

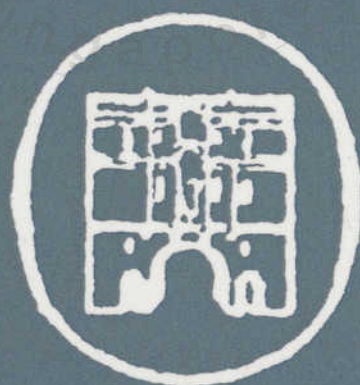
*Economic History*

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# **Realms of Silver**

One hundred years of banking in the East

Compton Mackenzie





ECONOMIC HISTORY

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REALMS OF SILVER



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ASIA





# REALMS OF SILVER

One hundred years of banking in the East



COMPTON MACKENZIE

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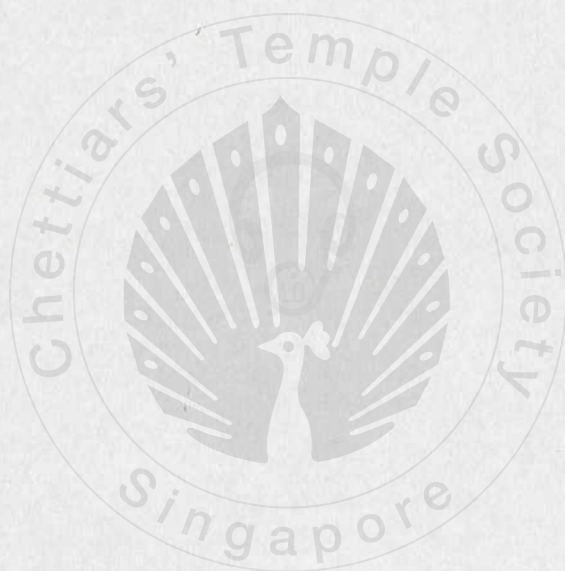
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## PREFACE

**I**N *Realms of Silver* Sir Compton Mackenzie tells the story of an enterprise typical of the mid-Victorian era—an enterprise dedicated to the proposition that Commerce is the great civilizer. He describes the difficulties encountered by the founders of the Chartered Bank of India, Australia and China in seeking, a hundred years ago, to establish in the awakening countries of the East British standards of financial probity and commercial integrity, and he goes on to relate how the Bank was able to foster trade and industry in the lands to which its establishment was extended and to co-operate in the reform of archaic systems of currency.

Perhaps the secret of the progress which has attended the Eastern Exchange Banks, of which the Chartered Bank is the senior, and therefore, to some extent, the prototype, has been their readiness to identify themselves with the interests of the countries in which they operate. Throughout its entire existence, the Chartered Bank has stood—as indeed it does to-day—ready to assist all worth-while commercial undertakings in the territories it serves, to proffer unbiased comment and advice to clients on their business propositions, or on economic issues, to interpret the countries of the East in all fields of commerce to the countries of the West and to one another, and to function as



a financial bridge over which such commerce is brought to a satisfactory conclusion.

The Chartered Bank could not, without weakening its whole structure, assume the nationality of each of the countries in which it maintains branches. This has not prevented the Bank, directed from London, a monetary centre free to all, identifying itself with all that is best in the commercial and economic interests of its clients, irrespective of race, creed or politics, and, generally, in every country where the Bank is established, co-operating loyally with the respective Governments and Central Banks wherever such co-operation is sought or desired. With this in mind it is perhaps not so remarkable that, after the outbreak of the war in the Far East, when country after country was being overrun by the Japanese armies, the British members of the Chartered Bank's staffs, like those of many another bank and firm similarly situated, remained at their posts side by side with their Asian colleagues.

*Realms of Silver* is largely the tale of four successive generations of young Scotsmen and Englishmen (there have been Welshmen and Irishmen too) who forsook counters and desks in their homelands to serve the Chartered Bank in those countries which lie between the Arabian Sea and the Pacific Ocean. Since it has been the Bank's policy to employ, wherever possible, citizens of the Asian countries, and by teaching and encouragement to raise them to positions of ever-increasing responsibility and importance, the numbers of British officers in the foreign service of the Bank have never been large—at no time as many as three hundred all told; but those men have encountered, during their careers in the East, wars and revolutions, earthquakes, typhoons and tidal waves, plagues and famines. In the Second World War, many of them languished in captivity and seventeen lost their lives. During the past hundred years, Chartered Bank men have been participants in, or spectators of, events that will echo down the corridors of world history. The archives

of the Bank contain material sufficient for a dozen books, but there is much that cannot yet be told.

There are many banks that are older than the Chartered Bank, but few of them are constituted and administered to-day just as they were a hundred years ago. That this should be so with the Chartered Bank may seem the more remarkable when it is remembered that the first branches of the Bank were many hundreds of miles apart and several thousand miles distant from London, and that they could communicate one with another and with the Head Office only by means of letters carried in sailing-ships, so that in times of financial stress and difficulty, and there were many in those early days, assistance from the Head Office or the nearest branches was difficult to invoke and more difficult to contrive in time to be of service. Until the supersession of the sailing-ship by the steamship, followed by the opening of the Suez Canal and the laying of the electric telegraph cable, all the branches, of necessity, had to operate as completely independent units, and their survival, under conditions which made it possible for cargoes financed by the Bank to decline sharply in value before they could be realized on arrival at the ports of destination months later, was undoubtedly a creditable achievement.

The Chartered Bank of India, Australia and China has preserved, throughout a century of progressive activity under violently changing political and economic conditions everywhere, its original name, its original constitutional form and, let it be emphasized, its complete independence. The Bank may now perhaps justly claim to have become an institution and its service to have engendered a tradition.

W. R. COCKBURN

38 *Bishopsgate*

*London*

*20th January 1954*



## AUTHOR'S NOTE

I HAVE received invaluable help from Mr. J. Leighton-Boyce's researches into the history of the Bank and equally invaluable help from the Secretary, Mr. H. E. Faulkner, who has given so much of his time to the reading of the proofs and the answering of my innumerable questions. I am most grateful for the generous way in which both these collaborators have put their expert knowledge at my service.

COMPTON MACKENZIE



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# VII

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*Burma; the Bank opens in Rangoon; rice; Akyab agency;  
expansion of trade in Rangoon  
Ceylon; rise and fall of the coffee industry; the Chettiars; the  
Bank's Colombo agency*

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EARLY in the nineteenth century the Burmese began to threaten the security of the East India Company's territories in East Bengal by penetrating into Manipur and devastating the valley of the Brahmaputra. At last Lord Amherst, the Governor-General, decided that a formal declaration of war on Burma was the only way to deal with the growing menace of Burmese militancy. The Burmans themselves were so confident of victory that their commanders were ordered to march to England if necessary, stopping on the way to put the Governor-General in gilded chains and send him down to Mandalay. The British landed at Rangoon in force, and in spite of the toll taken by disease and an ignorant commissariat were ultimately able by superiority of weapons to exact from the King of Burma, 'Despotick, of Great Merit, of Great Power, Lord of the Mines of Rubies, Lord of the White Elephant, Red Elephant and Spotted Elephant,' the cession of Assam and the two



maritime provinces of Arakan and Tenasserim to the East India Company. The Burmese paid a heavy indemnity and were compelled to accept a British Resident at the Ava Court.

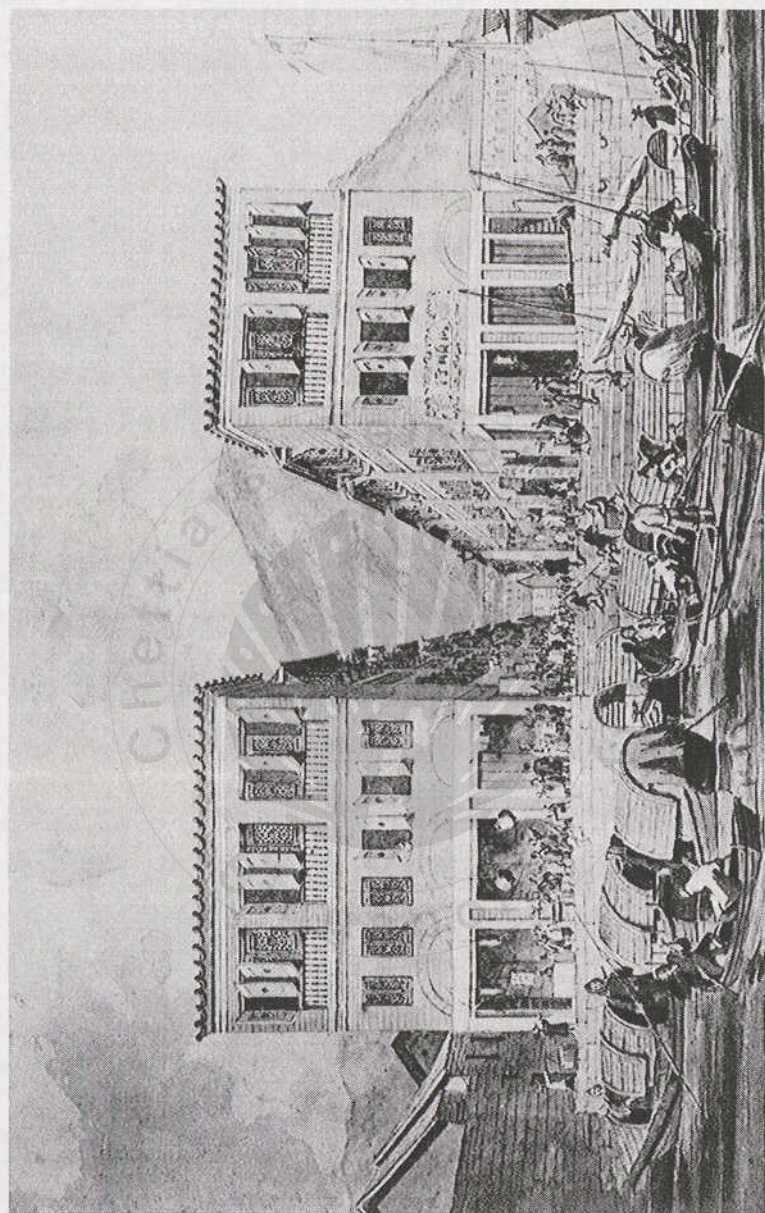
For the next twenty-five years the Burmese lost no opportunity of showing their dislike of the partial British occupation of their country. The few British merchants in Rangoon and Moulmein were continuously complaining of the vexatious restrictions imposed upon their mercantile activities, but their grievances obtained very little sympathetic attention from the Indian Government, which did not view with favour the prospect of another expensive war.

