

REGULATION ,
OF
BANKING IN INDIA

BY

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*paper to be read before the Indian Economic Conference,
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REGULATION OF BANKS IN INDIA.

the need
of regula-
tion.

The chief reasons for subjecting Banking to Government regulation are not far to seek. In the first place, Banking gives such a tremendous power that is inherent in the control of funds available for loaning purposes that it has been regarded as a business of semi-public nature. And some have even gone to the length of proposing that all banking business should be conducted by the State. While it is true that private banking has not been abolished, the numerous disastrous failures of such institutions have led to an agitation in some parts of the world to bring about its elimination. Secondly, the whole structure of banking rests on the foundation of the confidence of depositors and once that is shaken the entire structure is liable to fall to the ground. Bankers deal in other people's money and a large proportion of the floating wealth of a nation is in the hands of its bankers, and is therefore, considered essential to so regulate the business as to provide least opportunities for the weakening of public confidence in these institutions. Thirdly, Government supervision of banking is considered necessary owing to its relation to the entire economic structure of a country. Not only the safety of individual banks is linked with the safety and prosperity of the system as a whole—and consequently in certain countries they have in the absence of Government control evolved a machinery for controlling themselves as one system*—but also the industrial and the commercial progress of a country is largely dependent upon them.

Laissez faire
policy
in Banking

A student of the history of Indian Finance during the last hundred years or so cannot but notice the effects of the political connection between India and England on the financial organisation of this country. The *laissez faire* policy of the State in the matter of her economic organization in England is almost without change reproduced here and even to-day India cannot be said to be a protectionist country as her tariff is very largely based upon revenue considerations. The same policy has so far guided the State in regard to her banking organisation. It has been so in spite of the fact that just before the great war, India passed through a very severe banking

*Cf. The Canadian Bankers' Association. This body incorporated in 1900, however, acts under the authority of the Dominion Treasury Board.

crisis. Among other things, for want of prudent management no less than 54 banks failed between November 1913 and December 1914 and as many as 154 banks had to close their doors between 1915 and 1927, the latter year accounting for sixteen. These several failures put back considerably the development of Indian Banking. There were, of course, bank failures in other countries too, but they served them as eye-openers which does not appear to be the case in India, if one is to judge by the fact that no serious step has yet been taken for preventing the repetition of the occurrences which upset the credit organisation of this country nearly two decades ago. It is, however, hoped that the Banking Enquiry Committee appointed last year is devoting special attention to this problem. This apathy in India on the part of the State may be explained by the fact that in England there is no State control over the banking system. But the analogy of the English banking system should not hold good with India. The English banking system is the result of the experience of more than a century with the consequence that it is so well-founded and its business is so well conducted that any special banking legislation is rendered not quite essential for it. The same thing cannot be said of joint stock banks in this country. In her special circumstances, such as the illiteracy of the great bulk of her people, the slow growth of the banking habit, the lack of trained skill, the paucity of banking offices and the absence of a central banking institution, special legislation regulating her banking organisation seems very necessary. It is true that there is no legislative road to banking paradise and legislation alone cannot bring about a well organised system of banking but there can be no doubt that, by prescribing and enforcing a certain standard of management and by placing a check on the dishonesty of managers and directors*, instances of which were brought to light during the bank failures of 1913-15, it will inspire public confidence and accelerate the development of banking organisation on sound lines in the near future.

**Existing
Banking
Legisla-
tion.**

Joint stock banks in India are at present governed by the Indian Companies Act, 1913, which distinguishes between banks and other companies only in a few matters. Section 4 of the said Act requires that, when more than ten partners wish to do banking business, they must form a company and get it registered under the Act. Section

*"Shady Banker Scandal".—The Statesman,

October 29, 1929.

136 lays down that every limited banking company or an insurance company or a deposit, provident or a benefit society should before it commences business and also on the first Monday in February and August in every year must publish a statement in a prescribed form and a copy of this statement should be continuously displayed at the registered office and every branch office of the company until the next following statement is published. In the form of balance sheet prescribed for banking companies, debts for which the bank holds merely personal securities are required to be shown separately from those that are fully secured. In the matter of investigation into the affairs of joint stock banks by Local Government, it is necessary that the application must be signed by shareholders, representing at least one-fifth of the subscribed capital though in case of other companies one-tenth of the total subscribed capital will do. The brief explanation of the legal position of joint stock banks in India given above will clearly show that legislation has so far paid very little attention to them.

History of the attempts in favour of banking legislation in India.

The Indian Industrial Conference held at Karachi in December 1913 passed a resolution proposed by Sir D. E. Wacha, the Grand Old financial expert of India, favouring the introduction of banking legislation in this country. The main recommendations of the conference in this connection were as follow :—

- (a) The use of the term banking should be restricted to banks registered under the Indian Companies Act.
- (b) All banks doing business in India except those created by statutes should be registered under the Indian Companies Act.
- (c) At least one-third of the minimum subscribed capital must be paid up within six months of the registration.
- (d) The Registrar of Joint Stock Companies should be authorised to refuse to register as banks companies whose articles of association permit them to engage in business other than banking.
- (e) No bank should be permitted to make advances against its own shares unless they were fully paid up.

After the bank failures of 1913-15 the unwisdom of the policy of *laissez faire* in banking matters in this

country was realised and the Government of India invited the opinion of Local Governments and certain commercial bodies, a majority of whom is reported to have favoured the proposal to impose certain restrictions to ensure safe and prudent banking.

In 1920, at the instance of the Bengal Chamber of Commerce, a committee considered the question of banking legislation and proposed a certain minimum paid up capital and the strengthening of the bank audit. The Chamber, however, suggested the postponement of the consideration of the question on the ground that a similar investigation was being made in the United Kingdom and consequently no action was taken. The matter was brought up in the Indian Legislature and the Government gave the assurance that legislation would be undertaken if they felt the need for it.

**Main
objects.**

In making the following suggestions it is the intention of the writer that the object of the legislation should be to ensure the maximum of efficiency with as few restrictions as possible, so that it may help to improve the position of banking in India and not to retard its progress. The suggestions made are meant mainly for the Indian Joint Stock Commercial Banks and the Imperial Bank of India may continue to be governed by its special Act. Banking legislation may well aim at the following objects :—

1. Proper organisation.
2. Efficient management.
3. Reasonable supervision.
4. Protection of banks against dishonest misrepresentation of the officers of a bank.
5. Regulation of Foreign banks doing business in India.

