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A Look into the Dark Pages of Usury by Ravenous Loan Sharks in India - A Review on Media Reports

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ABSTRACT

Usury is a plague which haunts most of the underdeveloped sections of the society. Here a complete picture of the moneylenders, who they are, their history, why people go for moneylenders and not formal financial institutions, surety asked for loans by them, various consequences of default of payment by borrowers, notorious instances, laws to protect the affected in the form of acts and probable solutions for this issue are discussed. Media is continuously reporting the evils of usury which clearly reveals the evil grip usury has on the society. Nobody, the rich or the poor is spared. To support this study, a review was done on the media reporting on usury. The paper is a review of the "money lenders" in India. This study is done as a precursor for the ICSSR-IMPRESS sponsored project under the title "A strategic model creation for sustainable financial inclusion through influencers for under-privileged sections of the society".

Keywords: Money lenders, Loan Sharks,Usury, Suicide, Financial Institutions

An ancient Indian proverb goes like this: "a village can be formed wherever there come together a river, a priest, and a moneylender" (Qazi, 2017; Ray, 2018). All-India Debt and Investment Survey 2012 (AIDIS), reports that approximately 48% of farmers in India have borrowed loans from informal financial sources like the land lords or money lenders (The National Sample Survey Office (NSSO), December 2014). The count was 36 per cent in the year 1991 (The National Sample Survey Organisation (NSSO), 1998) and became 43 per cent in the year 2001 (The National Sample Survey Organisation (NSSO), 2003). According to the Tamil Nadu Money-Lenders Act 1957, 'Moneylender' is any person whose core or secondary occupation is the business of advancing and realizing loans. It does not include bank or any cooperative society. For centuries, the rural Indian credit market has been dominated by moneylenders (Habib, 1964). Money lenders are the lawmakers in rural areas; farmers mainly fall in the debt-trap created by them (Ray, 2018). Money lending is an all-season activity and they are highly resistant to any type of attacks. Money lenders in India have different names, in some areas they are called as Sahukar (Qazi, 2017), in some areas they are Mahajan and in some areas they are Bania (Ray, 2018) and the list goes on. Kanthuvatti – is the Tamil word for money lending in Tamil Nadu – a state of India. It means charging higher interest rates on money lent than the governments prescribed norms under section 7 of the Tamil Nadu Moneylenders act 1957 (*The Hindu*, Oct 2017). On a positive note, moneylenders actually act as the pillar of the rural Indian financial system (Qazi, 2017). Though the money lenders charge higher interest rates, they act as the main source of emergency money funding option for majority of the rural and underprivileged folks, which accounts for nearly half of India's economic output. No rules and very few documentation makes the people surround them like insects swarming around a sweet. Though banks aim at protecting the poor and the underprivileged sections of the society against moneylenders, collateral and other relevant document which are mandatory becomes a deterrent to many uneducated who find bank procedures daunting which act as an important factor which denies banks in reaching the under privileged. Despite making policy reforms to promote financial inclusion for the underprivileged, formal financial access is still costly and inconvenient for majority of the Indian households (Parussini, 2015).

History of Money lending

As early as 600 BC money lending was considered as a lawful Occupation by the Hindus. Around 200 BC according to the code of manu, there were four major Hindu castes in India - Brahmana, Kshatriya, Vaisya and Shudra. Out of them vaisyas alone were involved in money lending apart from trading and agriculture. According to their law, for each caste there were different interest rates and there was also a maximum interest rate above which it was punishable by law. Later in the 6th Century A.D. the brahmanas were involved in money lending. During the 18th Century under the British period, all classes of Hindus started to do money lending.

As the Indian saying goes "cream is sweeter than milk, grandson than the son, interest than the principal", money lenders became greedy and started to force people pay higher interest rates. Marwaris were yet another class of people from the state of Rajasthan who were involved in money lending (Sen, 1910). Moneylending practice has been there for generations, but their business has come to the limelight and boomed after globalisation, where the country's economic priority shifted from agriculture to industry. Costly and high breed seeds, pesticides and the rich harvest are the factors which have added to the debt (Qazi, 2017).