When Lord Dalhousie became Governor-General the policy was changed. To his imperial dreams the responsibility of further annexation was attractive. In April 1853, just when the plans for the projected Chartered Bank of India, Australia and China were being first discussed in London by its projectors, Dalhousie sent the King of Burma an ultimatum backed by an armed force. By the end of June the British were masters of Lower Burma, and without a treaty Dalhousie annexed the provinces of Pegu and Martaban, thus linking Arakan with Tenasserim and gaining for the East India Company possession of Rangoon and complete control of the Burma coastline.

These provinces passed with India to the Crown in 1858, and by what must be considered the gravest misjudgment remained under the jurisdiction of the Indian Government until 1937, when it was too late to heal the exacerbation of Burmese pride through eighty years.

The Burmese kingdom of Ava in Upper Burma remained independent until King Thibaw's behaviour brought about the Third Burmese War, which ended in the annexation of Upper Burma by Lord Dufferin.

Under British rule Rangoon was rebuilt and enlarged, and Burma's trade grew so rapidly, rice soon replacing timber as the chief export, that in December 1861 the Calcutta agent of the Chartered Bank was given dis-



THE WATERFRONT AT HONG KONG, 1858





cretionary powers by the Court of Directors to open a sub-agency in Rangoon.

However, in June of 1862 a new agency was established with Mr G. A. Whyte in charge and Mr E. Maccall as his sub-agent. There was already a branch of the Bank of Bengal in Rangoon, but the Chartered Bank was the first of the exchange banks to open there, and the Bank's officers on the spot were naturally eager to build up an unassailable position in these early years against future competition by securing all the sound business that Rangoon offered.

The new agency's main difficulty was an acute shortage of funds with which to finance its fast increasing turnover. The season for the shipment of rice lasted from November to the end of May, and from a banking standpoint much depended on whether the bulk of the crop was to be shipped to China or to Europe. When most of the trade was with the latter the agency was able to use the funds available under Head Office credit to meet its drafts on London more quickly than when returns had to be remitted from China. It was hard for the Rangoon agent to turn away good potential customers for sterling remittances because he lacked funds in London, and he was constantly being driven into exceeding the credit limits laid down by the Head Office for his sterling sales.

The critical period came at the end of the Burma shipping season in May, because in that month the Bank began to lay down funds in China to finance the shipments from there of tea and silk. It was lucky for the Bank's Rangoon business that in July 1865 it was able to secure the services of a former local agent of the Bank of Bengal, Mr Alexander Watson, because his standing was so high with his former employers that he was able to persuade the Bank of Bengal to make funds available to the Chartered Bank against the latter's promissory note covered, if necessary, by good mercantile paper. This welcome facility released the Chartered Bank from having to lock up a substantial proportion of its Rangoon funds



in Government paper yielding only 4 per cent or 5 per cent yearly for the purpose of raising loans at times when money was tight.

The profits were handsome. The rice merchants in Burma were making money so fast that they were able to pay such prices for imports as compensated dealers for the high interest rates charged for financial accommodation. There were not many places in the world, even during the boom of the early 'sixties, that could afford to pay equally high charges for banking facilities, and the prosperity of Rangoon can be realized when a building site bought by the Bank in August 1864 for 20,000 rupees could have been sold at a profit of at least 50 per cent within less than a couple of years.

The Bank's original office had been in Phayre Street, but it soon moved to a building on the Strand near the office of the present Port Commissioner. The new premises were first rented on a five years' lease from the 1st of August 1863. They were in a good situation, equally well adapted as business accommodation and as living quarters for the European officers at a time when buildings in Rangoon suitable for housing a banking business were extremely scarce. With an eye to future expansion and more competitive conditions the Bank in the following year bought part of its present site at the corner of Shafraz Road and Phayre Street. Shafraz commemorates the wealthy Armenian contractor who built the first hotel in Rangoon, and Phayre commemorates Sir Arthur Phayre, the first commissioner of the Province of Pegu after the Second Burmese War.

At this date labour and building materials were both so costly that the erection of premises on the new site was deferred, and in the outcome it was not until 1898 that the Court of Directors authorized the building contract to be placed. Meanwhile, the Bank remained in its premises on the Strand, which by 1885 were reported as being in such a dilapidated condition that their appearance both inside and out was declared 'disgraceful.' The owner



of the premises had died and his executors in England neglected to carry out even the simplest repairs. No new furniture had been bought for sixteen years, and most of what had survived was broken.

The anticipated competition was unexpectedly slow in materializing, and the non-appearance of other exchange banks in Rangoon may have been influenced by the commanding position Mr Alexander Watson had secured for the Chartered Bank, whose agent he was to remain for over a quarter of a century. He was the first European to build a bungalow in what was described in 1874 as the 'thick jungle' of Kokine, where fifty years later the Bank would erect a dignified and impressive official residence for its managers.

The first of the rival exchange banks to open an office in Rangoon was the Chartered Mercantile Bank of India, London and China. That was in 1879, but the branch was closed in 1892, and the Chartered Mercantile's successor, the Mercantile Bank of India Ltd., did not set up an establishment in Rangoon until 1910. The National Bank of India Ltd. opened a Rangoon office in 1885, the Hong Kong Bank in 1888. The expansion of the general business of the port between the 'fifties and the 'eighties provided such a wide scope for the newcomers operating in Rangoon that the Chartered Bank did not suffer greatly from the competition, although the Chartered Mercantile, by granting more liberal terms to its customers, did succeed at first in making some severe inroads into the business of its longer established rival.

At the end of the century rice was still the largest and most valuable of Burma's exports, and throughout its early years in Rangoon the Chartered Bank was much concerned with this commodity. The commercial morality of the rice merchants was not always above reproach. The standard basket for the purchase of paddy was circular in shape, measuring fifteen inches in depth, and the purchase price was quoted at so many rupees per 100 baskets. It became a habit of some to insert small planks in these

baskets to reduce them to fourteen inches in depth, but in course of time this habit became general, which defeated the object of those who had tried to scare off their rivals by short weight. On the 13th of March 1885 the quoted price was 65 rupees for 100 baskets, each of fourteen-inch depth; slack measurement together with various concessions and allowances brought the real cost up to 74 rupees, and every five rupees added to the price made a difference of about five shillings a ton to the cost of the rice.

It was the custom for both the European and Burmese rice traders to ignore at their convenience any arrangements they might have reached with their neighbours over prices. In the rush for paddy one firm would often take forcible possession of a paddy boat the cargo of which had already been bought by a rival. The European merchants had no trust at all in one another and were in the hands of their Burmese brokers, who always managed to keep prices high. The Burmese trader was a keen gambler who greatly enjoyed the exciting game of sailing past the European mills with his cargo of paddy, making signs with his fingers as he passed to show how many planks and what percentage 'allowance' he required.

To cure this unsatisfactory state of affairs Watson, the Chartered Bank agent, had tried several times to arrange an agreement between the leading European firms over prices and methods of trade. His efforts came to naught. The firms involved seemed to think that profit was of less importance than the ruin of their rivals. In Bassein during the 1884-85 season two firms had contrived to force prices up to such an artificially high level that all their competitors had been driven out of the market, and the same spirit was evident in Rangoon. In Akyab, on the other hand, the more important firms had agreed to meet daily that season in order to regulate prices. In consequence the Akyab exporters did really well. Unfortunately the Chartered Mercantile, the other exchange



bank concerned at the time, was unwilling to take common action with the Chartered Bank by refusing to grant advances if the corrupt system of false measurements went on. So in Rangoon, the main port for rice, the bad old system continued for some years.

During the 'sixties the Calcutta agency of the Chartered Bank had been doing a considerable business in rice bills with the leading Akyab firms. In June 1867 Head Office in London asked for a report on the prospects of establishing a profitable agency at Akyab, and although the rates obtainable on bills were close on those of Calcutta, with the expense of shipping rupees added, it was decided to open an agency at Akyab. Indian staff was brought from Calcutta, and as Akyab did not have premises of what were described as the 'pukka' type for the security of a bank considerable expense was incurred in providing a suitable building. The agency could serve a useful purpose only during the rice season; during the rest of the year the office was closed and the staff was sent back to India. Nevertheless, the Bank was welcomed by the mercantile community at Akyab, and until the 'eighties it did a fair business there.

A crisis occurred in the 1883-84 season, which had been so unsatisfactory that the directors debated whether to reopen the agency or to entrust the Bank's representation at Akyab to the Bank of Bengal. However, it was felt that if the Chartered Bank were to withdraw, the Chartered Mercantile would step in and try to strengthen the position it had already secured in the space of a few years at Rangoon, and that it would not be enough to be represented by the Bank of Bengal in the face of such competition.

