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CHAPTER XI

BANKING AND INSURANCE

Coverage

11.1. This sector covers, (i) commercial banks, (ii) banking department of RBI, (iii) public non-banking financial corporations, (iv) organised non-banking financial companies such as stock exchanges and chit funds, (v) unorganised non-banking financial undertakings such as professional money lenders and pawn brokers, (vi) post office savings banks including operations concerning cumulative time deposits and national savings certificates, (vii) co-operative credit societies, and (viii) life and non-life insurance activities.

Methodology and Source Material

Estimates at current prices

11.2. The value added from this sector is estimated following the income method using readily available source material for each of the sub-sectors (Appendix 11.1).

Commercial Banks, Banking Department of RBI and Financial Corporations

11.3. For each of these categories of institutions organisations data on income, expenditure etc., are available from their annual reports except for Banking Department of RBI. In the case of the latter, the data are obtained directly from the authority concerned. The extent of details available for the different types of institutions are not always uniform and wherever necessary further details are collected from the original source.

11.4. Data on income expenditure and appropriation of commercial banks are available annually from the *Statistical Tables Relating to Banks in India* (RBI). To ensure use of latest available data the information is obtained directly from RBI when the published material is not available. From these details the factor incomes (except rent) and consumption of fixed capital are derived. Because of non-availability of data on rent from the published source, these are obtained directly from the individual banks.

11.5. The annual reports of the RBI present a combined profit and loss account for Issue and Banking Departments though the balance sheets are presented separately. The details of factor incomes of Banking Department are obtained directly from the RBI. On the advice of the RBI, rental income and consumption of fixed capital are allocated exclusively to the Banking Department. In this connection it is important to mention that the total assets of RBI are shown in the balance sheet of Banking Department only.

11.6. To obtain the profits and dividends of the Banking Department of RBI the total of all other components of factor income (obtained independently) and intermediate consumption is deducted from the income of the Banking Department. Intermediate consumption of the Banking Department is estimated by considering each item of expenditure separately and allocating to either the Banking Department or the Issue Department according to the advice of the RBI. Thus the total expenditures on law charges, agency charges and repairs and maintenance are allocated to the Banking Department while expenditures on remittance of treasure and on security printing to Issue Department. The other items of expenditures such as those on stationery, postage and telegraphs charges, taxes, insurance, lighting and auditors fees are allocated to both the departments on the basis of the ratio of their total establishment expenses.

11.7. For public sector financial corporations the estimates are prepared from the details available in the annual reports. In the case of private non-banking financial companies in the organised sector the data available[49] annually from the RBI for a set of sample companies are utilised. These results give the necessary details of factor incomes except for rent. To estimate rent, the ratio of rent to total intermediate consumption for public sector financial corporations is applied. To obtain the population estimates from the sample results, the ratio of total paid up capital of all private organised non-banking financial companies (excluding Industrial Credit & Investment Corporation) to the paid up capital of sampled companies is used as the multiplying factor. The Industrial Credit and Investment Corporation however is not included in the RBI sample study. Its annual report is therefore analysed separately and the results added to the estimates obtained otherwise.

Imputed service charges of banking services

11.8. To calculate value added in banks and similar financial institutions service charges are imputed and added to the charges actually received. The imputed service charge is measured as the excess of property income (which is essentially interest) received by banks and similar financial intermediaries on loans and other investments made from the deposits they hold over the interest they pay out to the depositors. These imputed service charges are to be deducted from enterprises and consumers utilising such services because of their inclusion in value added in banking and insurance services. For determining the proportions of imputed service

[49] Results of Studies on "Finances of Financial and Investment Companies" published annually in *RBI Bulletin*.

charges of banking, the basic data on loans and deposits are of enterprises/consumers and are taken from the same source material as used for measurement of value added (Appendix 11.1).

11.9. The proportions of total imputed value of charges to be deducted from different industries and final users are determined from the average proportions of their loans and deposits in banks and other financial institutions. For the sectors of mining, manufacturing, electricity, organised transport, storage, organised trade, hotels & restaurants, imputed bank charges are deducted as a separate input item. Because of the absence of sufficient details on cost of production in the case of unorganised establishments in sectors of agriculture, forestry, fishing, construction, transport, trade hotels and restaurants and other services, on the other hand, it is assumed that for these sectors such service charges are implicitly included in 'other charges' under intermediate consumption and need not therefore be taken account of separately as an item of expenditure. In case of households and government such charges are considered as items of private and government consumption expenditure.

Post office Saving Bank

11.10. Banking activities of the P & T Department cover post office saving bank, cumulative time deposit account and national saving certificates. For these services, value added is estimated as a proportion of management expenses, data on which are available from the budgets. Value added, in this case, comprises compensation of employees and rent only. The proportion of value added to management expenses is assumed to be the same as for commercial banks. The 'gross expenditure' of commercial banks is taken to be equivalent to management expenses of postal banking services and is made use of for determining the proportion.

Unorganised Non-banking Financial Undertakings

11.11. No direct data are available for measuring the volume of activity of unorganised non-banking financial undertakings and own account money lenders. Efforts made to collect data on income and expenditure of the members of the various stock exchanges in the country through mailed inquiry resulted in very poor response. On the basis of discussions with the officials of the Delhi Stock Exchange and other knowledgeable authorities one-third of the gross/net value added in the organised activities, have been assumed to be the corresponding estimate, of the activities of the unorganised non-banking financial enterprises.

