

**Cashless Payment Mechanism in Mughal India:
The Working of the Hundi Network**

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The Mughal Indian economy was characterized by the availability of a monetary and credit system of extraordinary sophistication and maturity. Its multi-metallic coinage consisting of gold, silver and copper coins was 'free' in so far as any member of the public was free to take metal, old coins or foreign coins to one of the imperial mints in the empire and obtain new coins from the mint after the lapse of a certain amount of time and the payment of the necessary charges including seigniorage. The accretions to the supply of money in the economy were thus determined by the public itself subject to the availability of metals in the system and the capacity of the imperial mints. The basic coin constituting the main unit of account was the silver rupee. A new silver rupee coin delivered by the mint was known as the sikka rupee. The value of this coin corresponded broadly to the value of the metal contained in it, plus the minting charges including seigniorage. The problem of wear and tear of a coin through use was tackled ingeniously by a complex system of equivalence based on a varying degree of premium being enjoyed by a new coin over older issues. The sikka rupee, defined as a coin minted during the current or the previous year, enjoyed such a premium over all older issues which routinely carried the year of issue on them. The rate of this premium was controlled for all practical purposes by a class of highly experienced and influential money dealers known as sarrafs. Once the premium enjoyed by a new over an earlier issue exceeded a threshold level, defined by the wear and tear and the cost of reminting, the old coin would simply be brought to the mint for recoinage. This would be encouraged by the government insofar as its income from seigniorage would go up. Since the coins were intrinsic and not token coins, the problem of debasement of coins did not plague Mughal coinage. It also seems that forgery of coins was generally not a

problem. The imperial administration at Agra/Delhi exercised strict quality control over the coins issued by each of the imperial mints throughout the empire.

Since the overall supply of both gold and silver and to a smaller extent also of copper in the Mughal Indian economy was intimately related to the foreign trade sector, a substantial increase in the volume and value of foreign trade in the course of the seventeenth century did indeed witness a growing import of these metals and, therefore, in the supply of money in the economy. But even this evidently was not quite adequate to meet the rising demand for money in the context of the growing degree of monetization in the economy particularly in the context of major institutional innovations such as the conversion of the land revenue demand from kind into cash on an increasing scale. It is in that context that one must appreciate the critical significance of the simultaneous existence of a highly sophisticated credit network in the Mughal Indian economy. The existence of this network helped economise on the use of coins in a very substantial manner without in any way adversely affecting the efficiency with which the transactions were effected.

The sarrafs constituted the core group around which the money and credit markets were organized. It might be noted that in addition to dealing in money and credit, many of the sarrafs simultaneously engaged in other economic activities such as trading, brokerage and so on. This obviously resulted in a certain amount of interlocking of resources across different activities, but it was not necessarily a negative feature in all situations. It might also be pointed out that while the level of development and sophistication achieved by money and credit markets in different parts of Mughal India was on the whole quite high, the existence of significant regional differences in this regard must be recognized. These differences were reflected in a chronic and, at times, large variation in the structure of interest rates in vogue in different markets. These variations often created a situation where large amounts of funds were borrowed in a particular region for use in another on an almost regular basis.

It would seem that perhaps the most highly developed money and credit market in Mughal India was the one at Surat. This was partly because this port was the principal point of entry of foreign treasure into the Mughal empire. This treasure was minted locally before it found its way to other parts of the empire. Available evidence suggests that very large sums of money could be raised in this market on loan for varying period of time with relative ease. One could broadly argue that in the seventeenth century, the average rate of interest in a highly developed money market such as Surat would be lower – at times substantially lower – than in a somewhat less developed market such as Hugli in Bengal. For reasons that are not quite clear, these differences not only persisted but in fact became even more marked overtime.

How did the sarrafs finance themselves? In the absence of any detailed definitive evidence, this query cannot really be answered satisfactorily. Probably the principal source the sarrafs fell back upon was accumulated family wealth. It would also appear that they were able to raise a certain amount of money by accepting deposits from the public. In the present state of our knowledge, however, it would be impossible to indicate how significant this phenomenon was quantitatively. It would seem that the profit of the sarrafs consisted basically in paying a lower rate of interest on these deposits than what they themselves charged on loans they made available.

