CHAPTER III

THE BANKING PRACTICES OF THE NATTUKOTTAI CHETTIARS
CHAPTER III
THE BANKING PRACTICES OF THE NATTUKOTTAI CHETTIARS

As economy grows and trade develops, a structure of credit emerges to support the uninterrupted flow of money and goods. This structure, composed of various actors like moneylenders, money changers and bankers, facilitate the smooth functioning of economy. They developed methods and instruments to support their effective functioning. Thus, a system of credit is a prerequisite for continuity in economic exchange. ‘Such a system of credit’, Haider points out, ‘where payments could be deferred or money could be transferred from one sector to another, brought about an expansion in the existing volume of currency money and, at the same time, an increase in its velocity of circulation.’

Pre-colonial India was a ‘multi-region economy’ with a layered credit structure in operation. Moneylenders and bankers operated within small regions as a unified credit structure across the country was absent. The northern part of India seems to have had a well-developed credit structure as revealed in various micro studies in history. Absence of definitive studies in the credit structure of South India poses a serious problem for a

clearer understanding of the role played by the Nattukottai Chettiars. However many similarities may be observed in operations of moneylenders in the North and the Nattukottai Chettiars' banking practices. The use of credit instrument like the *hundi*, which many of the informants claimed to be an entirely ingenuous Chettiar instrument, may be traced to the Mughal period.⁴

The first section of this chapter provides an outline of the pre-colonial banking and moneylending activities in what is termed the 'bazaar economy'⁵ of India, the impact of the colonial rule on the indigenous credit network and role of the 'banias' within the economy. The second section presents the Nattukottai Chettiars method of functioning—their capital mobilisation, extremely meticulous accounting procedure, the various kinds of account books that were maintained, the interest rates and the kinds of *hundi* that they used for transactions.

**REGIONAL VARIATIONS**

The concept and demand for credit has existed even in non-literate societies and non-monetary economic systems.⁶

In India, a rudimentary form of credit system seems to have existed since early times as the early Indian texts of Narada, Brhaspati and Katyayana (5th–6th century A.D.) are said to contain rules and regulations

---


⁵ The categorisation of economy as *bazaar* economy is considered by Timberg and Aiyar as 'an invidious distinction' and 'hardly appropriate today when all institutions considered are thoroughly Indian'. Since the thesis looks at the involvement of Chettiars in the 19th and early part of the 20th century, the term *bazaar* economy is retained in this thesis. "Informal Credit Markets in India", *EPW*, Annual Number (1980).

regarding pledges, sureties, rate of interest etc. Before the 10th century, the legal texts proscribed usury for the higher varnas and declared it a legal occupation for the Vaisyas. In the post-tenth centuries a gradual shift is seen in terms of permitting members of the higher Varna to indulge in moneylending. The ancient texts reveal various kinds of deposits, mortgages, rates of interest, and the use of hundikas between the 10th and 13th centuries in Western India.

Before the establishment of colonial rule, the Indian subcontinent had a well-developed credit system in operation though it was restricted to small geographical territories. In the 17th century, Rajasthan is said to have had a well-developed system of credit. The land revenue policy of the rulers is deemed to have had a major impact on the rise of the moneylending class. Apart from the land revenue policy, the popularisation of cash crops and the increase in the volume of internal and external trade have been responsible for the growth of indigenous banking within Rajasthan. While the moneylenders or mahajans were active in the rural areas, the Shahs and Vohras operated in towns. Sometimes the mahajan also acted as representative of the shahs at the village level. A link was thus established between the village and the town, between the agricultural centre and the trade centre by the moneylenders. They were overlapping credit sectors with monetary flow between and within, the moneylenders operating at these two different levels facilitating the flow.

In Bengal, the Jagat Seths wielded considerable power in the 18th century as the Nawab relied on these bankers to fulfil his revenue obligations to the imperial treasury. The revenue was transferred through

---

8 Ibid, p. 190.

155
hundis drawn on the house of the Jagat Seths and they 'practically controlled the money supply of the region.'

**British and the Indigenous Credit Structure**

The British depended extensively on indigenous bankers and money changers for transferring money and raising loans in the initial years of their presence. With the passage of time, the initial mistrust of the British within Indian markets waned and they were successful in raising huge amounts to finance their entire trade in India.

This dependence continued well into the second half of the 18th century and the first half of the 19th century to aid the expansion and consolidation of the British empire. The big bankers and the widespread branches of their kothis (firms) were crucial in remitting the revenues of the local rulers to the East India Company. He says that the ‘Company’s own commercial interests throughout northern and western India relied on the good offices of the Hindustani banking houses.’

In the 18th century, the British used this structure to support their political and military operations. The political power wielded by the house of Jagat Seth was so much that they engineered a conspiracy at the Court of Murshidabad that ‘gave Clive his virtually bloodless victory at Plassey’. The Benares bankers are said to have played a significant part in transferring funds from the Bengal Government across the country to

---

15 Ibid, p. 469.
assist Wellesley’s wars against the Marathas.\textsuperscript{16} In the 18\textsuperscript{th} century, the houses of Kashmiri mal and Manohardas of Benares had advanced cash loans to the Company’s government to assist its military operations with Mysore in the South and the Marathas in the West.\textsuperscript{17}

Even in the 19\textsuperscript{th} century, the vast internal trade of India was organised and financed by native bankers and merchants through large interior networks. The European corporations that operated in the ports never managed to understand or control such networks. Thus Indian bankers and traders had preserved their control over inland commerce which fetched them far more than the imports and exports from the ports.\textsuperscript{18}

