTS OF INDIGENOUS BANKING

1. Main Defects - - - - - 185
2. Attempts at Reform:
   (A) Legislative - - - - -, - 187
   (B) Co-operative - - - - - 198

### VIII. THE FUTURE OUTLOOK OF INDIGENOUS BANKING

1. Need for a Banking Inquiry - - - - 226
2. The Nature of the Problem - - - - 229
3. Suggested Solutions - - - - - 234

### APPENDIX I. STATISTICS

1. Number of Bankers, Money-lenders and their Employés in 1921 - - - - 247
CONTENTS

2. Rates of Interest charged by the Co-operative Credit Societies in Various Provinces, 1925-26 249

3. Rates of Interest charged by an Indigenous Banking Firm, 1867-1927 250

APPENDIX II

Letter and Questionnaire issued to the Public 252

APPENDIX III

List of those who responded to the Questionnaire 256

BIBLIOGRAPHY 258

GLOSSARY OF INDIGENOUS TERMS 261

INDEX 265
ILLUSTRATION

A Banker's Office. A Usurer and a Borrower

MAPS

1. Distribution of Indigenous Bankers and Money-lenders
   - - - - - - - - 1
2. Distribution of Indian Joint-Stock Banks
   - - 160

DIAGRAMS

I. Bombay and Calcutta Bazaar Rates
   - - - 98

II. Indigenous Rates of Interest and Bazaar (Hundi) Rates (1867-1927)
    - - - - - - - 102

III. Deposits of the Joint-Stock Banks (1913-1925)
    - 156

IV. Joint-Stock Banking in Great Britain and Ireland and in India, 1925-26
    - - - - - - 174

V. Bazaar Rates and Bank Hundi Rates (1921-1927)
   - 184

VI. Progress of the Co-operative Movement in India (1906-7 to 1925-26)
    - - - - - - - 199

VII. Co-operative Credit Movement and total private Indebtedness
     - - - - - - - 206
## APPENDIX I

### STATISTICS

**Number of Bankers, Money-Lenders and their Employés in 1921**

<table>
<thead>
<tr>
<th></th>
<th>Total Workers and Depend-</th>
<th>Actual Workers.</th>
<th>Population.</th>
<th>Actual Workers per 10,000 of Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>India - - -</td>
<td>993,492</td>
<td>289,665</td>
<td>54,470</td>
<td>318,942,480</td>
</tr>
<tr>
<td>Provinces - -</td>
<td>699,009</td>
<td>208,174</td>
<td>37,499</td>
<td>247,003,293</td>
</tr>
<tr>
<td>Ajmer Marwara</td>
<td>5,949</td>
<td>1,920</td>
<td>122</td>
<td>495,271</td>
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<tr>
<td>Assam - - -</td>
<td>4,717</td>
<td>1,573</td>
<td>342</td>
<td>7,606,230</td>
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<tr>
<td>Baluchistan - -</td>
<td>908</td>
<td>224</td>
<td>-</td>
<td>420,648</td>
</tr>
<tr>
<td>Bengal - - -</td>
<td>153,044</td>
<td>46,110</td>
<td>4,010</td>
<td>46,695,536</td>
</tr>
<tr>
<td>Behar and Orissa</td>
<td>39,235</td>
<td>12,762</td>
<td>2,345</td>
<td>34,002,189</td>
</tr>
<tr>
<td>Bombay - - -</td>
<td>72,709</td>
<td>23,523</td>
<td>2,847</td>
<td>19,348,219</td>
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<tr>
<td>Burma - - -</td>
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<td>8,706</td>
<td>2,909</td>
<td>13,212,192</td>
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<tr>
<td>Central Provinces and Berar - -</td>
<td>35,623</td>
<td>11,243</td>
<td>3,346</td>
<td>13,912,760</td>
</tr>
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<td>Coorg - - -</td>
<td>204</td>
<td>96</td>
<td>16</td>
<td>163,838</td>
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<td>Delhi - - -</td>
<td>5,474</td>
<td>1,197</td>
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<td>Madras - - -</td>
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<td>9,962</td>
<td>42,318,985</td>
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<td>North-West Frontier Province - -</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Punjab - - -</td>
<td>138,015</td>
<td>35,043</td>
<td>3,089</td>
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<td>33,987</td>
<td>8,399</td>
<td>45,375,787</td>
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</table>

247
### Number of Bankers, Money-Lenders and their Employés in 1921—Continued.

<table>
<thead>
<tr>
<th>States and Agencies:</th>
<th>Total Workers and Dependents</th>
<th>Actual Workers</th>
<th>Population</th>
<th>Actual Workers per 10,000 of Total Population</th>
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<tr>
<td></td>
<td>Males</td>
<td>Females</td>
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<td>Assam State (Manipur)</td>
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<td>5</td>
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<td>3,852</td>
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<td>Bengal States</td>
<td>2,067</td>
<td>1,002</td>
<td>896,926</td>
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</tr>
<tr>
<td>Behar and Orissa States</td>
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<td>801</td>
<td>3,959,669</td>
<td>2</td>
</tr>
<tr>
<td>Bombay States</td>
<td>51,318</td>
<td>12,172</td>
<td>7,409,429</td>
<td>20</td>
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<tr>
<td>Central (India) (Agency)</td>
<td>21,616</td>
<td>6,799</td>
<td>5,997,023</td>
<td>13</td>
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<td>Central Provinces</td>
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<td>558</td>
<td>2,066,900</td>
<td>4</td>
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<tr>
<td>Gwalior States</td>
<td>15,660</td>
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<td>3,186,975</td>
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<tr>
<td>Hyderabad State</td>
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<td>6,698</td>
<td>12,471,770</td>
<td>7</td>
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<tr>
<td>Kashmir State</td>
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<td>654</td>
<td>3,320,518</td>
<td>2</td>
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<td>Madras States</td>
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<td>5,858</td>
<td>5,460,312</td>
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<td>Mysore State</td>
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<td>5,978,892</td>
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<td>North West Frontier Province (Agencies and Tributaries)</td>
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<tr>
<td>Punjab States</td>
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<td>Rajputana (Agency)</td>
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<td>1,274</td>
<td>633</td>
<td>1,134,881</td>
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</table>
### APPENDIX I.

**RATES OF INTEREST CHARGED BY THE CO-OPERATIVE CREDIT SOCIETIES IN THE VARIOUS PROVINCES, 1925-26**

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<thead>
<tr>
<th></th>
<th>On Borrowings.</th>
<th>On Lendings.</th>
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<td></td>
<td>Agricultural</td>
<td>Non-</td>
</tr>
<tr>
<td></td>
<td>Societies.</td>
<td>agricultural</td>
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<tr>
<td><strong>British India:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Madras -</td>
<td>7½ to 8½</td>
<td>6½ to 8</td>
</tr>
<tr>
<td>Bombay -</td>
<td>6½</td>
<td>6½</td>
</tr>
<tr>
<td>Bengal -</td>
<td>9½ and 10½</td>
<td>9½ and 10½</td>
</tr>
<tr>
<td>Behar and Orissa</td>
<td>12½</td>
<td>12½</td>
</tr>
<tr>
<td>United Provinces</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Punjab -</td>
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<td>8 and 8½</td>
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<tr>
<td>Burma</td>
<td>10</td>
<td>—</td>
</tr>
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<td>Central Provinces and Berar</td>
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<td>10</td>
</tr>
<tr>
<td>Assam ¹</td>
<td>10½</td>
<td>6½</td>
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<tr>
<td>North-West Frontier Province</td>
<td>8</td>
<td>—</td>
</tr>
<tr>
<td>Coorg</td>
<td>6½ and 8½</td>
<td>6½ and 8½</td>
</tr>
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<td>Ajmer Marwara</td>
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<td>9</td>
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<td>Delhi</td>
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<td></td>
<td>9*</td>
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<td>4 to 7½</td>
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<td>9</td>
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<td>7½ to 8½</td>
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<tr>
<td></td>
<td>6 to 9</td>
<td>6 to 9</td>
</tr>
</tbody>
</table>

(¹B. I. Figures marked * are for 1924-25, later figures being not available.

