



ROLE OF NATTUKOTTAI CHETTIARS IN THE FINANCIAL HISTORY OF SRI
LANKA

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Abstract

Nattukottai Chettiars are considered as born bankers and in colonial periods they expanded their business activities to Southeast Asian countries. Chettiars provided valuable contributions for the economic development of those countries. In Sri Lanka, up to the mid part of nineteenth century they were the only bankers in the Island to satisfy the financial needs of Ceylonese. Later, with the establishment of British banks they performed the roles of middleman between British banks and Ceylonese and shroff. In addition to money lending they also engaged in trade, financing import and export trades and plantation. The financial services provided by the Chettiars largely satisfied the capital and credit needs of various sectors of Sri Lankan economy. A noteworthy contribution of Chettiars to Sri Lanka was that they tolerated the risk of lending money to Ceylonese, even though British banks were not ready to accept such risk.

Key words: Nattukottai Chettiars, British banks, Shroff, Risk

I. INTRODUCTION

The term "Chettiar" is an inevitable one in the economic history of many Southeast Asian countries including Sri Lanka. The native place of the Chettiars is Chettinad in South India. The meaning of the term "Nattukottai Chettiar" is that people who live in grand houses in the countryside. Due to their elite lifestyle in the countryside these areas gradually transformed into attributes of cities. Thus, Nattukottai Chettiars like to refer to themselves as the "Nagarathars" which translates as city dwellers. They began their business activities as salt traders and money lenders in the seventeenth century and developed into a full fledged banking system by the nineteenth century. Their businesses grew in South India and expanded beyond India to other parts of the South-east Asian countries such as Burma, Sri Lanka, Malaysia, Singapore, Java, Sumatra, Mauritius and parts of China from the 19th century, when there was a need for micro-financing (Rudner, 1994). The higher financial returns from their overseas economic activities facilitated the Chettiars to improve their social balance of power in their homeland, and it



motivated them to migrate. Many authors ascribe the development of several industries in various countries to the Chettiars, such as rubber and tin in Malaysia, rice in Burma, and tea in Sri Lanka (Weerasooria, 1973; Rudner, 1994). Even though Chettiars were very small in number, they were viewed as an unusual community by various authors. Ito (1966) indicated that the total number of persons of the Chettiar community in 1896 was only 10,000. However, they had a reputation in India and other related countries for their spirit of adventure, shrewdness and magnificence. Their business activities were treated as family businesses and they utilized their unique family ties, resources and norms.

The Chettiars represented an entire banking system, established by hundreds of interdependent family firms or banks. Each extended family accepted deposits, issued bills of exchange and granted loans, and they were considered as a separate bank. The proprietor lived in his homeland village in South India and conducted day to day operations of the business in India or abroad by hiring agents from within the caste or extended family. Normally these agents were hired for a period of three years and, agents and proprietors maintained close contacts through telegram. (Rudner, 1994). They also had a mechanism of transferring lendable capital among branch offices and other banks and due to this aspect every Chettiar firm was tied together with all of the others to form a unified banking system. An important feature observed in the Chettiars' banking system is that they were an important source of credit to one another (Mahadevan, 1978; Rudner, 1994; Weerasooria, 1973).

The entire Chettiar banks within the group were eventually connected to each other through clearinghouses, frequent sharing of information with one another, and a well established interbank lending system. The leading bankers among the group, who owned larger banks with more branches, served as the de facto clearinghouses for the whole system and they are called as adathi banker. Other Chettiar banks would maintain a deposit account with an adathi banker which allowed the clearing of debits and credits among different Chettiar banks to take place on the books of the adathi banks. The well established interbank lending system helped Chettiar banks to borrow money from fellow bankers for a certain interest payment in needy situations. They conducted regular meetings once a month at each business region to determine interbank interest rates to exchange information about creditworthiness of clients and fellow bankers (Nair, 2013). In the earlier days the banking business of Chettiars was called as caste based banking later it was converted as to joint stock banking in the first quarter of the twentieth century. The caste system characterizes a hierarchical structure of the society where occupation of people is typically determined by their caste (Ray, 1995).

