CHAPTER - IV

FOREIGN BANKS - HISTORICAL SETTING
CHAPTER - IV

FOREIGN BANKS - HISTORICAL SETTING

It is a well known fact that from the earliest times India possessed a system of indigenous banking. It will suffice in this connection to give the following extract from "From the Remote Past to an Assured Future" by W.E. Preston, Chief Manager of the Chartered Bank of India, Australia and China, and a member of the Royal Commission on India Currency and Finance, 1926, which is quoted on page 26 of Mr. B.T. Thakur's book on "Organisation of Indian Banking."¹

"It may be accepted that a system of banking eminently suited to India's then requirements was in force in that country many centuries before the science of banking became an accomplished fact in England. It is true that the methods of old in force in India were vastly different from the European ideas of banking today and partook more of money lending, money changing and later of the hundi business, nevertheless as applied to the conditions then existing in India, they admirably acted their part and must be recognised as having rendered immense services to the country as a whole, particularly when we keep in view the enormous agricultural interests of India."

Indeed money lending can be traced back to the Vedic period which is taken by some authorities to range from at

¹ B.T. Thakur - Organisation of Indian Banking, p. 26
Quoted in Central Banking Enquiry Committee, Report, para 22.
least 2000 to 1400 B.C., but no evidence of its then being followed as a profession by section of the people or details about the terms on which money was lent, are available. It is from the 5th century B.C. that Indian literature supplies us with definite evidence of the details of money lending and remittance of money in cash or by credit instruments. The Buddhist works and recent archeological discoveries reveal the existence of associations or guilds carrying on various commercial and industrial activities. The Sresthis or bankers occupied prominent positions in these guilds. In each of the important trade centres of Buddhist period, e.g. Champa, Rajagriha, Sravaste, Kausambi and Avanti, there lived many Sresthis of great influence. Their main function was to finance the traders for the ordinary purposes of their trades, the merchant adventurers who went out by sea to foreign countries or explorers who traversed forests in search of valuable materials, and the kings in times of war and other financial stress. The Buddhist texts abound in references to the practice of lending money on or without interest. The more common practice was lending money on interest, the loans being secured by mortgage, by pledge of moveables or by surety. The Arthashastra (Kautilya) prescribes the maximum legal rate of interest on secured loans as 15 percent and that on unsecured loans as 60 percent, without any discrimination as to caste, though the rate might go up to 120 and 240 percent per annum according to the risk involved in special circumstances. The Dharmastraas are in general agreement with the Arthasastra except that they introduce caste as an
important factor in money lending. They lay down that a particular caste (the vaisya) alone can take to the profession of money-lending and they also prescribe a variation from 15 percent to 60 percent in the interest on secured loans according to the caste of the borrowers. 2

References are traceable to the use of hundies as early as 12th century A.D. We have also evidence in the writings of Muhammadan historians like Barni, author of "Tarikh-e-Firoz-Shahi", and Shamsafif, of the existence of Multanis and Shroffs who financed not only internal trade and commerce between various centres but also acted as bankers of the early dynasties of the Muslim period. During the Mughal period it appears from the Ain-e-Akbari and other internal records, as well as from Tavernier’s Travels, that indigenous banks continued their business of money-lending and played an important part in financing the trade of the country by means of credit instruments. Tavernier also mentions how the foreign trade of the country in the 17th century was financed partly by cash and partly by bills drawn on Surat and payable in two months; and he gives the rate of exchange on Surat at Lahore, Agra, Ahmedabad, Sironj, Burhanpur, Dacca, Patna and Barass. 3

"The internal trade of India, as well as what foreign trade there was at that time was financed by Indian bankers, Mahajans, Seths, Cetties or whatever they were called in different parts of India. There is ample evidence to prove

3. L.C. Jain - Indigenous Banking in India, p. 14,
   Quoted in C.B.C.E. Report, p.13
that individuals often deposited their savings with these bankers, and the bankers, as a normal practice, advanced large sums to traders, land-lords and even to Princes for the purpose of War or Peace economy. 4

There is no definite information available about the rates of interest charged in those days by the indigenous bankers on loans. The fact that according to Ain-e-Akbari the State granted loans to officials at rates of interest varying from 6½ percent in the second year to 50 percent in the fifth year, and 100 percent in the 10th year in order to operate as a check on the usurers, however, shows that a still higher rate of interest had to be paid by these people on loans obtained from other sources. There is also evidence to show that in the last quarter of the 16th century the Veniks in Bengal used to charge needy persons interest at the rate of more than 500 percent. The system of currency and coinage during the Mughal period, with its large number of mints scattered all over the country which issued metallic currency of various classes, also provided the indigenous bankers with the important and profitable business of money-changing.