2. The above tables are compiled from Statements showing the Progress of the Co-operative Movement in India during the year 1925-26).

¹ (The figures of Assam are for 1924-25.)
## RATES OF INTEREST CHARGED BY AN INDIGENOUS BANKING FIRM, 1867-1927

<table>
<thead>
<tr>
<th>Samvata (Hindu Era)</th>
<th>Year</th>
<th>Pro-Note</th>
<th>Bond</th>
<th>Mortgage of House</th>
<th>Mortgage of Landed Property</th>
<th>After the Decree</th>
<th>Ornaments</th>
<th>Miscellaneous (Verbal etc.)</th>
<th>Bankers' Rate</th>
<th>Hundis</th>
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<tbody>
<tr>
<td>1923-30</td>
<td>1867-74</td>
<td>6, 7½, 9, 12</td>
<td>7½, 9, 18</td>
<td>12</td>
<td>9</td>
<td>6, 9, 12</td>
<td>6 to 7½</td>
<td>6 to 7½</td>
<td>4½ to 6</td>
<td>6 to 9</td>
</tr>
<tr>
<td>1931</td>
<td>1875</td>
<td>&quot;</td>
<td>&quot;</td>
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<td>1934</td>
<td>1878</td>
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<tr>
<td>1936</td>
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**INDIGENOUS BANKING IN INDIA**
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**APPENDIX I**
APPENDIX II

ECONOMICS DEPARTMENT,
UNIVERSITY OF ALLAHABAD,
Dated the 9th March, 1926.

DEAR SIR,

I hope you will be good enough to pardon the liberty I am taking in addressing the accompanying Questionnaire on 'Indian Indigenous Banking' to you.

I am making a special study of this subject and am very shortly proceeding to England to complete my work under the direction of the Professors of the London School of Economics and am therefore seeking for help and assistance, in order to make as comprehensive a survey of the problem as my limited time and energies would permit me.

I am inspired to seek for your help and guidance, because I feel that the knowledge and experience at your disposal would be invaluable to me in my study. I need hardly say that I shall be deeply grateful for any assistance that you may be pleased to render me.

I am conscious that I am making a very big demand on your time and energies, and so I would request you to help me in any part of the questionnaire that you can, without putting yourself to much labour or inconvenience.

I may assure you that the source of the information you are good enough to supply will not be given out without your express permission. I will also treat as strictly confidential any information you may desire to give me on that condition, and it will not be published.

I shall be obliged if you could kindly send me a reply at your earliest convenience as I hope to be leaving India by the end of April.

Yours truly,

Lecturer in Currency & Banking and Statistics,
University of Allahabad.
APPENDIX II

QUESTIONNAIRE

INDIGENOUS BANKING IN INDIA.

N.B.—Kindly note the use of the following terms which will be observed throughout the Questionnaire.

A banker means any individual or private firm which either receives deposits or deals in hundis or both.

A money-lender means any individual or private firm which lends, but does not usually receive deposits or deal in hundis.

Indigenous Banking includes all the ordinary transactions of private bankers and money-lenders in India, but excludes the operations of Joint Stock Banks and Co-operative Credit Societies.

PART I.

1. What are the functions of a money-lender or banker in your part of the country? Enumerate all the kinds of business which he transacts.

2. How and to what extent does a money-lender or banker of your region assist in financing the following:

   (1) industries, (a) factory, (b) cottage;
   (2) agriculture;
   (3) internal trade;
   (4) external trade.

3. Describe the organization of the money-lenders and bankers of your region with regard to (a) the size of their business; (b) the inter-connection, if any, of one unit or house with other units, houses or banks, agents or correspondents within the country or outside; (c) the extent of such connections and (d) their business relations with Joint-stock Banks or Co-operative Credit Societies.

4. State and describe the various methods of an indigenous banker in (a) granting loans, (b) allowing cash credits, (c) receiving deposits on interest, (d) transferring money from one place or person to another (use of cheques or notes or hundis—drawing, discounting and accepting, etc.), and the extent of the use of each in the town and district separately. Give reasons, if possible, for these differences in the use of different credit instruments.

5. What are the various forms of hundis used?

6. What place does the hundi take in the modern money-market, especially in Indian States?

7. What are the special features of agricultural loans? What
are the rates of interest in the case of such loans? Are there any Co-operative Credit Societies in your town or district?

8. What are the conditions and causes of indebtedness in your town and district? For what purposes are the loans asked? Who are the usual borrowers?

9. What are the various rates and forms of interest prevailing in your town and district for other than agricultural loans on different kinds of securities—movable or immovable? Explain the nature of these securities.

10. Could you kindly procure a series of rates of interest kept monthly or yearly going back for as many years as possible? In giving such rates of interest, please state the nature of securities to which a particular series relates.

11. What were the minimum and maximum rates between which interest fluctuated in accordance with the nature of security during 1924 and 1925? What are the causes of the difference?

12. Are the rates of interest subject to seasonal fluctuations. If so, in what manner and why? If possible, please give a table of fluctuations.

13. Is there any relation between the private rate of interest and the rate of the Imperial Bank of India? How does the one influence the other?

14. Beside the interest, do the debtors have to pay something as a present (नज़राना), धेल का बुंदु बुंदा etc.? Please enumerate and explain all these kinds of petty payments with their respective amounts.

PART II.

15. What are the castes of the persons engaged in indigenous banking in your town and district? Have they any special local trade names and do they form a class or caste of their own?

16. Name the principal private banking houses, if any, in your locality. For how many years and generations have they uninterruptedly continued?

17. Is it a fact that very few Mahomedans are bankers and that they do not usually take or give interest on deposits and loans?

18. Are your bankers exclusively devoted to the business of banking? If not, what other businesses do they combine with
APPENDIX II

it? Are these primary or secondary? Are there many who devote their time entirely to banking or money-lending?

19. Could you possibly supply some statistics relating to the amount of capital invested in indigenous banking by individuals or firms in your region?

20. Would you kindly procure sample copies of any written documents or deeds used in connection with indigenous banking in your locality such as hundis, promissory notes, receipts for deposits, etc.? Please explain the terms and abbreviations used, if you think necessary.

21. Are there any transactions in which written documents are not used, but verbal statements have the force of contracts? If so, could you kindly write out the statements usually made? Is this generally done in the presence of one or more witnesses?

22. Describe the indigenous system of keeping accounts and calculating interest. State any special points of merit or defects in the system.

23. Do you know of any secret trade language, proverbs and anecdotes concerning indigenous bankers which may be of interest?

24. Have you noticed any changes or modification in the indigenous system of banking due to (a) English system of banking, (b) modern methods of commerce, or (c) any other cause?

25. In what manner have the changes referred to in Q. 24 affected the position of the indigenous banking system in India? Could you suggest ways in which it could be improved, organized and consolidated?

26. Please suggest the sources of information on the subject of indigenous banking in India such as manuscripts, books, pamphlets, articles in any language and names of persons who are likely to possess special knowledge of the subject.

27. Any other suggestions or information that you may be pleased to offer will be gratefully appreciated.
APPENDIX III

List of those who responded to the Questionnaire.

1. Director of Industries, Government of Central Provinces.
2. Sirdar M. V. Kibe Bahadur, Deputy Prime Minister, Indore State.
3. Secretary, Development Department, Government of Mysore.
5. Secretary and Manager, The Bombay Shroffs' Association, Bombay.
6. Prof. Hira Lal Jain, King Edward College, Amraoti, Central Provinces.
7. Jamna Prasad Jain, Esq., Income-Tax Officer, Jubbalpore, Central Provinces.
8. Seth Tara Chandji Barjatya, Banker, Khandwa, C.P.
10. Shil Chandra Jain, Esq., Indore, C.I.
15. L. Kailash Chandra Jain, Banker, Allahabad, United Provinces.
16. Ram Din Vaish, Esq., Vakil, Bijnor, U.P.
APPENDIX III


20. Bhagwan Das, Esq., Head Master, Govt. High School, Lalitpur, U.P.

21. L. Uttam Chand Jain, Zamindar and Banker, Meerut, U.P.

The following students of my B.A. (Economics) class, University of Allahabad, 1925-26:

22. Mr. Ram Chandra Agrawala, Banker, Allahabad, U.P.

23. Mr. Bishan Narayan Nigam, Cawnpore, U.P.
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GLOSSARY OF INDIGENOUS TERMS

(References are to pages.)

