CHAPTER – I

INTRODUCTION

1.1 Meaning of Non-Banking Financial Intermediaries and Benefit Funds
1.2 Definition of NBFI and Benefit Funds
1.3 Classification and different kinds of NBFI
1.4 Need and importance of NBFI
1.5 NBFI and Developed Countries
1.6 NBFI and Under Developed Countries
1.7 Historical Overview of Benefit Fund
1.8 Structure and Functioning of Benefit Fund
1.9 An Overview of Indian Scenario
1.10 Benefit Funds in Tamil Nadu
1.11 Benefit Funds in Kanyakumari District
1.12 Problem Formulation
1.13 Objectives of the Study
1.14 Hypotheses
1.15 Chapterisation
CHAPTER I

INTRODUCTION

The role of the financial system of any economy is different from other sectors. Financial system facilitates the allocation of resources across the space and time, and reduces transaction and information costs. The financial system, including banks and other financial intermediaries, equity markets, and debt markets, solves the problem of allocating resources and reducing information and transaction costs by agglomerating capital from many small savers, allocating capital to the most important uses and monitoring to ensure that it is being used properly. Therefore, the financial sector is one of the most significant economic sectors and considered as brain of the economy.¹ It enables firms and households to cope with economic uncertainties by hedging, pooling, sharing and pricing risks. It also facilitates the flow of funds from the ultimate lenders to the ultimate borrowers,

improving both quantity and quality of real investment, so that it would increase income per-capita and raising our standard of living.\(^2\)

During sixties and seventies, India had been following the policy of financial repression that is, a low degree of financial intermediation resulting from negative rates of real interest on deposits and other financial assets, together with a very large spread between borrowing and lending rates. This resulted in poor private savings and inefficiency in resource allocation, which in turn resulted in a poor investment rate. There had been a very high degree of government control over interest rates and pre-emption of bank lending which indeed amounts to financial repression. It became very difficult for commercial banks to diversify their portfolios and their loans which had a high degree of non-performing character. The need for an alternative arrangement was felt here.\(^3\)

Non-Banking Financial Intermediaries mainly have indigenous origin, which is suited to local conditions and is playing useful role in development of the economy in that particular locality. It gives a reason for their natural growth.\(^4\) Non-Banking Financial Intermediaries play a very important role in the Indian economy. They play an indispensable part in the

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Indian financial system, as they supplement the activities of banks in the field of deposit mobilisation and lending. They provide finance to activities which are not served by the organised banking sector.\textsuperscript{5}

Non-Banking Financial Intermediaries are such institutions as savings and loan associations, life insurance companies, benefit funds, common trust funds, pension funds and government lending agencies. These intermediaries pool funds from net savers and lend them for finance expenditure of business firms and local bodies. To obtain funds from net savers, the intermediaries issue and sell indirect securities such as time deposits, common fund stocks, saving and loan shares and insurance policies. They purchase primary securities to lend funds to ultimate borrowers.\textsuperscript{6} The NBFIs in Indian context have been defined below.

1.1 Meaning of Non-Banking Financial Intermediaries and Benefit Funds

"The Non-Banking Financial Intermediaries (NBFIs) are just intermediaries or middlemen transferring funds from ultimate lenders to ultimate borrowers. The financial intermediaries obtain funds by issuing to the public their own liabilities such as saving deposits and loan shares and then use this money to buy financial assets namely stocks, bonds and


mortgages for themselves. In this way the financial intermediaries intermediate between original savers and final borrowers”.7

“A Benefit Fund (BFs) is treated like any other financial/investment company for compliance with the various company law provisions as well as the NBFI s (Reserve Bank) directions, 1977. In theory, a Benefit Fund can be promoted to transact any type of finance business with its own members, which the other finance or investment companies normally do with members of the public”.8

1.2 Definition of NBFCs

According to Reserve Bank Act “Non-Banking Finance Company” (NBFC) means:

1) A financial institution which is a company,

2) A non-banking institution is a company which has as its principal business of receiving of deposits and advancing loans,

3) Such other non-banking institution or class of such institutions as the bank may with the previous approval of the central government specify.9

Definition of the Benefit Funds

“A Benefit Fund is a company formed solely with the object of catering to the various finance and credit needs of its members and is

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incorporated as a public limited company under the Companies Act 1956". It is a company which is a financial institution and is notified by the central government under the Section 620-A of the Companies Act, 1956.10

1.3 Classification of Non-Banking Financial Intermediaries

Non-Banking Financial Intermediaries can be classified into different ways, that is leasing companies, hire-purchase finance companies, benefit funds, housing finance, investment companies, residuary non-banking company, and miscellaneous non-banking company.11

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CHART No. 1.1

CLASSIFICATION OF NON-BANKING FINANCIAL INTERMEDIARIES

Structure of the Indian Money Market

Organised Sector

Unorganised Sector

Co-operative Sector

Non-Banking Financial Intermediaries

1. Equipment Leasing Companies

2. Hire Purchase Finance Companies

3. Benefit Funds

1. Operating Financial Lease

2. Consumer Goods

3. Producer Goods

4. Housing Finance Companies

5. Investment Companies

6. Miscellaneous Non-Banking Company

7. Residuary Non-Banking Company

4. Mortgages Loans

5. Chit Funds

6. Prize Chits

7. Lucky Draws

8. Insurance Companies
The Categories of Non-Banking Financial Companies

1. **Equipment Leasing Company** (ELC) means any company which is carrying on as its principal business, the activity of leasing of equipment or the financing of such activity.

