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The Imperial Bank of India

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THE IMPERIAL BANK OF INDIA

THE Imperial Bank of India has been constituted by the amalgamation of the three "Presidency Banks" of Bengal, Bombay and Madras under legislation passed by the Indian Legislative Council last year, and it came into being on the 27th of January, 1921. The form which its constitution has taken will be described below, but the lines which its development follows can be better appreciated if some reference is first made to the banking system in India generally, and also to the place which the Presidency Banks have occupied in that system. This reference can fortunately be brief, as a full review of the position, as it was nine years ago, is contained in Chapter VII.—Indian Banking—of Mr. Keynes' *Indian Currency and Finance*, published in 1912, while earlier details of the history, etc., of the Presidency Banks will be found in Sir James Brunyate's *Account of the Presidency Banks* (1900), to which Mr. Keynes refers.

1. The money market and banking system of India comprises, as Mr. Keynes explained, the following as its four main constituents :

- (i) The Presidency Banks, which have now been amalgamated into the new Imperial Bank ;
- (ii) the European Exchange Banks ;
- (iii) the Indian Joint Stock Banks ; and
- (iv) the *shroffs*, *mahajans*, *chettis* and other private bankers and money-lenders.

As Mr. Keynes went on to say, the first two of these constitute generally what he terms the European money market, and the rest the Indian money market—the more substantial Indian Joint Stock Banks occupying perhaps an intermediate position.

2. The Presidency Banks have formed the backbone of the internal banking system of India, the operations of the Banks of

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Bombay and Madras covering, generally speaking, the Presidencies after which they were designated, and those of the Bank of Bengal covering, in addition to Bengal, Burma and the Provinces of Upper India. Apart from their headquarters offices in the Presidency towns, they had sixty-eight branches and sub-agencies at the more important centres within their spheres, including a few branches in Indian States and a branch of the Bank of Madras at Colombo. Without going into their past history, it may be said that they worked from the beginning under very rigorous restrictions as to the character of the business which they might undertake, the main object being to ensure that as semi-official institutions they should be conducted on the safest possible principles. Put very briefly, the principal restrictions imposed on them under the Presidency Banks Act of 1876, and in force at the time of the amalgamation, prohibited them from conducting foreign exchange business, from borrowing or receiving deposits payable out of India, and from lending for a longer period than six months, or upon mortgage or on the security of immovable property or upon promissory notes bearing less than two independent names or upon goods, unless the goods or the title to them were deposited with the bank as security.

As a set-off against these restrictions, the Presidency Banks were allowed to hold a portion of the Government balances free of interest. The use of these was originally granted them in 1862 as compensation for their being deprived of the right of note issue, which since that date has been entirely managed by the Government under separate legislation, regulating the conditions of the note issue and the reserve to be held against it. The Presidency Banks also undertook a large amount of Government work, such as the management of the public debt, and of the Government Treasuries at centres where the banks had branches. An exception was, however, made in the case of the "Reserve Treasuries," which were maintained by Government in the three Presidency towns and in which the bulk of the surplus funds of Government were usually accumulated. I shall have something further to say on this point when explaining the connection between the operations of the Government and those of the Presidency Banks, as well as between Government and trade finance generally, and also in discussing the considerations which led up to the amalgamation, and the actual constitution and functions assigned to the new Imperial Bank; I will not, therefore, for the moment enlarge further on the details of the business of the old Presidency Banks. I give, however, a summary state-

ment to show the capital, reserve, deposits and cash balances of the three banks immediately prior to the amalgamation :

	Capital.	Reserves.	Public (i. e. Govt.).	Deposits. Private.	Total.	Cash.
Bank of Bengal ..	200	210	388	3439	3827	1244
Bank of Bombay ..	100	125	187	2650	2837	980
Bank of Madras ..	75	45	124	1529	1653	455
TOTAL	375	380	699	7618	8317	2679

[Figures in lakhs of rupees.]

It may also be of interest to reproduce a few figures to illustrate the growth in the total private deposits of the banks :

TOTAL PRIVATE DEPOSITS IN LAKHS OF RUPEES ON DECEMBER 31ST.

1870 ..	640	1910 ..	3234	1917 ..	6772
1880 ..	849	1914 ..	4004	1918 ..	5098
1890 ..	1476	1915 ..	3861	1919 ..	6821
1900 ..	1288	1916 ..	4471	1921 (January)	7618

In considering the above data, two facts should be noted. The first is a general one, and arises from the fact that the Presidency Banks are bankers' banks, and that a substantial proportion of their private deposits consist of the cash balances of other banks. Secondly, the rapid growth in the last six years does not represent merely normal development, but is largely due to the great increase in the volume of money in the principal money markets during the War owing to the enormous disbursements of Government, accompanied as these were by a great expansion of the currency and inflation of credit. These latter remarks apply also to the increase in the deposits of the other groups of banks.

3. The Exchange Banks, though their operations are not limited to India, play a most important part in Indian trade. The nature of their business is generally known, and does not, therefore, call for any detailed description here. But it may be said that their activities in regard to Indian trade are largely bound up in the financing of foreign commerce at the sea-ports. Like other banks, they receive deposits in India and, indeed, seek to attract these in order to obtain the funds required for the purchase (or discount) of export bills of exchange. Since 1913 their Indian deposits have grown from 30 crores to about 74 crores, but such deposits are collected almost entirely at the sea-ports. These institutions bank with the Presidency Banks.