<table>
<thead>
<tr>
<th>Term</th>
<th>Page Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abwab (cess)</td>
<td>106</td>
</tr>
<tr>
<td>Adavi (security)</td>
<td>40</td>
</tr>
<tr>
<td>Adharni (half-anna)</td>
<td>94</td>
</tr>
<tr>
<td>Aral (brokerage)</td>
<td>53</td>
</tr>
<tr>
<td>Aratia (agent, broker)</td>
<td>53, 68</td>
</tr>
<tr>
<td>Asami (customer)</td>
<td>62</td>
</tr>
<tr>
<td>Banaj (same as vanijya, also Kist)</td>
<td>62</td>
</tr>
<tr>
<td>Bandor (system of holding stocks obtained cheaply for selling at an opportune time)</td>
<td>106</td>
</tr>
<tr>
<td>Bania (trader, a contemptuous word for a money-lender)</td>
<td>7, 17, 122, 175</td>
</tr>
<tr>
<td>Banian (same as Bania)</td>
<td>17</td>
</tr>
<tr>
<td>Baramasi (annual)</td>
<td>80</td>
</tr>
<tr>
<td>Bargad (same as Barkat)</td>
<td>92</td>
</tr>
<tr>
<td>Barkat (blessing)</td>
<td>92</td>
</tr>
<tr>
<td>Batai (a system of loan in kind in which the money-lender and borrower agree to share the produce raised by the latter)</td>
<td>68</td>
</tr>
<tr>
<td>Bazaar (indigenous money-market)</td>
<td>231</td>
</tr>
<tr>
<td>Bazaar rate (rate at which the small traders' hundis are discounted by the indigenous bankers)</td>
<td>47, 97, 98, 101-3, 183-4, 186</td>
</tr>
<tr>
<td>Bhai (brother)</td>
<td>75, 77, 79, 85, 87, 89</td>
</tr>
<tr>
<td>Bhog bhunduk (usufructuary mortgage)</td>
<td>61m</td>
</tr>
<tr>
<td>Bij (seed)</td>
<td>68</td>
</tr>
<tr>
<td>Bismillah (blessing)</td>
<td>92</td>
</tr>
<tr>
<td>Chaj Jenni (same as shahjahani)</td>
<td>11</td>
</tr>
<tr>
<td>Chalitkhata (current credit account)</td>
<td>69</td>
</tr>
<tr>
<td>Chit association (same as ela nidhi)</td>
<td>190</td>
</tr>
<tr>
<td>Choudtries (rest-houses)</td>
<td>31</td>
</tr>
<tr>
<td>Cowries (shells)</td>
<td>11, 12</td>
</tr>
<tr>
<td>Crore (10,000,000)</td>
<td>29, 127</td>
</tr>
<tr>
<td>Dakhillas (bankers' notes payable in a certain number of days)</td>
<td>22</td>
</tr>
<tr>
<td>Dalai (broker)</td>
<td>105</td>
</tr>
<tr>
<td>Dam (a copper coin, in Akbar's reign, 1/16th rupee)</td>
<td>13</td>
</tr>
<tr>
<td>Damdopal (ancient rule by which interest could in no case exceed the principal)</td>
<td>97</td>
</tr>
<tr>
<td>Damri (a copper coin, 1/4 dam)</td>
<td>13</td>
</tr>
<tr>
<td>Darshani hundi (sight bill)</td>
<td>72, 73, 81</td>
</tr>
<tr>
<td>Dastaves (bond)</td>
<td>60</td>
</tr>
<tr>
<td>Dast gurda (credit by word of mouth)</td>
<td>63</td>
</tr>
<tr>
<td>Dasturi (commission)</td>
<td>105, 106</td>
</tr>
<tr>
<td>Dekhankar hundis (hundi payable to bearer)</td>
<td>73, 78</td>
</tr>
<tr>
<td>Derha or Derhi (same as Dyodha)</td>
<td>78</td>
</tr>
<tr>
<td>Dhani (a person)</td>
<td>78</td>
</tr>
<tr>
<td>Dhaniyog hundi (hundi payable to a person)</td>
<td>78</td>
</tr>
<tr>
<td>Dhaniwvar khatra (personal 'ledger')</td>
<td>83</td>
</tr>
<tr>
<td>Dharam gola (granary, grain bank)</td>
<td>202</td>
</tr>
<tr>
<td>Dharamkhata (charity fund)</td>
<td>29, 104, 105</td>
</tr>
<tr>
<td>Dharma (method of dunning)</td>
<td>9</td>
</tr>
<tr>
<td>Dipawali (same as Divali)</td>
<td>90</td>
</tr>
<tr>
<td>Disti bhunduk (same as drishti bhunduk)</td>
<td>61m</td>
</tr>
<tr>
<td>Divali (a Hindu festival)</td>
<td>90</td>
</tr>
<tr>
<td>Doon or Dooma (double)</td>
<td>67</td>
</tr>
<tr>
<td>Drishti bhunduk (ordinary mortgage)</td>
<td>61m</td>
</tr>
<tr>
<td>Dyodha (one and a half times)</td>
<td>67, 93</td>
</tr>
</tbody>
</table>

1 Excluding names of castes and geographical names.
Eksouisdini (appertaining to 120 days), 80.
Ela nidhis (indigenous co-operative societies of Madras), 199.

Firman (order), 78.
Firmandog hundi (hundi payable to order), 78.
Fussilbundee (estimated produce of the harvest), 19.

Gangaji (the holy river Ganges), 105.
Ganih khulai (same as gunih khulai), 105.
GillIS (days of grace), 80.
Giinh (pawning), 66, 107, 149.
GU'lIShta (agent, correspondent, clerk), 36, 40, 106.
Gutllh khulai (opening the strings of the purse by the money-lender), 105.

Gyarah panch (eleven leaders), 40.

Haisyal (credit), 128.
Har (cultivator), 201.
Hath Udhar (same as dast gurda), 63.

Hundi rate, Imperial Bank of India rate at which the Imperial Bank discounts or re-discounts first class three months' bills).
Hundiyana (same as hundiyavana), 81, 97, 135.
Hundiyavana (discount charges), 81, 97.

Iksathdini (appertaining to 61 days) 80.
Ilaqas (circles), 107-8.
Inam (present), 106.
In-dana (money-lending), 6.
In-Piinnani (debt-sheet), 7.
IlIaq (cash-order), 10.

Jagat Seth (world banker), 15, 18.
Jalalah (a silver rupee of Akbar's reign), 13, 13n.
Jaiiahas (birth stories of Buddha), 4-7.
Jikri chikthi (especially endorsed hundi), 82.

Jökhami hundi (hundi with insurance policy combined), 71, 73, 78.
Jumma (total dues), 19.

Kala (one-sixteenth), 4.
Kärshaña (20 mashas), 5.
Kalmitis (method of calculating interest), 90.
Khadi (hundi the payment of which is deferred), 80.
Khālā (account), 83.
Khātā bahi (ledger), 83.
Khatīt (granary), 44.
Khawāt (consumption, maintenance), 68.
Khasannati shi (same as Narainy), 19.
Khillat (robes of honour), 15.
Khoha (original hundi), 82.
Kivar (a contemptuous term for a khatri money-lender), 33, 122.
Kishbundee (instalments), 19.
Kist (installment, method of lending on an installment principle), 22.
Kistiya (money-lenders), 107.
Kos (two miles), 10.
Kolvivasal Mariyal (temple council), 40.
Kusidin (usurer), 4.

