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Book Review

Barons of Banking: Glimpses of Indian Banking History, by Bakhtiyar K. Dadabhoy, Random House Publishers India Pvt. Ltd., Noida, Uttar Pradesh, 2013. xxxix + 478. Rs. 599.00.

It is always a delight to read a well written book and when the subject is of special relevance in the current conditions of the country, the delight that the reader would experience is greatly heightened. The facts cited in the book are sufficient and verifiable. Dadabhoy deals with the personalities involved in his narrative with a touch of sensitivity and humaneness.

There are in all 31 chapters. There are four parts ('books' as Dadabhoy calls) with two parts exclusively devoted to two major commercial banks [the Central Bank of India (CBI) and the State Bank of India (SBI)]. Of the remaining parts, one is on Indian currency and finance and the evolution of the Reserve Bank of India (RBI). The final part deals with the making and blossoming of development banking. Dadabhoy's focus on the major players in the development of the financial institutions is very endearingly crafted. The ones who stand tall in the narrative are: Sir Sorabji Pochkhanawala who established the CBI, Sir Purushottamdas Thakurdas, the economist who served the RBI as the longest serving Director of the Central Board, C.D. Deshmukh, the first Indian Governor of the RBI, R.K. Talwar, the Chairman of the SBI at a critical time of India's financial history, A.D. Shroff, the economist who served the country with distinction in various capacities and H.T. Parekh whose stamp on development banking is unique in the annals of financial history.

It is not the intention of the reviewer to describe what each chapter delineates. Instead, he intends to bring out the perspectives that the book carries. For the reviewer, the parts dealing with the CBI and development banking are most fascinating. This is not to say the other two parts are not important. The chapter on Indian currency and RBI has facts, much of which is well known to most serious students of economic and financial history. The chapter on SBI has known facts about the difficult dilemmas that commercial banks faced in early 1970s. Dadabhoy's sensitive portrayal of the personality of R.K. Talwar has saved the chapter from being somewhat out of alignment with the racy style of the remaining parts of the book.

The Central Bank of India was established as a commercial bank in 1911. It was completely Indian in character and management. Sorabji, the architect who conceived the idea, managed the bank during the initial years of its existence with extraordinary far-sightedness. The initial years were characterised by rumours and runs on commercial banks. Foreign bankers always felt they were superior to banks run by Indians. Foreign banks had also more resources than Indian banks. Sorabji, ably

supported by the Chairman of the Board of Directors, Sir Pherozeshah Mehta and other members of the Board, showed that Indians can manage the banks well enough to gain confidence of the public. Under Sorabji's tutelage, the CBI followed a cautious policy in lending and avoided speculative deals. Sorabji's inclination to maintain a far greater liquid position than necessary and to communicate through printed statements have led to consolidation and strengthening of the bank. He expanded branches into many parts of the country. It is, however, not clear whether branch expansion was for garnering more deposits or for extending credit to the needy in different parts of the country. Dadabhoy provides a partial clue to this concern by indicating that the bank facilitated financing of agriculture in the United Provinces and Punjab where bank financing of agriculture was limited.

Dadabhoy also points out that the bank pioneered housing loans in Hyderabad and helped develop the Cochin harbor. These selective forays are backed by mechanisms to oversee and manage the branches without undue interference from the headquarters. This meant setting up a system of internal auditing. Sorabji also established local boards or local advisory committees to ensure that branch functioning is sound. He also helped the Union Bank of India by Indianising the entire management and recovering a large portion of bad debts as an alternative to the merger approach that was advocated by some financiers. This is not a norm followed by Sorabji, for, he showed in 1923, that it is best to amalgamate the Tata Industrial Bank with CBI.

Some of the innovative ideas of Sorabji have been very patiently described by Dadabhoy. The ideas are: the distribution of small savings safes in Rangoon, the issuance of 3-year cash certificates carrying attractive rates of interest, the scheme to enable people of limited resources to War loans, the introduction of gold bars minted in the name of the CBI and silver bars of 2-10 kilogrammes each, the introduction of household savings pass books, the introduction of the system of withdrawals by cheques from savings accounts, the setting up of safe deposit vaults as early as 1926, the employment of women assistants to serve lady customers, the introduction of rupee travelers cheques, the beginning of administering estates on behalf of clients on the lines of the Trustee Companies in England, the launching of the Central Fixed and Flexible Trust Company (a precursor of the Unit Trust of India), and the Depositors' Benefit Insurance Company Ltd. These initiatives are clearly well ahead of the times. What is fascinating is that Sorabji began issuing fortnightly statements about the safety and security of the CBI. He also introduced training programmes for its staff. Sorabji, according to Dadabhoy also espoused the cause of rural banking and envisaged the need for development banking.

For someone who dared to establish an Indian bank much to the sneering comments from foreign bankers and financiers, Sorabji's contribution to the development of commercial banking on sound lines is immense. It would have been very helpful had the readers been provided some idea of the ingredients of the then bank licensing policy and other regulatory policies.

The narrative on the next part on Indian currency and exchange and the early years of the RBI provides a good account of Sir Purushottamdas' initiatives and actions. C.D. Deshmukh was made the first Indian Governor on the basis of a ballot. Sir Purshotamdas's contribution to his elevation is an absorbing story. Dadabhoy also provides a good glimpse of the uneasy relationship between J.M. Keynes and A.D. Shroff at the Bretton Woods Conference.

The part dealing with the State Bank of India is well known to most serious Indian observers. A.K. Bagchi's seminal work on the subject has been cited by the author. The birth of the SBI in 1955 helped the bank to expand branches with a view to inculcating banking habit among the people. The SBI's deposits, its credits to the cooperative sector, small scale industries and agriculture have been described in considerable detail. It was with R.K. Talwar's appointment as the Chairman of SBI in 1969, about 4 months to the nationalisation of 14 major Indian commercial banks, the SBI rose to dizzy heights as an institution that cared for ethical values in financial transactions and as a practitioner of 'mass banking' as against 'class banking'. Talwar's reorganisation of the bank and his initiatives for (a) fostering agricultural credit operations including animal husbandry and dairy farming, (b) placing emphasis on need-based lending as against security-based lending to small scale industries, and (c) facilitating merchant banking, have been widely appreciated by the banking community. Dadabhoy also gave interesting examples of Talwar's relationship with the political masters and his exit from the SBI owing to his unwillingness to finance a sick cement unit without the required restructuring of its management has shown that Talwar was made of a different mettle and would not simply tow the lines of his political masters.

In the part on the evolution of organised development banking, the winners are A.D. Shroff and H.T. Parekh. Shroff Committee report is widely cited in the literature and H.T. Parekh's contribution to the development of the ICICI and HDFC is greatly appreciated by markets, academics and policy makers. Dadabhoy showed as to how Parekh clearly showed his displeasure at not being consulted by the Life Insurance Corporation before making investments in Mundhra shares, despite the fact that the Corporation had an Investment Advisory Committee to guide it. Parekh's retirement from the ICICI in 1975 and from the HDFC 1993 were followed by smooth succession plans in the two institutions.

Dadabhoy deserves praise for bringing out the book at a time when Indian financial scene is characterised by the entry of business management personnel which requires to pay attention to social responsibilities and corporate ethics so that financial stability is secured. The objectivity of the author is clearly discernible throughout the book.