2. **Hire-Purchase Finance Company** (HPFC) is a company which carries on as its principal business, hire purchase transactions or the financing of such transactions.

3. **Housing Finance Company** (HFC) is a company which carries on as its principal business, the financing of the acquisition or construction of houses including the acquisition or development of plots of land for construction of houses.

4. **Investment Company** (IC) means any company which is carrying on as its principal business, the acquisition of securities.

5. **Loan Company** (LC) means any company which is carrying on as its principal business, the providing of finance whether by making loans or advances or otherwise for any activity other than its own. (This category does not include an equipment leasing company or a hire purchase finance company or a housing finance company).\(^{12}\)

6. **Benefit Fund Companies** (BFC) means any company which is notified by the central government under Section 620-A of the Companies Act 1956.

7. **Miscellaneous Non-Banking Company** (MNBC) is a company which

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collects subscriptions from specified number of subscribers periodically and in turn distributes the same as prizes amongst them. Any other form of Chit or Kuri is also included in this category.

8. **Residuary Non-Banking Company (RNBC)** is a company which receives deposits under any scheme by way of subscriptions/contributions and does not fall in any above categories.\(^{13}\)

The trend of different Non-Banking Financial Intermediaries are given in the table 1.1.

**TABLE No. 1.1**

**THE NUMBER OF REPORTING NBFIs: TYPEWISE 1990-2001**

<table>
<thead>
<tr>
<th>Year</th>
<th>HPFC</th>
<th>LC</th>
<th>IC</th>
<th>HFC</th>
<th>BFL</th>
<th>ELC</th>
<th>MNBC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>782</td>
<td>1679</td>
<td>3995</td>
<td>17</td>
<td>84</td>
<td>107</td>
<td>1120</td>
<td>7784</td>
</tr>
<tr>
<td>1991</td>
<td>826</td>
<td>1811</td>
<td>3855</td>
<td>22</td>
<td>89</td>
<td>111</td>
<td>1044</td>
<td>7788</td>
</tr>
<tr>
<td>1992</td>
<td>860</td>
<td>2317</td>
<td>4151</td>
<td>30</td>
<td>96</td>
<td>102</td>
<td>1367</td>
<td>8923</td>
</tr>
<tr>
<td>1993</td>
<td>822</td>
<td>2367</td>
<td>3860</td>
<td>63</td>
<td>103</td>
<td>112</td>
<td>1324</td>
<td>8651</td>
</tr>
<tr>
<td>1994</td>
<td>869</td>
<td>2322</td>
<td>4485</td>
<td>45</td>
<td>227</td>
<td>126</td>
<td>1109</td>
<td>9183</td>
</tr>
<tr>
<td>1995</td>
<td>1230</td>
<td>2410</td>
<td>3371</td>
<td>52</td>
<td>260</td>
<td>130</td>
<td>1116</td>
<td>8569</td>
</tr>
<tr>
<td>1996</td>
<td>1460</td>
<td>2673</td>
<td>3519</td>
<td>73</td>
<td>179</td>
<td>116</td>
<td>2174</td>
<td>10194</td>
</tr>
<tr>
<td>1997</td>
<td>1355</td>
<td>1742</td>
<td>2785</td>
<td>84</td>
<td>54</td>
<td>108</td>
<td>1788</td>
<td>7916</td>
</tr>
<tr>
<td>1998</td>
<td>879</td>
<td>1234</td>
<td>2173</td>
<td>66</td>
<td>14</td>
<td>94</td>
<td>1126</td>
<td>5586</td>
</tr>
<tr>
<td>1999</td>
<td>562</td>
<td>962</td>
<td>1422</td>
<td>57</td>
<td>9</td>
<td>74</td>
<td>506</td>
<td>3592</td>
</tr>
<tr>
<td>2000</td>
<td>465</td>
<td>776</td>
<td>188</td>
<td>34</td>
<td>4</td>
<td>62</td>
<td>328</td>
<td>1857</td>
</tr>
<tr>
<td>2001</td>
<td>470</td>
<td>560</td>
<td>170</td>
<td>28</td>
<td>4</td>
<td>58</td>
<td>276</td>
<td>1566</td>
</tr>
</tbody>
</table>

**SOURCE:** RBI Bulletin, Various Issues, Reserve Bank of India, Mumbai.

**NOTE:** Abbreviation as explained in the I Chapter.

Number of accounts are in lakhs.