Labh (profit), 92.
Labo (same as labh), 92.
Lakh (100,000), 20, 37-8, 63, 219.
Lambardar (head man responsible for the payment of revenue), 192.
Lahi (stick), 69.
Lawani (pledge of produce), 68.
Likhai (writing charges), 105.
Likhmaiwala dhani (drawer of a hundi), 73.

Magamai (same as dharamkhata), 29n.
Mahajan (banker, money-lender), 71, 39, 41, 120-1, 145, 175, 215.
Mahajani (pertaining to a mahajan), 90.
Maijar (fourth copy of a hundi), 82, 89.
Mandi (exchange mart), 52.
GLOSSARY OF INDIGENOUS TERMS

Mani (same as maund), 44n.
Masha (7th tola), 5, 12-13.
Maund (see maans), 95.
Meajum (see mahajan).
Midi hundi (usance bill), 72.
Muddati hundi (usance bill), 72, 73, 80-81.
Muddati khardi (mortgage of landed property in which the land lapses to the lender if the loan is not paid within the time stipulated), 61n.
Mukha (chief or leader), 35.
Munim (agent, correspondent, clerk), 36, 105, 108.
Munshi (writer, clerk), 105.

Nagar Seth (city banker), 72.
Nash (leader, a term formerly employed in Maharashtra for a banker), 30n.
Najar gahan (mortgage of real property), 60n.
Nakal (notice of a hundi), 78.
Nakal bahi ("journal"), 83.

Pagoda (ancient gold coin of Madras), 24.
Paikar (money-lender), 44.
Paista (1 anna), 11-12.
Paith (second copy of a hundi), 82, 83, 87, 89.
Panch (five leaders), 82, 89.
Panchayat (council of the five leaders), 192.
Panchayati (same as Majjar), 82, 89.
Parpaith (third copy of a hundi), 82, 87, 89.
Pathshala (school), 31.
Patta patawan (mortgage terminable after a stipulated period of time), 61.
Pie (1/3 rd anna), 39, 178.
Podars (money-changers), 24.

Rahan nama (mortgage deed), 60.
Rahas (a gold coin of Akbar's reign), 12.

Raiyat (cultivator), 110.
Rakhyaivala dhani (payee), 73.
Rasid (receipt), 55.
Rehat (same as Kisf), 62.
Rokad (cash), 83.
Rokad bahi ("cash book"), 83.
Rna (debt), 3.
Rnam-samni (payment of debt), 4.
Roonamcha ("day book"), 83.
Rujahi (daily, a kind of kisf), 63.

Sah (trader, respectable person), 78.
Sahjog hundi (hundi payable to a respectable person), 78.
Sahukar (money-lender, banker), 7n.
Sahukari Byaj (interest among bankers), 95.
Sakarna (discounting of a hundi), 81.
Salami (same as nazrana), 105.
Samvata (Hindu era commencing from 57 B.C.), 75, 77, 85, 87, 89.
Sangh (religious order), 6.
Sapha (one-eighth), 4.
Saraogis (see Sravakas), 29.
Sarraf (same as Shroff), 14.
Sawyia (one and a quarter), 67, 93.
Seer (4,900 grains Troy), 139.
Sepoys (messengers), 105, 108, 152.
Seth or Sei or Sheth (banker), 5, 15.
Shah (money-lender, borrower), 175.
Shahjahani (of the reign of Shahjahan), 11.
S'hansah (principal gold coin of Akbar's reign), 12.
Shroff (goldsmith, banker), 11, 19, 24-25, 41, 78, 234.
Sikka (coin), 24.
Sirkar (Government), 207.
Sood bahi (interest book), 90.
Sowkar (see Sahukar), 21.
Sradh (death anniversary), 118.
Sravakas (Jaina laity), 29.
Sudbharna (same as Bhog bhunduk), 61n.

Suhi (the smallest silver coin of Akbar's reign), 13.
Sultawa Puilawa (mortgage repayable on an installment system), 61.
Swadeshi (indigenous), 150.

Syees (grooms and stable men), 34.
**INDIGENOUS BANKING IN INDIA**

*Tabe gahan* (mortgage of property in which land can be recovered by the borrower on repayment of dues), 61.

*Taccavi* (advance, State loan), 120, 188-189, 219.

*Taksil* (sub-division of a district), 129, 132.

*Tamassuk Kisibandi* (bond executed in the *kist* system), 64.

*Thaill ka munk khulai* (same as *gumth khulai*), 105.

*Thug* (robber), 122.

*Ticket bahi* (stamp book, a system of money-lending as a form of book-credit), 60.

*Tola* (180 grains), 12, 66.

*Uparmala dhani* (drawee of a *kundi*), 73.

*Vaddhi* (same as *Vraddhi*), 6.

*Vasrani* (agent of a temple council), 40.

*Vahil* (lawyer), 108.

*Vania or Vanio* (same as *bania*), 7.

*Vamijya* (trade), 7n.

*Varna* (caste), 9.

*Vedas* (Hindu Scriptures), 4.

*Vraddhi* (usury), 6.

*Vyai bahi* (same as *sood bahi*), 90.

*Vyavakara* (trade, usage), 33n.

*Yedu* (Telugu for seven, weeping), 92.

*Zamin* (surety), 55.

*Zamindar* (land-holder), 38, 45, 68, 191-193.

*Zarapeshga* (usufructuary mortgage in which the mortgagor is entitled to any surplus in the income from the mortgage over and above the stipulated interest), 61.

*Ziadar* (subordinate revenue collector), 192.
INDEX

ABC of the Federal Reserve System, 236 n 4.
Abul-Fazl-i 'Allahmi, 12 n.
Abwab (illegal charge), 106.
Account-books, 83, 90; fraudulent practices with, 109-10.
Accounting, indigenous system of, 83, 90-1; taught in primary schools, 210.
Agra, 12, 14, 133, 134.
Agra and United Service Bank, Ltd., 142, 143, 146.
Agra Savings Bank, 143.
Agra Savings Fund, 142.
Agricultural castes and land transfer, 190.
Agricultural indebtedness, 124-34, 175.
Agricultural Indebtedness in India, Note on, 126 n 1, 127 n 8.
Agricultural Loans Act (1884), 188.
Agriculture, Royal Commission on, 95 n, 123 n 1, 124, 129 n, 132, 190, 222, 228.
Ahmadabad, 12, 14, 46, 71, 173.
Ahmadnagar, 125.
Ain-i Akbari, the, 12, 13, 14.
Ajmer Marwara, 126, 202, 205.
Akbar, Emperor, coinage in reign of, 12-14, 23.
Alam Shah, 24.
Albert-Victoria Hospital, Madura, 31.
Alexander & Co., 141.
Allahabad, 107, 189-90, 212-13; Bank, 149, 160, 178-9; University, x, 212 n.
Alliance Bank of Simla, 149.
Annals and Antiquities of Rajasthan, 146 n 1.
Anstey, Mrs. V., x.
Aroras, bankers, 28, 32-3, 33 n 1.
Aros, bank, 28, 32-3, 33 n 1.
Asaf-ud-Dowlah (Asophul Dowlah), Vizier, 20-1.
Assam, 52, 95, 116, 169, 202, 205, 220.
Assaying, in Moghul period, 14.
Atharavaveda, the, 4.
Atmaram Bukhan of Surat, 71.
Auditing of bank accounts, defective, 145.
Aurangzeb, Emperor, 15, 23.
Bagherhat Co-operative Weaving Union, 222.
Bahadur II, Emperor, 23.
Ball, Dr. V., x n.
Baluchistan, 159.
Banaj, see Installment systems.
Bandor system, 106.
Bangalore, 159.
Bansias (Vaishyas), 7, 17, 33 n 1, 122, 175.
Bank of Bengal, 162, 163.
Bank of Calcutta (Bank of Bengal), 162.
Bank of Hindustan, 141.
Bank of India, 151.
Bank of Madras, 162, 177.
Bank of Mirzapur, 143, 146.
Bank of Mysore, 152.
Bank of Upper India, 153.
Bankers, Institute of, proposed, 225.
Bankers' associations, 39-42.
Banking in India, Rise, Progress and Present Condition of, 141 n 1, 142.
Banking Inquiry, demand for official, 227-9.
Banks, grain, 200; land and agricultural, 94 n 1, 104, 218-21; Presidency, see Presidency Banks.
Baroda, 29, 126, 133, 221.
Batai, see Loans in kind.
Baudhayana, 5.
'Bazaar rate,' 41, 97-8, 101-3, 183-4, 231.
Behar and Orissa, 44, 61, 126, 159, 169, 202, 203.
Benares, 14, 18 n², 22, 107; Bank, 144, 145.
Bengal, 15, 18-19, 44, 80, 93 n, 106, 116, 125, 126, 127, 128, 133, 159, 169, 171, 202, 205, 212, 220, 222-3.
Bengal, Bank of, 162, 163, 164. 165, 178.
Bengal Bank (1790-1800), 162 n².
Bengal District, Economic Life of a, 94 n², 96 n², 107 n, 109 n, 125 n², 126, 127.
Bengal District Records, Rangpur, 1770-1779, 18 n, 19 n.
Berar, 116, 123, 159, 203-4, 205.
Bhalla, R. L., 125.
Bhag bhunduk, see Mortgages.
Bhore, J. R., 124.
Bhussaval People's Bank, 202.
Bills of exchange, 7, 14-15, 73; see also Hundis.
Blackett, Sir Basil P., x, 179, 180, 227, 228.
Blockmann and Jarrett, 12 n.
Bokras, bankers, 33, 62, 63.
Bombay, 44-5, 46, 66, 93 n, 98, 147-8, 149, 173, 178, 217.
Bombay, Bank of, 149, 162-3, 164.
Bombay Merchants' Bank, 152.
Bombay Presidency, 11 n², 29, 80, 116, 123, 125, 126, 158, 159, 160, 164, 169, 171, 189, 199, 201, 202, 205-6, 207, 214, 219.
Bombay Shroffs' Association, 41-2.
Bonds (dastaves), 60, 101.
Bonfield, N. F., 235 n.
Borrowers, free labour and supplies by, 106; economic position of, 115-39; attitude to creditors, 121-2; nature of indebtedness, 122-3.
Borrowers' Protection Bill (1925), 2.
Borrowing, causes of, 115-19, 123, 136, 198.
Bowie, A., 177-8.
British Museum, ix.
Brokerage (dasturi), 105-6.
Bryniate, J. B., 141 n².
Buddhist India, 7 n².
Bühler, G., 5 n², 7 n².