1. Proper Organisation.

**Restriction
of the use
of the
terms
"bank" and
"bankers".**

1. The business of banking is delicate. It rests on the confidence that people repose in it. It is, therefore, desirable that it is marked off from any other kind of business. Banking is incompatible with any other kind of business. Banking needs to be run on caution while adventure is the essence of other kinds of business, *e.g.* commerce. The Bank of Hindostan failed because it was a mere appendage to the firm of Messrs. Alexander & Co.* Actual or possible losses in the one or rumours to

*See pages 5 and 236, Early European Banking in India, by H. Sinha (1927).

such effect are bound to react unfavourably on the other. With a view to make this distinction effective, it is proposed that the terms "bank", "banker" and "banking business" shall not be applied to concerns other than those registered under the proposed Indian Banking Act. Notwithstanding the fact that these terms have been used in the Negotiable Instruments Act 1881 and the Bankers' Book Evidence Act 1891, there is no satisfactory definition of any of them. Section 3 of the Negotiable Instruments Act of 1881 is content with laying down that "bankers includes also persons or a corporation or company acting as bankers." Even the English statutes do not throw any light as to what exactly constitutes the banking business. However, the view of Sir John Paget explained below appears to find general acceptance in England. According to him "no one and no body corporate or otherwise can be a banker who does not

- (1) take deposit accounts,
- (2) take current accounts,
- (3) issue and pay cheques,
- (4) collect cheques crossed and uncrossed for his customers."

From the above it will appear that receipt of deposits-both fixed and current-is an essential part of the business of banking. In view of the fact that in India some co-operative banks and private bankers do not receive deposits withdrawable on demand, it is for consideration whether the opening of current accounts must be laid down as a condition precedent for institutions or persons doing business as banks or bankers. In this connection, it is interesting to note that the Hilton Young Commission interpreted the terms as meaning "every person, firm or company using in its description or title "bank" or "banker" or "banking" and every company accepting deposits of money subject to withdrawal by cheque, draft or order". No one is allowed in Japan to use the word "bank" unless it is a joint stock company registered under the Bank Act.

Indigenous Banker.

Inasmuch as the indigenous banker will continue to flourish for some time at least, in spite of the expected development of joint stock banks, it is for consideration whether the proposed Act may not be extended to embrace him also. It is rather difficult to see how he can be controlled by legislation unless it be in the negative way. For instance, it may be laid down that he shall not do

business without obtaining a licence. But that he shall have so much capital before starting business, it appears difficult to lay down. However our main concern here, as already pointed out, is joint stock banking and for reasons of space we will limit our discourse to it.

**Minimum
Capital.**

Our banking organisation requires re-orientation. For this purpose it has to be based on solid foundations which is partly achieved by the fixation of a certain minimum capital. Such prescription will eliminate the mushroom growth of banks with small and insufficient capital which engenders competition and consequent exposure to failure of local banks. The statistical abstract relating to banks in India for 1927 gives a few glaring instances of the abuse of the term 'bank' owing to the absence of any legal requirement regarding the minimum paid up capital. Six out of the sixteen banks that failed or went into liquidation in 1927 had practically no paid up capital. The paid up capital of one was Rs. 800, and that of another Rs. 1,400. Two more had less than Rs. 5,000 each. It is, therefore, necessary in the interests of the depositors that the banks should have some minimum financial resources of their own.

It is proposed that in India a minimum subscribed capital of Rs. 30,000 may be prescribed for a bank in a place the population of which does not exceed 5,000 where the population exceeds 5,000 but is less than 10,000 the capital shall not be less than Rs. 60,000. In places where the population is above 10,000 but is not more than 20,000, the capital must be at least Rs. 1,00,000. In places with a population of more than 20,000 but less than 50,000 the capital shall not be less than Rs. 2,50,000. In cities with more than 50,000 inhabitants but less than 1,00,000 the capital shall be at least Rs. 5,00,000. Where population exceeds 1,00,000 the capital shall be such as may be prescribed by the Director General of Banks, but in no case shall it be less than Rs. 10,00,000. In prescribing the amount, the Director General of Banks shall pay due regard to the commercial, industrial and agricultural conditions of the locality to be served by the bank. Banks desiring to open branches within the province in which they have their Head Office, should have a subscribed capital of at least Rs. 5,00,000 and those desiring to extend their business to other provinces, should have a minimum subscribed capital of Rs. 10 lakhs. As banks started for overseas business require larger capital, the minimum in their case shall be Rs. 30,00,000. It shall be provided that the capital shall be divided into shares

of not less than Rs. 10 each, at least half of which shall be made payable within one year of the registration of the bank. A bank shall not commence business unless it has at least a quarter of the minimum subscribed capital required under the Act paid up. The directors of bank must inform the Inspector General of Banks of the province in which the bank has its head office about the payment of at least 50% of the minimum subscribed capital within fifteen months after its registration, otherwise he shall have the right to order suspension of business.

Example of other countries.

Thus a minimum capital on population basis is recommended as population determines largely the extent to which a bank proposes to render service. Similarly a bank with many branches must have a much larger capital than a mere local institution. The National Bank Act of the United States of America and the New Bank Act of Japan (1927) prescribe a minimum capital on the basis of population. Canada and Denmark also fix a minimum.*

U. S. A.

The following table shows the minimum capital required for banks under the National Bank Act of the United States of America (1861 and as amended up to 1923).

Towns with a population of/or below	Minimum capital.
„ 3,000	\$25,000
„ 6,000	\$50,000
„ 50,000	\$1,00,000
„ Over 50,000	\$2,00,000

In the United States, a bank registered under the National Bank Act, cannot commence business unless half the amount of its capital is paid up, the other is to be paid up in instalments of not less than 10% a month, though all may be paid in a shorter time. Banks in that country cannot be started at the will of the promoters. They have to obtain the permission of the Controller of Banks

*See pages 228-230, Money and Banking. by J. T. Holdsworth. 5th edition (1928).

Banking Reform in Japan by Juichi Tsubima The Financial Commissioner of the Imperial Japanese Government in London, Paris, and New York.

The Banking Insurance Managers' and Agents, Magazine, March, 1928.

The Japan Year Book 1928, page 437.

The Canada Year Book 1929, pages 846-848.

who will, before giving permission, investigate the need for it in the locality applied for.

Japan.

The law provides that a bank cannot be started in Japan with a capital of less than a million yen but an exception is however made in the case of small towns with a population of less than 10,000 inhabitants, where banks with a capital of more than 500,000 yen can be started. In the case of banks to be started in large cities, the capital shall be such as the Finance Member will designate, but in no case shall it be less than two million yen.

Canada.

