CHAPTER FIVE.
THE INDIGENOUS BANKERS.

In India, the indigenous banker and the money-lender have a vital part to play in the banking system of the country. Indeed, they are quite indispensable for its development and progress, from many points of view. It is held in some quarter that the indigenous banker and the money-lender are monsters of depravity with more vices than virtues and they ought to be wholly swept away and a new banking structure, on modern lines, set up in their place to meet the needs of the country. It is true they suffer from very grave evils resulting in considerable harm to the people. But, it must not be ignored that they have done some good and rendered valuable service to the country from ages past. Until recently, the Indian depended for his credit not on a joint-stock bank, but the indigenous banker and the money-lender and even today, despite the advent of the joint-stock bank, not every one can take advantage of it. India is a land of villages and agriculture is its main industry and the joint-stock banks, notwithstanding their rapid expansion particularly in the recent War, have not penetrated the remote village, and hence, the peasant is still beyond their reach. He depends for his credit predominantly on the indigenous agencies. Obviously, the bulk of the credit for agriculture comes from them while the joint-stock banks, which began to function but two centuries ago, are concentrated in the cities and towns and an utterly insignificant part of the total need for money in the country is met by them.

Besides, the borrowers are partly responsible for the defects which exist in indigenous banking and money-lending.
The Indian peasant who is the principal client of the indigenous banker is illiterate and poor and superstitious. He is bound by rigid convention and custom. A large portion of his loans are squandered in uneconomic uses. Often, owing to the uncertainty of agriculture and failure of crops, he is compelled to borrow. Social institutions, such as joint-family system, keep down his standard of living. The Hindu law of inheritance which has resulted in sub-division and fragmentation of holdings and the burden of constant litigation contribute to his impoverishment, and consequent indebtedness. Under the circumstances, he borrows against little or no security and the lender charges usurious rates of interest to safeguard his loans. Thus several factors are responsible for the evils that are attributed to indigenous bankers. However, this does not mean that the indigenous bankers are entirely free from blame. They do practise usury and indulge in very many malpractices and to that extent they are guilty but in justice to them it must be granted that to some extent they are victims of circumstances. If the circumstances change, they may change for the better.

Even if we assume the joint-stock banks to penetrate to every village and hamlet in the land the question arises: will the illiterate peasant take kindly to it? Indian conditions are totally different from other countries with highly developed joint-stock banks. In India it is more difficult to popularise joint-stock banking in the countryside because of widespread illiteracy. As a result, the Indian peasant is extremely conservative. He is apt to view with suspicion any innovation and the banks of a joint-stock bank are not likely to attract borrowers so ignorant of their methods. They would rather prefer the familiar though usurious indigenous banker to the unknown outsider. This great difficulty has to
be overcome in order to introduce joint-stock banking in the Indian villages. This can be done if we solicit the help and cooperation of the indigenous bankers themselves. They will be the medium through which modern banking could be introduced to the village in India.

It is patent that a clean sweep of the indigenous banker is neither practicable nor desirable. It would be far wiser to make a positive approach to the question and devise ways of reforming them to make them worthy members of society and useful components of organised Indian banking.

In this chapter, only the Indigenous Banker will be dealt with as his operations come more truly within the sphere of deposit-banking while the money-lender, strictly speaking, is beyond the scope of this thesis. However no rigid distinction can be made between the two.

An "Indigenous Banker" is "Any individual or private firm which in addition to making loans, either receives deposits or deals in hundies or both, each of which functions clearly belongs to the province of banking while the term 'money-lender' is used for any individual or private firm which makes loans but does not usually receive deposits or deal in hundies". But generally, the term "Indigenous Banker" or "Indigenous Bank" is used to mean all kinds of private bankers and money-lenders, or banking and money-lending firms.¹

This is because the line between the indigenous banker and the money lender is a thin one. Sometimes a money-lender who receives deposits is not counted as a banker while some money lender who have large working capital are popularly called 'bankers'.²

¹ The Monetary Problem of India by L.C. Jain 1931, p. 59
² Indigenous Banking in India by L.C. Jain 1931, p. 73

Indigenous Banking in India by L.C. Jain 1931, p. 73
The majority of indigenous bankers combine banking with some form of trade and the capital employed in banking is not distinguished from that employed in trade. There are three kinds of indigenous bankers.¹

(i) Those who confine their business to banking proper or whose principal business is banking;

(ii) Those who are principally traders or merchants but employ their surplus funds in banking business.