The heavy reliance of the British on indigenous credit structure was chiefly necessitated by the existence of multiple currencies. This led to the centrality of the shroffs in the system and they collaborated with the British on their own terms. This frustrated the British and so they tried to dislodge the shroffs by bringing various currency reforms\textsuperscript{19} which were successfully resisted by the shroffs till the early 19\textsuperscript{th} century.\textsuperscript{20}

The British realised at the start of the 19\textsuperscript{th} century that the establishment of a bank that would operate on an all-India basis to facilitate remittances and credit transfers across the country was necessary to eliminate the Shroffs.\textsuperscript{21} This was part of the attempt to create a colonial monetary and commercial order where the native bankers and merchants

\textsuperscript{17} Chatterjee, op. cit. pp. 297-99.
\textsuperscript{19} Bagchi, op. cit. 501-19.
\textsuperscript{20} Chakrabarti, op. cit, pp. 70-71.
\textsuperscript{21} Subramanian op.cit. p. 473.
would be segregated and pushed into a subordinate sphere of the exchange economy.22

THE HUNDI OR BILL OF EXCHANGE

The word *hundi* is a modification of the Sanskrit word *hundika* that is derived from the verb *hund*, that is, to collect.23 It is also seen as a corruption of the Persian word Hindwi or Hindoo.24

The *hundi*, as defined by the Bengal provincial banking enquiry committee, was an inland bill of exchange which was, in effect an order, signed by the drawer addressed to the drawee to pay to the person named in the *hundi*, a sum of money either at sight or at a certain period after presentation.25 The *hundi* was used for a variety of purposes like making remittances, raising loans and also for financing movement of goods. The *hundi* was used for both public and private purposes. There was no fixed amount of money that could be drawn by *hundis*. The amount varied according to the 'needs of the parties concerned and the availability of funds that a bankers correspondent was expected to furnish at a time.26 The sum may be remitted by one or more *hundis*. *Hundis* were cheaper, more secure and much less cumbersome than the physical transfer and was used by traders, rulers and by other groups who needed to remit money elsewhere.27

27 Chatterjee, op. cit. p. 295.
The *hundi* or the bill of exchange has been widely used in the credit transactions of the country since early times. The *hundi* is initially said to have emerged 'as fiscal devices for remittance of taxes and payment of soldiers' but subsequently developed as a system of mercantile credit and remittance.\(^{28}\) The historian Kalhana in Rajatarangini mentions the use of hundis by the kings of Kashmir as early as A.D 914-935.\(^{29}\)

The extensive use of 'hundis' or bills of exchange during the Mughal period, to facilitate the movement of goods and for the transfer of money are well-attested by historical studies.\(^ {30}\) Irfan Habib in his analysis of monetisation of the Mughal Empire and the development of moneylending, challenges the notion that commodity production and money economy are entirely a gift of the British rule.\(^ {31}\) He arrives at the conclusion that money lending and credit must have existed on a large scale during the Mughal rule on the basis of two reasons. One that there are strong grounds to assume that the cash nexus was established in parts of the Delhi Empire as early as 14th century and secondly, the revenue collected from the peasant was in money. He speaks of the wide use of the 'indigenous' bills of exchange to corroborate the existence of a large money market for lending.

'The *hundi* or *hundwi* was a bill promising payment at a particular place after a specified period, usually of two months or less. It was fully saleable so that a merchant or anyone else, who had cash on hand for a short time, could invest it by discounting *hundis*. So brisk had the sales of *hundis* become that, according a mid-18th century historian of Gujarat, commercial payments were generally made in these bills and seldom in cash. Professional bankers, known as *sarrafs*, specialised in dealing in hundis, by which means they financed commerce also to a considerable extent. The discount charged on the


\(^{29}\) Ibid, p. 458 and n. 18.


\(^{31}\) Habib (1964) op. cit. p. 393.
bills covered not only interest, but the cost of insurance and transmission of money.\textsuperscript{32}

The hundis were utilised for the following purposes both by the Indians as well the British in the 18\textsuperscript{th} century.

1. For transferring agrarian surplus from one region to another.
2. For inland trading by European trading companies.
3. For remitting revenues to the government treasury.
4. To remit funds to the army in garrison towns, barracks and warfronts.
5. To raise loans.

The twin instruments of the bazaar economy, in Ray’s opinion, are the \textit{arhat} and the \textit{hundi}. The entire economy of the country was managed by a complex and sophisticated three-tier arrangement of marketing hierarchy, consisting of ‘the financial and commercial centres, the market towns and the rural periodical markets,’ linked together by the \textit{arhat} and the \textit{hundi}.\textsuperscript{33}

How these instruments functioned in the early part of the 20th century is well-illustrated in the following paragraph.

‘At the rural level of marketing, \textit{hundis} were not in use. Peasants and pedlars settled their transactions in exchange of produce or in hard cash. They obtained hard cash from the \textit{arhatiyas} of the market towns in payment for their produce. Once the produce entered the market towns and reached the hands of the \textit{arhatiyas}, it entered a different world. The \textit{arhatiyas} sent the produce on metalled roads to the railheads for transportation to the port towns and the inland centres, using the \textit{hundi} network serviced by the Shroffs. A fraction of the produce moving on the railways reached the hands of the agents of the international firms, either based on port towns or posted upcountry. At this level the produce entered a third and higher world, leaving the ambit of the bazaar.’\textsuperscript{34}

