

CRISIS BANKING  
IN THE EAST

STUART MUIRHEAD  
AND EDWIN GREEN

# Crisis Banking in the East



**Taylor & Francis**

Taylor & Francis Group

<http://taylorandfrancis.com>

# Crisis Banking in the East

The History of the Chartered Mercantile Bank  
of India, London and China, 1853–93

STUART MUIRHEAD

 **Routledge**  
Taylor & Francis Group  
LONDON AND NEW YORK

First published 1996 by Ashgate Publishing

Published 2016 by Routledge  
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN  
711 Third Avenue, New York, NY 10017, USA

*Routledge is an imprint of the Taylor & Francis Group, an informa business*

Copyright © 1996 Stuart Muirhead, his heirs and assigns

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Notice:

Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

British Library Cataloguing in Publication Data

Muirhead, Stuart

Crisis Banking in the East: The History of the Chartered  
Mercantile Bank of India, London and China, 1853–93

1. Chartered Mercantile Bank of India, London and China —  
History, 19th century — 19th century. 2. Banks and banking —  
India — History — 19th century. 3. Banks and banking — Asia —  
History — 19th century.

I. Title.

332.1'22'095

Transferred to Digital Printing in 2011

Library of Congress Cataloging-in-Publication Data

Muirhead, Stuart.

Crisis Banking in the East: The History of Chartered Mercantile  
Bank of India, London, and China, 1853–1893 / Stuart Muirhead.

p. cm.

Includes bibliographical references and index.

1. Chartered Mercantile Bank of India, London and China—History.  
2. Bank and banking, British—India—History. 3. Bank and banking,  
British—Asia—History. I. Title.

HG3288.C47M85 1996

332.1'5'0941—dc20

96-1788  
CIP

ISBN 9781859282441 (hbk)

ISBN 9781138267473 (pbk)

# Contents

<i>List of tables</i>	viii
<i>List of figures</i>	x
<i>List of plates</i>	xi
<i>List of appendices</i>	xii
<i>Foreword by Sir William Purves</i>	xv
1 The Birth of Eastern Exchange Banking	1
Early indigenous banking in the East	
Indian banking before the exchange banks	
The first Eastern exchange banks, 1833–53	
The growth of Eastern exchange banking in the early 1850s	
Bank expansion in the East – the East India Company’s views	
Bank expansion in the East – the Oriental Bank’s views	
Bank expansion in the East – the (Chartered) Bank of Asia’s views	
Bank expansion in the East – other views	
East India Company agreement to the granting of bank charters	
Conclusion	
2 The Foundation of Mercantile Bank	20
The Mercantile Bank of Bombay	
The provisional committee	
The Mercantile Bank of India, London and China	
Recruitment of key staff	
The deed of settlement	
The chief manager	
The bank’s rules of business	
The first directors, trustees and auditors	
The first shareholders	
The bank established and ready for business	
3 Early Success and a Charter, 1854–58	44
Commencement of business and the first branches	
The Bombay directors	
The first European officers	
The local staff	
Capital, profitability and reserves	
The attempted amalgamation with the Chartered Bank of Asia	
The Royal Charter	
Transition from an Indian bank to a British chartered bank	
4 Expansion, Boom and Crisis, 1858–65	68
Commencement of business under the charter	

	Growth and branch expansion	
	The Bombay boom and further expansion	
	The end of the Bombay boom	
	The end of the American Civil War and financial crisis in the East	
5	Survival and Stagnation, 1866–70	86
	The crash of 1866	
	The failure of the Commercial Bank Corporation of India and the East	
	Suspension of payment by Agra and Masterman's Bank	
	The aftermath of the Bombay crash	
	Stagnation and hopes for a new era, 1866–70	
	How Mercantile Bank survived the 1865–66 crisis	
	The bank's growth, development and change in the 1860s	
	Looking ahead to the 1870s	
6	Bad Banking, the Silver Crisis and New Leadership, 1871–84	105
	Bad debts, frauds and bad decisions	
	The silver crisis	
	Renewal of the bank's leadership and amalgamation suggestions	
	The liquidation of the Oriental Bank Corporation	
7	The Officers, Local Staff, Management and Directors	130
	Early staffing patterns	
	Officer recruitment and training	
	Medicals and the first posting	
	Early years in the East and staff reports	
	Sickness and death	
	Living conditions and social life	
	Leave, salaries and marriage	
	Managerial appointments and performance	
	The local staff	
	Head office management and the London staff	
	The directors	
	Conclusion	
8	London Head Office: Its Business and Overseas	
	Infrastructure	178
	London head office and its business	
	Managerial responsibility and the bank's Rules	
	Inspections and returns	
	The bank's subsidiary agents and correspondents	
	Conclusion	
9	The Mechanics of the Bank's Business, 1854–93	199
	The pattern of mid-nineteenth-century Eastern trade and its finance	
	Bullion and silver coin	
	Bills of exchange and letters of credit	
	Indian government rupee paper and India council bills	
	Branch resources and their employment	
	Exchange business and commitments	
	The daily business of the branches	
	Conclusion	

10	The Last Years of the Chartered Mercantile Bank	233
	Looking back at the 1870s and early 1880s	
	Cautious business and some growth, 1884–90	
	The run-up to the bank's liquidation and reconstruction in 1892–93	
	The failure of the New Oriental Bank Corporation Ltd	
	The Beyts, Craig and Co. fraud	
	Conclusion	
11	Liquidation and Reconstruction, 1892–93	249
	The erosion of the bank's paid-up capital, deposits and note issue	
	Curtailing operations and staff dismissals	
	The reconstruction proposals	
	The appointment of the reconstruction committee	
	The reports of the reconstruction committee	
	The reaction of the shareholders	
	The mechanics of the liquidation and reconstruction	
	The last weeks of the Chartered Mercantile Bank	
	Postscript by Professor Geoffrey Jones	274
	<i>Appendices</i>	276
	<i>References</i>	339
	<i>Index</i>	371

# Tables

1.1	Cash balances and liabilities of the presidency banks, 1852	10
2.1	Comparative numbers of shareholders of various banks, 1850s	40
4.1	Capital transferred in cash from the Mercantile Bank of India, London and China to the Chartered Mercantile Bank of India, London and China in 1858 and 1859	70
4.2	Dates of commencement of business of Chartered Mercantile Bank branches and agencies in 1858	70
4.3	Initial capital remittances to Chartered Mercantile Bank branches and agencies, July to December 1858	71
4.4	Branch and agency profits for 1863	74
4.5	Expenditure on purchasing premises as at 31 December 1864	78
4.6	Bombay office – bad debts and profits/losses, 1863–70	84
5.1	Chartered Mercantile Bank published profits, bad debts written off, transfers from reserves, balance of reserve fund and dividends, 1865–70	95
5.2	Chartered Mercantile Bank total losses due to bad debts on a country/branch basis, 1 January 1863 to 31 December 1870	96
5.3	Chartered Mercantile Bank selected assets and liabilities as at 31 December 1864	97
5.4	Liquid assets as a percentage of total liabilities to the public of five Eastern exchange banks as at 31 December 1864	98
5.5	Selected balance sheet figures of the Eastern exchange banks as at 31 December 1870	100
6.1	Chartered Mercantile Bank Special Reserve Fund, 30 June 1882 to 30 June 1883	116
6.2	Oriental Bank Corporation provision for bad debts: depreciation of Indian, foreign and colonial securities; and provision for adjustment of current balances in the East as at 31 December 1878	127
7.1	Deaths among the officers of Mercantile Bank, 1853 to 1893	146

8.1	Chartered Mercantile Bank head office limits for the purchase of bills, 1858 and (1863) (very first class houses only)	188
9.1	Capital allotted to branches (1858, 1868, 1878 and 1888) in pounds sterling	211
9.2	Branch overdraft limits, October 1890	212
9.3	Limits for commitments in exchange, October 1890	216
10.1	Beyts, Craig and Co., fraudulent shipments, 1892	245
11.1	Chartered Mercantile Bank current deposits, fixed deposits and note issue, 30 June 1890 to 3 February 1893	251
11.2	Chartered Mercantile Bank bad debts and profit and loss account, 30 June 1892	251
11.3	Chartered Mercantile Bank fixed deposits (London, Edinburgh and overall), compared with shareholders' funds, 30 June 1890 to 3 February 1893	261
11.4	Non-European holders of A shares in the Mercantile Bank of India Ltd, 1892-93	268