By far the most important instrument for making cashless payments in Mughal India was the indigenous bill of exchange known as the hundi. We noted earlier that the growing monetization of land revenue demand in Mughal India involved a possibly substantial expansion in the volume of monetized transactions and, therefore, in the demand for money in the system. Considering that under the Mughal land revenue system, the revenue in respect of the khalisa lands belonged to the imperial exchequer, enormous sums of money needed to be transferred regularly from the provinces to the heartland of the empire in Delhi/Agra. The reverse flow consisted of funds needed to run the provincial

administration, for organizing military campaigns of various kinds and for purposes of acquiring goods in the provinces either for trade or for consumption in the heartland. The large scale business of remitting funds from one part of the empire to the other, and indeed to areas outside the empire but within the sub-continent, was also carried on by the sarrafs. There was an extensive network of branches, agents and correspondents that these sarrafs had, and the basic document used to effect the transfer of funds was the bill of exchange or the hundi. This document, which was essentially a binding written promise to pay a named person or its presenter a certain sum of money at some future but proximate date usually in another town, came in general use in Europe in the fourteenth century. It is not quite clear when it first began to be used in India, but there is no question at all that by the seventeenth century, the hundi was used extensively to effect money transfers on a large scale. The standing of the sarrafs engaged in the hundi business ranged from relatively small dealers to very large houses with agents or correspondents all over. In the seventeenth century, one such major house was that of Virji Vohra with its headquarters in Surat. During the first half of the eighteenth century, by far the most important sarraff establishment in the empire was that of the Jagat Seth family operating from its headquarters in Murshidabad in Bengal. Among its other extensive activities, this house handled the remittance of the central revenues from Bengal to Delhi amounting to over 10 million rupees per annum.

The hundi was used both as an instrument for remitting funds from one place to another as well as for raising short term credit which would be repaid on maturity at another place. An example of the former kind of hundi found in the records of the Dutch East India Company reads as follows: "Zeogdeuw [Sukhdev] and Sieuwdeth [Shivdatt] Shahs are greeted by Kasinaeth [Kashinath] and Mitterseen [Mitrasen]. This is to inform you that we are issuing on you a letter of exchange of the sum of rupees sixty thousand whose half is thirty thousand and which amount has been received from the Director of the Dutch Company to be paid to the Dutchman Van Hoorn in Patna after a lapse of forty

days in the siccas of the second year”¹. Under this arrangement, the amount to be transferred was handed over to the sarraaf together with the cost of the transaction which would depend upon the current rate of discount on hundis between the two cities. The sarraaf would then issue the hundi to the party, who would arrange to send it on to its representative in the city to which the funds were to be transferred. This representative would present the document to the local agent or correspondent of the sarraaf who had issued the hundi and collect payment at the expiry of the stipulated period. As for the number of days after which a hundi matured for collection, there was a great deal of variation depending upon specific needs and circumstances. Under one of the arrangements, the number of days mentioned in the document was counted from the day it was presented for collection to the agent/correspondent. In the case of hundis obtained by the Dutch East India Company’s factors at Surat on Ahmedabad, this number was stated to be nine², while in the case of those obtained on Agra, the number most often mentioned was 17 to 18³. Another arrangement involved the counting of the days not from the day of presentation for collection but from the day of issue of the document⁴. In the case of such hundis obtained in Surat on Agra, the most often quoted number of days was forty-one⁵. The other oft-quoted number was sixty-one days⁶. There is at least one case available where the number of days to maturity was counted neither from the date of issue of the document nor from that of its presentation for collection. In 1661, the Dutch Company factors at Surat bought a hundi from a local sarraaf Mohandas Naan on Masulipatnam for 50,000 rupees. The terms of the hundi included the stipulation that it would be encashed twenty days after the arrival at Masulipatnam from Bengal of one of the ships of Mohandas called Surat Furza⁷.

