ROYAL COMMISSION

ON

INDIAN FINANCE AND CURRENCY.

MEMORANDUM OF EVIDENCE

SUBMITTED BY

VIDYA SAGAR PANDYA

Secretary, Indian Bank, Ltd.,

MADRAS.

NOMINATED BY

The Southern India Chamber of Commerce.

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PUBLISHERS' NOTE.

MR. VIDYA SAGAR PANDYA, Secretary, Indian Bank, Limited, Madras, was invited by the Chairman of the Royal Commission on Indian Finance and Currency to give his evidence in London. He was also nominated by the Southern India Chamber of Commerce.

At the request of the Royal Commission the accompanying Memorandum was submitted by him. The Chamber have recorded their general concurrence with the opinions expressed therein.

The following are the terms of reference :—

"To inquire into the location and management of the general "balances of the Government of India, the Sale in London of Council "Bills and Transfers, the measures taken by the Indian Government and "the Secretary of State for India in Council to maintain the exchange "value of the rupee in pursuance of or supplementary to the recommen-"dations of the Indian Currency Committee of 1898, more particularly "with regard to the location, disposition and employment of the Gold "Standard and Paper Currency Reserves, and whether the existing practice "in these matters is conducive to the interests of India; also to report as "to the suitability of the financial organisation and procedure of the India "Office, and to make recommendations."

Madras 1914.

G. A. NATESAN & CO.,
Publishers.

THE SOUTHERN INDIA CHAMBER OF COMMERCE, MADRAS.

Extract from the Proceedings of the Meeting of the Southern India Chamber of Commerce, Madras, held on the 11th February, 1914.

1 "*(a)* RESOLVED that the Chamber do place on record their general "concurrence with the opinions of Mr. Vidya Sagar Pandya (who was "nominated by the Chamber to give his evidence) as expressed by him in "his Memorandum presented to the Royal Commission on Indian Finance "and Currency on matters therein dealt with, and

"*(b)* that in addition to drawing the attention of the Government "to the several points therein raised by Mr. Vidya Sagar Pandya in the "matter of the Presidency Banks, the Chamber do specially urge the great "importance, desirability and justice of the Bank of Madras associating "with their Board of Directors an adequate number of Indians, unlike "heretofore."

2. "RESOLVED that the Chamber do offer their hearty thanks to Mr. Vidya "Sagar Pandya for his valuable evidence before the Royal Commission "on Indian Finance and Currency."

ROYAL COMMISSION
ON
INDIAN FINANCE & CURRENCY.

Memorandum of Evidence

SUBMITTED BY
Vidya Sagar Pandya, Secretary, Indian Bank, Ltd.

THE LOCATION AND MANAGEMENT OF THE GENERAL BALANCES OF THE GOVERNMENT OF INDIA.

1. *Introductory.*—A comparative statement of balances (see *Statement I*) of the Government of India ought to enable any student of Economics to judge that—

(*a*) They have been keeping larger balances than they can manage with, and that the large increase in recent years, both in India and England, has been quite disproportionate to the growth of their own transactions.

(*b*) Comparing the distribution of balances in England and India it is evident that the balances in England have been greater than in India.

(*c*) On the other hand, in view of the large reserves with the Secretary of State for India, his balances ought to have been smaller.

(*d*) Notwithstanding these inflated balances, floating debts were renewed and fresh loans were issued often in advance of the time when the money was actually required.

(*e*) This has involved the payment of interest at a higher rate on the debt, while the balances have only been earning a comparatively low rate of interest.

All this could be avoided by the exercise of greater vigilance.

USE OF BALANCES.

2. *Balances, how used in the past.*—The Secretary of State for India has been—

(*a*) Lending these balances against securities at a low rate of interest in England and not in India; and

(*b*) Placing the cash balances with private Banks (in England) out of India without any securities.

3. The balances of the Government of India ought not to be allowed to swell or to be used for investments abroad to earn interest. They should be kept as low as possible, consistent with safety. Enormous budget surpluses are wrong and wasteful.

The current balances should be kept in India until required for the purposes of the Government and in order to make money easy when the Indian market most requires it.

4. *How and when to be used hereafter.*—They ought to be lent in India against approved securities, not only to the Presidency Banks but to all other Banks of standing.

At present the Presidency Banks get a certain portion of Government balances free of interest and the Exchange Banks get deposits at interest in London. It is the Indian Banking Institutions who do not get any portion of Indian public money.

5. The Presidency Banks should, in common with other Banks, be required to lodge approved securities, if they require any larger sums than the ordinary balances provided for under the present arrangement with the Government.

6. With a view to encourage banking facilities at places where there are no branches of any Presidency Bank the Government ought to keep a minimum balance with any other approved Bank, which offers securities to guarantee Government accounts, for a reasonable period. This is a concession the Presidency Banks now get without any securities.

7. The Presidency Banks are interested in keeping up high rates so as to earn dividends for their shareholders, and they would not avail themselves of the facilities for getting monies at the Bank rate from the Government; but advances to other Banks of some standing in India will reduce the rate of discount and prevent the Presidency Banks from raising their official rate.

8. The advances can easily be made in India as the Government balances rise from December to March and the money is particularly required for trade purposes at about that time. The balances begin to fall from about April to November when they are at about the minimum. The trade requirements decrease during this period and thus, about the time when the Government balances run low, the Banks can repay the advances which the Government may then require.

9. *How to further ease the money market during the tight season.*—Even if the Government Treasury balances are insufficient to allow advances being made on the deposit of Government securities the Government might undertake to make these advances in the form of currency notes at a reasonable rate of interest and on such terms (as to amount and period) as may be considered necessary by way of precaution, holding the approved securities *temporarily* as a part of the Paper Currency Reserve. This would keep down the Bank rate and relieve the temporary pressure on the money market without locking up the Paper Currency Reserve in fixed securities or disturbing the specie (gold) holdings. In this way the currency will also become more elastic.

10. *Easing the London money market.*—There is the further question of easing the London money market in order to finance Indian trade.

The resources of the London money market are so great that they do not stand in need of Government of India balances. Of course they would welcome money from any quarter. The London money market would easily adjust itself if the balances were withdrawn. Any withdrawal of balances "is a mere ripple on the surface of commercial London but the same "transaction dominates the whole condition of money in India." The Indian revenues should not be utilised for the purposes of the London money market. Nor would the Indian export market be substantially affected by the withdrawal of the Indian balances from London. The trade conditions would improve by the utilisation of the balances in India more than by lending them in the London market. The London market does not employ the money for Indian trade only.

By making the balances available in India, Indian trade would be directly benefitted, whereas the results of the other method are very indirect and doubtful.

11. *Control of Balances.*—The Despatch from the Secretary of State (Lord Salisbury) to the Government of India, No. 225, dated 6th May 1875, in paragraph 17, contains the following passage :—

"It will be competent for the Financial Department either to retain it (the money) in the Treasury or to lend it for short terms under suitable conditions as to interest and security "

Again, the Secretary of State for India, in his Despatch No. 87 (Financial), dated May 1899, confirms the above as under :—

"I am not sure that I understand the reason why your Government solicit my sanction to such an arrangement. The management of cash balances in India is entirely within your discretion. When it was proposed to institute a Reserve Treasury in order to guard against the risk of public inconvenience on the occurrence of an emergency, the Marquis of Salisbury, in his Despatch of 6th May 1876, No. 225, though not approving precisely of the suggestions laid before him, left the matter in the hands of the Government of India, observing that it would be competent for the Financial Department either to retain the money so reserved in the Treasury or to lend it for short terms under suitable conditions as to interest and security."

(*a*) In view of these pronouncements it is amusing to see the Government of India retaining the money in their Treasuries and the Secretary of State lending it (not for "short terms under suitable conditions as to interest and security" as laid down by him) for long periods on a low rate of inserest, and even without security.

(*b*) The Secretary of State, when he incurs any liabilities for India, does not pledge the Imperial credit. The Government of India bears all the responsibility; but all the balances of India are used by the Empire genrrally, India only excepted.

The Secretary of State for India is at present too largely dominated by the influence of the great financial interests in England.

(*c*) There should be some kind of financial autonomy in the management and location of the general balances and the reserves of the

Government of India. India should be treated in this respect in the same way as the self-governing Dominions, such as Canada and Australia. The Government of India should be allowed to employ the balances in India.

(*d*) With a view to promoting the general financial interests of India it may be desirable to appoint a representative Advisory Board or Committee to assist the Government in the profitable utilisation of the funds at their disposal.

GOLD STANDARD WITH GOLD CURRENCY OR EXCHANGE STANDARD WITHOUT GOLD CURRENCY.

12. Originally the goal of Indian currency policy was a *gold standard with a gold currency.* This policy was inaugurated in 1893 by the closing of the mints to the free coinage of silver and developed in 1899 " to give " effect to the recommendations contained in the report of the Indian " Currency Committee of 1898 which were endorsed by the Secretary of " State and generally accepted by the Government of India." These recommendations include :—

(1) Making the British sovereign a legal tender and a current coin, and

(2) Throwing open the Indian mints to the unrestricted coinage of gold.