# Figures

2.1	Ethnic distribution of the 417 shareholders in the Chartered Mercantile Bank in May 1858	38
2.2	Geographical distribution of the 417 shareholders in the Chartered Mercantile Bank in May 1858	38
2.3	Ethnic distribution of the 20 000 shares of the Chartered Mercantile Bank in May 1858	39
2.4	Geographical distribution of the 20 000 shares of the Chartered Mercantile Bank in May 1858	39
4.1	Ethnic distribution of the 393 allottees of new shares in the Chartered Mercantile Bank in 1864	76
4.2	Geographical distribution of the 393 allottees of new shares in the Chartered Mercantile Bank in 1864	76
4.3	Ethnic distribution of the 10 000 new shares in the Chartered Mercantile Bank allotted in 1864	77
4.4	Geographical distribution of the 10 000 new shares in the Chartered Mercantile Bank allotted in 1864	77
6.1	Yearly average price of bar silver, 1870–93	110
8.1	Chartered Mercantile Bank, income from exchange and discount, 1881–93	187
11.1	Ethnic division of B shares in the Mercantile Bank of India Ltd, February 1893	264
11.2	Ethnic division of holders of B shares in the Mercantile Bank of India Ltd, February 1893	264

# Plates

Between pages 208 and 209

- 1 Specimen five dollar note, Penang branch, about 1880
- 2 The Hooghly, Calcutta, in about 1870
- 3 Five tael note, Shanghai branch, 1880
- 4 Shanghai office, watercolour by William Kidner in about 1878
- 5 Bombay staff, probably in the 1870s
- 6 Donald Larnach, director, 1857–72
- 7 Alexander Allan Shand, Yokohama branch, 1866–72
- 8 Colombo office in about 1890
- 9 Galle office in about 1895
- 10 Galle office in about 1895

# Appendices

1	The Rules of the Mercantile Bank of India, London and China, 30 November 1853	276
2	Ethnic and geographical distribution of the 417 shareholders of Mercantile Bank in May 1858 (actual and percentage)	278
3	Ethnic and geographical distribution of the 20 000 shares comprising the capital of Mercantile Bank in May 1858 (actual and percentage)	279
4	Ethnic and geographical distribution of the 393 shareholders of Mercantile Bank in November 1864 (actual and percentage)	280
5	Ethnic and geographical distribution of the 10 000 additional Mercantile Bank shares issued in 1864 (actual and percentage)	281
6	Occupations of European (i.e. British) shareholders of Mercantile Bank in early 1858	282
7	Occupations of Indian shareholders of Mercantile Bank in early 1858	283
8	Major British shareholders of Mercantile Bank (holdings of 200 shares and over), early 1858	284
9	Major Indian shareholders of Mercantile Bank (holdings of 200 shares and over), early 1858	285
10	Occupations of the European (i.e. British) participants in the 10 000 new shares issued by Mercantile Bank in early 1864	286
11	Occupations of the Indian participants in the 10 000 new shares issued by Mercantile Bank in early 1864	288
12	Major British participants in the 10 000 new Mercantile Bank shares issued in 1864 (holdings of 100 new shares and over)	289
13	Major Indian participants in the 10 000 new Mercantile Bank shares issued in 1864 (holdings of 100 new shares and over)	290
14	The first published balance sheet and profit and loss account of the Mercantile Bank of India, London and China as at 30 June 1854	291
15	The Mercantile Bank of India, London and China: Capitalization, 1853 to 1856 (Company's rupees)	293

16	The Mercantile Bank of India, London and China: Dividends and bonuses paid from June 1854 to June 1858	294
17	The Mercantile Bank of India, London and China: Shareholders' funds, 1854 to 1857 (Company's rupees)	294
18	The Directors of the Chartered Bank of Asia, 1854	295
19	The Chartered Bank of Asia: Statement of receipts and disbursements from September 1852 to 15 July 1854	296
20	The Mercantile Bank of India, London and China: Selected assets, 1854 to 1857 (Company's rupees)	297
21	The Mercantile Bank of India, London and China: Liabilities and balance sheet totals, 1854 to 1857 (Company's rupees)	297
22	Chartered Mercantile Bank of India, London and China: Officers who either joined the bank's service overseas or were recruited for specific higher appointments, 1859 to 1892	298
23	Chartered Mercantile Bank of India, London and China: Clerks joining London head office from other banks or firms from 1882 to the end of 1891	299
24	Chartered Mercantile Bank of India, London and China: Foreign Staff officers and their appointments, June 1874	300
25	Chartered Mercantile Bank of India, London and China: Branches and their officers, 1874	302
26	Chartered Mercantile Bank of India, London and China: Foreign Staff officers and their appointments at the end of 1891	303
27	Chartered Mercantile Bank of India, London and China: Branches and their officers, 1891	305
28	Chartered Mercantile Bank of India, London and China: Senior management, clerical and menial salaries/wages at the London head office, various dates from 1860 to 1887	306
29	Chartered Mercantile Bank of India, London and China: Managers' and agents' salaries and allowances, 1870	307
30	Chartered Mercantile Bank of India, London and China: Accountants' and assistants' salaries and allowances, 1870	308
31	Chartered Mercantile Bank of India, London and China: Rules of Business, 1858 as amended <i>circa</i> 1863	309
32	Chartered Mercantile Bank of India, London and China: Duties and responsibilities of the bank's managers/agents and accountants, 1858	313

33	Chartered Mercantile Bank of India, London and China: Branches and agencies, 1860, 1870, 1880 and 1890, and Mercantile Bank of India Ltd, branches and agencies, 1893	316
34	Chartered Mercantile Bank of India, London and China: Commercial agents in 1870, 1880 and 1890	318
35	Ethnic division of the holders of B shares in the Mercantile Bank of India Ltd, February 1893	320
36	Ethnic and geographical distribution of the 344 subscribers to the 15 000 A shares in the Mercantile Bank of India Ltd, as at February 1893	321
37	Major holders of B shares in the Mercantile Bank of India Ltd, February 1893 (holdings of 200 shares and above)	322
38	Major subscribers to the A shares in the Mercantile Bank of India Ltd, February 1893 (holdings of 200 shares and above)	323
39	A shares in the Mercantile Bank of India Ltd, subscribed for by the bank's directors, officers, shroffs/compradores and others connected with the bank	324
40	Inventory of furniture and equipment on hand at the Bombay office of the Chartered Mercantile Bank of India, London and China, as at 3 February 1893	326
41	Chairmen of the Mercantile Bank, 1853 to 1893	334
42	Chief managers of the Mercantile Bank, 1854 to 1893	335
43	The Mercantile Bank's provisional committee and Directors, 1854 to 1893	336
44	The Mercantile Bank of India Ltd: Board of Directors, 1892	338

# Foreword

The Mercantile Bank has an honoured place in the history of international banking and in the history of the HSBC Group. Founded in 1853, it became a familiar part of the Eastern business scene for over a century. The bank was acquired by The Hongkong and Shanghai Banking Corporation in 1959 and, although its name is no longer used for banking business, its traditions and achievements are a distinctive factor in the development of one of the largest multi-nationals in modern financial history.

This book is the first serious study of the Mercantile Bank between its foundation in 1853 and its reconstruction as the Mercantile Bank of India in 1893. The history portrays the pioneering spirit in Eastern banking in the Victorian period and also gives an unrivalled view of the day-to-day practicalities and mechanisms of international banking in the early modern period.

The late Stuart Muirhead was especially well-qualified to undertake this history. He joined the Mercantile Bank in 1952 and held appointments in Malaysia, Sri Lanka, Burma and Hong Kong. After fourteen years with Hongkong Bank Trustee Limited, he became Controller of Archives at HongkongBank between 1979 and 1986 and he played an important role both in the development of the archives and in the publication of Professor Frank King's authoritative four-volume history of HongkongBank. In his retirement, however, his main interest remained the history of the Mercantile Bank. This book was undertaken on his own initiative and without any research assistance; the text reflects this strong personal enthusiasm and commitment.

When Stuart Muirhead died suddenly in May 1993, this history was all but complete. In place of his intended conclusion, Professor Geoffrey Jones, author of the history of the British Bank of the Middle East, has kindly contributed a postscript. Past and present employees of the HSBC Group – Brian Ogden and Frank Reid, Margaret Lee and Graham Plastow, Sara Kinsey and Edwin Green – also joined in bringing the project to fruition. Sheila Muirhead and the family were helpful in every way.