Further, it became the practice during this period of employing some of the important indigenous bankers in various parts of the empire as revenue collectors, bankers and money changers to Government. These bankers naturally acquired considerable influence and power; and as has been pointed out in the report of the United Provinces Banking Enquiry Committee (para 410),

"The Jagat Seths (world bankers) of the 17th and 18th centuries, for their power and influence, are comparable with any private banking house in any other country; and indeed, they seem to have fulfilled many of the functions of a central bank—essentially a modern institution."

Banking on European lines is of comparatively recent growth in India. Indigenous banking, however suited to the needs of the country, could not satisfy the needs of the English trader. Our trade with England dates more particularly from the time when the success of the entreprising Old Dutch merchants in Java led London merchants to adventure their means and resources in the formation of the East India Company. That body started in 1569 with but a modest capital of £72,000; its title was "The Governor and Company of Merchants of London, Trading into the East Indies." A year later it was granted a Royal Charter from Queen Elizabeth which gave it the priviledge of trading for fifteen years to all parts of Asia, Africa etc. Impecunious monarchs utilized the renewal of Charters as means for exacting funds and loans from the Company. As time went on it became a very powerful concern; so long as it was content to trade, affairs went fairly well; but the greater the power the more dangerous the abuse, and abuses undoubtedly crept in, especially when, in course of time, the Company and its officials became so dominant a power in India, that it finally ceased to be purely trading concern and exercised administrative functions. Such a position was its undoing, and, to use the concluding words of the article on the subject in the Encyclopaedia Brittanica,
this position could not, in the nature of things, be permanent, and the great cataclysm of the Indian Mutiny was followed by the entire transference of Indian administration from the Company to the Crown, on the 2nd August, 1858. 5

While the Company and the English traders required some machinery to satisfy their credit needs, they could not make use of the indigenous system. They, on their side, were not conversant with the language of the indigenous bankers, while the bankers had no experience of the finance of western trade. In order to overcome these two fold difficulties, two remedies were adopted. In the first place, the English agency houses which were established in Calcutta and Bombay took upon themselves the business of banking in addition to their commercial and trading activities. In the second place, the importance of forming connections with the indigenous bankers, who held a high place in the financial and political activities of the country was not ignored. 6 Indeed in the earlier years, after their rise to power the East India Company did not favour the establishment in India of European banks, and they held the opinion that the agency houses and the indigenous bankers were better fitted to meet the banking needs of the community. These measures, however, failed to arrest the decline in the business and influence of the indigenous bankers. The incessant wars and the disorder which followed on the downfall of the Mughal Empire severely affected their business. The indigenous bankers shaken by political convulsions were left

to die a gradual and ignominous death.

Thus under the aegis of the East India Company, Agency Houses were brought into existence to serve as bankers to the Company. These agency houses became the agents for the whole civil and military services and also for the European planters and merchants settled in the country. They had originally no capital of their own and they depended almost wholly on the savings of the servants of the East India Company. They received deposits, made advances for the movement of crops, and issued paper money which was considered extremely beneficial for carrying on their operations. These agency houses thus became the forerunners of joint-stock banks established on European lines.

The earliest known bank belonging to the agency houses is the "Bank of Hindostan" started in 1770 by Messrs Alexander and Co., one of the leading agency houses of the time. But later investigations, particularly by H. Sinha - Early European Banking in India - have thrown doubt on the accuracy of this statement.

"The earliest bank unconnected with any of the Agency Houses which can be traced in contemporary records is the Bengal Bank. This bank must not be confused with the Chief Presidency Bank, the Bank of Bengal, which was opened for business under the name of the Bank of Calcutta on June 2, 1806, was granted its first charter on January 2, 1809, when

7. Charles Northcote Cooke - 'Rise, progress and present condition of Banking in India', Calcutta, 1863.
it received its familiar name; and was finally absorbed into
the Imperial Bank of India on January 27, 1921, along with two
other Presidency Banks, the Bank of Bombay and the Bank of
Madras. Cooke mentions the Bengal Bank in his book, but the
account given by him is meagre and inaccurate. There is no
systematic description of it anywhere else.