In 1899 " the measure of transcendent importance before the Govern- " ment was to place the currency of India on a gold basis and stable exchange " (Honourable Mr. Clinton Dawkins, September 1899) and " To " provide for actual striking of gold coinage at an Indian mint was really a corollary." He further said : " No other measure would save India from embarrassment." The Secretary of State for India was so thoroughly convinced of the necessity of introducing and popularising gold coins, that in a Despatch, dated 24th May 1900, he remarked : " To make the use of gold " coins more popular and especially among the class of people for whom a " coin valued at Rs. 15 is an unduly large unit, it may be desirable for your " Government to coin gold pieces of three or five rupees at the Calcutta " Mint which should be made legal tender, but would be issued altogether " irrespectively of the branch of the Royal Mint at Bombay." The Government of India, in their letter, dated 4th May 1907, in reply to the Chamber of Commerce, Bombay, said : " They had never concealed from themselves " the inconvenience attending a gold standard which is not accompanied " by an effective gold circulation, and they are in full accord with the view " that a more general use of gold among the people would simplify the task " of directing a managed currency."

Again, we had the statutory fixing of the value of the rupee at 16 pence, and the sovereign was made a legal tender for payment or on account, doubtless with the intention of encouraging the importation of sovereigns. Rupees issued for sovereigns, however, are not re-exchangeable.

13. On the other hand, the Secretary of State commenced unlimited sales of Council Bills and Transfers at rates below gold import point and

doubtless checked the importations of sovereigns from London. The measures for opening the mints to the free coinage of gold have not been put into practice. The machinery which was said to have been ordered from England in 1899 to strike gold coins never reached India. The Secretary of State lent his ears to the technical objections raised by the Treasury and dropped the matter.

In 1912 the Financial Member, when speaking on the resolution of the Honourable Sir Vithaldas D. Thakersey entertained the Council with arguments against the opening of Indian mints to the free coinage of gold. They were numerous but were suitably classified into three sets of objections, namely :—

(1) That a gold coinage is unnecessary.

(2) That it would be ineffective in support of exchange ; and

(3) That it would be wasteful or even harmful.

14. From the above it is difficult to understand the attitude of the Secretary of State for India in this matter. One may reasonably assume that two opposing influences have been at work, *i. e.,* one to give India a gold standard and currency, the other to give her a gold exchange standard only without a gold currency. The latter modification has been imposed upon the former scheme with the following results :—

(a) We find that the credit of India is no better in the estimation of the London money market.

(b) The elaborate safe-guards to ensure convertibility of the rupee into sovereigns even in London are dependent upon the balance of trade in favour of India and the accumulated reserve of gold.

(c) Instead of gold currency there have been issues of token rupees ; and

(d) The burden of Government in supporting the artificial relationship becomes greater every day.

15. *Conclusions on the Foregoing.*—In my opinion—

(a) Council Bills and Transfers ought not to be sold so as in any way to stop the import of gold into India. Gold should be allowed and even encouraged to come freely into India and every effort made to keep it in the country when it arrives.

(b) The rupee, a token coin, should not be issued to an unlimited extent, and the circulation of the artificial rupee ought not to be allowed to expand.

(c) All devices or contrivances to prop up an artificial position are insecure.

(d) Government ought to take serious steps to put gold into circulation to replace the fictitious rupee as effectively as possible.

(e) There is advantage even in forcing gold into active circulation as it—

1. Tends to limit the liability of the Government to the public.

2. Automatically supports sterling exchange.

3. Removes the necessity for larger reserves.

16. *No Government has any right to give only nine pennyworth of silver for sixteen pence and to hold the other seven pence without any legal obligation to give gold in exchange for the rupee.*

17. *How the Secretary of State's requirements for Home charges can be met.*—So long as the balance of trade is in favour of India to an extent larger than the requirements of the Secretary of State for India exchange cannot fall below the fixed standard. The difficulty might arise when the balance of trade goes against India, but if the gold reserves in India are sufficiently strengthened the amount of gold required for payment can be met out of such reserves during these special years.

The maintenance of reserves in India undoubtedly adds to the strength of the position of the Government of India, but the maintenance of such reserves in England instead of in India cannot give any addition to this strength.

If the reserves were maintained in India they would be available to meet the demands for remittances to England.

If necessary, for the present temporary gold loans might be raised in London to meet any extraordinary demands. Gold loans can be paid back out of the accumulation of gold in normal years.

The Government need not undertake the duty to lay down gold at its destination when exported for payment of balance of trade. This business may be left to the Exchange Banks.

GOLD.

18. Prices are alleged to have risen owing to the increase of production of gold in the world's mines.

All other countries are absorbing more gold and there is no reason why India should be grudged its share of the absorption (*see Statement II*). Considering the population of India, the *per capita* amount of gold held in India is much smaller than that held in other countries, and if India is rich enough to absorb its share of gold now, why should other countries object when they are not restricting their own absorption? Even disregarding the growth of gold for banking reserves, the use of gold for arts, &c., in other countries is much larger than in India (*see Statement III*) if the population is taken into consideration. Government having adopted the gold standard ought not to consider that the circulation of gold as currency is objectionable.

A gold standard cannot be considered to have been established in India until it is supported by a gold currency.

It would not be detrimental to the interest of England as the gold would not be attracted from England but from the world's mines, though it may come through England, as the extra balance of trade of India is from countries other than the United Kingdom.

Extra gold received should be put into circulation and this will attract more gold. If extra gold is attracted it is bound to get into circulation gradually after the demand for so-called hoarding is satiated.

With the free mintage and gold currency India may one day hope to become the banking centre of Asia, and in that case the balances of trade of countries in Asia with countries in other continents will be settled through India.

GOLD AND GOLD NOTES.

19. Circulation of gold and gold notes can be attained by the following means among others :—

I. By the introduction of Universal Currency Notes redeemable only in gold, and by the gradual conversion of the present Rupee Currency Notes into Gold Notes through the accumulation of sufficient gold reserves. They will be popular only if the gold reserves are held in India. This will centralise reserve of gold and effect economy in the circulation medium with the concurrent circulation of gold.

These new Universal Gold Notes may be of the denomination of a sovereign and fractions of a sovereign. A promise on the notes should be to pay a sovereign on one or the number of these required to make up one sovereign. Transactions in India being very small, the necessity of having smaller coins than a sovereign has been repeatedly urged in various quarters. On the other hand objection is taken to small gold coins of less than half a sovereign as being not convenient to handle, but Gold Notes for these small denominations will take their place.

II. Gold should be issued more freely to the public not only from the Presidency Towns but also from the District Treasuries. Post Offices and Presidency Banks branches should be instructed to exchange rupees for gold. The Comptroller-General does not allow the issue of more than a limited number of sovereigns a day at the Presidency Currency Office to a single bank. Thus the gold reserve will be more evenly distributed throughout the country than by being locked up in the Currency Offices of the Presidency towns from whence it can find its way in very small quantities.

The people should be assured that they will suffer no loss in converting gold coin into rupees.

It is said that sovereigns can be obtained on demand for rupees at the Indian Treasuries to-day. The public do not know this, nor have they any legal claim on the Treasuries or elsewhere for such conversion.

Mr. Lionel Abrahams, Assistant Under Secretary of State, in his Memorandum on General Balances says—

"It will be noticed that in each year (that is from 1909–'10 to 1912–'13) the importation of sovereigns exceeded the absorption by the public, and that at the end of each year there has been a substantial amount held by the Government at the disposal of the public to be exchanged for rupees." (Cd. 7070, page 21.)

In *Capital,* dated 27th May 1909, we read :—

"The Accountant-General, United Provinces, has informed all Treasury Officers and Agents of the Bank of Bengal in the Provinces that as sovereigns and half-sovereigns are not available at present, no application for supply of the coins should be submitted until further notice."

I have not been able to trace the further notice referred to in the above.

On the 25th January 1910 the Indian Bank, Limited, Madras, wanted only 500 sovereigns from the Accountant-General, Madras, who replied that "sovereigns are issued to the public at not more than 100 *l.* a day to each applicant."

This was how the bank was treated in the matter, and I am told that individual applicants were induced to accept doles of 3 to 5 sovereigns each.

The correspondence in connection with the same is appended herewith —*see Statement IV.*

The Bank of Madras shows, in its weekly statement, the number of sovereigns in stock. The applicants for sovereigns at the head office were informed that the bulk of the stock of sovereigns was held at one of the important branches, and the important branch would, in its turn, announce that the same was held at the head office. Even now the issue of sovereigns to the public for more than 10,000 *l.* to a single party, on one day, requires the sanction of the Comptroller-General to whom "the purpose for which the "gold asked for has to be reported."

III. Gold Universal Currency Notes must be encashable in gold at all the central places where Reserve Currency Agencies might be established in charge of District Treasury Officers.

To whatever extent these gold notes may circulate, they would take the place of rupees and therefore they would tend to check the demand for rupees.

What affects the use of notes both, for local and remittance purposes, is the excessive desire to convert them into coin, but as encashment is rendered easier, the desire for conversion lessens.

IV. All payments in excess of a certain amount, say Rs. 150, should be made only in gold, the payee being given the option of demanding payment in rupees or gold notes.

Government must prevail upon the people to accept the gold, and to encourage them to do so it should be offered to them in the form most suitable to their needs. Gold must be helped and nursed into circulation by the influence of the Government officials.

V. By opening the mints to the free coinage of gold sovereigns in India.

(*a*) "Gold can be attracted profitably from Africa to pay the balance due to India from London (as the freight, insurance and time in transit from African mines to Bombay compare favourably with charges and time in transit from mines to London) if, in exchange for the raw gold, currency can be obtained as quickly and economically as in London."

(*b*) Gold produced in India will not go out if a free mint be established n India.

As Sir Clinton Dawkins said in 1900—

The Government of India will have the satisfaction that "they have been ıble to assist the Indian gold mining industry by saving it the freight and harges incidental to the transmission of its gold to London."