\textsuperscript{32} Habib (1964) op. cit. p. 401.
\textsuperscript{34} R.K. Ray (1998) op. cit. p. 276.
Thus the zone where the *hundis* circulated can be demarcated as the zone of the bazaar. Even within the three-tier division of the economy mentioned above, each tier had its own way of functioning and even the credit flow differed at the different levels. For instance, the *hundi* circulated only within the middle segment which is called the bazaar economy and the other segments be it the pedlars or the rural producers on one end and the international firms based on port towns on the other end, did not have hundi transactions. If at all there was some link between the rural credit sector and the bazaar economy, it was through the village moneylenders. The *arhatiyas* did not directly venture into peasant credit mainly because they did not know their clients and hence involved heavy risk. Ray makes a further distinction between ‘a rural finance system in which the lender’s own funds were used and the bazaar which in addition to lending money mobilised new credit resources by drawing, discounting and rediscounting *hundis.*’

Mishra speaks of two kinds of *hundis* in operation in 18th century India. One is the *Darshani* and the second *Mudatti* or *Miyadi*. The *Darshani hundi* was payable on demand or sight and the Mudatti hundi was payable after a stipulated period of time that was mentioned in the *hundis* and reckoned from the date of drawing.

The sphere in which these credit exchanges took place is termed the bazaar economy. *Bazaar*, in common parlance, refers to the market place, the geographical space where things are bought and sold. A wide range of traders and businessmen could be involved in this process. But the term is not used in this sense in the thesis. It also does not conform to Geertz’s idea of a bazaar economy ‘is one in which the total flow of commerce is fragmented into a very great number

---

of unrelated person-to-person transactions."\textsuperscript{37} The bazaar, in his opinion, is comprised highly competitive commodity traders who act independently without an organizational form and perform 'ad hoc acts of exchange.'\textsuperscript{38} The bazaar traders are characterised as incapable of creating new sources of profit, as they tend to involve in petty speculation guided by short-run opportunism.

This is quite different from the use of this term in the thesis. Reference here is to 'urban centres of wholesale commerce' and 'to the indigenous money market which finances, through promissory notes, bills of exchange and other negotiable instruments, the wholesale and forward trade over long distances.'\textsuperscript{39}

Another term that requires clarification pertains to the use of the term local banking. The term local banking as used in this thesis refers to a kind of banking that is different from the Western style banks. Moneylenders, local bankers and modern banks may be imagined to be part of a continuum where local bankers can be placed in the middle with moneylenders and modern banks forming the two ends. Local bankers or indigenous bankers as against moneylenders follow a technique for their operations. They have a larger working capital than the moneylender, use credit instruments, lend larger sums, accept deposits, and usually operate as part of a network. According to the Bengal Provincial Banking Enquiry Committee Report, the distinguishing feature of an indigenous banker is dealing in \textit{hundis} and not acceptance of deposits.\textsuperscript{40}

The term local banking is used synonymously with indigenous banking in this thesis. Though the area of operations of the Chettiar...
beyond the local, the mode of operations was indeed local. They were part of the local economy and lent to local people with whom they shared everyday interaction. They had a greater local knowledge and their deposit mobilisation was also done at a local, known circle of kith and kin. Hence the use of the term local banking.

TAMIL REGION AND THE NATTUKOTTAI CHETTIAR BANKING

The Tamil region did not have a well-developed ‘financial and commercial networks’ linking the interiors despite European involvement with the region’s trade from the 17th century. It was only in the late 19th and early 20th Centuries that financial institutions and financial networks expanded to meet the requirements of an extended market.41

It is generally believed that the Chettiar did little business within Tamil Nadu and reverted back to the state only after Depression. But Baker shows that they had a substantial stake in urban finance till the 1920’s.42 There was a desperate need for credit in both rural and urban areas since the last decades of the 19th Century. The Exchange banks catered to European enterprises and so the native population had to depend on intermediaries like the Chettiar and the Kallidaikurichi Brahmins. These indigenous bankers were the lynchpins of the entire credit system because they facilitated movement of capital from Madras to the rural areas. The Chettiar too were not privy to easy loans from the Imperial Bank. They had to feature in the approved list of borrowers—the Adathi list. Baker states that since many Nattukottai Chettiar firms were excluded from this list, the firm(s) on the list made huge profits ‘by simply

42 Ibid, p. 284.
borrowing from the Imperial Bank, adding half a per cent to the interest, and then distributing the loan amongst other bankers in Chettinad.” 43

Mahadevan avers that the European banks used the indigenous credit structure to facilitate the movement of produce. The Chettiars became the conduits for ensuring the smooth flow of money from the banks and the reverse flow of goods from the interiors for export. He says “The extraction of raw material and food grains for export required a mechanism which was sufficiently widespread yet centralised. The Chettiars, with their well developed business organisation, institutions and practices—particularly the wide network of agencies and correspondents, and the practice of providing credit to the fellow members of their community—were, it would be seen, especially suited to carry out this function of providing credit in the interior of the presidency and thus promoting the movement of produce.” 44 He further mentions how a hierarchical set up of banks, the Chettiars and rural producers were tied together by credit arrangements. This structure effectively provided the British what they wanted while creating avenues of profit for the Chettiars and giving the rural producer an illusory sense of cash flow.

The Chettiars were initially doing business in Tamil Nadu and moved out to other countries only due to the ‘superior legal protection for lending’ that they found outside Tamil Nadu. Baker reckons that the ‘Nattukottai Chettiars could earn only eight to nine per cent return on their capital in South India, while in Ceylon the return was ten to twelve per cent, in Burma twelve to fifteen per cent, and in Malaya fifteen to eighteen per cent.’ 45

43 Baker, op. cit. p. 287.
45 C.J. Baker, op. cit. p. 283.
The hundi facilitated easy transfer of funds from one place to another and Chettiars used this facility to transfer capital among themselves. They extensively used hundis to finance trade. Rudner's following illustration of the use of trade hundi clarifies the function it performs and the network that engenders effective use of this instrument.

