

## CHAPTER V

### MONEYLENDING

Moneylending is the only occupation in which Indians have been dominating since 1931. In that year, Indians engaged in moneylending, money changing and pawn-broking amounted to 91% while the Chinese percentage was only 8%. In 1957 the Indians still maintained a high percentage of 75% in self-employed banking or other financial activities; the corresponding Chinese percentage was 20%. The Indian percentage is high not because there are more Indian banks in Malaya but because more Indians are engaged in moneylending. The Indian businessmen who engage in this business are:

1. The Chettiars
2. The Sikhs and Punjabies

#### THE CHETTIARS

##### Origins

The Chettiar businessmen were not dealt with in detail in the chapter on the historical background for they were the only Indian businessmen who invested relatively heavily in Malaya. Hence, they have to be studied separately.

Historically speaking, the Chettiars who were from Chettinad (South India) played an identical role as in Burma as sources of rural credit. They were the main sources of medium and long-term credit before the establishment of co-operative societies in the late 1930's in Malaya.<sup>1</sup> They operated mainly in the Western coast of Malaya and the Malays were borrowed considerably from them before the war and mortgaged their land and housing property which passed into

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<sup>1</sup>Nanjundan, op. cit. p.35

their hands in the depression of the 1930's.<sup>2</sup>

By 1934 the Chettiars were already well established in Malaya. The Agent of the Government of India in Malaya, while giving a general picture of Indians in Malaya in that year, said, "\_\_\_ of the non-labouring class the most thriving are the Nattukottai Chettiars. They do their usual business—moneylending and banking—and in the course of that business have acquired rubber estates, house properties, etc. They have their own chambers of commerce in different centres of Malaya."<sup>3</sup>

In 1940 there were about 50 Chettiar firms in Singapore, with a total capital estimated at \$130 to \$140 million, and thousands of Sikh moneylenders both in Singapore and Malaya.<sup>4</sup> Also most of the small percentage of rubber estates owned by Indians belonged to Chettiars. In 1941, their total assets in Malaya were estimated at \$270 million.<sup>5</sup>

### The Japanese Occupation

Before the Occupation many Chettiars fled from Malaya leaving their businesses in the hands of their agents. From 1942 to 1943 their agents forced debtors to pay or be brought to court. Inevitably, this aroused great bitterness which the Chettiars later tried to smoothen out by explaining that under great pressure from the Japanese sponsored Azad Hind for huge contributions, they had no choice but to press debtors to pay.<sup>6</sup> The important point is however that their agents had to accept highly inflated Japanese currency as repayment and to release the titles and mortgages they held as collateral.<sup>7</sup>

In 1947 the Debtors and Creditors Ordinance (Occupation Period) was passed. This Ordinance provided for validation of all monetary transactions made during the

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<sup>2</sup>Ibid.

<sup>3</sup>Netto, op. cit. p. 53.

<sup>4</sup>Thompson and Adloff, op. cit. p. 128.

<sup>5</sup>Mahajani, op. cit. p. 100.

<sup>6</sup>Thompson and Adloff, op. cit. p. 128.

<sup>7</sup>Ginsburg and Roberts, op. cit. p.342.

Occupation Period, except those involving the interests of persons who had fled from the country with the coming of the Japanese, that is, primarily the Europeans.<sup>8</sup> Because the Chettiars had agents in Malaya during the war period, their businesses were considered to be in operation by the post-war authorities and therefore not eligible for the special consideration given to European creditors who had fled. Moreover, the Ordinance discriminated against the Chettiars in that they granted more ample repayment of prewar obligations to banking institutions than to private creditors, which most Chettiars were.