4. The Indian Joint Stock Banks, which now number ninety-five with 230 branches, include a certain number of substantial

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institutions conducted on modern lines; many of them are, however, very small concerns, only twenty-four of them having a capital of Rs.5 lakhs or over. In the few years previous to 1913, there had been a remarkable expansion of joint-stock banking in India, particularly in the Punjab, where, owing to the opening of the canal colonies and the growth of the export trade in wheat, there was a good deal of accumulated wealth. Many of the banks then started were conducted on unsound lines and without regard to the ordinary first principles of prudent banking, with the inevitable result. In 1913-14 no less than fifty-four Indian managed banks with a total paid-up capital of Rs.144 lakhs went into liquidation. Since then the annual liquidations have been of small mushroom banks, and the larger Indian banks now in existence are probably sound and well managed. The failures of 1913-14 undoubtedly gave a considerable set-back to the spread of banking, especially in Northern India, when previous to these failures the banking habit showed signs of taking root. Nevertheless, there has subsequently been a steady increase in the total deposits, as will be seen from the following figures :—

DEPOSITS OF JOINT STOCK BANKS ON DECEMBER 31ST.

								Lakhs.
1900	..	..	..	..	..	..	..	807
1912	..	..	..	..	..	..	..	2726
1913	..	..	..	..	..	..	..	2410
1914	..	..	..	..	..	..	..	1837
1915	..	..	..	..	..	..	..	1888
1916	..	..	..	..	..	..	..	2572
1917	..	..	..	..	..	..	..	3216
1918	..	..	..	..	..	..	..	4214
1919	..	..	..	..	..	..	..	6127

5. As regards the indigenous banking system, adequate attention has not perhaps been given to its scope and to the extent to which the Presidency Banks, at their head offices and branches, have helped to finance the internal banking system of India by their purchasing and re-discounting of internal bills of exchange, known generally as *hundis*. This matter has, however, a direct bearing on the question of banking development in India, and I accordingly reproduce a brief description of the system from a summary of it prepared for the use of the recent Currency Commission (pp. 13-14 of Appendices to Report of Indian Currency Committee, 1919) :

The people with whom the Bank deals directly are for the most part large shroffs of good standing in the principal cities. These men operate with their own capital and, generally speaking, it is only when they have laid out all their available

capital in purchasing the *hundis* of other (and usually smaller) shroffs that they come to the Presidency Bank. The shroffs whose *hundis* the larger shroffs have purchased have probably also similarly financed other and still smaller shroffs or mahajans, and so on until we get down to the smallest flea of all, namely, the village bania, or grain dealer or goldsmith. For instance, shroff A. at Amritsar may purchase a bill drawn by a grain dealer upon a Bombay merchant. A. may endorse the bill and sell it to B., a large shroff at Lahore, who sells it to the Presidency Bank, which sends it to their Bombay Agency for collection. Or the bill may be a pure finance bill (generally known as a "hand" bill, as opposed to a "trade" bill drawn against produce).

Speaking very generally, it may be said that the Bank's real security in the matter of purchasing or re-discounting bills is the personal standing of the drawee or endorser or acceptor, and the Bank has an elaborate and very efficient system of limits, whereby the amount of bills discounted for each shroff is watched. Put very briefly, the system is as follows: Shroff A. is given in the Bank's register a limit of, say, 20 lakhs, and at the same time the names of the drawers of the bills purchased from him by the Bank are watched. The Bank may have purchased from A., say, 15 lakhs of bills, the drawers of which are B., C., D., E., etc. If it is observed that shroff A. has been purchasing rather too many bills from shroff D., who is of comparatively small standing, or about whom not much is known, A. will be liable to be turned down, or, if the fact has been noticed by the Head Office, the Branch will at once be told to go slow.

As already mentioned, *hundis* are of two kinds—pure finance bills, known as hand bills, and trade bills. The Bank are much more particular as to the amount of the former than they discount for a shroff than the latter. This is not because they receive any documents on account of trade bills (their direct security is just as personal as in the case of hand bills), but because they know that, somewhere or other, produce or goods exist against the credit so created, that such goods must have been hypothecated to one or other of the shroffs whose names are on the bill, and that, if anything goes wrong, such shroff will be able to realise on the goods and so to reimburse the subsequent holders of the bill, to whom he is liable. In the case of hand bills, on the other hand, it is impossible to say definitely how far these represent a genuine trade demand or not.

The note then discusses some data supplied to show the extent of the *hundi* business done by the banks over a period of years, from which it appears that on some occasions over a third of the banks' total advances have been represented by the purchase of *hundis*, and proceeds:

It may be said broadly that the *hundi* rate rises and falls with the bank-rate proper, though somewhat in advance of it, and naturally so, for one is a discount rate and the other a rate for day-to-day loans. Thus, at the beginning of the busy season, the *hundi* rate would usually be higher than the bank-rate; the reverse being the case when the slack season is about to begin, so that the *hundi* rate may be said to be a sort of long-distance signal. When the Bank finds that it is not getting enough *hundis*, and its money is lying unemployed, it puts down the *hundi* rate; when, on the other hand, it feels that it has already got too much money in the bazaar, or, for some reason or other, wishes to consolidate and conserve its resources, it puts up the *hundi* rate, and may even go to the length of refusing to buy new *hundis*. No cases have come to official notice of a Presidency Bank making a wholesale refusal to *renew hundis*, although it may charge a rate considerably higher than that at which the original *hundi* was discounted. On special occasions, when the Bank is very hard pressed for money, it may impose a prohibitive rate on the bazaar, so as to force shroffs to endeavour to raise money elsewhere rather than to renew their *hundis* with the Bank.

6. It will be clear from what is said above that one of the dominant features in the situation is the backward condition of India in respect of up-to-date banking facilities. It should, indeed, be noted that at the present time there are more than 200 districts in India and Burma in which there is no branch of the Presidency Banks, and that in only a very few of them is there a branch of a Joint Stock Bank of any importance doing business on modern lines.