'a paddy merchant bought a shipment of paddy at a local market in Burma with cash that he transferred to the seller by drawing a hundi on his account in a local Chettiar banking office. The Chettiar banker encashed the hundi, receiving a discounting fee of 1 per cent to 3 per cent, and took custody of the railroad receipt for the paddy shipment, even though the transaction was not a loan and did not incur rates of interest charged on loans. The banker sent the hundi and the receipt to his firm's main office in Rangoon along with instructions to debit the merchant's account. If the banker had no office in Rangoon he sent the hundi and receipt to another banker (perhaps, but not necessarily an Adathi) with whom he maintained an account. The first banker could thus rediscount the hundi with a second banker who normally extended the service without charging a further discounting fee. In order to regain the railway receipt and take possession of his paddy from either banker, the merchant had to maintain a deposit account with the Rangoon banker in a satisfactory manner.'

Nagarattars used four kinds of Hundis in their transactions.

1. Darshan hundis: This is also known as the sight bill and is like a demand draft. This was payable against a Kadai Kanakku account (shop account) within three days of its presentation. The person to whom it has to be presented and the place is also specified in the hundi. This kind of hundi has been common throughout India. In the north Indian region this was called Darshani hundi. The purpose of both these hundis is to raise short-term credit.

2. Nadappu or Vatti hundis: This is a very specific Nagarattar instrument. These were also payable against a Kadai Kanakku but they were not demand drafts. They could be cashed at the convenience of the banker who was the drawee. The only obligation

---

of the banker was to pay interest at *Nadappu* rate to the person who
drew the *hundi* until the *hundi* was cashed.

3. *Thavanai hundis*: This type of *hundi* was payable against *Thavanai*
accounts. These were like 'short-term certificates of deposits'. The
bankers usually paid 60 to 90 days after the stipulated date on
which the hundi was drawn.

4. *Pay order hundis*: These were given during the marriage ceremony as
receipts in lieu of the dowry. These were drawn against *Aachimar Panam*
accounts. They were paid special compound interest.

Rudner opines that they did not come under the colonial laws
concerning Negotiable Instruments and were not legally enforceable
because the terms of encashment of the hundis were not unconditionally
specified.47

**KINDS OF LENDING**

Nattukottai Chettiars lent four kinds of loans in their operations in Tamil
Nadu especially in the Coimbatore district and in and around Devakottai.

(i) Lending to agriculturists on promissory notes

(ii) On *Kandu Kist* or *Thandal* system

(iii) Lending on produce

(iv) Lending on security of lands called *Pokkiam* or *Othi*

The Report of the Madras Provincial Banking Enquiry Committee
states that pronate or promissory note is one of the primary credit
instruments used by the Chettiars for lending to agriculturists. The
promissory notes are printed forms in Tamil and the borrower only fills up
the form and signs across the revenue stamp affixed on it. Though there is

47 Rudner, *Caste and Capitalism in Colonial India: The Nattukottai Chettiars*,
no mention of a specific date of return on the pronote, Thavanai period of six months or one year is noted for calculating compound interest.

The Kandu Kist or Thandal system is resorted to by small money lenders. When money is lent out on Kandu Kist, interest is taken in advance and the borrower is expected to repay the loan amount in equal instalments on a monthly or a daily basis. Many of the informants mentioned that they had lent out money on Kandu Kist in Rangoon to small traders from whom they collected the money every evening. They mentioned that this was an easy way to recover the loan money before the Burmese exhausted all the money in their frivolous activities. A penal rate of interest was levied on default.

They also lent money on produce like rice or paddy, tobacco leaves and cotton. The main advantage of this kind of lending for the moneylender is that in the case of default of payment, he has the right to acquire the entire produce and sell it off under his custody at market price. Sometimes the banker himself sells the produce and claims from the agriculturist the margin, if any, left over.

Pokkiam or Othi was another kind of lending resorted to by the Chettiar though this was not very common. Pokkiam or Othi meant lending money on the security of lands or any other immovable property in lieu of which the banker enjoys the benefits of possession of property till the money is returned or till a maximum period of 60 years. If the money is not returned even after the stipulated 60 years, the property automatically becomes the bankers’ when sued in a court of law.48

SOURCE OF CAPITAL—KINDS OF DEPOSITS

The Nagarattars being a tightly knit caste of which most members were involved in the same profession did not initially look for capital

mobilisation outside their known circle of kith and kin. This, according to informants was due to two reasons. One, they did not want to be ‘debtors’ because unless and until the creditors were taken as depositors, they would have to repay the money taken as ‘loan’ and the burden of debt is not something they were used to. Secondly, when they receive loans or deposits from their own relatives, they were well aware of their financial standing and the risk of the money being suddenly withdrawn is minimal. This way they enjoyed a satisfactory circulation of capital and the Nagarattar depositor also felt that his money was safe in the hands of his own kinsmen. This was also backed by two reasons by my informants. One, because he trusted the mercantile acumen and can be sure of the financial standing of the ‘kadai’ (shop) secondly, the presence of informal rules binding on the community as a whole gave surety and confidence. However, one informant who had done a successful business of moneylending at Saigon told me that initially when he had gone to Saigon with his father in the early part of this century, they used only their personal money to start the business. But this changed once they established a network of firms and expanded their moneylending activities. They mobilised money from European banks to supplement their capital. The accessibility of funds from the British banks was used to maintain an incessant flow of credit.

