HISTORY OF MONEYLENDING DURING BRITISH ERA: A CASE STUDY OF CHETTIARS AS THE MAJOR MONEY LENDERS

Ummadevi Suppiah
Institut Pendidikan Guru, Kampus Perempuan Melayu
Melaka, Malaysia
ummadevi1971@gmail.com

Abstract

This paper aims to study history of moneylending during the British era by focusing on Chettiars as the professional moneylenders. Money lending is synonym with the name of Chettiars or 'Chetty' in Malaysia. Notably, Chettiars were the major moneylenders during the era of British from late nineteenth century until Independence of Federation of Malaya in 1957. Chettiars, a Tamil speaking business caste from South India migrated to Straits Settlements during nineteenth century to make fortune in trade. Gradually, their long tradition and experiences as indigenous banking caste and trade on open market created opportunities for them to involve in the money transactions in the Straits Settlements. Lack of credit and bank facilities made the local and foreign traders at the the Straits Settlements to rely on the Chettiar agents. Role of Chettiars became more prominent after the late nineteenth century onwards due to development of commercial economy such as rubber and tin under British laissez faire policy in the Malay states. Yet, neither banking nor British credit facilities could cater/accommodate the fast growing commercial economy in Malay states. Thus, the local and Asian capitalists relied on loans from Chettiar for their investments to open up thick virgin jungles for rubber cultivation and tin mining. Large capital and liberal lending methods resulted Chettiars to be known as leading money lenders in the Malay States. Through moneylending activities, Chettiars also played other roles in the socioeconomy development of Malaya. However, borrowing became rife especially among the small capitalists (farmers, tin miners and petty traders) and low income civil servants during the recession period and reached alarming stage whereby British realized the need to curb money lending activities of Chettiars. Thus, British implemented laws and administrative regulations which were later on proof to be unsuccessful until World War II. After the Japanese occupation, British became more tactful towards Chettiars until more stringent law was enforced to control money lending activities in Malaya. Apparently, The Moneylenders Bill, 1951 was the first of its kind/legislation and created greater dissatisfactions among the Chettiar moneylenders which they foresee as the end for their money lending activities in Malaya. Within this context, this paper reveals on the history of money lending activities during the British era from glorious period of the Chettiars' role as the leading money lenders until end of their moneylending activities.

Keywords

Chettiar, moneylending, *nagarkovil*, collateral, capitalist, *laissez-faire*

INTRODUCTION

Money lending was the core economic business of the Chettiars in Malaya which allowed them to play ancillary roles in the economic growth of Malaya as traders, credit suppliers, private financiers, land owners, and investors. The British laissez-faire policy in Malaya allowed the Chettiars to emerge as the main money lending group, with a touch of their own customary business methods. They adapted well into the colonial, political and socio-economic environment in British Malaya and was able to establish successful money lending businesses. Their unique operational structure and business practices earned them substantial profit, supported the colonial economy and the commercial development of Malaya, helped scores of people out of their financial predicaments, and foremost, maintained their good reputation as professional moneylenders. Within this context, this paper aims to discuss Chettiar money lending activities in British Malaya while focusing on two main aspects: the successful adaption of their traditional business practices to the Malayan market; and the phases of development involved therein.

THE CHETTIARS IN INDIA AND THEIR ACTIVITIES IN SOUTHEAST ASIA

The Chetty or Chettiars were a South Indian trading community dating back to 300 A.D. Originally seafaring merchants, they accumulated wealth through trade and built a country fort home settlement known as Chettinad in the eighth century during the days of the Kingdom of Pandya. The Chettiar community in Chettinad was divided into nine temple clans (nagar kovil) and formed a unique socio-cultural and economic system distinct from other Tamil descent-based communities.[1] Some of their traditional practices which arose based on the nine clan temples supported the accumulation of wealth. This system emphasized caste consciousness and cohesion through uniform practices among its members through marriage and joint family traditions. The stress on family and kinship required each member to play a vital role in the clan temples. Clan temples became the social-economic center where the Chettiar community met, discussed and decided on their business and financial matters. The temples also served as collection points for the taxes, which were used for welfare and charities and as a source of capital for individuals. The Chettiars were known for their discipline, business ethics, and their prudent way of handling money. Their success as traders reached its peak during the Chola period (10th century) and kept on flourishing during the Vijayanagar era (14th to 16th century), which witnessed voluminous trading activities of the Europeans.[2] With the arrival of European trading powers, the Chettiars continued their coastal and international trading in South India. It was only later under the British colonial rule that the Chettiars focused their business on money lending. During the middle of the 19th century, the Chettiars were unable to compete with the British traders and other Indian rivals (Telugu traders) along the Choromandel coast and instead focused on money lending and banking activities in Madras. However, things changed with the use of currency and credit flows which offered the British administration the opportunity to dominate trade investments in

[1] For details on sociocultural aspects of Chettiar community. see David Rudner, *Caste and capitalism in colonial India – the nattukkottai chettiars*, (California: University Of California Press, 1994); See also, M. Chandramoorthy, *Nagarathar marabum panpaadum*, (Madras: Manivasagar Patippagam, 2007).

[2] Ummadevi Suppiah and Sivachandralingam Sundara Raja, 'Sejarah asal-usul dan kegiatan ekonomi Chettiar di Tanah Melayu' OR 'Origins and the economic activities of Chettiars in Malaya', *Jebat: Malaysian Journal of History, Politics & Strategy*, 40 ,1 (July 2013): 68-71.