As regards the Presidency Banks, there was little probability that under conditions in which three banks were working independently, any further substantial increase in the number of branches could be looked for, owing mainly to considerations of territorial limits and of profit and loss. Theoretically, perhaps, it can be argued that in the development of banking it is desirable to rely on spontaneous growth as the result of private enterprise. It must be confessed, however, that under this policy of non-interference, advance in India has been but tardy and confined within very narrow limits. It is, of course, possible to attribute this fact to the proclivity of the people of India for holding their savings in the form of coin or bullion. But it would be possible to exaggerate the conservatism of the Indian people in this respect. A remarkable advance has taken place in the popularity of the note issue in recent years, as a result of improved facilities for encashment, while the success of the propaganda associated with the India War Loans threw an instructive light upon the amount

of money in the country, which is lying sterile and awaiting diversion into more profitable employment. There has also been a marked advance in the amount of deposits; the post office savings bank deposits, which at the end of the War, in spite of large withdrawals in its opening months, stood at nearly Rs.19 crores, as compared with less than Rs.10 crores in 1900, while the co-operative institutions have also undergone a marked if more modest development. Public opinion in India has in recent years been growing more articulate as to the necessity for a widespread increase in banking facilities, if India's industrial development is not to be hampered, and if the people are to be weaned from their predilection for holding their savings in a metallic form. The subject was brought prominently to the notice of the Industries Commission, and the currency difficulties of the Government during the War necessarily tended to force it more on their attention. As the Government of India have pointed out, however, it would not be altogether correct to ascribe the existing state of affairs solely to the ingrained habits of the people, their ignorance, their conservatism and their suspicion, which can only be removed by the process of education. That the spread of education will work a steady and substantial change in the mental attitude of the people in this matter is practically certain, but it is useless to educate people into civilised habits as regards keeping their money, if there are not at hand banking facilities for them to do so. Progress in these two respects must go hand-in-hand. Even, however, in the present stage of educational development, there is undoubted room for a much larger supply of banking facilities as witnessed by the temporary success of certain Northern India banks already referred to. In short, it is evident that the first essential of any scheme for improving the banking machinery in India was that it should contribute towards the solution of the problem here disclosed.

7. I must now turn to another important aspect of the situation, namely, the intimate connection which exists in the case of India between the operations of the Government in the currency department and those of trade. This connection applies alike to the foreign and to the internal trade. In the case of the former we have the fact that the Secretary of State has large obligations to meet in England every year on behalf of India. At the same time, in normal conditions, there is a large net indebtedness of trade to India, and this is set off to a great extent by the Secretary of State selling to trade in London bills to be

honoured in India at the Government treasuries at the Presidency towns. In the alternative, trade had to import sovereigns, but whichever method of remittance is employed the obligation fell on the Government of supplying currency to the extent and in the form required to pay for the produce expected. Within India again the machinery is very similar. In settlement of Council bills large sums are ordinarily payable by Government to the traders in the Presidency towns. On the other hand, traders there have to pay for produce up-country, whether for export or for local manufacture and consumption. Simultaneously the Government revenue comes in at a large number of treasuries up-country, and from the proceeds of this Government sells transfers to the traders on these interior treasuries, receiving payment therefor at headquarters. Omitting complications of detail, the broad fact remains that Government has intervened to undertake the supply of currency and the remittance of funds on wholesale lines throughout the country, the movements of funds on Government and on trade account being connected at every point. The net result is that the surplus treasury funds of Government tend to be drawn up towards its treasuries at headquarters, and experience has shown that it is by thus centralising them that they can from the point of view of the Government be most economically employed.

While, however, branches of the banks at centres up-country have usually conducted the treasury business of the Government, and retained such local treasury balances as the Government may have held there, this has not been the case in the Presidency towns, where the Government maintained separate reserve treasuries, and it is into these that the bulk of the surplus balances of Government has in the past been drawn. The Government have, it is true, been under an obligation to keep certain minimum balances with the Presidency Banks, and this contractual minimum has in recent years been substantially exceeded. But it has been a subject of substantial and repeated criticism that the retention of the Reserve Treasury system has been unscientific and uneconomical, involving as it does the lock-up of funds which might be usefully released for the benefit of trade, and the pressure of war conditions forced both the Banks and Government to realise clearly the practical benefit of a common policy. The extent to which a modification had in practice been adopted will be seen by a comparison of the disposition of the Government of India's treasury balances during the three pre-war years with that for the three years ending with March 1920. The figures

represent averages throughout the year, and are in lakhs of rupees :

Year.	Total Cash Balance.	Reserve Treasuries.	Other Treasuries.	Presidency Banks.		
				Head Offices.	Branches.	Total.
1911-12	1794	552	828	169	245	414
1912-13	2352	1071	830	208	243	451
1913-14	2469	991	918	239	321	560
1917-18	2524	425	817	823	459	1282
1918-19	1880	199	650	677	354	1031
1919-20	1979	146	676	828	329	1157

8. To recapitulate, it may be said that the amalgamation of the Presidency Banks has been influenced by the following immediate considerations, and that these constitute the main principles underlying the scheme.

In the first place, it has, for some years, been felt that the interests of the Presidency Banks were common and demanded a co-ordinated policy. This was particularly the case during the war, when it was found that friendly, though informal, co-operation between the authorities of the three banks proved much to their mutual interest. (Incidentally, the possibility that powerful banking interests in London might eventually obtain control of Indian interests, more particularly those of certain Indian Exchange Banks, lent added emphasis to the importance of consolidating the position of the Presidency Banks.)

Similarly, the events of the last few years have resulted in Government being in much more intimate personal touch with the Presidency Banks than formerly, with much benefit to themselves as well as to the banks and the general public. It was important to ensure that these relations should continue.

Thirdly, the necessity of providing more adequate banking facilities in India was becoming more and more insistent, and it was evident that a consolidated bank in close association with Government (and with access to London—a point which will be further referred to shortly) would be in a far better position than the existing institutions to provide for healthy banking developments in India, while at the same time bringing the resources of the Government into closer and beneficial relation with the commercial interests of the country.

