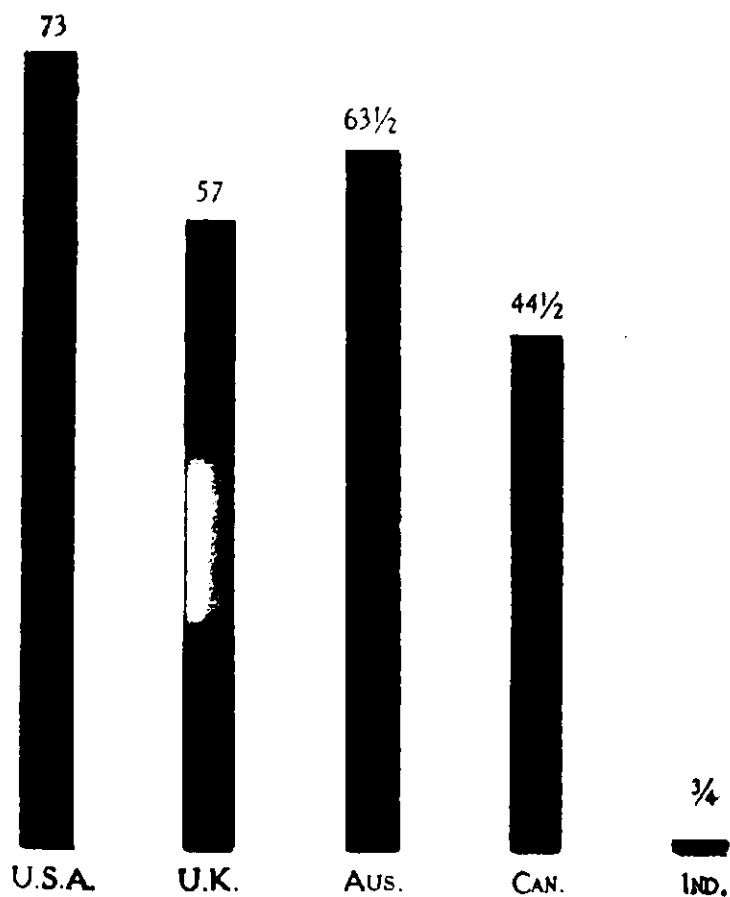
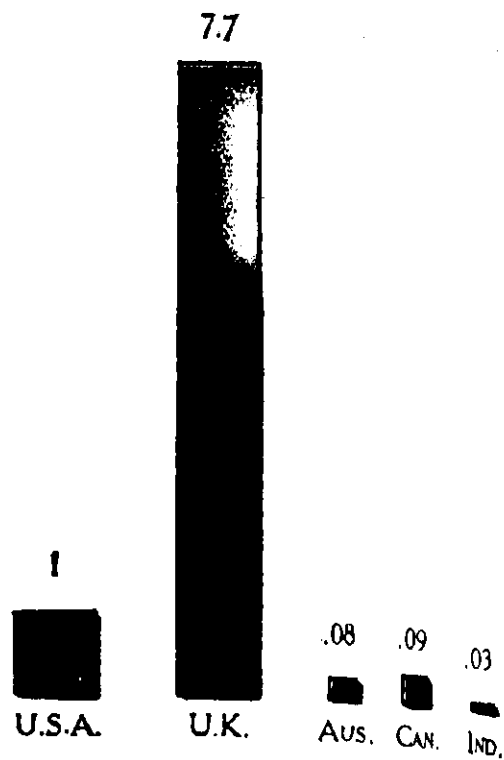