Who is involved in moneylending?

In today's scenario, there is no defined prescribed detention or rule for who should be involved in money lending. Anyone who has surplus money, authority and greed to accumulate more money are involved in the business of money lending which includes staffs from private companies, informal chit funds, shopkeepers, people with high surplus income (Sargam, 2019). Women also have an equal role in this business of making quick money. Women money lenders are sometimes highly notorious. For instance in January 2020 in the Tirunelveli district of Tamil Nadu, two sisters have borrowed INR 2,40,000 from two women for running a business venture. Despite repaying three times (INR 7,00,000) more towards principal and the interest, they were threatened to settle the principal amount (*The Hindu*, Jan 2020). Even government employees are reported for being involved in money lending for their colleagues and other public. Police, School Teachers are also involved in money lending practices. Tirunelveli district of Tamilnadu is one of the worst affected region for illegal money lending. The usurers in these regions also have opened branches in cities like Hyderabad, Chennai, Bengaluru, Mumbai, Pune, Madurai, Coimbatore, the Andaman and Nicobar Islands. There has been many instances of money lending by Film financier, where the movie directors & producers fall into their trap and many time they even go to the extent of ending their life when unable to repay the exorbitant interest rates. (*The Hindu*, Nov 2017a). The main objective of the usurers is to make quick money out of greed (Sargam, 2019).

Why people borrow from money lenders?

Based on the World bank report, in the year 2012, India had 11 bank branches for every 1,00,000 people, in United States it is 35 banks per 1,00,000 people and in Hong Kong it was 23 banks. (Qazi, 2017). Also number of people served by a bank branch in India on an average has consistently reduced year on year from over 15,000 people in 2006 to just over 10,000 people in 2014. Even if people approach banks with relevant document, sometimes it so happens that some of the bank officers insist for bribes which further frustrates and motivates the needy to go for money lenders (Parussini, 2015).

Bank officials generally conduct campaigns to provide loans at the government prescribed interest rates. But most of the times their hands are tied to provide loans as the real people who need loans do not have the necessary documents. But instant money is available from the lenders at the doorstep (*The Hindu*, Oct 2017). Getting loans from moneylenders is a hassle-free process. In distress situations, they act as the first port of call and anytime available solution with very few or no documentation process. In villages there is no life for the people without their support (*The Statesman*, 2017). Though money lenders are ruthless, villagers have no other option but to get help from them, because banks are either far away from them or documentation process is highly cumbersome (Ray, 2018). Loan sharks rarely ask about security or guarantees, about your previous history of borrowing, etc. (Qazi, 2017). They use henchmen to intimidate the borrowers and collect back the money lent. Poor people without any property to pledge to banks have no other option but to go for moneylenders (Parussini, 2015). Money lenders are one of the largest mafia in the second largest state of India, Uttar Pradesh. People of Jajauli village in Uttarpradesh, are caught by the grip of the moneylenders due to the non-availability of government recognised non-banking financial corporations and state-owned banks. Using this as an opportunity, loan sharks charge exorbitantly high interest rates from 75 to 350 per cent each month. In drought-hit highly developed state of Maharashtra, private moneylending has seen an increase of 28% in 2017 (Ray, 2018).

Surety asked by moneylenders

Security documents for the pledger differs based on the amount of money borrowed. If the money borrowed is less than INR 50,000, the pledger is made to sign on an empty piece of paper (not mentioning the principal amount, borrowing date, interest rate etc.). Some may ask for blank cheques from them. When the money borrowed is in higher denomination, vehicle document like original vehicle registration certificate (called as RC book), land related document (like *patta, sitta*), house property document, public distribution system (PDS) card or ration card (lender will enjoy the benefits of ration provisions until the principal and interest amount is completely repaid), ATM card is taken as indemnity (*The Hindu*, Nov 2017a; *The Hindu*, Oct 2017). Money lenders in Mumbai charge a maximum of 20% to 21% interest rates and ask for surety documents like promissory notes (called as hundies locally) and post-dated cheques (of those bank accounts where the pledger's wife is a joint account holder) (Ghosh, 2019). Sometimes loans are provided against gold as security (Jeromi, 2007). On default of payment, the lender forces the debtor to transfer the vehicle registration to his name. If the borrower does not accept, then the vehicle is sold in the black market without the owners' knowledge (*The Hindu*, Oct 2017).