The minimum capital required in Canada is \$5,00,000 half of which shall have been paid up before a bank can commence business.

Other conditions.

It is considered desirable that in case of all banks to be started with a capital of Rs. 2½ lakhs or more, there must be at least five and in case of others at least three promoters who shall sign the articles of association which shall among other things state the object of the bank to be started. These articles of association shall be filed with the Inspector General of Banks of the province in which the bank is to be started and will be forwarded by him with his remarks to the Director General. The promoters shall satisfy the Inspector General that they are respectable people and that they are men of means. A certificate to that effect from a local designatory such as may be prescribed by law, for instance the District Magistrate or Collector of the District in which the registered office is to be located, may be required in support of the respectability of the promoters.

Information to be required in applications for permission to start.

In their application for permission to start a bank they shall, among other things be required to state—

- (a) the name of the Bank which they propose to start. (The name of the Bank shall be subject to the Inspector General's approval as this will avoid duplication of names.)
- (b) the place of business, village, town or city, union or municipality, taluka, district and province.
- (c) the capital of the proposed bank and the number of shares into which it is divided and the value of each share.
- (d) the name and residence of each of the promoters, and the numbers of shares held by each.

The Director General* before giving permission to start the proposed bank shall satisfy himself as to the need for it in the locality applied for. He may investigate its necessity with the help of a Committee consisting of persons representing the industrial, agricultural and commercial interests, besides a financier-banker with no stake in the said locality. The Director General shall after such investigation have the right to refuse to grant permission (without assigning any reason whatever). If permission is granted it shall be incumbent on the promoters to supply the Director General, as soon as the subscription list is closed with the names and residences of the shareholders and the number of shares held by each.

It shall be illegal for a bank to start or do business without the Director General's certificate of authority. It should be obligatory on the bank to publish such authorisation certificate in a local newspaper for at least a month after such authorisation.

The Director General's authorisation certificate shall empower a bank—

- (a) to engage in the business of banking ;
- (b) to adopt and use a seal ;
- (c) to make or enter into contracts which are necessary or contingent to banking business ;
- (d) to sue and be sued or defend actions at law ;
- (e) to elect or appoint directors and by the board of directors to elect or appoint officers, define their duties, draw up bye-laws and complete its organisation.

The bye-laws of a bank shall not contradict or otherwise run contrariwise to any of the provisions of the Indian Banking Act.

**Liability of
a share-
holder.**

The liability of a shareholder shall be limited to the extent of the par value of the shares that he has purchased. His liability shall cease by selling away or transferring his shares in the bank to some other person provided that such sale or transfer has not taken place within twelve months prior to the winding up or liquidation of the bank.

*These powers of the Director General of Banks may be delegated to the Inspector General of different areas in case of banks to be started with a capital not exceeding 2½ lakhs and whose business is to be carried within the area under the supervision of one Inspector General of Banks.

2. Bank Management.

Principles of Bank Management.

There can be no two opinions about the fact that no amount of legislation by itself can ensure a high standard of efficiency in bank management because it is humanly impossible to lay down rules and regulations to provide for all manner of problems which confront those responsible for the management of banks. However, there are certain fundamental principles governing bank management for the observance of which suitable provision can be made by legislation. It is in the interest of shareholders and depositors of banks as well as the general public that banks should have reasonable liquid assets, should set aside a fair portion of their profits for the building of reserve funds and be restricted in advancing more than a certain portion of their capital plus reserve fund to individuals, firms or companies against their personal security.

Reserves.

As the business of banking is dependent more on the ability of the bank to meet the demands of its customers than on its possessing sufficient assets to pay off its creditors, it is very desirable that banks,—particularly in a country like India—should maintain a minimum reserve. The neglect to observe this most important principle of sound banking was very largely responsible for the bank failures of 1913-14. But some of our banks do not seem to have learnt the lesson yet, while it is true that the reserve requirement of a bank are dependent on several factors such as the development of the banking habit, the use of cheque currency, the economic conditions of the locality in which a bank operates, the absence or presence of bankers' clearing house and the class of customers that a bank deals with, it is scandalous to run a bank with ridiculously small reserve as is the case with some banks.* Therefore, the desirability of laying down certain minimum reserve requirements against different classes of deposits in this country can hardly be doubted. The Hilton Young Commission recommended the establishment and maintenance of minimum reserve balances with the proposed Reserve Bank of India equal to 10 per cent. of demand liabilities and 3 per cent. of time liabilities, in addition to the till money. In this connection I may invite the attention of the members of the Conference to the following proposals of Mr. B. T. Thakur.† Local banks serving places with a population of 1,00,000 or less

* Statistical Tables relating to Banks in India.

† Organisation of Indian Banking by B. T. Thakur, p. 226-27.

be required to have a minimum reserve of 15 per cent. against deposits payable on demand or in less than 15 days. In the case of banks serving places with a population of more than 1,00,000 the minimum reserve against demand deposits should be 20 per cent. In estimating this cover the net balance of amounts due to and from other banks shall be taken as the basis for computation. The individual demand deposits *i.e.* current account balances should be added to this amount. In all cases a minimum 5 per cent. reserve should be kept against time deposits. Balances with the bankers' bank or other banks and bullion in hand shall be regarded as forming part of this reserve. It shall be unlawful for a bank with less than this minimum to increase its liabilities by making new loans or by discounts except in the matter of discounting or purchasing bills of exchange payable at sight. It shall not declare a dividend unless this deficiency is made up. If the deficiency is not made good within sixty days from default, it shall be open to the Inspector General of Banks to order winding up of the business with the concurrence of the Director General of Banks. The Inspector General may, however, be empowered to suspend the operation of this provision of the Indian Banking Act in respect of a defaulting bank provided he shall levy a progressive tax on the fall below the specified level. The period of such suspension shall not exceed a calendar month or in the alternative a period of 30 days. The Inspector General may whenever he thinks expedient renew such suspension but for a period not exceeding 15 days from time to time subject to the condition that the total period of such suspension shall not exceed 90 days.

Example of other countries quoted.

There are similar provisions in other countries. Denmark requires a ten per cent. cover in cash and readily marketable paper against demand liabilities. In the United States of America the Law requires member banks to have the following minimum reserves :—

Kinds of Banks.	Deposits	
	* Demand	Time.
1. Central Reserve City Banks....	13%	3%
2. Reserve City Banks	10	3%
3. Country Banks	7%	3%

* Demand deposits are defined as those payable within thirty days. "Banking Law and Practice" by M. L. Tannan, p. 197.