Madras.[3] In response, the Chettiars started to seek new business opportunities in the new British colonies in Southeast Asia, particularly in money lending.

DEVELOPMENT PHASE 1896-1957

Many do not know that Chettiars were the only professional moneylenders during the British era. Chinese and Sikhs were not money lenders because they did not carry out money lending as a business like the Chettiars. The latter operated under registered firms compared to the Chinese, who were only registered as pawnbrokers, and Sikhs who were considered as petty moneylenders. From the 19th century onwards, small scale money lending and capital finance services offered by the Chettiars helped the economic operators in Malaya in various sectors such as trade, agriculture, and mining. The different phases of development in the field of money lending in Malaya from 1800 until 1957 are detailed in the Table I:

Table I. Roles and Development Phases of Chettiar Money Lending Activities

Development Phase of Money Lending Activities	Field	Roles of Chettiars
1800-896	Trade, in particular. Opium	1. Traders 2. Middle men or Exchange Agents for *bank notes* 3. Credit Suppliers 4. Capitalist-Investors
1896-1941 a. 1896 -1914 b.1914-1933 (economic recession) c. 1933 -41	1. Agriculture 2. Mining 3. Non-agricultural Group *i. Civil Servants* *ii. Contractors* *iii. Malay Aristocrats*	1. Credit Suppliers 2. Private Financiers 3. Land Owners 4. Capitalist-Investors
1941 -1957 a. 1941-1945	Agriculture	1. Credit Suppliers 2. Capitalist-Investors
b. 1945-1957	(economic detoriation)	

Table I illustrates the major economic role played by the Chettiars in the development phase of money lending activities from 1800 to 1957. The Chettiars acted as credit suppliers to farmers and other economic groups; capitalist-investors to finance other enterprises and their own; as private financiers for civil servants and members of the privileged classes; and as land owners. Discussed next are the Chettiar money lending activities with particular focus on their role and their importance in connection to economic development and growth in Malaya.

[3] Raman Mahadevan, 'Pattern of enterprise of immigrant entrepreneurs – a study of Chettiars in Malaya, 1880-1930', *Economic and Political Weekly*, 13, 4/5, (28 Januari-4 Februari 1978): 146.

The Straits Settlements 1800 – 1896

The first Chettiar money lending firms were founded in Malacca (1808), Singapore (1823) and Penang (mid-1850s).[4] Since then, the Chettiars dominated the opium market in Asia by providing credits to the Chinese traders. In the 1870s and 1880s, the Chettiars financed the opium trade in Singapore and Penang by playing a major role as agents or middlemen between banks and Chinese traders. According to Mackenzie, the Chettiars were the main agents for bank notes exchange, mainly between the Chartered Bank of India, Australia, and China and the Chinese traders. The Chettiars deposited various sums of money to exchange banks for discounted bank notes to provide loans to the Chinese merchants. Beginning from the 1880s, the Chinese traders used these gains to invest in other economy activities, particularly rubber and tin mining in other Malay states.

The Malay states 1896 – 1941

The period from1896 to1941 was an important period in the history of Chettiar money lending in Malaya. Money lending activities expanded during this period because the number of borrowers had increased due a boosting economy. Their clientele consisted of Chinese, Malays, and Indians from economically large, medium or small capital businesses who needed credits for their various economic and social activities. Civil servants from the Malay privileged classes as well as common people borrowed money mainly for social purposes. The Chettiars failed to expand their influence in the tin mining sector but succeeded in the rubber and paddy cultivation. Their once active role as credit providers and investors in the mining sector in the 1890s had begun to decline after the First World War. In turn, the Chettiars flourished as credit providers and financiers in the agricultural sector.

Even though the money lending business remained relatively stable from 1896 until the outbreak of the Second World War, there was a slight decline during the1920s. The two factors responsible for this development were that (1) during the depression debtors could not pay back their debts due to plummeting rubber price and a deteriorating trade and many civil servants were retrenched, and (2) the British policy became more stringent in regulating the business after too many Malay land foreclosures. Overall, the money lending business of the Chettiars experienced a decline but remained stable and continued as before. The number of reported cases of collateral land being alienated by the Chettiars in Perak, Selangor, Negeri Sembilan, and Pahang is shown in Table 2:

Table 2. Collateral Land Acquisition by Indians in the Federated Malay States (in acres)

Year	Perak	Selangor	Negeri Sembilan	Pahang
1919	23,641	11,872	23,724	10,033
1928	30,816	12,523	11,243	20,456
1938	28,872	10,271	10,483	16,344

Source: *Proceedings of the Federal Council, 1939*: B33.

[4] Ibid.

In conclusion, the Chettiars played a very influential role between the years 1896 and 1941. However, their business opportunities largely relied on the economic recession occurring within and outside Malaya. This caused ups and downs in their money lending activities, particularly during the inter-war years, but their business remained stable until 1941.

The Japanese occupation 1941 – 1945

During the Japanese occupation, the Chettiars were able to continue their money lending activities despite frequent disturbances cauused by the Japanese officials. On 23rd February 1942, the Japanese army declared the Japanese currency *yen* as the official currency in Malaya[5] which the Chettiars used, as it had equal value to the *straits dollar*.[6] However, in 1944 the *yen*'s value plummeted and businessmen switched back to the *straits dollar*.