The Akyab agency was financed and controlled by the Chartered Bank's Calcutta establishment, and inasmuch as most of its business was conducted with firms in Rangoon it was difficult for the Bank's Calcutta agent to gauge the seasonal position of the Akyab firms, being as he was without direct information about their day-to-day



position in the world's rice trade. Control of the Akyab agency was therefore transferred to Rangoon, and each season one of the Bank's officers was sent up for three months to Akyab, where he lived in solitary state, attended by a Sikh as servant and bodyguard.

In spite of the Indian rupee's being the currency of Burma, the silver crisis does not seem to have affected the prosperity of Burma adversely during the nineteenth century. Trade with the Kingdom of Ava had been renewed by two commercial treaties negotiated by Sir Arthur Phayre and Sir Albert Fytche in the 'sixties. To be sure, the Third Burmese War interrupted the development of trade in the 'eighties for a year or two; but it soon continued to expand again.

The resumption of normal relations with Ava after the Second Burmese War had presently been followed by opening the teak forests to foreign enterprise, and in 1864 the Bombay-Burma Trading Corporation was formed to finance and organize the timber industry. Six years later, in 1870, the famous firm of Steel Brothers was founded. William Strang Steel, who had just come to Rangoon in 1862, went into partnership with his brother James Alison Steel to take over the rice-mill and timber yard of an Indian merchant, Nanabhoy Burjorjee, together with his offices at the corner of Merchant Street and Maung Taulay Street. Other enterprises conspicuous in the economy of British Burma were launched during this period, among them the precursor of the Burmah Oil Company which after the collapse of the Kingdom of Ava would achieve international stature.

The pace of Burmese economic development in the 'seventies was naturally quickened by the opening of the Suez Canal, by the ever-increasing use of steam with its lower freight charges, by the opening of the Irrawaddy Valley State Railway from Rangoon to Prome, and even more by the improvement in transport effected by the Irrawaddy Flotilla Company. The most remarkable increase in the export trade was in the shipment of rice. In

1867 there were only two steam rice-mills in Rangoon; within a few years there were seventeen. The growth of Rangoon was so marked that it soon became imperative to overhaul the port administration, and a new Port Trust took over control in 1880.

The population of Rangoon was not only growing; it was also changing. The growth of trade meant increased opportunities of employment, and there was a steady Indian immigration. The census of 1881 revealed that there were 66,000 Indian immigrants comprising 44 per cent of the population of Rangoon. This immigration was to be so steadily maintained through the years that modern Rangoon was to become more of an Indian than a Burmese city. The Indian Government encouraged this influx in the interest of rice cultivation; whatever its commercial advantages, its other advantages may seem in the light of later events to have been doubtful.

The Rangoon Chamber of Commerce after a brief existence in the 'sixties had been revived on a sounder basis in 1877 at a meeting over which the Bank's agent, Alexander Watson, presided. Members of the Chamber never ceased to advocate the expediency of annexing Upper Burma, but they might never have been successful if the Government at home had not become nervous about French ambitions in South-East Asia. When Upper Burma was finally annexed the merchants of Rangoon were not disappointed in their expectations of the increase of trade that would accrue, and the volume of overseas shipments through the port continued to grow impressively fast.

In the 'nineties textiles still kept the lead in imports, two-thirds of them coming from Lancashire. Rice exports had trebled in twenty years; timber shipments had quadrupled. The imports of coal and machinery for the Rangoon mills were increasing, and the export of petroleum was beginning to develop.

The closing in 1892 of the Chartered Mercantile Bank removed the strongest competitor of the Chartered Bank of India, Australia and China. The predominant position



of the latter was due to the foresight and courage of the Bank's management in establishing an agency in a young port the trade prospects of which at that date showed no more than the brightness of dawn; it was practically untried as a field for banking. It is worthy of remark that in spite of the attraction of high potential profit no other exchange bank ventured to open an office in Rangoon until the Chartered Bank had been established there for seventeen years.

The skill, judgment and experience of Mr Alexander Watson, for so long the Rangoon agent of the Bank, were largely responsible for the way in which sound and profitable connexions were built up in what at one time was an extremely speculative sphere of operations. No doubt, the great expansion of Burma's overseas trade during the first thirty years of the Bank's establishment in Rangoon was of paramount assistance to the prosperous career of its agency. Nevertheless, Rangoon was not the ideal repository of commercial morality in the 'sixties and 'seventies of the nineteenth century, and without sagacious guidance by the men on the spot the Rangoon agency might all too easily have been a much less successful venture than it was.

The Chartered Bank's early venture into Burma was not repeated in the case of Ceylon, the economic importance of which at the time of the Bank's incorporation lay entirely in its coffee plantations. Coffee was not indigenous to Ceylon; it had been introduced into the island in the middle of the eighteenth century by the Dutch, who had already tried the experiment of growing coffee in Java and their other East India possessions. The experiment was not a success at first because, the Dutch never having been able to subjugate the Kingdom of Kandy in the hills of Central Ceylon, cultivation was restricted to the climatically unsuitable lowlands.

After the British put the Dutch out of the island and with a good deal of difficulty overcame the resistance of



Kandy, it was possible to grow coffee in ideal conditions. At the same time a centralized government administered by a regular civil service looked benignly on economic development and particularly on the increase of coffee production. The opening up of Kandy was accomplished by road-building, and in 1858 the construction was begun of a railway between Colombo and Kandy.

Besides the facilities provided by better transport the industry was encouraged by tax relief for the planters and by reducing the British import duties. Moreover, the growing popularity of coffee in continental Europe, where tea made little appeal, was an additional incentive. Progress was rapid; Colombo was transformed into a thriving port; immigrant Indian labour raised the population of the island by half as much again in a decade.

Then at the height of its prosperity disaster overtook the coffee industry when a blight, popularly known as the coffee bug, attacked the leaves and ultimately destroyed the tree. The pest appeared first in 1868, but its gravity was not at first realized because, although production fell, the price of coffee rose to an unprecedented level. New plantations were started in which at first good crops were harvested, and as late as 1878 many planters believed that the pest could be controlled. Yet by 1890 the coffee industry in Ceylon was almost extinct, the competition of Brazil, which was free of the pest, dealing it the final blow.

The rapid decay of the island's major industry—cinnamon, spices and coconuts were very small in comparison—coincided with the failure in May 1884 of the Oriental Bank Corporation. The Oriental Bank had been built up on the ruins of the old Bank of Ceylon, which had allowed its funds to be locked up in mortgages on coffee plantations during the 'forties.

It was to be the same story over again with its successor. In their report for the year 1883 the directors of the Oriental Bank had to announce its inability on account of the fall in coffee prices to recover substantial sums advanced to planters.

For some years after the closing of the Bank of Ceylon in 1847 the Oriental Bank had been in an unassailable position, its only rivals being the Indian Chettiars, and they were not so much rivals as aides.

The Nattukottai Chettiars of Madras had been active in Ceylon since before the Dutch occupation, and the ramifications of their banking business extended over Burma and the Straits Settlements. Their small partnerships functioned like those of the Shansi banks in China, and with the swift development of Ceylon under British administration the Chettiars exerted for a while a powerful financial influence in the island. As shipments of coffee to London increased, so the supply of sterling bills grew; the problem was how to offset the sterling surplus against the rupee deficit. The Chettiars, who were the agents in Ceylon of the rice and grain shippers of Madras, were unwilling to take sterling bills unless there happened to be an exceptional demand in India for sterling. The Colombo merchants must either negotiate their sterling bills in India and import rupees, a transaction which took almost a month, or they must wait for a year or even more for their bills to be discounted in London and the proceeds invested in silver for shipment to India and there minting into rupees. In practice the merchants appointed agents in India to whom they sent their sterling bills for sale. They then sold rupee drafts on those agents to the Chettiars, who were willing to supply cash in Ceylon against much paper. The Chettiars were thus in a position practically to hold the Colombo merchants to ransom, while the latter were at the same time dependent on the sterling exchange in India.

This was the state of affairs when the Bank of Ceylon and its successor the Oriental Bank were formed. In 1854 the Chartered Mercantile Bank opened in Colombo, and after a rate-cutting war had been waged for a time the two banks came to an agreement over rates of exchange, discount and interest.

As early as May 1858 the Chartered Bank of India,



Australia and China had appointed a mercantile house, Alexander and Binney Scott & Co., as its Colombo agents. The usual port of call in Ceylon for ships voyaging to the East was Galle. There in May 1860 the Bank's 'peripatetic inspector' was shipwrecked when the P. and O. steamship *Malabar*, having on board Lord Elgin and Baron Gros, the British and French plenipotentiaries to China, and loaded with a valuable cargo of bullion and opium, foundered in the harbour. For many years local opinion had been trying to persuade the Colonial Office to undertake the construction of a new harbour at Colombo, but the Colonial Office had held out for improving the port facilities at Galle; it was not until the opening of the Suez Canal that local opinion prevailed and the Colombo harbour was begun.

In that same year of 1869 Alston, Scott & Co. acquired the business of the Bank's correspondents and took over the agency. During the 'seventies the exchange turnover increased so much that in 1877 Mr James Wallace was sent from Bombay by the Bank to supervise its business at Colombo. The office remained in the premises of Alston, Scott & Co. in Queen Street, but by August 1882 the depressed condition of the coffee industry was so low that the prospect before banking seemed unlikely for some time to offer any justification for undertaking the expense of a regular establishment. The directors therefore closed the agency and reappointed as agents Alston, Scott & Co. who were succeeded in 1891 by Whittall & Co. The ensuing decade was a bad time for the island, and it was not until June 1892 that on the closing of the New Oriental Bank Corporation the Chartered Bank opened an agency in Colombo, at 14 Baillie Street, with Mr T. J. Anderson as its first manager.