In Chile the minimum reserve required is 20 per cent. of demand liabilities.

**Building up
of adequate
reserve
fund.**

With a view to enable banks to meet losses without any impairment of their capital, the laws of several important countries require banks to set aside before declaration of dividend (interim or annual) a certain minimum portion of their net profits for the building of a Reserve Fund.*

**United
States of
America.**

Under the "National Bank Act of America" every Bank is required to take 10 per cent. of its net profits to reserve until the same reaches 20 per cent. of capital. Further discretion is vested in the Comptroller to decide whether dividends shall be paid at all, if in his opinion the reserve already built is not substantial.

**Japan
Canada and
Italy.**

No dividend can be declared in Japan under the new Act (1927) until one-tenth of the profits is appropriated to the Reserve Fund. In Canada, dividends are limited by law "until a reasonably large Reserve Fund has been created." Under the recent revision of the Dominion Bank Act (1923) liability is fixed on the directors for distribution of profits in excess of legal limits. In Italy banks are required to set aside not less than one tenth of their profits every year to reserve funds until they have reached the total of 40 per cent. of their capital.

**Suggestion
for India.**

It is, therefore, suggested that before declaring dividends the banks in India be required to set aside towards reserve fund at least 10 per cent. of their net profits until the reserve fund reaches 25 per cent. of their paid up capital. They should not have the right to declare a dividend of more than 6 per cent. except with the consent of the Director General of Banks as long as the reserve fund does not amount to at least a quarter of their paid up capital. The minimum percentage of the net profits to be set aside for strengthening the reserve fund be reduced to $7\frac{1}{2}$ per cent., when the reserve fund of a bank is not less than 25 per cent. but below 50 per cent. of its paid up capital and to 5 per cent. when the reserve fund amount to one half or more of the paid up capital.

**Loans,
advances
and invest-
ments.**

The most important function which banks render to the business community and whereby make large profits for their shareholders is that of making loans and invest.

* See p. 258 Money & Banking by J. T. Holdsworth 1928.

See p. 847 The Canaday Year Book 1929.

Banking reform in Japan,—The Bankers' Insurance Manager's & Agents Magazine' March 1928.

ing their funds in other ways such as by discounting of bills. It is in the performance of these functions that the management has to take special care. Not only is it desirable to see that a bank's funds are so invested as to inspire the confidence of its depositors but it is absolutely essential that it should follow the well-known maxim of not putting all its eggs in one basket. Banks must always act on lines of safety first. They should not make their existence dependent upon any individual, firm or corporation as their own existence may be jeopardised by the failure of the particular customer. Banks have brought about their failures by ignoring this fundamental principle. Lending about a third of the working capital to a single concern brought about the failure of the Bank of Burma in 1911.* Among the several causes attributed to the failure of the old People's Bank of India was that it locked up most of its funds in concerns with which its managing director was associated. In countries where banking has been well established the need for legislation in this direction is not so essential as in the case of countries such as India where banking is yet in infancy. It is, therefore, very desirable that the State should guard against the risks of mismanagement of banks in this matter.

**Restriction
of Loans
to be ad-
vanced to a
single per-
son or firm.**

It is illegal in Japan to advance to a single person or firm an amount exceeding one-tenth of the total paid up capital and Reserve Fund or to hold in mortgage more than one-fifth of a company's total issue of shares. In the U. S. A. the McFadden Act of 1927 secures similar provisions.† It lays down a general limit on the powers of a national bank to lend to an individual, partnership, association or corporation more than 10 per cent. of its capital plus surplus.‡ The bye-laws of the Presidency Banks similarly laid the limit loanable to any individual concern or business. Article 42 of the Charter of the Bank of Bengal laid down a limit even to the holding of first class Government Securities. It provided against holding at any one time Government paper exceeding the sum of Sicca Rs. 25,00,000.§

* See Foot note 2 Page 217.

Early European Banking in India by H. Sinha 1927.

†P. 224 Money & Banking by J. T. Holdsworth, 1923.

‘Banking Reform in Japan’ The Bankers, Insurance Managers’ & Agents’ Magazine, March 1928.

‡Reserve fund together with the credit balance of the Profit and Loss account brought forward.

§ *Early European Banking in India* by H. Sinha, p. 160.

**Sug-
gestions for
banks in
India.**

The need for distribution of risk necessitates a restriction on the powers of our banks to loan to a person or firm, company or corporation a sum exceeding 10 per cent. of capital paid up plus surplus. But bills maturing within six months and with two unconnected signatures may be discounted to the extent of 15 per cent. of paid up capital plus surplus in addition to the 10 per cent. general limitation, provided such bills are genuine commercial bills *i.e.* bills drawn in respect of actually existing values. Subject to such total 25 per cent limitation, banks may make loans against the security of shipping documents, ware-house receipts or other documents conveying or securing title to readily marketable non-perishable staples provided that such property is fully covered by insurance. A ten per cent. margin shall be held on all loans against Government Securities. Borrowers on the security of other Trustee securities shall maintain a margin of 15 per cent. A bank shall be prohibited from making a loan of more than 10 per cent of its paid up capital plus surplus against the security of the shares of a single company or any stock exchange security which is not otherwise provided for. Such loans shall not be made for a period exceeding five years nor for a sum exceeding 50 per cent. of the market value of the property offered for security, provided the security is unencumbered, and is within a hundred miles radius from the office of the bank. A bank may, however, hold real estate necessary for the transaction of its business including the housing of its staff. A bank may also hold real estate such as is mortgaged to it as security for or conveyed to it in satisfaction of antecedent debts contracted in good faith. A bank may purchase real estate in satisfaction of a judgment decree obtained by it. It shall be unlawful for a bank to hold real estate obtained in any manner except for the purpose of carrying on its legitimate business for a period exceeding five years. The Director General of Banks shall have power to further restrict any bank to make loans on real estate.

**Loans
against
real estate.**

Commercial banks do not ordinarily make loans against real estate or otherwise make long time advances because liquidity—the life-breath of a bank—is not in their nature. In Canada banks are required to make an annual report to the Minister of Finance about the real and immoveable property owned by them.* Banks in the United States can hold immoveable property either by

*S. 79 of the Dominion Bank Act as revised in 1923 (13-14 Geo. V, c. 32)

P. 848 The Canada Year Book 1929.

title or under mortgage but only for debts due and previously contracted and subject to the condition that such possession shall not exceed five years.* The Imperial Bank of India cannot lend against any immoveable property except in the case of estates under the Courts of Wards.