This coupled with the Titles to Land (Occupation Period) Ordinance involved the Chettiars in such enormous losses that many of them were said to have been anxious to liquidate their interests in Malaya and return to India.<sup>10</sup> But the extent of the losses cannot be easily determined. They still owned 175,000 acres of rubber estates<sup>11</sup> and a conservative estimated capital of \$105.5 million.<sup>12</sup>

#### The Moneylending Licencing Act, 1952

The Moneylending Licencing Act was another obstacle which arose for these businessmen. In 1951 during a debate on this bill, a few Malays complained of how the moneylenders (mostly Indians) exploited the "poor Malays in an unconscionable manner" and expressed the hope that the bill would pave the way for the gradual extinction of all moneylenders.<sup>13</sup> S.O.K. Ubaidullah, representing the Indian Chamber of Commerce, defended the <sup>moneylenders</sup> and observed that they lent money only because the borrower needed it and it was unfair to hold a moneylender responsible for all the evils.<sup>14</sup> The Ordinance however was passed in 1952 and affected greatly

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<sup>8</sup>Ibid.

<sup>9</sup>Ibid.

<sup>10</sup>Thompson and Adloff, op. cit. p. 109.

<sup>11</sup>Ibid. p. 108.

<sup>12</sup>Ginsburg and Roberts, op. cit. p. 339.

<sup>13</sup>Mahajani, op. cit. p. 313.

<sup>14</sup>Ibid.

both the Chettiar firms and the Sikh moneylenders who in protest stopped their business operations.<sup>15</sup> Among the effects were:

- (a) Quite a number of Chettiars sold their estates and withdrew their capital from Malaya.
- (b) It diverted many Chettiars from moneylending to real estates.
- (c) Since the war the Chettiars began to choose their clients from clerks and shopkeepers in the urban areas and not in the rural areas as before.<sup>16</sup>

#### The Immigration Ordinance, 1953.

This Ordinance also affected the Chettiars. The Chettiars who did not bring their families to Malaya had to depend on their employees who were brought from South India on three years contract and were paid in Indian currency. All Chettiars were forced to employ these Indians because they kept their accounts in Tamil and for security reasons they preferred to employ men from India with a known family background. Consequently, the above Ordinance which laid down a monthly salary of \$500 for anyone who comes to Malaya as an employee, affected the Chettiar firms the most. Their repeated appeals to the Government of Malaya to reconsider the clause has not met with sympathetic response<sup>17</sup> and recently a more stringent bill was passed.<sup>18</sup>

#### Land Ownership

An important feature to note about Chettiar business is that of land ownership. This feature differed in Burma and in Malaya. In Burma, due to the difference in colonial policy, there was no land reservation enactment to "shield the Burmese

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<sup>15</sup>Thompson and Adloff, op. cit. p. 109.

<sup>16</sup>Mahajani, op. cit. p. 100.

<sup>17</sup>Ibid. p. 99.

<sup>18</sup>See Chapter VI

in their exclusive preserves, immune from foreclosure to mortgage."<sup>19</sup> Also, the authorities failed to take timely action to halt or at least check the process of land alienation.<sup>20</sup> Hence there is the famous example described by Jacoby- "\_\_\_ confident in the law and order of British rule and anticipating the economic prospects of lower Burma, within two generations the Chettiars loaned out an estimated Rupees, 750 million (equal to U.S. 270 million), 2/3 of it on the security of agricultural land. The result was that by 1936 the Chettiars owned 2 1/2 of lower Burma's ten million acres of rice land, and had heavy mortgages on an additional 10 and 20 percent."<sup>21</sup> In Malaya however the problem of land alienation and subsequent absentee land ownership did not acquire the same magnitude as in Burma. The main reasons for this are as follows:

- (a) The Malays had for a long time been protected by various Malay Reservation Enactments which reserved extensive areas of cultivable land.<sup>22</sup>
- (b) The Federated Malay States Small Holdings act Enactment No. 8, 1931, gave temporary protection to smallholders in order to recover debts. Protest from Chettiar businessmen produced very light modifications.<sup>23</sup>

#### Attitude of Indifference

As G. Netto says:

"The Nattukkottai Chettiars, the wealthiest section of the Indian community, had practically unlimited capital with them. And, there was Indian labour, the cheapest in the world and the most submissive, law abiding and peaceful. And yet, this Indian capital and Indian labour have never combined to make the community industrially powerful or economically self-supporting and prosperous. Instead of utilising such cheap, ready and abundant labour and investing their capital in industrial undertakings and enterprises, the Chettiars entirely diverted

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<sup>19</sup>Mahajani, op. cit. p. 290.