(*c*) Recoining of old coins can be done more economically, thus saving e, charges and interest.

HOARDING.

20. Both Government officials and Anglo-Indian writers have very gerated notions about India's hoarded wealth and "the ingrained editary custom of hoarding among natives." It may be true that the n is not so enterprising as the European and does not make the best f his money for his country at present, but this is due to—

) Deep feelings of distrust and suspicion owing to the unsettled and disturbed political state of India for so many centuries.

(2) He is obliged to keep a larger cash balance through utter lack of banking facilities of deposit and remittance.

(3) Similarly he holds his money in his own possession in lieu of safer and more tempting investments. He has no financial organisations to advise him in the choice of his investments.

(4) Because the bulk of population still remains quite uneducated.

This feature of hoarding is transient and is disappearing gradually (*see Statement V* of some of the Investments in India) and must die out with education and general awakening. The remedy does not lie in denying the gold to India, but in taking steps to educate her to make the best use of it. That is the proper and permanent remedy.

In *Statement VI* will be found same extracts from "*Capital,*" dated June 25th, 1908, in this connection.

Sovereigns.—Again inferior coins, if numerous enough, will always drive out superior coins from circulation; therefore an Indian need not be blamed if he prefers to retain sovereigns.

THE LOCATION, DISPOSITION AND EMPLOYMENT OF THE GOLD STANDARD AND PAPER CURRENCY RESERVES.

21. The maintenance of reserves in India will engender confidence, and will enable gold coin and gold notes to circulate. Gold coins do not circulate because they are not available to any substantial extent after the requirements of hoarders. Rupees were largely hoarded, but in spite of this they circulated as currency because the total amount available was sufficient to meet both purposes. The purposes for which the gold reserves in England obtained by the unlimited sales of Council Bills have been utilised are—

(1) For the purchase of silver.

(2) Meeting bills drawn from India to meet an unfavourable balance of trade without a fall in exchange; and

(3) In exceptional years to "supplement temporarily the resources in "London of the Secretary of State for India at times when he is "unable to sell Council Bills except below specie exporting "point."

The amount required for purchase of silver should be drawn when the necessity for rupees or the purchase of silver for it actually arises, and it ought not to accumulate in anticipation. For the other purpose the maintenance of reserves in India would make no difference as mentioned already.

To facilitate the establishment of a gold currency in India the Gold Standard Reserve should be kept wholly in gold, and no portion invested. No further portion of paper currency should be invested as the currency reserve in gold will help towards the establishment of gold currency.

22. The keeping of reserves in gold in India is essential for the following further reasons:—

(1) In case of political troubles or war against England or commercial crisis in England there would be great difficulty in getting gold and in selling securities.

(2) When, added to the above, there is a commercial crisis in India also (because it is so sympathetic) and especially when the trade balance goes against India with famine or war on the frontier or political difficulties internally,—any one or more or all of them (which God forbid) will do havoc in the absence of gold in India.

(3) As matters connected with Indian finance and currency come to be better understood in India the procedure of holding gold in England is likely to constitute a much more serious difficulty for the Government to handle. (*See paragraph 16.*)

(4) The result of keeping reserves in England is that they are likely to be invested in securities, owing to the control of London

financiers, as the Secretary of State is too often influenced in favour of the London market. London market trades in credit based upon the barest minimum of gold. Retaining gold in India strengthens the position of the Empire inasmuch as it strengthens the position of India.

(5) The Paper Currency Reserve is obviously meant to redeem the Indian Currency Notes and if there is any place where it ought to be located it is India.

(6) " India is peculiarly situated and there are special reasons in her case why extra caution should be observed. India cannot obtain immediate assistance or immediate reinforcement of gold in a few hours from neighbouring countries as the Banks of England and France are able to do.

" Indian cash reserves must therefore be regarded with the utmost jealousy."

23. *Securities.*—That portion of the Gold Standard Reserve which consists of the securities of those Colonies against which a deep-seated grievance exists in the minds of the Indian public should be placed elsewhere without delay. Similarly the securities, either not repayable by the borrowing Government or payable at a distant date, should be disposed of.

STATE CENTRAL BANK FOR ALL-INDIA.

24. Those who advocate the establishment of a State Central Bank for all India have not formulated any definite scheme for its working. From what I can gather* the idea appears to be to form a central institution with *private capital* to—

(1) Absorb the three Presidency Banks (so as to consolidate and concentrate the banking facilities in India), enlarging their power, among others, to lend and borrow outside India and enter into sterling operations.

(2) Take over from the Government the management of—

(*a*) The Paper Currency.

(*b*) Gold Reserves.

(*c*) Government Treasuries.

(*d*) The general balances of the Government of India both in India and England.

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*From—

(1) The Memorandum by Mr. Lionel Abrahams, C. B., Assistant Under-Secretary of State for India.

(2) Note submitted by Mr. L. G. Dunbar, Secretary and Treasurer, Bank of Bengal, Calcutta.

(3) Statement of evidence of Mr. W. B. Hunter, Secretary and Treasurer, Bank of Madras, Madras.

(3) Some would expect it to undertake the convertibility of the rupee, the promotion of the ciculation of gold, foreign remittance business, &c., &c.

25. If another Royal Commission has to sit it will be to enquire into the working of the proposed State Central Bank only as it is proposed that it shall relieve the Secretary of State for India and the Government of India of some of the administrative functions relating to Indian Finance and Currency. After a century of administration by the East India Company the British Parliament decided to transfer the administration to the British Crown and it would be regrettable if after another 50 years only they were to take the retrograde step of re-transferring one of the most important branches of administration to a private company.

26. It has not been explained fully how this is to be attained or how the difficulties in its working in practice can be overcome. The various details as to capital and shareholders, board of directors, connection and control of the Government and the public, &c., of such an institution have not been worked out. In theory the advocates of the establishment of the State Central Bank may have some good reasons on their side, but in practice I believe it would not subserve the best interests of India.

In dealing with the question it is necessary to take into consideration the working of the three Presidency Banks in the past, as they are intended to form the nucleus. As it is proposed to establish and work the new Central Bank more or less on similar lines and with the same materials it is desirable to examine the materials closely. I shall, therefore, touch upon some features of the working of the Presidency Banks and incidentally point out what further restrictions are necessary.

27, I shall first indicate the objections to, and difficulties in, the formation of such a State Bank.

I. To constitute a Central Bank to undertake to work on the lines indicated in my opening remarks practically amounts to a transfer of one of the most important branches of administration from the British Crown to a private company. This step will be viewed as putting an important branch of Indian administration outside the pale of criticism in Parliament. India cannot afford to lose Parliamentary control over any branch of Indian administration. It is dangerous to hand over the financial arrangements to a divided control, even if Government retained a certain power of supervision.

II. The existence of a dominant Bank with State connections is contrary to the fundamental principles of Free Trade. The creation of a State Bank must affect adversely both the Excange Banks and the Indian Banks which have been doing useful work in the past. (Please refer to the Memorial from the Exchange Banks of Calcutta dated 3rd Ferbuary 1900.)

III. I take the following from the proceedings of the meeting of the Bombay Chambr of Commerce as reported in "*Capital*," 24th July, 1913:—

"The resources and working capital of the present Banks have grown proportionately to the demands for increased credit, and the stringency experienced during the busy season is not an argument to the contrary, but is due to the action of Government in collecting and locking up most of their revenue when money is urgently required."

To which I may add "and in investing it in the London money market."

The growth of credit in India to finance exports and imports (*see Statement VII*) has kept pace with requirements.

Forcing a Central State Bank on the lines advocated by the enthusiasts will result in a maze of credit finance—credit banking, credit reserves, and credit currency. A natural and steady development all round of banking facilities checks speculation.

The development of credit is urgently required in quite a different direction.

What India wants most is some method by which the Zemindar and the bulk of the poor agricultural population may come within reach of cheap and easy money. Their requirements are for long periods, and these cannot be met by the proposed State Bank.

A State Bank formed by the amalgamation of the Presidency Banks which would receive deposits from the public for short periods or Government balances, payable at call, can finance only seasonal business.

To finance the Zemindars and the agriculturists separate organisations under State patronage require to be formed.

The Zemindars require Landholders' Banks. To help the agriculturists the co-operative credit movement has to be developed in the right direction. The Government has not taken up this movement as wholeheartedly as it might have done. Central co-operative credit institutions having proper organisation should be established to carry out the work required to be done in the different Presidencies.

These credit institutions should be worked by the Indians themselves with the encouragement and liberal support of the Government, and not by any alien institutions.

IV. The Specie Reserve on hand or cash balances now held by the Presidency Banks to meet their liabilities will be reduced to an unsafe minimum and the Banks to a consequent risk of panic, as they will look to the Central Bank to help them in emergencies. The tendency of the Central State Bank would be to treat the Government balances more or less as fixed deposits than as money at call; and it would thus allow its own reserves to fall below the limit of safety and be more likely to rely on Government help in time of crisis.

From *Statement VIII* appended herewith, showing the percentage of cash to liablilities in the case of the three Presidency Banks, it will be clear how the percentage has gone up and down. A statutory limit requires to be fixed for the maintenance of a regulated proportion of specie on hand to the total liablilities of the Presidency Banks.

Credit lent at call or short notice should not be treated as money.

V. The Central Bank could not undertake the conversion of silver rupees into gold as the capital required to support this object would not earn a sufficient dividend. Even a Bank with a large uncalled capital cannot do so. It would be dangerous to adopt such an artificial procedure.