On the whole, the system, as outlined above, worked remarkably efficiently and large sums of money got transferred. But as far as the party remitting the funds was concerned, the arrangement did involve a certain amount of risk arising from the possibility of the sarraaf going bankrupt before the hundi

had been encashed. The extensive interlinking of financial enterprises across houses of sarrafs made even a chain of bankruptcies a distinct possibility. It is true that such bankruptcies did not happen frequently or on any scale, but the possibility was always there. Indeed, there is evidence available that such chain bankruptcies happened twice in Patna within a period of sixteen years. Six leading houses of sarrafs are known to have collapsed in the city in 1673. Another group bankruptcy of five houses was reported in 1689⁸. Unfortunately, the causation behind and the precise mechanism of these collapses is not recorded in the documents.

From the point of view of a businessman or a trading company who wanted to remit funds to another city to enable its representative there to invest them in the procurement of local goods, one way the loss arising out of a possible bankruptcy of a sarraf could be avoided was to use the alternative method of raising the resources locally. This was done by the local representative going to a sarraf and drawing a hundi on his principal. In the example of the Dutch East India Company given above, this would mean that the Company's factor at Agra rather than being provided with a hundi bought by the Company at Surat would instead be asked to go to the local agent/correspondent of the Surat sarraf and ask for accommodation for a specific sum of money. The agent/correspondent would then provide the accommodation asked for less the commission/discount to be charged. The document exchanged between the agent and the factor would be sent by the latter to the chief factor at Surat, who would arrange for the money to be paid to the local sarraf after the lapse of the stipulated period. This period normally was again seventeen to eighteen days after the arrival of the document in Surat and the formal acceptance of the liability by the Company. Under this arrangement, the hundi really became an instrument for raising short-term credit. In addition to obviating the risk arising out of bankruptcies, this method of drawing a hundi also implied that the Company had the use of the funds for the duration of the journey between Agra and Surat and for the maturity period of seventeen to eighteen days thereafter⁹.

The discount or commission charged at the time of drawing a hundi, therefore, was always greater than if a hundi had been bought for remitting the same sum of money. Since both the options were available to the Company, the discount rate differential in the two options was carefully regulated by the sarrafs. We have a case available to us relating to 1689 where the Company's factors at Agra made a detailed calculation of the net cost of getting 60,000 rupees at Agra through remittance from Surat as against that of raising it locally by drawing a hundi on Surat. It turned out that if the additional cost on account of the higher discount rate in respect of the second alternative was offset against the saving on interest on the amount for the additional period that the funds were available to the Company under this alternative, the net additional cost of the second alternative was a mere 40 rupees¹⁰. It is a moot question whether this amount would correctly measure the probability of loss under the first alternative due to bankruptcy.

The discount or commission charged at the time of issuing or drawing a hundi, say at Agra, depended a good deal on the city on which the hundi had been asked for. It was partly a function of the distance and partly of the volume of bill traffic between the two cities. Thus in the 1640s while the discount rate for issuing hundis in Surat on Ahmedabad was between 0.62 and 1.25 percent, that between Surat and Agra over the same period was between 2.69 and 3.5 percent¹¹. The small amount of evidence available for the latter part of the century would seem to suggest that the Surat-Agra rate had gone up slightly. Thus in 1689, hundis were obtained in Surat on Agra at 3.56 percent, 3.75 percent and 3.68 percent¹². Only in one case relating to 1688 was this rate reported to 4.25 percent¹³. An interesting, though seemingly unrepresentative, case available pertains to 1669 where not only was a commission of 2.5 percent charged at the time of issuing a hundi in Surat on a city on the Coromandel coast, but it was also stipulated that at the time of encashment, a further commission of 1.25 percent would be charged by the agent/correspondent of the sarrafs¹⁴.

Sudden abundance or shortage of funds in a given city at any given point of time could bring about a violent fluctuation in the discount rate on hundis between that city and any other. H.W. van Santen has cited a very interesting case illustrating this. The year 1636 witnessed an acute shortage of funds in Ahmedabad because of several reasons. A bad trading season in general had been compounded by the plundering of a kafila to Surat and the obligatory encashment of a bill of 150,000 rupees drawn at Surat on the city on behalf of Subahdar Azam Khan. The acute shortage of money got reflected in a rise in interest rates in the city as well as in the discount rate on bills drawn on Ahmedabad. At the same time, the interest-cum-commission charged on bills drawn in Ahmedabad on other cities registered a sharp decline. Indeed, on bills drawn on Agra, not only were the Ahmedabad sarrafs willing to waive the charges altogether but were even ready to pay a premium. This, of course, reflected not only the shortage of money in Ahmedabad but also the large demand to transfer funds to Agra. The situation was taken full advantage of by both the English and the Dutch East India Companies who remitted fairly large sums of money from Surat to Agra via Ahmedabad. This, of course, helped the liquidity position in Ahmedabad to get back to normal with the necessary effect on interest and discount rates¹⁵.