9. The importance of these considerations has been recognised in proposals formulated in the past for the amalgamation

of the Presidency Banks. In the course of the earlier discussions, however (a summary of which will be found in Appendix XIII. of the Report of the Indian Currency Commission of 1913), suggestions of a much wider scope were also put forward, including developments which would associate the banks directly with the whole currency and exchange policy and administration of the Government of India, including the management of its paper currency and its foreign remittance business. The discussions, in fact, trended in the direction of the creation of a State Bank, and in an annexure to the report of the 1913 Commission, Mr. Keynes outlined a definite scheme for the formation of such a bank. The earlier proposals fell through for various reasons, such as provincial jealousies between the three banks and lukewarmness in other quarters, while, in the case of Mr. Keynes' scheme, consideration was postponed as the result of the War. The revival of the question after the armistice may be said to have been due to a natural banking evolution, and it was felt that it was undesirable to attempt to force a spontaneous growth which will in any case provide a most valuable foundation for any further development to which circumstances may point later on.

It was considered, however, that the time was not yet ripe for an advance in these directions. As regards the note issue, with the whole currency arrangements of Government still deeply affected as the result of war conditions, it would manifestly have been impossible for the new bank to contemplate the undertaking of this responsibility. The Government of India, however, indicated, when placing the scheme before the Secretary of State for India, that when a stable position has been reached and currency conditions have settled down, it may be anticipated that the management of the paper currency in India will consist of a more or less routine application of authoritatively accepted principles, and in that case the question of the employment of the bank as the agent of Government in this matter may in the future need further consideration. It may also be noted that the Government of India have taken power to adopt, within modest limits, the system in force in the United States, of providing for some automatic expansion and contraction of the currency by basing the issue of new notes to some extent on Commercial Bills, since under the Paper Currency Amendment Act of 1920 they may authorise the Controller of Currency to issue currency notes up to a limit of Rs. 5 crores against bills of exchange which will mature within ninety days of the date of issue. Details of the exact method of utilising these powers

remain to be settled, but there is little doubt that the machinery of the Imperial Bank will be employed in giving effect to the arrangement.

It was held that very similar objections applied to an immediate extension of the scope of the present scheme by entrusting the banks with the remittance business of the Secretary of State. But, short of this, it was decided, subject to certain limitations, to allow the bank access to London by the establishment of a London office. Access to London would, of course, form part of any wider scheme, but while it may not possess the same cardinal importance as the other features of the present amalgamation, the Presidency Banks have, in the past, individually and collectively felt it a grave reproach that they should be debarred therefrom. Certain obvious advantages would accrue from a London office, which would enable them to keep in touch with financial developments and financial opinion in Europe, and there was no reason why this legitimate wish should be any longer refused them.

10. Informal conversations on the whole subject took place between the Government and the banks shortly after the armistice, and these were followed by formal proposals putting forward an amalgamation scheme. After general acceptance of the main principles of the scheme by Government and the shareholders of the banks, it was placed before the Indian legislature, and the Act, defining the constitution and functions of the new bank, was passed in September 1920. This has been supplemented by a statutory agreement under the Act embodying the contractual relations entered into between Government and the bank, while a certain amount of important detail in the matter of the current administration of the bank will be dealt with by by-laws under the Act, to be framed by the governing body of the bank with the previous approval of the Government of India. I will first state as concisely as possible the main framework of the scheme embodied in these documents, and will follow this up by such detailed explanation as seems to be needed :

(a) *Capital*.—The Imperial Bank of India is formed by an amalgamation of the three previously existing Presidency Banks, their undertakings vesting in it, and the shares of existing holders being exchanged, subject to certain adjustments, into shares of the new bank. The amalgamation has been accompanied by an increase of capital, the authorised capital of the new bank being fixed at Rs.1125 lakhs (of which Rs.562½ lakhs—or one-half—will be paid up at the outset) and the reserves at 375 lakhs, against

an aggregate of 375 and 380 lakhs respectively for the older institutions.

(b) *Constitution*.—The governing body of the new bank will be a Central Board, which may “exercise such powers and do all such acts and things as may be exercised or done by the bank, and are not by this Act expressly directed or required to be done in general meeting.”

The functions of the central and Local Boards are defined by by-laws, which are subject to the approval of Government. Briefly, the Central Board will deal only with matters of general policy, such as the movement of funds from one part of India to another, the fixation of the bank rate, which will in future be uniform for the whole of India, and the publication of the weekly statement. Local interests are safeguarded by the retention of the existing Boards in the three Presidency towns, and these will have very large powers of autonomy. The Central Board will have general power of control over the Local Boards, but will not ordinarily be entitled to interfere in individual cases, *e. g.* while there would be no limit to the Local Boards’ powers to advance on Government securities, it would be open to the Central Board in an emergency to instruct a Local Board to curtail advances, either generally or to particular classes of industries, etc. The Central Board is responsible for settling disputes between Local Boards. It is incumbent on the Local Boards to keep the Central Board duly informed of all important developments, and to supply any statistical or other information called for.

The constitution of the Central Board (*vide* para. 11 (b) below) is designed to secure on it adequate representation of all important interests concerned, including Government, the Local Boards, the shareholders and the general public. As, however, it would, in practice, not be feasible for a Board so constituted to meet with sufficient frequency to administer the current business falling within its sphere, it is provided under the by-laws that the discharge of these functions shall ordinarily be delegated to a small managing committee, this including the managing Governors, the Controller of Currency and representatives of the Local Board at the place where the meeting is held. This committee will meet regularly and enjoy the full administrative powers of the Central Board subject to any special instructions which it may receive from the latter. It is contemplated that the Central Board shall sit for alternate periods at Calcutta and Bombay, meetings being held at fixed intervals, and additional meetings summoned whenever necessary. Any Local Board has the right

to require a full meeting of the full Central Board to be summoned at any time to consider any special matters, as, for example, if it is dissatisfied with the orders of the smaller body.

