

## **CHAPTER 13**

### **BANKING AND INSURANCE**

#### **Coverage**

13.1 This sector covers (i) commercial banks, (ii) banking department of RBI, (iii) public non-banking financial corporations, (iv) organised non-banking financial companies engaged in trading in shares, investment holdings, loan finance and the like activities, (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 saving certificates, (vii) co-operative credit societies, and (viii) life and non-life insurance activities.

#### **Methodology and Source material**

13.2 The major source of data in respect of commercial banks, Banking Department of RBI and non-banking financial companies is the RBI which publishes the relevant data in various annual publications or monthly bulletins. Annual reports and accounts of public sector companies and corporations like LIC, State Financial Corporations etc., provide another major source of data. The budget documents of Department of Posts provide the necessary data in the case of post office savings and postal life insurance.

13.3 Most of the above sources provide comprehensive statistics which enable preparation of GDP and other related aggregates. In case of time lag in the availability of published material, the relevant information is obtained directly from RBI to ensure use of latest data.

13.4 The gross output of banks and similar financial institutions is estimated in two components viz., actual service charges and the imputed service charges. The concept of imputed service charge and its methodology of estimation is discussed in the subsequent paragraphs. The GDP from this sector is estimated by income method using readily available source material for each of the sub-sectors (Appendix 13.1).

13.5 The banking enterprises render services to their customers in the form of maintaining their accounts and advising them on financial matters. In return for these services, customers are charged a nominal amount which is substantially smaller than the expenses of the enterprises. On the other hand, the banks provide loans and advances and the returns on such transactions are much higher than the payments made to depositors. This net return accruing to banks is large enough to meet their expenses and to earn a profit. If the financial enterprises are treated like any other productive enterprise, their income in the production account would only be limited to the charges made on customers which would mean that the banks would have a negative operating surplus and most likely negative value added. To circumvent this difficulty, an imputed income equivalent to interest and dividend receipts of banking and financial enterprises net of interest paid to depositors is defined income earned in return for services rendered and is entered as a receipt item in the production account.

13.6 A similar argument can be extended in the case of insurance enterprises where the premium for insurance constitutes the main source of income and receives income from investment as well. In the case of general insurance, imputed service charges are measured as the receipts on account of premia plus interest and dividends earned less expenditure on account of claims paid. The methodology of estimation of imputed service charges in the case of LIC is discussed in detail in chapter 23, paragraph 23.52.

13.7 The imputed service charges which form a component of financial sector output are partly treated as intermediate consumption of industries and partly as the final consumption of government and the households. For determining these proportions the

basic data on loans and deposits/sum assured relating to enterprises and consumers are used. These are taken from the same source material from which value added is estimated. The proportions of imputed service charges so worked out for mining, manufacturing, electricity, transport by other means, storage, trade, hotels and restaurants sectors are treated as a separate input item in the respective sectors. Because of the absence of sufficient details on the cost of production in the case of agriculture, forestry, fishing, construction, and other services sectors such service charges are assumed to be implicitly included in 'other charges' under intermediate consumption and therefore are not accounted for separately as an item of expenditure. In case of households and government such charges are considered as an item of private and government consumption expenditure.

## **Estimates at Current Prices**

### **Commercial banks**

13.8 Data on income, expenditure and appropriation of commercial banks are available annually from the 'Statistical Tables relating to Banks in India' (RBI). However, data on rent are not separately available and these are obtained directly from the individual banks.

### **Banking department of RBI**

13.9 The functions of the Issue Department of RBI are like that of a government department and for this reason it is treated as an administrative department of the Central Government. The rest of the activities of the RBI are considered under the Banking Department. The Annual Report of the RBI presents the balance-sheet of the Issue and Banking Departments separately. However, the profit and loss account of the two departments are presented in a combined form. Details regarding individual items of income and expenditure in respect of the two departments separately, are collected directly from the RBI annually for the purpose of estimation of GDP.

### **Non-banking financial enterprises**

13.10 There are about seventy public sector financial corporations and companies of Central and State Governments. The estimates of these enterprises are prepared from the details available in the annual reports which are analysed annually. (Details of analysis are discussed in chapter 23 on Public sector).

13.11 In the case of private non-banking financial companies in the organised sector, the data are available annually from the RBI for a set of sample companies. RBI sample study for the year 1980-81 covered 305 companies forming about 50 per-cent of the total paid-up capital of non-banking financial private companies. 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 used. 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 and Investment Corporation) as available from Department of Company affairs to the paid-up capital of sample 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 are added to the estimates obtained on the basis of RBI sample study.