TABLE No. 1.2

TOTAL RESOURCES OF DIFFERENT TYPES OF NBFIs 1990-2001

<table>
<thead>
<tr>
<th>Year</th>
<th>HPFC</th>
<th>LC</th>
<th>IC</th>
<th>HFC</th>
<th>BFL</th>
<th>ELC</th>
<th>MNBC</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1571</td>
<td>8828</td>
<td>2786</td>
<td>1576</td>
<td>199</td>
<td>2754</td>
<td>966</td>
<td>18680</td>
</tr>
<tr>
<td>1991</td>
<td>2002</td>
<td>10038</td>
<td>2917</td>
<td>1833</td>
<td>248</td>
<td>4199</td>
<td>919</td>
<td>22156</td>
</tr>
<tr>
<td>1992</td>
<td>2619</td>
<td>12574</td>
<td>3551</td>
<td>2510</td>
<td>368</td>
<td>4424</td>
<td>1152</td>
<td>27198</td>
</tr>
<tr>
<td>1993</td>
<td>4832</td>
<td>27377</td>
<td>3877</td>
<td>7090</td>
<td>590</td>
<td>8225</td>
<td>1525</td>
<td>53516</td>
</tr>
<tr>
<td>1994</td>
<td>7240</td>
<td>32075</td>
<td>7354</td>
<td>15731</td>
<td>1096</td>
<td>12574</td>
<td>911</td>
<td>96598</td>
</tr>
<tr>
<td>1995</td>
<td>9736</td>
<td>42235</td>
<td>11421</td>
<td>18180</td>
<td>1541</td>
<td>12574</td>
<td>911</td>
<td>154776</td>
</tr>
<tr>
<td>1996</td>
<td>10082</td>
<td>55573</td>
<td>22295</td>
<td>39990</td>
<td>1931</td>
<td>23771</td>
<td>1134</td>
<td>152152</td>
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<tr>
<td>1997</td>
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<td>68329</td>
<td>21550</td>
<td>4675</td>
<td>2429</td>
<td>37699</td>
<td>1509</td>
<td>152152</td>
</tr>
<tr>
<td>1998</td>
<td>29380</td>
<td>30133</td>
<td>6629</td>
<td>1178</td>
<td>3621</td>
<td>1962</td>
<td>1043</td>
<td>73946</td>
</tr>
<tr>
<td>1999</td>
<td>23400</td>
<td>16446</td>
<td>4456</td>
<td>1300</td>
<td>5849</td>
<td>1173</td>
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<td>53440</td>
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<td>2000</td>
<td>14856</td>
<td>12567</td>
<td>2518</td>
<td>851</td>
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<td>1021</td>
<td>715</td>
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<tr>
<td>2001</td>
<td>15461</td>
<td>6748</td>
<td>786</td>
<td>6074</td>
<td>1222</td>
<td>1450</td>
<td>564</td>
<td>32305</td>
</tr>
</tbody>
</table>

NOTE: Total resources means deposits plus net owned funds.

1.4 Need and Importance of Non-Banking Financial Intermediaries

Non-Banking Financial Intermediaries have grown rapidly during 1960s and 1970s in Great Britain and the U.S.A. Their growth has
been faster than that of commercial banks. The principal reason has been that the interest rates paid by NBFI have been higher than paid by commercial banks on savings and time deposits and the interest rates charged by them have also been comparatively low. Consequently, they have grown at much higher rate than the commercial bank.

1. Non-Banking Financial Intermediaries play an important role as brokers of loanable funds. They act as intermediaries between the ultimate saver and the ultimate investor. They sell indirect securities to savers and purchase primary securities from investors. Indirect securities are the short-term liabilities of financial intermediaries. On the other hand, primary securities are their earning assets but they are the debt of the borrowers.\textsuperscript{14}

2. When the Non-Banking Financial Intermediaries convert debt into credit, they reduce the risk of the ultimate lender. Firstly, they create liabilities on themselves by selling indirect securities to the lenders. Then they buy primary securities from borrowers of funds. Thus, by acting as intermediaries between the lenders and borrowers of funds, NBFI take the risk on themselves and reduce it on the ultimate lenders.

3. Non-Banking Financial Intermediaries raise funds in the capital market and supply credit to investors. Expert financial services provided by

them attract large share of public savings. Such services include easy liquidity, safety of principal and ready divisibility of savings into indirect securities of different values.\footnote{Mukesh Mathur, "Importance of Financial Intermediaries in Indian Economy", \textit{Southern Economist}, Vol.41, No.4, June 2002, p.12.}

4. Non-Banking Financial Intermediaries exist because they want to earn profit by investing the mobilised savings. Different financial intermediaries follow different investment policies. For instance, savings and loan association and mutual benefit funds invest in mortgages and insurance companies invest in bonds and securities. Thus the intermediaries mobilise public savings, invest them and thereby help in capital formation and economic growth.