(iii) Those who are both bankers and traders and cannot easily be classified as, principally, traders or, principally, bankers.

In the case of indigenous bankers as well as money-lenders, statistics are very much lacking. The information collected by the various Provincial Banking Enquiry Committees is very meagre. No reliable estimates of capital employed by the indigenous bankers are available. It is however recognised that they finance agriculture, internal trade and small industries. The Madras Provincial Banking Enquiry Committee estimates the capital (owned and borrowed) employed in the Presidency by the Nattukottai Chettiyars at Rs. 11 crores.²

In the Indian Census Reports of 1911, 1921, and 1931, bankers and money-lenders are not classified separately. They are included in one group among "banks, establishments of credit, exchange and insurance". Among these are included bank-managers, money-lenders, exchange and insurance agents, money-changers and brokers and their employees. But in the 1901 census all these were not grouped together in one. Bankers and money-lenders were classified separately.³

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¹ Ibid. P. 99.
² Ibid. P. 94-95.
³ Census of India Vol. 1, Part 2, 1901, 1911, 1921, 1931. Table: Occupation.
In the latest Census of 1941, no figures are given on the basis of occupations, as before, owing to the exigencies of war. In future, it would be good to follow the 1901 method and even improve upon it by narrowing down the classification still further, distinguishing indigenous bankers and money-lenders from other classes.

Another source of information is the reports of the Provincial Banking Enquiry Committees of 1930. Though they will be out of date today and inadequate and vague still, they can give an idea of the indigenous agencies, as shown below: -

<table>
<thead>
<tr>
<th>Province</th>
<th>Indigenous Bankers</th>
<th>Money-lenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assam</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bengal</td>
<td>A few</td>
<td>45,000</td>
</tr>
<tr>
<td>Behar &amp; Orissa</td>
<td></td>
<td>1,00,000</td>
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<tr>
<td></td>
<td></td>
<td>(besides about 700 shree &amp; urban money-lenders paying incometax &amp; many more not paying it).</td>
</tr>
<tr>
<td>Bombay</td>
<td>-</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td>(including bankers).</td>
<td></td>
</tr>
<tr>
<td>Burma</td>
<td>16,500 Chettiar offices.</td>
<td>-</td>
</tr>
<tr>
<td>Central Provinces</td>
<td>One firm habitual-</td>
<td>43,000</td>
</tr>
<tr>
<td></td>
<td>ly receiving de-</td>
<td>(Please refer to foot-</td>
</tr>
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<td></td>
<td>poses.</td>
<td>note on P )</td>
</tr>
<tr>
<td>Madras</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The Punjab</td>
<td>66 (based on in-</td>
<td>55,000</td>
</tr>
<tr>
<td></td>
<td>come tax figures)</td>
<td></td>
</tr>
<tr>
<td>United Provinces</td>
<td>250 (including 7 firms on modern lines)</td>
<td>-</td>
</tr>
</tbody>
</table>

1. The Indian Central Banking Enquiry Committee Report 1931 P. 72 and 94.
2. Indicates that no information is available.
3. Not reliable as the definition of the term 'banker is not observed.
<table>
<thead>
<tr>
<th>Province</th>
<th>Indigenous Bankers</th>
<th>Money-lenders.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ajmer, Marwarra</td>
<td>29¹</td>
<td>100 (bankers &amp; money lenders paying income-tax).</td>
</tr>
<tr>
<td>Delhi.</td>
<td>43¹</td>
<td>100 (bankers &amp; money lenders paying income-tax).</td>
</tr>
<tr>
<td>North-West Frontier Province.</td>
<td>29 Hindu &amp; many Muslims.</td>
<td>100 (bankers &amp; money lenders paying income-tax).</td>
</tr>
</tbody>
</table>

**ORGANIZATION OF INDIGENOUS BANKERS & THEIR FUNCTIONS AND METHODS.²**

The indigenous bankers go by different names in different parts of the country such as Jainas, Marwaris, Chettis Multanis and Ehatris. Besides these, there are some minor banking castes like the Areras in the Punjab and Behtis in Gujrat and United Provinces. Among the indigenous bankers, the Marwaris and Jainas and the Nattukottai Chetties represent the highest stage of development in indigenous banking.

