

Financial (1895) Department.

ORDINARY PRINTED.

G.O., No. 136

DATED 11-2-95.

INDEXED. 14/15

[Despatch Abstract.]

BRANCHES OF MADRAS BANK IN CEYLON.-

Communicating to the Directors of the Bank of Madras ^sdep^hatch from the Secretary of State rejecting the proposal to permit them to establish branches in Ceylon, elsewhere than at Colombo, and to allow the branches to accept as security the Government stock and debentures of Ceylon.

C.A.

BACK PAPERS.

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.
		✓					

FURTHER PAPERS.

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.
		✓					

11TH FEBRUARY 1895, No. 136, FINANCIAL.

GOVERNMENT OF MADRAS.

FINANCIAL DEPARTMENT.

READ—again the following papers:—

G.O., dated 10th August 1894, Mis. No. 616, Financial.
 " " 17th " " " " 627-A "

READ—also the following paper:—

From S. JACOB, Esq., Officiating Secretary to the Government of India, Finance and Commerce Department, to the Chief Secretary to the Government of Madras, dated Calcutta, the 28th January 1895, No. 485-A.

With reference to the correspondence ending with your telegram, dated the 17th August 1894, regarding a proposal to permit the Bank of Madras to establish branches in Ceylon elsewhere than at Colombo and to allow them to accept as security the Government stock and debentures of Ceylon, I am directed to enclose, for the information of His Excellency the Governor of Madras and communication to the

* Despatch to the Secretary of State for India, No. 245, dated 19th September 1894.
 Despatch from the Secretary of State for India, No. 232, dated 20th December 1894.

Bank of Madras, copy of a correspondence * on the subject with the Secretary of State for India, from which it will be seen that the Secretary of State is unable to accept the proposal.

ENCLOSURES.

Despatch from the Government of India, Finance and Commerce Department (Accounts and Finance—Presidency Banks and their Branches), to the Right Honorable Her Majesty's Secretary of State for India, dated Simla, the 19th September 1894, No. 245.

We have the honour to transmit copy of correspondence relating to a proposal made by the Government of Ceylon to amend the Presidency Banks Act, 1876, so as to permit the Bank of Madras to establish branches in Ceylon, at other places besides Colombo where they have a branch already, and to allow these branches to accept as security the Government stock and debentures of Ceylon.

2. In 1886 the Bank of Madras enquired informally whether an application for an amendment of the Presidency Banks Act so as to allow the Bank to advance on, and invest in, the securities of the Government of Ceylon would be likely to receive favorable consideration from the Government of India. The Bank were informed that it was not likely that such a proposal would be accepted. Again in 1892, on the failure of the New Oriental Bank, the Bank applied to us for permission to open branches at Kandy and Jaffna in Ceylon. But in view of the provisions of sections 40 and 42 of the Act, we were unable to comply with the request. The present proposals would appear to have been made in consequence of these refusals.

3. The main principle on which the system of the Presidency Banks is based is that they may not deal in foreign exchanges or establish branches out of India, for if they were allowed to do these things the Government balances, which are in their custody, would not be available either in rupees or in banking securities in India. This principle we desire to maintain, but the situation of Ceylon and its intimate trade relations with India differentiate it geographically and commercially from other places outside the limits of India. The difference was recognised to a certain extent in the Act of 1876 by the permission granted to the Bank of Madras to deal in negotiable securities payable in Ceylon, and it is now adduced as the main ground on which a favorable consideration of the proposals is claimed.

4. In considering whether in this case some deviation may be allowed from the principle stated above, it must be remembered that the Bank of Madras occupies a very different position in India from the Banks of Bengal and Bombay. It is a much smaller institution and is far less of a dominant factor in the commerce of India and even of its own city; and we do not in any degree depend upon it in the sense in which we depend upon the Bank of Bengal and, to a lesser extent, on the Bank of Bombay. On the other hand, as much of the trade which the Bank of Madras finances is closely connected with Ceylon, it would hardly be inconsistent with the general principle of restricting the operations of each Bank within its own sphere to permit the Bank of Madras to undertake banking business in Ceylon.