Concurrently, the Japanese Army enforced the ordinance of Tomi Seirei No.19 (*Toku Beta-si*, Notice no. 160)[7] and set up the Peoples Bank or Peoples Treasury (*Shomin Ginko*) to stop the businesses of money lenders and pawnbrokers who were the main capital providers for small business operators in Malaya. As a consequence, the Chettiars suffered substantial losses, even more so when Japanese forces either demolished or seized their rubber plantations. The confiscated rubber plantations were turned into operational bases or new tapioca plantations. Although the Japanese army compensated the Chettiars, massive financial loss was unavoidable due to the low value of the *yen*[8] . The loss was estimated to have amounted up to 120 million *straits dollars*.[9]

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[5] Paul H. Kratoska, "Banana Money: Consequences of the Demonetization of Wartime Japanese Currency in British Malaya". *Journal of Southeast Asian Studies* vol. 23., no.1 (March 1992): 322.

[6] Ibid. Before World War II, the Japanese currency valued half the 'straits dollar but after six months into the Japanese occupation, the *yen* fell by 50%. Coins were abolished and savings deposits in post offices were withdrawn and eventually disappeared altogether. For more detail see Paul H. Kratoska, "Banana Money: Consequences of the Demonetization of Wartime Japanese Currency in British Malaya."

[7] Ibid.

[8] In 1943, the Japanese army took Alagappa Chettiar lands upon payment of compensation amounting to $445.93 (SSF 2982/1949 - Application on Behalf of M.A.L Alagappa Chettiar Son of Muthiah Chettiar For Release of Lands Held Under Certificate of Title Nos. 5735 & 5739 for Lots Nos. 4232, 4292 & 4296, Mukim of Klang). Ramanathan Chettiar lands on the road to Port Swettenham-Watson Road were taken by the Japanese after paying compensation of $16, 490 ($5,157.30 in 'straits dollar'. (SSF 2984/1949 - Application on Behalf of Ramanathan Chetiar for Release of Lands Held Under Certificate of Title Nos. 5735 & 5739 for Lots Nos. 4232, 4292 & 4296, Mukim of Klang).

[9] CO 273/ 50007/208 – Petition All Malaya Nattukottai Chettiars Association. (Microfilm collection of the National University of Singapore).

Money lending activities 1945 – 1957

In the years following the Second World War until the independence, the business of the Chettiars continued to decline. British forces returned to Malaya in August 1945 and began enforcing laws to regulate all forms of financial transactions including money lending. Among the most drastic measures taken was a directive to halt all money and land transactions in Malaya with immediate effect.[10] Aside from that , the Japanese *yen* was banned from circulation; the only cash money left to the Chettiars.

In 1946, the Chettiars united under *All Malaya Nattukottai Chettiar Association* to protect their rights and make their economic plight public. The British administration took their views into account and implemented the Titles of Land, (Occupation Period) 1947, the Creditor-Debtor Bill (Occupation Period), 1948, and the Moneylenders Bill, 1951. However, this was, in the eyes of the Chettiars, not an improvement but another repressive law.

This development prompted the Chettiar money lenders to look for political patronage to ensure the future of their businesses. In 1951, Ramanathan Chettiar was elected as the President of the Malayan Indian Congress (MIC). However, he did not earn wide recognition from the other Indian communities in Malaya given the Chettiars' status as a closed community. Eventually, many Chettiars decided to close their money lending firms and return to Madras.

MODUS OPERANDI

During the British Residency, the Chettiars were the ones who ran their money lending business most effectively and professionally. Their organizational structure and operational methods were based on century old traditional practices of the original South Indian Chettiar community. Its particular business structure served the purpose of generating maximum profit and was done at high risk. The money lending business was structured as follows:

- i Providing loans that allow charging high interest for maximum profit.
- ii Retrieving money through debt collection of the initial loan amount plus interest or compound interest.
- iii Money saving (*amanitham*) and safekeeping of public money and external funding from foreign loans.
- iv Acquiring property through collateral (fixed capital assets such as land, farms, houses and shop-houses).
- v Accumulating profit by securing business profits and saving sums of money (*iruppu*) from the daily money lending activities which were taken stock of every three years.

[10] British Military Administration Malaya*, Proclamation No.- Moratorium Proclamation* (A Proclamation to close financial institutions, to proclaim a Moratorium and to prohibit certain land dealings). The moratorium was scheduled to end in September 1946 after the commencement of the British military administration in Malaya.

It was through these five basic business operations that the Chettiar business flourished and thrived. It focused on generating profit and acquiring property rather than loaning money, a strategy which enabled the Chettiars to earn huge profits and become very wealthy. The earned capital was then used to expand the money lending business to large scale credit supply. It was the economic resourcefulness of the Chettiars, encouraged by the British laissez-faire policies, which allowed them to play a dominant role in the Malayan economy.

These five forms of traditional money lending operations of the Chettiars functioned similarly to modern banking. When modern forms of banking were introduced in the middle of the 19th century in India and the Straits Settlements, their century-old expertise in traditional banking activities were utilised by British commercial banks in India and the British colonial government in Malaya to assist in the economic development.