<sup>20</sup>Ibid.

<sup>21</sup>E.H. Jacoby, Agrarian Unrest in Southeast Asia, Columbia University Press, New York, 1947. p. 79.

<sup>22</sup>Land reserved for the Malays in 1956 was: 319,640 acres in Selangor, 1,820,332 acres in Perak and 1,956 square miles in Kedah. See Kondapi, op. cit. p. 309.

<sup>23</sup>Mahajani, op. cit. p. 290.

All their resources along the monopolistic lines of moneylending which immensely benefitted communities other than their own."<sup>24</sup>

For example, Chettiars had extended initial capital to a number of enterprising Chinese who began from scratch and later became wealthy magnets dealing in tin and rubber.<sup>25</sup>

This attitude was recognised by John Thivy, the then Representative of the Government of India, as early as 1947. In an address to the All-Malaya Nattukkottai Chettiars Chamber of Commerce, he said, "The Chittiar community while aiding others' enterprises to make a landmark in the country, has not attempted to go outside their particular money-lending and banking activities. This is not progress. You should not have one way of carrying your profession in life. You are blessed with money and wealth. You must use your ingenuity, your own initiative, your own manpower to produce something good, something useful for a wider circle."<sup>26</sup>

Again the lack of public spirit among the Chettiars was evidenced by the few contributions or none at all to war funds or charities. A spokesman for the Chettiars pointed out, with some justice, that his community was like every other foreign group in the country, was there to make money as he cited a gift of \$19500 to charities and a silver cup at Singapore's flower show.<sup>27</sup> In 1954 the Federal Member for education called the Chettiars to cease holding themselves aloof and to share in the social and political life of Malaya. As recently as 1963. C.P.R. Menon of the Malayan Trades Union Congress had to praise the Chettiars while appealing them to give more financial help to Indian traders in Malacca.<sup>28</sup> Hence, the Chettiars' attitude seems to be an extreme form of the Indian business attitude described in Chapter II. This accounts for their unpopularity among businessmen (even Indian businessmen) as well as among their market.

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<sup>24</sup>Netto, op. cit. p. 54.

<sup>25</sup>Mahajani, op. cit. p. 100.

<sup>26</sup>Netto, op. cit. p. 54.; Indian Daily Mail, 1st. October., 1947.

<sup>27</sup>The Straits Times, 6th. February, 1947.

<sup>28</sup>The Malay Mail, 23rd. February, 1963.

## The Present Position

Usah Mahajani estimates around 2000 Chettiars in Malaya; and further makes an estimate of 800 Chettiar firms which can be divided into three groups:

- (a) Those with capital worth \$M 500,000 or above.
- (b) Those with capital between \$M50,000 and \$M500,000.
- (c) Those with capital less than \$M50,000.<sup>29</sup>

The first category consists of banking firms which lend money to small Chettiar firms of the last two categories. They own rubber estates, padi land, coconut plantations and small tin mines. The proprietors of the first category live in India and visit Malaya once in three years.<sup>30</sup>

Most of the Chettiars in Malaya are either employed in Chettiar firms or as private moneylenders. Other than moneylending they also act as trustees of temples and do business as temple keepers. The Tank Road Temple in Singapore and the Mariamman Temple in Kuala Lumpur are also called Chettiars' Temples. According to Gamba, many wage earners in Singapore deposit their money for safekeeping with the Temple; these amounts are apparently invested by the Chettiars but not on the behalf of the depositors.<sup>31</sup> Similar practices are followed by the temple keepers of some estates in the Federation.

The Chettiar businessmen also help in remitting money to India and Ceylon. Ceylonese residing in Malaya and intending to visit Ceylon, pay amounts to local Chettiar moneylenders from whom they obtain coupons which they then exchange for money on their arrival to Ceylon, or forward to relations in that country. The exchange of coupons for Ceylonese currency operates, once again through Chettiar moneylenders.<sup>32</sup> Similarly book transfers are made between Malaya and India through moneylenders who provide Indians, leaving Malaya, with coupons exchangeable in India for cash.