The exact date of the establishment of the Bengal Bank
is unknown. It was in existence, however, much earlier than
is believed by Cooke. For in the Calcutta Gazette of May 24,
1784 there appeared the following statement :-

'A subscription is opened at the Bengal Bank for the
relief of the Non-Commissioned and private Europeans,' of the
King's and Company's (i.e. the English East India Company's)
Troops in the Carnatic, who were unfortunately captured during
the war with the Nabob Tippoo Sultan, and have lately been
released from their confinement.'

"In June 1786 was opened for business the General Bank
of India, which proved a formidable rival to the Bengal Bank.
This I believe was the first Joint-Stock Bank in India with
limited liability, although this fact has not been mentioned
by any previous writer including Cooke. This is all the more
surprising because it was not till 1855 that the principle of
limited liability was made applicable in England to trading
companies. Even then, banks were excluded from this privilege;
for, it was felt that owing to the peculiar nature of their

8. H. Sinha - Early European Banking in India, Calcutta, 1926,
p. 5-6.
business the bankers were debtors to the public for such large amounts that it would be unsafe to limit the liability of shareholders. After the crisis of 1857 which involved many banks in failure, the wealthier classes declined to incur the risk of holding shares and in order to attract them the principle of limited liability was extended to bank shares in England in 1858 but the liability for notes issued remained unlimited as before. 9

So it is possible that one or two other banks of this type came into existence before the establishment of the Bank of Hindostan in 1770, though it is doubtful whether they continued in existence for any length of time.

All these banks Chartered by the East India Company failed owing to mismanagement and speculation or severe run upon it caused by political reasons. These banks conducted ordinary banking business, financed internal trade and issued notes. They transacted exchange business. But most of these banks came to grief during the crisis of 1829-33 owing to mismanagement, fraudulent use of their funds etc., although they were managed entirely by Europeans and although some of them received assistance from the East India Company during the crisis. Banks established after the crisis of 1829-33 by European houses also met with the same fate due to speculation and mismanagement.

Over and above the banks under Charters of the East India Company, there was another group of banks known as the

9. Ibid., op.cit., pp. 9-10
Presidency Banks. These were established under Acts of Indian legislature. Although the lion's share of the capital was subscribed by the Europeans themselves, a part of the capital was subscribed by the Government also. They were state-aided and the East India Company had a right to appoint some directors. The first Presidency Bank, the Bank of Calcutta was established in the year 1806 but received its Charter in 1809 when its name was changed to the Bank of Bengal. Bank of Bombay was established in 1840 and the Bank of Madras in 1843. All these three Presidency Banks were amalgamated into the Imperial Bank of India in 1920. One of the restrictions under the Presidency Bank Act was that they were prohibited from dealing in foreign bills and borrowing abroad as exchange business was regarded risky.

In addition to the banks established in India under Charters of the East India Company and Acts of Indian legislature, a number of foreign banks with head offices abroad have carried on business in India through branches. They are all incorporated outside India. Their beginning dates back to the Oriental Banking Corporation in 1842 under Royal Charter. The Oriental Banking Corporation failed in 1884.

The East India Company was generally successful in preserving banks in India chartered by it from the competition of English banks. Although proposals for incorporating banks in London to do exchange business in India did come up like the Anglo Indian Bank in 1836 and the Bank of Asia in 1840, the East India Company prevented the materialisation of such schemes.
The Company was afraid that such banks would make profit at their expense on their annual remittances for home expenditure. As has already been stated the first Anglo Indian commercial bank to receive a Royal Charter was the Oriental Banking Corporation in 1842. The Bank obtained its Charter from the Imperial Government without any reference to the Indian authorities. The East India Company took up its old attitude and went so far as to doubt the Royal prerogative to grant charters to banks for operating in India on the ground that under Act 47 of George III, it had been empowered to incorporate such banks and that the Act formed a limitation on the Royal prerogative. Legal experts in England, however, drew a distinction between the business of general banking within the territories of the East India Company and the business of exchange, deposit and remittance which could be carried on by any bank under Royal Charter. Although the East India Company did not agree with this view it considered it undesirable to give a monopoly in exchange business to the Oriental Banking Corporation and it recommended the incorporation of other banks without delay. So the Chartered Bank of India, Australia and China and the Chartered Bank of Asia (afterwards the Mercantile Bank of India, London and China) were incorporated in 1853. Of the three Chartered Banks, the Oriental Banking Corporation failed in 1884 and the Chartered Bank of Asia had to relinquish its Charter in 1893 and reconstruct itself under the English Companies Act as the Mercantile Bank of India. The only English bank now operating in India under a Royal Charter is, therefore, the Chartered Bank of India.
At present, banks belonging to different countries like England, France, Holland, Japan, America, Pakistan and Bangla Desh are operating in India. Some of the banks are, the National and Grindlays Bank, First National City Bank, The Chartered Bank, American Express International Banking Corporation, Bank of America National Trust and Savings Association, The Mercantile Bank, Bank of Tokyo, The British Bank of the Middle East, General Bank of the Netherlands, Banque Nationale de Paris and the Mitsui Bank. The Bank of Pakistan and Habib Bank have been under the custodianship of Enemy Property with effect from September 1965.