Deposits were not accepted at random. They were appropriately classified and taken into various accounts. There was a distinction not just in classification of accounts but in payment of interest rates as well. Nagarattar bankers whom I had met during the course of my fieldwork at Chettinad spoke at length about the various kinds of deposits that they held. Many of them said that they use their own funds initially and accepted deposits a little late. The Chettiar bankers accepted deposits from relatives and friends mainly to use up their ‘dead capital’. That is, they accepted deposits and paid an interest whereby the money lying idle in the
homes of relatives and friends could generate income. In turn, they used up the money for circulation in their business.

According to Chakravarti, the Chettiar firms in Burma mostly operated on borrowed capital and deposits obtained in Madras and Burma. Chakravarti mentions that the current deposits were divided into Nadappu Kanakku and Kadai Kanakku. Nadappu Kanakku or call deposits were transacted between firms. They were paid Nadappu Vatti or current interest which was fixed every month at a meeting of the bankers in the local temple. He opines that these call deposits were a 'very important source of local finance and self help though the practice was mostly confined to large towns in Burma.'

The other kind of current deposit called the Kadai Kanakku or shop account refers to the deposits accepted from non-Chettiaris. It is similar to a savings account. A slightly higher rate of interest was paid on these deposits than the call deposits.

Rudner however provides a slightly different classification of the Kadai Kanakku or shop account. He writes that two kinds of current deposits were accepted in this account. They were Nadappu deposits and Demand deposits.

They also accepted fixed deposits of two, three, or six months from fellow Nagarattars into the Thavanai Kanakku (literally translated it means 'instalment' accounts). Similarly fixed deposits of non-Nagarattars were accepted into the Vayan Vatti Kanakku.

The Thavanai deposits were usually made by one Chettiar firm to another. It was for a period of two months and the depositor had the right to withdraw at the end of the period though it could be extended


50 Ibid, p. 60.
indefinitely.\textsuperscript{51} Though most of the depositors were Chettiars, rarely non-Chettiars of social standing were allowed to deposit but they got a percent or two less on their deposits.\textsuperscript{52}

The \textit{Veyan Vatti} deposits were for periods of three, six or twelve months. 'It was usually made by larger firms in towns to district firms at a fluctuating rate of interest about 1½ to 2 per cent per annum above the current or \textit{Thavanai} rate.'\textsuperscript{53}

Deposit receipt or promissory notes are given to the depositor. But it is generally understood that demand will not be made till the prescribed period is over.\textsuperscript{54}

The \textit{Nadappu} rate or the interest rate paid on \textit{Nadappu} account is similar to the prime lending rate of a modern bank. All other interest rates are calculated based on the \textit{Nadappu} rate. For the \textit{Kadai Kanakku} or shop accounts, \textit{Nadappu} rate of interest is paid. To arrive at this rate, the \textit{Nagarattar} bankers in major business centres like Devakottai, Madras, Colombo, Penang and Rangoon met every 16th day of the Tamil month at the local temple. They discussed the financial scene and credit markets of all the regions that they operated in. They also took keen interest in the activities and interest rates of other indigenous bankers like the Marwaris, Multanis and Gujaratis. The report of Burma Provincial Banking Enquiry Committee has this to say:

'the [\textit{Nadappur} rate] is fixed in the evening of the 16\textsuperscript{th} of every tamil month at a meeting held at 9 pm in the Nakarattar (sic) temple at Rangoon and it holds good for all the current Nakarattar month including the 16

\textsuperscript{51} N.R. Chakravarthi, op. cit. p. 60.
\textsuperscript{52} P.J. Thomas (1941) p. 851.
\textsuperscript{53} N.R. Chakravarti, op. cit. p. 60.
\textsuperscript{54} P.J. Thomas "The Nattukottai Chettiars: Their Banking System" in Rajah Sir Annamalai Chettiar 60th Birthday Commemoration Volume, Annamalai University, 28 September, 1941, p. 851.
days already passed...The meeting discusses the general financial situation, and fixes the current [nadappu] rate for the current month with this, taking into account the current pitch and tendency of the *Thavanai* rate, the rates current amongst the Marwaris, Multanis and Gujeratis [other indian banking castes] and the rates for advances by the joint-stock banks to Nakarattars. As every firm has both income and expenses determined largely by this rate, great care is taken to fix the rate according to the needs of the situation. But for the first 16 days of the month before the rate is fixed, there is a general consensus of opinion as to the rate that will be fixed, the weekly adjustment of *Thavanai* rate and discussions incidental to that adjustment being sufficient guide.\(^{55}\)

The *Thavanai* deposits were crucial to the *Nagarattars* in the sense that it helped in maintaining a reserve of capital that would facilitate in sustaining their lending activities. So they fixed up attractive rates for fixed term *Thavanai* deposits.

