# INDIAN PRACTICAL BANKING

*A short treatise on the day to day working of modern Indian Joint Stock Banks*

BY

O. S. KRISHNAMOORTHY

*Author of "Letters on Reserve Bank"*

FOREWORD

BY

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*Second Impression*

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To

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Managing Director,

THE CENTRAL BANK OF INDIA LTD.,

BOMBAY.

*BY THE SAME AUTHOR*

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## Letters on Reserve Bank—(out of print)

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## Select opinions from:

The Right Honourable Sir Hilton Young, P. C., D. S. O., D. S. C., M. P., Chairman, the Royal Commission on Indian Currency and Finance (1925).

Sir Hilton Young is obliged to O.S. Krishnamoorthy for his interesting pamphlet, which appears to him to contain much sound reasoning. Sir Hilton Young is assured that its perusal will be of advantage to all students of the subject.

The Hon. Sir Basil P. Blackett, K. C. I. E., K. C. B., Ex-Finance Member, Government of India. (Now) Director, Bank of England.

"...........I have no doubt the circulation of the Pamphlet will be useful in the interest of India."..........

(2) Such articles are most valuable in guiding opinion aright.

Sir R. N. Mukherjee, K. C. S. I., K. C. V.O., Member, The Royal Commission on Indian Currency and Finance (1925) Governor, Imperial Bank.

"...........Thanks, I have read it with interest and agree with many of the views expressed therein."

Sir J. C. Coyajee, Kt., Member, The Royal Commission on Indian currency and Finance (1925).

"...........The treatment is lucid and interesting as far as it goes."

Sir Byramjee Jeejeebhoy, Kt., Director, The Central Bank of India.

"...........You have handled the subject very ably and those of our public men who take a keen interest on this burning question of the day might do well to go over this brochure for further enlightenment on the subject. It will enable them to weigh the pros and cons of the question from different angles of vision."

H. G. Cocke, Esq., M. L. A., Partner, A. F. Ferguson & Co., Auditors, and Ex-President of the Bombay Chamber of Commerce.

"...........I can only say that I agree with you that a Share-holders' Bank is likely to be most satisfactory in the long run and the most practicable to work."

# FOREWORD

Mr. Krishnamoorthy's book on Banking in India appears at a very opportune time. The problem of banking is one of the most urgent of our needs and an enquiry is now under consideration. We import a large amount of the precious metals dug up in one part of the World only to be hidden away in another either in the form of jewellery or as bullion. This renders sterile a large amount of wealth which I have estimated in the Economic Journal to be £550 millions or a sum approximately equal to the total amount of gold reserves held by the Government and the Federal Reserve Banks in the United States. The essentials preliminary to the use of the country's wealth for productive purposes are mass education, political security, communications, and an acceptable system of deposit banking. These are indeed all Governmental problems and a vigorous use of the power of Government is required to bring about the economic advance which is so necessary. Sir George Schuster in his first Budget speech recently said that the question calls for action rather than words. I fully recognize the difficulties, and that Government cannot expect to get the small men all over India to invest their savings except as a result of a steady course of education and the provision of better facilities. This is a matter on which I hope our Banking Enquiry will throw light.

What then are the facts? In the twelve months ended December 1928 the total new capital raised in London amounted to £369 millions, the amount raised for domestic employment being 63 per cent. of the total and for overseas 37 per cent. Only £7 millions were borrowed by the Government of India early in the year, large sums being borrowed by the Governments of Australia and New Zealand. Other countries such as Kenya, Tanganyika, Southern Rhodesia, Newfoundland, Fiji and foreign Governments like Greece, Bulgaria, and the South American Republic claimed a considerable part. India, therefore, has at the present time to compete with many countries in the London money market. It is in every way desirable that she should depend more and more on rupee capital. The issues of capital to-day in India, according to statistics published monthly by the League of Nations, are on the average of the last five years only about one-eleventh of those in Japan with a population of 83 millions as against 320 millions in India and an area one-seventh of that of India. We require more and more capital to improve production (which is mediæval in many of its branches), to develop communications, and to educate ourselves to store up capital. We have to see that the function of a surplus of income over expenditure is devoted to making the future happier. Our own capital will then grow and we may be able to move ahead, somewhat as Japan has been doing lately, with less dependence on foreign assistance.