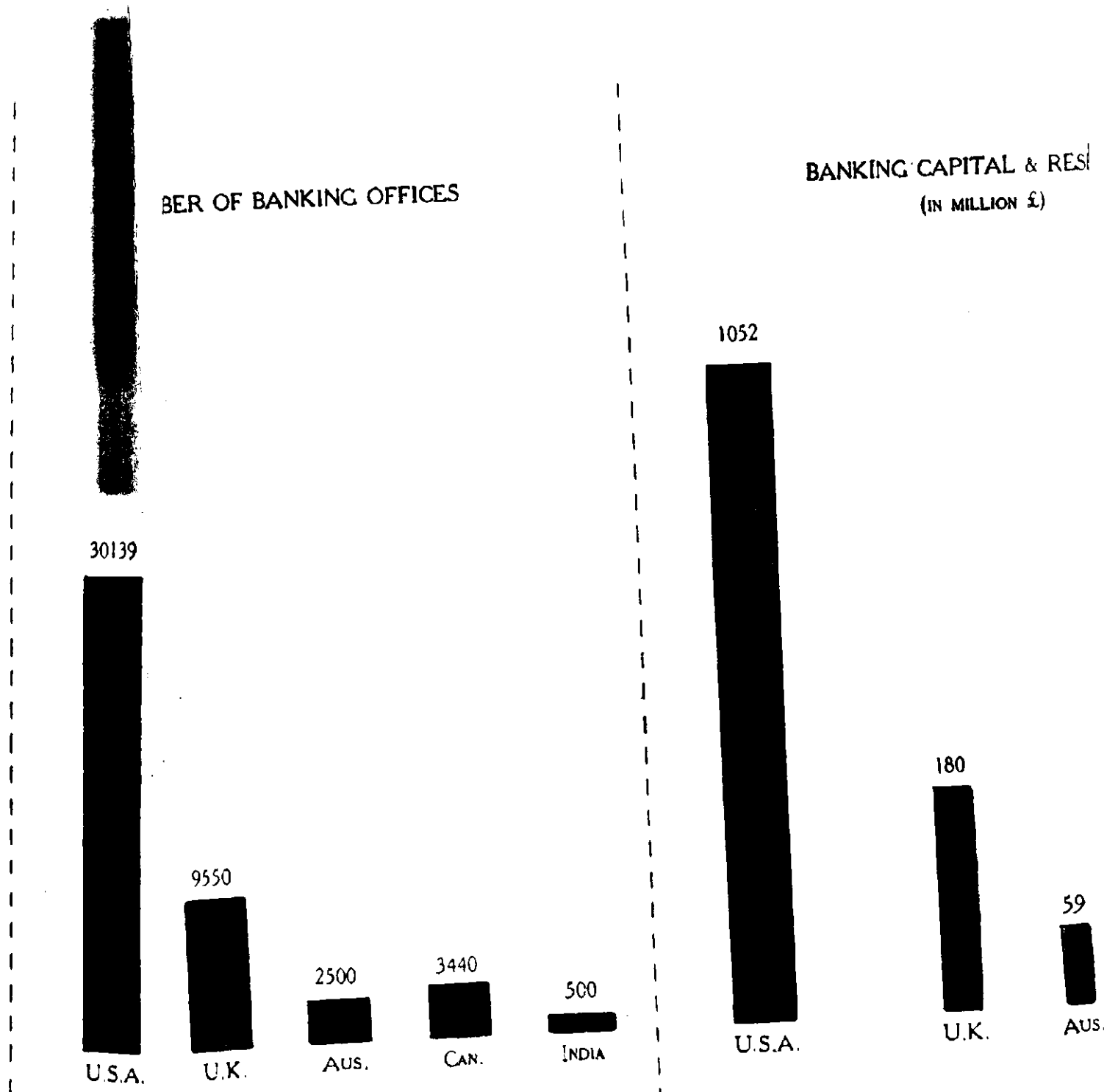
AVERAGE DEPOSIT
PER HEAD OF POPULATION (IN £)