They are well-organised and their methods of work are systematic and efficient and simple and economical. Their offices and branches are spread all over the country, in important centres like Calcutta, Bombay, Delhi and Rangoon, where they have their 'munim' or 'gumashtas' (agent or correspondent or clerk) who look after their business. They are invested with wide powers. They are not highly paid but their industry, integrity and efficiency are of a high order. They submit periodical reports and return of their activities to the head office and receive instructions from it.

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1. Estimates based on Census statistics of the group bankers, etc.

Some big bankers have such correspondents even outside the
country, as for instance, at Aden, Djibuti in Africa, Addisaba
in Abyssinia, Paris, Japan and other places. Of all the
castes, the Nattukottaichettis are the most perfectly organised.
In the words of E. Thurston "the Nattukottaichetties, in organi-
sation, cooperation and business methods are as remarkable as
the European merchants. Very few of them have yet received
any English education. They regard education as at present
given in public schools as worse than useless for professional
men as it makes men theoretical and scarcely helps in practice.
The simple but strict training which they give their boys, the
long and tedious apprenticeship which even the sons of the
richest among them have to undergo, make them very efficient
in their profession and methodical in whatever they undertake
to do." 1

From ancient times the indigenous bankers have
formed associations or guilds for various activities, social
and religious, for the most part, as well as to settle trade-
disputes and act as insolvency courts. Their constitution is
simple. Usually, a prominent 'Seth' or banker is elected
chairman and his gumashtas convene the meetings. Decisions
are made on democratic principles. Examples of two such
guilds are the 'Gyarah Panch' and the 'Kevilvasal Mariyal'
or temple council of the Nattukottaichetties.

There are some modern associations. In Bombay, the
Bombay Shreiffs' Association, the Marwari Chamber of Commerce,
the Commission Agents Association and the Multani Bankers
Association are rendering valuable service in bringing the
indigenous bankers together. Joint meetings of the various

1. Castes and Tribes of Southern India by E. Thurston 1909
Vol. V. P. 262.
bodies are held to confer upon questions affecting everyone. For instance, the Association of the Multani Bankers fix the Bazaar rate (the rate at which small traders' hundis are discounted by the bankers) after taking into consideration the Imperial Bank of India's Hundi rate (the rate at which the Imperial Bank rediscounts first class three month bills). Meetings of the Associations are held every Sunday to discuss affairs. Like their ancient counterparts, the modern associations also settle disputes among the members without recourse to law courts. The Bombay Shroffs' Association alone settles about twenty disputes per day.

FUNCTIONS:

An indigenous banker, besides lending money, receives deposits, either on current account or for fixed terms, on which he allows interest; gives cash credits and deals in bills of exchange or hundis of both kinds, demand and usance. A modern European bank also performs these functions but they differ in the nature and scope of their business in several respects:

Not all the indigenous bankers receive deposits and such deposits as are received from a very small proportion of the bank's resources. A modern bank on the contrary, generally, depends on deposits as the main part of its working capital. While the indigenous banker as well as the modern bank allow withdrawals against deposits, those in the case of the indigenous banker are usually in cash while they are in the form of cheques in the case of the modern bank. Some indigenous bankers issue cheques and pass books but these vernacular cheques have a limited local circulation and they have no validity outside the place of issue and they are not,
as a rule, accepted by the joint-stock banks or the Imperial Bank of India. The indigenous banker, as a rule, is not exclusively devoted to the business of banking. He combines with banking other business and more often his allied business is his primary concern while banking takes a secondary place. A modern bank is devoted to banking alone.