In this history, Stuart Muirhead has made a significant contribution to understanding the origins and development of international banking. I hope that the book will enjoy a wide and continuing readership.

Sir William Purves  
Group Chairman  
HSBC Holdings plc

December 1995



**Taylor & Francis**

Taylor & Francis Group

<http://taylorandfrancis.com>

# The Birth of Eastern Exchange Banking

There is no necessity for the establishment of additional Banks in the Presidency Towns of India, so far as any legitimate purpose is concerned.

*(Extract from a letter addressed to the India Board by the East India Company on 11 November 1852)*

The establishment of a Chartered Bank in London, with branches for the purpose of conducting exchange operations in our Eastern possessions would powerfully stimulate the industrial and commercial prosperity of India.

*(Extract from a memorial of 25 April 1853 addressed to the Treasury by the projected Chartered Bank of Asia)*

## Early indigenous banking in the East

There is evidence that moneylending with the payment of interest existed in India over 2 000 years ago. By the second or third centuries AD, banking as a business had become established with the expansion of mere moneylending into the taking of deposits and pledges coupled with other commercial activities. By the time the British came to India in the seventeenth century, indigenous banking had been well established for centuries.<sup>1</sup> By then almost every village had its money changer, or shroff, who acted as banker and could make remittances. The indigenous bankers came to play an important role in financing trade by the use of credit instruments, as well as being involved with the collection of revenue and state banking. Throughout the centuries, moneychanging itself had remained an essential part of their business so as to cater for the disunited state of the subcontinent's currency.

Because of language difficulties and because the indigenous bankers had no experience in financing trade with the West, the British merchant houses which became established in Calcutta in the latter part of the eighteenth century incorporated banking into their other commercial activities. However, they did not ignore the importance of making connections with the indigenous bankers.<sup>2</sup>

By the end of the eighteenth century, wars and unsettled conditions had adversely affected the business of the indigenous bankers.<sup>3</sup> The time was ripe for the establishment of Government treasuries and sub-

treasuries and the incorporation of banks to meet the needs of commerce, the public and the administration.<sup>4</sup> Soon, even the long established and profitable moneychanging activities of the indigenous bankers would be curtailed by the introduction in 1835 by the East India Company of the standard Company's rupee which at last gave India a uniform currency.<sup>5</sup>

Although this certainly did not spell the end of indigenous banking in India by any means – and indeed these bankers continued to finance a large internal bill circulation (*boundees*) at the beginning of the nineteenth century<sup>6</sup> – the scene was already set for the establishment of joint stock banks. Some idea of the need for a modern system of banking in India at the beginning of the nineteenth century can be gathered from comments made in 1869:

At the beginning of this century, the European mercantile community in India was small, and consequently when the Government wished to raise large sums of money for the wars in which they were constantly engaged, they were obliged to look chiefly to the Native mercantile community for the money required. The mode of raising money in those days was by the issue of what were called Treasury Bills, and these bills, in consequence sometimes of a scarcity of coin, and more frequently of a combination among the native brokers, could not be cashed, except at a heavy discount. It was suggested that the establishment of a bank, besides securing many commercial advantages, would prevent this depreciation of the Government Bills, by introducing a new customer into the market, who would always be provided with a store of specie.<sup>7</sup>

By the nineteenth century China also had an indigenous banking system which had long been in operation throughout the country. The system consisted of 'cash shops' (or 'money shops') in all the large towns. The more established 'cash shops' were effectively private banks whereas the smaller establishments were in the nature of moneychangers. The banking business of these indigenous 'banks' included the taking of deposits at interest, the granting of loans and the circulation of promissory notes. The refining of silver into large silver ingots, called *sycee*, was also a part of their business.<sup>8</sup>

However, the Chinese monetary system at the beginning of the nineteenth century was very different from that in use in India at that time. The Chinese had been using money for over 3 000 years and indeed had invented paper money, which began to take the place of coins in China in the eleventh century. Nevertheless, by the time European merchants began to establish themselves on the China coast, the Chinese monetary system had long relied on the use of Spanish and South American silver dollars, very much as a form of bullion, their value passing according to weight, and silver ingots – a system which lasted into the twentieth century. Although the Chinese monetary system was so different, the

ever-increasing European trade and influence on the China Coast and the establishment of European *hongs* (trading establishments) in Canton and later in Hong Kong meant that it was only a matter of time before European banks would follow. In April 1845 the Oriental Bank (at that time still known as the Bank of Western India) opened an office in Hong Kong. By the early 1850s, the Oriental Bank Corporation, the Agra and United Service Bank and the Commercial Bank of India had established themselves in either Canton or Shanghai or both.

In Ceylon there were no commercial banks before the establishment of the Bank of Ceylon in 1841. Until this date the only 'bankers' on the island were the Nattukottai Chettiers.<sup>9</sup> These highly regarded chettiers (sometimes referred to as *chetties*) were described as 'merchant bankers' at that time.<sup>10</sup> The chettiers had originated in South India and, by the time the whole island of Ceylon was annexed by the British in 1815, they dominated the financing of much of the trade internally and with India.<sup>11</sup> By the middle of the nineteenth century, when the exchange banks had already begun to spread to Ceylon, both the chettiers and the agents in Ceylon of Indian firms which conducted private banking were actively engaged in discounting both local and British bills of exchange.<sup>12</sup>

### **Indian banking before the exchange banks**

Calcutta had begun to grow in importance from the last quarter of the eighteenth century and, as the trade and commerce of Bengal grew, there was an increased need for banking facilities. This need was largely met by the agency houses which combined banking with their commercial and other business. In 1770, Alexander & Co., one of the leading agency houses, started the Bank of Hindustan – one of the earliest European-directed banks in India. However, it was more in the nature of a department of Alexander & Co.<sup>13</sup> Other important Calcutta agency houses which combined banking interests with commercial business were Palmer and Co. (who opened the Calcutta Bank) and Mackintosh & Co. (closely linked with the Commercial Bank of Calcutta). The business of these agency houses, started in Bombay and Calcutta, was wide-ranging. D. S. Savkar has described them as being not merely bankers attracting deposits, but combining banking with their main activity which was trade in all its variety – as shopkeepers, shipowners, owners of breweries, tanneries, distilleries, cotton mills, flour mills and saw mills. Their combined trading and banking activities typically included lending money and receiving deposits, thus making a profit on the interest differential, and using funds to finance crops and business in commodities such as silk, opium, seeds and cotton.<sup>14</sup>

It was not only the growth of Calcutta which encouraged the rise of the agency houses but also the decline in power of the East India Company – particularly after the end of its monopoly of trade between Britain and Asia in 1813. Granted a Royal Charter by Elizabeth I in the last few hours of the sixteenth century, on 31 December 1600, and founded for the purpose of trade with India and the East, the East India Company came not only to dominate the trade of the region but also, through its own army and navy, to rule India. The anachronism of such a vast country as India being ruled by a private company was recognized by the Regulating Act of 1773 and Pitt's India Act of 1784. This intervention by the British Government led to the establishment of a Government Board of Control over the Company, responsible to Parliament. Having lost its commercial monopoly in 1813, the Company ceased to be a trading company after 1834 although it continued to administer India on behalf of the British Government. Following the Indian Mutiny in 1857, the administration of India was taken over in 1858 by the Crown. The East India Company ceased to exist as a legal entity in 1873.<sup>15</sup>

Although the agency houses fulfilled such an important role in the early commercial and banking needs of India, their importance was short-lived and, by the late 1820s, their days were numbered. There had already been an increasing number of business failures in Calcutta in the late 1820s amongst substantial European and Indian firms, fuelled by speculation (particularly in indigo), high interest rates and liquidity problems. It was not long before there was uncertainty about the stability of the large European agency houses and, despite their standing and connections, many of the agency houses failed, leading also to the collapse of their associated banks or banking departments. The Calcutta Bank failed in 1829, the Bank of Hindustan did not survive the failure of Alexander & Co. in 1832 and the Commercial Bank of Calcutta collapsed with Mackintosh & Co. in 1833.<sup>16</sup>

