CHAPTER VI

BANKING, TRADE AND COMMERCE

I. History of indigenous banking

The Diary of Anandarangapillai provides some clues about the system of banking in XVIII century Pondicherry. *Sowcars* were leading bankers in those days. We hear of such famous *sowcars* as Govardhanadas, Kasidas Bukhanji and Vallaba Sundar, all of whom carried on their banking operations through their *gumastas* in Pondicherry. The use of drafts, bills of exchange [1] or hundis payable at sight or after a prescribed period was very much in vogue.[2] Such drafts were also transferable. We learn that in 1754 when Dupleix refused to honour a bill for a lakh of rupees drawn on him by Bussy, the principal *sowcars* recalled their agents from Pondicherry. These *sowcars* further resolved that no more bills should be drawn on Pondicherry nor should any drawn here be honoured. The closing of these agencies reduced Pondicherry's importance as a banking centre.

The shroffs were professional money-lenders in Pondicherry. We hear that Melugiri Chetty, Rayalayyan and Guntur Balichetti were some of the leading shroffs of the town. Besides these shroffs, the well-to-do also throve by lending money to the needy. On one occasion, Anandarangapillai himself reports to have given a loan of 6,000 pagodas to Governor Godeheu at eight per cent interest over a bond.[3] The interest rates to be charged were, however, fixed by proclamation. Anandarangapillai tells us that during Godeheu's time, orders were issued limiting the rate of interest for Europeans at eight per cent and for the natives at 12 per cent per annum. These rates were not always strictly observed. It is interesting to note that a premium of 18 per cent was also charged on loans. A special charge of monsoon risks at 10 per cent was also collected over and above the interest.[4] Anandarangapillai himself attests to the fact that there were people who charged from 10 per cent to 12 per cent per month i.e. as much as ten times the official rate. Governor Leyrit had to repeat the order that the interest rate should not exceed eight per cent for Europeans and 12 per cent for the Tamils per annum.[5] We find that in those days the Administration resorted to the manipulation of interest rates to regulate the local money-market. In an attempt to induce the public to lend to the Government, the Council decided in August 1759 that 12 per cent interest should be allowed on all sums which the *mahanattars* and others might lend to the Administration.[6]

Another interesting bit of information relates to the use of parchment money bearing the Company's seal. During Leyrit's time it was ordered that none should refuse the new parchment money from one rupee onwards at its face value in exchange for their goods. It was also made known that the parchment money will be accepted by the Company at its face value. This currency is said to have consisted of 10–month bonds carrying 12 per cent interest. The Council, however, was unable to redeem them as they matured. As Pondicherry was not accustomed to fiduciary issues, these notes came to be exchanged at a heavy discount. These notes were actually wanted only by those who owed money to the Company. Such people bought them cheap in order to pay off their debts. In protest the shroffs and cloth merchants of the town resorted to a '*bandh*'. Leyrit had perforce to announce that the shroffs and bazaarmen need not be compelled to accept the parchment money.

The indigenous bankers who belonged to different communities lent money on the security of jewels and also on promissory notes. They functioned both in urban and rural areas. Most of the loans were short-term, repayable with interest after the harvest of the crops, either in one or more instalments. The conditions were informal in that the loans could be obtained at any time and without any security depending on the confidence and the relationship of the lender with the borrower. This system had its own shortcomings. The urgent and unforeseen needs of the borrowers and their inability to provide sufficient security was capitalised by the antisocial bankers for charging interest at more than the usual rates. Some money-lenders charged interest ranging from 18 to 36 per cent. The antisocial elements among them charged interest rates as high as 100 to 120 per cent per annum. Very often a sizable portion of the interest was deducted in advance from the borrowers at the time of lending itself. The traders could, to some extent, bear the high rates of interest because they could pass on the burden to the consumers. But this was not so with the agriculturists who, in this territory as in other parts of India, had no work for the best part of the year. They required money in the lean season i.e., about three or four months prior to the harvest. It was during this season that the prices were high, and consequently, the money value was less. But they had to repay the loans immediately after harvest when the money value would be more, as the prices of commodities would be less. What was worse was that in many cases the interest was payable in kind. Hence, a sizable portion of the hard earned produce found its way to the godowns of money-lenders.

Droughts and crop failures, floods and damages caused by the rains very often affected the repaying capacity of the borrowers. The money-lenders would only lie in wait for an opportunity to buy off the properties of the borrowers on terms dictated by them. The terms were naturally to the detriment of the borrowers. Thus the agriculturists gradually lost their properties which passed into the hands of the antisocial money-lenders.