The final disappearance of the Oriental Bank and the reconstruction of the Chartered Mercantile Bank no doubt prompted both the Chartered and the Hong Kong banks to open almost simultaneously in 1892 and to join the National Bank of India Ltd. in fostering the revived



economy of Ceylon and handling the greater volume of exchange business that was the result of the growth in the island's tea exports.

The directors of the Chartered Bank had never thought it worth while to challenge the supremacy in Ceylon of the Oriental and Chartered Mercantile banks at the height of the coffee industry's prosperity. It seems clear that in the early days it was difficult for a newcomer to compete successfully in any department of exchange banking with rivals first in the field and established for some time. In Ceylon the Oriental Bank Corporation and the Chartered Mercantile Bank of India, London and China were in a position almost to monopolize the exchange business. On the other hand in Burma it was the Chartered Bank of India, Australia and China that was first in the field, and seventeen years were to pass before its monopoly was challenged. The success of the Chartered Mercantile then was a striking proof of Burma's commercial expansion. When Ceylon's commerce expanded again, with tea taking the place of coffee, the Chartered Bank was ready to enter the field.



# IX

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*The Straits Settlements; Sir Stamford Raffles; the Bank opens in Singapore; note issue; competitors in the 1860's; Penang branch; the opening-up of Malaya; branches at Taiping and Kuala Lumpur*

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**I**N the year 1805 a young clerk at East India House called Stamford Raffles, whose intelligence and industry had impressed his superiors, was appointed Assistant Secretary to the Government of the East India Company's new Presidency at Penang.

Penang, or Betel Nut Island, was the first of the British Straits Settlements. It was ceded to John Company by the Sultan of Kedah at the instance of a young Suffolk ship's captain, called Francis Light, in 1786, and was re-named for a while Prince of Wales Island. The island at the time of its cession was almost uninhabited, but the new settlement made rapid progress and it was soon enlarged by the purchase from the Sultan of Kedah of a district opposite Penang on the mainland. The newly-acquired territory was named Province Wellesley. The directors at East India House decided that the Company's territorial interests on the Malayan Peninsula should not extend beyond Penang and Province Wellesley. Malacca, which had



been taken from the Dutch when the Netherlands surrendered to the French, was to be abandoned and its massive Portuguese fort of the sixteenth century was to be demolished; the population was to be persuaded to emigrate to Penang. When Raffles visited Malacca in 1808 the fort, except for that beautiful Gothic gateway, had already been destroyed and the Settlement itself was in the process of being broken up.

Young Raffles was dismayed by the Company's decision and sent a report on the situation to the Penang Government. His knowledge of the Malays, whose language by now he could speak fluently, convinced him that they would never leave Malacca. Indeed, not one individual had accepted the offer of a free passage to Penang. Therefore, if the British left it, some other European nation would inevitably occupy it sooner or later. The strategic position of Malacca at the narrowest part of the Straits of Malacca would enable a hostile power to dominate Penang and disrupt the Company's China trade. It was vital for the British to keep Malacca, which was the key to the whole of Malaya. The Court of Directors of the East India Company was impressed by this report and decided to retain Malacca. Young Raffles was of the stuff of which Clive was made. When, after the capture of Mauritius and Bourbon from the French, Lord Minto, the Governor-General of India, made up his mind to attack Java he took Raffles with him and appointed him Lieutenant-Governor when the Dutch had submitted. For four years that young Governor administered the island with such humanity and skill that when the Napoleonic Wars were drawing to a close the inhabitants of Java agitated against any suggestion to hand back the island to the Dutch.

British foreign policy had been obsessed almost continuously since the days of Elizabeth with the doctrine of the freedom of the Low Countries, and so, although Ceylon and the Cape were retained, Java and Malacca were restored to the Dutch at the Congress of Vienna. All that was left of the British acquisitions of territory in



the Eastern Archipelago were Penang, in Malaya, and Bencoolen, on the west of Sumatra, a small port without strategic importance.

Raffles' dream of British hegemony in Malaya seemed shattered. Already the jubilant Dutch had resumed their interference with British trade in the Eastern seas. However, Raffles did not despair, and he managed to obtain tentative permission from Lord Hastings, then Governor-General in Calcutta, to establish such a trading port south of Malacca as might command the entrance to the Straits.

It was a tentative permission because Hastings was aware that by now the East India Company's directors were frightened of Raffles' ambitions. They had removed him from his post in Java several months before the island was restored to the Dutch, with whom they now dreaded becoming embroiled. Raffles had immediately hurried off to act on the Governor-General's tentative permission, and when this was withdrawn the letter was sent too late to stop him. Raffles was already on his way to Singapore, which had been an important trading centre three centuries earlier and on the revival of which he had set his heart.

On the site of this ancient port he landed on the 28th of January 1819, and within ten days he had secured from the Sultan of Johore a site for the trading port he had imagined. 'Here I am at Singapore,' he wrote, 'true to my word, and in the enjoyment of all the pleasure which a footing on such classic ground must inspire. The lines of the old city and of its defences are still to be traced, and within its ramparts the British Union Jack waves unmolested.' What a man!

The Dutch were furious at this invasion of their preserves and sent protest after protest to London and Calcutta. The Company's Secret Committee in London, afraid of war, referred the matter to Lord Hastings, who, impressed by Raffles' achievement, played for time. He did not believe that the Dutch would venture to go to war. Nor did Raffles. 'I no more trouble my head about the Dutch,' he wrote.

Finally under the Anglo-Dutch Agreement of 1824 Holland renounced all claims to supremacy in the Peninsula, Malacca being exchanged for Bencoolen. Two years later the governments of Penang, Malacca and Singapore were combined as the Straits Settlements, and until 1867, when they became a Crown Colony, they formed a fourth Presidency of India.

Raffles died of a coronary thrombosis at the age of forty-five. Zoologist, botanist, historian, linguist, imaginative and benevolent administrator, he lived long enough to know that his 'political child,' as he called Singapore, was sure of a triumphant future. His bust stands appropriately in the lion-house at the Gardens of the Zoological Society, of which he was the prime founder and the first president.

Yet not even the vision of Stamford Raffles could have perceived the city of over a million inhabitants that was destined to grow from a few fishermen's huts on that island within a century of his death. The rapidity of Singapore's development may be gauged from the fact that the Chartered Bank of India, Australia and China opened an agency there on the 19th of February 1859 which if Raffles had been granted a mere eighty-one years of life he would have seen in operation. Premises were leased in Commercial Square which had formerly been occupied by the defunct North-Western Bank of India. The new Bank was welcomed by the *Singapore Free Press* with the observation that as some of the most respected of retired Singapore merchants had joined the Court of Directors it should secure a large measure of confidence and support locally.

The Bank was unfortunate in the choice of its first agent, Mr David Duff, who had previously been in charge of the Singapore office of the North-Western Bank. His unauthorized transactions were soon a cause of anxiety to the directors, and within less than a year the Bank's inspector was sent out from England to relieve him of his appointment. As a resident of Singapore for some years Duff had gained much influence in the place, and before his



return to England he was able to prejudice the local merchants against the Bank and persuade them that he had been unfairly treated. So successful, indeed, was he in rousing prejudice that there was a mild run on the Bank, and at one moment the agency had no more than 6000 dollars in cash to meet upwards of 100,000 dollars in liabilities on demand. The Oriental Bank came to the rescue of its competitor and an awkward moment was tided over, but it was considered advisable to transfer the sub-agent, Mr J. H. Gwyther, who was unpopular locally, to Shanghai and to start all over again in Singapore with a fresh set of officers. That sub-agent will be heard of again.

Under the terms of the charter the Bank had been able to open an agency at Singapore for conducting the business of exchange, deposit and remittances in connexion with its other establishments. In order to raise the status of the agency to that of a branch and thus obtain the privilege of issuing bank-notes in the Straits Settlements, it was necessary for the London management to apply to the Queen in Council for the grant of a supplemental charter, and this was obtained on the 20th of July 1861.

The Singapore agency was then converted into a branch and the Bank was authorized to establish branches at Penang and Malacca and to issue notes in all three Settlements. In fact, however, the first Singapore agent had already put into circulation post-bills to the aggregate value of 51,000 dollars by February 1860, although efforts were made subsequently to withdraw as much of this early issue as possible. In a port like Singapore, the trade of which was expanding at this date with such speed, the pressure on the available means of payment was heavy, and therefore the note issue of a reputable bank was not only profitable to the bank itself but of convenience to the mercantile community at large.

Notes could be inconvenient, however, as so many country banks in England had discovered in times of financial panic. In 1865 there were some unexpected

failures among the commercial houses in Singapore, and one of the oldest European firms stopped payment with liabilities of over a million dollars. The Chinese became convinced that the Chartered Bank and the Chartered Mercantile Bank were both dangerously involved, and this conviction was fortified by the refusal of the Chettians to accept bank-notes in payment for opium. The Indians demanded silver dollars, which resulted on Sunday the 7th of May 1865 in bank-notes changing hands in the bazaar at 3 or 4 per cent discount. Next morning, as soon as the banks opened, the Chinese poured in to exchange their notes for silver dollars and they were running round the counters until business ceased for the day after 3 p.m., by which time the Chartered Bank had paid out nearly 80,000 dollars for its notes and the Chartered Mercantile Bank rather less. Next day the manager was standing by for a repetition of the run, but overnight the more substantial Chinese merchants had managed to quieten the petty traders, most of whom had no bank accounts, and the run was checked. Nevertheless, some time passed before the Chartered Bank regained its former level of note circulation, partly because the Asiatic Banking Corporation seized the opportunity to start a note issue of its own.