"Central Bank cannot maintain exchange as the credit required to maintain exchange takes it beyond any Bank."—(Mr. Hunter.)

VI. An Indian State Central Bank cannot be allowed to enter into foreign business owing to the risks involved and this limitation would cripple the usefulness of such a bank.

The temptation to employ money profitably abroad would lead them to transfer funds outside India.

The internal trade of the country would not receive the undivided attention of the Central Bank.

VII. A Central Bank with *private capital* would be a business concern pure and simple, looking generally to the profits of its own various enterprises before considering problems connected with the needs and obligations of the people. The chairman of the European Calcutta Trades Association at one of their annual meetings said:—

"It is often said that trade follows the flag; it would be better to say that flag follows trade. First comes the trade, then the chartered trading company and then follows the flag. If the commercial venture is unsuccessful the flag stays at home. This is the secret of our success as a colonising nation and the reason why we have few worthless possessions."

Extract from Honourable G. Fogge's speech at the meeting of Bank of Bombay:—

"The true course for the shareholders to pursue, having regard to their own interests, and saying nothing with regard to the public interests which to them were of minor importance, was to throw away the amalgamation scheme at once."

It is likely to be jealous of its powers and privileges, declining to permit private interest to secure the advantage of individual enterprise.

This will be clear from the working of the Presidency Banks in the past.

(*a*) The Presidency Banks have responded to the requirements of some of the large European trading interests. They have financed some particular crops which they found most convenient to their own ends.

So far as I am aware they have no systematic scheme or sympathetic desire to finance Indian trade or industries. Their interest in Indian native concerns has been only to the extent that it was necessary to exploit them for their own gains.

(b) At times of stringency in the money market the Government of India appear to a certain extent willing to grant loans to the Presidency Banks. But this facility to take money at the bank rate is not availed of by them. Thus they look to their own profits before their obligations to the public.

(c) They have never regarded the Indian native banking concerns as auxiliary institutions to finance indigenous trade and industries.

(d) They have not even recognised their responsibility to lend against Government paper, and their refusal to so lend has been under the plea of financing trade.

Their willingness to agree now to any amalgamation is based upon their own interests rather than on a due sense of their obligations to the public.

VIII. The Central Bank's business should be to encourage gold currency and to provide India with gold reserves, but the institutions which are to form the nucleus of the proposed bank are run by men who are not prepared to encourage this for fear of disturbing the European money market. They feel that their first duty is to the London money market. The needs of India are only a secondary consideration. Thus one of the main objects of the Central Bank will be defeated.

IX. The too close connection which must exist between the Government and the Central Bank is likely to cause serious embarrassments.

(1) It is bound to produce a general impression that the State is responsible for the good conduct and prosperity of the bank, and when any one of them is involved in difficulty or in danger there will be a disposition to claim as of right assistance or even indemnity from Government.

Power to inspect the bank's operations could not be dispensed with and this would impose upon Government in the public view a responsibility for the management of the bank. The expectations unfortunately engendered by the close connection between the State and Presidency Banks were the cause of inconveniences almost amounting to a public danger. These inconveniences have been experienced by the Government in the past, and it is probable that difficulties of this character may occur not infrequently in the future.

(2) " Again an external power which can be called upon to prohibit a " competitor from encroaching upon the markets enjoyed by his rival " possesses a jurisdiction which is too useful not to be frequently invoked."

The indigenous institutions working at places where the Presidency Banks have branches find themselves at a disadvantage.

(3) The close connection is likely to place the Government in a further critical position at a time of commercial crisis or trade depression.

X. It is proposed to transfer the Paper Currency to the new bank.

People in India have implicit faith in the British Government. Bank notes, even with Government guarantee, will not be accepted. The innovation would arouse suspicion and distrust which it would be difficult to allay. The Government should not pledge their power and prestige for the profits or reputation of a private company. The paper currency is steadily growing and performing the useful function of economising metallic currency. It will suffer by transfer to a bank; it will get a set-back until matters are explained and confidence restored, which takes a very long time in India.

It is hardly necessary to add that the profits from note issues should go to the general taxpayer, and not to any particular section of the community, such as the shareholders of the proposed Central Bank.

The Government of India has got about 300 treasuries and about 1,000 sub-treasuries, which are doing useful work very economically. These treasuries will have to be maintained for other purposes, because the Presidency Bank with too costly a management cannot afford to open so many branches.

Thus it is not possible for the Central Bank to afford such facilities for the circulation of gold and gold notes and the conversion of gold to token coins as can be done by the treasury offices, which are very neccessary for gold currency.

The State treasuries cannot be put under the control of the bank as it will be dividing the responsibility. The State Bank cannot be so much in touch with the Government machinery as the treasuries.

The new bank will be at best an experiment. On the other hand the Treasury system has developed after half a century of working, confidence in the notes of the Government of India has been secured, and it would not be wise to disturb both for a mere experiment. To this may be added the following remarks of Mr. Lionel Abrahams, Assistant Under-Secretary of State for India :—

"It will be noticed that this list of advantages does not assume that the establishment of a State Bank would enable economies of any importance to be effected by the reduction of Government establishments, or that it would lead to any increase in the popularity of the paper currency or in the efficiency of its management. Neither of these results seem probable. As regards the latter, the growth of the note circulation and the additional facilities for encashment that have from time to time been provided under Government management seem to indicate that the efficiency attained under that system is probably as great as would be attained under management by a bank." (Cd. 7071, page 352.)

XI. A Central Bank, unless it be a national body representing all Indian interests, has no right to be constituted or designated as a State Bank for India to manage Indian finance and currency.

By experience Indians find that the full benefits of similar institutions ostensibly started for India do not reach further than the white community.

The bank with which Government keeps accounts should not be a sectarian one: a bank in which there is a vast majority of a certain class is likely to influence its working to the detriment of other interests. It is not possible for a sectarian bank to approach finance from an Indian standpoint. When once a particular community gets hold of certain advantages it naturally tries to retain them.

It will be clear from the facts and figures given in the subsequent part of my notes that the Presidency Banks now in existence are sectarian, the European element greatly predominating, and in the new amalgamated State Bank the same element will predominate and Indian interests be subordinated. [*See also* sub-paragraphs *(a)* and *(b)*, Objection No. VII.]

Again, owing to the conflicting interests of the multifarious communities covering such a large continent as India, it is difficult to constitute a cosmopolitan body at one place to look after the interests of all alike; local influence is certain to be in the ascendant, and other parts of the country are likely to be neglected.

XII. *Amalgamation.*—"Centralisation would probably mean some "curtailment of existing credit. There are customers who have got large "facilities in two or three Presidencies at the same time, but a Central "Bank might decline giving any single facility equal to the aggregate of "facilities allowed by the three banks."

FURTHER RESTRICTIONS FOR THE PRESIDENCY BANKS.

28. It is necessary to go into further details in reference to the constitution of the proposed bank.

We must closely examine the working of the Presidency Banks* which are to form the nucleus. I shall therefore take into consideration questions relating to the Shareholders, the Board of Directors, the Management, &c., &c.

SHAREHOLDERS.

29. The Presidency Banks with whom the Indian Government keeps account are sectarian.

(A) Bank of Bengal.—Taking the case of the Bank of Bengal, "*Capital*", writing the history of that bank up to 1888 said: "The shareholders in the bank are mainly European."

			Rs.
On 30th June 1888 there were	244	Asiatics holding ...	25,25,659
	1,102	Europeans holding ...	1,74,74,341
	1,346		2,00,00,000

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*EXTRACT FROM EXAMINATION.

9820 (*Mr. Keynes.*) *Q.* I notice that in your criticism of the power of the shareholders in the Presidency Banks you say nothing about the Bank of Bombay?—*A.* That is so.

9821 *Q.* Have you anything to add about the Bank of Bombay?—*A.* As regards the Bank of Bombay, in the first place, I have not much experience of the Bank of Bombay, and then it is not so rigidly exclusive as the other two Banks; and thirdly, we have two Members here who can give you information on the lines suggested by me. That is why I have not touched the matter. It would be adding some more pages to my Notes, but to a certain extent some of my remarks apply to the Bank of Bombay.

It is admitted that the native of India is no less desirous of making his capital fructify than peoples of other countries, and he therefore seeks a safe investment. The bank has the prestige arising out of the monopoly of all Government business and connection with the Government. In India connection with the Government carries great weight.

We still find that the shareholders of the Bank of Bengal now numbering " some thousands " are mainly Europeans. (" *Capital* ", 1909.)

Why has there been no increase in the numbers of Asiatic or Indian shareholders ? How did the shareholders remain mainly European after a quarter of a century in view of the prosperous working of the Bank of Bengal ?

(B) Bank of Madras.—Taking the list of shareholders eligible for the general meeting held on the 4th August 1913, we find that the shareholders of this bank are also mainly Europeans, viz. :—

			Rs.
About 181 natives holding about	3,342½ shares =	...	16,71,250
About 762 Europeans holding	11,657½ shares =	...	58,28,750
			75,00,000

It is necessary for the better government of the Presidency Banks that the shareholders of a particular community should not be in a vast majority.

I would suggest that the shares to be held by any shareholder should not exceed a fixed number, and that the voting be so regulated that Indian interests shall be protected.

ATTENDANCE AND PROCEEDINGS AT THE MEETINGS OF THE SHAREHOLDERS OF THE PRESIDENCY BANKS.

30. It would be interesting to prepare an analysis of attendance of the shareholders at the general meetings of the three Presidency Banks.

(A) Bank of Bengal.—The directors of the Bank of Bengal have the shareholders' meetings to themselves; an outside shareholder is a *rara avis.* The advent of an outside shareholder creates surprise.