Rudner mentions that prior to the 1920s fixing the interest rate for *Thavanai* deposits was an informal affair and depended upon the competition among the Chettiaris for getting deposits. But by 1920 it was

'fixed in a systematic way every Sunday morning at 9 o'clock by a meeting in Rangoon temple, subject to modification during the week in case that [was] generally desired by the community.....It [was] not fixed according to the current [nadappu] rate; in fact the relationship [was] the other way about, the course of the *Thavanai* rate being a consideration when fixing the current rate.'\(^{56}\)

It is easy to infer why *Thavanai* rate of interest took precedence over the *Nadappu* rate of interest despite the *Nadappu* rate being considered a

\(^{55}\) *Burma Provincial Banking Enquiry Committee Report I*, p. 227, quoted in D.W. Rudner. op. cit. p. 91.

bench mark. Fixed term deposits are indispensable for maintaining a reserve of capital and hence the need to make it attractive. Rudner says, 'by working together in a reliable and systematic way, by setting interest rates, and by ensuring each other inexpensive access to deposit capital, Nakarattars were able to draw upon the collective assets of the entire caste.'\footnote{Rudner (1995), p. 92.}

The *Thavanai* deposits of *Nagarattars* created circles of credit flow because each *Nagarattar* deposited his money with either his relative or a man of his own temple group or his wife's relative. This way, small spheres of interaction and interdependence were created. Larger banking houses had larger spheres of operation and interaction. On the whole, money kept flowing within the community while at the same time it kept accumulating and growing as it flowed to other spheres of the society as well. One word that is frequently used in the *Nagarattar* household is 'Perukkaradu' which literally means multiplying. Every member of the household says that if there is money it needs to be multiplied. So, money is never left lying idle. Even small amounts of money saved by women of the household are lent out to servants who work in the home or other known people in the neighbourhood. The dynamic nature of money is thus highlighted and maintained. Even today when their banking has almost come to a halt and they have diversified into various other fields of occupation and business, they are very particular in investing money so that it brings good yield thereby increasing the principal amount.

As one gentleman rightly put it, 'we save even a single paisa. You people think that it is an insignificant amount but we believe that small drops make an ocean. In fact, more than our earnings, it is our frugality that has helped us amass such wealth.' Even the *Aachi* (Chettiar lady) with whom I had stayed constantly kept telling me that I should spend less on...
conspicuous consumption and that I should learn to keep multiplying even small amounts of money that I may have because money should never lie dormant.

Coupled with the Nagarattar banking firms' need to generate capital was the inherent logic imbibed in the Nagarattars that 'money should beget more money.' These two worked together to keep large amounts of money in circulation.

CLASSIFICATION OF CAPITAL

The capital held by the Nagarattars is usually classified into two separate and distinct categories,—Mudal Panam (own capital) and Mempanam (surplus). Some have, however, classified it as Mudal Panam and Sontha Thavanai Panam (deposits by close relatives). Chakravarti, in discussing the sources of capital of the Chettiars in Burma mentions the division of capital into Sontha Thavanai Panam and Mudal Panam. He asserts that the Sontha Thavanai Panam was the proprietors' capital that was obtained through loans and advances from their principals in Madras on agency account. It could amount to anything upto 90 per cent of the total capital. A fixed interest rate was paid on it which was normally about 3 per cent higher than the current bank rate prevailing in Madras money market.

Mudal Panam or share capital was about 5 to 10 per cent of the combined capital of the firm.

At no point can we conclude that the Sontha Thavanai Panam comes under Mudal Panam which is the banker's own capital. All the respondents mentioned that borrowed capital is called Mempanam or Venpanam. In fact,

---

58 Rudner, op. cit., he quotes Tun Wai 1962 as using this classification.
60 Ibid, p. 59.
some of them were unfamiliar with the use of the term Sontha Thavanai Panam. Mempanam is commonly used and literally means surplus funds. This category includes a whole range of deposits and includes anything that is not the proprietor’s own money.

The various kinds of deposits were classified and held as follows:

*Mudal Panam*: the personal funds of the banker

*Mempanam*: all other funds

Under this *Mempanam* category comes all the following:

1. *Aachimar Panam*: these are the deposits from the women of the community—the money that is given as dowry at the time of marriage, monies of the wife or daughter-in-law, usually the proprietor’s affinal relatives (tayati). The *Aachimar Panam*, according to informants, was not necessarily deposited with a big banker. It was either used by the husband or father-in-law in their own business or given to a man of considerable social standing and financial credibility. He paid an interest on the amount and gave a signed, written document that he would return it on demand. This was called *'adaikirathu'* in local parlance. It literally means ‘trapping the money’. This money that the women wish to save and multiply may be part of a share, or the money that they received during their wedding. Usually widowed women were the chief depositors of this kind. Two reasons were cited for this. First, they had no other source of income and had to live off the interest earned from this deposit. Secondly, they believed in safe keeping because the children might force her to part with it. It was usually given to a man of repute because they can rest assured that the money could be retrieved at a very short notice without any complication. But this kind of safekeeping with an individual had its own drawback. There have been instances of breach of trust in some occasions. Some informants recalled one noted person of the community ‘swallowing
up the money of many widowed women. It was easy for him to do so because the women were illiterate and could not challenge him. Also because the man-in-question was already so wealthy that nobody believed that he stripped the widows off their money’.

2. *Thandumorai Panam:* these include deposits from other *Nagarattars* including the proprietor’s agnatic relatives (*koodikkira pankali*), his clan (*kovil*) and might also include non-kin from his own or neighbouring villages.

3. *Kovil panam* or *Dharma panam:* These deposits were made from the temple funds of *Nagarattar*-controlled temples. Even the money of the temple is not left lying idle. It is also multiplied.

4. *Adathi kadai panam:* these were loans that the bankers received from *Adathi* or ‘parent banks’.

5. Deposits that were received from Burmese or Chinese clients.

6. *Vellaikkaran Panam:* this was not such a common category and according to Rudner, this was available only to 3-4 per cent of the *Nagarattar* bankers. This referred to the money available as loans from the European banks.

The *Nagarattars* made use of a variety of funds to maintain a consistent cash reserve flow, mostly attracting investment from fellow community members and classifying each such deposit into appropriate heads.