5. The proposal may be considered to be open to objection on the ground that if the Bank of Madras were allowed to establish additional branches in Ceylon, the concession might lead to similar claims by the other two Presidency Banks. But it appears to us that the fact that the Bank of Madras already has a branch in Ceylon would enable us to resist any such claim made on behalf of the Banks of Bengal and Bombay, giving as a sufficient reason for refusal the fact that the Bank of Madras was first in the field and that competition between the three Presidency Banks was undesirable. Nor do we consider that there would be any difficulty in resisting similar claims that might be raised by the other banks as regards colonies other than Ceylon; for the intimate trade relations of Ceylon with India, together with its geographical situation, would enable us to distinguish between that colony and any others.

6. Another possible objection against the proposal is that the opening of additional branches of the Bank of Madras in Ceylon might divert funds belonging to the Government of India for the use of the Ceylon trade and possibly of the Ceylon Government. It will, however, be seen from the Madras Bank's letter dated the 29th November 1893 (No. 2 in the schedule of papers), that the existing branch at Colombo "has for the last fourteen years been worked entirely on its own resources independently of the Bank's capital and that it is now able to spare large balances for investment in India," and we are assured that this will always be the case with the Ceylon branches.

7. It appeared to us, when considering the proposals, that, in addition to these assurances, the fulfilment of two conditions was essential before the proposals could be entertained, namely, (1) the maintenance of the rupee currency by the Government of Ceylon, and (2) the adoption of measures whereby it could be ascertained that funds belonging to the Government of India were not diverted for use in Ceylon. To satisfy ourselves on these two points, we caused enquiries to be made from the Government of Ceylon and the Bank of Madras. It will be seen from the correspondence enclosed that the present intention of the Government of Ceylon is to maintain the rupee currency in that colony; but they suggest, as an additional precaution, that the permission to the Bank to open new branches in Ceylon might be made conditional on the maintenance of the rupee currency. On the second point the Bank have expressed their confidence that in the future, as in the past, the branches in Ceylon would have a surplus of assets and would not require to be financed out of the resources of the Indian branches. To make this quite certain, however, the Bank have agreed, at our suggestion, to render the weekly statement of the Bank's affairs under section 43 of the Act in two parts,—one showing the assets and liabilities of the branches in Ceylon (in which will be included the loans on the Ceylon Government securities), and the other showing those of the head office and the other branches in India.

8. Under these circumstances and subject to the proviso suggested by the Government of Ceylon, we do not think there is any material risk in making the concessions proposed. The Government of Madras also, whom we consulted on this matter, consider the proposals unobjectionable and so does the Madras Chamber of Commerce. We accordingly recommend that, in view of the interests of Ceylon and those of the trade between India and Ceylon, the proposals of the Colonial Government may be sanctioned and that we may be authorised to give effect to them by legislative and executive action.

Despatch from the Right Honorable Mr. H. H. FOWLER, Her Majesty's Secretary of State for India, to His Excellency the Right Honorable the Governor-General of India in Council, dated India Office, London, 20th December 1894, No. 232 (Financial).

I have considered in Council your Excellency's letter, dated the 19th of September, No. 245, recommending that, in view of the interests of Ceylon and of those of the trade between India and Ceylon, a proposal made by the Government of that Colony should be complied with for the amendment of the Presidency Banks Act of 1876 in such a manner as to permit the Bank of Madras to establish branches in Ceylon, at places other than Colombo where they already have a branch, and to allow those branches to accept as security the Government stock and debentures of the colony.

2. Your Excellency observes that the main principle on which the system of the Presidency Banks is based is that they may not deal in foreign exchanges or establish branches out of India, since that might result in the Government balances in their custody not being available, either in rupees or in banking securities, in India and might also prejudice their ability to give reasonable banking facilities to the trade in those areas in India to which it is primarily the object of

their existence to afford them. While desirous of maintaining this principle you are of opinion that Ceylon differs in various respects so materially from other places outside India, that you consider it safe to comply with the request of the Ceylon Government on the assurance that it is its present intention to maintain the rupee currency in that colony and on the undertaking of the Bank of Madras to render to you such a weekly statement of its affairs as will distinguish the assets and liabilities of the branches in Ceylon from those of the head office and branches in India.