Competition in the Singapore banking field was growing in the early 'sixties. The Oriental Bank Corporation had been established in Commercial Square since 1846 and the Chartered Mercantile Bank of India, London and China since 1855. The premises of the Chartered Bank on the north side of the Square at the corner of Prince's Street had been rebuilt in more impressive style in 1862, and soon afterwards the Asiatic Bank opened in the same quarter, luring away the local Chartered Bank manager by the offer of a much larger salary. He took with him the accounts of several important Chinese firms and indeed succeeded in attracting a considerable part of his former employers' Singapore business.

Then the Commercial Bank of India arrived on the



scene, and the prospect for profitable banking began to cloud over because the competition between the banks lowered the rates of interest. The Chartered Bank benefited from its operations with the Bank's establishments at Batavia and Rangoon, where its rivals had no offices of their own, although the Rotterdam Bank, working from its Java branches through the agency of an enterprising mercantile house in Singapore, was becoming a formidable competitor. In buying and selling exchange on India and China all the Singapore banks were on an even footing and therefore the margins of profit were small.

However, the financial crisis of 1866 thinned the ranks in Singapore. The Asiatic Bank crashed, and its fall was followed by that of the Commercial Bank of India. The Chartered Bank was hard pressed, but the popularity of its manager, Mr A. T. Carmichael, who is believed to have introduced the penny-farthing bicycle and the weekly half-holiday to the Straits, was a valuable help. In July 1866, when confidence in all the banks in Singapore was at its lowest ebb, the Chartered Bank had to face a severe run against the note issue at the very moment when Carmichael had to meet unexpected drawings from Batavia against which he was unable to sell drafts on India. The whole of the Bank's current deposits had been withdrawn and the note issue ran down from 250,000 dollars to 40,000. Head Office made available a credit of £100,000 at the City Bank in London, but nobody would take the Bank's paper except those without money to pay for it. Things looked grim, and there was nothing to do except wait in the hope that the merchants would recover from their panic. At this date there were few men of great wealth in Singapore; therefore most people were playing for safety and transacting their business with the Oriental Bank, the prestige of which was then at its highest.

The situation was critical for some months and improvement was painfully slow. During this anxious time the Bank was unable to sell its paper to any except a few old

customers. Its most loyal supporters were all Chinese; most of the European accounts had been transferred elsewhere.

However, very slowly confidence was restored and the shadow of failure receded. The Chartered Bank branch, with few liabilities, found itself with funds in hand that Carmichael was able to use by making loans against opium. Chests of the drug were lodged in the Bank's godown and moderate advances were made to parties of known standing, a margin of 25 per cent being maintained between the value of the security and the amount of the advance. Unfortunately the largest importers of opium were customers of the Oriental Bank, and the smaller importers, who were in fact more often agents than principals, demanded the exercise of some caution if the Chartered Bank was to do business with them.

Discount business had declined because a prominent Chinese firm in a position to make skilful use of its knowledge of the bazaar was able to get the pick of the business by quoting rates lower than the banks could afford to offer. The bazaar itself was in a most unstable condition, but the Chinese parties on whom the Chartered Bank held bills seemed safe, and so did the European houses. The Oriental Bank held on to its lead throughout 1867, and if the Chartered Bank had to be content with less business the Chartered Mercantile Bank was in no better position.

Towards the end of 1867 matters improved and some of the largest mercantile houses began to buy the Chartered Bank's paper. This set a reassuring example, and it was followed by the smaller houses, including a number of Chettiars. The Singapore Chettiars maintained the reputation won by Chettiars elsewhere of being business men of shrewdness and integrity. Most of the Singapore opium trade passed through their hands and they were careful to deal only with Chinese merchants who were financially sound. It was a very rare occurrence for a Chettiar not to meet his obligations, and so rapidly did the Bank's connexion with the Chettairs and the Chinese grow that by



1872 almost all the local bills discounted were acceptances drawn at two or three months' date by these groups on Chinese purchasers of opium. Besides discounts the same parties had been granted further accommodation in the form of fixed loans or of overdrafts on current accounts and against the same kind of security in the form of local acceptances. Such business demanded meticulous care and unrelaxed vigilance from the branch manager, especially at a time when commodity prices were fluctuating so widely and so often that even the most knowledgeable speculator might all too easily make mistakes of judgment.

The Chartered Bank was blessed with a succession of able managers in Singapore in these difficult times. Warned by the panic in the bazaar in the middle of 1872, the branch reduced its commitments, for it was known that some of the Chettiars had been buying large stocks of piece-goods from the import houses at three months' credit and then re-selling their purchases for cash at a heavy loss. Yet neither the Oriental Bank nor the Chartered Mercantile Bank paid attention to the warning signs; when a few months later the largest opium firm in Singapore failed, the Oriental Bank was owed £40,000 and the Chartered Mercantile as much as £125,000. Yet the Chartered Bank escaped almost without loss, it having been noticed that the Sassoons in Hong Kong had recently been fighting shy of the paper of the firm that failed, although it was an old connexion of theirs. There were other failures at the time, but in every case the Chartered Bank lost less than any of its rivals.

By 1880 it could be asserted without fear of contradiction that the Chartered Bank of India, Australia and China was the most popular institution of its kind in Singapore and that its four European officers were liked and respected by the whole community. The bulk of the local discounts were still Chinese promissory notes endorsed over to the Chettiars, representing money borrowed from the latter for trade purposes. Apart from fixed loans substantial overdrafts might be granted to the

leading mercantile houses in anticipation of their shipments of produce; such advances would in due course be liquidated by the delivery of sterling bills.

The expansion of the business of the Singapore branch during eight years is evident from the increase in its note circulation, which rose from 319,000 dollars in 1872 to 874,000 dollars in 1880. A proposal of the Government to impose a  $\frac{1}{2}$  per cent tax on bank-notes from the beginning of 1868 had caused some apprehension. However, in recognition of the convenience to the community from the note issues of the various banks, this proposal was abandoned in favour of a fixed annual licence fee. When a similar proposal to tax note issues with a progressive duty was put forward by the Hong Kong Government a year or two later, the banks were able to resist it successfully by citing the arrangement decided upon in Singapore.

Meanwhile, the Bank had taken advantage of the powers conferred by its supplemental charter to open a branch at Penang in 1875. From the early 'sixties the Bank had been represented there by Fraser & Co., but nearly the whole of the banking business in Penang went to the Chartered Mercantile, which maintained its own establishment. In 1865 there had been much dissatisfaction with the terms offered by the Chartered Mercantile, and local merchants pressed for another bank to open and provide competition. Some of them made overtures directly to the Chartered Bank, but the directors, with what may seem a lack of enterprise, did not feel the expense of establishing a branch in Penang was justified when the Chartered Mercantile was already on the spot. There was then a suggestion that the Karachi agency, the position and prospects of which were not encouraging, should be closed and that the capital thus released should be used in starting operations in Penang. However, the Bombay panic put a stop to all new projects, and the Bank's business in Penang was left with the mercantile firm that was handling it.

In the early 'seventies the business conducted by those



agents of the Chartered Bank in Penang expanded considerably, particularly in the growth of sales on Rangoon. The main obstacle was the difficulty of finding enough suitable bills in which to invest the proceeds of the agents' drawings. Most of the paper in Penang was documentary, but it was difficult to get hold of sterling bills because the Chartered Mercantile Bank seemed able and willing to engross the lot, so that only when its agency ran short of funds were such bills available to outsiders. In any case it was not expedient to allow mercantile agents a wide latitude in the purchase of clean bills. The difficulty of obtaining sterling remittances was made more acute by the mutual reluctance of local business houses to disclose their transactions to a firm which, although it might be representing the Chartered Bank, was at the same time a commercial rival.

The manager of the Chartered Bank's Singapore branch was against opening a Penang branch when the proposal came up again for consideration. He felt sure that the field for banking business was already being fully exploited by the Chartered Mercantile Bank, and that the only result of the Chartered Bank's entering into competition would be a cut-throat struggle likely to damage both of the combatants. It could be argued that the local business in Penang was similar to Singapore in the type of paper and the securities offered for advances, and that rates of interest being very high, the Bank's funds would be profitably employed. On the other hand, local business at Singapore, however profitable, had always been hazardous and had given the directors a good deal of anxiety.

So it was resolved to continue for a year or two the existing arrangements in Penang. If deposit and loan business were not to be undertaken and operations restricted to exchange, mercantile agents could adequately represent the Bank. They stood high in local esteem and had always done all they could to promote the interests of the Bank. If business should continue to expand the question of opening a branch might be reconsidered.

The directors would seem to have been excessively cautious, for when within three years a branch at Penang was established it quickly reached a position of equality with the Chartered Mercantile Bank. By 1878 the local note circulation of the two banks was about on a par, and if the opportunities afforded by the trade of Penang were much fewer and less lucrative than those that Singapore displayed there was enough business for two banks, and the Chartered Bank enjoyed a full share of it. Sterling purchases remained small, but the new branch was able to buy the greater part of the bills drawn by the tobacco concerns in the Deli area of North Sumatra on their Batavian houses. In the early 'eighties the volume of the Deli business swelled so fast that it was found necessary to arrange for a sub-agency there, though the actual opening was delayed by a cholera epidemic.

Besides exchange operations the Penang branch granted overdrafts to facilitate produce shipments; discounts at this time consisted almost entirely of promissory notes drawn by Chinese traders in favour of the local Chettiers. Such notes were all drawn on demand, but the interested parties had an arrangement by word of mouth about the date when they fell due, and they were discounted by the Bank accordingly for fixed periods of two, three or four months.

The most conspicuous feature of the operations of the Penang branch during the early 'eighties was its rupee sales on Calcutta and Rangoon, which increased steadily. Most of these drawings went to the Chettiers, who had money laid down in India, Burma and the Straits. When the rate of exchange was favourable in the Straits it was to their advantage to draw on India and invest the proceeds in Penang and Singapore; if the contrary ruled they were anxious to remit. They were cautious operators and six months would sometimes pass before they launched out. Their transactions did not compete with the exchange business of the Bank because they were concerned entirely with India, whereas the Bank operated on the sterling



香港銀行有限公司 發行

INCORPORATED BY ROYAL CHARTER.