Who are the affected ones?

The main targets of the moneylenders are the poor people followed by the middle class (Sargam, 2019; *The Hindu*, Oct 2017). Unable to pay the debt if the husband in the family commits suicide, the debt is passed on to the widowed wife, his daughter or son, sometimes even his parents. There are instances where the debt is continued for generations (Qazi, 2017). Many a times, the affected ones include even movie stars, film producers, directors, movie distributors and many more. There are cases of film producers committing suicide unable to repay the debt (*The Week*, 2020; *The Hindu*, Nov 2017a). On November 5, 2019, a businessman tried to end his life because of torment from 5 loan sharks (*The Times of India*, 2017).

How does Money lending concept works?

Method 1: One type of loan is called as block loans, where the first block is deducted as interest upfront from the loan amount by the lender (Jeromi, 2007). For example, if a vegetable vendor wants to start a business and need a loan of INR 1000, he/she goes to the loansharks. The loan shark deducts an initial interest of INR 100 and lends only INR 900 to the vendor. The Principal amount of INR 1000 has to be repaid by the vendor in 10 equal instalments within a week (Sargam, 2019;(*The Hindu*, Oct 2017).

Method 2: When a tender coconut vendor needs say INR 900 as working capital every day, the moneylender pays INR 900 in the morning and collects INR 1000 in the evening. This continues every day. When one calculates the interest for the year it is 4056% (approx.). The above scheme works only when the daily sale of the vendor is good. Even on a day if the sales is bad, then the vendor has to pay high interest rates (Sargam, 2019).

Method 3: One typical interest type which runs very successfully benefiting the loan sharks in Tamil Nadu is locally called as "speed *vatti* or meter *vatti*". Here for example a person gets INR 10,000 as principal, the interest levied is INR 200 per day (for every INR 10,000). If the lender is ready to repay the amount in 10 days after getting the principal, the total amount he/she should pay back is INR 10,000 in principal and INR 2000 in interest.

Method 4: Some of the moneylenders target the poor and follow a method called "100 days loan". Here the loan is mainly targeted on the daily wage labourers and small street vendors (can be cart vendor, basket vendor etc.). Once the loan is given by the lender, the borrower has to repay both the principal and interest in 100 days in 100 equal instalments. The lender daily visits the borrower at their work place at the end of the day and collects that day's instalment (Jeromi, 2007).

Method 5: In Mumbai, some moneylenders work on an interest rate of straight 10% per month. In 2007, in Mumbai a lady went on to get INR 50,000 from money lenders at an interest rate of 10% per month. It was said that it took her literally six years to repay the principal and interest (i.e., the borrower paid nearly 8 times of the principal) (Parussini, 2015). The money lending private market in Mumbai ranges from INR 10 crore to INR 300 crore, and the interest is paid once in every three months by the borrowers (Ghosh, 2019).

Consequences of default of payment

Money lenders are considered as gods by their clients when the transactions happen smoothly. Consequences are highly unbearable, once there is a default in the payment. The debtor have to face various unbearable issues like threatening to life, harassment of family, forceful seizure and possession of property, sexual harassment of young women in the household, abduction of the defaulters kids, sometimes killing the kids (Sargam, 2019). Families have lost their jewellery, lost their land and all other assets when they are unable to repay the money to the lenders. Many times when there are no assets, lender creates a scene in front of the borrower's house regularly and shames the family members (*The Hindu*, Oct 2017). Sometimes if the borrower is very poor, the women in the family are made as prostitutes or sexually harassed. Not only that but until the complete debt is completely repaid, the debt is passed on from father to son, father to daughter, husband to wife and this misery is passed on from generations to generations (Qazi, 2017). Unable to bear the pain and being ashamed, there are instances where women set ablaze themselves, committing suicide. Some are even made to forcefully commit suicide or brutally killed. Backward classes, uneducated and underprivileged sections of the society are the most affected people (Ray, 2018).