5. Gardner Ackley has shown that in intermediating between ultimate lenders and direct investors NBFI add greatly to the stock of financial assets to savers and for every extra asset, they also create an equal new financial liability.\footnote{Jhingan, M.L., \textit{Ibid.}, p.586.}

6. Non-Banking Financial Intermediaries reap a number of economies of specialisation and aid in mobilising savings and making investments. They specialise in trading large financial assets and thus lower costs in buying and selling securities.
7. Non-Banking Financial Intermediaries is a powerful institution to maintain, stimulate and accelerate economic development of the nation. By permitting transfer of resources from surplus to deficit units, finance plays a crucial role in achieving on efficient allocation of resources in the economy.\textsuperscript{17}

8. Non-Banking Financial Intermediaries usually originates in economic and financial transactions in which creditors surrender 'some things of value' at one point in time in exchange for debtors' promises to pay in the future 'something of value' surrendered may be goods, property and National Savings Certificates.\textsuperscript{18}

9. The nature of NBFI\textquotesingle s needs depends upon the growth of real output of the economy and also upon commercialisation of agriculture and other traditional subsistence sectors. The more rapid the growth of real national income, the greater will be the demand by enterprises for external funds and therefore financial intermediation.

10. Financial intermediation, which transfers resources from traditional sectors, whether by collecting wealth and savings from those sectors


\textsuperscript{18} Gupta Suraj, B., Monetary Economic Institutions Theory and Policy, S. Chand and Company, New Delhi, 1997, p.115.
for its deposits and other financial liabilities or by credit creation and forced saving, is important for economic growth.\textsuperscript{19}

11. All that needs to be emphasised is that for over a century benefit funds, with the objective of cultivating the habit of thrift, were promoted by public spirited men drawn from affluent local persons, lawyers and professionals like auditors and educationist including retired persons. The area of operation was local within municipalities and panchayats. Benefit funds do their business only with members and they benefit of share market capitalisation in the recent past benefited a small group of affluent urban population and rural people. Benefit funds play a very useful role in helping middle and lower middle classes by providing quick financial services with minimum formalities and should, therefore be allowed to grow with supervision.\textsuperscript{20}

1.5 Non-Banking Financial Intermediaries and Developed Countries

A summary of the important statutory provisions regulating the activities of Non-banking Financial Intermediaries in ten foreign countries is given below.

**Australia:** The Australian Financial system includes a wide range of financial intermediaries. The NBFIs include building societies, unit trusts, life


assurance offices, pastoral finance companies, instalment credit companies, development finance institutions and credit unions. The Financial Corporation Act, 1974 requires a wide range of financial corporations whose assets exceed $1 million to register with the Reserve Bank and to provide certain information about their activities. These NBFIs whose assets exceed $5 million are subject to regulation of assets ratios, lending and interest rates. The collection of information from NBFIs is a policy objective in Australia so that the regulations can be tailored to suit the requirements of particular types of financial institutions. Importance is also given to the need for consulting NBFIs and seeking their co-operation for voluntary restraint.21

Canada: In Canada, there are institutions other than banks which accept deposits from and make loans to the public. Some of these institutions such as trust companies, loan companies, money-lenders and credit unions operate under certain special federal or provincial government laws. Others, such as finance and investment companies are incorporated under the general federal or provincial company legislation. The deposits with all the provincial trust and loan companies are insured with the Canada Deposit Insurance Corporation a federal institution with regulatory powers.

A loan company in Canada may accept deposits but the amount so held should not exceed the aggregate amount of its paid-up and unimpaired

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capital stock and of its cash actually in hand or deposited in any chartered Bank in Canada. A trust company may receive money on deposit and allow interest thereon at such rate as agreed upon and also advance money to protect any estate, trust or property entrusted to it; it has to maintain at all times, reserves at an aggregate of at least 25 percent of the amount of funds received for guaranteed investment repayable on demand or becoming due in less than one hundred days. It can borrow upon the credit of the company or against the hypothecation, pledge or mortgage of its property.\textsuperscript{22}

\textbf{France:} The Jurisdiction of the National Credit Council which is entrusted with the enforcement of the regulation of banking has been extended to two categories, namely, banks and financial institutions. Institutions other than banks cannot accept public deposits repayable on demand or on notice for less than two years. Financial institutions have been defined as enterprise which, without receiving public funds, carry out one or several of the following operations.

(1) Effect short or medium-term credit operations and exchange operations.

(2) Discount, take as security or collect bills of exchange, cheques and public securities.

(3) Serve as commission agents, brokers or intermediaries in the operations concerning securities and funds of the state, bills of exchange and public securities.