Financing of the foreign trade of India used to be the main business of the foreign banks. The profits these banks make naturally attracts other countries having trade relations with India to start their own banks. Some countries open branches here with the idea of promoting their own foreign trade by providing all sorts of privileges to their nationals. Whatever be their motives, the operations of these banks, till recently, had far reaching consequences on India's industrial development in general and growth, magnitude and type of foreign trade in particular.

Until 1935 the Imperial Bank was prevented by law from dealing in bills of exchange payable outside India. Of course it was permitted to make remittances outside India for the bonafide personal needs of its constituents. True, the Indian banks were not prevented by law from engaging in foreign exchange business and a few banks like the Indian Specie Bank, The Tata Industrial Bank and the Alliance Bank of Simla did
engage in this business. On the whole, the Indian banks were not successful in participating in exchange business due to paucity of capital resources, want of access to the London money market and trained staff. Moreover, whatever meagre resources they had were fully utilized and employed in internal business. As a consequence the foreign exchange business remained practically a monopoly of the foreign banks till India became free.

The Financing of Foreign Trade - Mechanism:

The financing of foreign trade generally consists of two operations, namely, the financing of the movement of goods from Indian ports to foreign ports or vice versa and the financing from, or to, Indian ports, to or from, the distributing or collecting centre. 10

As far as the former mechanism is concerned when an Indian exporter sells goods to a foreigner credit is opened with the bank or finance house in that country and communicated to India through the medium of foreign banks. The bills against such credit are drawn principally at three months' sight, although longer usance paper is negotiated. Most often these bills are documentary. The bills may be documents on acceptance (D.A.), but sometimes they may be documents on payment (D.P.). The rate for a 3 months' bill is higher than a sight bill, because it includes interest for the duration of the bill at the rate prevailing at the centre on which the bill is drawn. These bills

---

10. Central Banking Enquiry Committee Report, Vol. I, para 421,
whatever their usance, are sent to the foreign country and presented for acceptance and after endorsement by the banks there, are usually discounted in the open market. In this way the foreign banks in India receive back in foreign currency the equivalent of their rupee payments in India. At times it may suit the foreign banks to hold the purchased bills until maturity, if they have ample funds, and if there is little immediate prospects of making a profitable use of the funds. But they discount the bills even at a high rate if trade is brisk or money is tight. 11

Imports are financed in two ways. The first method consists of foreign exporters drawing 60 days sight D.P. bills on importers in India and discounting them with the foreign banks. The foreign exporters execute letters of request and hypothication in favour of the foreign banks, which become holders for value of the bills. The importers accept the bills and apply to the banks for the delivery of goods before payment, against trust receipts. The bills of lading and other documents are then handed over to the importers, who obtain possession of the goods as trustees on behalf of the foreign banks. The former store the goods in godowns, and pay the bills when the goods are sold.

The other method is the acceptance of the 'house paper' by the banks in the foreign country. By the expression 'house paper' is meant a documentary bill drawn by the exporting house on that particular bank which accepts the bill and returns it

to the drawer who in turn discounts it in the money market. The accepting banks send the relative documents to their branches in India for the collection of the proceeds of the goods and then remittances are sent to the foreign country at or before the maturity of the bills.

Both instruments are generally drawn in foreign currency. In the former case interest is payable from the date of the bill to the approximate date of arrival of the proceeds of the bill in foreign exporting country. In the latter case the paper is discounted in the foreign money market at the prevailing discount rate which is invariably lower than the rate of interest charged on 60 days' D.P. drafts. It becomes clear from the above, that in both exports and imports by Indians the adjustment of interest between producer and consumer is carried out in India and that interest has to be taken into consideration at this end in fixing prices in both cases.