There had been some other banks in India in the eighteenth century and the beginning of the nineteenth century apart from those associated with certain Calcutta agency houses – and there are reports of a bank as early as 1683.<sup>17</sup> However, it is the banks which survived to create the banking scene as it was in India and other parts of the East at the start of the 1850s which are more relevant to this study. Of particular importance were the three banks which came to be collectively called the 'presidency banks'. These were the forerunners of what became the Imperial Bank of India in 1921, which in turn became the State Bank of India in 1955. The first of the presidency banks to be established was the Bank of Calcutta in 1806. It became the Bank of Bengal under a charter dated 2 January 1809. The second was the Bank of Bombay, established in 1840, and the third was the Bank of Madras, established in 1843.<sup>18</sup>

All three banks had government involvement. In the case of the Bank of Bengal, the first to be established, the Court of Directors of the East India Company only consented to government entering into a partnership 'because a bank was greatly needed for Government purposes, and could not, in those days, be firmly established without its co-operation'.<sup>19</sup> Most significant from the point of view of the commercial banks, particularly those which came to be known as the Eastern exchange banks, was that the charters of the three presidency banks prevented them from engaging in foreign exchange banking (i.e., the purchase and sale of bills of exchange other than those payable in India).<sup>20</sup> This reflected the long held view of the East India Company that 'dealing in distant exchange' was not legitimate banking business and their aversion to the idea of any bank that had the benefit of limited liability engaging in 'speculative business'.<sup>21</sup> No doubt it also reflected the fact that the East India Company had long enjoyed a monopoly of trade and was still a major operator in foreign exchange on its own behalf.

Although the Bank of Bengal was already well-established by the 1830s, there was still a gap left in Calcutta and elsewhere by the collapse of the agency houses and their associated banks. This was filled by the establishment of new banks which mostly had a small capital and operated in a specific locality or geared their operations to a specific type of client. Generally, these banks had no intention of expanding their operations beyond India or even much beyond that part of India in which they had been established. One of the most important of these banks was the Union Bank. This concern had been established in 1829 as a commercial bank with the intention that it would fill a space in the money market for which the Bank of Bengal could not cater due to restrictions imposed by its charter.<sup>22</sup> These new non-exchange banks set up in India in the 1830s and 1840s were:

Government Savings Bank	established 1833
Delhi Bank	established 1844
Simla Bank	established 1844
Dacca Bank	established 1846
Union Bank	established 1829
	ceased operations 1848
Benares Bank	established 1844
	failed 1849
Cawnpore Bank	established 1845
	wound up 1851

### The first Eastern exchange banks, 1833–53

Alongside the three presidency banks, which had all been established by 1843, and the small regional or specialized banks in India which had been established by the early 1850s, there were four particular banks which became the first Eastern exchange banks. These banks all commenced business in the 13 years following the agency house crisis of 1829–32 as co-partnerships with their head offices in India – three in Bombay and one in Agra. By the mid-1850s they had all established branches or agencies outside India and foreign exchange transactions had become a major part of their business. These banks were:

Agra and United Service Bank	established 1833
Bank of Western India (forerunner of the Oriental Bank)	established 1842
North Western Bank of India	established 1844
Commercial Bank of India	established 1845

Before 1850, only the Oriental Bank Corporation could really be regarded as an Eastern exchange bank. One of its primary objectives was the business of exchange banking and it had already established branches or agencies in several parts of the East to further this and other objectives. In 1850 Oriental Bank Corporation, with its head office now in London, had branches or agencies in Bombay, Calcutta, Ceylon (Colombo and Jaffna), Hong Kong, Canton, Madras and Singapore. By 1853 it had established further agencies in Shanghai, Melbourne and Sydney, and a branch in Mauritius. The Oriental Bank Corporation had been founded in Bombay in 1842 as the Bank of Western India and was very much an exchange bank from its earliest days. Under a new constitution with the new name 'Oriental Bank', the government of the bank moved from Bombay to London in 1845. The Oriental Bank took over the Bank of Ceylon in 1849 and was granted a Royal Charter in 1851 when its name became 'Oriental Bank Corporation'. Its paid-up capital in 1853 was £950 000 with a reserve fund of £20 000.

The other three banks – the Agra and United Service Bank, the North Western Bank of India and the Commercial Bank of India – were slow to expand from India to other parts of the East, concentrating more on agency, deposit and domestic business at first. Nevertheless, all three did ultimately establish branches or agencies elsewhere in the East. The Agra Bank, as it was originally called, had its first head office in Agra in Upper India. It soon became known as the Agra and United Service Bank and by the mid-1850s its head office had moved to Calcutta. By the end of the 1850s its head office was to move yet again to London. At the start of the

1850s, Agra and United Service Bank reached out from its Agra head office to branches in Calcutta, Madras and Bombay with an agency in London. By the end of 1854 it had added a branch in Lahore and, more significantly from the foreign exchange point of view, a branch in Canton. Its paid-up capital was then Rs 7 million (equivalent to £700 000) with a reserve fund of Rs 1 million (£100 000).

The Commercial Bank of India was founded in Bombay in 1845, mainly on the suggestion of local Bombay merchants, to assist local trade which they felt was not sufficiently aided by the Bank of Bombay and the Oriental Bank.<sup>23</sup> No doubt because of this early emphasis on local business, it was slow to establish branches overseas. However, by 1850 it was already advertising that it had an agent in China and that its London agents were the London Joint Stock Bank. Apart from its head office in Bombay, it had one other Indian branch at Calcutta. By the mid-1850s separate establishments are shown in China with a manager at Canton and an agent at Shanghai. By then its paid-up capital was Rs 45 60 000 (£456 000).

The North Western Bank of India had originally been founded as the Mussoorie Bank in 1841. The bank moved to Meerut in 1844 when it was renamed the North Western Bank of India. By the mid-1850s its head office was in Calcutta and it had branches or agencies in London, Mussoorie, Bombay and Singapore. Its paid-up capital was Rs 22 05 600 (£220 000). However, in 1859 the North Western Bank went into liquidation.<sup>24</sup>

The Bank of Ceylon was incorporated by Royal Charter and established an office in Colombo in 1841. It was formed chiefly by London firms connected with Ceylon for the purpose of fostering the cultivation of coffee and to carry on ordinary banking business.<sup>25</sup> Its Board of Directors and head office were in London, with a local board in Colombo.<sup>26</sup> After the disastrous fall in the price of coffee in 1847, much of its capital was lost and it was following this that the Oriental Bank took it over. Even in its short life, it was an early example of an Eastern exchange bank.

### **The growth of Eastern exchange banking in the early 1850s**

By the early 1850s only the Oriental Bank Corporation had a wide network of branches in the East which, although small by today's standards, stretched from Mauritius to China. It was a well-established Eastern exchange bank and the terms of its charter gave its shareholders limited liability. Although it had faced competition in India since its foundation in Bombay in 1842 as the Bank of Western India, in its first few years it had a monopoly in Ceylon and Hong Kong. But it was soon to be

challenged in all its areas of operation because, apart from the expansion of the Agra and United Service Bank to Canton, the Commercial Bank of India to Canton and Shanghai, and the North Western Bank of India to Singapore in the early 1850s, new banks were also about to be established. Banking in Australia was also expanding at this time but the aspirations of those Eastern banks which received their charters in the 1850s to open full branches in that country were to be thwarted. Their charters did not automatically give them power to expand to those colonies, such as Australia, which had their own free legislative institutions, without reference to and the approval of the colonies concerned.<sup>27</sup> Such approval was not necessarily forthcoming and in any event other banks already had too much of a head start by the mid-1850s.

The first new banks established in the early 1850s with the object of opening branches and agencies in the East (and indeed in Australia too) were the Bank of India and the Bank of India, Australia and China. Both of these banks were founded in London and both applied for Royal Charters in 1852. Both had initial difficulties in obtaining their charters because of objections raised by the East India Company. In fact the Bank of India submitted a new application for a charter early in 1853 adopting the new name of 'Bank of Asia'. The objections of the East India Company were overcome principally because the refusal to grant charters to these two new banks would have left the Oriental Bank, which already had a charter, with a monopoly (see below, p. 17). The charters of both banks were approved in August 1853 and these banks became respectively, the Chartered Bank of Asia and the Chartered Bank of India, Australia and China. Although these two new banks received their charters in 1853, the Chartered Bank of Asia never commenced business (see Chapter 3, pp. 54–62) and the Chartered Bank of India, Australia and China did not commence business until February 1858.<sup>28</sup>

In the same year, 1853, the Mercantile Bank of India, London and China was established in Bombay. Mercantile Bank initially took a different route – the same as that taken by the Commercial Bank of India in 1845 – by forming itself as a large co-partnership without the benefit of limited liability with its head office in Bombay and leaving the matter of incorporation under a Royal Charter until a later date. There was no legal provision in India before 1860 whereby banks could obtain limited liability and this was one of the reasons why the infant Mercantile Bank made early efforts to obtain a Royal Charter which would give it partial limited liability. Commencing business in 1854, Mercantile Bank was competing within a very short time with the Oriental Bank Corporation not only in India but also in China, Singapore, and Ceylon. In Ceylon the opening of a branch of Mercantile Bank terminated the monopoly previously enjoyed by the Oriental Bank.