The financial institutions are not classified into legal categories. However, the National Credit Council imposes upon them a de facto specialisation in strictly limiting their activities to specific types of operations which the institutions declare in their application for registration. This specialisation permits categorisation of financial institutions are: Group finance companies, House of securities, Houses for financing hire purchase, Loan securities or real estate societies, Societies for lease (movable and immovable property), Miller union and miscellaneous. The Commission of Control of Banks in France may strike out the name of a company from the list for non-adherence to the advices issued by the Commission.23

Japan: In a broader sense, NBFIs in Japan include financial institutions such as mutual loan and savings banks, credit associations, credit cooperatives and financial institutions for agriculture, in addition to the insurance companies and government institutions including financial agencies and the postal savings system. Monetary policy in Japan was traditionally centred on commercial banks. However, certain monetary measures have recently been extended to NBFIs. The reserve deposit requirements which are

limited only to banks have since 1963 been extended to mutual loan and savings banks and credit associations holding deposits of over 20 billion. In 1969, the Central Co-operative Bank for Agriculture and Forestry was also brought under control.24

Malaysia: The provisions of the Borrowing Companies Act 1969, regulate the activities of NBFIs in Malaysia. The term ‘borrowing business’ has been defined to mean acceptance of any money on deposit or loan by a person from more than ten persons wherein the borrower is under a liability to repay the money to those persons and is subjected to restriction in the lending or investment of such funds.

The Central Bank is empowered to make rules prescribing the rates of interest to be allowed by non-banking companies on public deposits. The borrowing companies are required to maintain a reserve fund. Restrictions on payment of dividend are also provided for in the Act. Besides maintenance of a minimum amount of liquid assets, as prescribed by the Central Bank from time to time, no licensed borrowing company shall hold risk assets in excess of ten times of its paid-up capital and reserves. No licensed borrowing company in Malaysia may acquire (1) share in any

corporation (2) immovable property or (3) any beneficial interest in any firm except with the consent of the Central Bank.\textsuperscript{25}

**New Zealand:** The power of the Reserve Bank of New Zealand to exercise control over non-banking financial intermediaries have been considerably strengthened with the passing of the Reserve Bank Act 1973. One of the main objectives of this legislation was to bring all financial institutions within the sphere of monetary policy and thus enable the Bank to exercise uniform supervision over both banking and non-banking financial institutions.

**Philippines:** The Investment House, that is, enterprises which are engaged in underwriting of securities of other corporations are subject to the provision of the Investment Houses Law. These Houses cannot engage in banking operations.

**Switzerland:** The problems arising out of acceptance of deposits by NBFIs necessitated a revision of the Swiss Banking Law in 1971. The controlled activity now covers all industrial, commercial, and finance companies which appear on the public capital market with a view to accept deposits from other companies or persons. NBFIs cannot accept saving deposits. Advertisement soliciting/inviting deposits may be issued only in accordance with the rules prescribed by the concerned authorities in this behalf. The ceiling and margin on loans are fixed by law. Deposits cannot be invested except in government

\textsuperscript{25} Vaidyanathan and Sriman, op. cit., p.36.
securities and in immovable properties. More than 7 ½ percent of the investible funds cannot also be invested in one firm. There should be a proportion between owned funds and total liabilities.\textsuperscript{26}

**United States of America:** Under NBFIs the main business of mutual savings bank is collecting and channelling savings of small investors into mortgages and other types of loans and government bonds. They do not generally accept demand deposits and hence, cannot conduct many ordinary commercial banking operations. Most states permit mutual savings banks to invest only in an approved list of securities prepared by the state legislature or the state agency supervising the banks.

Sales finance companies are active in the field to direct consumer lending and many consumer finance companies are expanding into consumer durable and commercial financing. Investment companies which are governed by the Investment Company Act of 1940 are required to be registered with the ‘Securities and Exchange Commission’. They are prohibited from making any transactions in the nature of trading in securities and the Act prescribes the maximum amount which can be invested in a particular company. Substitution of the holdings is subject to the prior

approval of the Commission. Payment of dividend from any source other than from the company’s undistributed income is prohibited.\textsuperscript{27}

**West Germany:** The main concern of the authorities in the Federal Republic of Germany as to money transactions of NBFIs is to prevent abuses in the money market and especially to save the depositors from loss. With this end in view, acceptance of deposits by a NBFI amounts to conducting banking transactions which, in principle, are generally permissible.

