## CHAPTER X

## INCOME FROM BANKS AND INSURANCE

In this chapter revised estimates of income originating in the 'organised banking and insurance' sector have been presented. 'Organised banking' sub-sector includes (i) banking companies, (ii) loan companies and (iii) investment and trust companies. 'Insurance' sub-sector comprises (i) life insurance companies[1], corporation and provident societies and (ii) general insurance companies, viz. fire, marine and other insurance companies including co-operative insurance societies. This sector also includes the following types of co-operative societies, viz. (i) primary agricultural and non-agricultural credit societies, (ii) primary land mortgage banks, (iii) supervisory unions, (iv) provincial co-operative banks, (v) central land mortgage banks and (vi) central credit societies.

2. Data regarding banking sub-sector are available from the 'Statistical Tables Relating to Banks in India' and the 'Annual Report on the Trend and Progress of Banking in India' published annually by the Reserve Bank of India and the 'Blue Book on Joint Stock Companies' published monthly by the Department of Company Law Administration, Ministry of Commerce & Industry. Though data published by the RBI in their two publications are fairly comprehensive and useful for national income estimation, they do not cover non-banking financial intermediaries like loan companies, investment trusts, chit funds etc.

2.1. The method of estimation of income from the banking companies remains practically the same as that adopted by the NIC in their Final Report, (paragraph 2.152). Accordingly, the results of the analysis of balance sheets and profit and loss accounts of the RBI, exchange banks and other banking companies (both scheduled and non-scheduled) undertaken by the RBI, have been made use of. Such results are directly obtained from the RBI in the form of operating and appropriation accounts for each year. From these accounts, wages and salaries, directors' fees and surplus (except that for RBI) have been considered to constitute the net income from 'banking' sub-sector.

2.2. In the case of loan, investment trusts and other financial companies, however, we have departed from the procedure followed so far either by the NIC or by this Organisation for preparing estimates of income for the conventional series. Instead of merely applying certain ratios, e.g. proportion of wages and salaries to total paid-up capital etc., based on the results of analysis of banking companies, to the total paid-up capital of other financial companies, we have analysed, in detail, the balance sheets of 160 non-banking financial companies for the year 1957-58 and have

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[1] Nationalised since 1st September, 1956.



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applied these results for estimating the income generated in these companies[2]. The paid-up capital of the companies, thus selected for analysis, accounted for nearly 30 per cent of the paid-up capital of all companies belonging to this group.

2.3. On the basis of this independent analysis of the balance sheets of non-banking financial companies, it was observed that there was wide divergence in the relative proportion of salaries, directors' fees and surplus to total paid-up capital in the two cases, viz. the banking and non-banking financial companies[3]. For our purpose, as stated earlier, the results of the balance sheet analysis of these 160 companies were used for preparing estimates of income from the non-banking financial companies for the year 1957-58. The proportions of wages and salaries, directors' fees and surplus to the total paid-up capital, as obtained for the year 1957-58, were then applied to the figure of paid-up capital for all other years to derive the estimates of income for such years. These proportions may, however, undergo changes when similar analysis of all such companies is undertaken in future on annual basis. The estimates so worked out are presented in Table 10.1.

TABLE 10.1: INCOME FROM BANKS

(in Rs. crores)

| | 1955-56 | 1956-57 | 1957-58 | 1958-59 |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| 1. wages, salaries and directors' fees | 26.62 | 28.76 | 31.44 | 35.59 |
| 2. surplus of all banks (except the RBI) | 10.67 | 12.58 | 13.85 | 11.91 |
| total | 37.29 | 41.34 | 45.29 | 47.50 |

2.4. To estimate the imputed deductions for banking services, rendered to other business enterprises, the amount of net investment income of all banks except exchange banks and the RBI has been distributed among various consuming sectors on the basis of their demand deposits, information for which has been taken from the RBI publication entitled the 'Trend of Progress of Banking in India'. The investment income of the exchange banks is, however, allocated entirely to the 'other commerce and transport' sector. The estimated amounts thus obtained are deducted from the net output of the respective consuming sectors. In the case of 'agriculture' such deductions form part of 'marketing charges', while in 'mining' sector of 'mining expenses'; and hence they need not be deducted afresh. However, in the case of

2 A list of 275 companies was compiled State-wise on the basis of 10 per cent sample (systematic one) of such companies. A questionnaire was sent round to all the selected companies requesting them to furnish information needed for our purpose. Due to inadequate response, it became necessary to make use of the results of the analysis of balance sheets for the responding companies falling within the sample and also for those whose balance sheets were available in the Research and Reference Division of the Department of Company Law Administration, Ministry of Commerce and Industry.