Bulkeley, Miss M. E., x.
Bundelkhand, 189-90.
Burhanpur, 14.
Burma, 126, 159, 160, 169, 204, 205, 220.
Burnett-Hurst, Prof. A. R., x, 70, 93 n, 224.
Calcutta, 17, 46, 98, 140-2, 146, 173, 178.
Calcutta, Bank of (Bank of Bengal), 162.
Calcutta Bank (Palmer & Co.), 141-2.
Calcutta Bankers, Parliamentary Return on (1822), 20 mm², 21 mm².
Calvert, H., 127 n², 213.
Cambridge Economic Handbooks, 212.
Cambridge History of India, 4 n², 5 n², 7 n², 8 mm².
Cawnpore, 105, 173; Bank, 144.
Canadas, 239.
Canal colonies, 160.
Carnatic, Nabobs of the, 21.
Carnatic Debts, Parliamentary Return on, (1830), 21 n².
Cash-orders (illaq), 10.
Castes, banking, 27-33.
Castes and Tribes of Southern India, 30 n², 36 n².
Cattle, hire purchase of, 95, 107; seized by money-lenders, 107.
Cattle-traders as money-lenders, 35, 95.
Ceded Districts, the, 107.
Census of India, 116 mm², 118 n, 127 n², 130 n, 131 n², 136 n².
Central Bank of India, 152.
Central banking, development of, 162-73.
Central India, 30, 44-5, 60, 80, 126.
Central Provinces, 44, 45, 55, 67, 80, 91, 93 n, 105-6, 116, 123, 125, 126, 133, 156, 160, 169, 203-4, 205, 207 n, 210, 220.
Ceremonies, their cost a cause of borrowing, 118-19, 123, 135.
Ceylon, 169.
Chand, Fateh (banker), 15.
Chand, Seth Manik (banker), 15.
Chandji, Sir Seth Sarup Chandji Hukam, 29.
INDEX

Charges, additional, by money-lenders, 104-6, 139.
Charity, bankers' charges for, 104-5.
Chatterji, Sir Atul, x.
Chattisgarh, 106, 117.
Cheques, vernacular, 43.
Chettiar, Sir Muthia Ch., 177.
Chettiar, bankers, 28, 29 n., 30-2.
Child & Co., 141.
Children, pledged or sold for debt, 7.
Chotulleries (rest-houses), 31.
Clearing houses, 173, 182.
Clive, 18.
Codes, bankers', 91.
Coins in the Indian Museum, 13 n.
Colleges and banking, 212-13.
Colombo, 173.
Commercial Bank of Calcutta, 142.
Commercial Bank of India, 144.
Commission Agents' Association, 41.
Cooch Behar, mint, 19 n.
Co-operation in India, 110-11, 111 n.
Co-operative credit societies, 34, 44, 51, 96, 126, 128, 132, 133, 136, 137 n., 175, 189, 193, 198-225, 230, 240, 241-2, 243; Reports on: Bombay Presidency, 201, 202, 219; Burma, 204 n.; Central Provinces and Berar, 204 n.; Madras, 203 n., 220; North-West Frontier Province, 205 n.; Punjab, 199-201.
Co-operative Hindustan Bank, 151.
Co-operative Movement in India, Statement showing Progress of the, 199.
Coorg, 200, 202, 205.
Cotton industry, 147; mills, financing of, 46-9, 175, 181, 202; a co-operative mill, 222.

Council of State, 221; Debates, 191 n.
Cowell, E. B., 7 n.
Credit Bank of India, 153.
Crops, distribution of, 51-2.
Currency, Moghul, 12-14; standard adopted for British India, 24; stabilisation of, 150.
Currency Act, amendment of (1923-4), 179.
Current credit accounts (chaltu khata), 69.
Dacca, 14; Bank, 144, 146.
Darling, M. L., 33, 34, 97, 123, 125, 126-7, 128-9, 130-1, 132, 133 n., 136, 137, 138, 139, 213.
Das, Dwarka, banker, 20.
Das, Gopal, 20.
Das, Davan Boocunji Casbee (souchar), 21.
Dast gurda (loan without documents or witnesses), 63.
Dasturi (brokerage), 105-6.
Datta, K. L., 93 n.
Davids, T. W. Rhys, 7 n.
Dawson, J., 10 n.
Debt-collecting, Manu on, 9; by Dharma, 9; methods of, 107-10.
Debt-sheets (ina-punnani), 6, 7.
Debtors, debarred from entering religious order, 6.
Deccan, the, 124, 125, 135, 136, 136 n.
Deccan Agriculturists' Relief Act (1879), 187-8.
Deccan Riots Commission, Report of the, 125 n.
Deccan Village, Land and Labour in a, see Mann, Dr.
Delhi: city, 10, 44, 159, 173; Kingdom of, 10; University of, 227.
Delhi Banking Corporation, Ltd., 143.
Deodhar, G., 214.
Deposit banking, 42, 69-70, 120, 185-6.
Deposits, Manu on, 8-9; rates of interest on, 96; in joint-stock banks, 155-7, 238; see also Hoarding.

Devakottai, 37.

Dharamkhata (charitable fund), 29, 104, 106.

Dilwara, temples of, 10, 71.

Dipawali, see Diwali.

Dipawali (Dipawali), banking festival, 90-1, 106.

Dopukuria Silk-Reeling Society, 222-3.

Dorin, Mr., 163.

Driski (disti) bhunduk, see Mortgages.

Duncan Records, 22 n².

Dutt forgeries, Rajkishore, 163-4.

Early European Banking in India, 23 n², 141 n², 142 n².

Early History of India, 4 n².

East India Company, 16, 17, 18.