Indigenous bankers provide finance for various kinds of activities, like agriculture, internal trade and small industries. But large scale industries are not assisted by them, as they are ignorant of the organisation and methods of largescale industries, and their old-fashioned methods are not suited to finance them. But in Indore, Bombay, Ahmedabad, Calcutta and other industrial centres, indigenous bankers have begun to make deposits for fixed terms with the mill industries, attracted by the handsome interest they earn on their deposits and the moderate security of such investments. They also have the option to change the form of the investment periodically. On the other side, the mills benefit by this form of capital. But there is always the danger that these deposits may be withdrawn suddenly leaving the borrowers in want. Moreover, such investment is in conflict with the orthodox principles of banking, that short-term deposits must not be lent for long-term purposes as it impairs the liquidity of the indigenous bankers. The indigenous bankers may, without any disadvantage, lend to industries short-term loans on the security of goods.

The indigenous bankers finance small industries against the security of the artisans' household utensils or ornaments of silver or brass and often against personal security which is much to the disadvantage of the artisan as
he has to pay not only a high rate of interest but also sell his product to the banker at cheap rates incurring losses.

They also finance agriculture, the primary industry of the country. They advance money and grain to the cultivators, often against a standing crop or their personal security. The methods of making loans are peculiar and various. But the indigenous bankers do not aid the agriculturists directly but through money lenders of the village. The position of the cultivator is no better, as regards the terms of credit than that of the artisan.

They finance the internal trade of the country by helping the movement of agricultural and industrial products to the markets not only by acting as commission agents but also by issuing demand hundis to the traders or by discounting their hundis and thus enabling them to remit money to different trading centres. But there is no uniform system for the whole country. Their methods vary with the nature of the commodities, their habits, literacy and peculiar circumstances of the buyers and sellers. But they have no part in financing the external trade of the country which is in the hands of the Exchange Banks.

METHODS:

Loans -- The indigenous bankers lend money in various forms: They lend money on a written promissory note stamped with British postage stamps, varying in value with the amount of the loan. In some cases, money is lent against 'rasid' or receipts acknowledging the loan; or against 'dastaves' or bonds written on stamped legal forms and duly executed; credit is given by means of 'ticket bahis' or stamp-books so called because stamps have to be affixed therein which is a
counterpart of the modern 'book credit' loans are given on 'rahan' or mortgage of landed property or houses. There is a system of lending known as 'kist' or instalment system where-in the borrower has to repay the loan in instalments. There is also a pawning called 'girvin' or lending of money against the pledge of gold and silver ornaments. Besides these money-loans, there are several kinds of loans which are made in kind such as loan of grain or seed for sowing or consumption to be returned at harvest time with an addition, which forms the interest on it.

Deposits -- The deposit business which distinguishes an indigenous banker from a money-lender is very limited in extent. Some bankers, mostly gold-smiths and land-lords, receive deposits but pay little interest on them; some bankers such as the Sarafi Basna of the United Provinces sell hundis on themselves and receive deposits for very short periods - a few days - which are payable on demand but payment can be shifted for several days. For additional capital in times of stringency, they do not depend on deposits but borrow it from the joint-stock banks.

There are no statistics and it is difficult to estimate the amount of total deposits received by the bankers in the whole country or even in any one province. Mostly, they invest their own capital but to some extent they make it a business to attract money in the form of deposits and lend them out for a profit.

Hundis -- A hundi may be defined as a written order - usually unconditional - made by one person on another for the payment, on demand or after a specified time, of a
certain sum of money to a person named therein. It may be pointed out that this differs from an English bill of exchange in one important respect: While an English bill of exchange must be an unconditional order, a hundi may not be so.

A hundi is not quite an inland bill of exchange. One of its main functions is to enable one to get advances. A merchant who needs money may draw a hundi on his agent or firm or some one with whom he has made arrangements before. It is also used as a convenient form of remitting money from one place to another. But in financing of the trade of the country a hundi does not occupy the same position as an English bill of Exchange. Under the English practice, a bill is drawn by an exporter upon a certain bank which, acting under the instructions from an importer's bank, accepts such bills provided they are drawn in accordance with the terms of the cred. Such bills invariably bear on them the evidence that they are drawn against actual goods duly dispatched from one trade centre to another and therefore afford a perfectly sound means of investment. Such a method of finance does not exist in the system of indigenous banking in India. The hundi as a rule cannot command acceptance by a joint-stock bank because there is nothing to show that they are drawn against commercial goods. The joint-stock banks usually insist upon the endorsement of well-known bankers before dealing in small traders' hundies. In actual practice, the hundi approximates more to cheques than to bills of exchange although they are legally classified as bills.