From the copy of the proceedings of the shareholders of the Bank of Bengal held in August 1913, we see that out of the shareholders of the bank numbering " some thousands " only one shareholder was present as attorney to eight absent shareholders. It may be noted it has been ruled that the attorney-shareholder cannot propose any resolutions at the meetings. Thus the six directors present at the meeting (with a single shareholder who could not move any resolution) carried on the proceedings in the name of the shareholders. All the three propositions regarding—

(1) Passing of the accounts submitted by the directors ;

(2) The election of the retiring directors ;

(3) Appointment of the auditors to audit the accounts, for which the directors are responsible, were all proposed and seconded and carried by the directors themselves.

A director had to propose even a vote of thanks to the chair.

The proceedings of the shareholders of the Bank of Bengal have been generally conducted in this manner.

(B) Bank of Madras.—I attach herewith a rough analysis of the list of shareholders of the Bank of Madras *(see Statement IX)* showing the number of votes each was entitled to at the general meeting held in August 1913.

From the analysis it is clear that out of nearly 950 shareholders of the Bank of Madras—

(1) There are about 325 who are not entitled to any vote.

(2) Out of 950 shareholders there are about 225 ladies who never grace the meetings with their presence to use their votes.

Q. No. 6983. *(Mr. Keynes.)* How are your directors appointed at present?

A. (Mr. Hunter.) By the shareholders.

Q. No. 6984. Are they in fact appointed in that way, or is it, as is often the case in England, that the existing directors nominate their successors?

A. (Mr. Hunter.) If a director retires in the course of the year, the vacancy is filled up by the directors, but at every annual meeting two directors retire, and it is open to the shareholders to re-elect them or not. (Cd. 7069, page 287.)

I have requested the Bank of Madras to furnish me with the analysis of the attendance of the shareholders at the general meeting for the last 25 years in the form attached herewith. For attendance in the current year see *Statement X* compiled by me from the reports of the proceedings of the bank in the Madras press.

From the analysis it will be seen the general meetings are attended generally by one or two and sometimes six shareholders besides the directors and the officers of the bank who are generally in the majority. The apathy of the shareholders in attending the meetings is deplored by the chairman before the empty chairs, and has often been commented upon by the Madras press.

In *Statement XI* there is an extract from the "*Madras Mail*", the leading Anglo-Indian daily of Madras.

In this connection I may suggest that clause No. 56 of the Presidency Banks Act requires to be modified to enable more shareholders to attend the meetings. That is, the qualification for voting requires to be reduced. It should also be provided that proxies should not be given in favour of the directors or the officers of the bank.

CONTROL BY THE SHAREHOLDERS.

31. From the foregoing it will be seen that in the case of the two Presidency Banks, the Bank of Bengal and the Bank of Madras, the directors are practically left to pass the accounts submitted by themselves, to re-elect themselves or their successors, and to appoint auditors of their own choice to audit their accounts.

Owing to the apathy of the shareholders the directors comply with just the formalities required by law, and issue a report and a balance sheet. They do not give so much information to the shareholders as they used to give in their annual reports.

Thus, the control and direction of the banks is vested in a group of men responsible to nobody but themselves, without effective supervision by the Government. This state of affairs certainly requires to be mended.

AUDITING.

32. The Presidency Banks have generally not found it necessary in the past to have their accounts audited by any member belonging to the Society of Chartered Accountants of England and Wales. Some of the auditors have been members of other chartered societies probably having longer historical traditions of accounting and auditing.

The Joint Stock Banks of India have hereafter to get the accounts audited by auditors approved of by the Government, but such a provision is not found in the Presidency Banks Act.

I append a *Statement, No. XII*, showing how long each auditor of the Bank of Madras has occupied his position. It is clear they have always been European, and for long periods. When in 1910 a new chartered accountant was appointed, we find in the report of that year the following :—

"Branch loans amounting to Rs. 15,67,137, included in Accounts of Credit Rs. 1,28,11,355-3-8, were not on securities authorised by the Presidency Banks Act. The securities actually held, as shown by the branch returns, formed, in our opinion, ample liquid security for this amount. We have satisfied ourselves that these loans have now, at the date of this report, been put in order."

33. There should be a detailed and careful audit conducted by auditors who do not owe their appointments to the directors. It should not consist merely of comparing numbered items of balances from the ledger with the balance sheet. Besides the audited accounts a Statement of Valuation of Assets must be submitted to the shareholders every three or five years, conducted by those competent to give an opinion. At present, one or other of the auditors comes from outside. Such auditors cannot be expected to certify to the value of the assets shown in the balance sheet. The public attaches exceptional value to the audit certificates of skilled accountants, but the auditors generally refuse to be saddled with the responsibility of valuing assets. The book-keeping may be all right, according to the rules of the bank, but it is the value of the assets which is important.

34. Some of the banks that have failed in India had a galaxy of Chartered Accountants to audit their accounts for a number of years, who certified to the book-keeping, but the failures were due to the directors not having any proper valuation of their assets. It is not my purpose to suggest anything against the assets contained in the balance sheets of the Presidency Banks, but as they are the custodians of public money, a statement of valuation of assets, if published, will inspire more confidence besides being to their own interest.

I think the Government must insist upon every bank, doing business in India, submitting a statement of value of assets and an estimate of its liabilities. Provision must be made in the Presidency Banks Act for a Government audit and valuation of assets by competent persons.

35. *Balance Sheet and Returns.*—The new Indian Companies Act has prescribed a form of balance sheet for the joint stock banks, &c., which may be adopted. All the provisions for submission of reports and returns to the Registrar, which are available for public inspection, require to be incorporated in the Presidency Banks Act.

36. *Borrowings by the Directors.*—It is not enough that a director shall abstain from voting on any motion respecting the loan or advance of money or otherwise giving credit to himself, his co-trustee, servant, relative, &c.

It will have salutary effect (and is very necessary) if the total amount of all the liabilities (alone or with others) of the directors or firms in which they are partners, of joint stock companies in which they or their partners are common directors (or managing directors or agents) be shown in the balance sheet. If these particulars appear in the weekly statements of the three Presidency Banks, there will be no room for "*window dressing.*"

37. *Gentleman and his Groom Advances.*—The Presidency Banks Act, Clause 36 *(a)*, (6), requires, if possible, to be so worded that there may be no room for advances to a gentleman and his groom.

THE DIRECTORS AND THE EXECUTIVE OFFICERS OF THE PRESIDENCY BANKS.

38. *Bank of Bengal.*—I beg to present to the Royal Commission the following extract from "*Capital*" (dated 2nd September 1909) the leading financial organ of the Ango-Indian community in India about the directors of the most important of the three Presidency Banks.

Extract from "Capital," September 2nd, 1909.

The Directorate of the Bank of Bengal has always been a very close borough, confined to certain favoured firms, some sixteen in number: of those firms three went bankrupt, one having its certificate suspended and six have closed up their business, so that only seven remain to draw directors from—Messrs. Jardine, Skinner & Co. and Gillanders, Arbuthnot & Co., have had a member of their firm a director during the past half century at least. They evidently have a freehold tenure of this position.

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Of the present Board Messrs. Geo. Henderson & Co. came on the scene in 1873, Messrs, Begg, Dunlop & Co. in 1888, and Messrs. Turner, Morrison & Co. in 1893. The defunct firms are : Colvin, Cowie & Co., Gisborne & Co., Crooke, Rome & Co., who came on prior to 1860, Mackillop, Stewart & Co., 1861, Shand, Fairlie & Co. 1863, Lyall, Rennie & Co. 1866, Ashburner & Co· and Carlisle Nephews, 1871, John Elliot & Co., 1885.

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Until 1876 there were always three Government Directors, the last three being a Member of the Board of Revenue, the Master of the Mint and the Accountant-General, Bengal. With the passing of the Presidency Banks Act of 1876, Government ceased to hold shares and to appoint Directors. But in 1877 the Bank invited the Administrator-General, in 1880 the Official Trustee, and later, in 1887, the Official Assignee, to seats on the Board. These funeral additions may probably have been intended to restrain the exuberance of the Commercial Directors, but what other earthly use they were to the Bank it is difficult to see, as they have been as mutes ever since their appointment.

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Messrs. Kettlewell, Bullen & Co., who were in the first batch of firms, dropped out for some time, and then reappeared with the advent of Mr. Aitkin only to disappear. Messrs. Hoare, Miller & Co., who entered an appearance in 1862, seem out of favour now. Messrs. Begg, Dunlop & Co., in whose firm the late Secretary's brother was a partner, were admitted in 1888, but their Mr. J. F. Macnair having, it is said, been too independent, their firm, when he resigned in 1893, languished under the cold shade of the Secretary's displeasure, and their contempt was not purged until a few years ago.

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Now, I am not sure that this arrangement, under which a seat on the direction of the Bank of Bengal becomes apparently an asset in the partnerships of certain firms, is an absolutely wise and prudent one. The firms in question are undoubtedly of the highest standing; but firms, even of the highest standing, do not possess a monopoly of all those requisites which go to make an ideal bank director. It is common knowledge that the partners in these firms have not always been men of outsanding ability. The aim of the Bank should be to secure the very best men, not to have the partners in certain firms running in and out of the Board Room with their qualifying scrip, like dogs at a fair. Firms like Apcar & Co., Balmer, Lawrie & Co., Birkmyre Brothers, Duncan Brothers, Finlay, Muir & Co., Graham & Co., F. W. Heiligers and Co., Kilburn & Co., Pran, Kissen, Law & Co., Mackinnon, Mackenzie & Co., Macneill & Co., J. Thomas & Co., Williamson, Magor & Co., Andrew Yule & Co., among others, could all have furnished able Directors and brought business, which is an important item. But the man in the street, rightly or wrongly, has an idea that the Directors have no independence, and are simply dummies or pawns for the Secretary to play with. The present is a convenient time to change all this.