Although banks shall not ordinarily make loans against real estate power may be given to them make loans for which the chief security is real estate. Such loans shall at no time exceed 50 per cent. of the paid-up capital of a bank.

Unwise to lend against the security of bank's own shares.

It is unwise for a bank to lend against its own capital stock. Should it be necessary to realise the securities it holds or against which it has lent, it will find some difficulty in selling its own stock. Loaning against its own capital stock was responsible for the failure of the first Benares Bank established by Colonel Pew in 1844-45.† The Imperial Bank of India is precluded from making a loan or advance against its own shares although other banks regard the same as almost gilt edged securities. Canadian law not only forbids a bank to grant a loan "on the security or pledge of its own capital stock" but it goes further by making it unlawful to lend even against the capital stock of another bank.‡

Banks to be forbidden to make advance against capital stock.

It is proposed that Indian joint stock banks be prevented by law to make loans or advances against their own capital stock or shares. No bank should either hold or purchase any of its own shares or stock except when it is necessary to prevent loss upon a debt, contracted in good faith, previous to the coming into force of the new law. In any case stock so acquired should be disposed off either by public or private sale within six months from the time of such acquisition. The Director General of Banks should have power to appoint a receiver in case of a defaulting bank.

Restriction on loans against personal securities to directors and officers of banks.

A bank shall not ordinarily make a loan to its directors or other officers against personal security but whenever necessary it may make such loans subject to the provision that at no time such loans shall exceed

*National Bank Act June 3, 1864.

P. 211 Principles of Money & Banking by H. G. Moulton.

†See Footnote 1 Page 217 Early European Banking in India by H. Sinha 1927.

‡P. 847 The Canada Year Book 1929.

Also Indian Finance Banking Number.

25* per cent of the paid up capital. This limit shall apply to concerns in which the directors of the bank have a direct or indirect interest. Banks may otherwise invest in the shares or stock of a corporation or its bonds subject to a 10 per cent. general limit.

Clear and full statements of assets and liabilities.

The shareholders and depositors of a bank have a right to know how their money is employed. A bank doing business on a sound and solvent basis should not fear a clear and full statement of its assets and liabilities. On the contrary it will pay a bank to take its clients into confidence by revealing to them its position in a clear manner. It is for this reason that even private banks in England publish their accounts after having them duly audited by respectable firms of Chartered Accountants. But banks in India unless required by law are generally reluctant to publish balance sheets containing adequate information. And it is therefore incumbent on the Government of the country to compel banks in the discharge of this duty to the public.

Present position of law.

The law as at present stands, requires a bank to show separately the debts on personal securities and debts which are fully secured and to specify the amounts due from its directors, other officers and the companies with which they are connected. The Government of India intended in 1920 to compel banks to publish fuller and more complete statements and at more frequent intervals. While this was opposed in British India, the State-aided banks of Baroda, Mysore and Travancore have set an example. Their balance sheets everyway give a better indication of their respective positions than those of many banks in British India.

Lumping of items to be prohibited.

If it is intended that the balance sheet of a bank should be a true appraiser of its position, the law must not allow, as I pointed out in my book on Banking Law and Practice in India, any lumping of certain items. As the Bank of Mysore does, fixed, current and savings bank deposits should be shown separately. A distinction between fixed and current deposits *i. e.* deposits payable after a certain agreed lapse of time and deposits payable on demand is highly commended by Mr. R. McKenna of the Midland Bank.

Other improvements suggested.

Loans and advances obtained by a bank against which it has deposited securities or other collateral should not be allowed to be mixed up with deposits. To effect a

* This may be reduced to 15 per cent.

clear divorce between deposits placed with a bank and loans, obtained by it the word "borrowings" may be used to indicate the latter. Such distinction is necessary to prevent a bank misleading those desirous of gauging its true position. It will further enable accurate computation for reserve requirements. Another improvement in the form of a bank's balance sheet can be brought about by requiring banks to classify their investments into different types of securities and show them separately. Classification may be on some general basis such as (1) Indian and Provincial Government securities, semi-government or other trustee securities, (2) securities of railways and other public utility companies, and (3) industrial and commercial securities. Debentures, preference ordinary and deferred shares should be shown separately.*

Similarly loans against documents of title to goods, as security, overdrafts, loans granted to directors or other officers of the bank, loans to joint stock companies and individuals on personal guarantees and loans which are considered doubtful must be shown separately under the item of loans and advances.

**Frequent
publication
of state-
ments of
position
advocated.**

As the law stands to-day, banks are required to submit and publish statements of their position but twice a year. In England, although not bound by law, banks publish statements of their position once every month. Of their own free will, banks in Berlin have agreed to publish statements of their position once in two months. The New Venezuelan Bank Law (July 18, 1927) requires banks to publish monthly balance sheets. In the United States banks are required to make weekly statements to the Clearing House of which they are members. These weekly reports contain such items as loans and discounts, investments, cash in hand and at bankers, deposits-time and demand, obligations or rediscounts, percentage of reserve to deposits etc. Such frequent publications of statements prevent much window-dressing. Some banks in India today withdraw considerable amounts due to them at the close of every half year in order to make an imposing picture of their position. Consequently, they show a much stronger position than is actually the case. Banks in India should, therefore, be required to publish their position at least once in two months. It is advisable to oblige banks to publish these statements not only in English but also in the vernacular of the areas in which they operate. The Central Bank of India, Ltd. and the

*See Page 58 'Banking Law & Practice in India' by M.L. Tannan.

Bank of Baroda, Ltd. publish their balance sheet in Gujarati and English and the State Aided Banks of Travancore, Ltd. gives against each item of the balance sheet shown in English its Malayalam translation. Every shareholder and every creditor of the bank should be entitled to get a copy of the balance sheet. A copy of the balance sheet shall be filed with the Inspector General of Banks and another copy shall be forwarded to the Director General. A short summary of such balance sheet shall be published in a local newspaper for at least one full week. It shall be put up at a conspicuous place in each office of the bank. Copies of the balance sheet shall be made available to the public at a nominal cost of eight annas each. As the balance sheet implies preparation of profit and loss account, it may be published as now, twice a year.

Provident Fund or Pension Scheme for staff. Directors' Meetings.

Banks should be *required* to have either a provident fund arrangement or a pension scheme so as to insure the loyalty of the staff to the bank.

A record of the number of directors' meetings held and the attendance of directors at such meetings should be kept and reported to the shareholders at their annual general meeting. There is provision to such effect in Canada.*

Indemnity clause in Articles of Association.