The hundis are of two kinds: Darshani (sight or demand) and Nuddati (deferred or usance). They are subject
to stamp-duty like the English bill of exchange but differ in form from the latter. In the case of either, there are three parties to the transaction: the drawer, the drawee and the payee.

After the drawing of a hundi in its proper form, it may be sold at the current rate of discount. The hundi can be discounted and rediscouned any number of times and sent to distant places in the country by means of endorsement at the back before it is finally collected on the due date. Every endorser is liable to the holder for payment but he can make a special endorsement called 'sira' to the effect that if the hundi is not cashed by the drawee, it may be presented for payment to a specified person.

The hundis afford an excellent source of investment to the indigenous banker. Some of them do not draw hundis but buy them; the Multani bankers of Bombay, who specialise in this kind of business, buy hundis of two or three months. These are discounted at the rate of 6 to 9% and are rediscouned at the Imperial Bank or the Indian joint-stock banks and the difference between the two rates constitutes their margin of profit. This method is similar to that employed by the bill brokers and running brokers of the London money market.

**THE INDIGENOUS BANKERS & ORGANIZED BANKING**

The bulk of the finance for agriculture, which is the primary industry of India, comes from the indigenous agencies; so also for the small scale and cottage industries of the country. The joint-stock banks in India (The Imperial Bank, the Indian joint-stock banks, scheduled and non-scheduled and the Exchange banks) play a very small part in financing
Graph showing the trends of the Imperial Bank Hundi Rate, the Bazaar Bill Rates (Calcutta and Bombay) 1935-1942.

The Bank Rate
The Calcutta Bazaar Bill Rate
The Imperial Bank Hundi Rate
The Bombay Bazaar Bill Rate
agriculture. The lion's share of their credit goes to trade. Besides, the joint-stock banks are too few and far between to meet the enormous credit needs of rural India. Even though they have expanded fourfold in the last two decades, still they are not adequate for the whole country. When the Indian Central Banking Enquiry Committee reported in 1931, 400 towns in India had banks or their branches out of the 2500 towns. In 1946, out of the 27071 towns in India 1707 had joint-stock banks in one form or another. Thus, the expansion of modern banking has been quite considerable. But, relatively to the total needs of the country, it pales into insignificance when we reckon with the 6,55,982 villages in India which are beyond the pale of these banks1. The other agency which meets the requirements of agriculture in India are the cooperative banks. The cooperative movement has made rapid strides in the last two decades but they fall short of the needs of the country by a long way. In 1926 the total working capital of the cooperative societies in India was Rs. 58 crores. Since then they have increased their working capital to 105 crores of rupees nearly3. The working capital of the joint-stock banks in 1941 was Rs. 384 crores4. Out of this only a tiny part is given to agriculture indirectly. The exact extent of this is difficult to determine in the absence of statistics. But the maximum extent to which joint-stock banks can finance agriculture or the rural population is to the extent of their total working capital. But obviously,

3. Statistical Statements relating to the cooperative movement.
4. Estimated from the statistical tables relating to banks in India (scheduled and non-scheduled banks).
this is absurd unless we assume all the banks to turn into agricultural banks lending only to the ryots. When these figures for the cooperative banks and the joint-stock banks are laid against the total credit needs of the rural population, their inadequacy becomes patent. An idea of the rural needs can be got from the total agricultural and non-agricultural indebtedness of the country which was about Rs. 1,200 crores\(^1\) in 1941. Thus it will be seen that the cooperative banks can meet only a twelfth of the credit needs while the Indian joint-stock banks on the basis of the above assumption about one fourth. In reality however it must be very much less. Since no information as to its (the extent of credit given to agriculture) magnitude is available we shall use the above assumption as a working basis. This is very well brought out by the following diagram:

2. In India 1945-1946:
3. Elements of Economics by Jathar and Bari 1943 P. 54.
Thus the importance of the indigenous agencies to meet the requirements of a predominant section of the country's population compared to other organised sources of credit is eloquently proved.