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The Bank of Bengal is an eminently conservative institution; although founded in 1806 no reports were issued until the Directors were required to do so at a general meeting of the proprietors on the 10th December 1856, or 50 years after. It would be as well if the Directors now recognise that the times are changing rapidly and that, in the language of the Prince of Wales, they must "wake up." The shares are now held by some thousands of proprietors, and these shareholders should have some voice in the selection of the directors. At the present moment, the annual meeting is a hole and corner affair, and very seldom more than one person is present, other than the directors. Business now has to be captured, it does not go seeking; and if the Bank of Bengal is to get that share which its position and character justifies, it must alter its methods and move with the times.

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The real remedy is to increase the number of Commercial, and to eliminate the present Government Directors, who cannot possibly be of any useful service to the Bank. The five Mercantile Directors are all good men and true, but seven Directors for a Bank of the size and importance of the Bank of Bengal seem too few. The Bank of England has some 26 Governors and Directors; the large London Banks have boards of a dozen and upwards. It may safely be presumed that, if the London Banks have these large boards, they have them because they find them profitable and useful. The Directors of the Bank of Bengal are by no means well paid; Rs. 200 a month for fees, and a special allowance in respect of the daily attendance of two of them, which must not exceed Rs. 15,000 per annum, cannot by any means be called excessive; so the ground of expense can hardly be taken as an objection.

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If the Government desire to be represented on the direction of the Bank of Bengal, to which they are certainly entitled, though it must be borne in mind that they deliberately cut themselves adrift in 1876 and vacated the three seats they than held, they should certainly, as they did before, nominate directors with some pretensions to knowledge of commerce and finance. The Comptroller-General, the Accountant-General, Bengal, or the Director-General of Statistics, should all make excellent Government Directors. But *absit omen*, Government and Commercial graveyards are hardly a good field to select from. Messrs. Overend, Gurney & Co. thought to enlist the services of a Mr. Edwards, an official receiver, of sorts, in Bankruptcy—people know with what result.

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Further comments are needless.

39. *Bank of Madras.*—In every respect the same state of affairs as described about the Bank of Bengal by "*Capital*" is literally true about the Bank of Madras.

From *Statement XIII* appended, it will be seen that (1) Messrs. Best & Co., (2) Parry & Co., (3) David, Orr & Brightwell, (4) Arbuthnot & Co.,

(5) Binny & Co., had permanent seats to fill up, namely, five seats out of seven on the Board of Directors of the Bank of Madras. Messrs. Arbuthnot & Co. disappeared on their failure in 1906; Messrs. Binny & Co. had to temporarily vacate the seat at the time of Arbuthnot failure, but reappeared in 1911.

40. The following paragraphs will enable the Commission to understand more fully the exceptional position of the Bank of Madras.

I. The Presidency Banks are practically foreign banks like other exchange banks, and Indians are treated by them as foreigners in their own country.

II. The Indians are excluded from the board, and superior executive offices of the Bank of Madras. The Bank of Madras was established in 1843, but there has never been an Indian on the board of directors for the last three-quarters of a century. Why should the two vacant seats not be filled by the election of two Indians?

It is said the proportion of advances of the Bank of Madras made to Indians and Europeans is six to one, but there has never been a single independent Indian colleague to guide the board in fixing the personal credits for Indians.

The Bank of Bengal was established in 1806, but so far as I know, has never had an Indian director.

III. The European directors are fluctuating, and are engaged in their own mercantile business. In certain cases they have been indebted (sometimes heavily) to the Bank, and are not in a position to exercise that check and control which is essential to keep under curb the executive officers. This leaves a free hand to the European executive officers of the Bank to manage the finances of the institution as they like. I have been supplied with a copy of the bye-laws of the Bank of Madras, but I do not find any rules required to be made under section 63, sub-clauses *(g)*, *(h)*, *(i)*, *(j)* and *(m)*.

IV. The directors are themselves exporters, importers, or manufacturers competing with the Indians to whom they have to allow credit from the bank. The credit and rates of interest for Indians is fixed by them.

V. The directors are not in touch with the Indians except for their individual personal business with retail dealers through their Dubashes, who guarntee the credit allowed by the firm. As the Dubashes furnish securities for the guarantee, the firms are not particular about making detailed inquiries. There is no co-partnership between Indians and Europeans in the Madras Presidency. Thus, they are unable to know the means and positions of the Indian parties to whom the Bank lends.

VI. Their information is derived either from the executive officers who are not fully in touch with Indians, or on second-hand information from their subordinates or interested parties.

VII. The executive officers (like the directors of the Bank of Madras) are innocent of the local vernaculars, and have to do business through interpreters. As the executive officers have to depend upon the information supplied by their subordinates or interpreters, *there is danger of corruption in the matter of advances.*

VIII. Instead of availing themselves of the services of Indians for higher appointments, raw men are imported from abroad, who have to gain experience when they reach India.

The maximum salary of an Indian in any office in the bank (except the head cashiership) is generally the minimum salary of a European assistant newly imported. The loan accounts of European firms are not allowed to be handled by native assistants at some offices.

IX. The three Presidency Banks have in all about 54 branches, but they have never put an Indian in charge of a branch office, even as agent or accountant.

THE QUESTION OF THE CAPITAL OF THE PROPOSED CENTRAL BANK.

41. The following are some of the questions which should be addressed to those who advocate the establishment of a Central State Bank :—

(*a*) What will be the amount of capital of the proposed bank ?

As all the balances and revenues of the Government of India would be placed with the bank, and these would be increased by further deposits of the public, the capital must be enlarged in proportion to the increased liabilities. (Of course we must leave out of the question the capital required for supporting the exchange.) On the other hand, owing to the difficulties of investments in the slack season, due to the restriction of not employing funds outside India, a large amount of capital would not earn any substantial dividend.

(*b*) Should the capital be sterling or rupee ?

Sterling capital is necessary to attract European capital, one of the reasons for the formation of the bank being to cheapen money. It may also simplify account-keeping. But if the capital of the bank is in sterling it is a slur upon the integrity of the rupee, although the bank would be formed for the express purpose of supporting the exchange value of the rupee as legal tender. A compromise has been suggested that the capital should be in rupees and the accounts published in terms of sovereigns of rupees 15 each.

(*c*) Where is the extra capital to come from ?

(1) Is any further part to be open to the British public ? If so, how much ?

(2) Is Government supposed to subscribe ? If so, how much ?

My own opinion is that, as the bank is to be established in the supposed interests of India, the whole of the capital ought to be held in that country.

(*d*) 10,000,000 £ sterling is the amount which has so far been fixed for the capital of the bank to earn a dividend of 5 per cent. per annum. 9,000,000 £ will be absorbed in the allotment of shares to the existing body of shareholders of the three banks who are mainly Europeans.

Will the Indian public and the Government be statisfied with an allotment of the paltry sum of 1,000,000 £ sterling only ?

What control will this amount give to the Government and the Indian public ?

CONTROL OF THE NEW BANK.

42. Is there going to be a divided control of—

1. The shareholders in India.
2. Shareholders outside India.
3. The Secretary of State and the Government of India, or is it proposed to leave the control to the Government only ?

As will be seen from the working of the Presidency Banks, the shareholders are not exercising any control on the Board. They are under the impression that as the Government entrusts to them its balances it is also keeping a sufficient watch on the management and prosperity of the banks. As a matter of fact, the Government is holding aloof so as not to interfere with the free working of the institution. So far as I am aware, no strict supervision is exercised by the Government lest it should incur the onus of direct responsibility to the shareholders.

Hereafter the Government must have a larger control. The banks should act under a code of strict rules sanctioned by the Government, and, to see that they are enforced, the Government's representatives should take part in the management. How far the Government representatives should be left to decide matters on their own responsibility without consulting the authorities at Simla or Whitehall is a subject for consideration. Frequent consultations between the Government and a body of officials and non-officials would mean red tape and delay.

Government directors have been suggested. There would still remain certain difficulties as to the appointment and control by the Government representatives. Will they be officials, or non-officials, Europeans or Indians? Probably the former, although they have no special training and must go out of office when they get some experience as only senior officers can be appointed.

The Government directors in the past have not been a success.

CONCLUSION.

43. From the foregoing it is clear that there is no necessity for a Central State Bank for India on the lines suggested by its advocates.

As the Presidency Banks have got the monopoly of all Government business and their close connection with the Government has produced a general impression that the State is responsible for their good conduct and prosperity, some Government control and check is necessary on the working of these banks. It is on the close connection and monopoly of the Government business that these banks are trading and it is this which induces the public to deal with them in preference to other equally sound and strong institutions.

44. In my opinion, if some alterations are made in the Presidency Banks Act to facilitate transactions among themselves during the busy season on reasonable terms for their protection, and if the defects pointed out by me in the control and management of the banks are removed, the three Presidency Banks may be allowed to keep the Government balances with them, but only to the extent to which they hold under present arrangements. Any further patronage or concessions should be entirely dependent upon the services which they may render to the country as a whole in the future.

VIDYA SAGAR PANDYA,
Secretary, Indian Bank, Ltd., Madras,
Nominated by the
Southern India Chamber of Commerce,
Madras.