II. OBJECTIVE OF THE STUDY

History is a good teacher and it teaches many lessons to us. Countries design their development strategies based on the historical experiences. Financial system of a country plays an important role in the economic development of the country. It ensures the proper flow of capital from surplus units to units with deficit. According to the historical notes, the banking history of Sri Lanka begins with the contribution of Nattukottai Chettiars and they satisfied the capital needs



of local people in certain historical periods by performing various roles. In this background the objective of the study is to explore the role of Nattukottai Chettiars in Sri Lankan financial history.

III. SIGNIFICANCE OF THE STUDY

The term Nattukottai Chettiar is unfamiliar to the present generation and there are very small number of written publications about them in Sri Lanka . However, they played a valuable role in the economic and banking history of Sri Lanka. Exploring the contribution of Chettiars to the Sri Lankan economy will provide some lessons, which can be utilized for the future planning and policy making. In addition, it will also provide an opportunity to younger generation to become aware of the roles performed by Chettiars in the Sri Lankan financial history.

IV. METHODOLOGY OF THE STUDY

It is a secondary data based study and magazines, books and reports are the fundamental sources of information.

V. CONTRIBUTIONS OF CHETTIARS TO SRI LANKAN ECONOMY

The first expansion of Chettiar financial activities beyond Chettinad and the Madras Presidency was to Ceylon. According to Ray (1995), the motivation behind this expansion was to earn the higher returns offered by the investments in Ceylon compared to the investments in India. In this period, they were able to obtain 10 to 12 percent return on capital employed in Ceylon, whereas, it was 8 to 9 percent in India. The beginning of the activities of Nattukottai Chettiars in Sri Lanka sometimes goes beyond the Dutch conquest of Sri Lanka from 1656-1796. But for the purpose of maintaining the monopoly of the Dutch in the commercial sector several controls were imposed by Dutch rulers on the trading activities of the Chettiars. However, with the arrival of British colonial rulers in Ceylon in 1796, the golden period for the Chettiars began. In the mid of 19th century, a major part of the trading activities between India and Ceylon were handled by Chettiars. Even though British rulers successfully established a commercial plantation economy in Ceylon, in the earlier stages, they failed to introduce a proper banking system (Chattopadhyaya, 1979). In this background, Nattukottai Chettiars played a major role in providing banking services in Ceylon prior to the establishment of a proper banking system. Thus in this period, they were able to establish an image of "bankers" or "merchant bankers" of that period in Ceylon. Since there were no other banking institutions in Ceylon up to the establishment of Bank of Ceylon in 1841 they were also called as "the only bankers" (Weerasooriya,1973).

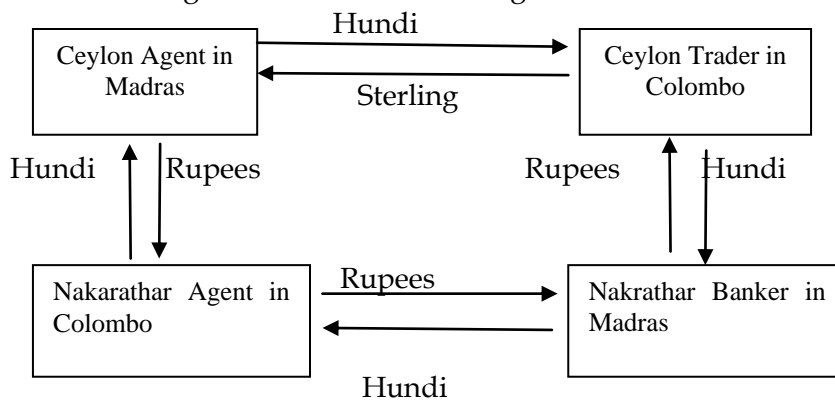
Although money lending was the main business of Chettiars, a larger number of them also serve as pawn brokers, piece goods merchants, importers of rice, estate suppliers, estate owners, retail shop keepers, grocers and mill owners (Ceylon Banking Commission Report, 1934). In those periods, Ceylon experienced the problem of shortage of rice, due to the shift from paddy



cultivation to the cultivation of commercial crops such as tea, coffee, cocoa, cinnamon, and clove in large quantities with the introduction of colonial plantation economy in Ceylon. There was a need to import rice to Ceylon and Nattukottai Chettiars took this opportunity to establish themselves as rice importers in the Ceylonese commercial sector. In addition to rice they also imported curry spices, fish, onion, dried fish, and potatoes. Similarly, they exported tobacco from Ceylon to India.