Having regard to the important place which indigenous banking occupies in the economy of India, as shown above, the question arises as to how it should be brought within the organized system of banking in the country. This can be done partly by strengthening the existing ties and forging new ones between the indigenous bankers and money-lenders and the joint-stock banks on the one hand and the central bank of the country on the other. The gulf that exists between the indigenous bankers and the joint-stock banks and the Reserve Bank of India has led to many shortcomings. There is a wide disparity in the rates of interest in different parts of the country and yet money does not flow from one place to another to equalise them. (Please see the accompanying chart). Even within one area, the rate of interest remains more or less constant all round the year eventhough the demand for loans varies from season to season: In the slack season, when there is excess of money with the indigenous banker, the interest rate does not fall; in the busy season, when the supply of money is low, the interest rate does not rise, according to the normal law of supply and demand. To some extent, this is due to the ignorance of the villagers. Neither the lender nor the borrower cares to change the rate in accordance with the supply and demand. In urban areas, however, fluctuations do occur in interest-rates according to seasonal variations in the demand and supply of money.
But the major reason for the disparity in the interest rates in different areas of the country is the lack of coordination among the various components of the money market. Much of these differences could be overcome if the various parts of the money-market are properly and closely knit together under the control of the Reserve Bank of India, and made to respond to its Bank Rate.

As it is, the existing relationship between the indigenous bankers and the organized banking is limited. The joint-stock banks keep an approved list of indigenous bankers and grant them cash credits and discount their hundies. They fix the maximum credit that may be given to each banker in accordance with his financial standing. Beyond that limit, no hundies endorsed by him will be discounted. These hundies are either pure finance bills, drawn to borrow money, or trade bills, drawn against goods. In either case, the direct security is only personal. In the case of trade-bills, no documents such as invoices are received but, nonetheless, they are accepted as they have behind them tangible commodities. The joint-stock banks accept only bills endorsed by Shroffs but from small traders directly as the signature of the shroff gives them a greater sense of security. The Reserve Bank of India rediscounts their hundis and gives them remittance facilities.

To strengthen the existing links among the several credit institutions, a good bill-market is necessary in India. The use of bills is undeveloped and still imperfect. As we have seen above, an Indian hundi does not quite correspond to the Western bill of exchange. Its advantages are only partly
realized. The importance of bills and bill markets can be seen clearly from the banking systems of England and the United States of America, where the Bank of England and the Federal Reserve System, through their bill markets, control, with remarkable ease, and facility, their respective banking systems. A central bank can manipulate the total credit of an economy by means of its bank rate and the open market operations. In India, the lack of a good bill market has made these weapons ineffective in the hands of the Reserve Bank, as shown by the immobility of money noted above.

The following plan is suggested for reorganizing the indigenous banking on modern lines and the development of the bill market in India:

The methods of indigenous banking, examined above, reveal that they are not far different from those of modern joint-stock banks. The principal features of modern banking are found in indigenous banking. The indigenous bankers receive deposits; the forms of their loans resemble to a large extent those of modern banks: they have a system of promissory note, book-credit, mortgage and loans against the pledge of gold and silver ornaments. With slight modifications, where necessary, their methods can be modernised. Thus indigenous bankers have great possibilities of becoming joint-stock banks¹. This may be done in the following way:

A joint-stock bank can be opened in a district by the indigenous bankers by pooling their capital. They will receive deposits, give advances and discount hundies at cheaper rates of interest. Thus the joint-stock principal is introduced

¹. Indian Central Banking Enquiry Committee Report (Majority) 1931. P. 110.
Indigenous Banking in India By L.C. Jain 1929.
in the backward districts and the art of modern banking made familiar to the ignorant public. These small banks may be called indigenous joint-stock banks. They will be a kind of unit banks in a small way, possessing the advantages of unit banks. They know the public and the public knows them. By offering attractive rates of interest they can get deposits and advance loans at cheaper rates than before, thereby winning the good will of the public. This would be a great step forward in educating the public in banking and fostering saving and investment. By showing them that it is safer and more profitable to invest their money in banks, the prevailing habit of hoarding can be greatly reduced, and the potential wealth of the country, which is lying idle, can be harnessed for economic uses.