INDIAN SPECIE BANK, LTD.,
65, Bishopsgate St., London, E. C.,
21st October 1913.

APPENDIX.

STATEMENT I.

(Referred to in Para. 1)

GENERAL STATEMENT of GROSS REVENUE and EXPENDITURE, charged against REVENUE or CAPITAL, with ANNUAL SURPLUS or DEFICIT and CASH BALANCES (in INDIA and ENGLAND).

——		1900–1.	1901–2.	1902–3.	1903–4.	1904–5.	1905–6.	1906–7.	1907–8.	1908–9.	1909–10.	1910–11.
		£	£	£	£	£	£	£	£	£	£	£
Gross Revenue ...	India ...	64,505,997	64,140.933	64,600.947	70,220,835	70,471.190	69,890,637	72,270,089	70,284,638	69,159,795	73 882,288	79,706,616
	England	218,076	491,208	694,805	746,744	636,103	951,232	874,465	718,637	601,740	711,207	975,857
Total		64,724,073	64,632,141	65,295,752	70,967,579	71,107,293	70,841,869	73,144,554	71,003,275	69,761,535	74,593,495	80,682,473
Expenditure charged to Revenue ...	India ...	45,852,804	42,311,859	43,865,937	49,823,762	48,187,459	50,132,176	52,346,771	52,209,962	54,574,086	54,863,938	57,164,623
	England	17,200,957	17,368,655	18,361,821	18,146 474	19,463,757	18,617,465	19,208,408	18,487,267	18,925,159	19,122,916	19,581,563
Total		63,053,761	59,680,514	62,227,758	67,970,236	67,651,216	68,749,641	71,555,179	70,697,229	73,499,245	73,986,854	76,746,186
Net Revenue in India ...		18,653,193	21,829,074	20,735,010	20,397,073	22,283,731	19,758,461	19,923,318	18,074,676	14,585,709	19,018,350	22,541,993
Net Expenditure in England ...		16,982,881	16,877,447	17,667,016	17,399,730	18,827,654	17,666,233	18,333,943	17,768,630	18,323,419	18,411,709	18,605,706
Ultimate Result ...	Surplus	1,670,312	4,951,627	3,067,994	2,997,343	3,456,077	2,092,228	1,589,375	306,046	—	606,641	3,936,287
	or Deficit	—	—	—	—	—	—	—	—	3,737,710	—	—
Expenditure not charged to Revenue: Capital Outlay on —												
Railways ...	India ...	787,863	2,670,400	3,034,657	3,233 331	4,401,930	7,360,894	5.363,350	8,152,831	6,158,581	4,224,631	7,054,441
	England	647,002	853,201	1,529,344	1,301,774	1,495,093	2,049,305	2,551,691	2,414,214	3,329,587	2 096,986	1,860,764
Irrigation Works...	India ...	582,606	540,234	557,512	504,089	353,913	524,245	718,259	758,505	923,623	1,015,821	1,142,472
	England	7,877	7,317	6,679	3,809	7,259	31,949	79,368	87,217	59,866	36,528	61,416
Total		2,025,348	4,071,152	5,128,192	5,043,003	6,258,195	9,966,393	8,712,668	11,412,767	10,471,657	7,373,966	10,119.093
Total charges, including Capital Expenditure	India ...	47,223,273	45 522 493	47,458,106	53,561,182	52,943,302	58,017,315	58,428,380	61,121,298	61,656,290	60,104,390	65,361,536
	England	17,855,836	18,229,173	19,897,844	19,452,057	20,966,109	20,698,719	21,839,467	20,988,698	22,314,612	21,256,430	21,503,743
Total		65,079,109	63,751,666	67,355,950	73,013,239	73,909,411	78,716,034	80,267,847	82,109,996	83,970,902	81,360,820	86,865,279
Closing Cash Balance-	India ...	10,598,981	11,880,301	12,082,416	11,869,552	10,749,770	11,781,457	10,328,237	12,851,723	10,235,827	12 295,428	13,566,922
	England	4,091,926	6,693,137	5,767,787	7,294,782	10,262,581	8,436,519	5,606,812	5,738,489	8,453,715	15,809,618	18,174,349
Total		14,690,907	18,573,438	17,850,203	19,164,334	21,012,351	20,217,976	15,935,049	18,590,212	18,689,542	28,105,046	31,741,271

APPENDIX.

STATEMENT II.

(Referred to in Para. 18.)

ADDITIONS to the BANK and other RESERVES in GOLD of some important COUNTRIES.

Banks and Treasuries.	31st December 1889	31st December 1899.	31st December 1910.
	£	£	£
Bank of England...	17,784,000	29,002,000	31,095,000
Scotch Banks of Issue	4,591,000	6,227,000	4,918,000
Irish Banks of Issue	3,480,000	2,816,000	3,649,000
Germany—Imperial Bank	12,234,000	22,939,000	32,760,000
German War Fund	5,869,000	5,869,000	5,869,000
Austria-Hungary...	5,426,000	43,982,000	54 971,000
Bank of France	50,471,000	74,310,000	130,050,000
Bank of Spain	6,009,000	13,485,000	16,301,000
Bank of Portugal...	1,028,000	1,075,000	1,348,000
Bank of Netherlands	5,069,000	3,730,000	10,391,000
National Bank of Belgium	2,606,000	4,329,000	5,037,000
Bank of Italy	18,132,000	15,702,000	38,670,000
Bank of Sicily			2,261,000
Bank of Naples			8,091,000
Bank of Russia	42,565,000	90,275,000	130,288,000
Bank of Finland	861,000	888,000	873,000
National Bank of Romania	2,011,000	1,444,000	4,759,000
National Bank of Bulgaria...	426,000	127,000	1,254,000
National Bank of Servia	345,000	286,000	992,000
Imperial Ottoman Bank	740,000	1,384,000	6,171,000
Royal Bank of Sweden	1,379,000	2,195,000	4,482,000
National Bank of Denmark	2,754,000	3,249,000	4,085,000
National Bank of Norway...	1,755,000	1,755,000	1,904,000
Bank of Switzerland	2,364,000	3,890,000	6,187,000
Bank of Greece	21,000	79,000	40,000
United States—In National Banks	17,348,000	41,860,000	46,849,000
In State Banks	5,306,000	16,400,000	16,323,000
In the Treasury	64,459,000	82,279,000	226,731,000
Bank of Australia...	18,465,000	21,862,000	37,915,000
Canadian Treasury and Banks	1,505,000	4,651,000	22,235,000
Banks of South Africa	1,028,000	6,740,000	10,357,000
Total ...	296,031,000	503,850,000	866,856,000

STATEMENT III.

(Referred to in Para. 18.)

ABSORPTION of GOLD for purposes other than the ADDITION to BANK RESERVES from 1890 to 1910.

——	Net Addition to Stock of Gold.	Addition to Reserve.	Net Absorption for other purposes.	Population.
	£	£	£	Millions.
United Kingdom	115,200,000	13,807,000	101,393,000	45,216,665
United States of America	276,900,000	202,790,000	74,110,000	92,027,874
Germany	144,000,000	20,526,000	123,474,000	64,903,423
France	205,700,000	79,579,000	126,121,000	39,252,245
Italy	30,700,000	10,041,000	40,741,000	34,687,000
India	126,600,000	6,500,000	120,100,000	315,086,372
Total ...	899,100,000	313,161,000	585,939,000	—

APPENDIX.

STATEMENT IV.

CORRESPONDENCE REFERRED TO IN PARA. 19 (II).

1. *Letter from the Secretary, Indian Bank, Ltd., to the Currency Officer, Fort St. George, Madras, dated 25th January* 1910.

I beg to enquire if you issue sovereigns to the public, and if so, whether you can arrange to issue to us 500 £ sovereigns, the cost of which will be sent to you on your reply.

2. *Letter from the Assistant Accountant-General, in charge of Paper Currency Department, to the Secretary, The Indian Bank, Ltd., Madras, dated 26th January* 1910.

With reference to your letter No. A. 10/444 dated 25th January 1910, I have the honour to state that sovereigns are issued to the public at not more than 100 £ a day to each applicant.

3. *Letter from Mr. Vidya Sagar Pandya to the Accountant-General, Madras, dated 15th August* 1913.

I beg to enclose herewith a copy of my letter addressed to you as Secretary of the Indian Bank, Limited, dated the 25th January 1910, and a copy of your reply to the same dated the 26th idem. I shall feel obliged if you will kindly favour me with a copy of instructions or Government Order under which the issue of sovereigns to the public was so restricted and the circumstances under which it was done. If you have any other circulars or orders issued during the years 1908 up to date regarding the issue of sovereigns to the public, I have to request you to kindly send copies of the same. This information is required in connection with my evidence before the Royal Commission on Indian Finance and Currency in London.

4. *Letter from the Officiating Commissioner of Paper Currency to Mr. Vidya Sagar Pandya, dated 20th August* 1913.

With reference to your letter dated 15th August 1913, I have the honour to state that, formerly the issue of the sovereigns used to be restricted with reference to the available balance from time to time but that no restriction is now placed over the issue of sovereigns to the public, except that the issue of more than 10,000 £ to a single party on one day requires the sanction of the Comptroller-General to whom the purpose for which the gold is asked for has to be reported.

APPENDIX.

STATEMENT V.

(Referred to in Para. 20).

STATEMENT of some of the INVESTMENTS in INDIA.

(In Lakhs of Rupees.)