The Indian Banking structure at the present time is a decentralised system. Under such a system there is always the greater probability of crises occurring than under a centralised system. The history of bank failures since 1913 shows clearly the disastrous effect of such crises. A general breakdown of credit can be avoided under a system in which banking reserves are centralised in a central bank endowed with the right of note issue. At present banks in India cannot turn easily the maximum of their assets into cash. Stringency breeds distrust and distrust leads to the clinging to cash with the result that a crisis becomes inevitable. Joint Stock banking proceeds safely under the shelter of a true central bank. Organisation of credit is essential.

The aim of the author is to promote the knowledge of banking. The practical banker may not find much that is new to him but the student of banking may find benefit from a perusal of these pages. It has been well said that there is but one school in which the practice of banking can properly be learned, and that school is a bank. In research in Economics we have a large field before us. It is not so important to us as economists to know more about the history of Indian banking as it is that we should know more about the actual operations of banks, indigenous and joint stock and the actual uses of credit in different parts of the country. The careful study of the records of a particular bank over a period of years or of a particular shroff would establish a foundation for an important contribution to Economics. I mean not that the materials should be first-hand materials but that they should be new kinds of materials. Otherwise we get another history of banking of the familiar or standardised sort. In recent years the Government of India have begun to follow the example of Western countries and to use economists for their economic advisory work. There are broadly speaking two types of advisers. One type is the general practitioner type who diagnoses the disease, prescribes the medicines and undertakes the care of the patient until he has recovered. The second type is the consultant type which merely diagnoses the difficulties, prescribes remedies and then goes away, leaving the full responsibility of treatment to government or perhaps suggesting the appointment of advisers of the general practitioner type to help to carry out the treatment recommended. Indian Banking, however, will depend in the future than in the past rather on young men trained in banking and it is to this class that Mr. Krishnamoorthy's book is likely to appeal.

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Ahmedabad,
4—3—29.

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# ERRATA

| Page | Line | | | |
|---|---|---|---|---|
| 1 | 22 | and this is | ... | omit *and* |
| 3 | 25 | Their were immense | ... | read *There* were |
| 7 | 30 | much discouraging | ... | „ *very* discouraging |
| 15 | 17 | in no case a good customer is turned out | ... | „ in no case *is* a good customer turned out |
| 16 | 12 | account can be | ... | omit *can* |
| 19 | 28 | name of the party | ... | read *names* of the *parties* |
| 19 | 30 | signature of the party who takes | ... | „ signature of *the persons* who *take* |
| 20 | 18 | When firms or | ... | omit *firms or* |
| 21 | 14 | specimen of cheque | ... | „ *of* |
| 22 | 30 | whomsoever | ... | read *whosoever* |
| 24 | 13 | Patel and Shaw Ltd. | ... | omit *Ltd.* |
| 26 | 9 | collecting should | ... | read collecting *banker* should |
| 27 | 5 | cashed the crossing | ... | „ cashed *over the counter,* the crossing |
| 30 | 11 | annas is | ... | „ annas *are* |
| 39 | 10 | to 5th June 1929 | ... | „ *4th June 1929* |
| 41 | 1 | but the depositor is paid. | | „ but the depositor *if he desires his deposit in the middle of the period he* is paid |
| 48 | 12 | trade for | ... | „ trade *or* |
| 49 | 18 | they trade | ... | „ they *are* trade |
| 52 | 34 | hundi may send | ... | „ hundi *must* send |
| 77 | 20 | loan has been | ... | „ loan *had* been |
| 83 | 11 | suspence | ... | „ *suspense* |
| 89 | 19 | sells heavy bear | ... | „ sells *a heavy* bear |
| 89 | 25 | there are less | ... | „ there *is* less |
| 95 | 4 | calenders | ... | „ *calendars* |
| 108 | last line | cancell | ... | „ *cancel* |
| 109 | 8 | called the Council | ... | omit *the* |
| 113 | 28 | General Ledger is | ... | read General Ledger *are* |
| 115 | 21 | collection on | ... | „ collection *of* |
| 117 | 8 | is debited | ... | „ all charges *are* debited |
| 118 | last line | Provident Balances | ... | „ Provident *fund* Balances |
| 120 | 5 | Bad Doubtful Debts | ... | „ Bad *and* Doubtful Debts |
| 123 | 9 | Act require | ... | „ Act *requires* |
| 123 | 29 | Government took | ... | „ Government *paid* |