These three new banks, the Mercantile Bank of India, London, and China, the Chartered Bank of Asia and the Chartered Bank of India, Australia, and China, all shared the same belief – a belief in the need for further banks in India and the East and the potential of India and the East as a profitable field for their operations. However, they faced the opposition of the East India Company and, perhaps not surprisingly, the Oriental Bank felt there was insufficient business to support another bank in certain of the areas where it operated.

### **Bank expansion in the East – the East India Company's views**

Although by the 1850s the East India Company had become little more than a managing agency for the British Government of India, its views, backed by 250 years' experience of India and its affairs, were obviously important. These views were sought by British government departments through the Board of Control for India (the India Board) which in turn referred matters to the Court of Directors of the company for their comments. Although ultimate control of India rested with the British Government and not with the company it was correct procedure for the draft charters for incorporating the Bank of India (later renamed the Bank of Asia) and the Bank of India, Australia, and China to be sent in October 1852 by the Board of Trade through the Treasury for the observations of the India Board who in turn sought the views of the Court of Directors of the East India Company.<sup>29</sup> This procedure was followed because the power of chartering banks in India was in the hands of the authorities administering the Government of India; the local government of India had authority to confer chartered privileges upon banks subject to the approval of the Court of the East India Company, subject in turn to the control of the India Board.<sup>30</sup>

Because of the privileges sought in these two charters, the directors of the East India Company felt there were two questions for consideration: firstly, whether additional banking facilities were required by the commercial community and by the Indian public generally and, secondly, whether 'the operations contemplated by the proposed banks could effect the object with benefit and security to the public interest'.<sup>31</sup>

The East India Company considered that there was 'no necessity for the establishment of additional banks in the Presidency Towns of India, so far as any legitimate purpose was concerned'. They based their view on what they considered an important test – the extent to which the existing chartered banks (i.e., the three presidency banks) were using their rights to issue promissory notes and the extent of their liabilities in relation to their cash balances. These banks had power between them to issue notes

up to a total of five crores of rupees (Rs 50 million) but they had less than half this amount in circulation. They were also allowed to have outstanding obligations totalling up to four times their cash balances but, as Table 1.1 demonstrates, they were utilising barely one-third of this availability.

**Table 1.1** Cash balances and liabilities of the presidency banks (as at latest account received by EIC, Nov. 1852)<sup>32</sup>

	Cash balances rupees	Liabilities rupees
Bank of Bengal	1 40 04 422	1 90 19 874
Bank of Madras	25 56 142	23 10 060
Bank of Bombay	88 31 611	1 09 39 066
Total	2 53 92 175	3 22 69 000

*Note:* crore = 10 million rupees; lakh = 100 000 rupees.

On the second question – the suitability of the type of business which these two banks wished to undertake – the East India Company were concerned that both projected banks wished to add exchange business between Great Britain and India to the regular business of banking. The presidency banks were prohibited from undertaking foreign exchange business and the company strongly questioned whether ‘the dealing in distant exchange was compatible with legitimate banking business’.<sup>33</sup>

The East India Company also had strong views on the subject of limited liability, even though this was one of the most important benefits to be derived from the grant of a Royal Charter.

It needs no argument to prove that the Bank which proposes to issue notes and at the same time to engage in business of a speculative character requires every check which can be placed upon its proceedings, with a view to ensuring the security of its customers – and to allow to the partners of such a scheme the privilege of limited liability would, in the Court’s opinion, be tantamount to removing the main check against improper and reckless management.<sup>34</sup>

The East India Company were also concerned with the effect which exchange banks might have on the financial operations of the Government of India. The company had recently suspended the system of hypothecation which had been supposed to interfere with the legitimate functions of commerce and they felt it would be undesirable for their remittance transactions to be interfered with by the ‘speculative operations of Banks invested with Chartered Privileges’.<sup>35</sup>

Under the hypothecation system, government advances were made in India to merchants who wished to purchase goods for export to England.

The government advanced the funds and the merchant to whom the advance was made gave in exchange, as collateral security, a bill drawn on his agent, together with the relative bill of lading covering the goods shipped. This system had provided at its outset for a genuine need, particularly when there had been very little capital in India and the merchants had been unable to finance such export business from their own resources. But the system had been condemned by merchants who blamed disappointing sales and losses in England on the government's interference in the market in India by hypothecation. Nevertheless, when money became scarce the merchants wanted the government to resume their hypothecation advances.<sup>36</sup>

The East India Company were worried because, now that the hypothecation system had been suspended, the Government of India had become the principal remitter to Great Britain and the annual amount which was to be remitted was periodically published. The company feared that new exchange banks might combine amongst themselves for the speculative purchase of bills for the whole amount of the annual remittance (as soon as the figure was published) with a view to controlling the supply of accommodation to merchants during the remainder of the year.<sup>37</sup>

### **Bank expansion in the East – the Oriental Bank's views**

The directors of the Oriental Bank Corporation gave their views on the formation of new chartered banks in the East in a submission to the Treasury in August 1853. They felt that the proposed new banks had overestimated the amount of business to be transacted in China, Ceylon and Mauritius and that their incorporation would probably lead to loss and disappointment to the promoters and much embarrassment to the local trading communities. Based on their own experience, they considered the banking field in these settlements to be extremely limited and that office expenses alone would swallow up any profit that might be made from exchange. They also suggested that competition would result in a ruinous struggle for business, falsely stimulate credit and force the eventual withdrawal of one or more such banks.<sup>38</sup>

Ceylon was given as a specific example of a settlement where the experiment of maintaining two banks on a slender business had been tried:

The result was that the Bank of Ceylon, after losing a large portion of its capital during the nine years of its existence was compelled so late as in 1850 to hand over the remains of its business to the Oriental Bank. Two of the local Banks in India are understood to have had their attention at different times directed to the locality yet they have

hitherto, after due enquiry, shrunk from the attempt as the Chetties (native dealers) and the Agents of the private Banking firms of India freely compete in the discount of local and British bills whenever a margin of profit presents itself.<sup>39</sup>

The views of the directors of the Oriental Bank Corporation concerning banking business in China and Hong Kong were also forthright:

In China no Banking business whatever is carried on by British Subjects out of Hong Kong – the absence of sufficient law and security having hitherto rendered it unsafe, even had the habits of the people offered a reasonable prospect of success. The Chinese themselves are abundantly served by native bankers with whom no foreigners can compete, while the European Merchants each keep their own Shroffs to attend to their Cash transactions, and would not find such advantage from altering their system. At Hong Kong there is so little trade and so little desire for Banking accommodation that although the Oriental Bank, and subsequently this Corporation, have had a Branch there since the year 1845 the business does not even now pay the Office expenses and were it not for the advantages presented as a safe place of reserve for Bullion and Securities, we should have abandoned the Settlement long ago.<sup>40</sup>

With benefit of 150 years' hindsight, Oriental's comments about Hong Kong must only be equalled by Lord Palmerston's classic and contemptuous expression of dissatisfaction about its acquisition by Britain when he described the new colony as 'a barren island with hardly a house upon it'.