When these small indigenous joint-stock banks become popular and the demand for credit from them becomes keener, their resources may be inadequate for the needs of the public. Such a situation would call for more working working capital. A method used in Germany known as the 'commandit' principle may be usefully introduced in India. By this, the resources of the indigenous bankers will be supplemented by a joint-stock bank with large resources. The joint-stock bank becomes a shareholder in the indigenous joint-stock bank which will act as a branch or an agent for it and shares its profits with it. By this method, both the parties stand to gain: the large joint-stock bank with excess resources can usefully employ them. The difficulties of opening branches are overcome. The indigenous joint-stock bank can act as its branch as the local bank is familiar to the local inhabitants and can attract
business. On the other side, the indigenous joint-stock bank enlarges its capital resources. Incidentally, this method also removes to some extent the difficulties in the matter of branch expansion in small towns and villages where branches of joint-stock fail to attract business. The indigenous joint-stock bank cannot only attract deposits but it also knows the local public and their histories and such a knowledge is highly valuable in judging its clients' creditworthiness. Thus a system of unit banking and branch banking can be combined in this way and developed all over the country. Such a plan would bring within reach of everyone cheaper credit thereby helping to remove usury.

As we have pointed out above, one of the functions of indigenous joint-stock banks will be the discounting of hundies. By developing this function fully, the indigenous joint-stock banks can promote the use of bills and develop the country's bill market. They should encourage the use of hundies in the finance of agricultural crops, small-scale and cottage industries and internal trade, the hundies in all cases being drawn against commodities. These bills should be readily discounted by the indigenous joint-stock banks and rediscounted by the Indian joint-stock banks and the Reserve Bank of India; the Reserve Bank will be in a position to control by means of its bank rate weapon the whole credit structure effectively. When indigenous paper is created in this way, such bills will be a liquid investment to the banks, easily convertible into cash at a moment's notice. The smaller money-lenders and bankers can play the roll of bill brokers and running brokers as in London providing an important
service much to their own benefit. The indigenous joint-stock banks formed as they are of local bankers, possess adequate information regarding the local citizens and know their individual histories and can act as Accepting Houses to guarantee the indigenous bills for an acceptance commission. Thus, along these lines, the bill market of the country can be built up and organized, binding together the country's banking system into a coordinate whole.

But before any plan such as the one suggested above can be carried out, in order to reorganize the indigenous system of banking, a comprehensive survey of it is necessary. As we have seen, detailed statistics on indigenous banking is wholly lacking. The census reports in the past have always mixed up the indigenous bankers and money-lenders with other groups. Moreover, it is not enough just to know in a vague way something about them. At best, a census report can give general details about the indigenous agencies like their numerical strength etc., and that will not be enough for our purpose. A more drastic method of collecting information about them is necessary. A commission should be set up by each province to investigate into indigenous banking in view of the tremendous importance of the problem. The personnel of the commissions should be chosen from representative indigenous bankers so that they can inspire confidence and draw out the necessary information. More and more association of indigenous bankers should be formed on the lines of the existing ones and membership of them enlarged and made attractive by increasing their activities which will be of benefit to the members; they can publish journals and information which
are of interest to members and arrange lectures etc. In return, these associations should open intelligence departments to collect information both statistical and otherwise from the members and distribute them.