Eclipses, Telegu belief concerning, 122.

Economic Conference (1928), Indian, 34 n².

Economic Enquiry, Board of, 224.

Economic Enquiry Committee (1925), Indian, 70 n², 224.

Economic Life of a Bengal District, 94 n², 96 n², 107, 109 n², 125 n², 126, 127.

Economic Life of a Punjab Village, The, 125 n².

Economic Studies: Some South Indian Villages, 213.

Economic Survey of Baurampur, A., 125 n².

Education, for rural areas, 209; money borrowed for, 119.

Ela Nidhis (Chit Associations), 199.

Elliot, Sir H. M., 10 n.

England, usury in, 111, 192.

Etawah, 189-90.

European bankers, early, 17, 25.


External Capital Committee (1925), 161, 226-7, 228, 337.

Family system, Hindu joint, 3, 17, 117-18.

Faridpur, see Jack, Major J. C.

Farukksiyar, Emperor, 15.

Farukhabad, 24.

Federal Reserve system (U.S.A.), 236.

Ferguson & Co., 141.

Financial Chapter in the History of Bombay City, A., 147-8.

Firminger, W. R., 18 n.

Firoz Shah, 10.

First National Bank (U.S.A.), 235 n.

Forgeries, 163-4.

Fort St. George, 17, 24.

France, usury in, 111-12, 113, 198.

Fremantle, Sir Selwyn, x, 212 n.

Funds, sources of loanable, 120.

Ganga-Pustakmala Karyalaya, xi.

Ganges, river, 105.

Ganjam, 20-1.

Garhwal, 92 n², 105.

Gautama, law-giver, 5, 6.

General Bank of India, 141 n².

Germany, usury in, 112-13, 198, 215.

Giardelli, V., x.

Gilbert, J. W., 42 n².

Girvin, see Pawning.

Government of India Act, 203.

Government Savings Bank (Calcutta), 142, 144.

Grain banks, 200.

Gregory, Prof. T. E., xi.

Gubbay, M. M. S., x, 233, 234 n, 236.

Gujarat, 33.

Gyarah Panch (bankers' association of Indore), 40.

Haji, S. N., 227-8.

Haid Udhav (loan without documents or witnesses), 63.

Hathras, 178.

Hazara, 137.

Hindu Fasts and Feasts, 90 n².

Hindustan, Bank of, 141.

Hissar, 138.

History of India as told by its own Historians, 10 n²-5°.

History, Principles and Practice of Banking, The, 42 n².

Hoarding: in Sutra period, 8; a cause of, 185-6; a remedy for, 238.

Hoare & Co., 141.

Hoshiarpur district, 125.

Hukam Chand Mills, Ltd., 46-7.
INDEX

Humnis, defined, 71; functions of, 72; Darskani (sight or demand bills), 72, 73, 75, 78; Muddati (Miadi), deferred or usance bills, 72, 73, 77, 78, 80-1; compared and contrasted with English bills of exchange, 73; subdivisions of, 73; examples of, 74-5, 76-7, 79, 84-5, 86-7, 88-9; advice of, 78-80; amounts of, 80; days of grace, 80; stamp duties on, 81; indorsements and discount of, 81-2; dishonour of, 82; additional copies of, 82; purchased as investment, 83; discount rates, 97-8; see also Glossary.

Ibbetson, Sir Denzil, 122.

Illiteracy, 115-16, 156, 198, 206-9, 244; remedies suggested, 209-13.

Imperial Bank of India: relations with indigenous banking, 25, 41, 43, 83, 97, 176-84, 225, 227, 228, 240, 245; loans to cotton mills, 49; history, 140, 165-73; nature of business 166; obligations and privileges, 166-7; limitations, 167-8; branches, 168-70; inland remittances, 170; relations with joint-stock banks, 170-3; clearing-houses, 173; future relations with co-operative societies, 216.

Imperial Bank of India Act (1902), 165, 167-8, 170.

Imperial Gazetteer of India, 10 m., 23 m.

Imperial Legislative Council, see Legislative Assembly.

Indebtedness, agricultural, 124-34, 175; non-agricultural, 134-5, 175; aggregate Indian, 135.

Index Numbers of Indian Prices, 131 m.

India, High Commissioner for, ix.

India in 1923-24, 123 m.

India in 1926-27, 223 m.

India Office, ix, 16.

Indian Bank, 151.

Indian Currency and Exchange, 150 m., 151 m.

Indian Finance and Banking, 21 m.

Indian Journal of Economics, x.

Indian Specie Bank, 153.

Indian War Loan Fund, 29.

Indore, 30 m., 40, 46, 91, 181; Bank, 49.

Industrial and Commercial Congress (1927), Indian, 228.

Industrial Commission (1918), 46 m., 161.

Industrial Organisation of an Indian Province, 133 m.

Industry, financing of, 45-9.

Instalment systems of repayment, 61-3; see also Kist.

Institute of Bankers, proposed, 225.

Interest, rates of, in Vedic period, 4; in Sutra period, 8-9; 200-500 A.D., 9-10; for loans and deposits, 93-7; among bankers themselves, 95-6; legal rates, 96; compound, 96-7; hundi discount rate, 97-8; seasonal fluctuations of, 99; past and present rates in United Provinces, 100-4.

I O U's, 7.

Irvine, 10 m.

Italy, usury in, 113-14, 198.

Iyenger, Prof. S. K., 126 m.

Jack, Major J. C., 94 m., 96 m., 107 m., 109, 125, 126, 127, 128, 131 m., 133 m., 134, 217 m.

Jagat Seths (world bankers), hereditary title, 15; relations with East India Company, 18.

Jama Gazette, x.

Jamas, bankers, 10, 15, 28, 36, 146.

Japan, 206.

Jatakas, the, 4-5, 6, 7.

Jevons, Prof. H. S., 212-13.

Jews, 11.

Jhansi, 189-90.

Joint family system, Hindu, 3, 37, 117-18.

Joint-stock banks in India: relations with indigenous banking, 43, 72, 83, 101, 173-6, 232, 234-7, 240, 242-3; granting loans against security of goods, 49, 202; history—Calcutta 'agency houses,' 140-2, 153; 1833-60, 142-6; 1860-1927, 146-62; for Civil and Military Services, 142, 145; failures, 141-2, 145, 152-3, 157-60; present position, 153-62; deposits in, 155-7; geographical distribution of, 160-1; business undertaken by, 161-2; resources
compared with those of banks of the United Kingdom, 173-4; future relations with co-operative societies, 216-17; proposed new indigenous, 237-46.

Jolly, Prof., 8.

Journal of the Royal Society of Arts, 233 n, 234 n, 236 n1-8.

Jullandhur, 137.

Kabul, mint, 12.

Kamrup, 220.

Kathiawar, 91.

Kautliya, 9 n, 212-13.

Keatinge, G., 21 nl.

Keith, A. B., 3-4.

Kemmerer, E. W., 236 n 0.

Keynes, J. M., 150, 151 n.

Khatris (bankers), 28, 32, 63.

Khiultat (robes of honour), sent to bankers, 15.

Kibie, Sirdar M. V., 30 n.

Kirars, 33, 122; see also Aroras.

Kist (instalment system of repayment), 22, 62-3, 64-5, 94-5, 105, 107-8, 108 n.

Kovilvasal Mariyal (temple council), 40-1.

Kutb Ali, 22.

Labour, unpaid, by borrowers, 106.

Labour and Housing in India, 93 n.

Lahore, 74, 173, 201.

Lakhnauti, mint, 12.

Lakshmi, Goddess of Wealth, 90.

Land Alienation Acts, 189-91; Punjab, 189; Bombay, 189; Bundelkhand (U.P.), 189-90.

Land and Labour in a Deccan Village, see Mann, Dr.

Land holdings, consolidation of, 200.

Land Improvement Loans Act (1883), 188.

Land mortgage banks, 218-21.

Land transfer, and agricultural castes, 190.

Lawani, see Loans in kind.

Laws of Manu, 8-10, 9 n1-3, 10 n1.