3 Whereas the salaries, directors' fees and surplus form 24.85, 0.12 and 9.51 per cent of the paid-up capital in the case of 'banking' companies, the corresponding percentages in the case of 'non-banking' companies work out at 1.60, 0.65 and 7.34 respectively. This may be mostly due to the varying conditions of two types of companies.

'other commerce and transport' sector, income generated is calculated by 'income' approach rather than by the 'product' approach and as such there is no need for estimating separately these 'imputed deductions' for banking charges. Estimates of bank charges relevant for the 'factory establishments' sector are presented in Table 10.2.

TABLE 10.2: IMPUTED DEDUCTIONS FOR BANKING SERVICES

(in Rs. crores)

| year | amount |
|---|---|
| (1) | (2) |
| 1951 | 5.76 |
| 1952 | 5.76 |
| 1953 | 5.80 |
| 1954 | 6.32 |
| 1955 | 7.55 |
| 1956 | 9.81 |
| 1957 | 9.85 |
| 1958 | 10.70 |

3. The contribution of 'insurance' to national income comprises (i) wages and salaries, (ii) directors' fees, (iii) rent and (iv) surplus of all such companies. Data on all these items are available in the Annual Report and Accounts of Life Insurance Corporation of India. These, however, pertain to life business after nationalisation. As regards the non-life insurance business and life insurance business before nationalisation, estimates have been prepared on the basis of appropriation and operating accounts of insurance companies as given in the Indian Insurance Year Book. As these accounts contain information on the total cost of management without giving its break-up by wages and salaries, directors' fees etc., it was necessary to obtain relevant information directly from the Controller of Insurance, Simla, for the years 1953–55. These ratios of 'wages and salaries' and 'directors' fees' to total cost of management were applied to the figures of total cost of management for other years to arrive at the relevant estimates of net income for later years. For insurance societies, data are available from the annual publication of the RBI entitled the 'Statistical Statements Relating to Co-operative Movement in India'. From the output thus estimated, deduction has been made at the rate of 2.5 per cent of the value of property of all the insurers on account of depreciation. The resulting estimates of net income from this sub-sector are presented in Table 10.4.

3.1. Imputed deductions in respect of business insurance premia, paid by different enterprises, have been made from the net income of the latter in the following manner. Total premiums paid to fire and miscellaneous insurance companies have been distributed on the basis of ratios of paid-up capital of all the joint-stock companies. A deduction of 10 per cent has also been made in the first instance to cover the premium payments of persons. As explained in paragraph 2.4 of this chapter such deductions need be separately estimated only in respect of the 'factory establishments' sector. The estimated deductions thus made on account of insurance premiums are presented in Table 10.3.

TABLE 10.3: DEDUCTIONS FOR INSURANCE PREMIA

(in Rs. crores)

| year | amount |
|---|---|
| (1) | (2) |
| 1951 | 7.69 |
| 1952 | 7.59 |
| 1953 | 7.79 |
| 1954 | 7.77 |
| 1955 | 8.19 |
| 1956 | 9.19 |
| 1957 | 10.50 |
| 1958 | 11.33 |

4. As regards the 'co-operative credit societies', estimates of net income have been derived on the basis of information on profits and costs of management contained in the 'Statistical Statements Relating to the Co-operative Movement in India'. The procedure in general remains unchanged except for the fact that the 'co-operative insurance societies', which formed a part of this sub-sector earlier, have now been included in the insurance sub-sector.