Capital resources

The Chettiars used their own internal resources to establish their cycle of capital funds which ensured the steady flow of capital. When they needed to make use of external resources to inject more capital into their business, they secured loans from sources outside their own community.Their internal and external resources are listed in Table 3:

Table 3. External and internal capital resources

Internal Resources	External Resources
1. Loans from other Chettiars (*thavanai*) 2. Investment profits from Madras and Burma 3. *Hundi*[11]	1. Loans from British banks 2. Loans from Chinese enterprises 3. Money deposits from Indian labour and civil servants (Malaya)

The internal resources constituted the sum of all the capital raised within the Chettiar community itself in the form of *thavanai* loans[12], investments in Madras and Burma, and *hundi* activities. *Thavanai* were short term loans with high interest rates which were very popular since the loans were made on the basis of contracts allowing the Chettiars to retain the flow of money within their own clan (*nagar kovil* and sub-*kovil*). In the case of Malaya, *thavanai* involved large-scale finance firms (banks) which loaned to small and medium-scale firms. For example, from 1940s onwards, the *Indian Overseas Bank Limited* and *Chettinad Bank Limited* which owned branches in Kuala Lumpur, Singapore and Penang sanctioned loans to Chettiars who operated money lending firms in Malaya. Capital resources from the revenues of business investments

[11] *Hundi* was used like a modern bank cheque: the note could be used to send money and give credit. *Hundi* traded for the purpose of providing credit had to be cashed after a period of a maximum four months. For further reading, see David West Rudner, *Caste and Capitalism in Colonial India: the Nattukottai Chettiars,* (California: University of California Press, 1994): 92-5.

[12] In Tamil language, *thavanai* means period of time. In this form of business lending, the members set a period of time and the interest rate for a loan through negotiations. Loan period was fixed at one week or a month and the interest rate is usually high. S.K. Das, "Nattukottai Chettiars in Malaya." *Malayan Law Journal,* (1958)*:* xxxiii.

(principal or business owners) in Madras and Burma were also partially funded by Chettiar money lending operations in Malaya. It consisted of money lending activities, ownership of lands or paddy fields, *hundi*, and interest profits channeled as funds through *thavanai* loans to their firms.

External resources were obtained on a temporary and emergency basis only if internal capitals resources proved insufficient. However, their internal resources involved in the transfer of capital within the Chettiar community were permanent, stable, and liquid. External capital was borrowed from British banks, wealthy Chinese or money deposits from Indian labourers and civil servants. For example, in October 1887, the Hongkong & Shanghai Bank granted an advance payment of $1.25 million to the Chettiars in Singapore and Penang as capital for their economic activities. Other Chettiars in Penang also applied for an advance of $348,350 from the same bank in 1907.[13] These loans were usually tied with collateral at lower interest rates than those offered by the banks. The Malayan Chettiars also secured capital resources from the Chinese. For example, a Chettiar money lending firm in Penang borrowed $100 000 from a Chinese creditor to finance its money lending activities. The money lenders could also make use of the capital deposited by Indian estate labourers and civil servants working for public departments.[14]

The capital funds cycle which ensured a steady flow of capital for the money lending business constituted the most essential feature of this successful enterprise. It ensured that the Chettiar money lending firms enjoyed a constant influx of money with which to finance their activities and generate profits. The Chettiars also engaged in turnover interest by re-loaning money on a small scale and imposing interest rates. Proceeds from these interest payments were recycled to increase their capital funds in order to maintain the continuity of the lending cycle and different interest rates charged for higher profits.

Until the Second World War, the Chettiars had raised a capital of $10 million from 71 firms from the Federated Malay States and Straits Settlements,[15] with 52 of them located in the Klang area alone. According to a report presented to the Burma Banking Enquiry Committee (1929-1931) by Murugappa Chettiar, the financial capital of Chettiars in Malaya totalled 25 *crores* (equivalent to 10 million Indian rupees) compared to the Chettiars in Burma who owned 75 to 80 *crores*.[16]

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[13] Douglas, Wong, *HSBC – Its Malaysian Story*, (Singapore, 2004):4.

[14] Chinese creditors were reportedly concerned with the repayment of debt incurred by a Penang-based Chettiar firm about to go bankrupt. *The Malacca Guardian*, (August 19, 1929).

[15] SSF 2549/1930, Resolution Passed at a General Meeting at Nattukkottai Chettiars.

[16] The major Chettiar cities in Southeast Asian countries are as follows: Burma (Rs. 75-80 crores), Ceylon (Rs. 14 crores), Madras (Rs. 1 crores) dan Indo-China (Rs. 5 crores). Raman Mahadevan, '"Immigrant Entrepreneurs In Colonial Burma-An Exploratory Study of the Role of Nattukottai Chettiars of Tamil Nadu, 1880-1930." *The Indian Economic and Social History Review*, vol. xv (3), (January-March, 1978): 313. George Netto, *Indians in Malaya: Historical Facts and Figures*, (Singapore, 1961): 36.

Types and Forms of Investment

Through their money lending activities, the Chettiars assumed the role of investors. There were three types of investments their money lending firms were engaged in, namely:

(1). Capital investment – money lending directly financed and provided credit to Asian and European businessmen and native farmers for land development and other commercial activities.

(2). Collateral - through mortgage deeds, the money lenders acquired lands and immovable properties by default of payments. The Chettiars became a strong group of collateral owners during the depression and also auctioned off valuable properties to redirect funds back into their capital cycle.

Since the early 1900s, collateral served as a major investment source when the Chettiars started taking land as security. However, they were reluctant to hold land as security for farmers and smallholders to avoid losses if the borrowers were unable to repay their debt. For example, they were reluctant to accept Malay Reserves Land (MRL) as collateral because the legislation provided that land under MRL was not transferable to non-Malays. The same caution was applied to land leased as collateral for third party intervention which complicated the transfer of land ownership or investment. Despite these cautionary measures, land emerged as the most valuable commodity in the development of commercial activity at the time.