Whilst the Oriental Bank Corporation's views about Hong Kong would within a decade or so be proved wrong, they must have seemed justified at the time, particularly as the Colony was then still only 11 years old. Indeed, they also had misgivings about the business prospects of banking in Mauritius – misgivings which were later shown to be justified in the case of the Chartered Mercantile Bank of India, London and China who opened an office there in 1859 only to close it at the end of 1865 'the results not answering expectations'.<sup>41</sup> The directors of Oriental Bank Corporation argued:

In the island of Mauritius there were until 1848 two public Banks, one of which gave up business in that year after suffering heavy loss. The other, the Mauritius Commercial Bank, although it was also understood to have lost heavily, continued still to carry on business at Port Louis under a local Charter and a local Board of Directors. The only note circulation of the Island is that of Government, and the entire management of it is entrusted to the Commercial Bank, who also hold a Treasury Balance and act as the Bankers of the local Government. Last year in consequence of the increasing facilities for communication with the Island, we deemed it advisable under the authority of the Lords Commissioners to establish a Branch for

General Banking purposes (excepting the issue of notes, which is forbidden) and as yet, the capabilities for the profitable working of such a business are unascertained, but the expectation of the Directors is that by adding a system of general Exchanges to the Ordinary transactions of the place, and with due caution they may in the course of time be able to build up a moderately profitable addition to the business of the Corporation.<sup>42</sup>

The chairman of the Oriental Bank Corporation asked the Treasury to refer to the Governors of Ceylon, Hong Kong and Mauritius to ascertain what the business prospects were for such new banks before approving their applications because ‘a mistake might lead to much mischief both to the new banks and the public’.<sup>43</sup> Whether or not the views of the Oriental Bank Corporation were entirely altruistic or prompted by concern for their own profitability, those arguments have the stamp of a bank which had pioneered new areas of marginal profitability and genuinely considered that the local opportunities could not support additional banks.

For the Treasury’s part, its officials appreciated that the Oriental Bank’s statements might be well founded but that the bank also had an interest in preventing the establishment of rival banks in these places. They concluded that the Oriental Bank’s statements should not influence Her Majesty’s Government in restraining the enterprise of other companies. They also felt that the established regulations, such as the periodical publication of the liabilities and assets of colonial banking companies and limitations on the issue of promissory notes, gave the public security and a way of watching the progress of these banks. With such regulations the Treasury felt that ‘when no objection can be raised as to the character or motives of the parties by whom these schemes may be originated, the best course is to leave to the parties themselves and the public the practical decision regarding the want of further Banking Accommodation’.<sup>44</sup> The Treasury was also concerned that, if it refused to give charters to other banks, this might be seen as giving a monopoly to the Oriental Bank. This was a danger which had arisen previously when the local government of Ceylon had considered making the notes of Oriental Bank legal tender in the island but had decided against this on the grounds that ‘such a measure would prevent the establishment of other Banking Companies in the Island’.<sup>45</sup>

### **Bank expansion in the East – the (Chartered) Bank of Asia’s views**

Whilst the views of the East India Company and the Oriental Bank Corporation concerning bank expansion in the East were negative, it is predictable that the outlook of the Bank of Asia, actively pursuing its

application for a Charter of Incorporation in 1852 and 1853, was positive. That bank's recently issued prospectus spoke of its having been founded to 'carry on the general business of Banking and Exchange in our Eastern Possessions on a scale commensurate with the wants of that great division of the British Empire'.<sup>46</sup> Self seeking though its views might have been, the directors of the Bank of Asia were committed to the merits of establishing a new bank to carry out banking and exchange in the East and they gave their arguments in a memorial to the Treasury in April 1853.<sup>47</sup>

In their memorial, the Bank of Asia's provisional directors claimed to have been actively engaged either in the commerce or public service of India and intimately connected with the country for many years. Their submission concentrated on the inadequacy of commercial capital in India and stressed that the establishment of a chartered bank in London with branches for conducting banking and exchange in the East would stimulate India's industrial and commercial prosperity, increase production leading to consumer price reductions in Europe of Indian exports and increase the import of British manufactured goods by India.<sup>48</sup>

They also claimed that the dramatic commercial changes in India in 1832 (i.e., the failure of various Calcutta agency houses) had severely reduced the flow of capital deposited with the great agency houses in the form of savings 'of the public service'. These deposits had been used for commerce and to provide the capital which financed much of India's internal and external trade. The provisional directors of the Bank of Asia put the amount of these deposits at about £20 to £25 million and claimed that, at the same time, the termination of the East India Company's China monopoly had led to a further withdrawal of capital from Eastern trade of about £4 million, 'a deficiency replaced by private capital at high rates of exchange'. They also stressed that the withdrawal of such an immense amount of capital from ordinary trade channels in India in about 1832 had taken place at a time when, conversely, India's commerce and capital requirements were rapidly increasing.<sup>49</sup>

The memorialists claimed that a large portion of American trade with the East now relied upon British capital, draining it off into channels of American enterprise. They highlighted the huge development in trade between the United States and China, in particular the large increase in the export of tea from China to the USA (an average of 19 million lbs per annum in the mid-1840s compared with 40.7 million lbs in the 12 months to February 1853). This import of tea into the United States had formerly, they said, been financed by dollars direct from America but was now mainly financed by the negotiation of credits in London. It was felt that the lack of a compensating increase in exports from America to China meant that a large amount of English capital had been absorbed and that the imbalance had also in part caused the rate of exchange in

China to greatly exceed the bullion rate, the rate having advanced by one shilling per dollar since 1848, representing a 25 per cent increase. The directors felt this had attracted capital away from British India resulting in a similar rise in exchange there – hence further proof of the need for additional capital in the Eastern markets.<sup>50</sup> The memorial also referred to the ‘teeming goldfields of Australia now developing a commerce with the Indian Continent and China’ which they felt was another positive reason for increased banking and exchange facilities in the East.<sup>51</sup>

### Bank expansion in the East – other views

Opinions in Bombay on expansion of banking in India and elsewhere in the East were reflected in enthusiastic newspaper reports. The launch of the new Mercantile Bank of Bombay, advertised in October 1853, prompted the comment that there was no reason why there should not be another bank in Bombay. It was felt that the population and trade of the City was favourable and that Bombay was very much under-banked.<sup>52</sup> The eagerness with which the shares of the new bank were taken up was, according to the press, an indication that there was a large amount of floating capital in Bombay seeking employment.<sup>53</sup> Similarly nine years previously, when the Commercial Bank of India was established, its shares were taken up ‘almost in a day’. There was also much enthusiasm in Bombay and elsewhere in India at the time at the prospect of railway construction and the expectation of the increased economic prosperity this would bring. The first 20 miles of the Great India Peninsula Railway had been opened on 16 April 1853 – a date referred to at the time as one which would ‘hereafter stand as a red letter day on the calendar’.<sup>54</sup>

Banks in Bombay at this time were going through a profitable period. The shares of the Commercial Bank of India, the most recently established of the banks operating in Bombay, which had a lower quotation than the other local banks, were nevertheless selling at a premium in the region of 30 per cent to 36 per cent, even though that bank was reputed to have had some bad management and losses in its early days.<sup>55</sup> The quoted share prices of the other Bombay banks at the time were all also at a substantial premium. The Bank of Bombay’s shares were at a premium of 50 per cent, Agra Bank 45 per cent and Oriental Bank 96 per cent.<sup>56</sup> At this time the Commercial Bank increased its capital by 30 per cent which was considered desirable because of the establishment of the bank’s own agency at Calcutta and the extension of its Canton agency to Shanghai. This clear indication of expansion was coupled with a statement of Commercial Bank’s intention to open an agency in London.<sup>57</sup>

Mercantile Bank’s own *raison d’être* was explained by Edwin Heycock

at the bank's first meeting on 19 October 1853. The proposed bank was necessary and called for by the trade and commerce of Bombay which, during the last 13 years, had increased from Rs 10 crores to Rs 47 crores, in sterling terms an increase from £1 million to £4.7 million. Heycock pointed out that this increase had been achieved without the aid of railways and that the penetration of railways into the interior would help the transport of products to the seaports and the general distribution of goods. He also referred to the high profitability of other banks and said that the experience of older banks had shown that more capital was required for banking.<sup>58</sup>

This need for more banking capital had also been referred to a year earlier when the proposed Chartered Bank of India, Australia, and China issued its prospectus. A report at the time said there had been no adequate increase in banking capital since the failure of firms in India in 1847 and that the discontinuation by the East India Company of the practice of making advances against produce likewise threw additional business on the existing establishments.<sup>59</sup>

### East India Company agreement to the granting of bank charters

The charter of the Oriental Bank Corporation had been granted in 1851 inadvertently, without reference to the India Board or to the Court of the East India Company.<sup>60</sup> This was unfortunate from the point of view of the East India Company because the Charter purported to give the Oriental Bank power to carry on the business of exchange, deposit and remittance in India. This was something which the East India Company considered to be within their dispensation only. Their view was that the Oriental Bank as a chartered corporation had no power to establish agencies in any place under the government of the East India Company but only in places eastward of the Cape of Good Hope under the government of the Crown.