As a matter of convenience it may eventually be found advantageous to make some readjustment of territory between the present three Local Boards, and as business develops, it may become desirable to constitute new Local Boards at such centres as Rangoon and Cawnpore; provision has accordingly been made for this contingency in the Act. The Members of each Local Board are elected by the shareholders borne on the local register.

(c) *Business*.—The bank will act as banker for Government, and undertake and transact any business that the Government may from time to time entrust to it. Apart from Government work, the business of the bank will generally follow the lines of that of the Presidency Banks; opportunity has, however, been taken to remove certain restrictions which, while not affording any real safeguard, had proved inconvenient in practice.

(d) *London Office*.—The bank will have an office in London. This, while not competing with the Exchange Banks in ordinary exchange business, will be in a position to conduct business on behalf of the bank's own constituents, and to re-discount bills of exchange for the exchange and other banks.

(e) *Reserve Treasuries*.—By agreement, the Government have appointed the bank as their sole banker in India. This involves the abolition of the reserve treasuries, and the keeping of all their treasury balances with the bank at places where it has a local head office or a branch. In addition, transfers of money for the general public between any two places, at each of which a local head office or branch of the bank is situated, will no longer be undertaken by the Government. The bank will give the public every practicable facility for transfers of money at rates not in excess of those approved by the Controller of Currency, and will also arrange, *e. g.* in connection with the encashment of notes, to supply the public so far as possible with the form of currency required.

(f) *Public Debt*.—The bank will retain the administration of the public debt work, and will use its best endeavours to introduce a large measure of decentralisation and simplification of procedure therein.

(g) *New Branches*.—The bank has undertaken, within five years from the commencement of the Act, to establish and maintain not less than 100 new branches, of which at least

one-fourth will be established at such places as the Government of India may direct.

11. It is desirable to develop some of the above points rather more fully :—

(a) *Capital and Reserves of the new Bank.*—Of the total authorised capital of the new bank, viz. Rs.1125 lakhs, Rs. 375 lakhs consists of fully paid shares of Rs. 500 each (representing the capital of the shareholders in the existing Presidency Banks), and the balance of Rs.750 lakhs of quarter paid shares of Rs.500 each with Rs.125 paid up, these latter having been offered in the first instance at par to existing shareholders of the Banks of Bengal and Bombay and at a premium of Rs. 100 to shareholders of the Bank of Madras. Some adjustment of the existing reserves has taken place in order further to equalise the position of the shareholders in the three banks, and the total reserve of the new bank will stand at Rs.375 lakhs, as soon as the new shares issuable to the shareholders of the Bank of Madras have been taken up and the premiums thereon credited to the reserve.

While it was recognised that there might be some advantages in having no uncalled capital, it was thought that the circumstances in which the new bank was inaugurated outweighed this general consideration. There was no immediate necessity for the employment of the full Rs. 750 lakhs of new capital, and it seemed preferable to call up only so much as could be profitably employed at once, leaving power to the management to make further calls as required.

It was not thought desirable that the informal association of Government with the bank should be accompanied by any participation by them in its share capital.

When the new capital has been fully taken up (a period of grace up to the end of July 1921 has been allowed to enable shareholders absent from India the necessary opportunities for the purpose), the Banks' position as regards capital and reserve will stand as follows :

	Rs. lakhs.
Authorised capital	1125
Fully paid capital	375
Partly paid capital (Rs. 750 lakhs 25% paid)	187½
Total capital paid up	562½
Reserves	375
Reserve liability of shareholders	562½

The new bank came into being on the 27th January, 1921, but, for the reasons just given, a short period will elapse before the above position is actually reached.

(b) *Constitution*.—The composition of the Central Board is as follows :

(i) The presidents and vice-presidents of the existing Local Boards (these being of course the representatives of the shareholders).

(ii) The Controller of Currency or such other officer as may be nominated by Government (for his functions and powers, see (e) below).

(iii) Such number of persons not exceeding four as may be nominated by Government. (The object of these nominations is to ensure that the interests of the Indian community generally should be adequately represented in so far as this may not be secured by the representatives of the Local Boards on the Central Boards.)

(iv) The Secretaries of the Local Boards.

(v) One or two Managing Governors to be appointed by the Government of India after consideration of the recommendations of the Central Board, and to hold office for such period as the Government of India may direct. (It may be noted that the first two governors are Sir Norcot Warren and Sir Robert Aitken, formerly Secretaries and Treasurers of the Banks of Bengal and Bombay respectively, Sir Bernard Hunter, who formerly held that position in the Bank of Madras, having been appointed as the first London Manager.)

(vi) Such representatives of Local Boards subsequently constituted as the Central Board may prescribe.

Governors appointed under clauses (ii), (iv) and (vi) while entitled to attend all meetings of the Central Board and to take part in its deliberations, will not be entitled to vote on any question arising at any meeting. The Central Board will have the power of decentralising the business of the bank by the creation of new Local Boards, and also, with the previous approval of the Government of India, of making by-laws on certain important matters including the delegation of its own powers or those of the Local Boards and Managing Committees.

Local jealousies were a serious impediment in the way of earlier proposals for amalgamation. But it is believed that by the arrangements adopted a satisfactory solution has been found under which important matters requiring uniformity of policy will be retained in the hands of the Central administration, without disturbing the local control and experience necessary for the efficient transaction of business by the Local Boards.

(c) *Business*.—Apart from the general powers necessary for

the conduct of Government business, establishment of branches and agencies, the acquisition of premises, and so forth, the kinds of business which the bank is authorised by law to transact, and those which it is precluded from transacting, are set out in the schedule below. The general criterion as to what business is admissible, and what is not, has already been indicated, and no special further explanations on this point appear to be required :

SCHEDULE OF IMPERIAL BANK OF INDIA ACT.