The law must make severally liable directors and other officers responsible for any false statement. The Law should not permit an indemnity clause in the Articles of Association by reasons of which directors generally escape liability even in cases of proved negligence of duty. With a view to keep bank managers, directors and auditors alert Japan makes them punishable with penal servitude for breach of regulations or negligence of duty.† Such provision will expedite legal proceedings against bank directors and other officers for then it only needs to show non-conformity to law instead as at present putting criminal law in motion against them.

3. Bank Supervision.

Purpose of. As stated above banking has come to be regarded as quasi public and consequently it is subjected to the supervision of the state. The main object of this supervision is

* Section 11 of the Dominion Bank Act 5th Revision of 1923. (13-14 Geo. V, c. 32).

Page 848 The Canada Year Book 1929.

† "Banking Reform in Japan."

The Bankers', Insurance Managers' & Agents' Magazine, March 1928.

to safeguard the interests of depositors as well as shareholders against losses due to unsound or unsafe banking practices. State supervision in some countries take the form of periodic reports, audit of accounting and in others examination is also insisted upon.

U. S. A.

National banks in the U. S. A. are required to make at least three reports a year to the Comptroller of Currency. They should show in detail their resources and liabilities. They should be sworn in by the President or cashier and attested by three directors. An abridged form of the report is required to be published in a local newspaper with a view to keep the public informed as to the condition of the national banks.*

Position in India.

The state supervision of banks as is exercised in this country is meagre. The joint stock banks like other companies registered under the Indian Companies Act are required at their annual general meetings to appoint auditors, to hold office until their next general meetings (Sec. 144 Clause 3). Section 145 of the Act defines the powers and duties of an auditor. He has the right of access at all times to the books and accounts and vouchers of the Company. He checks all accounts, verifies the company's transactions and prepares a balance sheet. He certifies that the balance sheet is drawn in conformity with law and that it represents a true state of the company's affairs, "according to the best of his information and explanations given to him and as shown by the books of the company."

Auditor's duties.

An auditor verifies the existence of assets mentioned in the balance sheet and sees that all outstanding liabilities are brought in, but it is hardly considered a part of his duty to advise the directors or the shareholders as to what they ought to do. An auditor is not a stock taker. He can depend on the valuation of an expert or as certified by the managing director. According to the dictum laid down in Kingston Cotton Mill Co. (1896, 2 ch. 673) "an auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him if dividends are properly or improperly declared. His duty is to ascertain and state the true financial position of the company at the time of the audit and his duty is confined to that. He does not guarantee that the books do correctly show the true position of the company's affairs, he does not even guarantee that his balance sheet is accurate according to the books of the company". As some one has aptly put it, he may be a watchdog but he is not a blood hound.

* See pp. 261-262 "Money & Banking" by J. T. Holdsworth.

The powers vested in the Registrar of Joint Stock Companies by Section 137 of the Indian Companies Act, 1913, to call for supplementary information from Joint Stock Companies and if he is not satisfied with it or if the additional information is not supplied, to report the matter to the local government, does not in practice prove effective. Similarly, the reservation of the powers by local governments to investigate the affairs of a bank upon the application of shareholders representing at least one fifth of its capital has not been found to be of any real use.

Bank Examination more effective than audit likely to inspire confidence.

Bank examination as proposed is bound to be far more effective than the audit of accounts by auditors to be appointed nominally by the shareholders but in practice by the Directors, as the Inspectors are likely to exercise greater independence in their inspections and reports than the private auditors to be appointed and paid for by the banks. Moreover the Bank Inspectors will, it is hoped, understand better the "intricacies of bank accounts than the public auditors who are not expected to have specialised in banking practices and lastly the banks may also find it to their advantage to have their accounts inspected by Government inspectors as this fact is bound to strengthen public confidence in the institutions.

Principle of examination already recognised by Indian Law.

The principle of bank examination has been recognised in the Indian Companies Act by the inclusion of Section 138 referred to above. The tremendous power that is inherent in the control of loanable funds, the economic structure of society that such control involves—which all makes banking to repeat again quasi public obligates closer supervision on the part of the Government.

Other Countries.

A strict supervision is enforced in Japan* by intensifying the internal check and by providing for external control. The law obliges the bank auditors to submit twice a year to the Finance Minister reports drawn on the basis of a close examination into the substance of the business. These reports must include the results of examination of special items required by law. A bank examination section has been added in May 1927 to the Banking Bureau of the Minister of Finance for a thorough supervision from outside. There are 18 examiners and 54 assistant examiners who are divided into five divisions which are charged with the

* Banking Reform in Japan.

The Bankers', Insurance Managers' & Agents' Magazine, March 1928.

P. 437 The Japan Year Book, 1928.

Document No. 404 National Monetary Commission (Z. S. A.)

examination of the banks in the assigned districts. The Comptroller of Currency in the U S. A.* is required to appoint suitable persons to make examination of the affairs of National Banks at such time as the controller thinks proper and to make a full report to him. They come at irregular intervals and without previous notice to the banks. The normal examinations cover the entire business of the bank. The examiners are expected to count the cash, examine the discounts and loans, satisfy themselves as regards the collateral securities accepted, scrutinize them and other investments, determine amounts due to the banks including those due from their directors and make themselves thoroughly acquainted with the banks' business, so as to see whether they are being run on sound lines. These reports are sent to the Comptroller of Currency and since 1916 copies of the same are sent to the banks concerned. If necessary the Comptroller calls attention to the facts; he may ask the bank to write down certain doubtful or worthless assets he may even require the reduction of the reserve fund to cover losses or may ask the directors to make them up within a certain period.†

These officials are paid by the State and the state is reimbursed by means of a levy imposed upon the banks by the Comptroller. The number of reports usually required is three (five prior to the year 1923). Public examination insures soundness of the bank's position though it does not intend to remit in any degree the vigilance of the directors of the banks.

**Scheme
suggested
for India.**

It is therefore proposed‡ that a bank inspection section be added to the Finance Department of the Government of India, the chief of the section should be called the Director General of Banks, and should be directly under the Hon'ble the Finance Member. There should be an Inspector General of Banks in each of the major provinces or the country may be divided into suitable divisions for the purpose. Each Inspector General shall have under him at least two bank inspectors and such number of assistants as may be necessary. The Inspectors

* See pp. 268-271 "Money & Banking" by J. T. Holdsworth.

See also p. 203 "Principles of Money & Banking" by H. G. Moulton.

P. 423 Modern Banks of Issue by Conant (1915).

† Even private banks are subject to inspection by the National Banking Commission in Mexico.

P. 376. The Bankers, Insurance Managers' & Agents' Magazine, March 1928.

‡ These proposals are put up more by way of suggestions and are in no sense carefully thought out.