Chettiars also facilitated transfer of funds from one location to another with the support of Hundi. The money exchange system between Colombo and Madras was largely dependent on the Hundi transferring system. They used Hundi in financing trade transactions also. According to Rudner (1994), Hundi was a type of bill of exchange or written order. Figure 1 shows the model of Hundi transferring between Colombo and Madras adopted by Chettiars.

Figure 1: Hundi transferring between Colombo and Madras



Source: Rudner (1994)

Darshan hundies, Nadappu hundis, Thawanai hundis, and pay order hundis were the four categories of hundi system used by Nattukottai Chettiars. Darshan hundi is like a demand draft, payable against an account within three days of presentation to a person and at a place specified in the hundi. The Nadappu hundis was an instrument unique to the chettiars and these were also payable against a Kadai Kanakku but they were not demand drafts. The banker had to pay interest at Nadappu rate to the person who drew the hundi until the hundi was cashed. Thawanai hundi was similar to short term certificate of deposit and generally the bankers usually paid 60 to 90 days after the stipulated date on which the hundi was drawn. Finally, Pay order hundis were given during the marriage ceremony as receipts in lieu of the dowry (Rudner,1994).

Even though, Bank of Ceylon failed in 1848 with the Island's first coffee crisis, some other British banks such as the Oriental Banking Corporation, the Mercantile Bank and the Bank of Madras began their operations in Ceylon and they captured a considerable banking businesses of Chettiars. In this situation, Chettiars understood that their resources were comparatively



small to compete with British bankers in Ceylon and decided to shift their business activities as the middlemen for British International trade. They exploited the business opportunity arose due to attitudes and actions of British regarding the local people in Ceylon. In that period, Ceylonese with financial needs faced difficulties in accessing British banks. In this situation, Nattukottai Chettiars started to perform the role of middlemen between the local Ceylonese community and the British bankers. In addition, in this period British banks created a post of Shroff and the duty of a Shroff is to scrutinize the social and financial status of the Ceylonese borrowers. As a result of this situation, the Chettiars began to borrow money from the British banks and lent it to the Ceylonese local business community and others at higher rates. The special rates of interest at which Chettiars borrowed money from British banks was called as Chetty Rate. According to Weerasooriya (1973), during the period 1900-1925, The British Exchange Banks had lent over 25 million Rupees to Chettiars for re-lending to Ceylonese local community. Thus the services of Nattukottai Chettiars helped Ceylonese to solve their major problems of inaccessibility to the British commercial banks, lack of relations with international markets and difficulties of foreign currency exchange.

A large acreages of Ceylon forest and waste lands were cultivated with coconut and other crops with the aid of money borrowed from Chettiars. In addition several industrial and commercial undertakings were also freely financed by Chettiars. Similarly retail traders heavily relied on the financial assistances of them. According to the Report of the Ceylon Banking Commission (1934) the Ceylonese with the need for finance were able to satisfy their needs through Chettiars within shorter period of time, without complex formalities and in any moment of day or night. Chettiars had not been at all cautious about their lending policy and Chettiars' system of credit was too facile. On the other hand, in a way Chettiars encouraged the Ceylonese for unnecessary borrowings.

Number of Chettiar Firms in Sri Lanka:

At the beginning Chettiars started their businesses in Colombo and in some other tea plantation areas such as Kandy, Gampola, Badulla, Balangoda, and Rathnapura and later they expanded their business activities to other parts of Ceylon. The number of Chettiar firms operating in Ceylon in 1916 was 700 (Rudner, 1994). The Table 1 shows the distribution of Cettiars firms in various parts of Ceylon in 1934.