12,000,001

HONGKONG,



12,000,001

1st January 1874

THE CHARTERED BANK OF INDIA, AUSTRALIA & CHINA,

Promises to pay the Bearer on Demand,  
at its OFFICE here, FIVE DOLLARS or the equivalent,  
in the Currency of the Island. Value received.

By ORDER OF THE COURT OF DIRECTORS.

Ent'd

*Thomas Brown* MANAGER.

HONGKONG

AN EARLY CHARTERED BANK NOTE  
Issued at Hong Kong





exchanges in London. The branch allowed the Chettians credit on their purchases of rupee drafts for periods ranging from a fortnight to two months. The interest charged varied from  $9\frac{1}{2}$  per cent to 11 per cent per annum according to the state of the local money market.

The lovely island of Penang in the 'eighties was growing rapidly more prosperous. It was the commercial centre for the tin-mining areas of Perak and Selangor as well as for the tobacco plantations of northern Sumatra. The value of land and buildings was rising all the time owing to Chinese investment in both. Some of the Europeans feared that a slump would ensue, and the London management of the Bank was disinclined to encourage local business at the expense of the turnover on exchange. The tin-mining industry was only at the beginning. Meantime competition among the banks was growing, and the Hong Kong Bank opened a branch at Penang in 1884. At this date the branches of the Chartered Bank in the Straits were always short of funds, and the growing resources of the Hong Kong Bank enabled it to secure a large share of the banking business in Penang. This was equally true of Singapore, where a branch established in 1877 had prospered exceedingly.

Until the transfer of the Straits Settlements to the Colonial Office the official currency was Indian, and although the public paid its taxes and conducted its business in dollars and cents the Straits Government kept its accounts in rupees, annas and pice. However, from the 1st of April 1867 the dollar coined by the Hong Kong Mint, the silver dollars of Mexico, Peru, Bolivia and Spain, and any other silver dollars to be specified from time to time, were declared to be legal tender in the Straits. The American trade dollar and the Japanese yen became legal circulation in 1874.

The Singapore and the Hong Kong Chambers of Commerce tried hard to prevail upon the Home Government to introduce a British trade dollar. It seems fantastic that great British centres of commerce like Singapore and

Hong Kong should have depended upon foreign coinage, but Whitehall's argument was its inability to mint a coin as cheap as the Mexican dollar, which in 1890 was made the standard coin.

At last the Herschell Committee recommended that owing to the scarcity of Mexican dollars in the early 'nineties British dollars should be minted for circulation in the East, and in 1894 the Bombay Mint began to coin them.

When Stamford Raffles founded Singapore his vision was of a British protectorate over the whole of the Malay Peninsula, but the East India Company, faced with a persistent deficit in administering the Straits Settlements, had no thought of adding to its responsibilities.

During the early years of Singapore's existence as a port the merchants there were entirely concerned with developing the place as an entrepôt for Eastern commerce by taking advantage of British free trade when their Dutch rivals were hampered by heavy duties and they strenuously and successfully resisted the taxing of their trade. At the same time, the development of Singapore as a free-trade port blinded those early merchants to the rich potentiality of the peninsula itself.

When the Suez Canal was opened the old route through the Sunda Straits to the China Sea was given up and Singapore benefited accordingly. With the growing volume of wealth the merchants began to look round for suitable enterprises in which to invest it. The tin-mining areas of Perak and Selangor attracted attention, and of course as soon as the security of money was at stake internal order in the Malay Peninsula became of importance. However, it required a state of anarchy to convince the Colonial Office that action was necessary, and it was not until 1873 that the Governor of the Straits Settlements was instructed to enquire into the best methods for restoring internal peace and securing protection for trade and commerce with the native territories. He was asked to consider the possibility of appointing British residents



to the various States, subject to the approval of their rulers.

Lieutenant-General Sir Andrew Clarke, the new Governor, who arrived in November 1873, set about carrying out this policy with vigour. Before he left Singapore to take up a post in India eighteen months later Perak and Selangor had accepted British advisers. In 1888 the Sultan of Pahang asked for a British resident. In 1895 the Federated Malay States of Perak, Selangor, Pahang and Negri Sembilan were embodied. In 1909 the Unfederated Malay States came into being when Siam transferred to Great Britain her suzerainty over the northern States of Kelantan, Trengganu, Kedah and Perlis. Finally in 1914 Johore accepted a British adviser.

The Malay States were fortunate in having the services of many extremely able officials, among whom were Sir Frank Swettenham. Swettenham was a young member of the Malay service in his early twenties under Andrew Clarke, and he survived to hear of Japan's surrender after what must have seemed to him at one time the destruction of his life's work; he died in his ninety-seventh year in 1946.

In spite of the troubles which still afflict the Malay Peninsula, the tin mines and the rubber plantations, which together have made the rich economy of modern Malaya, are again actively in production and in the development of that economy the Chartered Bank of India, Australia and China played a distinguished part, of which the opening in 1888 of its agencies at Taiping and Kuala Lumpur was the auspicious beginning.

Special care was demanded for buying paper on ports in the East. It will be remembered how reluctant the directors were to allow the Batavia agency to purchase Dutch bills even on first-class drawees; the fact was that continental mercantile law and custom differed in many respects from British practice and therefore rendered mistakes all too easy to make. The Bank would not negotiate bills drawn on foreign firms and covering produce shipped to foreign ports, and it was chary of taking as security documents relating to such shipments even when the drafts were drawn on London. Under continental law bills of lading did not give the same control over the merchandise as in England. This led the Bank, with an eye to its business at Manila and Batavia, to take the lead in urging first the Spanish Government in 1879 and six years later the Netherlands Government to alter the commercial regulations of their Eastern dependencies so as to bring them into line with the prevailing British and international rules. The Spaniards agreed; the Dutch refused.\*

Local business lay in discounts, overdrafts and fixed loans. Discounts of local paper were restricted to bills with less than three months to run and with two or more names as acceptors and endorsers. No single party was allowed accommodation beyond £5000, and discounting facilities were confined to European customers unless they were parties of the highest standing or the paper in question was endorsed by Europeans of repute.

It may be remembered that both the Singapore and Penang branches of the Chartered Bank developed a substantial discount business with the Chettiars and the Chinese. This connexion was a source of much anxiety to Head Office, especially towards the end of the 'eighties

\* Differences between Dutch and English law relating to the ownership of cargoes afloat created many difficulties for the Bank when, in 1942, Java was quickly overrun by the Japanese and shipments *en route* from Great Britain to that country were diverted to ports in India and North America.



after a series of failures in the Singapore bazaar. Overdrafts on current accounts were not encouraged at first in the 'sixties (when and where have they ever been encouraged?), but fixed loans for a set period constituted the most profitable part of the local business done by the agencies.

Although fixed loans were granted for a maximum of three months and the Bank was reluctant to renew them, it often had no option in the matter. To secure its loans the Bank would accept government securities, government-guaranteed Indian railway shares fully paid up and, most exceptionally, Presidency Bank shares. In the 'sixties loans against the shares of any joint-stock companies outside the permitted categories were strictly forbidden, and that rigid prohibition may have saved the Chartered Bank from the disaster that overwhelmed most of the Eastern banks when the Bombay boom burst in 1866.

However, as more companies formed themselves into limited liability companies, that rigid rule was relaxed, and by 1890 Head Office was recognizing that advances against shares were a proper and legitimate part of an agency's local business provided that the times were normal and that the advances were kept within manageable compass. Nevertheless, in that very year, 1890, the directors were led by anxiety to instruct Whitehead in Hong Kong to reduce the amount of accommodation he had allowed on overdraft to the Bank's customers, both European and Chinese, in order to help them in some lively speculation that was going on in the Colony's share market.

Loans against property or ships were forbidden at first, but later title-deeds were accepted by the Bank as security, usually collateral, for advances. In recent years accommodation has also been granted, for short periods, on the security of ships.

The Bank granted advances on the security of goods and produce when stored in bonded warehouses or when

# XIX

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*The First World War; bank failures in India and China; the Bank in the East during the war; the 'Emden'; the Singapore mutiny; Head Office; the Bank's capital increased*

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BETWEEN 1914 and 1918, in contrast with the course of events between 1941 and 1945, the Eastern territories served by the Chartered Bank were spared the horrors and the strain of war, and the ever-rising demand from Europe and America for their various commodities was economically beneficial. The only check on trade was the steady decrease in the number of ships available to carry it, and although freights were high the rise in the prices of raw material more than compensated the Eastern producers. By the beginning of 1916 there was hardly a commodity the value of which did not stand at a third above what it had been before the war, and hemp, one of the staples, had more than doubled in price. However, the steady diversion of western industry to the unproductive manufacture of war material and the acute shortage of ships as the war went on its murderous way deprived the East of manufactures from the normal sources, and Japan benefited accordingly.



The opportunities which the war provided for the Japanese industries and shipping were demonstrated by the size of the export surplus. India's trade on the whole suffered and did not recover its pre-war volume until 1927-28. At the same time the development of Indian industry was encouraged by the absence of foreign competition in the domestic market. Nevertheless, full advantage could not be taken of this state of affairs because India depended too much for plant and machinery on imports from abroad. Japan and the United States both seized the opportunity of trade with India, and Japan in particular obtained a hold over the market for piece-goods from which Lancashire has never really recovered. In China, notwithstanding political difficulties, Japanese exporters enjoyed a monopoly, although by stimulating the establishment of Chinese cotton mills and other factories the war had the effect of developing Shanghai and to a lesser extent Tientsin as industrial centres.