Various Acts to Protect People against Moneylenders in India

The Tamil Nadu Money-Lenders Act 1957: The act is applicable within the geographical state of Tamil Nadu, India. The act says that moneylenders should not charge interest more than the prescribed rate fixed by the government (which changes from time to time) from their clients. No moneylender can get from their client any form of note, acknowledgement, promise to pay, bond, power of attorney, security or other documents which does not contain the actual amount of the loan, the interest charged, and the time, within which the principal is to be repaid in full (if any). This act also states that money lending cannot be practiced without getting proper licence (*The Statesman*, 2017). The Tamil Nadu Prohibition of Charging Exorbitant Interest Act, 2003, was also passed by the then Chief Minister after one of the famous Tamil Film producer committed suicide due to loan sharks harassment (Viswanathan, 2017).

Kerala Prohibition of Charging Exorbitant Interest Act, 2012: This act is applicable for the state of Kerala, India. It contains stringent norms and requirements against illegal moneylending. In general the act recommends INR 5000 fine and imprisonment for three years for charging interest rates higher than the govt. prescribed norms. If the borrower commits suicide because of the harassment done by the lender, the act recommends for INR 50,000 fine and 5 years imprisonment (*The Hindu*, May 2016).

Other Money lending Acts in India: Similarly there are moneylending acts enacted for the different states In India. The Maharashtra Money-Lending (Regulation) Act, 2014; besides prohibiting money lenders to lend money for exorbitant rates, they should not get any article as a pledge or pawn or security for the loan. If at all any property is received as collateral, the same has to be returned to the debtor (Jog, 2014). Bombay Money Lenders Act, 1946; one of the oldest acts enacted before independence covers the whole of the state of Gujarat (Bombay Money Lenders Act, 2018).

What may be the Solution?

One solution for this problem of private money lenders may be arrived by arranging capital for small business (street vendors, etc.,) through financial institutions, small and micro finance companies, and banks. The financial institutions mentioned above requires a lot of paper works, surety, which either the poor people don't have or don't understand about. It is pathetic to note that economically backward sections of our society think that banks and the above said financial institutions are only for the rich and the affordable. Thus the above, may not be the solution for the underprivileged sections of the Indian society. It is the right time for the policy makers and the ruling government to interfere and make policies to reduce paper works for the underprivileged, poor people. This can be one of the solutions against the menace created by the money lenders. Government can also ensure that the loans for the poor directly reach them without any hindrance (Ray, 2018).

Another view may be - money lenders are hard and difficult to be replaced; they actually perform a key function in the economy which cannot be denied. All the money lenders should be made to register and get license from the government. Stringent norms are to be laid and action taken against those who do not follow the government norms in lending loans and who collect exorbitant interest rates. In 2014, banks under the incumbent Prime Minister's initiative called 'Pradhan Mantri Jan Dhan Yojana (PMJDY)' had carried out a campaign aimed at extended banking services for the underprivileged and lower income Indians by opening 125 million new bank accounts (Department of Financial Services, 2014). But without any basic financial knowledge, low income and scare assets with the supposed beneficiaries, most of the accounts are inactive and it adds further burden for the banks. The banks' operating costs are becoming high just to manage these additional accounts (Parussini, 2015). Usury laws, related knowledge and Self-Help Groups (SHG) involvement has had a significant impact in the past for getting loans from formal financial institutions (*The Hindu*, Nov 2017b). Financial literacy is the need of the hour for the underprivileged sections of the society.

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