3. I concur in the opinion expressed by many of my predecessors in Council that it is highly important to maintain as an essential condition of a Presidency Bank that it shall not deal in foreign exchanges or be allowed to establish branches out of India, and I am not satisfied that there is any sufficient reason for making an exception in the case of the Bank of Madras. I have not been able to find in the proceedings of 1867 an explanation of its being permitted to establish a branch at Colombo; but I should regret a further extension of this exceptional privilege. It seems doubtful whether the existing capital of the Bank would be sufficient in case of any great development of its business in the colony; and, although at present the Ceylon branch shows a surplus of assets over liabilities, it is by no means certain that that would always be the case and on an emergency arising the Bank might be compelled to send to Ceylon a considerable portion of its Indian assets.

4. Again, although India and Ceylon are now on the same standard, it does not follow that they will remain so, and, if either country changed its currency, complications might very likely ensue.

5. The proposal to permit the funds to be invested in the securities of another Government (except that of the United Kingdom) is, to my mind, distinctly objectionable, and in any case I should have been unwilling to give my consent to it.

6. I regret that for these reasons I am unable to authorise the action which your Government propose to take in the matter.

ORDER—dated 11th February 1895, No. 136, Financial.

Communicated to the Directors of the Bank of Madras.

(True Extract.)

Chief Secretary.

To the Secretary and Treasurer, Bank of Madras.

Ed C. A. Manisawamy.

Gobt. of {1895} Madras.
FINANCIAL.

Issued

Recd.

Encl.

G.O., 11th February 1895, No. 136.

FEBRUARY.

Branches of Madras Bank in
Ceylon.

Communicating to the Directors of the Bank of Madras despatch from the Secretary of State rejecting the proposal to permit them to establish branches in Ceylon elsewhere than at Colombo and to allow the branches to accept as security the Government stock and debentures of Ceylon.

[$\frac{G}{9}$]
2,000-23-1-95.

D.O.
Current No. 75

DEPARTMENT.

From

S. Jacob Esq
Govt of India

No. 486A

Dated 28.1.95

Received 1/2
Recd 2/2
Enclosures

SUBJECT.

Informing that the Secy of State's
Despatch no 232 dt 20/12/94 re:
The proposal to permit the Bank
of Madras to establish branches
in Ceylon, sent officially, may
be communicated to the Bank
of Madras, if desired:

File 9/0 136 sent
11/2/95

to Press

12/2

FROM CIRCULATION
WITH REMARKS.

Cl

Despatch

Cl
7/2

Gen 9/2

7/2

D.O. N° 75

N° 486-A.



CHIEF SECRETARY
GOVERNMENT OF MADRAS

-1. Feb 1895, the 28th January 1895.

Dear Sir,

A copy of the Secretary
of State's Despatch N° 232 dated 20th
December 1894 rejecting the proposal
to permit the Bank of Madras
to establish branches in Ceylon -
elsewhere than at Colombo and
to allow them to accept as security
the government stock and debentures
of Ceylon, has been forwarded to
the government of Madras -
officially

Review
using recombinant
of India

officially under cover of this Depart-
ment N^o 485-A, dated the 28th January 1885.
I write to say that we have ascertained
from the Secretary of State that he has
no objection to his Despatch being com-
municated verbatim to the Bank of Madras
for information, if desired. A copy has
been sent to the Government of Ceylon.

Yours truly,

Stephen Jacob

J. F. Price, Esquire, J. C. S., C. S. I.

gldm

[$\frac{G}{9}$]

2,000-23-1-95.

Current No. 282

Finl. DEPARTMENT.

From :

The Govt. of India
Fin & Com.

No. $\frac{A}{458}$
458

Dated 28/1/95

Received 1/2.

Enclosures 2.

SUBJECT.

Forw^d copies of a correspondence with the Secy of State on the subject of permitting the Bank of Madras to establish branches in Ceylon, elsewhere than in Colombo & allowing them to accept as security the Govt stock & debentures of Ceylon, disallowed by the Secy of State for India:

627A : 17-8-94 Finl. Secy
616 : 10-8-94 Finl. Secy

No. 245 OF 1894.

GOVERNMENT OF INDIA.

FINANCE AND COMMERCE DEPARTMENT.

ACCOUNTS AND FINANCE.
Presidency Banks and their Branches.