Table 1: Number of Chettiar Firms in Ceylon in 1934

Area	Number
Colombo and its suburbs	180+20
Negombo	84
Kandy	50
Gampola	22
Galle	21
Madampe	18
Matale	17
Puttalam	16



Nawalapitiya	11
Kurunegala, Badulla, Jaffna and Kochchikade	10 each
Pussellawa	8
Kegalle and Hingula	7 each
Balangoda and Narammala	6 each
Ratnapura, Thalawakele and Bandarawela	5 each
Matara, Batticaloa and Dikoya	4 each
Ambalangoda	3
Rakwana, Anuradhapura and Passara	2 each
Puwakpitiya, Dehiowita, Yatiyantota, Parakaduwa, Kahawatta, Nattandia and Polgahawela	1 each
Total	556

Source: Weerasooriya, (1973)

According to the Table 1 there were 556 Nattukottai Chettiars firms in Ceylon in 1934 and the total was 50% more than this figure before the great depression of 1930. Out of this total, 100 firms purely engaged in pawn brokering business and others carried out money lending and trade. A large number of firms were located in Colombo followed by Negombo and Kandy.

Investments of Nattukottai Chettiars in Sri Lanka:

According to the memorandum submitted by the Nattukottai Chettiars Association to the Ceylon Banking Commission, before the depression (about 1925) the value of the Chettiars business in Ceylon was 15 crores of rupees (1 crore = 10 million). In this total, their own capital was 8.5 crores, money borrowed by Chettiars from relatives and friends was 4 crores and borrowing from European Exchange Banks was 2.5 crores.

The memorandum submitted by the Nattukottai Chettiars Association to the Ceylon Banking Commission also indicated that, in 1934 their total investment in Ceylon was 100 million and their details are shown in Table 2.

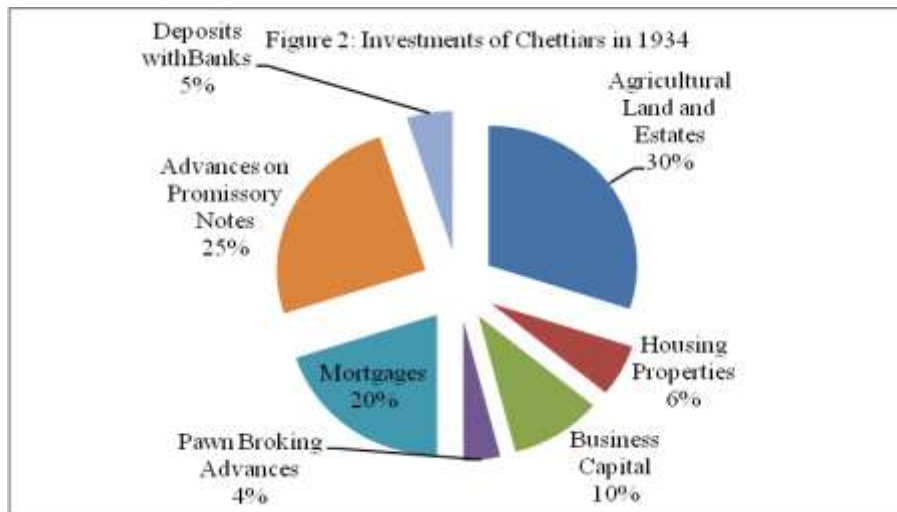
Table 2: Details of Investments of Nattukottai Chettiars

Details	Rs (Mn)	Rs (Mn)
Investment in Business and Properties		
Agricultural land and estates	30	
Housing properties	06	
Business capital in retail shops, estate supplies, rice trade and import business	10	46
Investment in Lending		
Pawn broking advances	04	
Mortgages	20	
Advances on promissory notes and others	25	
Deposits with banks	05	54
Total		100



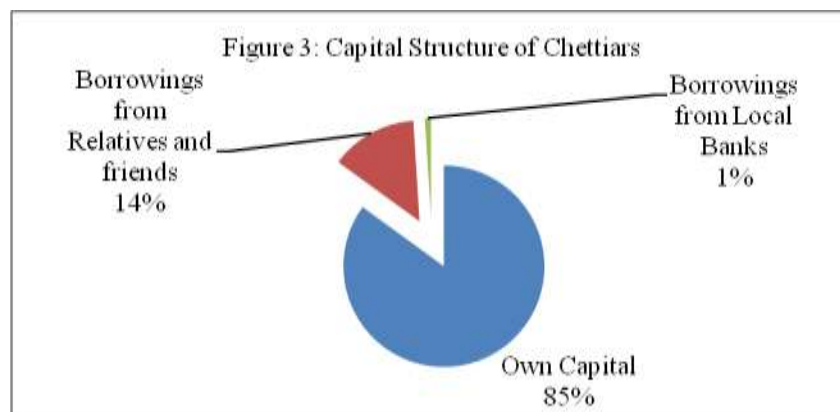
Source: Report of the Ceylon Banking Commission (1934)

Table 2 reveals that in 1934 investments in agricultural land and estates were the major investment activities of Chettiars followed by advances on promissory notes and others and Mortgages. In this period they owned 50, 000 acres of agricultural land and estates and 70% of them are coconut estates. The percentages of rubber estates and tea and cacao estates are 15% each. Figure 2 shows the investments of Chettiars in Ceylon in 1934.