Legislative Assembly Debates, 124 n, 177 n, 182 n, 227, 228-9.

Libraries, village, 211.

Litigation, a cause of borrowing, 117.

Loans: in kind, 67-9, 93, 107; cash, 93-4; quality of security for, 119; productive, 119, 123; unproductive, 123; State, see Taccavi.


Lombards, in England, 43.

London School of Economics, ix, x-xi, 142 n, 212.


Lubbock & Co., 43.

Lucas, Rev. E. D., 125, 134.

Lucknow rupee, 24.

Luxuries, loans raised for, 119.

Lyallpur, 137.

Macdonnell, A. A., 3-4.

McDougall, Mr., 123.

Mackintosh & Co., 142.

Maclagan, Sir Edward, 126, 127, 128, 132.

McWatters, A. C., 181.

Madras: rupee adopted as standard for British India, 24; city, 45, 90, 93 n, 173, 177; Bank of, 162, 177; University, 213.

Madras Presidency, 107, 125, 126, 128, 131, 159, 169, 171, 199, 202-3, 205-6, 213, 220, 228.

Madras Presidency, Report on the Possibility of Introducing Land and Agricultural Banks into the, see Nicholson.

Madura, 31, 37; District Gazetteer, 31, 31 n.

Magamai (charitable fund), 29 n1.

Mahajan, guilds of traders and bankers, 39-42; term for banker or money-lender, 7 n, 39 n1, 44, 120-1, 146, 175, 215.

Mahajan numeral, 90.

Maharashtra, 30 n.

Mahomedans, 33-4, 62, 95, 163, 245.


Mandalay, 220.

Mandis (exchange marts), 52.

Mann, Dr. H. H., 94 n, 108 n, 125, 134, 135, 136 n, 139.

Manu, law-giver, 8.

Manufactured goods, distribution of, 52-3.


Marwari Chamber of Commerce, 41.
INDEX

Marwaris (bankers), 28, 29, 36, 38-9, 41, 52.
Maynard, Sir John, 193, 195.
Meerut, 44 n, 52.
Mehta, Jamna Das M., 124.
Mints, Moghul, 12, 15, 23-4.
Mirzapur, 189-90; Bank of, 143, 146.
Mohurs (gold coins, various), 24.
Money-changing, in Moghul period, 11-12, 23-5.
Money-lenders’ Act (1900), English, 2.
Money-lenders’ Registration Bill, 193, 195.
Monghyr Fort, 159.
Montmorency, Sir G. de, 190 n.
Moradabad, 107.
Moreland, W. H., x, 10 na.
Morison, T., 133 nO.
Mornington, Lord (Marquis Wellesley), 20-1.
Mortgages, 60-2, 113.
Mount Abu, 10; 29, 71 n1.
Mouzoo Deen, Emperor, 159.
Muddatikha~edi, see Mortgages.
Mukerji, A. C., 90 n.
Mukhias (village leaders) as money-lenders, 35.
Müller, F. Max, 5 n4.
Multani Bankers’ Association, 41.
Multanis, bankers, 33, 45.
Multaniyas, 10.
Murray, Norman, 170 n1, 181.
Murshidabad, 222-3; sikka rupee, 24.
Myles, Prof., 224.
Mysore, 126, 133, 159, 221; Bank of, 152.

Nagaratlas, see Chettis.
Nagpur, 125, 133.
Naiks, 30 n3.
Najar gahan, see Mortgages.
Nanasa, Bavany Doss (soucar), 21.
Narada, law-giver, 8.
Narsimha Mehta of Junagarh, 71.
Narung, Dr., 69.
Native States, Indian, 126, 161, 169, 199.
Nattarsangkottai, 30 n3.
Nattukottai Chettis (bankers), 30-2, 36-8, 40-1, 45, 122, 177; women, 37.

Nazrana (fee), 105.
Nicolson, Sir F. A., xiii, 94 n1, 104, 112-14, 123, 125, 126, 127, 128-9, 131 n1, 136, 137.
Niruhta, the, 4.
North-West Frontier Provinces, 159, 169, 204-5, 205 n.
North-Western Bank of India, 143, 145.
Nowptee Mehajuns’ (Benares bankers), 22 n3.
Numbers, unlucky, 92.
Numerals, used in accounting, 90; code words for, 91.

Oakden Co-operative Committee, 203, 207 n, 219-20.
O’Donnell, Sir Samuel, 190 n.
Origin of Indian Brahma Alphabet, On the, 5 n3.
Oriya, 92 n3.
Ornaments, loans against, see Pawning.
Oudh Commercial Bank, 149.