To

THE RIGHT HONOURABLE H. H. FOWLER,

Her Majesty's Secretary of State for India.

Simla, the 19th September 1894.

SIR,

WE have the honour to transmit copy of correspondence relating to a proposal made by the Government of Ceylon to amend the Presidency Banks Act, 1876, so as to permit the Bank of Madras to establish branches in Ceylon, at other places besides Colombo where they have a branch already, and to allow these branches to accept as security the Government stock and debentures of Ceylon.

2. In 1886 the Bank of Madras enquired informally whether an application for an amendment of the Presidency Banks Act, so as to allow the Bank to advance on, and invest in, the securities of the Government of Ceylon, would be likely to receive favourable consideration from the Government of India. The Bank were informed that it was not likely that such a proposal would be accepted. Again in 1892, on the failure of the New Oriental Bank, the Bank applied to us for permission to open branches at Kandy and Jaffna in Ceylon. But in view of the provisions of sections 40 and 42 of the Act, we were unable to comply with the request. The present proposals would appear to have been made in consequence of these refusals.

3. The main principle on which the system of the Presidency Banks is based, is that they may not deal in foreign exchanges or establish branches out of India, for if they were allowed to do these things the Government balances, which are in their custody, would not be available either in rupees or in banking securities in India. This principle we desire to maintain, but the situation of Ceylon, and its intimate trade relations with India, differentiate it geographically and commercially from other places outside the limits of India. The difference was recognised to a certain extent in the Act of 1876 by the permission granted to the Bank of Madras to deal in negotiable securities payable in Ceylon, and it is now adduced as the main ground on which a favourable consideration of the proposals is claimed.

4. In considering whether in this case some deviation may be allowed from the principle stated above, it must be remembered that the Bank of Madras occupies a very different position in India from the Banks of Bengal and Bombay. It is a much smaller institution, and is far less of a dominant factor in the commerce of India and even of its own city; and we do not in any degree depend upon it in the sense in which we depend upon the Bank of Bengal and, to a lesser extent, on the Bank of Bombay. On the other hand, as much of the trade which the Bank of Madras finances is closely connected with Ceylon, it would hardly be inconsistent with the general principle of restricting the operations of each Bank within its own sphere, to permit the Bank of Madras to undertake banking business in Ceylon.

5. The proposal may be considered to be open to objection on the ground that if the Bank of Madras were allowed to establish additional branches in Ceylon, the concession might lead to similar claims by the other two Presidency Banks. But it appears to us that the fact that the Bank of Madras already has a branch in Ceylon would enable us to resist any such claim made on behalf of the Banks of Bengal and Bombay, giving as a sufficient reason for refusal the fact that the Bank of Madras was first in the field and that competition between the three Presidency Banks was undesirable. Nor do we consider that there would be any difficulty in resisting similar claims that might be

raised by the other banks as regards colonies other than Ceylon; for the intimate trade relations of Ceylon with India, together with its geographical situation, would enable us to distinguish between that colony and any others.

6. Another possible objection against the proposal is that the opening of additional branches of the Bank of Madras in Ceylon, might divert funds belonging to the Government of India for the use of the Ceylon trade, and possibly of the Ceylon Government. It will, however, be seen from the Madras Bank's letter, dated the 29th November 1893 (No. 2 in the schedule of papers), that the existing branch at Colombo "has for the last fourteen years been worked entirely on its own resources independently of the Bank's capital, and that it is now able to spare large balances for investment in India," and we are assured that this will always be the case with the Ceylon branches.

7. It appeared to us, when considering the proposals, that in addition to these assurances, the fulfilment of two conditions was essential before the proposals could be entertained, namely, (1) the maintenance of the rupee currency by the Government of Ceylon, and (2) the adoption of measures whereby it could be ascertained that funds belonging to the Government of India were not diverted for use in Ceylon. To satisfy ourselves on these two points, we caused enquiries to be made from the Government of Ceylon and the Bank of Madras. It will be seen from the correspondence enclosed that the present intention of the Government of Ceylon is to maintain the rupee currency in that colony; but they suggest, as an additional precaution, that the permission to the Bank to open new branches in Ceylon might be made conditional on the maintenance of the rupee currency. On the second point the Bank have expressed their confidence that in the future, as in the past, the branches in Ceylon would have a surplus of assets and would not require to be financed out of the resources of the Indian branches. To make this quite certain, however, the Bank have agreed, at our suggestion, to render the weekly statement of the Bank's affairs under section 43 of the Act in two parts,—one showing the assets and liabilities of the branches in Ceylon (in which will be included the loans on the Ceylon Government securities), and the other showing those of the head office and the other branches in India.