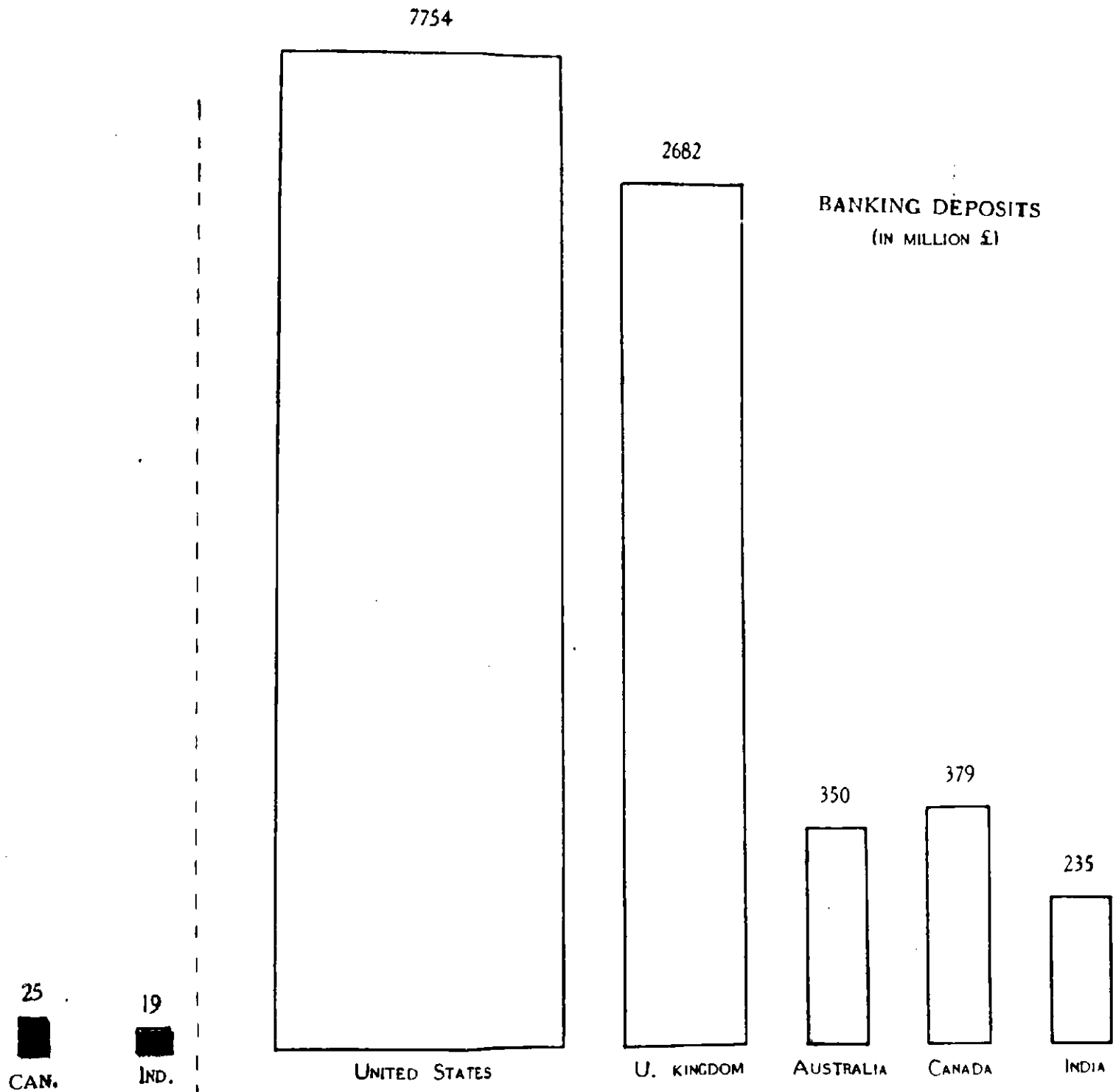
AVERAGE NO. OF BANKING OFFICES
PER 100 SQ. MILES



BACKWARDNESS OF INDIAN BANKING



BANKING DEPOSITS
(IN MILLION £)



ORGANIZATION OF INDIAN BANKING

BY

B. T. THAKUR, M.A.

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CENTRAL BANK OF INDIA, LTD.