Efforts have been made to bring indigenous banking into the fold of organized banking. Under Section 55 (1) of the Reserve Bank of India Act, a circular letter was addressed to all scheduled banks and representative indigenous bankers on the sixth of May 1937 with a view to eliciting their opinions on the possibilities of linking the indigenous bankers with the Reserve Bank. In the light of the replies the Bank formulated a draft scheme in August 1937 for the direct linking of private bankers with the Reserve Bank based on the recommendations of the Indian Central Banking Enquiry Committee and the regulations relating to banking as companies incorporated in the Indian Companies Act. The indigenous bankers however did not consider it suitable to submit to the conditions laid down by the Reserve Bank upon which the Reserve Bank invited alternative proposals.¹

With a view to develop open-market operations in trade bills, and bring the indigenous banker into closer touch with the banking system, some difficulties which were in the way of the use of bills such as the heavy stamp-duties on bills were reduced. In January 1940 the duty on usance bills of exchange drawn in British India and with a usance not exceeding one year was reduced to two annas for every one thousand rupees or part thereof. In November 1940, the stamp duty on promissory notes payable otherwise than on demand and having a

¹ Please see the Appendix A, B and C.
usance not exceeding one year was reduced to the same extent as for the usance bills. These steps were intended to popularise the use of bills.

Three indigenous bankers were given concession rates of remittance in 1941 - 42 under Appendix III of the Reserve Bank's scheme of remittance facilities introduced in 1940. In 1943 - 44 one more was added to the list. In 1945 - 46 the total number of indigenous bankers receiving concession rates of remittance stood at 5. ¹

Thus, stray measures are being taken to develop the bill market and establish closer relations with the indigenous bankers but they cannot go a long way. Only a thorough examination of the whole field by the Reserve Bank and a drastic way of reorganisation on lines such as indicated above can produce fruitful results. Such a colossal task can hardly be undertaken by anybody else. Only the Central Bank of the country with the powers at its command can undertake it and especially as a nationalised central bank the Reserve Bank has the benefit of the Government's aid behind it.

SUMMING UP:

The indigenous bankers are indispensable for the development of the Indian joint-stock banking from every point of view.

A clean sweep of the indigenous bankers, despite their many defects and failings is neither practicable nor desirable. On the contrary they should be reformed and reorganised and brought under the organised banking of the country.

¹ Report of the Annual General Meeting of Shareholders Reserve Bank of India 1938 - '46.
Statistical and other information on indigenous bankers is very meagre.

Indigenous bankers are highly developed in their own sphere and provide a predominant part of rural credit in India, for agriculture, small industries and internal trade. Compared to them, the cooperative banks and the Indian joint-stock banks play a minor part in meeting the credit needs of the country as a whole. Hence, the importance of the indigenous bankers in the Indian economy.

The indigenous bankers should be brought closer to the organised banking in the country by strengthening the ties between them and the joint-stock banks and the Reserve Bank of India.

To do so, the bill market in India has to be improved and developed. In other countries like the United Kingdom and the United States of America, the banking system is so knit together only because of their bill markets.

The following plan is suggested for the reorganisation the indigenous bankers and the development of the bill market in India:

The methods used by the indigenous bankers are very much akin to the methods of modern joint-stock banks in the country and the principal elements of banking are to be found in the indigenous system. Therefore the indigenous system can be modernised without much difficulty.

Hence the indigenous bankers should be organised into indigenous joint-stock banks with their combined resources pooled together to form a joint-stock banking company.
The indigenous joint-stock banks will receive deposits give advances and discount hundis like the Indian joint-stock banks.

They will form a kind of unit banks and introduce the principles of joint stock banking in the backward regions of the land.

The indigenous joint-stock banks will discount more & more hundis and thus encourage the use of bills in the finance of agricultural crops, small-scale and cottage industries and internal trade, the hundis in all cases being drawn against commodities. Thus the hundi can be brought up to correspond to the Western bill of exchange which it is not at present.

The indigenous joint-stock banks will act as acceptan houses endorsing bills.

The indigenous paper encouraged by the indigenous joi stock banks will be rediscounted by the Indian joint-stock banks and the Reserve Bank of India thereby linking up the various parts of the banking system.

The smaller indigenous bankers and money-lenders will play the role of bill-brokers and running brokers of the discount market as in London.

A commission should be sit up in each province to carry out an extensive survey of indigenous banking in view of the immense importance of the problem. So far a few stray measures have been taken by Reserve Bank to improve the bills & encourage their use but they are totally inadequate and just touch the fringe of the problem.

The Reserve Bank of India with the great support of t State behind it as a nationalised institution should undertake a thorough examination of the question & reorganise the indigenous bankers & bring them under its control.