8. Under these circumstances, and subject to the proviso suggested by the Government of Ceylon, we do not think there is any material risk in making the concessions proposed. The Government of Madras also, whom we consulted on this matter, consider the proposals unobjectionable and so does the Madras Chamber of Commerce. We accordingly recommend that, in view of the interests of Ceylon and those of the trade between India and Ceylon, the proposals of the Colonial Government may be sanctioned, and that we may be authorised to give effect to them by legislative and executive action.

We have the honour to be,
SIR,
Your most obedient, humble Servants,

(Signed) ELGIN.

" G. S. WHITE.

" A. E. MILLER.

" H. BRACKENBURY.

" C. B. PRITCHARD.

" J. WESTLAND.

" A. P. MACDONNELL.

Schedule of Papers.

1. Letter from the Government of Ceylon, to the Government of India, dated the 31st October 1893.
2. Letter from the Bank of Madras, to the Government of India, No. 141, dated the 29th November 1893, and enclosures.
3. Letter from the Government of India, to the Bank of Madras, No. 1302, dated the 13th March 1894.
4. Letter from the Bank of Madras, to the Government of India, No. 5, dated the 12th April 1894, and enclosures.
5. Letter from the Government of India, to the Government of Madras, No. 2937, dated the 9th June 1894.
6. Letter from the Government of India, to the Government of Ceylon, No. 2938, dated the 9th June 1894.
7. Letter from the Government of Ceylon, to the Government of India, dated the 17th July 1894.
8. Telegram from the Government of Madras, to the Government of India, dated the 10th August 1894.

Copp.
GOVERNMENT OF INDIA,
FINANCE AND COMMERCE
DEPARTMENT.
ACCOUNTS AND FINANCE.
Presidency Banks and their Branches.

FROM
THE GOVERNMENT OF INDIA,

TO
THE SECY. OF STATE FOR INDIA.

No. 245.

Dated Simla, the 19th September 1894.

Received

Proposal to amend the Presidency Banks Act, 1876, so as to permit the Bank of Madras to establish branches in Ceylon, elsewhere than in Colombo, and to allow the branches to accept as security the Government stock and debentures of Ceylon.

G. C. Press, Simla.—No. 787 C. F.—17-9-94.—30.

India Office,
London, 20th December 1894.

Financial,
N^o 232.

To

His Excellency the Right Honorable
the Governor General of India in Council
My Lord,

I have considered in Council your Excellency's letter dated the 19th of September, N^o 245, recommending that, in view of the interests of Ceylon, and of those of the trade between India and Ceylon, a proposal made by the Government of that Colony should be complied with, for the amendment of the Presidency Banks Act of 1876, in such a manner as to permit the Bank of Madras to establish branches in Ceylon, at places other than Colombo where they already have a branch, and to allow those branches to accept as security the Govt. stock and debentures of the Colony.

2.

your Excellency observes that

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the main principle on which the system of the Presidency Banks is based is that they may not deal in foreign exchanges or establish branches out of India, since that might result in the Government balances in their custody not being available, either in rupees or in banking securities, in India, and might also prejudice their ability to give reasonable banking facilities to the trade in those areas in India to which it is primarily the object of their existence to afford them. While desirous of maintaining this principle, you are of opinion that Ceylon differs in various respects so materially from other places outside India, that you consider it safe to comply with the request of the Ceylon Government, on the assurance that it is its present intention to maintain the rupee currency in that Colony, and on the undertaking of the Bank of Madras to render to you such

a

a weekly statement of its affairs as will distinguish the assets and liabilities of the branches in Ceylon from those of the head office and branches in India.