Co-operative Credit Societies

11.12. Annually the necessary details (except for rent and consumption of fixed capital) are released in the *Statistical Statements Relating to Co-operative Movement in India, Part I* (RBI). However, the estimates of profits given in this report are net of income-tax whereas profits for domestic product measurement need to be gross of such taxes. To obtain these estimates, the annual accounts of some of the cooperative credit societies available from the RBI are analysed and the ratio of rent and consumption of fixed capital respectively to compensation of employyees are determined. These ratios as well as that between profit net and gross of income-tax are then utilised.

Life Insurance

11.13. The *Annual Report and Accounts* published by the Life Insurance Corporation (LIC) gives the necessary details for preparation of gross/net domestic product estimates. However, as regards profits, the LIC declares after every two years surplus derived as the balance after deducting net liability under Assurances and Life Annuity Contracts from the Life Fund. The details are available in the biannual Balance Sheet given in the *Abstract and Statements in respect of Valuation of Assets and Liabilities* (LIC). The biannual estimate of surplus is split up on the basis of annual increase in Life Fund during two years. The total profits and dividends of the corporation are obtained by adding to the above surplus the income tax paid less refund received and the amount transferred to reserve for investments (obtained from the annual report).

11.14. The net value added by the life insurance business conducted by the P & T Department are estimated by analysing the 'Appropriation Accounts of Posts and Telegraphs'. Profits and dividends are assumed to be nil.

Casualty Insurance

11.15. The companies dealing with casualty insurance were nationalised in 1972. From 1973-74, the factor incomes and consumption of fixed capital are obtained from their annual reports. For the earlier years, the annual data published in the *Indian Insurance Year Book* (Controller of Insurance) are utilised. This publication gives management expenses (comprising compensation of employees, director's fees, rent, consumption of fixed capital and intermediate consumption), commission to agents, premiums received, claims and surrenders paid etc., separately for Indian and non-Indian companies. In the absence of break-up of management expenses in the report, the itemwise details are estimated using the ratio of each component to the management expenses determined on the basis of data for a large number of companies available from the controller of Insurance. These estimates are prepared separately for Indian and non-Indian companies. Profits are derived from the production account constructed in each case.

11.16. The value added in the insurance business conducted by the General Insurance Societies are estimated using annual data available in *the Statistical Tables Relating to the Cooperative Movement in India, Part II* (RBI). In the absence of relevant information, rent and consumption of fixed capital are assumed to be 25 and 5 p.c. respectively of other expenses.

11.17. Employees State Insurance Corporation is treated as a Casualty Insurance Enterprise and included under this sector. The estimates are prepared using data from its annual reports.

11.18. In case of insurance activity, the imputed service charges of casualty insurance alone are considered. The service charge is measured as the difference between the premiums received and claims paid. The part of imputed charges allocated to households is in proportion to the amount of premiums paid by them. The basic data used for the allocation of the imputed service charges of casualty insurance to households are obtained directly from the General Insurance Companies.

Estimates at constant prices

11.19. The estimates of gross/net value added at constant prices are prepared separately for each of the subsectors. A suitable indicator is prepared in each case to measure the volume of activity. In cases where the volume of activity is measured in value terms, i.e., at current prices, these are deflated by the wholesale price index of all commodities to obtain the corresponding quantum index. In general, the base year estimates are carried forward in each case using these specially constructed measures of volume of activity. The indicators used for each of the sub-sectors are listed in Appendix 11.2.

Reliability, Objectivity and Current Status of Data

11.20. The overall position regarding the availability of data for this sector is satisfactory excepting in the case of unorganised non-banking financial enterprises and own-account money lenders. However, for some of the sub-sectors sufficient details are not available on the distribution of management expenses to enable direct measurement of the factor incomes and consumption of fixed capital. This is particularly true for private non-banking financial companies, cooperative credit societies and post office savings banks.

APPENDIX 11.1 : SOURCE MATERIAL USED FOR ESTIMATES AT CURRENT PRICES

item	source of data
1. commercial banks	*Statistical Tables Relating to Banks in India* (RBI)
2. banking department of RBI . .	*Reserve Bank of India Annual Report* and data obtained directly
3. public sector financial corporations	Annual reports
4. private non-banking financial companies	*Reserve Bank of India Bulletins*
5. post office savings bank . . .	Budget documents of P & T Department
6. co-operative credit societies. . .	(i) *Statistical Statements Relating to Co-operative Movement in India, Part I* (RBI) and (ii) annual accounts of a few co-operative credit societies obtained directly from RBI
7. life insurance	(i) *Annual Report and Accounts* (LIC)
	(ii) *Abstract and statements in Respect of valuation of Assets and Liabilities* (LIC)
	(iii) *Appropriation Accounts, Posts & Telegraphs*
8. casualty insurance	(i) Annual reports
	(ii) *Statistical Statements Relating to the Co-operative Movement in India, Part II* (RBI)

APPENDIX 11.2 : LIST OF INDICATORS USED IN THE PREPARATION OF CONSTANT PRICES ESTIMATES

item	*indicator**
1. commercial banks, banking department of RBI, post office savings bank	deflated aggregate deposits separately for each category
2. non-banking financial companies & corporations	total deflated net receipts
3. co-operative credit societies . .	average of indices of deposits (deflated) and membership
4. life insurance corporation . . .	average of deflated indices of life fund and sum assured (including bonus)
5. postal life insurance	average deflated indices of life fund and sum assured
6. casuality insurance	deflated index of premium *net* of claims and surrenders

*Wholesale price index of all commodities is used for deflation in each of these cases.