The matter came to a head in October 1852 when the Oriental Bank Corporation wrote to the East India Company stating that, when they had obtained their Royal Charter of Incorporation, they discontinued acting as bankers in India and restricted operations there to agencies. They said they were now ready to resume their banking business in India if desired and enabled to do so.<sup>61</sup> However, the view of the legal advisers of the East India Company was that the charter of the Oriental Bank Corporation did not extend to authorizing that bank to carry on the business of exchange, deposit and remittance in India. The Treasury referred the matter to the Solicitor-General and the Attorney-General whose joint opinion was:

There is nothing in the [Statute] 47 Geo. 3 C. 68 [13 August 1807] or any other Act of which we are aware which deprives Her Majesty of the undoubted Prerogative of granting Charters for the Establishment of Banking Companies within The Territories of the East India Company.<sup>62</sup>

Whilst this problem was being considered by the India Board and the East India Company, the directors of the proposed Bank of Asia in their Memorial to the Treasury in April 1853 drew attention to the potentially privileged position of the Oriental Bank Corporation:

Your memorialists however entertain a very strong feeling, in which they cannot doubt but that your Lordships will to some extent concur, that the East India Company, having made no opposition to the issue of a Charter for the Oriental Bank in 1851, may be fairly expected to offer some explanation, to vindicate the course *now* being pursued by the Court of Directors in opposing a *similar* Charter to the Bank of Asia in 1853, the immediate and obvious result of such a policy being to perpetuate a *highly profitable monopoly* at the expense of the people of England and India.<sup>63</sup>

At this same time, the Bank of India, Australia, and China were also stressing in letters to the Treasury and Board of Trade the undesirability of allowing the Oriental Bank Corporation to hold a monopoly of exchange and remittance banking within the Territories of the East India Company.<sup>64</sup> The Board of the Bank of India, Australia, and China were in an advantageous position in their pursuit of a charter because their founder, James Wilson, had been appointed Financial Secretary to the Treasury in January 1853. Although this influential political appointment meant that he had to give up his bank directorship, it did not mean the end of his interest in the Bank of India, Australia, and China nor did it hinder his assisting that bank to obtain its charter.<sup>65</sup>

The Treasury clearly realized it would not be right for the Oriental Bank to enjoy a monopoly<sup>66</sup> and it seems that either the East India Company were alerted by this correspondence to this potential monopolistic situation or that they themselves had already assessed the position. The upshot was that, although the India Board did not agree with the legal opinion of Her Majesty's Attorney and Solicitor-General, they did not think it advisable to attempt to dispute the validity of the charter granted to the Oriental Bank. 'More particularly, they had no hesitation as to the propriety of now allowing a monopoly to exist on the part of the Oriental Bank.'<sup>67</sup>

Consequently, the India Board agreed that Royal Charters of Incorporation should be granted to other banks conferring upon them the same powers as those already given to the Oriental Bank Corporation by their charter:

To establish Agencies for carrying on the business of exchange, deposit and remittance as connected with each other and distinguished from the business of general banking within the Territories under the Government of the East India Company.<sup>68</sup>

The India Board made the point that there was to be no power to issue notes within the Indian Territories without prior reference to the India Board and the Court of the East India Company. The way was now open for other banks to apply for Royal Charters of Incorporation to operate in the territories under the jurisdiction of the East India Company.

## Conclusion

Whatever the validity of the arguments for and against the expansion of banking in India and the East, both the Bank of Asia and the Bank of India, Australia, and China pursued their applications for Royal Charters of Incorporation through to successful conclusions. It is easy to assume that the East India Company might have been trying to protect its own interests by opposing the grant of charters to new banks wishing to conduct business in India and other areas under its jurisdiction. Ill founded or not, the objections of the East India Company seem to have been sincere. Indeed, the correspondence exchanged in 1853 and 1854 between the East India Company, the India Board, the Board of Trade and the Treasury concerning the applications by the Bank of Asia and the Bank of India, Australia, and China for Royal Charters shows a concern on the part of the East India Company to protect India against the evils of over-banking and the risks of exchange dealings and manipulation of the exchange rates.

Whilst the East India Company no doubt had a genuine concern to protect the interests of the public and of commerce in the territories under its administration, they seem to have been short-sighted in not fully appreciating to what extent the development of India and the expansion of its trade might justify increased banking facilities and capital and be fostered by such additional facilities. Likewise, the Oriental Bank Corporation in their arguments do not seem to have fully considered the possibility of the growth of commerce and that competition might stimulate trade. The East India Company also do not appear to have appreciated that the limitations placed on the presidency banks which prevented them from conducting foreign exchange business, coupled with the East India Company's own recent withdrawal from undertaking the hypothecation of goods, meant that there were deficiencies in the finance of the overseas trade of India which could only be satisfactorily overcome by banks able to carry out foreign exchange transactions.

The East India Company's rooted objection to exchange banking as speculative may seem naïve. Yet they did not entirely misjudge the dangers. The huge bank expansion in India and elsewhere in the late 1850s and early 1860s was followed by massive bank failures in 1865 – and many of the banks which failed regarded exchange banking as the major part of their business. Despite the perceived risks, exchange banking was to become a very major part of the business of the banks operating in the East during the last half of the nineteenth century and to continue as such well into this century. For what other reason did they come to be collectively called 'the Eastern exchange banks'? Even as late as the 1950s, the Eastern exchange banks were reluctant to grant facilities to clients unless worthwhile exchange business was involved.

The last word on this phase of development should be given to the India Board who, in July 1853, sent a letter to the directors of the East India Company which showed they had begun to feel that there might, after all, be advantages in granting charters to new banks to operate in their territories:

Upon the fullest and most attentive consideration which the Board has been able to give to this subject, they are inclined to believe that the privileges thus conferred [i.e., the grant of Royal Charters to banks to carry on the business of exchange, deposit and remittance in India] will have the effect of giving great facility to the development of commercial enterprises in India and the extension of trade with those countries where branches and other Agencies of such banks are established.<sup>69</sup>

# The Foundation of Mercantile Bank

Now let us be up and doing something. We may make our lives useful if not sublime, and dying, leave behind us something more than foot-steps on the sands of time.

*(Bombay Gazette, 10 October 1853, in an article about the launch of Mercantile Bank, borrowing heavily from Longfellow's 'A Psalm of Life')*

## The Mercantile Bank of Bombay

The decision of the East India Company in August 1853 that Royal Charters of Incorporation could be granted to other banks – conferring upon them the same powers as those already granted to the Oriental Bank Corporation<sup>1</sup> – opened the way for new banks with the privileges and advantages of a charter to operate in the territories under the jurisdiction of the East India Company and elsewhere. However, there was still a simpler and speedier way of forming a company to carry on the business of banking in India and elsewhere in the East by merely establishing a co-partnership of shareholders for this purpose, without the benefit of limited liability. This was the result in the first week of October 1853, after Cowasjee Nanabhoy called on his friend and business colleague, Edwin Heycock, and stated his reasons for believing there was room for another bank in Bombay. As Edwin Heycock put it five years later, ‘I took a day to consider the subject, and on the next an advertisement was issued which led to the formation of the Bank’.<sup>2</sup>

The Bank was the Mercantile Bank of Bombay, very soon to be renamed the Mercantile Bank of India, London, and China, and Cowasjee Nanabhoy’s views were well founded. Cowasjee Nanabhoy was no stranger to banking, having served a term as a director of the Commercial Bank of India from 1849 and this one simple meeting with Edwin Heycock which gave birth to Mercantile Bank led to the following advertisement in the Bombay newspapers. This was the closest the bank got to any sort of prospectus at its foundation:

NOTICE IS HEREBY GIVEN that a List for parties to annex their Signatures to, for Shares in a new Bank to be called ‘The Mercantile Bank of Bombay’, is now lying at our Office and will be available until the 15th instant, for persons who may be desirous to subscribe

for any Number of Shares not exceeding 300.

After said date a Provisional Committee of Management will be appointed, to receive Applications for Shares, and to allot the same to persons in such manner as they may think advisable for the interest of the institution; but those persons who may annex their signatures for Shares before the above date, shall be entitled to the full number they may respectively subscribe for.