(3) Profits directly invested into other economic activities – the Chettiars succeeded more in the rubber estate ownership business than in any other economic sector. Their investment in rubber plantations amounted to $100 million *dollars* which equaled their investment in money lending activities.[17] However, their investment in rubber plantations did not generate similar high profits in Malaya. The Chettiars also owned coconut plantations, paddy farms, tin mines, and shop houses.

In conclusion, the second type of investment, loans with collateral, earned the Chettiars the highest long-term profits and secured them in their traditional profession as money lenders. This circumstance implies that they failed to succeed equally well in other forms of direct investments in Malaya even though they owned the necessary capital. A separate study in the future may shed light into the factors and circumstances responsible for this failure. At any rate, the success of the Chettiar money lending enterprise caused increasing hostility every time a piece of land owned by a Malay creditor was foreclosed and auctioned off.

Interest Rates

Chettiar profits largely depended on the interest the debtors had to pay on their loans. The *Usurious Loans Enactment* of 1919 defined interest as "the return to be made over and above what was actually lent, whether the same is charged or ought to be recovered specifically by way of interest or otherwise".[18] This enactment allowed the Chettiars to charge excessive interest rates

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[17] George Netto, *Indians in Malaya: Historical Facts and Figures*: 54.

and also to recover their loans. They were at liberty to set a variant of high interest rates, calculate compound interest, and lend money with land as collateral in order to bind their clients and gain lucrative profits.

The business profitability depended highly on the interest rate which in turn depended on four factors: the type of loan, loan amount, provision of collateral, and method of loan repayment.[19] In principle, there were two types of loans and four different interest rates. The two different types of loans were *nadappu* (current or short term loans) and *thavanai* (long term loans). Meanwhile there were four types of interest calculation,[20] namely *thinasari vatti perukkam* (interest calculated daily), *moondru thavanaivattipperukkam* (calculation of interest over three terms), *sarinaal perukkam* (interest calculated daily), *nadappuvatti,* and *thavanaivatti*.

Nadappu, was a short-term loan made on a daily or monthly basis, and *thavanai vatti*, a two, three or six month loan; and both the most popular loans. The interest rates were determined by the principal of the parent bank or *adathi*[21] operating in Madras and Rangoon. Sometimes the interest rate was specified in the *nagaraviduthi* located in Penang and Singapore.[22] According to custom, a group of principals fixed the interest rates valid for a certain period.[23] The process of determining the interest rate was carried out regularly and served as a controlling mechanism of all money lending activities.

Until the Second World War, the calculation of interest rates in Malaya was not standardized. The usual interest rates ranged between 12 and 18 per cent for secured loans and 24 to 36 per

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[18] SSF 1920/1919, The Usurious Loans Enactment, 1919.

[19] Factors of loan amount and repayment period will be discussed in the section on interest rate calculations.

[20] Calculation of interest for *thinarasi vatti perukkam* and *moondru thavanaivattipperukkam* was determined as 30 *immu* to 1 *muntri*, 320 *muntri* equal to 1 *kaasu* and 100 *kaasu* equal to 1 *velli*. On the count of interest, interest was set for below one cent, known as *immu* value. Interest rates for *sarinaal perukkam* and *nadappu* as well as *thavanai vatti* is set in *rupee, aana* dan *paisa.* Each country has interest rate count (different table) for *nadappu* and *thavanai*; see S.PR. KR. Karuppan Chettiar, *Vanigar Thinarasi, Thavanai Vattipperukkam*, (Kuala Lumpur, 1928). [This book is used by firms (*vilasam*) S.PR.KR with branches in Penang, Singapore, Saigon, Rangoon, Madras and Colombo].

[21] *Adathi* or parent bank played the role of headquarters for all Chettiar businesses inside and outside Madras. *Adathi* was detected in Burma and *nagaraviduthi* in Penang having many ties and business relations with the *adathi* in Burma. The *adathi* in Madras was managed by a group of principals, often members of joint families. The *adathi* outside Madras was run by Chettiar agents who shared no blood relationship with the principal; see Heiko Schrader, *A Comprehensive Analysis of Chettiar Finance in Colonial Asia*, Working Paper N. 208, Southeast Asia Programme, (Bielefeld, 1994): 4.

[22] Rajat Kanta Ray, "Asian Capitals in the Age of European Domination: the Rise of the Bazaar, 1800-1914." *Modern Asian Studies* vol. 29., no. 3 (July 1995): 527.

[23] Interest rates for *nadappu vatti* were usually fixed on the sixteenth day of each month according to the Tamil calendar. Interest rates for *thavanai vatti* in Penang and Singapore were fixed each week and could not be changed for the next three to 12 months.

cent for pronotes or unsecured loans for a year.[24] Through the *Moneylenders Ordinance* of 1934, the interest rate was limited to a maximum of 36 percent but increased to 48 percent when the Chettiar community in the Straits Settlements protested.[25] This additional legislation was only implemented in the Straits Settlements even though it was intended to be enforced in the Federated Malay States. Notably, the interest rate set by Sikh money lenders was set much higher than that of the Chettiars.[26]

The profits were highly dependent on the method of calculating the interest rate loans. The relationship between the interest rate count, profit, and debt are shown in Table 4:

Table 4. Calculation of Interest Rates[27]

Calculation Aspect	**Interest Rate Calculation (in *straits dollars*)**			
Original Loan *(principal)*	$100.00		$200.00	
Loan Period	12 months	12 months	12 months	24 months
Interest Rate for a Year	12%	24%	12%	24%
Interest payment for a month	$1.20	$2.40	$ 24.00	$48.00
Interest payment for a a year	$ 14.40	$ 28.80	$ 288.00)	$ 576.00