3. I concur in the opinion expressed by many of my predecessors in Council, that it is highly important to maintain as an essential condition of a Presidency Bank that it shall not deal in foreign exchanges or be allowed to establish branches out of India; and I am not satisfied that there is any sufficient reason for making an exception in the case of the Bank of Madras. I have not been able to find in the Proceedings of 1867 an explanation of its being permitted to establish a branch at Colombo, but I should regret a further extension of this exceptional privilege. It seems doubtful whether the existing capital of the Bank would be sufficient in case of any great development of its business in the Colony; and,

and, although at present the Ceylon branch shows a surplus of assets over liabilities, it is by no means certain that that would always be the case, and, on an emergency arising, the Bank might be compelled to send to Ceylon a considerable portion of its Indian assets.

4. Again, although India and Ceylon are now on the same standard, it does not follow that they will remain so; and, if either country changed its currency, complications might very likely ensue.

5. The proposal to permit the funds to be invested in the securities of another Government (except that of the United Kingdom) is, to my mind, distinctly objectionable; and, in ^{any} case, I should have been unwilling to give my consent to it.

6. I regret that, for these reasons, I am unable to authorise the action which your Government propose to take in the matter.

(True copy)

W. M. M. M.

I have seen
(S^d) Henry H. Fowler.

Rept. Fin. & Com. Secy. H. -
10th Nov.

17-8-96 No. 11-637

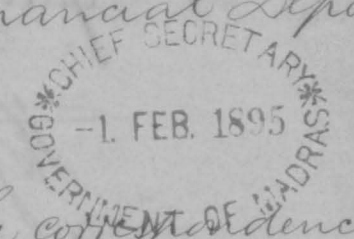
CURRENT No. 282
A
No. 485.

GOVERNMENT OF INDIA.
FINANCE AND COMMERCE DEPARTMENT.

Read also the following
Calcutta, the 28th January 1895.

Jul 1368 11/2/95

To
The Chief Secretary to the Government of Madras
Financial Department.



Sir,
With reference to the correspondence ending with your telegram dated the 17th August 1894, regarding a proposal to permit the Bank of Madras to establish branches in Ceylon elsewhere than at Colombo, and to allow them to accept as security the Government stock and debentures of Ceylon, I am directed to enclose for the information of His Excellency the Governor of Madras and communication to the Bank

* Despatch to the Secretary of State for India
No. 245, dated 19th September 1894.
Despatch from the Secretary of State for India
No. 1232, dated 20th December 1894.

of Madras, copy of
a correspondence on
the subject with the

Secretary of State for India, from which it

will

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282

Final

will be seen that the Secretary of State is unable to accept the proposal.

I have the honour to be,
Sir,
Your most obedient servant,

Hepten Jacob

Offg. Secretary to the Govt. of India.

[G.]
24
50-79-9-94.

Final

DEPARTMENT.

Papers to be read in Proceedings:—

Again G.O., dated 10. August 1894, No. 616
Again G.O., dated 17. August 1894, No. 627 A
Current No. 682 of 1895, dated 28. Jan from The Secy. I.

G.O. 75
Current No. 282 of 1895, dated 28/1/ from The Secy. I.

ORDER. 11th February 1895, No. 136.

Communicated to the Directors
of the Bank of Madras.

CS.
2.295

24/2/95

Secy. Treasurer Bank of Madras
20/2/95

In Orders as to whether the Secy. I.
Despatch to the Secy. of State should
be communicated to the Bank.
Mr. Jacob's O.O. deals with the
Secy of State's Despatches to India
only. In the letter [C. No. 282,
it is distinctly stated that the
correspondence (including the
Despatch to the Secy. I.) is for
Comm. to the Bank.

CS.

24/2/95

Branches of Madras
Bank in Ceylon

Hu
PS

First copy sent to Press.

Returned for signature.

Despatched in print.

READ AGAIN G.O., No.
159

DATED

CURRENT No.

ENCLOSURES TO G. No.

ORDER OF GOVERNMENT

LETTER OF GOVERNMENT

STATEMENT WITH DITTO.

PAPERS NOT FILED UP, BRING MEANT FOR DESPATCH
IN ORIGINAL.

N.B. —

A = Print in full.
B = Not to be printed.
P = Print abstract only.
Q = Print heading only.

NUMBER OF COPIES
REQUIRED.

Order complete. 32
Letter only.
Order complete with Letter.

C5/2

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