There will be three branches of The Mercantile Bank of Bombay, one in London, one in Calcutta, and the other in China, and it will be competent for the Directors with the sanction of a General Meeting of Shareholders, to increase the number of branches as may from time to time appear advisable.

Such deposit (but not exceeding 50 fifty Rupees per Share) as may be required, will in the meantime be paid and deposited at the Bank of Bombay, to the Credit of the trustees of the 'Mercantile Bank of Bombay'. The first call of Rs. 50 per Share will be made at a General Meeting of Shareholders, and payment required within one month of the said Meeting.

EDWIN HEYCOCK  
COWASJEE NANABHOY

Bombay, 8 October 1853  
No. 8 Rampart Row.<sup>3</sup>

The proposed capital of the new Mercantile Bank of Bombay was Rs 50 00 000 (equivalent at the time to £500 000) divided into 20 000 shares of Rs 250 each with a first call of Rs 50.<sup>4</sup> Within a few hours of the appearance of the advertisement, one quarter of this capital had already been subscribed and by 12 October the list of subscribers had been closed.<sup>5</sup> However, a portion of the capital had been reserved for potential shareholders in England, China and Calcutta.<sup>6</sup> Deposit receipts for Rs 50 each were lodged with the Bank of Bombay where subscribers were required to pay their deposits on or before 17 October in exchange for these receipts. The receipts were signed by Edwin Heycock and William Howard, both of whom, and particularly the latter, were destined to play a leading role in the establishment and growth of Mercantile Bank during its important, formative years.

### The provisional committee

The founders wasted no time, giving notice on 12 October that a general meeting of shareholders who had paid their deposit would be held on 19 October, at 8 Rampart Row, Bombay (the office of Edwin Heycock) to appoint a provisional committee of management.<sup>7</sup> The meeting was attended by a large number of subscribers and the names mentioned in the press the next day of some of the more important or well known people present give some idea of the nature of the interest in the new

bank. Most of those present were Indian merchants and brokers – predominantly Parsees and Gujaratis, 38 being mentioned by name although it is obvious from the newspaper report that many others were present. First on the list of Indians was Cowasjee Nanabhoy, an appropriate tribute to the man who conceived the idea of establishing the bank. Cowasjee Jehangheer, who would become one of the first directors of the bank, was mentioned. He was a highly regarded merchant. Nowrojee Ardaseer Dawer and Dossabhoy Framjee, who were to be elected members of the provisional committee later in the meeting, were also recorded by name.<sup>8</sup>

Although there were only ten European names mentioned, the newspaper put them at the head of the list. They included some well known members of the professional, government and commercial community of Bombay. In particular, the projectors of Mercantile Bank were glad that David McCulloch had graced their meeting with his presence. He was a partner in McCulloch and Co. and chairman of the Commercial Bank of India. He seems to have been regarded at the time as a doyen of banking in Bombay and was known for his view that branch banks were superior to agencies.<sup>9</sup> Four out of the ten Europeans named were destined to play a role in Mercantile Bank's early years. They were Edwin Heycock, partner in Heycock and Co., whose name had already appeared on the advertisement about the formation of the bank; William Howard, who would shortly become chairman of the bank's first Board of Directors and play a leading role throughout the bank's development until his death in the early 1860s; Charles Pollock, solicitor and Clerk of the Crown, who was to be legal adviser to the bank for a number of years, and Richard Newby, assistant in Heycock and Co., who would soon become one of the bank's officers and find himself posted to China early in the New Year.<sup>10</sup>

The mixture of European and important Indian subscribers at the meeting was particularly significant. The idea of establishing the bank came from a Parsee and in Mercantile Bank's first few years pains were obviously taken to ensure that both Indian (particularly Parsee) and European interests were reflected by appropriate representation on the Board of the bank and in the choice of its trustees and auditors. We shall see later that this early balance of Indian and European (i.e., British) representation at Board level did not survive, and indeed hardly could have survived the granting of a charter to the bank and the move of its head office from Bombay to London.

Edwin Heycock was elected chairman of this first general meeting, enabling him to say, some years later, that he had been Mercantile Bank's first chairman. The meeting had been called as soon as possible and shareholders had, contrary to first press advertisements, been asked to pay a deposit before the meeting because the projectors had made a mistake in

supposing that the call for the payment of a deposit might have been left until later. If it had, then 'all Bombay might have been present and many parties hostile to the project might have voted, to the injury of the institution'.<sup>11</sup>

The business of the meeting was to appoint a provisional committee to act for the shareholders in forming and establishing the bank. Those appointed were Arthur King Corfield; Edwin Heycock; Cowasjee Nanabhoy; Nowrojee Ardaseer Dawer and Dossabhoy Framjee Mama, together with William Howard (barrister) and Charles M. I. Pollock (attorney) as legal advisers. The name of Munguldass Nathoobhoy had been on the list, but some members had raised objections on account of his youth and Dossabhoy Framjee Mama was proposed instead.<sup>12</sup>

The provisional committee, together with its legal advisers, displayed the balance between Indians and Europeans already mentioned. The three Indians on the committee were all Parsees and included Cowasjee Nanabhoy. Although the bank was his idea and he was rightly a member of the provisional committee, as the years went by he took more of a background role, although retaining his interest in the bank for a number of years. Charles Pollock was a well known Bombay attorney and would be the bank's solicitor in Bombay for several years. A. K. Corfield was Postmaster-General and perhaps it was not appreciated when he was elected that, as a government servant, he was prevented by a recent government notification of 16 June 1852 from taking part in the management of a bank or trading company in India. He attended a few meetings of the committee but, as soon as this restriction was realized, he was not able to give further assistance. At the suggestion of some shareholders Gilbert Blane, who was Military Accountant and Deputy Accountant-General, was invited to attend meetings of the provisional committee. However, for the same reason, he had to decline the invitation.<sup>13</sup> The most significant appointment was that of William Howard as adviser to the provisional committee. He was a barrister and Remembrancer to the East India Company and became Advocate-General of Bombay.<sup>14</sup> He too was no stranger to Indian banking and was shortly to become the bank's chairman.

Apart from acting for the shareholders in forming and establishing the bank, the specified powers of the provisional committee were to hire premises for the bank's business; to engage officers and servants at such salaries as they might deem proper; to make the necessary outlays to meet current expenses and to prepare and submit the draft of a deed of settlement to a general meeting of the shareholders for approval and adoption at the earliest date practicable.<sup>15</sup> The committee were also given power to make a further distribution of shares, not exceeding 3 000, in Bombay presidency, on such terms as they might think proper. This presented a

problem because the bank's shares had proved so popular that they were already at a premium. Realizing it would be unfair to distribute new shares at par to persons taking advantage of the fact that the bank was now 'fairly' established, it was agreed that the new shares should be reserved for those applicants from outstations who had applied for a total of 2 290 shares before the day the share list was closed.<sup>16</sup>

### **The Mercantile Bank of India, London and China**

The members of the provisional committee wasted no time and were able to convene a general meeting of the bank's shareholders only six weeks later, on 30 November 1853, to give their report and to elect directors, auditors and trustees. The draft of the proposed deed of settlement had also been prepared and had already been available for inspection since 24 November. Perhaps it was the speed with which the committee had operated that resulted in the first press advertisement for this general meeting giving the date as 'Wednesday 1st December' hastily amended in the newspapers the next day to the correct date, 'Wednesday 30th November'.

In a decision which must have made the name 'The Mercantile Bank of Bombay' the shortest lived bank title ever, the provisional committee had decided, without reference to the shareholders, to change the name to 'The Mercantile Bank of India, London, and China'. The change was justified and so was their lack of reference to the shareholders. The committee had rightly decided that the new bank did not want merely to have other banks or commercial firms acting for them as agents in London, Calcutta and China but that there should be branch offices of the bank in these places. It made sense for the bank's name to reflect this geographical spread. It would have been impractical to delay the change of name until the meeting, even if this had been thought necessary, because it would have delayed the preparation and printing of share certificates, cheques, applications to transfer shares, deeds of transfer, cash credit bonds and various other documents on which the bank's name had to appear, all of which had to be available in good supply before the bank opened for business.<sup>17</sup> The bank's new name was long-winded; but this was the style of many bank names in the nineteenth century and, happily, the bank would always be popularly known as 'Mercantile Bank' throughout all its history and through seven variations in its name over 133 years.<sup>18</sup>

### **Recruitment of key staff**

One of the most important tasks of the provisional committee was to