Not only did the foreign banks monopolise the financing of foreign trade, they did and do every kind of banking business, which commercial banks in every country ordinarily do, such as receiving deposits, both demand and time, granting loans and advances, lending money at call, making investments and issuing commercial and travellers' letter of credit. During busy seasons they invest a considerable portion of their funds in discounting foreign trade bills. But some of them find internal banking business more paying than the foreign exchange banking business.

Formerly they used to take pride in the fact that they
obtained capital for India from London but now they have discovered that money can be tapped in India also. Prof. J.M. Keynes pointed out long ago that the foreign banks never kept an appreciable cash reserve in India. The chief difficulty of the foreign banks, being branches of banks incorporated outside India, consists in their undertaking to perform their business in several places. They have to so carefully adjust their resources that they do not suffer from want of capital at any place and this is by no means an easy task. Formerly, the more important foreign banks used to import funds from London to India and remit it back after the period of employment. As J.M. Keynes opined their position would be very difficult if a concurrent crisis both in the London money market and India were to develop simultaneously.

Although the Central Banking Enquiry Committee defined the financing of foreign trade as consisting of two parts, namely, (1) the financing from the Indian port to the foreign port or vice versa, and, (2) the financing from or to the Indian port to or from the upcountry distributing or collecting centre, both theory and practice of the financing of foreign trade go counter to it.

Evidently the practice of foreign banks as prevailing in India includes both, but this is not accepted as a necessary function of banks financing foreign trade. The finance of

foreign trade seems in theory and practice to be confined to the port to port movements. As has been pointed out by Mr. Spalding in his book "Finance of Foreign Trade", the exchange banker comes on the scene as regards export only at the time of shipment. Similarly as regards imports the exchange banker would vanish from the scene as soon as he has brought the documents to the port and handed them over to the importer. This opinion is supported by no less an authority than Mr. P.B. Whale in his book "Joint Stock Banking in Germany", p. 83, who opines that the financing of foreign trade by banks in Germany followed the practice of English bankers and consisted in financing exports for the interval between the shipment of goods and the arrival of the purchaser's remittance; and in financing imports by opening credits, against which the foreign exporter draws drafts.

In other words the international trade and commerce would be concerned only with the import and export of merchandise between port and port but not to the distribution of imports into the interior or the collection of exports from the interior.

The practice of foreign banks in other countries is also significant in this respect. In almost all countries foreign banks are confined to the chief financial centres or to the port towns. They do not generally claim to have branches at inland centres. They carry on their work in the interior through agents or correspondents.

The encroachment of the foreign banks beyond the require-
ments of foreign trade finance as explained above restricts the scope for expansion of Indian banks. The foreign banks have been carrying on business in India long before the Indian banks were established, and this fact, coupled with their vast resources, enormous influence and valuable good will, have placed them in a dominating position over the Indian banks.

**Criticisms against foreign banks:**

The operations and activities of the foreign banks were severely criticised by witnesses who appeared before the Central Banking Enquiry Committee. Some of the major charges against them are detailed in the following paragraphs.

In their origin the foreign banks were started for business with India for handling of foreign exchange and financing of foreign trade. But, for some of them these two operations the handling of foreign exchange and the financing of foreign trade, have become a smaller and less profitable part of their activity. The fact is, these foreign banks competed, more or less keenly, in the internal trade, and this competition had been steadily growing and extending till India became free in 1947. While the foreign banks had the exclusive privilege of financing the external trade, they have not hesitated to compete with the Indian banks in local and internal trade.

The dominant position of the foreign banks has been utilised not only to advance the interests of their nationals but also to foster other subsidiary foreign interests in India.
For instance, the Indian insurance companies have received very little encouragement from the foreign banks in their progress. By insisting on their customers obtaining their policies from non-Indian insurance companies they have practically shut out the Indian companies from this business. Innumerable instances were placed before the Central Banking Enquiry Committee in support of this complaint.

Indian merchants who import from abroad could do so only on D.P. terms while foreign merchants in India could always get D.A. terms. This means Indians have to do business on cash basis while European importers in India enjoyed extensive credit facilities. True, the Indian importer could get the imported goods released on executing trust receipts, but then he will have to pay a higher rate of interest to the foreign banks. On the contrary, foreign nationals and concerns in India, even if they were financially weaker than the Indian importer, could always obtain D.A. facilities.