In his written evidence to the Madras Provincial Banking Enquiry Committee, A. Savarinatha Pillai, Assistant Commissioner of Income Tax, noted that the amount of owned capital of the Chettiarss rolling in business was Rs. 50 crores. He estimated the borrowed capital to be roughly half of the owned capital amounting to Rs. 25 crores. Of these 25 crores of rupees, 8 crores were said to belong to Chettiar men and women. He concluded that the money belonging to Chettiar men and women may be added to
the owned capital of 50 crores and so borrowed capital amounted to just 17 crores of rupees.

He further provided a break up of the local Chettiar bankers, their total capital and borrowed capital, for 2882 assessees of Income tax in the four circles of Karaikudi I, II, III and Sivaganga. Tables highlights the amount of capital invested by the Chettiar in their business.

Table 3.1: Total Capital (owned and borrowed) Employed Locally and in Other Places

<table>
<thead>
<tr>
<th>Name of Circles</th>
<th>Number of bankers doing business locally</th>
<th>Amount of capital invested (in Lakhs)</th>
<th>Borrowed capital (in Lakhs)</th>
<th>Volume of business (in Lakhs)</th>
<th>Expenses (in Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chettinad</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karaikudi I</td>
<td>33</td>
<td>238.82</td>
<td>108.72</td>
<td>347.54</td>
<td>10.77</td>
</tr>
<tr>
<td>Karaikudi II</td>
<td>14</td>
<td>59.03</td>
<td>123.89</td>
<td>182.92</td>
<td>13.31</td>
</tr>
<tr>
<td>Karaikudi III</td>
<td>74</td>
<td>101.75</td>
<td>53.43</td>
<td>155.18</td>
<td>5.11</td>
</tr>
<tr>
<td>Sivaganga</td>
<td>15</td>
<td>113.78</td>
<td>58.90</td>
<td>172.68</td>
<td>3.85</td>
</tr>
<tr>
<td>Total</td>
<td>136</td>
<td>513.38</td>
<td>344.94</td>
<td>858.32</td>
<td>33.04</td>
</tr>
</tbody>
</table>

Table 3.2: Rest of the Madras Presidency

| Trichinopoly I  | 21                                      | 43.85                               | 22.45                      | 66.30                        | 2.59              |
| Trichinopoly II | 12                                      | 12.44                               | 2.21                       | 14.65                        | 0.79              |
| Dindigul        | 19                                      | 11.97                               | 25.23                      | 37.20                        | 1.99              |
| Madura, North   | 4                                       | 0.65                                | 2.30                       | 2.95                         | 0.22              |
| Madura, South   | 8                                       | 18.93                               | 17.53                      | 36.46                        | 4.52              |
| Virudhunagar    | 10                                      | 6.17                                | 5.51                       | 11.68                        | 0.78              |
| Tuticorin       | 22                                      | 17.82                               | 10.76                      | 28.58                        | 1.52              |
| Tinnevelly      | 11                                      | 12.42                               | 28.22                      | 40.64                        | 2.69              |
| Total           | 107                                     | 124.25                              | 114.21                     | 283.46                       | 15.10             |
| Grand Total     | 243                                     | 637.63                              | 459.15                     | 1096.78                      | 48.14             |

Source: S. Pillai, MPBEC Report, 1930, p. 1188.
ACCOUNTING PROCEDURES

The Nagarattars maintained various kinds of account books whereby they kept a close watch on the movement of funds of the firm. This was essential because when they carried out their banking operations outside India, the proprietor could not always be present and also because one banker usually had more than one Kadai (shop). In order to be informed of all the transactions, and to keep a check on their employees, they devised elaborate accounting procedures.

The different kinds of account books maintained by the Chettiar are as follows:

1. **Kai Chittai** or a notepad kept at the accounting desk or Petti for immediate recording of any transaction that might occur. Any amount that is given out for any purpose is noted down initially in the **Kai Chittai** or Petti Chittai which initiates a long process of recording income and expenditure. This rough note consisted of all the dealings that took place during the course of the day and aided in avoiding unnecessary errors. Many of the informants mentioned that even seemingly trivial expenditure is noted in the **Kai Chittai** in order to mitigate imbalances while tallying accounts. North Indian Banias also maintained a daily cash book or Rokad Khata which controlled all other subsidiary accounts.61

2. **Chittai kurippu** (Waste book): At the end of the day, all accounts from **Kai Chittai** are transferred to the **Kurippu Chittai** tallied and the existing funds checked. It is said that even a minor imbalance is not

61 Bayly, op. cit. p. 397.
left unchecked. Painstaking efforts are made to rectify the mistake on the same night.\footnote{Informants mentioned that till date even within the household, everyday expenses are thoroughly calculated every night though this was common practice only with older Nagarattars.}

3. *Asal kurippu* (Day book): The next morning, accounts from *Kurippu Chittai* are transferred to the *Kurippu* or day-book following which it is posted on to the ledger.

4. *Peredu* (Ledger): This book recorded all payments and receipts. There was one column for *Patru* (credit entries) and one for *Varavu* (debit entries). The amount disbursed as a loan was simultaneously recorded as both a credit and debit entry. There was a co-relation between the expenses that were incurred and the income that it generated.

5. *Ayanthogai* (Balance sheet): The balance sheet is prepared on a day basis or under classified heads.

6. *Laba Nashta Kanakku* (Profit and Loss account)

7. *Undiyal Anuppu Varavu Putthagam* (Hundi book): It contained all details of the *hundi* transactions—the amount for which hundi was made, place, date, time, and so on.