13.12 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 mail enquiry 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 estimates of the activities of the unorganised non-banking financial enterprises.

### **Post Office Savings Bank**

13.13 Banking activities of the Department of Posts cover post office savings bank, cumulative time deposit account and national savings certificates. For these services, GVA is estimated as a proportion of management expenses, data on which are available from the budgets. GVA, in this case, comprises compensation of employees and rent only. The proportion of GVA to management expenses is assumed to be the same as observed in respect of commercial banks.

### **Co-operative credit societies**

13.14 The details of the factor incomes of co-operative credit societies are obtained directly from Statistical Statements Relating to Co-operative Movement in India, Vol. I Credit societies published by NABARD. However, estimates of profits given in these publications are net of income tax whereas in the measurement of domestic product profits need to be gross of such taxes. To obtain these estimates, direct data are obtained on details of income and expenditure of a sample of co-operative credit societies.

### **Life Insurance**

13.15 The annual Report and Accounts published by the LIC give necessary details for preparation of the estimates of GVA. However, as regards profits, the LIC declares every two years surplus derived as the balance after deducting net liabilities under Assurances and Life Annuity Contracts from Life Fund. The details are available in the biannual Valuation Reports of LIC upto 1984-85 and on annual basis thereafter. The biannual estimates of surplus is split up on the basis of annual increases in life fund. The yearly total of 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 reports).

13.16 The GVA by the life insurance business conducted by the Department of Posts is estimated by analysing the 'Appropriation Accounts' brought out by the same department. Profits and dividends are assumed to be nil.

### **General Insurance**

13.17 Gross factor incomes are obtained by analysing the accounts given in the annual reports of the General Insurance Corporation and its subsidiaries viz., Oriental Insurance Company, United India Insurance Company, National Insurance Company and The New India Assurance Company.

13.18 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.

### **Estimates at Constant Prices**

13.19 The estimates of GVA at constant prices are prepared separately for each of the sub-sectors. In general, the base year estimates are carried forward using indicators measuring the volume of activity in the corresponding sub-sector. 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. For example in the case of banking activity, the indicator used is the aggregate deposits deflated by the wholesale price index, whereas in the case of Life Insurance the average of deflated indices of life fund and sum assured is used. For non-life insurance, the indicator used is the deflated index of premium net of claims and surrenders. Relevant data for the

indices are obtained from the same source as those used for estimating GVA at current prices (see appendix 13.2).

13.20 The estimates of value added from banking and insurance by subsectors for the year 1980-81 are given in table 13.1.

### Quality and limitations of Data base

13.21 The overall position regarding the availability of data for this sector is satisfactory except 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. This is particularly true for private non-banking financial companies, co-operative societies and post office savings banks.

### APPENDIX 13.1: Source material used

Item (1)	Sources of data (2)
1. Commercial banks to Banks in India (RBI)	Statistical Tables relating
2. Banking department of RBI	RBI Annual Report and data obtained directly
3. Public sector financial corporations	Annual Reports
4. Private non-banking financial companies	RBI bulletins
5. Post office savings banks	Budget documents of Department of Posts
6. Co-operative credit societies	Statistical statements relating to co-operative movement in India, Vol. I Credit societies (NABARD) and data on income and expenditure of sample co-operative societies obtained directly
7. Life Insurance	i) Annual Reports and Accounts (LIC) ii) Valuation Reports iii) Appropriation Accounts: Postal Services
8. General Insurance	Annual Reports and Accounts
9. Employees State Insurance Corporation	Annual Reports

### APPENDIX 13.2: Indicators used in the preparation of constant price estimates

Item	Indicator *
(1)	(2)
1. Commercial banks, Banking Department of RBI, Post Office Savings bank	Deflated aggregate deposits separately for each category
2. Non- banking financial companies and 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
5. Postal life insurance	Average deflated indices of life fund and sum assured
6. Non-life 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

**TABLE 13.1: Value added from Banking and Insurance, 1980-81**

Item	(Rs. crore)
(1)	(2)
1. Gross value added	3458
1.1 Banking	2610
1.1.1 Banks	1385
1.1.2 Banking department of RBI	448
1.1.3 Post office saving bank	25
1.1.4 Non-banking financial companies	420
1.1.5 Co-operative credit societies	332
1.2 Insurance	848
1.2.1 Life (other than postal life)	532
1.2.2 Postal life	1
1.2.3 Non-life	315
2. Less consumption of fixed capital	64
3. Net value added	3394