Again, even first class Indian importing firms were required to make a deposit of 10 to 15 percent of the value of goods with the foreign bank for the purpose of getting a confirmed letter of credit opened. On the other hand, European concerns importing from abroad were not subjected to this condition of making such deposits.

It was said that foreign banks used to give poor references regarding Indian concerns to enquiries from abroad, whereas excellent bank references were given to European concerns
even if they were of a lower standing than their Indian counterparts.

The exporters and importers in India have to pay higher rates than their counterparts in foreign countries for obtaining financial accommodation from the foreign banks although the foreign banks collect huge deposits from Indians at low rates and rediscount their bills in the London money market at cheap rates. In European countries the discount rate is always lower than the bank rate, but in India the foreign banks kept the discount rate higher than the bank rate. The difference between the Indian rate and the London rate was pocketed by the foreign banks with absolutely no extra risk involved. The benefit of the low London rate never reached the pockets of the Indian exporter or importer.

The foreign banks in India were conducting their operations without a proper regard for our national interests. The non-national outlook maintained by these banks had hindered to a great extent the development of monetary organisations of the country. This is clearly borne out by their lukewarm support and even opposition to any scheme of banking development and their pronounced lack of sympathy towards anything Indian. It is true that Indian foreign trade has been financed by the foreign banks; but it is also true that this was done mainly because these banks wanted to finance the movement of the necessary Indian raw materials to England and to help the marketing of British goods in India. This pro-British feature of their operations was apparently so marked that other
countries found that for marketing their goods and buying their own requirements of Indian raw material, it was essential that their own banks should be established here and that it was unwise to leave their interests to be looked after by British banks.

If these banks were really serving the interests of India, their attitude towards Indian traders and Indian banking would have been quite different from what it has actually been. The position which they occupied in the Indian banking system far out-weighed that which foreign banks occupy in other countries and they did not fail to take full advantage of this favourable position to prevent a proper reorganisation of the money market in India.

Time and again they have opposed measures in this direction, as such organisation would not only diminish their prestige but also decrease considerably their domination of the market. They opposed the first Central Bank proposed of 1900 with such vehemence that even the Government of India was forced to protest against their attitude. In 1904 they again opposed the proposal to allow the Presidency Banks to borrow in London to relieve monetary stringency in India. Their opposition continued till the appointment of the Chamberlain Commission in 1913 and persisted in an acute form even upto 1920 when the Imperial Bank Act was passed, debarring the bank from transacting exchange business. It was carried even before the Hilton Young Commission when they stated that they did not care much whether these was a
Their indifference towards Indian interests is also shown in their attitude towards Indian banks. There have been a number of bankers and monetary crisis till 1935, but the foreign banks have never rendered any timely assistance even to a single Indian bank. It was, on the other hand, pointed out by the Government of India in their despatch to the Secretary of State, dated 3rd December 1900, that they frankly prepared to let a crisis come though happily it was averted. As Mr. Poohkhanawala has observed in his written evidence to the Central Banking Enquiry Committee "most of the foreign exchange banks do receive deposits from Indian banks, but they would not lend them a rupee without security, though amongst themselves they do large lending business on credit. They combine at every opportunity even against first class indigenous banks and by withdrawing, at the spread of any and every rumour, credit facilities in the matter of purchasing of drafts and telegraph transfers, they jeopardize the position of the indigenous banks and lower their prestige in the eyes of the investing public and the brokers."\(^{15}\)

Still another instance of the apathy of these foreign banks towards Indian interests is to be found in the matter of appointing Indians in the superior grades of their service. Till 1950 there was no arrangement by which foreign banks take Indians for training and employment. The only appointments in

\(^{14}\) Mr. Baster's book 'The Imperial Banks' Quoted by N.R. Sarkar, Minute of Dissent - C.B.E.C., op. cit., para 21

\(^{15}\) Ibid., pp. 557-58.
these banks, apart from the post of cashiers, which Indians
could aspire to were of a clerical nature. It was preposterous
to contend that these foreign banks operating in India for
almost a century could not find a single Indian competent enough
to be appointed to a superior post.