4.1. Recently in response to a request from the CSO, the pro-forma for collection of data from co-operative societies was so modified by the Department of Agricultural Credit of the RBI as to provide for collection of data separately on 'wages and salaries' paid by the co-operative societies. The latest issue of the 'Statistical Statements Relating to Co-operative Movement in India', published in 1960, contains such information for the year 1958-59, making it possible to work out the ratio of 'wages and salaries' to total cost of management for this year, which turned out to be 61.4 per cent. In the absence of similar information for earlier years the same percentage has been applied to the figures of total cost of management in order to derive the estimates of 'wages and salaries' for the years 1955-56 to 1958-59. Thus the income from co-operative sub-sector works out at Rs. 695 lakhs, Rs. 866 lakhs, Rs. 982 lakhs and Rs. 1281 lakhs for the years 1955-56, 1956-57, 1957-58 and 1958-59 respectively.

5. The estimates of income for the entire sector of 'organised banking and insurance' are presented in Table 10.4.

TABLE 10.4: CONTRIBUTION TO NATIONAL INCOME FROM BANKS AND INSURANCE

(at current prices) (in Rs. crores)

| sub-sector/year | wages, salaries, directors' fees etc. | surplus | total |
|---|---|---|---|
| (1) | (2) | (3) | (4) |
| banking (including non-banking financial companies) | | | |
| 1955-56 | 26.62 | 10.67 | 37.29 |
| 1956-57 | 28.76 | 12.58 | 41.34 |
| 1957-58 | 31.44 | 13.85 | 45.29 |
| 1958-59 | 35.59 | 11.91 | 47.50 |
| insurance (including co-operative insurance societies) | | | |
| 1955-56 | 23.72 | 5.09 | 28.81 |
| 1956-57 | 23.20 | 6.43 | 29.63 |
| 1957-58 | 27.49 | 9.44 | 36.93 |
| 1958-59 | 28.66 | 7.16 | 35.82 |
| co-operative societies (excluding co-operative insurance societies) | | | |
| 1955-56 | 3.03 | 3.92 | 6.95 |
| 1956-57 | 3.46 | 5.20 | 8.66 |
| 1957-58 | 4.05 | 5.77 | 9.82 |
| 1958-59 | 5.69 | 7.12 | 12.81 |
| total: 'organised banking and insurance' | | | |
| 1955-56 | 53.37 | 19.68 | 73.05 |
| 1956-57 | 55.42 | 24.21 | 79.63 |
| 1957-58 | 62.98 | 29.06 | 92.04 |
| 1958-59 | 69.94 | 26.19 | 96.13 |

6. **Comparison of present estimates with the earlier estimates**: A comparative picture of the two sets of estimates, viz. (i) estimates prepared on revised methods and incorporating latest available data and (ii) the conventional series is presented in Table 10.5.

TABLE 10.5 COMPARISON BETWEEN THE CONVENTIONAL AND REVISED ESTIMATES

(at current prices) (in Rs. crores)

| year | organised banking including non-banking financial companies | insurance including insurance societies | co-operative societies excluding insurance societies | total |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| 1955-56 | | | | |
| (i) revised estimates | 37.29 | 28.81 | 6.95 | 73.05 |
| (ii) conventional estimates | 53.97 | 28.78 | 6.66 | 89.41 |
| 1956-57 | | | | |
| (i) revised estimates | 41.34 | 29.63 | 8.66 | 79.63 |
| (ii) conventional estimates | 67.88 | 29.59 | 8.34 | 105.81 |
| 1957-58 | | | | |
| (i) revised estimates | 45.29 | 36.93 | 9.82 | 92.04 |
| (ii) conventional estimates | 76.93 | 36.86 | 9.46 | 123.25 |
| 1958-59 | | | | |
| (i) revised estimates | 47.50 | 35.82 | 12.81 | 96.13 |
| (ii) conventional estimates | 83.15 | 35.72 | 12.91 | 131.78 |

6.1. The downward revision in the figures of net contribution from this sector for the years under reference can be mainly attributed to two reasons, viz. (i) the non-uniform rate of growth in the banking and non-banking financial companies, the rate of growth in terms of paid-up capital[4] being higher in the latter case and (ii) the proportion of wages and salaries (including directors' fees etc.) and the surplus of banking companies to total paid-up capital being much more as compared to that of non-banking companies.

[4] Vide Appendix 10.1 to this chapter.