PART I.

Business which the Bank is authorised to carry on and transact.

The Bank is authorised to carry on and transact the several kinds of business hereinafter specified, namely :—

- (a) the advancing and lending money, and opening cash-credits upon the security of :
 - (i) stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest trust money by any Act of Parliament or by any Act of the Governor-General in Council and any securities of a Local Government or the Government of Ceylon;
 - (ii) such securities issued by State-aided railways as have been notified by the Governor General in Council under section 36 of the Presidency Banks Act, 1876 or may be notified by him under this Act in that behalf;
 - (iii) debentures or other securities for money issued under the authority of any Act of a legislature established in British India by, or on behalf of, a district board;
 - (iv) goods which, or the documents of title to which, are deposited with, or assigned to, the Bank as security for such advances, loans or credits;
 - (v) accepted bills of exchange and promissory notes endorsed by the payees and joint and several promissory notes of two or more persons or firms unconnected with each other in general partnership; and
 - (vi) fully paid shares and debentures of companies with limited liability, or immovable property or documents of title relating thereto as collateral security only where the original security is one of those specified in sub-clauses (i) to (iv), and if so authorised by any general or special directions of the Central Board, where the original security is of the kind specified in sub-clause (v) :

Provided that such advances and loans may be made, if the Central Board thinks fit, to the Secretary of State for India in Council, without any specific security ;

- (b) the selling and realisation of the proceeds of sale of any such promissory notes, debentures, stock-receipts, bonds, annuities, stock, shares, securities or goods which, or the documents of title to which, have been deposited with, or assigned to, the Bank as security for such advances, loans or credits or which are held by the Bank or over which the Bank is entitled to any lien or charge in respect of any such loan or advance or credit or any debt or claim of the Bank, and which have not been redeemed in due time in accordance with the terms and conditions (if any) of such deposit or assignment ;
- (c) the advancing and lending money to Courts of Wards upon the security of estates in their charge or under their superintendence and the realisation of such advances or loans and any interest due thereon, provided that no such advance or loan shall be made without the previous sanction of the Local Government concerned, and that the period for which any such advance or loan is made shall not exceed six months ;
- (d) the drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable securities payable in India, or in Ceylon ; and, subject to the general or special directions of the Governor General in Council, the discounting, buying and selling of bills of exchange, payable outside India, for and from or to such Banks as the Governor General in Council may approve in that behalf ;
- (e) the investing of the funds of the Bank upon any of the securities specified in sub-clauses (i) to (iii) of clause (a) and converting the same into money when required, and altering, converting and transposing such investments for or into others of the investments above specified ;
- (f) the making, issuing and circulating of bank-post-bills and letters of credit made payable in India, or in Ceylon, to order or otherwise than to the bearer on demand ;
- (g) the buying and selling of gold and silver whether coined or uncoined ;
- (h) the receiving of deposits and keeping cash accounts on such terms as may be agreed on ;
- (i) the acceptance of the charge of plate, jewels, title-deeds or other valuable goods on such terms as may be agreed on ;
- (j) the selling and realising of all property, whether moveable or immovable, which may in any way come into

- the possession of the Bank in satisfaction or part satisfaction of any of its claims;
- (k) the transacting of pecuniary agency business on commission;
 - (l) the acting as administrator, executor or trustee for the purpose of winding up estates and the acting as agent on commission in the transaction of the following kinds of business, namely :—
 - (i) the buying, selling, transferring and taking charge of any securities or any shares in any public Company;
 - (ii) the receiving of the proceeds whether principal, interest or dividends, of any securities or shares;
 - (iii) the remittance of such proceeds at the risk of the principal by public or private bills of exchange, payable either in India or elsewhere;
 - (m) the drawing of bills of exchange and the granting of letters of credit payable out of India, for the use of principals for the purpose of the remittances mentioned in clause (l) and also for private constituents for *bona fide* personal needs;
 - (n) the buying, for the purpose of meeting such bills or letters of credit, of bills of exchange payable out of India, at any usance not exceeding six months;
 - (o) the borrowing of money in India for the purposes of the Bank's business, and the giving of security for money so borrowed by pledging assets or otherwise;
 - (p) the borrowing of money in England for the purposes of Bank's business upon the security of assets of the Bank, but not otherwise; and
 - (q) generally, the doing of all such matters and things as may be incidental or subsidiary to the transacting of the various kinds of business hereinfore specified.

PART II.

Business which the Bank is not authorised to carry out or transact.

The Bank shall not transact any kind of banking business other than those specified in Part I and in particular :—

- (1) It shall not make any loan or advance :
 - (a) for a longer period than six months, or
 - (b) upon the security of stock or shares of the Bank, or
 - (c) save in the case of the estates specified in clause (c) of Part I, upon mortgage or in any other manner upon the security of any immovable property, or the documents of title relating thereto.
- (2) The Bank shall not (except upon a security of the kind specified in sub-clauses (i) to (iv) of clause (a) of Part I) discount bills for any individual or partnership-firm for an amount

exceeding in the whole at any one time such sum as may be prescribed, or lend or advance in any way to any individual or partnership-firm an amount exceeding in the whole at any one time such sum as may be so prescribed.

(3) The Bank shall not discount or buy, or advance and lend, or open cash-credits on the security of any negotiable instrument of any individual or partnership-firm, payable in the town or at the place where it is presented for discount, which does not carry on it the several responsibilities of at least two persons or firms unconnected with each other in general partnership.

(4) The Bank shall not discount or buy, or advance and lend or open cash-credits on the security of any negotiable security having at the date of the proposed transaction a longer period to run than six months or, if drawn after sight, drawn for a longer period than six months :

Provided that nothing in this Part shall be deemed to prevent the Bank from allowing any person who keeps an account with the Bank to overdraw such account, without security, to such extent as may be prescribed.