Capital Structure of Chettiars:

These investments of Chettiars were partly financed by their own capital and partly by borrowed funds. According to the Ceylon Banking Commission Report (1934), 85% of the investments were financed by own capital, whereas 14% and 1% of investments were financed by borrowings from relatives and friends and borrowings from local banks respectively in 1934. Figure 3 shows the capital structure of Chettiars.





VI. CONCLUSION

Chettiars performed as an important source of credit for the people in the countries where they did business and played a major role in the economic development of those countries. In Sri Lanka also they made a valuable contribution in satisfying the credit needs of local businessmen and agricultural labor. Up to 1841, Chettiars were the only bankers in Ceylon and there were no other institutions to offer financial services to Ceylonese. In these periods Ceylonese faced a problem of lack of capital. Chettiars offered more flexible loans and advances to farmers, traders, industrialists and others. People were able to obtain loans within a shorter period of time without following any complex formalities. Thus a large amount of unused lands were converted as coconut and other estates and with the support of financial services provided by the Chettiars, whole and retail traders expanded their business activities. The expansion in agricultural, trading and industrial activities of Ceylonese people helped to increase their earnings, standard of living and employment opportunities.

After the establishment of British banks also, those banks provided more attention for financing foreign trade and failed to consider the financial needs of the domestic people. They also failed to expand their branch network. Due to the lack of confidence on Ceylonese, they did not show much interest on paying credit to them. In addition, due to the complex formalities to be followed to obtain loans and inaccessibility of bank managers and officers local public faced severe difficulties in getting loan facilities from British banks. In this period also Chettiars provided their valuable services to local people by serving as a middle man between British banks and Ceylonese people. Chettiars borrowed money from British banks and provided loans to people by using the borrowed money. Actually, Chettiars tolerated the risk of default regarding the loans issued to local community, whereas, the British banks were not ready to bear such risk. Ceylonese people were able to satisfy their financial needs, since Chettiars born the risk for a small percentage premium for them. Practically, the additional interest earned by the Chettiars, by serving as a middle man is not sufficient to the risk faced by them. In addition, Chettiars helped the local people in obtaining the services of the British banks by performing the role of Shroff also.

Domestic people with saving faced difficulties in keeping and depositing their saving. Commencing a business was the only available method of investment for the people with saving and it was impossible to follow this method for all. In this situation, Chettiars provided an opportunity to Ceylonese to invest their money in the form of deposits in Chettiars firms and from this service of Chettiars, domestic people could earn higher interest for their savings and keep their money safely.

The involvement of Chettiars in import and export business also provided valuable contribution to the Sri Lankan economy. In some periods, when the domestic production of rice was insufficient to meet the local demands, the rice imported by them helped to satisfy the



needs of local people. Similarly they exported tobacco and other agricultural products mainly to India and developed market opportunities for those domestic products.

However, on the other hand, there were some criticisms against Chettiars. They were criticized on the grounds that higher interest rate charges, unfair treatments on credit default situations and they captured the lands and other properties of Ceylonese community. But, when Chettiars performed the role of middleman between British banks and Ceylonese they charged an interest rate from people, which is little higher than the interest rate charged by the British banks from Chettiars. In addition, in some situations British banks stopped providing advances to Chettiars and requested Chettiars to repay the loans granted to them immediately. These situations forced Chettiars to recover the credits provided by them to local community and in this process they captured the lands and properties of local people since there were no other choices to them.

In summary, Although there were some criticisms against Chettiars, they provided a timely contribution to the Ceylonese community in satisfying their financial needs and in developing agricultural, commercial and industrial sectors of early Sri Lanka. The term "the only bankers of Ceylon", used to indicate Chettiars, explains the financial contribution of Chettiars to Sri Lanka.

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