WITH A FOREWORD

BY

LALA HARKISHEN LAL

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THIS BOOK

**Is Dedicated by the Author,
As a token of Gratitude,**

TO

THE CENTRAL BANK OF INDIA, LTD.,

AND ITS

Managing Director,

S. N. POCHKHANAWALA, ESQ.

PREFACE

Of late India has been giving considerable attention to her banking problems. The Commissions and Committees that have been entrusted with investigations in connection with matters economical have all reported upon the necessity of banking development. The Indian Industrial Commission, 1916-1918, reported that there was urgent necessity for the extension of banking facilities and regarded organization of banking as an important preliminary step to the advancement of Indian industries. The External Capital Committee in their report dated the 16th September 1925 said, "India possesses a vast store of dormant capital awaiting development, and in order to make this available for investment banking facilities must be increased and extended..... We would emphasise the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India". The Royal Commission on Indian Currency and Finance which issued their report in August 1926, have also emphasised the same necessity. They said, "Nothing should be left undone which will tend to facilitate and encourage banking progress in India." Several discussions have taken place in the Central Legislature about the means to promote banking in this country. More than one public man has deplored the insignificance of India's credit institutions and demanded that a systematic scheme should be evolved to accelerate the growth of sound banking. And as students of economics and finance

know that no country can ever hope to attain her economic salvation unless her banking institutions are properly organized, all that the various bodies, referred to above, have said in this connection is nothing but absolute truth. The importance of organizing Indian banking cannot be minimised or belittled. Even the country's currency reform cannot be suitably brought about unless her banking system is constituted on satisfactory lines.

To supply material for consideration and thought in connection with this, one of the greatest and most fundamental problems which faces India, is the object of this book. As far as I am aware there does not exist any book at the present moment which fully and directly deals with the subject. It will be too presumptuous for me to claim any finality or rigidity for the views expounded herein or to regard the scheme outlined as the only possible solution of the problem. I am offering this book primarily with a view to inform the public how backward and deficient is our banking system, secondarily to indicate in what directions steps can possibly be taken to improve the situation and lastly to invite criticism. The task of designing construction of Indian banking is a formidable one and should naturally be undertaken by a competent investigating body which should examine the question thoroughly just as the National Monetary Commission of the United States of America did for that country in 1908. If my writing does anything to increase public interest in the Indian banking problem or assists in determining its solution my efforts will have been sufficiently rewarded.

I take this opportunity to thank all the banks and bankers that helped me in the study of this question during my visit to Europe in 1925. I am conscious

that at the cost of very great inconvenience to themselves they readily admitted me to their institutions and gave me every opportunity and facility to inspect their working and discuss with them various questions pertaining to banking problems. I am specially indebted to the following for valuable information relative to the subject matter of this book.

Lloyds and Midland Banks, London.

Guaranty Trust Company of New York, European branches.

Lloyds & National Provincial Bank, Paris.

Banque DE Paris ET DES Pays Bas, Paris & Brussels.

Netherlands Bank, Amsterdam.

Reichs, Deutsche, Darmstädter und National and Commerz-und Privat Banks, Berlin.

Credito Italiano and Anglo-Italiana Bank, Milan.

I am also anxious to particularly acknowledge my gratefulness to the following gentlemen who gave me much valuable advice and assistance : Dr. Visernig, President, Netherlands Bank, Amsterdam ; Dr. Node, Director, Reichsbank, Berlin ; M. Pierre Guebard of the Bank of France, Paris ; Mr. Spalding of Honkong & Shanghai Banking Corporation, London ; and Mr. Sykes, Secretary, The Institute of Bankers, London.

My special thanks are due to my employers, the Central Bank of India, Ltd., for readily granting my application for long leave to enable me to go abroad and for procuring me the necessary facilities. The visit was, however, on my own private account and I alone am responsible for the publication of and the views contained in this book.

It remains to be acknowledged that I am indebted to several authors who have written books on banking. It would be rather a lengthy matter to name them here. Major portion of the notes which were made use of in

writing this book were originally collected for the sake of personal knowledge without any intention of developing them into a book form ; and as such, I was not too particular to record the source of information in my notes. I have, however, tried my best to state the source wherever possible, and if I happen to omit any author I crave his indulgence and assure him that it is not intentionally done.