Thus, money lending profits depended on the interest rate, loan amount, and loan period. This means that loans were more profitable if large sums were loaned at high interest rates over long periods of time. The most important element determining profits was the interest rate. The Chettiar moneylenders reacted promptly when debtors failed to repay their loan installments on time by consequently determining new and higher interest rates for the unpaid balance. Chettiar moneylenders did not pressure their debtors into quickly repaying their original loan but pressured them with these rising monthly payments through compound interest charges. Eventually they would seize collateral lands which could be sold through auctions for higher prices. For full settlement , this was enforced only every three years when the agent of the lending firm had to close the account to return to Chettinaadu. Although it could happen that a new agent overlooked old debts[28] but in general this strategy worked to maintain a highly risky business and generated long-term profits. S.K Das characterizes this practice as follows:

[24] N.M Nair, *Indians in Malaya* (Madras, 1937):102.

[25] Memorandum of the All Malaya Nattukottai Chettiars' Chamber of Commerce: 5.

[26] Kuantan 308/1918 (District Office Kuantan 1918), Charging of Exorbitant Interests by Money Lenders.

[27] The table illustrates the method of interest rate calculation as applied by the Chettiars.

[28] Heiko Schrader, "A Comprehensive Analysis of Chettiar Finance in Colonial Asia": 4.

> *It is not that the maximum rate of interest prescribed for secured and unsecured debts (a provision unknown in England) does not bring in a fair return for, by and large, having regard to the market rate, the rate of interest normally charged by the Chettiars was commensurate with* <u>*the risk involved*</u> *and was rarely found to be so exorbitant as to justify intervention by the Courts […].Under Usurious Loans enactment (now repealed although the need of the borrower did not dictate the rate of interest, the absence of security or inadequate security and the risk undertaken by the moneylender were vital matters for consideration by the Courts: where adequate (or trustee's) security was provided for the rate of interest was determined by the market rate if the interest charges is proved to be excessive, unconscionable or substantially unfair within the meaning of the Act.*[29]

British law allowed a high interest rate if the risk factor was higher in certain types of money lending. On this basis, legislation to control Chettiar interest rates through the *Usurious Loan Enactment 1919* failed.

Business Organisation

The Chettiar money lending firms were traditional business organisations based on a network of interdependent family businesses which evolved into partnerships and operated under an agent system. Chettiar business firms were registered at the temples in Chettinaadu,although they were not registered under British law. Their money lending activities in Malaya functioned efficiently through their agents who received and executed directives from the principal or business owners living in Chettinadu or Madras Presidency.[30]

Most Chettiar money lending firms situated in Malaya were owned individually or in partnership[31] by the principal who appointed a group of agents to manage and operate them. According to the Chettiar custom, a business was set up in one's own name (initial/style), the names of one's partners or God's name[32] which was referred to as *vilasam* (address). According to

[29] S.K Das, " Nattukottai Chettiars In Malaya": xvii.

[30] The Chettiar agents in Malaya were answerable to their *principal*. Based on Chettiar tradition, agents were not accredited by the letter of appointment. The principal would ask the agents to submit a contract known as the *sambala cittai*, a pledge made by the agent to manage the *principal* business outside India with trust and responsibility. Later, the British administration required the Chettiar agents to produce a letter of Power of Attorney or Letter of Administration to represent their *principal* in court matters, purchase and sell properties, close firms, collect interest, inspect accounts, and borrow capital from banks or other financial institutions. Upon completion of service, the agents were paid by their principal at parent firms.

[31] According to the *Moneylender Ordinance*, 1934, 'Business name' means the name or style under which any money lending business is carried out, whether in partnership or otherwise; 'company' means anybody corporate being a moneylender; 'firm' means an unincorporated body of two or more individuals, or one or more individuals and one or more corporations, or two or more corporations, who have entered into partnership with one another with a view to carrying on business for profit Proceedings of the Legislative Council of the Straits Settlements, vol. II (1934): C 747.

[32] The Chettiars in Malaya did not sign a document in their own name but in God's name (family deity); their own name was written at the top above the name of God. Another practice considered rather irrational by

tradition, money lending firms in Malaya were registered under the name of the Chettiar agent himself. For instance, *vilasam* P.A.M Karuppan Chettiar. P.A.M referred to the firm owner's initial P.A.M[33] while Karuppan Chettiar was the appointed agent. Each *vilasam* usually represented one firm. Before the Second World War, in Malaya alone existed about 800 Chettiar money lending firms.[34]

The size of a money lending firm was determined by the amount of capital invested, as shown in Table 5[35]:

Table 5. Breakdown of Capital and Size of Money Lending Firms

Capital Breakdown (*Malayan Currency*, M)	**Firm Size**
(M)$500,000 and more	Large Firm
(M)$50,000 to 500,000	Medium Firm
Less than (M)$50,000	Small Firm

Source: Usha Mahajani, *The Role of Indian Minorities in Burma and Malaya:* 99.

Compared to small scale firms, medium and large scale firms invested in the commercial economic activities, properties, and also banking activities. For instance, Raja Sir Annamalai Chettiar owned large-scale money lending firms and estates in Selangor and transferred all his capital to set up the Chettinad Bank Ltd. based in Kuala Lumpur in 1930.[36] Since the beginning of the 1940s, the Chettiars started modernizing their money lending business by registering their large firms under the British Incorporated Act[37] in order to establish themselves as indigenous bankers.[38] However, these new money lending firms or incorporated banks were not permitted to

court juries was to state God as business partner and to write a certain part of the profits over to the temple in the name of God; see S.K Das, "Nattukottai Chettiars in Malaya": xvi.