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<sup>29</sup>Mahajani, op. cit. p. 99.

<sup>30</sup>Ibid.

<sup>31</sup>Gamba, op. cit. p. 48.

<sup>32</sup>Ibid., p. 56.

Nanjundan describes the Chettiars' business methods as "\_\_\_ relatively least objectionable \_\_\_ they were registered and their books were subject to inspection and they did not go outside the law."<sup>33</sup> It must be noted that he was speaking in relation to Sikh moneylenders. At present the methods used by these two types of Indian businessmen are not so different except that the Sikhs have to go to some extremes for they are usually not licenced and hence do not have the backing of the law.

According to Gamba, a Chettiar's loan operates the following way. If an individual wishes to borrow, say \$500, he signs a promissory note for that amount using as security jewels, an automobile, gold, land or buildings. In some cases when the customer's financial position is well known to the Chettiar, he grants loans without any collateral security. However the important points are:

- (a) In all cases, the amounts actually received by the borrower will be below that marked on the promissory note; in the example, say \$300.
- (b) A rate of interest is charged, not on the amount actually borrowed but on the amount mentioned in the promissory note.

The interest charged may vary between 100% and 200% per annum; at present the Federation Moneylenders Ordinance fixes the interest rate at 120% per annum (that is, 5% per month). However if on the date due the borrower does not meet his debt the amount he owes will automatically be \$500 on which the Chettiar will charge a new and higher rate of interest. In the majority of cases, if the borrower repays certain amounts by the month, he is not given a receipt. Therefore, in the eyes of the law, he will still owe the

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- <sup>33</sup>Most of the facts for this section are derived from Gamba, op. cit. supplemented with personal interviews with moneylenders and Government employees.

<sup>34</sup>Nanjundan, op. cit. p. 36.

total amount marked on the face of the promissory note. If he is a low earner all he can do is to continue paying without making any fuss. If eventually he is able to pay back all at once he will in fact have repayed the original sum many times over.

When money is borrowed on the security of an automobile the lender may charge between 5% to 8% per month interest. Before receiving the money, the borrower must complete a hire purchase which the lender then registers at the Registry of Vehicles. Hence the Chettiar is businessman who looks for 100% security before he makes any loans. This is because his business is such that the lack of adequate security would often lead to losses.

The customers of the Chettiars, both in Singapore and the Federation, fall into three groups:

- (a) The Chinese farmers and shopkeepers.
- (b) The daily rated labourers in the Government service.
- (c) The Civil Servants and other Government servants.

The farmers and shopkeepers borrow small sums from the Chettiars to pay current debts. The usual rate of interest is \$1 for \$10 per month. In other words if the borrower asks for \$10 loan he will get only \$9 but will owe \$10, keeping in line with the above example. Indebtedness to Chettiars is also found among the daily rated employees, especially in Government employment. Since these are low income earners, doing business with them the Chettiar has to be very unscrupulous if he is to make any profits; this is chiefly why the Chettiar and his business methods are unpopular.

However the Chettiars' most lucrative source of income seems to come from the Civil Servants. This is especially the case of Civil Servants in the lower grade. An insight into the report of the Singapore Co-operative Union Ltd. (1956) will give some indication of the Chettiar (and other Indian) moneylending methods. The report states:

"As a result of our investigation, it is clear that the following abuses are widespread among certain classes of moneylenders:

- (1) The borrower is persuaded by the moneylender to sign a promissory note for more than he actually receives;
- (2) The borrower agrees with the moneylender

- verbally to pay a higher rate of interest then specified in the promissory note;
- (3) The moneylender fails to give due credit for interest and instalments of principal paid to him by the borrower;
  - (4) The moneylender by frequenting the borrower's place of employment coerces the borrower into paying money (be it interest or principal) or signing a fresh promissory note which he would not otherwise have done and the borrower by such methods is placed in a position of agreeing to any terms that the moneylender may desire to impose on him.<sup>35</sup>

The Moneylenders' Ordinance in the Federation makes it an offence to coerce in such a manner, but it is apparent that such victimisation does continue. Moneylenders can be seen waiting outside government offices on paydays to catch the borrower red-handed with the money or to embarrass him and make him submit to further terms. The Chettiar also seems to have detailed information about each customer indebted to him. As the Report says, "We heard \_\_\_ of an instance when a moneylender produced the Government Staff list to prove how much an officer's salary was \_\_\_." Hence the Chettiar is an expert in his business, a business which has been perfected within his community through tradition and years of experience.