The writing of the MS. of the book was completed last year. However, without altering the general design and arrangement, the subsequent events, *e.g.* the Currency and Reserve Bank Bills, the Japanese banking crisis, the closing of the Bengal National Bank, etc., have been duly recorded and taken note of, either in the shape of footnotes or appendices.

Principal M. L. Tanan of the Sydenham College of Commerce and Economics, Bombay, Mr. Dady N. C. Nanavaty of the Central Bank of India and Mr. F. O'Reily, Retired Headmaster, St. Joseph's School, Lucknow, have been kind enough to render me very valuable assistance and advice in compiling this work and I take this opportunity, of expressing my sincere thanks to them.

I am grateful to Lala Harkishen Lal for kindly writing a Foreword for this book.

Owing to the pressure of official duties and the short time in which the book has been written I am afraid I have not been able to give as concentrated an attention to the writing as I should have wished. I am conscious that there is some scope for improvement. However, as the problem is urgent I have thought it advisable not to delay its publication. After all, in cases of this nature it is the matter which counts more than the form in which the matter is presented.

B. T. THAKUR.

CALCUTTA,

19th June, 1927.

FOREWORD

Mr. B. T. Thakur, a high official in the biggest purely Indian Bank and the writer of a comprehensive and suggestive work on "The Organization of Indian Banking", some months ago asked me to write a foreword to his treatise and I readily agreed knowing that Mr. Thakur was a serious student of and an active actor in the banking drama of the country; and one who believes and writes that the importance of organising Indian Banking cannot be minimised or belittled. I realised this situation as far back as early nineties of the last century and attempted to draw attention in a much humbler but more practical way than by attempting a complete survey of the situation and prospects for which perhaps the material was not then quite ready or ample. In those days actual experience gained by working in a Bank was not possible in a capacity from where one could focus attention on the whole panorama of banking. Mr. Thakur being a younger man by quite a generation, has had splendid opportunities of viewing the whole panorama of Banking by holding a very high position in a large Bank from which he could command a place of vantage; and he has freely added to his opportunities by constant observation, by a continuous study and by a special journey to England and the continent of Europe, to compare his conclusions of Indian Banking problems with realities and actualities elsewhere. There the results of long and continuous experience extending over several centuries could be studied and compared more effectively than by a sit-at-

home attempt. Mr. Thakur has unreservedly placed the results of his study, observation and experience at the disposal of the reader of his work styled "Organization of Indian Banking" and one ought to feel really grateful to him; for it is quite conceivable and likely that his attempt at the right time and in the right direction may lead to public discussion of the various aspects of the Banking problems of India and help in their right solution.

Mr. Thakur has divided his work into 15 chapters each being a complete survey of the problems indicated at the head of the chapter. Chapter "Introductory" is naturally the most important as therein he unburdens his full mind and gives expressions to his long cherished notions and feelings. He says that if the people who manage banking concerns are competent, honest, sincere, enthusiastic, respectable and desirable in every other respect, they will inspire confidence. This is very good and fixes a very fair standard of selection for employers, but one might ask, has this high standard been generally neglected in the past or is likely to be buried in the future. My own experience of banking now extending over 34 years leads me to say that this standard is quite easy to maintain in this country and fortunately most Indians can readily answer to these queries in the affirmative.

Mr. Thakur then passes on with enthusiasm to the much discussed question of "Safeguarding interest of depositors against reckless dissipation of their funds by unscrupulous bank directors." If legislation could accomplish this and would assure every depositor that his money will be quite safe under a new legislative dispensation and more so than it is at the present time one would welcome such legislation and wait; but this