[33] P.A.M could stand for the name of one owner or the names of three owners because many Chettiar names contain several initials.

[34] Usha Mahajani, *The Role of Indian Minorities in Burma and Malaya* (Bombay, 1960): 99.
[35] Ibid.
[36] SSF 1238/1930, Enquires what stamp duty is payable on certain transfers to be executed by Raja Sir Annamalai Chettiar.

[37] *Sunday Times*, (7th July 1934).

[38] The Chettiars were called 'indigenous bankers' or 'banking caste' by the British because their money lending activities were similar to modern banking. The Chettiars understood themselves primarily as 'bankers' and not as simple money lenders because according to their understanding, money lending did not constitute an activity restricted to Chettiars. However, banking activities could only be executed by the Vaishya from the descendants of Jain, Marwari, and *ceti* in India. The banking caste group who founded the Indigenous Bank is also called *shroff.* Helen B. Lamb, "The India Merchant". *The Journal of American Folkfore, v*ol. 71 (281), (Jul – Sep 1958): 231-40. The Chettiar community opened their first bank in Madras when British banks failed to meet the needs of Indian traders in international transactions. This prompted

carry out the functions of modern banking or commercial banks.[39] Hence, although the Chettiar banks were officially designated as 'banks',[40] they remained as large-scale money lending firms.[41]

The Chettiars established three banks under The British & Foreign Companies, Enactments 1912 (India), namely the Indian Bank Limited,[42] the Indian Overseas Bank Limited, and the Chettinad Bank Limited[43] which aimed to protect the business interests of their community in Malaya by registering their money lending operations under British law. According to Arasaratnam, these banks were primarily established to maintain the flow of money transactions within the network of Chettiar money lending firms.[44] The Indian Overseas Bank Limited in

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Krishnaswamy Iyer, a renowned lawyer and judge based in Madras, to open the Indian Bank Limited in March 1907 with a capital share from the Chettiar community. (*The Hindu*, (12 April 2004) in http://www.thehindu.com/thehindu/biz/2004/04/12/stories/2004041200331800.htm). Because it did not cover international transactions, Rm. M. Ct. Chidambaram Chettiar set up the Indian Overseas Bank Limited on 30 November 1936.

[39] Shanmugam Chettiar, the branch manager of Chettinad Bank Ltd. in Kuala Lumpur, applied for a license to conduct regular banking activities[39] during the Japanese occupation but his application was rejected by the Japanese military administration. In accordance with Section 294 of the Companies Enactment, licensed banking businesses in Kuala Lumpur and Ipoh were only permitted to conclude contracts between creditors and customers in the Federated Malay States. Any form of specifically modern banking activity was not allowed.

[40] Although Chettiar banks called themselves banks, they were in fact not considered proper banks because they did not operate like commercial banks. Chettiar banks remained large lending firms and registered with the contract terms in dealings with money transactions. They were called 'designated banks' because the Chettiars were perpetuating the traditional and indigenous forms of banking. (Syuseityo Kanbo 52/2602 (1942) – Application from Chettinad Bank Limited for a license under the Companies Enactment (Chapter 58) to conduct banking business. Chettiars involved in the banking business were also known as indigenous bankers. Thomas Timberg & Chandrasekar V. Aiyar, "Informal Credit Markets In India". *Economic And Political Weekly,* vol. 15 (5/7), (1980): 281 and 283.

[41] Thomas and Chadrasekar support the notion that Chettiar banks were in fact large capital firms when stating, "The Chettiars and Rastogi bankers and finance companies surveyed do considerable house hold finance…". Thomas Timberg & Chandrasekar V Aiyar, "Informat Credit Markets in India": 279.

[42] A Penang branch was closed on 5 September 1945 with a reported cash balance of 7, 966, 178.11 (Japanese currency). D.C.C.A.O 184/1945, bank file located in the National Archives of Malaysia - Banking Penang - General.

[43] The Chettiars were notably the first to open Indian banks in Malaya, such as the Chettinad Bank and the Bank of Chettinad and Indian Overseas Bank in Kuala Lumpur in 1937 (Arasaratnam Sinnappah, *Indians In Malaysia and Singapore*, (Singapore: Oxford University Press, 1972): 96. According to Nanjundan, there were only two Chettiar-owned banks in Malaya, namely the Indian Overseas Bank Limited (1938) and the Indian Bank Limited (S. Nanjundan, *Indians in Malayan Economy*, New Delhi, 1950):19.

[44] Arasaranam Sinnappah, *Indians in Malaysia and Singapore*: 96.

particular proved to be quite successful and thus contributed to the development of modern banking in Malaya.[45]

Business Conduct

The Chettiar's money lending business was a considerably informal and liberal kind of business[46] which is evidenced by their practices summarized as follows:

I. Clients were accepted based on *maral* – anyone who was introduced by one of their former or existing clients (*maralder*) was accepted.[47] A formal guarantor was not required to secure a loan. As such, the introduction and screening process was considerably swift and simple.
II. Negotiation served as an instrument to sanction and tie debt deeds and took preference over time-consuming administrative procedures which were standard practice in ordinary banks. Clients were consulted directly to determine the interest rate, loan duration, and repayment period. The loans were then approved on the spot.
III. Legitimate documents were produced to acknowledge the transactions involved in tying debt bondage, such as I.O.U. (I Owe You) and promissory notes. These documents were drafted in a simple format not requiring a guarantor, a stated purpose or even the signature of the client. When not required otherwise, these documents were worded in Tamil.
IV. The daily business took place in so-called *kitanggis*,[48] which functioned as business premises with flexible operation hours. This practice facilitated the coming and going of clients and made the Chettiar money lending firms more accessible than the regular British or Chinese banks.