Foreign banks, particularly British, have in the earlier
period created opinion and policies hostile to Indian interests.16
The British banks exercised considerable influence in the
counsels of the Government of India and of the Secretary of State.
In matters affecting them they invariably secured their object.
Their association with Government arose both directly and
indirectly. Several retired Government officials graced the
director boards of these banks, and through the Financial
Committee of the India Council, on whose advice the Secretary
of State generally acted, they must have had a means of having
their opinion successfully pressed.

The hostile attitude of these foreign banks led the
Indian interests to prefer complaints against them before the
Central Banking Enquiry Committee. That most of these complaints
were not vexatious and silly would be evident from the earnest
appeal to the representatives of the exchange banks by Sir
Purushottamdas Thakurdas the Vice-Chairman of the Central Banking
Enquiry Committee in the following terms 17:

Question No. 3702 - "Now I wonder whether your Committee would
be willing to send us a supplementary memorandum indicating

17. Ibid., para 183.
what changes your Chamber and the Exchange Banks Association are prepared to introduce forthwith in view of the discussions and the elucidation of the various viewpoints which have taken place between the Committee and the representatives of the two bodies yesterday and today. We have together discussed various points very frankly and you gentlemen have all tried to help the Committee as much as you can. You, I am sure, have seen the viewpoints which have been put to you yesterday and today being reflected before this Committee by various Indian Commercial bodies. I feel sure that you will be inclined, and think it worth your while to go through your evidence tendered before this Committee and place it before your Chamber and the Association respectively and that you would jointly prepare and send to the Committee a further memorandum (confidently if you want to do so) indicating what you think can be done forthwith, in order to remove the disabilities that the Indian mercantile community suffer from at present that have already been placed before you with a view, first and foremost, to allaying the disturbed feelings in the minds of the Indian Commercial Community, as also to lightening the task of this Committee in arriving at a satisfactory conclusion in regard to these matters?

— We are very glad that you have put the case before us so nicely. We will report to our respective bodies the views of the Committee and shall be very glad to forward to you, if the Chamber and the Association so decide, any considered decisions that may be arrived at."

Here was an appeal by an eminent Indian businessman, who, in his capacity as Chairman of the Imperial Bank of India,
Bombay, had means of first-hand knowledge of affairs. It was an appeal couched in unexceptional spirit of moderation, and seeking reforms along the line of least resistance on the basis of give and take and mutual good will, but it assumed the correctness of the complaints. There was a desire to let bygones be bygones, provided the future could be set right.

In brief, the chief counts of indictment against the powerful foreign banks were that they compete with the Indian banks not only in the matter of securing deposits but in financing borrowers in the slack season, that they remit funds from India whenever tight money exists in foreign countries, that they drain away resources from India for services which can be performed equally efficiently by domestic banks, that they drain away funds for investment in foreign industrial and guilt-edged securities, that they promote trade in raw materials and the industrialisation of the country is no definite policy, that they refuse to give confirmed letter of credit even to first class Indian importing firms unless they deposit 10 percent to 15 percent of the value of goods of their own, that they refuse to adopt themselves to the requirements of a great agricultural country like India where produce advances are more necessary and should be made freely, that they do not give us an adequate return for the 'open door' policy we maintain, that they do not give us reliable information concerning foreign markets and prices, that they form a compact homogeneous group and give no positive encouragement to the Indian bank clerks to rise to positions of official responsibility, that they drain
away funds from upcountry centres to the ports in the busy season for providing financial facilities to exporters rather than to cultivators and industrialists, that they give very poor references regarding Indian customers so that D.A. terms are not granted, that they stoop to unfair tactics against budding rivals, that they tend to take call money from the Indian banks although they refuse to give the same to the Indian banks and that they will not fit in a nationally managed banking service. In short they refuse to become instruments for industrial development and economic progress of India.

It must be remembered that it has taken foreign banking interests in this country more than a hundred years to acquire the strength, which they have acquired. It is true that they had the free entry, they had the opportunities, and they had the enterprise. It is also true that they took advantage of the conservatism and the backwardness of this country, as well as of every other circumstance in the political and economic life of India, which served their purpose.

These charges were levelled against the foreign banks before the Central Banking Enquiry Committee by witnesses who appeared before it. At the time of bank nationalization a few of these criticisms were voiced by the then opposition parties in the Indian Parliament. But the operation and management of these banks have improved considerably since the passing of the Banking Regulation Act. Now all the above mentioned charges against these foreign banks only a historical significance.

18. Basavarsu Ramachandra Rau - Present Day Banking in India, 1938, pp. 142-143.