General and the Director General of Banks shall in the first instance be appointed by the Governor General in Council. The Bank Inspectors shall be appointed preferably on the results of an open competitive examination in subjects relating to the business of banking, bank accounting, banking law and practice etc. Stress *may* be laid on an oral test with a view to judge the personality, bank experience etc. of the candidate. The Inspector should start on about Rs. 300 each and go up to Rs. 750 by an annual increment of Rs. 30 (Selection grade 750-50-1,000). The Inspector General should be placed in the grade of 1,250-75-2,000). The pay of the Director General of Banks should be Rs. 2,500 rising to 3,500 by annual increment of Rs. 100. The salaries proposed above are by no means exorbitant as they are essential for getting suitable persons who would overcome such temptations as may be placed in their way in the performance of their duties. These salaries and other expenses of the banking section should be paid out from the Government treasury which should reimburse itself by levying a small cess on the basis of the deposits of the banks to be inspected with a certain minimum.

Cess for expenses.

The deposits of the Indian Joint Stock Banks and the deposits in India of the 18 foreign exchange banks amount to roughly 133 crores* and a charge at the rate of 6 pies per hundred rupees will bring in about Rs. 4*16 lakhs which should, I believe, be sufficient to meet the expenses of the department during the initial stages. The receipts will increase with the development of banking in the country.

Kind of Examination.

With a view to see that the information obtained by the bank inspector and others of the banking section is not disclosed, it should be laid down that every officer on his appointment shall be sworn in not to disclose any facts which may have come to his knowledge in the course of the performance of his duties except when required by law or with the previous written permission of the Director General of the Banks. It should be made illegal for an officer of this Department to borrow money from any bank within his purview as well as for a bank to lend to him without the written consent of his immediate officer. Bank examiners shall ordinarily examine without warning, appraise their assets, go into discount and loans and examine other investments. It will be their duty to report about errors and irregularities and suggest changes in mat-

* See Statistical Tables relating to Banks in India for 1927.

ters which shall make for better efficiency and safeguards. They shall have power to go into all the books and records kept by banks. They may express their opinion regarding the adequacy or otherwise of the reserves and shall see that the conduct of the bank is in accordance with law. The Inspector General should have the power to interrogate directors and other officers of banks working in their respective areas. In case of banks whose capital and surplus funds exceed a certain amount, say one crore of rupees and the power of calling attention to their defects requiring them to write down certain doubtful or worthless assets and to transfer funds for meeting certain losses from their reserve funds or to make them up before paying any dividends, may only be exercised with the previous written consent of the Director General of Banks. Similarly, in their cases interrogatories may only be addressed in consultation with the head of the department. On the basis of the examiners' reports each Inspector General of Banks should make a report to the Director General as to the condition of the banks within his jurisdiction as found out by means of the examinations. The Director General shall be required to issue an annual report concerning all the banks in India.

**Banking
Statistics.**

The organisation of the department of banking is desirable also in the interest of the collection and publication of upto date and useful banking statistics in this country. It is very regrettable to note that the statistical tables relating to banks in India are always stale by at least two years. For instance the tables published in 1929 (the latest available) are those for the year 1927. The cause of this delay is hardly intelligible. These statistics are not quite up to the mark either and in fact they are far from satisfactory. It is not known why the statistics relating to the number of cheques cleared in different clearing houses are not published even if they are collected. There can be no doubt that the work of collecting and compiling of banking statistics will be done far more efficiently and therefore satisfactorily if the department proposed is brought into existence. The reason for this is obvious. It will have free, easy and legal access to various kinds of available banking records. To facilitate the work and to insure its accuracy the Director General of Banks, may supply printed forms and require the banks to fill them up and return to him within a prescribed period. Failure to comply with this may be made punishable by a fine of say Rs. 100 for each day's delay.

4. Protection of banks against dishonest misrepresentation of the affairs of banks.

Need for Protection & Legislation against scandal mongering; also the Old Peoples Bank.

It has been stated above more than once that confidence is the soul of banking. To shake it is to take to ruin the whole banking structure. The gravity of the wild talks against banks is revealed in the history of bank failures in Japan from March 15 to April 21, 1927, when no less than 30 banks with total deposits of about 900 million yen had to close their doors on account of runs started at some slight incidents.* A Reuter's telegram in the Times of India for August 17th, 1929, vividly depicts the ghastly story of how a bank on account of scandalous gossip spread against it was penalised by depositors fanatically clamouring for their money till the arrival of the emergency currency. In his presidential address at the annual general meeting of the Central Bank of India Limited held on 25th February 1930, Sir Pheroze Sethna referred to "the sinister attempts that are made now and again to damage our credit." If the chairman of a premier Indian Institution, such as the Central Bank of India, Limited found it necessary to warn its shareholders and depositors against any gossip and if it is always to be in nervous fear of its customers, the position of other indigenous joint stock banks may well be imagined. The harm done by such rumours is incalculable, not only to the particular bank against which such rumours may be set afloat, but also to the other banks as well as the general interests of the country. The necessity for legislation against such misdemeanour is felt when it is told that even in America it is found expedient to punish fraudulent and dishonest misrepresentations of the affairs of a bank with one year's imprisonment and a fine of \$1,000. It is therefore necessary to lay down in the Indian Banking Act, a provision by which people spreading unfounded rumours against the stability of a bank should be made liable to a punishment of six months rigorous imprisonment or a one of Rs. 500 or both.

Permission to put criminal law in motion against a bank.

The law as at present stands in India allows any body to institute criminal proceedings against a bank as against any other joint stock company. A bank which is the subject matter of a criminal case is likely to be talked ill of, although it later on acquits itself honourably in the case. Besides it is liable to suffer much during the period of the trial which, it is unfortunately true, is a generally long

* See Page 436 The Japan Year Book, 1928.

drawn process in India. It is therefore desirable to provide for the obtaining of permission from suitable authority—Inspector General of Banks or Advocate General of the Province in which the bank has its head office—before any person can put the criminal law in motion against a bank.* Such powers to give permission or withhold it, may be exercised at the discretion of the officer designated. It may also be possible to provide against law's proverbial delays by making some provision for an expeditious hearing of such cases as is the case in the matter of election disputes.

5. Regulation of Foreign Banks.

Need to safeguard the Indian depositors and protect the Indian Banks against competition.