P. & O. Banking Corporation, Ltd., 233.
Pagodas (gold coins, various), 24.
Palmer & Co., 142.
Pantulu, V. Randas, 221.
Pathan money-lenders, 34, 69 n4, 94, 110.
Pathshalas (schools), 31.
Patna, 14.
Patna Patawan, see Mortgages.
Pedlars, Mughal and Pathan, 69.
People’s Bank, 153.
Peshawar, 129, 132.
Pioneer Mail, 34 n, 228 n3.
Flyman, F. J., 123.
Podars (money-changers), 24, 25.
Population, increase of, 130.
‘Presents’ to money-lenders, 104, 104 n, 105; to customers, 106.
Presidency Banks, 140, 141 n1, 177, 181; original shareholders, 162-3; as banks of issue, 163; forgeries and fraud on, 163-4; restricted by legislation, 164-5; establishment of branches of, 165, 165 n3.
<table>
<thead>
<tr>
<th>Page</th>
<th>Indigenous Banking in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>272</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Presidency Banks, History of, 141 n.</td>
</tr>
<tr>
<td></td>
<td>Presidency Banks Act (XI of 1876), 164-5.</td>
</tr>
<tr>
<td></td>
<td>Prices, rising, 130, 131-2; Index Numbers of Indian, 131 n.</td>
</tr>
<tr>
<td></td>
<td>Princep, H. T., 164.</td>
</tr>
<tr>
<td></td>
<td>Principles of Economics, 209 n.</td>
</tr>
<tr>
<td></td>
<td>Promissory notes, 55-7.</td>
</tr>
<tr>
<td></td>
<td>Propaganda, for co-operative principle, 208, 211.</td>
</tr>
<tr>
<td></td>
<td>Proverbs concerning money-lenders, 122.</td>
</tr>
<tr>
<td></td>
<td>Punjab and Sind Bank, 151.</td>
</tr>
<tr>
<td></td>
<td>Punjab Castes, 122 n.</td>
</tr>
<tr>
<td></td>
<td>Punjab Famine Report (1878-79), 125 n, 133 n.</td>
</tr>
<tr>
<td></td>
<td>Punjab Money-lenders' Bill, 193-5.</td>
</tr>
<tr>
<td></td>
<td>Punjab Peasant in Prosperity and Debt, The, 33 n, 125 n, 137 n.</td>
</tr>
<tr>
<td></td>
<td>Punjab Regulation of Accounts Bill, 192-5, 196, 197.</td>
</tr>
<tr>
<td></td>
<td>Puing, G., 19 n.</td>
</tr>
<tr>
<td></td>
<td>Puvaththukudi Chellis, 30.</td>
</tr>
<tr>
<td></td>
<td>Rahan, see Mortgages.</td>
</tr>
<tr>
<td></td>
<td>Rajasthan, Annals and Antiquities of, 146 n.</td>
</tr>
<tr>
<td></td>
<td>Rajkumar Mills, Ltd., 46-7.</td>
</tr>
<tr>
<td></td>
<td>Rajputana, 29, 126.</td>
</tr>
<tr>
<td></td>
<td>Ramnad, 39.</td>
</tr>
<tr>
<td></td>
<td>Rangpur, 173.</td>
</tr>
<tr>
<td></td>
<td>Rangpur, 18 n, 19.</td>
</tr>
<tr>
<td></td>
<td>Rapson, E. J., 4 n 8.</td>
</tr>
<tr>
<td></td>
<td>Rawalpindi Division, Report on Peasant Indebtedness, etc., in, 125 n 1.</td>
</tr>
<tr>
<td></td>
<td>Receipts (rasid), 55, 58-9.</td>
</tr>
<tr>
<td></td>
<td>Rehet (rehits), see Installment systems.</td>
</tr>
<tr>
<td></td>
<td>Rehits (bankers), 33, 62.</td>
</tr>
<tr>
<td></td>
<td>Reserve Bank, proposed, 231-6, 243.</td>
</tr>
<tr>
<td></td>
<td>Reserve Treasuries, 165, 170.</td>
</tr>
<tr>
<td></td>
<td>Revenue collection, East Indi Company, 18-19.</td>
</tr>
<tr>
<td></td>
<td>Rigveda, the, 3-4.</td>
</tr>
<tr>
<td></td>
<td>Rise of Prices in India, Enquiry into, 93 n.</td>
</tr>
<tr>
<td></td>
<td>Rise, Progress and Present Condition of Banking in India, 25 n.</td>
</tr>
<tr>
<td></td>
<td>Rudra, S. K., x.</td>
</tr>
<tr>
<td></td>
<td>Rujahi, see Installment systems.</td>
</tr>
<tr>
<td></td>
<td>Rupees, of Moghul period, 13, 19.</td>
</tr>
<tr>
<td></td>
<td>Rural Economy in the Bombay Deccan, 21 n 3.</td>
</tr>
<tr>
<td></td>
<td>Rural Schools in the Central Provinces, 210 n.</td>
</tr>
<tr>
<td></td>
<td>Sacred Books of the East, 5 n 4, 9 n 1.</td>
</tr>
<tr>
<td></td>
<td>Sahukars (soucars), 7 n, 21, 22, 95-6 106.</td>
</tr>
<tr>
<td></td>
<td>Samaldas, Sir Lallu Bhai, 214.</td>
</tr>
<tr>
<td></td>
<td>Samalsah of Dwarka, Seth, 71.</td>
</tr>
<tr>
<td></td>
<td>Samsastry, R., 9 n 4.</td>
</tr>
<tr>
<td></td>
<td>Saraf Basna (bankers), 69.</td>
</tr>
<tr>
<td></td>
<td>Sarsuti, bankers of, 10.</td>
</tr>
<tr>
<td></td>
<td>Satapatha Brahmana, the, 4.</td>
</tr>
<tr>
<td></td>
<td>Schools and banking reforms primary, 210-11; middle and secondary, 211-12.</td>
</tr>
<tr>
<td></td>
<td>Scripts used in banking, 90.</td>
</tr>
<tr>
<td></td>
<td>Seth (banker), 5, 15.</td>
</tr>
<tr>
<td></td>
<td>Shah, 175.</td>
</tr>
<tr>
<td></td>
<td>Shahjahanrupees, 11.</td>
</tr>
<tr>
<td></td>
<td>Shakespeare, A., 22 n 3.</td>
</tr>
<tr>
<td></td>
<td>Share model system, 201-2.</td>
</tr>
<tr>
<td></td>
<td>Sher Shah, 13.</td>
</tr>
<tr>
<td></td>
<td>Shirras, G. F., 21 n 3, 83 n, 142 n 1.</td>
</tr>
<tr>
<td></td>
<td>Shore, Sir John, 20.</td>
</tr>
<tr>
<td></td>
<td>Shroffs (sarrafs), 11-12, 14, 19, 20, 24, 25, 41, 97.</td>
</tr>
<tr>
<td></td>
<td>Signet rings, as deposit or security, 7.</td>
</tr>
<tr>
<td></td>
<td>Signs and secrets, bankers' trade, 91.</td>
</tr>
<tr>
<td></td>
<td>Sisika (Murshidabad) rupee, 24.</td>
</tr>
<tr>
<td></td>
<td>Silk-reeling factory, co-operative, 222-3.</td>
</tr>
<tr>
<td></td>
<td>Silver and Gold Coinage Act (1835), 24 n.</td>
</tr>
<tr>
<td></td>
<td>Simla, 145, 173; Bank, 144, 146.</td>
</tr>
<tr>
<td></td>
<td>Sind, 33, 201.</td>
</tr>
<tr>
<td></td>
<td>Sinha, H., 23 n 1, 141 n 3, 142 n 4.</td>
</tr>
<tr>
<td></td>
<td>Sironj, 14.</td>
</tr>
<tr>
<td></td>
<td>Sitapur, 107.</td>
</tr>
<tr>
<td></td>
<td>Siva, 30-1.</td>
</tr>
</tbody>
</table>
INDEX

Sivaganga, 30 n*, 31, 37, 177.
Slater, Dr. Gilbert, xi, 213; introduction by, xiii-xiv.
Smith, V., 4 n*.
Social institutions and customs, 117-18, 123, 130, 135, 136, 198.
South Africa, 232.
Southern India, 60, 139.
Sravakas (Saraogis), 29; see also Jains.
Stamp books, 60.
Stamp duties, on hundis, 81.
Standard of living, villagers', 129-30, 198.
Statement relating to Banks in India, annual, ix.
Statistical Tables relating to Banks in India, 54 n, 148 n, 151 nn1-4, 152 n, 154 n, 157 nn2-3, 158.
Strakosch, Sir Henry, 234, 236.
Strickland, 213.
Succession, Mohamedan law of, 95.
Sudbharna, see Mortgages.
Sunder Singh, Sardar Bahadur Sirdar, 192-3.
Superstitions, bankers', 92; popular, 118-19.
Surat, 14; cotton, 147; rupee, 24.
Sutra period, banking in, 4-8.
Sutras, the, 4, 7.
Sutuwa-Puttuwa, see Mortgages.
Swadeshi movement, effect on banking of, 150-2, 160.
Sylhet, 220.
Tabe-gahan, see Mortgages.
Taccavi loans, 120, 188-9, 219.
Tata Industrial Bank, 161.
Tavernier, J. B., 11-12, 14, 15.
Tawney, R. H., 111 n*.
Tehr State, 105.
Thackeray, report on Ganjam (1819), 21-2.
Thompson, C. D., x.
Thorburn, S. S., 125.
Thurston, E., 30 n*, 36, 41 n*.
Ticket bahis (stamp books), 60.
Tiruppattur, 31, 37.
Tiruvadanai, 31.
Ted, J., 146.
Townsend, Mr., 203.
Trade, financing of, internal, 49-53; external, 53-4.
Travancore, 159.

Travels in India, Tavernier's, 11-12, 14, 15.
Treasury balances, held by Imperial Bank of India, 166, 170, 172.
Trust Act, Indian (1882), 215.

Unconvenanted Service Bank, Ltd., 142, 144, 145.
Unemployment and under-employment, 117.
United States of America, 147, 218, 235-6.
Universities and banking, 212-13, 224, 245.
Unpublished Records of Government (1748-1767), Selections from the, 15 n, 18.
Upper India, Bank of, 153.
Usurious Loans Act (1918), 97, 191-2, 194.
Usury, in Sutra period, 6; in modern India, 110-11; in England, 111, 192; in France, 111-12, 198; in Germany, 112-13, 198; in Italy, 113-14, 198.
Usury, A Discourse upon, 111 n*.

Vaishnavites, 29.
Vaishyas (bankers), 17, 28-9, 32, 33 n*, 63.
Vania, see Bania.
Vasishta, law-giver, 5, 6, 9.
Vastupal Tejpal, 70-1.
Vedic Index of Names and Subjects, 4 nn1-4.
Vedic period, banking in, 3-4.
Verbal contracts, 63, 66, 101.
Vira, Editor of, xi.
Vishnu, law-giver, 8.

Wacha, Sir Dinshah, 147-8.
Weavers' associations, 222-3.
Wellesley, Marquis, 20-1.
Widows, as money-lenders, 28, 66-7, 196.
Wilson, T., 111 n*.
Wives, pledged or sold for debt, 7.
Wolff, H. W., 110-11.
Women, education of, 196, 201; co-operative thrift societies for, 200-1; see also Widows.
Wright, H. N., 13 n4.
Wylie, F. V., 129, 132.

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