International Journal of Inclusive Development
Citation IJID: **8**(01): 01-04, June 2022
DOI: 10.30954/2454-4132.1.2022.1
Peer-Reviewed Journal

A Study the Indigenous Bankers

Ajoychandra Singh

Assistant Professor in Commerce, Biramangol College, Sawombung, Manipur, India

Corresponding author: amresh880@rediffmail.com

Received: 21 Mar., 2022 **Revised:** 25 May, 2022 **Accepted:** 02 June, 2022

Abstract

By far the largest constituent of the Indian banking and credit system is the indigenous part. This part comprises (a) money-lenders in villages, and (b) indigenous bankers in towns and cities. Indigenous bankers, however, should be distinguished from the money lenders. The distinction arises out of the following points: (i) while indigenous bankers receive deposits and deal in *hundis*, the money-lenders do not do so; (ii) the former finance trade and industry, the latter mainly finance consumption; (iii) the former are more careful about the purposes of their loans than the latter; and (iv) repayment is more punctual and the rate of interest is generally lower in the case of the former. Despite these differences, the similarity is very great. Both of them are unorganised, both are scattered and are to be met with all over the country, and both have adapted themselves to the customs, habits, and needs of the people with whom they are in business relations, and business of both is very often a hereditary function and is carried on as a family concern.

Keywords: Indigenous, Bankers, Credit, Commission, Repayment

After a great deal of discussion, the Study Group on Indigenous Bankers of the Banking Commission has defined indigenous bankers "as those individuals or firms who accept deposits or rely on bank credit for the conduct of their business and are close to or on the periphery of the organised money markets and are professional dealers in short-term instruments (*hundis*) for financing the production and distribution of goods and services." The effect of this definition is clearly to exclude money-lenders. The importance of indigenous bankers in the banking and credit system of the country can hardly be exaggerated. The remarks made in 1934 by Sir George Schuster, the then Finance Member of the Government of India, still hold good to a large extent. He said: "It is impossible to over-estimate the part that indigenous bankers play in the whole of the banking and credit machinery of India. It would be no exaggeration to say that this part of the organisation represents 90 per cent or more than 90 per cent of the whole." According to the Shroff Committee on Finance for the Private Sector (1954), 75 per cent to 90 per cent of the total internal trade of the country was being financed by the indigenous bankers.

The joint-stock banks finance only a small number of large business and a rigid and formal procedure is followed in advancing funds. The indigenous bankers, on the other hand, cater for the financial needs of a much larger clientele, viz., the innumerable small traders and industrialists who cannot fulfil the

How to cite this article: Singh, A. (2022). A Study the Indigenous Bankers. *Int. J. of Inclusive Develop.*, **8**(01): 01-04.

Source of Support: None; **Conflict of Interest:** None

conditions laid down by bankers and, thus, would not be able to avail of them. To "assist the small man" which is the slogan of the organised banking sector today has been the motto of the indigenous bankers for generations. They have provided retail credit' not only in big towns, but also in the far-off *mandis*, where no banking facilities existed in the past.

Not only do the indigenous bankers provide a very large volume of credit, but their rates do not compare unfavourably with those of commercial banks. In fact, due to their low establishment costs, they are able to supply relatively cheaper credit. Further, their importance lies in the vast experience and intimate personal knowledge they have of their customers. These are invaluable for developing credit system and a bill market in the country.

DISCUSSION

The indigenous bankers do quite a large variety of business of which the following are the main types:

1. Their main business is to advance loans. They lend money to traders and small industrialists, more on personal credit than against adequate security. Their clients prefer to borrow from them rather than from the banks mainly on account of their relatively elastic and informal methods and thinking also that the transaction would be kept confidential.
2. They deal in *hundis*, i.e., purchase or discount *hundis*, offered by their customers. They also cash *hundis* drawn on them by their agents or firms which are in relationship with them, and similarly they sell *hundis* on their agents or related firms. By dealing in *hundis*, they help in the financing of the internal trade (movement of agricultural crops and distribution of commodities) and in the remittance of money from one place to another.
3. They receive deposits from the public: As they seldom fail to make payments whenever there is a demand for the withdrawal of such deposits, they enjoy a high degree of prestige and esteem among their clients. However, some of these bankers, specially the Marwaris and Multanis, rely more on their own resources than on public deposits.
4. They carry on trade. Mostly the indigenous bankers do not confine their activities to banking business only but combine trading with it. They usually deal in gold, silver and sometimes indulge in speculation in cotton, grain, etc.

Defects

Even though the indigenous bankers occupy a very important position in the Indian banking system, they suffer from certain defects:

1. The most serious defect is that they follow old and out-of-date methods, which are the result of lack of education and their conservatism.
2. They generally charge exorbitant rates of interest from borrowers and not un often make cash deductions at the time of giving loan.
3. The deposit side of their business is very little developed; they generally rely more on their own funds or deposits received from the public. The disadvantages are: Firstly, their own funds are insufficient for the needs of the country's trade and industry and, secondly, the savings of the people remain scattered and idle instead of being collected and employed.
4. The mix up trade with banking business. This is very unsound.
5. *Hundis* play a comparatively small part in their total transactions are largely financed by cash.
6. Besides, they are insufficiently organised among themselves.
7. Further, they are virtually unconnected with the modern part of the country's money market. Consequently, effective credit control by the Reserve Bank is impossible.