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[45] The Indian Overseas Bank Limited opened branches in Kuala Lumpur, Penang, and Singapore in March 1937 through a Chettiar capital partnership worth 200 million straits dollars in order to serve the members of their own community. Between 1940 and 1945, the bank provided small and medium scale loans to fellow Chettiars to finance their money lending firms (*The Unfinished Journey*, M.Ct.M. Chidambaram Trust, Madras, p.120.) According to Nanjundan, these bank branches started operating in 1938. S. Nanjundan, *Indians in Malayan Economy* :19.

[46] Allene Masters, "The Chettiars in Burma – An Economic Survey of A Migrant Community." *Population Review* vol.1., no. I (January 1957):25.

[47] The word *maral* means through or on contact basis. S.K Das, "Nattukottai Chettiars in Malaya" :xxvi.

[48] Field studies conducted by the researcher centred on the *kitanggis* in George Town (Penang), Bandar Maharani, Muar (Johor) and Road Tank (Singapore). The *kitanggi* of the Narayanan Chettiars in George Town features a telephone kiosk on the ground floor and a top floor where the money lending transactions take place. The Tamil *kitanggi* is derived from *kidangu* meaning warehouse. It refers to a two-storey building and is designed like most shop houses found in Malayan towns. A *kitanggi* usually houses several Chettiar business firms operating on the ground floor while the upper floor offers accommodation for employees. The number of occupants in a *kitanggi* ranges from 10 to 20 individuals but depends on the size of a firm and the number of agents appointed by the *principal*. As a norm, a few firms form a *kitanggi* while the owners of *vilasam* come from one *nagar kovil*.

The Chettiars' ostensibly liberal and uncomplicated way of offering their services to the public helped them become the most popular creditors in Malaya.

Chettiar Business Ethics

The Chettiar business ethics were strongly influenced by their religious practices and beliefs as reflected in their honest and straightforward business practices, their moderate and humble life style, and charitable ways. As Hindus, the Chettiars believed that these qualities bore a direct effect on their karma and earned them blessings from God. With these in mind , they believed that their business would thrive and gain them additional wealth in the future. Some of the practices reflect their business ethics as follows:

I. The Chettiars built their homes and business premises near to their temples. This practice was adapted from nagar *kovil* in their native Chettianaadu. In Malaya, the Chettiars built *Lord Murugan* temples and *kittanggis* in major towns which functioned as centers for commercial, ceremonial, administrative, and social activities. Business was believed to prosper through observed rituals, religious festivals, prayers, ceremonial processions, and donations. A certain portion of the income was given to the temple fund (*mahimai*) subsequently used as business capital and to pay for temple activities and charities.

II. Their business ethics were based on honesty and moderation. The Chettiars carried out their business honestly,responsibly and maintained good relationships with their clients. Calculating interest rates and recording debts were carried out regularly and in accordance with legal procedures. In addition, they led simple and moderate lives, dressed in humble *dhotis*, and shaved their heads. They shared their premises with other members of the community and did not set themselves apart from the rest. Their lifestyle demonstrated humility, honesty and moderation which had spiritual origins. The Chettiars retained their inner strength by holding on to their native customs when business required them to migrate to foreign lands.

III. Homogeneity also served as a successful business strategy. The members of the Chettiar community relied mainly on their own kind and thus remained autonomous. Their business network and the accumulated capital remained in the hands of the clan temples or *nagar kovil* stretching from Chettinaadu to the rest of Southeast Asia. In this way they maintained their ethic identity, and their community gained a respectful economic status in Malaya. The Chettiars were thus able to retain the same lifestyle as in their native nagar kovil, the same business practices, and ethics while running their money lending businesses in Malaya.

It can be concluded here that every aspect of the Chettiar money lending activities in Malaya served their legitimate economic interests without compromising traditional ethical values. At the same time, it allowed the Chettiars to be sufficiently flexible and liberal to successfully adapt their business to suit the socio-economic reality of the Malayan people.

CONCLUSION

The Chettiars operated a professionally organized money lending business in British Malaya characterized by appropriate money management operations; steady sources of capital, specific types of investments; fixed rates of interest, and the establishment of the banks. Their success can also be attributed to their sound business ethics.

The history of the Chettiar money lending business can be traced back to the 18th century in the Straits Settlements and came to an end when the Federation of Malaya gained its independence in 1957. The Chettiars played a dominant role in the Malayan economy due to the British laissez-faire policy introduced at the beginning of the 19th century; the British land policy, the attitude of the Malay farmers; the inter-war period of recession, and the lack of adequate alternative credit facilities.

Although the Chettiars remained an isolated community based on ethnicity and Hindu culture and ethics, they succeeded in assuming an imperative role in the economic development of the British in Malaya. Although most of the Chettiars from Madras returned to India in the 1950s, the term *chetty* has remained a well-known synonym for money lending in the region. The Chettiar moneylenders had taken many financial risks, which the British had not been willing to take. It had been their credits which financed opening thick jungles for cultivation and land development, allowed many Chinese entrepreneurs venture into the tin and rubber industries, and offered early forms of micro-financing understood today to be crucial for the rural development and from which thousands of smallholders benefitted.

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