

Establishment of the Imperial Bank of India.

In accordance with a law approved on September 19, 1920, the Imperial Bank of India began operations on January 27 of this year. This bank represents a consolidation of the presidency banks of Bengal, Bombay, and Madras, which have been doing business in India since the beginning of the nineteenth century. These banks have acted as fiscal agents of the Government, their business has been rather strictly circumscribed geographically, and they were required to carry large cash reserves and were prohibited from engaging in foreign exchange transactions. To a large extent, the presidency banks have acted as bankers for the exchange banks. Besides the presidency banks, which had about 60 branches, there are in India 45 branches of exchange banks with head offices outside of India, whose business is mainly to finance foreign trade and to deal in foreign exchange. In addition, there are about 60 or 70 joint-stock banks with over 150 branches, doing a local business, and subject to a rather high rate of business mortality. All told, therefore, there are about 250 banks and branches in India, situated in about 150 towns, or in about 20 per cent of the towns having a population of 10,000 or more.

The initiative in the move toward amalgamation was taken by the presidency banks themselves, which presented to the Government of India a memorandum advocating the establishment of the Imperial Bank. Their main arguments were:

1. That extension of banking facilities in India was greatly needed, as it was "useless to educate people into a willingness to follow civilized habits as regards keeping their money if there are not at hand banking facilities for them to do so."

They propose to open, after consolidation, and within five years after its establishment, no less than 100 new branches of the Imperial Bank. (The law as passed includes provision for the establishment of these branches.)

2. It is true that the presidency banks, to a considerable extent, have acted as bankers for local banks, but this consolidation will materially increase their ability to assist the other banks through the rediscount of domestic bills of exchange, known generally as "hundis."

3. An amalgamation of the three presidency banks, together with the establishment of many new branches, would facilitate the handling of the public debt. So long as Government securities were held by a small number of large investors, transactions in connection with the debt could be conducted satisfactorily by a few large banks, but with the enormous war expan-

sion of the debt and its widespread ownership among the masses of the population who have purchased bonds of the Indian war loans, it has become necessary to afford facilities for cashing coupons, paying off maturing obligations, etc., in a large number of small communities.

4. The amalgamation of the three banks would make it possible to abolish Government reserve treasuries by transferring their business to the Imperial Bank. (The law does abolish the reserve treasuries.)

The new bank has a branch in London, which however, may open accounts for or receive deposits only from persons who are or have been customers of the Imperial Bank or of one of the presidency banks in India. The bank's sales or purchases of bills payable outside of India are restricted to bills of such banks as the governor general in council may approve. These provisions are intended to prevent interference of the Imperial Bank with the business of established banks in London.

The Imperial Bank is owned by the shareholders of the three amalgamated presidency banks. Although the bank is to act as fiscal agent of the Government and to carry all the Government balances, the Government will not participate in the bank's profits for the first three years, largely for the reason that the establishment of new branches, which the bank is obliged to undertake, will involve for the immediate future considerable unprofitable business. Moreover, the bank is to be compensated for its work as fiscal agent in connection with the handling of Government securities and coupons. At the end of three years the proposed plan is to determine on the basis of actual experience whether and to what extent the Government is entitled to participation in the bank's profits.

The Government is to be represented on the central board of governors of the Imperial Bank by the controller of the currency or some other officer selected in his place by the governor general, and by not to exceed six other persons nominated by the governor general. These members of the board will have the privilege of attending meetings and of participating in deliberations, but not of voting.

The following is an extract from the law, enumerating the kinds of business in which the Imperial Bank may and may not engage:

PART I.

BUSINESS WHICH THE BANK IS AUTHORIZED TO CARRY ON AND TRANSACT.

The bank is authorized 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 authorized 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 indorsed 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 subclauses I to IV, and if so authorized by any general or special directions of the central board, where the original security is of the kind specified in subclause 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 realization of the proceeds of sale of any such promissory notes, debentures, stock receipts, bonds, annuities, stocks, 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 realization 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 Subclauses 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 realizing of all property, whether movable 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 purpose 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 hereinbefore specified.

PART II.

BUSINESS WHICH THE BANK IS NOT AUTHORIZED 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 stocks 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 subclauses 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.