It is to be greatly regretted that the overwhelming importance of indigenous bankers has not been sufficiently realised. If the indigenous banking system could be improved, it is bound to play even a much greater and more useful part in the economic progress of the country than it has been doing so far.

Linking of Indigenous Banks with Reserve Bank

Efforts have been made off and on for linking indigenous bankers with the Reserve Bank. But nothing concrete has emerged. In 1961, the Reserve Bank reaffirmed its policy with regard to the question of linking indigenous bankers with the organised banking system. Three pre-requisites for such linking were laid down:

1. The indigenous bankers should segregate their banking activities from their non-banking activities:
2. They should have their banking accounts audited; and
3. They must subject themselves to supervision and control by the Reserve

Banking Commission's Recommendations regarding Indigenous Bankers

The Banking Commission made several important recommendations in its report submitted in 1972 in respect of indigenous bankers. The focus of these recommendations is on how best to institutionalise the lending and financial operations of indigenous bankers. The Commission's recommendations aim at introducing a certain measure of financial and social discipline into the activities of the indigenous bankers.

Accordingly, in the first place, the Commission has recommended a certain measure of regulation of these bankers. The best way in its view to control the business of indigenous bankers would be through commercial banks.

The second set of recommendations relates to the terms and conditions for discounting facilities. The indigenous bankers should fulfil the following requirements in order to be entitled to discounting facilities with commercial banks:

1. They must not engage themselves in trading activity.
2. They must each have minimum owned resources of not less than ₹ 1 lakh.
3. Their total discounting limits should not exceed 5 times of their owned funds.
4. They must maintain books of account in the usual recognised manner and have them audited and certified by a recognised firm of auditors.
5. They must furnish to the Reserve Bank a summary statement of the volume and nature of business on a prescribed form.
6. As far as possible, indigenous bankers should not be encouraged to borrow from more than one bank.
7. They should preferably be members of an association. The third main set of recommendations is in respect *of the nature of link of these bankers with the organised banking sector*. Although in the past successive attempts had been made to establish a direct link between indigenous bankers and the Reserve Bank, the Commission has expressed the view that "in the changed circumstances of today, it is neither necessary nor practicable to have a direct link."

Nor did the Commission favour a system by which the Reserve Bank might allow a certain quantum of refinancing to commercial banks against *hundis* discounted for indigenous bankers. The Commission has further recommended that some understanding be reached between commercial banks and the indigenous bankers regarding the level of interest rates that such bankers should charge on advances to their customers.

Further, where the banks are satisfied that the lending by these bankers is for priority sectors, they should charge a reasonable discount rate and also ensure that the indigenous bankers pass on the benefit to the borrowers. Indigenous bankers found to be indulging in malpractices should not be allowed any further bank accommodation.

Systematic evaluation of the financial statements of indigenous bankers be undertaken by commercial banks. With a view to inducing the indigenous bankers to lend for genuine productive and distributive purposes, while granting limits to them commercial banks should make some attempt at independent evaluation of the drawer's financial status and satisfy themselves at least on a random Kasis that the credit has been used for the purpose for which it was given.

Suggestions for Improvement

In view of its importance, it is only proper that suitable measures should be adopted for improving indigenous banking. Here are a few suggestions:

1. Indigenous bankers should be persuaded gradually to modernise their methods, e.g., they should adopt modern system of keeping accounts, get them audited, should use bills and cheques and should be prompt in receipt and payment of money.
2. They should separate their banking business from their trading business.
3. They should be encouraged to accept deposits.
4. They should be brought into the same relationship with the Reserve Bank of India as the scheduled banks stand towards it, i.e., they should be given facilities of rediscount, loans, and of free remittance, etc.
5. Even when given such facilities by the Reserve Bank they should not be required, at least for some time, to keep a certain percentage of their total liabilities with the Reserve Bank, this exemption being necessary in view of their insufficient resources.
6. Those bankers who cannot stop their non-banking business and, therefore, cannot be put on the approved list of the Reserve Bank should be given facilities of advances and discounting by the State Bank, nationalised banks and other joint-stock banks.
7. They should be encouraged to undertake and develop bill broking business (this will develop bill market as well as enlarge their business).
8. An excellent suggestion would be to encourage indigenous bankers to form themselves into joint-stock banks to carry on their functions on a large scale..
9. Cooperative banks of indigenous bankers should be formed. These would discount the *hundis* of their members and approach the Reserve Bank for rediscounting the same.

CONCLUSION

No progress of bank, however, has been made in this direction. It seems that neither the Reserve Bank of India nor the indigenous bankers are keen to establish any link. The Reserve Bank is acting more and more through the co-operatives to reach the rural sector and does not perhaps feel the need of relying on the indigenous bankers or the money-lenders. From the point of view of the indigenous bankers, the rapid expansion of branch banking in recent years has enabled them to get accommodation without much difficulty. The State Bank of India and other nationalised banks too have extended banking facilities in rural and semi-urban areas. The indigenous bankers are thus being by-passed.

REFERENCES

Govind, R.M. 2017. *Indian Public Finance*, Oxford University Press.

Gupta and Shukla, 2003. *Corporate Accounting*. Sahitya Bhawan Publication.

Tyagi, 1992. *Theory of Public Finance*, pp. 115-117