(d) *London Office.*—The general restrictions on the business of the London Office have already been stated, and as is laid down by the Schedule just cited, bills of exchange payable outside India may only be bought or sold for, or from, or to such banks as the Government of India may approve in that behalf. Also the London Office may not open cash credits or keep accounts for, or receive deposits from, any person who is not, or has not been within the three years last preceding, a customer of the bank or of one of the Presidency Banks in India (or Ceylon). In addition, the agreement provides that the London Office must present to the Secretary of State for India every week a statement of the total Government balances held by it and of its resources in London, and that the Secretary of State shall be at liberty (after due consultation with the bank) to withdraw money in London against a corresponding debit to the Government account with the Bank in India.

(e) *Reserve Treasuries.*—I have already dealt at some length with the general aspects of this question. Two points, however, remain to be noted. In the first place it was necessary to consider what further safeguards, if any, should be taken from the new bank, over and above those previously existing, in view of its enlarged aggregate responsibility in the matter of the custody of the public funds, and of the fact that with the definite abolition of the Reserve Treasuries, there would be a loss of the power to withdraw at any time from the bank the public deposits in excess

of the guaranteed minimum, a power which in the past has necessarily enabled the Government to exercise an informal influence over the general policy of the banks. The solution adopted was to reserve to the Government of India power to issue instructions to the bank in respect of any matter which in their opinion vitally affects their financial policy or the safety of the public balances, and, in the event of the bank disregarding such instructions, to declare the agreement with the bank to be terminated. It is primarily for this reason that a representative of the Government has been given a place on the Central Board. It will be his function and duty to keep in touch with the bank's general policy, and he will have the statutory power of holding up action on any matter of high importance of the above description, pending the orders of Government thereon. In practice this arrangement will have advantages from the point of view of the bank also, since it may be expected that the presence of an experienced Government officer on the Board will conduce to smooth working, and help to ensure that the bank is kept fully and rapidly informed of Government's requirements in the matter of funds, and of the way in which Government's policy is likely to react on its own.

The second question is that of the financial adjustments with the bank required in view of the concessions conferred on it, and in particular the increased use of Government funds free of interest. The concession is obviously a valuable one, and it might be argued that there was justification for participation by the State in the profits of the bank, as, for example, by the payment to the former of interest upon the average amount of Government deposits above some specified sum, or by a definite share of the profits after a certain dividend has been realised. There were, however, certain important considerations on the other side. In the first place, the undertaking to adopt a progressive policy in the matter of opening new branches will, there is little doubt, for some time result in a loss to the bank on their working. Those centres of trade at which a branch is likely to show a profit in the near future had to a large extent already been exploited by the three Presidency Banks, and, as new branches are established, a comparatively longer time must elapse before the opening up of the localities concerned will result in a business profit to the branches of the bank established therein. Secondly, the possession of additional funds derived from Government will entail additional responsibilities, and it will be necessary for the new bank so to arrange its policy as to maintain itself in a position

to meet sudden and unforeseen demands, which have previously fallen on the reserve treasuries. Thirdly, the bank will no longer be entitled to receive any fixed minimum in the way of a Government balance at individual branches, and it follows that by this pooling of resources, it will, at certain times, be using its own private funds for Government purposes. Apart, therefore, from the case of the public debt, where the cost of the work involved can be fairly accurately estimated and will be paid for with reference to its actual volume, it was felt that data were lacking to balance the account however roughly. It was consequently decided that no financial adjustment should be made or claimed on either side in respect of the first few years of the bank's working, but that the whole question should eventually be reviewed in the light of experience.

(f) *Public Debt*.—A great deal has been done in recent years in the way of overhauling the procedure of the public debt administration. To popularise Government securities and to meet the convenience of the rapidly increasing number of small holders, it is clearly of the first importance to eliminate unnecessary formalities and otherwise to simplify and expedite business as far as possible. Previously the main work in connection with the debt administration, *i. e.* as regards registration of holdings, payment of interest and renewal and conversion of securities, has been centralised in the Public Debt Office at Calcutta—managed by the head office of the Bank of Bengal—subject to some limited delegation to the branch Public Debt Offices at Bombay and Madras—managed by the other two banks as agents of the Bank of Bengal. It has for a long time been clear that in addition to what has already been done in the way of reform, a radical improvement in the system of administration is still needed, and this will be greatly simplified now that amalgamation has taken place and pecuniary considerations between the three banks have been eliminated. Without going into details, the end in view is to secure that a considerable portion of the work connected with small holdings of securities shall be conducted in the districts in which these are held, and that, in course of time, as the new bank establishes branches in every district, the majority of up-country holders will be enabled to put through at their district headquarters all business connected with their securities.

(g) *New Branches*.—With regard to this development and the conditions which have given rise to it, it is not necessary to add much to what I have already said. But such importance attaches

to this portion of the scheme, going as it does to the root of the whole banking problem of India, that it will be of interest to quote the remarks made by the Government of India on the subject in placing the scheme before the Secretary of State :

The Presidency Banks have now undertaken, as part of the present amalgamation scheme, to establish 100 new branches within five years, and we have every reason to hope that the progressive policy thus initiated will be continued, until at least in every district, and eventually at every town of importance a branch of the Imperial Bank is established. We do not claim that this widespread extension of branches will work a sudden miracle, or will immediately prove itself the long sought talisman to charm the wealth of India from its hoards. We do not look for rapid or dramatic results. But a beginning must be made, and we think that the mere appearance in the district of a bank which conducts Government's Treasury and Public Debt business, as to whose stability there can be no question, and from which local traders and dealers in produce can obtain advances on reasonable terms, must in due course inevitably have an appreciable effect upon the local mental attitude towards banking in general, and in course of time we shall expect to see the new branches of the Imperial Bank attract a large amount of deposits from the general public in such localities.