During the war the Chartered Bank in co-operation with the other British exchange banks financed to the utmost limit of its resources the shipment from the East of goods and commodities the supply of which was vitally necessary to the sustenance of the Allied war effort. With the decline of British exports as the war continued the exchange banks were forced to rely to an abnormal extent on the purchase of Council bills for laying down rupees; an added complication was the soaring price of silver which compelled the India authorities on two occasions during the war to raise the exchange value of the rupee, and also to impose a control upon the silver trade. In similar circumstances the Hong Kong Government, confronted with the swift depletion of the local currency on account of the world-wide demand for silver, was driven to forbid the metal's leaving the colony. Hitherto bank-notes issued in Hong Kong, by reason of their convenience and the high reputation of the Hong Kong Bank, the Chartered Bank and the Mercantile Bank of India Ltd., had commanded a premium over silver, but

the exceptional conditions in the wartime silver market completely changed the colony's monetary situation.

It had been generally presumed that, as in 1907, the problem posed by an Indian financial crisis would be a fall in the gold value of the rupee. This presumption seemed the correct one when on war's breaking out there was an instant demand for sterling and a stampede to convert rupee notes into silver. However, the financial authorities kept their heads and conditions quickly went back to normal. India's exceptionally favourable balance of trade soon produced a large accumulation of Indian resources in London, and much difficulty was experienced in remitting these funds to India. Submarines made the shipment of gold most hazardous, and in any case countries clinging to the gold standard forbade the export of the gold they held. Consequently the demand for rupee remittances and silver coin was always increasing; from 1916 the price of silver went up with a bound.

Apart from currency difficulties India suffered greatly from a series of joint-stock bank failures. By the end of 1918 no less than ninety-five banks had crashed, the most serious collapse being that of the Indian Specie Bank, the resources of which had vanished after a series of speculative operations in silver. When the Specie Bank closed its doors a crisis in the London silver market was precipitated because it transpired that the insolvent bank was liable on outstanding forward purchases of silver for £3,000,000. Immediate action was called for if a heavy fall in the price of silver with grave consequences for those with commercial and financial commitments in the East was to be avoided.

The Chartered Bank and the Hong Kong Bank took the lead in forming a strong syndicate which included the bullion brokers Mocatta & Goldsmid, Sharps & Wilkins, Pixley & Abell, and Samuel Montagu & Co., to take over the whole of this silver at an agreed price. In this way the confidence of the silver market was quickly restored and the price of the metal was maintained at a fair level. The



whole transaction was skilfully managed by a small committee which successfully liquidated the silver without loss to the syndicate.

The disastrous policy of borrowing short and lending long had previously caused the downfall of many Chinese banks which had tried by that method to recoup their losses by speculation during the rubber boom of 1910. It had been apparent for a long time that the Chinese currency was in urgent need of reform and that the Government should take steps to control issues of bank-notes, which were being inflated without adequate reserves to back them. Chinese operators gambling on the Shanghai exchanges at this time worked a huge turnover through the Russo-Chinese Bank. However, by the middle of 1910 the whole Shanghai community was involved in a financial crisis from which it was saved by the intervention of the foreign banks.

The first major failure was Shanghai's largest dealer in yarn and piece-goods, and his crash brought down with it three Chinese banks, followed after a short interval by a number of others. Shanghai was faced with ruin and the foreign banks pressed the Taotai into action. He travelled up to Nanking and, with the help of the Viceroy, obtained imperial sanction to raise a loan for three and a half million taels from the foreign banks for a period of five years. Nine foreign banks, of which the Chartered Bank was one, participated.

The banks agreed to lend the money at the low rate of 4 per cent per annum, which was less than they were allowing on the greater part of their own fixed deposits. The proceeds of the loan were to be applied in the first place to the repayment of certain Chinese bank orders in the hands of foreign merchants, and the balance was to be used to sustain credit generally. Such prompt and successful action was of inestimable value to the Shanghai community, which for many days, while awaiting for the arrival of the imperial edict authorizing the bankers to proceed, had been dreading a total collapse of credit.

On the 4th of August 1910 the banks made their loan and some million and a half taels of dishonoured Chinese bank orders were at once redeemed.

The revolution added to the troubles of native finance in China, and at one time during this period it was feared that the Chettiars, who had spread from Southern India to Ceylon, Burma and the Malay Peninsula, might share the fate of the Shansi Banks in China. Except in the year 1900 when the Chettiars, under a conviction that the end of the world was at hand, had therefore suspended all financial operations the Chartered Bank had always derived a fair return from allowing them credit. Now doubts were expressed, particularly in Burma, whether the Bank was not being too liberal with them and thus tempting them to extend their business into perilous fields. In Rangoon the Chettiars were developing a taste for luxury in contrast to their former frugality. Their business methods in the past had always been conservative, but now Chettiar syndicates, perhaps under the relief of being able to presume that the end of the world had been postponed for another millenium, had taken to speculating in oil shares and even to gambling at race-meetings. Many were in fact leaving Burma at this time and finding great difficulty, owing to the chronic insolvency of the Burmese cultivator, in getting in their loans on paddy fields and house property.

In Malaya, on the other hand, the Chettiars were making substantial profits out of the Chinese tin-mines, and the Penang branch of the Bank was able to control the local rupee market through its connexion with them. The Chettiars never opened an account with the Bank unless they were allowed an overdraft limit for use at need, and as collateral security for any accommodation allowed them they normally deposited title-deeds to properties in the new towns springing up in recently developed areas.

The branches of the Chartered Bank in Singapore and Penang and the agencies in the interior maintained their close connexion with the ever rapidly developing rubber



and tin industries in Malaya. Across the Straits in Sumatra the Medan agency conducted business with the local rubber and tobacco plantations, although like the Java agencies it ceased to operate in Holland exchange after the war began. This was not as serious a matter as it might seem because the Dutch companies, unable to ship their rubber to Holland, had to dispose of it to the Allies. The turnover of sterling bills therefore increased, but the Medan agency had to relinquish to the local Dutch banks its profitable guilder exchange business. The expansion of both the rubber and tin industries was speeded up during the war, and the latter owed much to the smelters established at Singapore and Penang by the Straits Trading Company Ltd., and the Eastern Smelting Company Ltd. respectively.

The rubber boom before the war had proved the soundness of the Bank's methods of assisting rubber and tin enterprise. By careful discrimination credit facilities could be provided without locking up funds in long-term projects, however promising. The Bank did not restrict its help to large concerns with plenty of capital. The small Chinese tin producer was assisted as well. Nevertheless, Head Office consistently emphasized the vital importance of keeping the resources of the Bank liquid and so available for exchange operations. The Oriental Bank had neglected this principle; coffee plantations in Ceylon and sugar estates in Mauritius had absorbed its funds and caused its downfall; Indian tea had swamped the Agra Bank. Head Office had no intention of allowing the Chartered Bank to become the victim of unsound rubber and tin enterprises.

The growth of the Bank's business in Singapore required more extensive premises, and after just over twenty years in the office at the corner of Flint Street and Battery Road the branch returned to Raffles Square to occupy a new office which was formally opened in May 1916 by the Governor of the Straits Settlements before an audience of prominent citizens.

Only a few months previously, on the sixty-second anniversary of the grant of the Bank's Royal Charter, a similar ceremony had been performed in Peking when in the presence of a representative of Yuan Shih K'ai, the President of the Chinese Republic, and Sir John Jordan, the British minister, who was later to become a director of the Bank, a new branch was opened in Legation Street, opposite to the American Legation and close to the Forbidden City. From the roof of this building successive managers of the branch were to witness many decisive events in the history of modern China.

The want of a representative establishment in Peking had been felt at the time when the Consortium banks were negotiating the Reorganization Loan, but a proposal to open an agency in the city had been set aside after the partial cancellation of the Crisp Loan and the evident impossibility of the Chartered Bank's participating in the Reorganization Loan. Before the Peking branch was opened it was suggested that, in view of the unlikelihood of its doing much except Chinese Government business, the Bank should engage an agent with diplomatic qualifications, and the name of a former Consular official who had been Chinese Secretary to the British Legation was put forward. It was decided, however, that nothing could be gained by seeking a representative outside the Bank's service because, since the Chartered Bank was not officially sponsored by the British Government, an ex-official was not likely to have more influence with the Chinese authorities than anybody else. Several of the Bank's managers who served in Peking displayed a good deal of political acumen and diplomatic skill.

The confusion into which China was plunged during the first years of republican rule was not favourable to business, and the war when it came intensified the disadvantages under which the Bank's smaller agencies, such as Hankow, Canton and Foochow were working. Hankow was becoming a big railway centre when war began and, in spite of the surrounding countryside's being haunted



by brigands and disbanded soldiery, a fillip was given to trade when the British and other foreign banks agreed not to discount or accept native bank orders drawn at usances longer than three days. The lack of capital in Chinese banks hampered the local import trade, and Chinese bankers, anxious to regain the confidence of the foreign banks, co-operated over this shortening of the usance of the native bank order.

Neither at Canton nor at Foochow was the Bank's business good during the years of war, and finally in 1918 the Foochow agency was closed down after an existence of nearly forty years. From the golden age of the clippers the Foochow tea trade had declined to insignificance, and the British consumer had long since preferred teas grown in India and Ceylon. However, during the war when the sale of alcohol was prohibited in Russia the demand for tea there increased enormously. As a result Foochow shipments up to Tientsin for consignment by rail across Siberia showed a temporary improvement and, for a time, brick tea was shipped from Hankow to Russia. Then the economic collapse of Russia after the October Revolution led to the entire suspension of this trade during the latter part of 1917. With customs obstacles in the United States the only outlets that remained were India, South America and Australia, to which were sent small consignments of Foochow teas, specially prepared and faintly perfumed with jasmine. Another handicap for the merchants of Foochow was that steamers from Hong Kong and Shanghai were compelled by the state of the river to discharge their cargoes at Pagoda Anchorage, some miles below the city itself.