On the question of the negotiability of the hundis, the evidence is disappointingly meagre and very little can be said in this regard which would be definitive. In Italy, the bills of exchange had generally become negotiable by the late sixteenth century. In the Netherlands, endorsed bills (with an assignation of the bill to a third party written on the back) had become common in Antwerp from the 1570s onwards. In England, however, it was only from about the middle years of the seventeenth century that the bill of exchange had become negotiable¹⁶. For Mughal India, there is some evidence available which suggests that the provision of endorsement of the hundi to a third party did in fact exist. Thus during a phase of shortage of liquidity at Agra in the late 1630s, anybody

presenting a hundi to a sarra for encashment was being asked to bear a half percent additional charge. But this person was given the option to have the document endorsed in favour of someone to whom he owed money thus clearing himself of that obligation¹⁷. But the critical question really is whether such endorsements were possible only under special situations such as the one described above or had assumed the character of a general practice. No definitive answer seems possible at this stage.

What the above discussion make abundantly clear is the fact that the system of cashless payment had acquired an extremely sophisticated and mature stage in Mughal India. The cost at which the entire operation was carried out was also kept reasonably low testifying further to the efficiency with which the system was run.

¹ Nationaal Archief (NA), Enclosure to letter from Hugli to Batavia (H.B.), 16.2.1709, Verenigde Oost-Indische Compagnie (VOC) 1777, ff.192-93.

² Surat – Ahmedabad, 23.1.1679, VOC 1341, f.915.

³ H.W. van Santen, De Verenigde Oost-Indische Compagnie in Gujarat en Hindustan, 1620-1660, Leiden, 1982, p.119.

⁴ The exact words used in the letter from the Dutch factory at Surat to the factory at Agra are: “.../ na't verloop van 41 dagen heden ingaande ginder door de houders na behooren voldaan te werden”. (Surat-Agra, 3.6.1689, VOC 1475, ff. 236-37).

⁵ See, for example, Surat-Hugli, 12.4.1667, VOC 1265, f.619; Agra-Surat, 9.3.1689, VOC 1475, ff.262-63; Surat-Agra, 5.6.1689, VOC 1475, ff.236-37.

⁶ Agra-Surat, 9.3.1689, VOC 1475, ff.262-63.

⁷ W.P. Coolhaas (ed.), Generale Missiven van Gouverneurs-Generaal en Raden aan Heren XVII der Verenigde Oost Indische Compagnie, The Hague, 1968, vol. 3, p.436. The name of the ship given in the document is de Suratse Alphandigo.

⁸ Om Prakash, The Dutch East India Company and the Economy of Bengal, 1650-1717, unpublished Ph.D. dissertation, University of Delhi, 1967, p.19.

⁹ H.W. van Santen, De VOC in Gujarat, pp.119-20.

¹⁰ Agra-Surat, 19.8.1689, VOC 1475, f.285.

¹¹ H.W. van Santen, De VOC in Gujarat, p.223.

¹² Surat-Agra, 5.6.1689, VOC 1475, ff.236-37.

¹³ Surat-Agra, 11.1.1689, VOC 1475, f.216.

¹⁴ Batavia's instructions to Andries Bogaert, 19.9.1667, VOC 891, f.641.

¹⁵ H.W. van Santen, De VOC in Gujarat, pp.121-22.

¹⁶ G. Parker, The Emergence of Modern Finance in Europe, 1500-1730, in: C.M. Cipolla (ed.), The Fontana Economic History of Europe, The Sixteenth and Seventeenth Centuries, 1974, p.543.

¹⁷ H.W. van Santen, De VOC in Gujarat, pp.121-22.