There are, moreover, other results which may reasonably be looked for from the large increase in the number of branches now contemplated. In those places in which they are already established, the Presidency Banks usually act as bankers of the other local banks. They keep most of the latter's cash, and it is to the Presidency Bank that a local bank turns when it is in difficulties, or when, in a period of tight money, it desires to pledge Government or other gilt-edged securities. The position of the Presidency Bank as the "bankers' bank" has noticeably grown during recent years, and on many occasions have the Presidency Banks rendered valuable assistance in quelling an incipient panic, or in coming to the relief of a local bank which, through no fault of its own, was in temporary difficulties. It cannot, we think, be expected that the number of banks in up-country districts can be largely increased, or can be placed on a satisfactory footing, unless there is at their door a powerful bank to which a sound institution can turn in time of trouble and to which it can look for guidance in its general financial policy. Many of such banks would, of course, engage in business from which a Presidency Bank or its successor must necessarily be debarred, but it is, we think, of great importance that they should have behind them an institution on which they can rely for assistance, and which will form the solid background necessary for the healthy development of the various forms of banking—agricultural, industrial, and ordinary joint stock—of which this country is

admittedly in need. For such development, moreover, an equal necessity is a sufficient supply of men trained in modern methods of banking. The mere staffing of a large number of new branches of the amalgamated bank will necessarily involve the training and employment of Indian agency to a very much greater extent than at present, and the demand for and training of such men by the Imperial Bank should have a valuable influence in stimulating their supply for other banking institutions, just as the requirements of our Public Works Department have undoubtedly stimulated the growth of the engineering profession in India.

A further and almost equally important result which we anticipate will follow from the establishment of the new Bank and from the multiplication of its branches is substantial increase in the assistance given by it to the internal trade of the country through its relations with the indigenous banking system. The extent to which the Presidency Banks already help to finance the internal trade of India by their purchases and re-discounting of internal bills of exchange, known generally as *hundis*, at their head offices and branches, is not perhaps always realised. The shroffs, mahajans, chettis, and others, who, either directly or by their relations with smaller "bankers" of the same kind, largely finance the movement of produce and of important articles of commerce such as piece-goods in the up-country markets, rely to a very great extent upon assistance from the Presidency Banks when, in a season of active trade, their own capital is fully employed. On some occasions, for example, the amount of *hundis* held by the Banks of Bengal and Bombay has exceeded a third of their total advances, and during the busy season the proportion is rarely less than a quarter. The connection of the Presidency Banks with up-country trade is thus very close and intimate. By the rates which they charge on the discount of *hundis*, and by their willingness or refusal to extend their commitments in that direction they can profoundly influence the provision of credit and money rates in the up-country bazaars. It is clear that by the ramification of its operations through a largely increased number of branches and by its ability to employ more funds in the discount of *hundis* and similar bills, the amalgamated Bank will be able to irrigate the channels of internal trade to a substantially larger extent than is at present possible.

12. The above remarks will, I hope, be sufficient to give a general idea of existing banking conditions in India, the circumstances which have caused the constitution of the new bank to assume its present shape, and the general sphere of its activities and the character of this business assigned to it. To illustrate the details and volume of the latter, a recent weekly statement is reproduced here. For the reasons already mentioned (par. 11

(a) above), the statement does not yet show as regards capital and reserves the position as it will be when the payments of capital already called up have been completely made :

Statement of the affairs of the Imperial Bank of India on the 18th March, 1921.

LIABILITIES.	Rs. (000's).	ASSETS.	Rs. (000's).
Subscribed capital	7,23,60	Government securities . .	11,75,04
Capital paid up	4,62,15	Other authorised securities	
Reserve	3,53,84	under the Act	1,40,11
Public deposits	4,01,56	Loans	16,42,68
Other deposits	74,25,37	Cash credits	22,11,06
Loans against securities <i>per</i>		Inland bills discounted and	
<i>contra</i>	—	purchased	9,67,74
Contingent liabilities . .	—	Foreign bills discounted and	
Sundries	38,65	purchased	79
		Bullion	12
		Dead stock	2,06,57
		Liability of constituents for	
		contingent liabilities <i>per</i>	
		<i>contra</i>	—
		Sundries	17,90
		Balances with other Banks..	34,91
			<hr/>
			63,96,92
		Cash	22,84,65
			<hr/>
			86,81,57
			<hr/>
			86,81,57

The above balance sheet includes :—

	£		
Deposits in London	9,700	Percentage	29.04
Advances in London	33,800	Bank rate	6%
Cash and balances at other			
banks in London	218,920		

13. It will no doubt be observed that the sphere and functions of the Imperial Bank of India do not coincide with those of a Central Bank under the strict definition of such an institution in countries where a highly developed banking system and a central discount market are in being. In such conditions the ideal to be followed in framing the constitution of a central bank is admittedly mainly that of a bankers' bank, entrusted with the powers of the note issue in addition to other Government business, but in various other respects strictly limited in its functions.

But, as I trust I have shown, conditions in India have been such as to necessitate evolution on other lines. The problem to be met differs, for example, widely from that which faced the framers of the Federal Reserve system in the United States, where many thousands of banks were already in existence, and where it remained merely to shape the keystone to fit the arch.

In India the complete foundations have still to be properly laid and we have to build up from the base.

It would be premature also to attempt to forecast the lines which banking development in India will now follow. As has been seen, the policy with regard to the administration of the note issue and of the London remittance business of the Government has been left for future decision. It is probable that, in the event, advance will, as elsewhere, continue to be guided by the forces of natural evolution and shaped by the custom and traditions which the new bank may be expected, as time goes on, to bring into being.

H. F. HOWARD