Credit institutions are required to observe certain requirement of equity capital and maintenance of liquidity as prescribed by the authority. They have to invest their funds in such a way so as to safeguard ‘adequate solvency’ at all times. Credits granted to any one borrower in excess of 15 percent of the credit institution’s ‘liable funds’ are to be reported to the central bank. Further, large credits should not exceed in the aggregate 50 percent of the total lendings and a single credit should not exceed the total liable funds; hire purchase companies are, however exempted from these restrictions. There are also certain restrictions on the grant of loans to directors. Investigation of NBFIs may be carried out by the concerned authorities.\textsuperscript{28}


1.6 Non-Banking Financial Intermediaries and Underdeveloped Countries

Non-Banking Financial Intermediaries play a special role in underdeveloped countries. In India, the capital market is unorganised and underdeveloped. Majority of the people in India are poor and they are unable to save. Those who save, invest their savings in gold, jewellery, real estate, speculation, foreign exchange and conspicuous consumption. Under these circumstances, NBFIs undertake the task of encouraging the personal savings among the middle-income group of the people. Further, as the economy develops, the non-monetized sector is gradually transformed into the monetized sector. With the increase in the rate of monetization of the economy, the banking habit of people also grow. In such a situation, the commercial banks alone are not sufficient to mobilise the savings and put them into productive channels. So the role of NBFI becomes all the more important in mobilising and investing these savings for capital formation and economic development. The major function of financial intermediaries is to transfer the savings of surplus units to deficit units; hence, they can play a useful role in the economy of the country. To the extent that they help in monetising the economy and transferring unproductive financial assets into productive assets they contribute to the country’s economic development. In

fact, the nature and diversity of financial institutions themselves have become measures of economic development of a country.\textsuperscript{30}

1.7 Historical Overview

Mutual benefit societies have been in existence in Europe since the Middle Ages; their basic principles were either religious, economic and social. However, organisations of this kind, based on social solidarity, have existed in China, India, Indonesia and Chile as well as throughout Europe, at various times. The concept of mutual benefit really took off in Europe during the industrial revolution of the nineteenth century. Social changes gave birth to new forms of solidarity and various forms of mutual benefit societies saw the light of day.

Mutual benefit societies grew from the desire of certain individuals to group together and to pool their resources and activities in order to meet the needs of the community which was thus constituted. In this way, they laid the foundations for their own development. Non-profit organizations lie behind the public social protection system based on redistribution, in most European countries. They enable workers who are victims of a social risk to be protected within the framework of social insurance. The role of the mutual

benefit societies changed after 1945, with the creation of the major social protection schemes, depending on the options chosen by the government.\(^{31}\)

1.8 Structure and Functioning of Benefit Fund

Benefit funds are classified under the financial intermediaries in the non-banking sector by the Reserve Bank. In the last four decades and more, the Indian financial system has been undergone significant changes. Several specialised financial institutions have been set up to assist industry, agriculture, exports and imports, small scale industry and housing.\(^{32}\) Benefit funds are public limited companies operating with funds of others raised in the form of capital and deposits.\(^{33}\) A Benefit Fund registered under the Companies Act and limited by shares may, while drafting its articles, adopt partly its own regulations and these articles are to ensure compliance with the various provisions of the Companies Act. Keeping in view the day to day requirements for the smooth and efficient running of the organisation, the salient features of the companies are discussed below.\(^{34}\)

A) Features of Benefit Funds

Let us now examine the special features of Benefit Funds.

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1. Benefit funds are a typical home spun credit institution, with the middle class community being their target customers.

2. All benefit funds are incorporated under the Companies Act in force from time to time as public limited companies.

3. Benefit funds have relatively low capital base. The authorised capital of most benefit funds is less than Rs.5 lakhs.

4. Benefit funds are the Nature of Equity Capital. The equity capital of Benefit funds is not raised at any specific point of time. The face value of the equity share is rupee one and it is available in tap. It is not offered to the public for subscription, but only to the persons who wish to become members.

5. The shares of Benefit funds are not listed in stock exchange.

6. Benefit funds are localised credit institutions. They operate in a specific geographic area as their names often suggest. The 'Fund office' is a landmark in the locality. Being of local operations, most benefit funds are relatively small institutions. They prefer to remain so, as they can service their customers efficiently. They generally do not indulge in vigorous advertisement campaigns or organise deposit fortnights or months and thus operate in a low profile.35

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7. Benefit funds were promoted by public spirited men, drawn from various professions like judiciary, legal, education and accountancy. It provides a safety for the hard earned savings of the middle class at a time when bank failure were common and to provide loans for both investment and consumption needs.

8. Benefit funds are based on the principle of Mutuality. Dealing as they do with their own members, benefit funds collect the savings of the members and lend them to the needy members.

9. Benefit funds in their working are democratic like joint stock companies. The Board of Directors are elected by the share holders, who act as trustees of the funds entrusted to them for safe keeping and prudent investment.

10. Benefit funds practice co-operation in turn spirit. The mutuality principle inbuilt in Benefit funds is based on operation as people join as members voluntarily. Those who have surplus money deposit with benefit funds who make them available to those who need them.36

Let us now examine the primary and secondary objects of benefit funds.

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B) Objectives of Benefit Funds

There are two major objectives, one is primary objective and the other is secondary objective.