Tientsin had become more important when the railway connected the port not only with Hankow and Central China but also with Europe by way of Shanhaikwan and Siberia. The chief export was wool, but hides, furs and eggs were also shipped abroad. Shipments to Europe practically ceased early in 1918, and with the Russian tea trade gone the only remaining outlet was the United

States. However, although shipping facilities across the Pacific remained available later in the war, the American Government began to control imports and placed restrictions on a number of Tientsin staples. The Tientsin import market was dominated by the Japanese, who by now had secured a firm footing in North China, politically as well as commercially, for their capture of the German-leased port of Tsingtao and the extension of their enclave in Manchuria were followed by the installation of a pro-Japanese Government in Peking after the death of Yuan Shih K'ai.

By the middle of 1915 Japan's position as a major exporter of manufactured goods was assured. Many markets which had formerly looked to Great Britain and Germany for supplies now sought them from Japan. At first the war had upset facilities for financial settlements through London, but within less than a year the Chartered Bank's agency at Yokohama had ceased shipping gold yen out of the country. Heavy industry was fully employed in producing munitions for the Russian Government and the shipyards were never idle owing to the rapid expansion of the Japanese merchant navy.

The Japanese banks thrived, and several of them such as the Yokohama Specie Bank and the Bank of Taiwan followed up the growth of Japan's commerce by opening new branches in Asian and American ports. During the war the Chartered Bank was getting as much business in Japan as its Yokohama agency could finance, and while the country's external trade was flourishing there was scope for all the exchange banks. Nevertheless, the Japanese banks had become much more powerful during the war, and it was clear that henceforth their competition in Eastern exchange would have to be reckoned with seriously.

In 1911 the Chartered Bank had opened an agency at Malacca when it was enjoying a revival of prosperity during the rubber boom. However, six years later shortage of staff brought about by the war led the directors



of the Bank to order the closing of the agency. Anybody who has visited Malacca cannot but regret that the Chartered Bank is no longer represented in that place, which is a romantic epitome of merchant-adventure in the East.

Besides Peking the Bank opened new agencies during the course of the war at Tavoy in Lower Burma and at Haiphong in French Indo-China. The Saigon agency of the Bank had built up a fair business in Haiphong through mercantile correspondents, the German firm of Speidel & Co., but the development of tin-mining and other enterprises having been encouraged by the construction of railways in Tonkin the Bank decided to have an office on the spot.

The German light cruiser *Emden*, which escaped from Tsingtao at the beginning of the war, was for some months a menace to shipping in the Indian Ocean. They still remember in Madras being shelled by the *Emden*, and for some weeks the shipping routes westward from Singapore were closed. The raider's audacious attack on Penang was on the 28th of October 1914. Disguised as a British cruiser by the addition of a dummy funnel, the *Emden* entered the harbour at 5 a.m. and sank a Russian cruiser and a French torpedo-boat. That morning the Bank's Taiping agency did not receive its consignment of cash from Penang. However, a fortnight later the *Emden* was driven ashore in the Cocos Islands by H.M.A.S. *Sydney*, and destroyed.

In 1915, on the 15th of February (a fatal date for Singapore in the future), the 5th (Bengal) Light Infantry mutinied on the eve of its departure for Hong Kong. Before the war the Singapore garrison had consisted of a British as well as an Indian regiment, but the duties of the former had been taken over only a month or two previously by the Singapore Volunteer Corps. Martial law was proclaimed, and the women and children were brought in from the suburbs and taken off to ships in the harbour. Some sixty Europeans, including many women, had already been killed, when at dawn on the 16th of

February a composite force including marines landed from a British cruiser and with armed civilians successfully attacked the Alexandra Barracks, where the mutineers were. Later on that day a force of Japanese recruited by the Japanese Consul was hastily armed. In due course troops arrived from Rangoon, but the fighting was all over by then. It was a tragic business involving the obliteration from the Indian Army list of a regiment whose tradition of loyalty had been unbroken for well over a century. A sizeable force of volunteers was kept under arms for fully a month, but the authorities agreed to demobilize those Europeans whose absence was seriously handicapping their employers. During the first few days only two of the European staff were left in the Chartered Bank branch, and even they had to spend the night on police duty. The remainder took their turn at guarding strategic points and in rounding up the mutineers. Throughout the miserable business the Malays, Chinese and Indians resident in Singapore remained absolutely calm.

The economic blockade of the Central Powers brought many new problems to the management of the Bank, with the intricate regulations about trading with the enemy, distressed cargoes in neutral ports and such-like matters. By April 1915 a third of the Bank's Head Office staff had already volunteered for active service and many members of the Eastern staff had requested release from their duties in order to join up. Head Office was anxious to spare as many as possible for war service, but the Bank itself was serving the Allied war effort and it was necessary to maintain enough staff abroad to ensure the efficient conduct of its business. Altogether 199 members of the Bank's staff joined the services, and of this number ninety-two received the King's commission and eighteen were decorated for gallantry. Thirty-seven Chartered Bank men died for their country, and their names are commemorated in the Banking Hall at Head Office.

Thomas Henderson Whitehead continued as joint London manager of the Bank throughout the war, retiring



in 1920 after forty-six years of service. Mr Thomas Fraser had been appointed to succeed Mr Caleb Lewis on his retirement in 1909 and act jointly with Whitehead. Fraser had entered the Bank's service in 1883, and most of his time in the East had been spent in India, where he was agent at Bombay and at Calcutta. After a tour of inspection Fraser was brought home to Head Office in 1905 as sub-manager of the Bank. A certain abruptness of manner hid a kindly disposition and his ability was demonstrated by the influence he had on the financial arrangements made to secure the smooth working of the London money market in the early days of the war. His death in 1918 owed much to the strain of the war.

To succeed Thomas Fraser the Court appointed Mr (later Sir) William Edward Preston, who had been sub-manager of the Bank since 1909; on Whitehead's retirement he was promoted to be chief manager. Preston had served in India as agent at Calcutta and it was he who handled the negotiations that led to the Bank's acquisition of the site of its present premises in Clive Street. This area used to be known as the Thieves Bazaar and it was there that for many years the Marwari brokers dealt in stocks and shares. The Burdwan Raj, the owners of the site, agreed to grant the Bank a lease of it for one hundred years with an option to renew for another century, and it was described by Preston as 'the first position Calcutta can offer,' situated as it was in the very heart of Calcutta's modern commercial quarter.

In 1927 when the Chartered Bank bought a controlling interest in the P. & O. Banking Corporation, Preston was appointed vice-chairman of it, and he later on succeeded the first Earl of Inchcape as chairman. Meanwhile, he had visited India as a member of the Hilton Young Commission on Indian Finance and Currency. For many years Preston was a member of the Government's export credits advisory committee, and in recognition of his services he received a knighthood in the Birthday Honours of 1935, two years after his retirement from the

Chartered Bank, which he had served for forty-seven years.

In spite of all the difficulties the years of war were profitable. That dividend of 14 per cent so dear to banking was maintained, and in 1918 it was increased by bonuses to  $20\frac{1}{4}$  per cent. Wartime inflation, however, had lowered the value of money; the £47½ million in the first published post-war balance sheet probably represented little more in terms of real value than the £26½ million total shown at the end of 1914. Apart from currency depreciation came the raising of the income tax during the war to 6s. and on top of that a super tax at the same rate. Finally heaped like Pelion upon Ossa came the excess-profits duty, which was described by the chairman as 'that terrible tax.'

The dividend was not earned merely on the capital but, inasmuch as the reserve represented undivided profits, on the capital and reserve together. In 1907 the Bank's capital had been raised to £1,200,000, at which figure it remained at the end of the war, but meanwhile the reserve had been increased to £2,000,000. It was therefore suggested that part of the reserve should be capitalized by issuing bonus shares, a practice much in vogue at the time, especially with industrial concerns. However, the Court of Directors rejected this proposal, maintaining rightly that banks were in a class apart commercially. The possession of a substantial reserve gave a bank credit and standing in the market and inspired public confidence, both at home and abroad, in its fundamental strength. If an industrial concern became embarrassed by its lack of reserves the disagreeable consequences affected merely its own shareholders. On the other hand even the suspected insolvency of a great bank might easily become a national disaster.

Nevertheless, the directors were fully aware that an increase of capital was desirable if the Chartered Bank was to be in a position to profit by the anticipated expansion of trade in times of peace and with that expansion be in a position to meet the increased demands on its resources. So it was decided to issue a further forty thousand £20 shares and thus raise the Bank's capital to



the level of the reserve, £2,000,000. The new shares were offered to the existing proprietary at a premium of £20 per share in the proportion of two new shares for every three already held. The shareholders secured a bargain, for they paid £40 for shares the current market value of which in December 1918 was nearer £90.

During the first year of peace the balance sheet of the Bank rose from £47½ million to £68¾, so that the first increase of capital proved insufficient. In the autumn of 1920 it became necessary to issue a further block of shares, raising the paid-up capital of the Bank to £3,000,000 and the reserve, enlarged by share premiums, to £3,500,000. It was felt that the high nominal value of Chartered Bank shares and the price they commanded in the market made them too expensive a security for the smaller investor; so the opportunity was taken of dividing every £20 unit into four £5 shares.

The directors could justly claim that with its capital augmented, with its reserve fortified, and with its reputation immaculate the Chartered Bank had survived the strain and stress, the chances and changes of a world war; it was in a position to face with equanimity and to solve with patience and skill whatever problems peace should offer.

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