#### OTHER INDIAN MONEYLENDERS

The Sikhs and Punjabies in Malaya are from the North-West province of India and they are chiefly employed as policemen and watchmen. Moneylending is usually a side-line business to them; but it is a source of a large slice of their income. They do not have offices from which they operate and a lot of them are not licenced. Even in the 1950's

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<sup>35</sup>Singapore Co-operative Union Ltd., Circular, S. 31/56: Money-lenders' Ordinance, Singapore, October 30, 1956. This investigation was carried out for the benefit of labour in private enterprises and for Military Services, civilian workers and Government employees. Quoted in Gamba, op. cit. pp. 49-50.

Nanjundan speaks of them as those who " came for a good deal of criticism for the exorbitant rates of interest ranging from 10% to 12% per mesem and their nefarious practices."<sup>36</sup> Two points of the Moneylenders' Ordinance affected these moneylenders adversely. The Ordinance fixed the standard rate of interest, made it obligatory for every moneylender to obtain a licence and further stipulated that only transactions under the terms of the Ordinance would be enforced by court. However the "Sikh moneylending activities have always been surreptitious and it is problematical to what extent they have been curbed by the Ordinance. Ordinance."<sup>37</sup> At the time of the Ordinance (1952) there were about 10,000 Sikh moneylenders in Malaya;<sup>38</sup> the present number is unknown. They also, like the Chettiars, operate in the vicinity of Government departments, the clerical being the chief customers. Unlike the Chettiars, they give loans without security, but charge a higher rate of interest-- up to 20% per mesem.

### CONCLUSION

The Chettiar and other moneylenders in Malaya should realise that although their business is profitable to themselves, it does not benefit the society as a whole. They may be shrewd businessmen using both business psychology and practical facts. But their very success has led to their unpopularity for they are too narrow and individualistic in their outlook. Even Nanjundan who has claimed that the Chettiars had "performed real service in opening up of the country and was indispensable for a long time as a purveyor of rural credit"<sup>39</sup> says that the Chettiar in Malaya, like in India, was the "curse of the small peasant."<sup>40</sup> At present the Chettiar's moneylending business is outdated. The expulsion of Indians from Burma in recent years is chiefly due to the activities of these moneylenders. In Malaya such activities have come to face severe criticism and with the

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<sup>36</sup>Nanjundan, op. cit. p. 36.

<sup>37</sup>Mahajani, op. cit. p. 101.

<sup>38</sup>Thompson and Adloff, op. cit. p. 109.

<sup>39</sup>Nanjundan, op. cit. p. 36.

<sup>40</sup>Ibid. p. 40.

development of co-operative societies and close regulation by the Government the prospects do not look bright. One resort will be to follow the advice given by Nanjundan which states that the "Chettians" in Malaya seems to lie not in the field of rural credit, but rather in enterprises involving large investments of capital, for example, in industry, commerce and foreign trade, which promote the economic development of the country.<sup>41</sup> Another resort will be for them to combine and open local banks for there no local Indian banks in Malaya. There was some indication that after the passing of the Moneylenders' Ordinance the Chettians in the Federation were planning to open a bank with some of their capital which had been lying idle since the Ordinance came into force.<sup>42</sup> However, there seems to have been no further developments. It must be noted that the majority of the banks in the country are foreign banks. The interests of these foreign banks need not be the same as those of the country. For example, in Malaya there is a great need for rural banks. Foreign banks, however centre around trade financing and commercial financing and are not eager to establish branches in rural areas. This is one place where the Chettians have the opportunity of eradicating the stigma attached to their profession. They can get together and establish rural banks and do business in combined effort not on selfish individualistic lines.

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<sup>41</sup>Ibid.

<sup>42</sup>Thompson and Adloff. op. cit. p. 109.