Primary Objectives

1. To encourage and afford all facilities for cultivating thrift, saving habit and to receive long and short term deposits, and in particular recurring, fixed and saving deposits – not being current accounts from individuals enrolled as members.

2. To lend, grant loans to individuals enrolled as member on the security of immovable properties and/or on the security of deposits, gold, silver, jewellery and securities such as insurance policies, NSC, KVP, NSS and other government securities upon such terms and interest as may from time to time be decided by the Board of Directors and to sell or realise or transfer such securities as and when necessary.

3. To lend or provide micro credit to Micro Financial Groups or SHGs on the security of group guarantee or such other personal guarantee with or without charge on returns of investment so made.

4. To make and alter the rules as may be determine from time to time by the members for carrying on the business of the company more profitably and efficiently.\footnote{Sabanayagam, P., Report of Committee of Nidhi Companies, Department of Company Affairs, New Delhi, September 2000, pp.5-6.}
Secondary Objectives

1. To remunerate any persons or company for any services rendered or to be rendered in or about the formation or promotion of the company or the conduct of its business.

2. To pay out of the capital of the company or otherwise all expenses incurred in connection with the formation, registration and business of the company.

3. To draw, make, accept, endorse, execute, issue promissory notes, cheques, drafts and other negotiable instruments for the purpose of the company.

4. To open current or deposit accounts with any bank or banks and to pay money into and draw money from such accounts.

5. To borrow, raise or secure money from members in such manner as the company may think fit or pay off the same for the limited purpose of creating fixed assets or infrastructure for the company.38

6. To purchase or otherwise acquire lands and buildings or to construct buildings, hold, maintain, improve, demolish and reconstruct in such manner as the company may deem fit for the purpose of the company.

7. To sell, dispose off, transfer, exchange, lease, mortgage or otherwise, deal with any property, or rights in which the company is concerned.

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38 Gopalakrishnan, M.S., & Srikumar, S., op.cit., pp.18-19.
8. To enter into arrangement with any Government, State or Municipal or local or any authority and to obtain any advantage for the company.

9. To distribute any of the assets of the company in specific among the members as may be permissible under law in the event of winding up.

10. To invest and deal with money of the company not immediately required in such manner as may from time to time seem expedient and be determined subject to the regulations and notifications of the Regulatory Authority.  

C) Functioning of Benefit Funds

Benefit Funds are considered as financial intermediaries which are accepting deposits from members and they are taking upon themselves liabilities. While doing so, they are converting the idle cash balances or money of the members into interest earning financial assets. Thus money is changed into finance. The accepted liabilities are exchanged for assets by advancing loans to members. While the liabilities are what Benefit Funds owe to members, the assets are what they own from members. In this process of financial intermediation, they bring depositors and borrowers together.  

The interest rates they charge to borrowers are more than the interest rates they offer to depositors. The difference between the two is the spread, out of which the expenses for running the company are met and the

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surplus becomes their profit. The average cost of funds or deposits of benefit funds is around 15 to 18 percent and the average earnings on advances and investment are around 20 to 22 percent on an annualised basis. After paying taxes out of the gross profit, the net profit is derived. Benefit Funds are able to keep the cost of operations relatively to as the establishment expenses are low and their salary structures are comparatively lower than in other financial and credit institutions.41

A) Sources of Funds

1. Share Capital

Benefit Funds have a low capital base. In urban and semi-urban centres, the authorised capital ranged in between Rs.1 lakh to Rs.5 lakhs and in metropolitan centres, upto Rs.25 lakhs. The face value of a share was fixed Rs.1 in 1980 and after it was changed in to Rs.15 or Rs.25 as per discretion of the members.42

2. Deposits

Deposits are the major source of funds for benefit funds. They have schemes for saving deposits, recurring deposits, fixed deposits, cash certificates, jubilee certificates and other cumulative deposits like Kamadenu and Kalpaka Vriksha.

42 Radhakrishnan, S., and Gopalakrishnan, S., op.cit., p.8.
a) Saving Deposits

A saving deposit can be opened by a member with Rs.5 or Rs.10 with no limits on maximum amount. There are restrictions on the number of withdrawals and the amount per week or month. A minimum balance has to be maintained and interest is calculated on the minimum balance in the account generally between the 6th and 26th of every month. Members use the savings deposit account to make periodical instalment payments on their loans or for transferring monthly instalments to their recurring deposits. They cannot issue cheques against such deposits. The interest paid on such deposits varies from one company to another which ranges from 5 percent to 7 percent.43

b) Recurring Deposits (RD)

Benefit funds were the first to introduce recurring deposit schemes in India and they borrowed the idea from a Scottish magazine. The minimum amount of RD varies from Rs.5 to Rs.500. The duration of the deposit can be for a minimum of 12 months to a maximum of 120 months. The interest rates differ with the period of maturity.44

c) Fixed Deposits (FD)