has not been yet accomplished even in England or Europe. Without any specific legislation the results of Indian Banking of a quarter of century have been more praiseworthy than anywhere else. Humanity has not yet invented such a perfect legislation and Mr. Thakur himself leaves it to others to devise this legislation, therefore it appears that one should not wait but do the little that one can under the present imperfect human constitutions and human institutions. The law of the survival of the fittest would operate as effectually in this as in other spheres of creation. To create a better humanity by legislation would be quite a new thing and need not be attempted. To regulate by legislation is quite possible ; but the time for that always is when a type has come into existence and has to be perpetuated. Indian Banking must pass through a series of changes before a suitable type is evolved. This type would evolve only when national commerce, national industry, and national agriculture with national fiscal policy are evolved. When is that to be ? On the contrary infanticide of banking is at present apparently looming in the legislative chambers. As a sonless Hindu seeks the help of charms, incantations and prayers for the blessed one to appear to continue the name and the race, so does a Hindu whose country does not present modern industrial growth of Europe ; and which has very little vested interest in its international commerce and trade. But take it from those who have given life-thought to these problems that it is the Hindu himself in his non-official capacity who will win the race for prosperity for his country ; and establish a race of blessed ones to come and to go in the right time.

Mr. Thakur is much more on a solid ground when he addresses his appeal to his own countrymen as shown

from random quotations. "Every country sees that its own banking institutions are developed as quickly as possible if its finances and through it all other activities are not to be dominated by foreign interest." So far excellent, but when he adds that "and how could we bring this about unless there is suitable legislation and support from the country's government" an old man like myself demurs. The older man has better reasons and more experience to guide his opinions than the young Thakur has. Mr. Thakur's survey of banking functions and activities is sound and good as it is based on experience; and his historical survey also appears to me to be quite correct as he therein speaks from the book; but lessons to be learnt and right inferences to be drawn from a survey of the lives of the dead (banks) has not been attempted.

He deals with the "Imperial Bank of India" chapter III, "Backwardness and Defects," chapter IV, and "Two Models" chapter V. In this chapter he gives a reliable account of banking systems of Europe and America and its perusal affords very valuable and suggestive help to the enquirer. Those chapters are followed by chapter VI on "Issues" and chapter VII on "Government Control." Chapter VII is one with which I can't agree for several reasons, the one important being that under the present system of Government in this country there is a very wide gulf between the provisions of an enactment and its administration. It has been noticed, in the case of Land Alienation Act of the Punjab, that the administration has straightway negatived the expressed intentions of the legislature.

Chapter VIII deals with the "Central Bank" and Mr. Thakur ventures on certain opinions but the Draft

Bill now being circulated and considered under the name of "The Reserve Bank" does not, I regret to notice, take full measure of Mr. Thakur's hints by anticipation. The author then proceeds with chapters IX, X, XI and so on, on "Bank Law", "Foreign Banks", "Indian Exchange Banks", "Agricultural Credit", "Industrial Banks", "Other Banks and Bankers" and lastly a chapter dealing with general matters, e.g., propaganda, vernacular accounts, stamp duty, commercial law, mortgages, etc.

For want of time in consequence of an accident I am v ry sorry not to be able to specifically express appreciati n of much widsom and shrewd common sense to be gathered from these pages. I have no hesitation in recommending a careful study of this very creditable effort of Mr. Thakur, and I wish him every success.

LAHORE,

HARKISHEN LAL.

Dated, 16th May 1927.

Since writing the above I have had to study the "Reserve Bank" Bill in a meeting of experts and have been favoured with Mr. Thakur's notes on the same.

One could not devise a deeper measure of monopolising the whole banking of India and more complete usurpation than this Bill does. It amounts to this :—

No Banks but the Imperial Bank of India, no humbug of National Banks, Industrial Banks, Commercial Banks, but the Imperial Bank of India. If the favourite one appears in a fisher's hut or on house boat or in Tambucto, three laes free of interest for five years equivalent to a gift of Rs. 21,000 a year at the

present rate of the Imperial Bank investments. Then the free supply of gold ; not from the Reserve Bank. How sometimes positives are used to mean negatives. I do not propose to dilate on the interliner readings of this measure as I have no doubt Pandit Moti Lal Nehru and his flock in the Assembly and Mr. Thakur outside will be able to meet the situation.

H. L.

16-5-27.

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