The foreign banks known as the exchange banks occupy a very important place in the Indian market. At the end of 1927 there were no less than 88 exchange banks, having no less than 88 offices in India. Their deposits in India amounted to Rs. 69,00,00,000. Their amount in excess of the total deposits of all the Indian joint stock banks. It will thus be seen that in addition to the foreign exchange business these banks are formidable competitors of the joint stock banks of the country, in the inland banking business. At present they are practically immune from any sort of legal restrictions. They do not even publish balance sheets giving proper information about their Indian business. As long as they did not draw funds from the Indian money market, one might not have found much fault with this practice. However, as their borrowings in India are very large, it appears to be necessary in the interests of the Indian depositors that steps should be taken to prevent a crisis that may otherwise result from some trouble to one or more of these institutions abroad. This danger is by no means imagi-

* "I think it might be considered whether Section 282 of the Companies Act should be amended by requiring the sanction of the Advocate General before any prosecution is lodged under that section. The present Company happens to be an iron and steel company but one can imagine cases of banking companies, for instance, where their credit is a more tender plant than that of an iron and steel company. There are certain provisions in England which impose a check on persons desiring to put the criminal law in motion in other respects which may a similar check be usefully imposed as regards Section 282, at any rate as regards banking companies in India."

—C. J. the Honourable Sir, Amberson Marten in
"Shamdasani vs. Tata Iron & Steel Company Ltd.

nary when one considers the case of the Alliance Bank of Simla, which against big liabilities in India, held large assets abroad. The low cash resources—11 per cent. in the case of banks doing considerable portion of their business in India and 14 per cent. for other exchange banks on December 1927,—are not quite adequate to bear any real strain in the event of a panic in this country. It is true that these banks can get funds from their head offices but it must be admitted that it is not always so easy to do so. Besides safeguarding the interests of the Indian depositors, there are other important considerations such as the protection of the interests of the Indian joint stock banks with which these foreign institutions compete with large and cheap resources at their disposal, as well as the desirability of providing suitable avenues for the employment of qualified Indians in responsible positions in Banks which require the regulation of the foreign banks working in this country.

Restrictions on foreign banks in other countries.

Branches of foreign banks operating at present in the U. S. A. are governed by the respective State laws. Foreign banks are not allowed to receive deposits, moreover the amount and character of their business is defined and limited.*

Denmark.

Foreign banks have to obtain permission from the Government before they can open branches in Denmark. They are liable to be restricted in their business. The business managers of foreign banks in Denmark are required to be Danish subjects. No foreigner can become a director or manager of a bank in Denmark.*

France & Italy.

France and Italy insist on foreign banks desiring to open branches in those countries, to pay an incorporation tax which is based on their capital.* In the matter of income tax the general law of the land does govern them but they have to enter into special agreements with the Financial authorities. A turnover tax is levied on exchange operations. Along with the domestic banks, foreign banks are required to submit certain returns to the National Treasury. Even in England the Cunliffe Committee lately drew the attention of His Majesty's Government to the freedom with which foreign banks could establish themselves in that country.

Japan.

A foreign bank has to obtain a license from the Minister of Finance before it can operate or open a branch in Japan. Japanese law precludes foreign banks to the

* Indian Finance Banking Number.

use of any word indicative of bank. The Minister of Finance can impose any restrictions he may choose or he may refuse permission altogether. The restrictions may be in the nature of forbidding the bank to take deposits or subjection to a certain tax as he likes. For every branch that a foreign bank opens in Japan, it is required to deposit 1,00,000 yen in the Government treasury or other securities approved by him. When the new act was put into force, 5 years time was allowed to such foreign banks as were already operating there to comply with its provisions or "any conditions that the government may prescribe in their behalf."*

**Czecho
Slovakia.**

The Czecho-Slovakian Government does not permit foreign banks to open branches in that country.† No foreign bank can open a branch in Australia. Curiously enough, the Chartered Bank of India, Australia and China, has no branch in Australia.‡

**Restriction
of foreign
banking to
promote
the indig-
enous.**

These various restrictions referred to above and similar others are intended to nurse and develop indigenous banking institutions by eliminating outside competition and infusing confidence in national concerns by backing them up with the strength, prestige and authority of the State. Stimulus is further obtained from these restrictions necessitating foreign banks to enter into alliance with local capital and management and open separate institutions for handling their foreign operations under local laws.

**Sugges-
tions for
regulation
of foreign
banks in
India.**

In view of the position explained above, the opinion is sometimes expressed that exchange banks should not be allowed to carry on their business in this country. This view cannot be supported owing to the fact that the exchange banks in this country have in the past rendered certain services to the Indian trade particularly the foreign trade of the country but there should be no objection to their regulation on the following lines:—

- (1) All the exchange banks working in India should be required to obtain from the Finance Department of the Government of India, through the Director General of Banks, a license which should be given, refused or cancelled after giving one year's notice at the discretion of the Finance Member of the Government of

* Banking Reform in Japan. The Bankers', Insurance Managers' & Agents' Magazine, March 1928.

† See pp. 118-119. The Year Book of the Czechoslovak Republic, 1929.

‡ Indian Finance Banking Number.

India. All the exchange banks working at present in India, which can satisfy the Director General of Banks that they are keeping adequate resources in India to meet their rupee liabilities and which agree to comply with banking laws of this country should, on payment of the prescribed fees, be granted the necessary licenses.

- (2) The exchange banks doing business in India should like the Indian joint stock banks, publish statements showing their Indian deposits and other liabilities; advances and discounts and investments in cash. These should be accompanied by latest balance sheets issued by their head offices.
- (3) The Director-General of Banks should have the power to ask for any further information he may deem necessary from the exchange banks.
- (4) The exchange like Indian joint stock banks should be required to maintain cash resources against their rupee liability.
- (5) Foreign banks should be subjected to the inspection by bank examiners and control like indigenous banks. Reports and returns shall be as obligatory on them as on others.

Provision for the employment of Indians to superior posts in foreign banks.

In addition to the above it may be considered whether it is not desirable and proper to require the exchange banks working in this country to throw open at least a certain percentage of their superior posts in India to the people of this country if and when qualified persons are available or to train a certain minimum number of probationers. In this connection reference may be made to the fact that the new regime in Turkey compels all alien corporations "to take in Turks in their employ on 50-50 basis". "The Ionian Bank was threatened with suppression unless it increased the proportion of Moslems employed to that required by law."* It may also be considered whether the exchange banks should not be required to pay any special tax on their profit earned in India.

* See Foot note 5 p. 220 "Early European Banking in India," by H. Sinha 1928.

The Annual Register (New Series) 1926, Page 207. Even the Ottoman Railway was compelled to employ a number of Turks against its will.