8. *Kacchathu Putthagam* (Voucher file): This book was also called the press copy book as it contained the carbon copies of all transactions.


10. *Vatti Chittis* (Interest calculation sheets): It contained records of interest payment of clients who maintained deposits with the agency. Those who owe interest to the firm are also sent reminder slips and details recorded in this book.

Though these were the books that were usually kept by all the firms, some firms maintained additional and more specific books. For instance,
Weerasooria\textsuperscript{63} mentions at least eleven such books that were maintained by bankers in Ceylon.

2. *Chittai Ranaka Pustakam* – This consists of several books like
3. *Samayal chittai* (mess expenses)
4. *Silavu chittai* (sundry expenses)
5. *Tharuma silavu chittai* (charity expenses)
7. *Baki pustakam* (total daily bank balances, chetty’s account balance, and debtor’s balance, expenses and income)

   From the *Kurippu* accounts are posted on to three different ledgers:
8. *Nadappu peredu* (current account)
9. *Enathu peredu* (debtor’s account)
10. *Kolmuthal peredu* (property account)
11. *Iyenthogai* (balance sheet)

Thus the *Nagarattar* adopted meticulous accounting procedures whereby all transactions were carefully noted down under classified heads. It was noted, in the course of interviews, that the account books of *Nagarattars* were so well kept that the British authorities used to just stamp them without requiring an auditor to oversee it. Informants also mentioned time and again that while their Marwari counterparts used to write the balance sheet in pencil so that it could be altered later for their convenience, they always wrote their accounts in blue and red ink. This meant that they never modified their accounts and all the transactions were transparent.

Before concluding this chapter I would like to add a brief discussion on the importance attached to socialisation and informal education by the Nattukottai Chettiars for maintaining collective values of the group.

'The image must be repeated with such persistence that it becomes, through the sole fact of repetition, an integrating element in himself, such that he can no longer do without it.'\textsuperscript{64} Durkheim's insistence on a methodical socialisation of the young generation\textsuperscript{65} as the central aim of education is reflected in the attempts of the Nattukottai Chettiars in using education to protect and promote the collective values of the community. One of the prime functions of the individuals in society, according to Durkheim, is to ensure a thorough integration of the younger generation into the complex social life. Education is the instrument that makes the individuals capable of leading a moral and social life. Aptitudes of various kinds that are essential for social life are too complex to be transmitted from one generation to another by heredity. This transmission, he opines, can only be effected through education.

In 'Moral Education' he says '...Each social group, each type of society, has and could not fail to have its own morality, which expresses its own make-up.'\textsuperscript{66} The three essential elements of moral facts are discipline, attachment to social groups and autonomy. The one that is of importance to this discussion relates to second element—that of attachment to social groups. Durkheim says that 'we must give the child the clearest possible idea of the social groups to which he belongs. It is here that the role of the educator is most important.' According to Durkheim attaching the child to

\textsuperscript{64} Emirbayer, op. cit, p. 244.


these groups is the ultimate aim of moral education not just providing an image of them.\textsuperscript{67}

The education given to the Chettiar children reflected the collective values of the community at that point of time. The children were prepared for integration into the group and its profession. As Durkheim says 'each occupation...constitutes a milieu sui generis which requires specialized knowledge and particular aptitudes...'.\textsuperscript{68} The specialised skills required for the profession were imbibed through the informal education system of the Chettiers. The education that a child received related to a thorough reading and memorising of the 'En Suvadi'. This was a book of mathematics related to calculations like the modern day Tables. Both girls and boys were required to know the 'En Suvadi'. They made difficult calculations of interest rates with great ease. It was mentioned that they mostly calculated interest in fractions based on mental arithmetic.

Apart from the financial and banking skills that were taught to children from an early age, they were also initiated into the actual world of business to put into practice what they had learnt. The idea of sending young boys as apprentice at big firms bestowed them with practical training enabling them to start a business on their own by the time they reached the age of twenty.

The entire structure of informal education perpetuated the composite culture of the Chettiers. The three important elements of what I term 'Chettiar hood' consist of a staunch belief in Saivism, frugality and charity. These elements were incorporated in the education and socialisation process of the Chettiar children. This was in addition to the grooming that was done to sharpen their financial acumen and business sense.

\textsuperscript{67} Mustafa Emirbayer (ed) Emile Durkheim-Sociologist of Modernity, (Blackwell Publishing, 2003, USA), p. 244.

The Chettiar children underwent instruction in Tamil religious scriptures as it was an indispensable part of the Chettiar culture. This conferred in them a deep rooted faith in religion which was crucial for integration in the group when they would grow up.

Collective ideals and ideas were transmitted to children through the socialisation process at home. Material objects were used as symbols to convey the culturally significant notion of frugality. For instance, two plates—one big and one small were used for eating food. They were called Vatti and Kumba. Children were always asked to eat from Vatti. Vatti actually means interest. Children were thus taught to live from the interest while leaving the principal untouched. Bayly too mentions of a similar practice in existence among the North Indian Banias. Rhymes and jingles taught to children revolved around the division of capital and ‘one Mahajani formula was built around the letters of the Hindi alphabet: K= Kam, work; KH= Khana, food; G= Garna, to hoard (jewellery, etc); GH= Ghar, house and so on.’69 He further states that children were made to read hundis and taught ‘sophisticated forms of mental arithmetic.’70

The Nattukottai Chettiars not only gave the child an image of the social group but also repeated elements of Chettiarhood that were considered vital from childhood in order to acquaint the child with the importance attached to them and the indispensability of collective life as well as trade.

69 Bayly, op. cit. p. 396.
70 Ibid, p. 396.