Year.	Total Capital and Reserves of Banks in India.	Private Deposits in Banks.	Total.	Post Office Savings Banks Closing Balance.	Capital of Joint Stock Companies Registered in India.	Amount of Policies (issued by 17 Insurance Companies) in India.	Permanent Debt in India.	Year.
1890	4,99	25,01	30,00	635	24,25	11	—	1890
1891	5,05	26,22	31,27	706	26,35	12	—	1891
1892	5,12	25,07	30.19	782	26,46	16	—	1892
1893	5,27	24,31	29,58	827	26,65	15	—	1893
1894	5,43	27,39	32,82	840	27,06	21	—	1894
1895	5,85	29,09	34,94	904	28,87	22	—	1895
1896	6,09	28,45	34.54	964	30,35	17	—	1896
1897	6,51	26,06	32,57	929	32,09	23	—	1897
1898	6,89	27,16	34,05	943	34,60	59	—	1898
1899	6,94	29,54	36,48	965	34,46	45	—	1899
1900	6,87	31,46	38,33	1,004	36,09	52	—	1900
1901	7,15	35,47	42,62	1,068	37,22	47	116,19	1901
1902	7,31	41,80	49,11	1,142	37,91	64	117,55	1902
1903	7,36	45,06	52,42	1,233	38,57	81	119,42	1903
1904	7,55	49,80	57,35	1,341	40,17	89	122,29	1904
1905	7,86	51,30	59,16	1,399	41,63	87	126,08	1905
1906	8,30	57,09	65,39	1,477	44,05	97	130,45	1906
1907	9,48	61,28	70,76	1,518	50,40	1,40	132,83	1907
1908	9,78	64,39	74,17	1,523	56,72	1,78	134,56	1908
1909	10,32	73,41	83,73	1,587	61,18	2,24	136,84	1909
1910	10,67	82,31	92,99	1,692	63,73	2,83	138,09	1910
1911	11,13	84,91	96,04	1,890	69,02	2,84	—	1911
1912	—	—	—	—	—	2,62	—	1912

STATEMENT VI.

(Referred to in Para. 20.)

EXTRACT from "CAPITAL", June 25th, 1908.

But how is this to be managed? One thing is certain; it cannot be managed in a day. A great preparation is needed before the ingrained hereditary custom of hoarding will break down before the light which is now breaking in upon every other thing in India. And the preparation must begin in the primary schools, and be carried right up through the higher schools, colleges and universities. If the sons of the wealthy nobles and zemindars got a good all-round education from their youth up, not merely of a literary order, but were trained in the sciences and the arts and in their application to the development of everything relating to modern life; if ther minds got lightened up by coming, in the course of their education, into practical contact with the fascinations (for example) of electricity and the immense possibilities of its applications to industrial life; to the wonderful revelations of chemistry; the engineering, civil and practical; to textile manufactures; to agricultural and commercial enterprise and to the providing of facile means of inter-communication by canals and railways, of commercial transport throughout India and to its ports—if, I say, the sons of the wealthy of the land were brought up through an education such as I have indicated, the great hoards would begin gradually to open to be directed into fruitful channels, and the Government of India would never be at a loss where to get money for needful railway construction. The leaders of the *swadeshi* movement (all success to them) may lay to heart this truth that not until the vast hoards of India's internal wealth are available for the development of the country, swadeshi will lead a starved life. Education, education, education, are the three requisites for thawing the frozen hoards of India. And this cannot be realised a day too soon.

STATEMENT VII.

(Referred to in Para. 27, III.)

The DEVELOPMENT of CREDIT and of IMPORTS and EXPORTS in INDIA.

Year.	Capital and Reserve of Banks in India in Lakhs of Rs.	Private Deposits in Banks in India in Lakhs of Rs.	Clearing House Returns, Calcutta, Bombay, and Madras in Lakhs of Rs.	Index Numbers.				Imports and Exports of Merchandise and Treasure excluding Government Stores.		Year.
				Capital.	Deposits.	Clearing House Returns.	Total.	In Lakhs of Rs.	Index Nos.	
1890	4,99	25,01	1,37,75	96	98	94	96	193,16	99	1890
1891	5,05	26,22	1,46,50	98	102	100	100	192,49	98	1891
1892	5,12	25,07	1,43,81	99	98	98	98	193,07	99	1892
1893	5,27	24,31	1,46,08	102	95	100	99	202,86	104	1893
1894	5,43	27,39	1,58,34	105	107	108	107	196,70	100	1894
1895	5,85	29,09	1,75,79	113	114	120	116	201,18	103	1895
1896	6,09	28,45	1,81,23	118	111	124	118	193,71	99	1896
1897	6,51	26,06	1,90,73	126	102	130	119	194,42	99	1897
1898	6,89	27,16	1,76,25	133	106	120	120	206,39	105	1898
1899	6,94	29,54	2,02,55	134	115	138	129	208,60	107	1899
1900	6,87	31,46	2,12,35	133	123	145	134	207,58	106	1900
1901	7,15	35,47	2,11,49	138	139	144	140	234,09	120	1901
1902	7,31	41,80	2,29,49	141	163	157	154	241,68	124	1902
1903	7,36	45,06	2,43,91	142	176	166	165	277,88	142	1903
1904	7,55	49,80	2,51,07	146	195	171	171	295,20	151	1904
1905	7,86	51,30	3,00,45	152	200	205	186	292,18	149	1905
1906	8,30	57,09	3,31,48	161	223	226	203	318,14	163	1906
1907	9,48	61,28	3,66,38	183	239	250	224	345,53	177	1907
1908	9,78	64,39	3,56,20	189	252	243	228	302,89	155	1908
1909	10,32	73,41	3,61,00	200	287	246	244	348,77	178	1909
1910	10,67	82,31	4,10,08	207	322	280	270	386,26	197	1910
1911	11,13	84,91	4,54,51	215	332	310	286	430,19	220	1911

APPENDIX.

STATEMENT VIII.

(Referred to in Para. 27, IV.)

PERCENTAGE of CASH to LIABILITIES of the THREE PRESIDENCY BANKS.

Year ending December.	Bank of Bengal.	Bank of Bombay.	Bank of Madras.
1893 - - -	44·69	56·5	44·0
1894 - - -	53·68	62·3	43·1
1895 - - -	47·21	51·7	43·8
1896 - - -	36·41	31 5	42·8
1897 - - -	39·11	28 0	37·7
1898 - - -	40·18	32·9	43·2
1899 - - -	30·83	29·6	30·6
1900 - - -	31·95	24 3	27·4
1901 - - -	39·90	35·2	37·6
1902 - - -	39·17	42·0	43 5
1903 - - -	31·86	29·8	43·9
1904 - - -	38 26	40·6	37·5
1905 - - -	28·36	32·8	35·7
1906 - - -	30·97	37·0	36·3
1907 - - -	25·65	33·8	35·4
1908 - - -	28·41	39·7	30·3
1909 - - -	31·40	35 2	25·8
1910 - - -	28·02	35·4	28·8
1911 - - -	36·82	36·7	24 2
1912 - - -	33·18	24·9	24·0

Taken from the Investor's India Year Books, 1911 and 1913.

STATEMENT IX.

(Referred to in Para. 30 B.)

ROUGH ANALYSIS of the LIST of SHAREHOLDERS of the BANK of MADRAS, August 1913.

A—

—	Ladies.	Number of Share-holders entitled to No Vote.	Number of Shareholders showing the Number of Votes each are entitled to										Total Number of Sareholders.
			1.	2.	3.	4.	5.	6.	7.	8 to 10.	11.	12.	
Indian ...	25	89	65	16	4	2	1	2	Nil	Nil	1	1	181
European ...	200	235	365	96	43	12	4	6	1	Nil	Nil	Nil	762
Grand Total	225	324	430	112	47	14	5	8	1	Nil	1	1	943

B—

	Shares.		Rupees.
Number of Shares held by Indians ...	3,342½	=	16,71,250
,, ,, ,, Europeans ...	11,675½	=	58,28,750
Total ...	...		75,00,000

C.—Classification of Indian Shareholders :—

Mahomedans	13
Bengali	1
Parsies	47
Christians	4
Hindus	116
Total ...	181

APPENDIX

STATEMENT X.

(Referred to in Para. 30 B.)

ANALYSIS of ATTENDANCE OF SHAREHOLDERS at the GENERAL MEETING of the BANK of MADRAS.

Year of the General Meeting.	Number of Directors on the Board at the date of the Meeting.	Present in Person.			Present by Proxy.		
		1. Directors, Ex-Directors and Partners of their Firms.	2. Members of Staff.	3. Shareholders other than Directors, Ex-Directors and Partners or Members of the Staff.	1. Proxies in favour of Directors or Partners.	2. Proxies in favour of Staff.	3. Proxies in favour of Shareholders other than Directors, Ex-Directors and Partners or Members of Staff.
1913	7	7	2	3 (includes one Broker).			

STATEMENT XI.

(Referred to in Para. 30 B.)

EXTRACT from *The "Madras Mail,"* MADRAS.

The Annual General Meeting attended by only one shareholder and held in a room in which the temperature was registering 95 degrees is probably unique in the annals of banking. Such were two of the best remarkable features of yesterday's annual meeting of the Bank of Madras. Of the temperature we prefer to say nothing. Heat, we are told, generates heat, and it would be impossible to refer to the subject coolly. As regards the presence of only a solitary shareholder we consider that a greater compliment could not be paid to the Board of Directors and the executive staff. It proves that the shareholders as a body consider that the affairs of the bank are being conducted in the best possible manner and that there is no fault to be found anywhere or with anybody.