Mont-de-Piété : With a view to remedy these social evils, the French had set up the famous **Mont-de-Piété** (initially at Pondicherry) which may be called as pawn office, by means of an ordinance dated 1 May 1827. The institution was provided with necessary funds from the reserve fund. It rendered great service to the needy sections of the population and notably the small agriculturists by providing them advances at reasonable rates of interest. The institution gave loans from Rs. 3 to Rs. 3,000 on the security of jewels and silver articles depending on the value of the security, the amount of loan ranging from 1/4th to 4/5th of the total value of gold ornaments or silver articles, as the case may be. The rate of interest fixed at 8 per cent was generally collected after the expiry of one year. The income from the transactions of the institution was set apart for charity.

Following the successful functioning of the institution in Pondicherry, the Government set up similar institutions at Karaikal, Mahe and Yanam under the **arrêtés** of 29 July 1907, 9 October 1929 and 14 June 1946 respectively. As a further measure of relief the Government issued a decree promulgated on 9 November 1935 fixing the legal rate of interest at five per cent and the maximum conventional rate at eight per cent per annum. Those required to pay more than the above rates could go to the courts to enforce the legal rates.[7] Thus the Administration seems to have taken steps to mitigate the evils of money-lending. As the institutions had only limited resources at their disposal, they were unable to meet the credit requirements of the people. Moreover, located as they were at the regional headquarters it was not always possible for the villagers to come over to these towns for the sake of borrowing petty amounts.

The decree of 22 February 1906 provided for the licensing of private banks which wanted to enter the pawnbroking business.[8] It appears that for many years no one came forward to register his business under the provisions of this law probably because one had to pay a huge amount by way of security deposit. But pawnbroking business was carried on in the stealth without proper authorisation.

This state of affairs continued even after *de facto* merger. However, it was found necessary to bring forward some legislation to curb the abuses of unauthorised pawnbroking and to safeguard the interests of the borrowing public. It was in these circumstances that the Pondicherry Pawnbrokers Act based on the Madras Pawnbrokers Act, 1943 was passed in 1966 with slight modifications to meet the local requirements and brought into force on 15 October 1966. The Usurious Loans Act, 1918 (Central Act) extended to this Territory in 1968 was brought into force on 1 September 1970. Details of the number of pawnbrokers in the Territory are furnished below :

As on 31 March

Year	Pondicherry	Karaikal	Mahe	Yanam
1966	26	—	—	—
1967	41	15	—	—
1968	64	18	—	—
1969	44	24	—	—
1970	98	27	—	—
1971	106	37	—	1
1972	131	48	—	3
1973	149	50	—	4
1974	153	51	—	4
1975	161	55	1	5

The Pondicherry Money-Lenders Act, 1970 (26 of 1970) which sought to regulate and control the business of money-lending by introducing the system of registration was assented to on 19 August 1970 and made applicable to Karaikal region with effect from 1 October 1970.[9] Region-wise details of licensed money-lenders in the Territory are given below :

(As on 31 March)

Year	Pondicherry	Karaikal	Mahe	Yanam
1972	24	3	—	3
1973	24	4	—	4
1974	34	5	—	3
1975	36	6	1	3

The Tahsildars and Deputy Tahsildars function as Inspectors under the Acts with power to inspect the accounts of the licencees periodically and to take legal action against offenders. Here it may be worthwhile to take note of the findings of a survey conducted by the Indian Bank in 1970. According to this survey, pawnbrokers in rural areas were having a large turn-over of business as they advanced loans mostly to farmers against the pledge of gold ornaments. They charged very high rates of interest. It was pointed out that in order to effectively offset the adverse effects of such lending operations on the farmers, branches of banks already established in Pondicherry town and those proposed to be opened at various rural unbanked centres in the Union Territory of Pondicherry should take the initiative in extending adequate credit facilities to those farmers against pledge of gold ornaments at reasonable rates of interest and minimum margin.[10] The survey further revealed that commercial banks operating in the Territory 'have more or less confined their operations' in areas in and around Pondicherry and Karaikal towns. After assessing the agricultural activities of the regions of Pondicherry and Karaikal, the survey came to the conclusion that there was a good case for establishing several branches of commercial banks in the Territory. As a result of the survey, a few branches were opened in the rural areas.