Different benefit companies prescribe different minimum amounts for fixed deposits. They vary from Rs.100 to Rs.500. The duration

of the deposit can be as low as three months to as high as seven or even ten years. The rates of interest offered differ among various benefit companies, depending on the duration of such deposits. Interest is payable monthly unless the depositors opt for quarterly or half-yearly payments for the sake of convenience, in the case of small deposits.

d) Cumulative Deposits (CD)

Besides the savings, RD and FD, some benefit companies have schemes for CDs where the interest is compounded on monthly basis and maturity values payable at the end of the stated period are fixed. The schemes also offer doubling or tripling of amounts at the end of stated periods. Generally deposits double in 45 to 52 months and trebles in 68 to 80 months. Benefit companies which have completed 25,50,75 and 100 years introduced jubilee certificates with attractive interest rates. There are a few benefit companies which have cash certificate schemes.45

b) Uses of Funds – (Deployment of Funds)

General

1. To ensure the safety, liquidity and profitability of a benefit companies, conditions need to be imposed on the deployment and utilisation of funds. The benefit companies should be deposited 10 percent of the

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funds in a nationalised bank and 90 percent should be used for business.

2. Benefit companies should earmark $\frac{1}{2}$ percent of the deposit amount received towards Contingency Fund. The purpose of setting up this fund is to have sufficient resources to help Benefit companies who may face financial crunch at some point of time on account of unexpected withdrawal of deposits or delayed recovery realisation of dues from loaners.

3. Loans against jewellery and gold not exceed 60 percent of the estimated value of the security offered. Period of loan not more than 12 months.

4. Loans against immovable property not exceeding 33 percent of the value of the property offered as security.

5. Not more than Rs.2 lakhs per individual where total deposits is Rs.2 crores or less and the sum total of all individual loans of Rs.50,000.46

3. Loans

In the matter of lending, benefit companies follow a conservative and cautious policy. The loans are granted against acceptable securities like jewels, house property, life insurance policies, NSS and UTI certificates, besides against the deposits of members. Each benefit company

decides on the securities against which they lend and the quantum of advance against each.47

1. Simple Loans

A simple loan is granted against the fixed or recurring deposit of a member. The maximum amount of a simple loan varies between 80 and 90 percent of a member's deposit. The interest rate is generally 1.5 to 2 percent over the contracted rates on deposits. Benefit companies grant loans to salaried class on personal surety, after assessing the member's repaying capacity as evidenced by the salary certificate and of the guarantors. The maximum amount of the loan is generally related to the member's income and is granted for a short period, not exceeding one year or two years. The repayment is effected by taking an undertaking from the employer, wherever possible, to deduct the monthly instalment from the salary payable.48

2. Mortgage Loans

Benefit funds provide two types of mortgage loans namely (a) Ordinary and (b) Special.

(a) Ordinary Mortgage Loans: Refers loans granted to members against their buildings, houses and flats within the specified civil jurisdiction. The ceiling varies from Rs.25,000 to Rs.5 lakhs depending on the resources available with

individual benefit companies. The duration of the loan varies from three to seven years.

(b) Special Mortgage Loans: In the case of special mortgage loan it is not necessary for a member to open a RD account. The loan amount is divided equally over the duration of the loan to arrive at the monthly instalment. Rate of interest varies from 18 to 24 per cent. The amount of the loan is generally 50 percent of the market value of the property offered as security.49

3. Jewel Loans

Most of the benefit companies extend loans against gold jewellery. Generally, the loan amount will be specified per sovereign, based on the market price of gold. With the steady increase in the price of gold borrowers are able to get a higher loan amount. At present benefit companies sanction loans at the rate of Rs.2,500/- to Rs.3,000/- per sovereign (8 grams).

4. Other Secured Loans

Benefit companies advance loans against life insurance policy, NSC, UTI certificates and government bonds, the loan amount varies from 50 to 75 percent of their face value. The rate of interest is varied from 16 to 18 percent.50

Mode of Recovery

When the loan is not repaid by the members the benefit fund resorts to legal action. After decree is given by court the members property its attached for non-repayable amount.\(^5\)

Opening New Branches

The Regulatory Authority is permitted to open branches one who completed five year services and they are allowed to open where one hundred citizens or more of a town or village represent to a company. Benefit Fund may open up to three branches, within the Revenue District; and beyond three branches outside the District, with the prior permission of Regulatory Authority.\(^6\)

1.9 An Overview of Indian Scenario

The performance of the financial sector was very poor. The early part of 1960s and then there has been a gradual improvement in all the banking and non-banking financial sectors. India stands on the beginning of the new millennium, having largely completed the first phase of financial sector reforms. The first phase, liberalization of interest rates and direct credit, began in the early 1990s, hand-in hand with real sector deregulation. From the mid 1960s to the early 1990s, Indian government in effect treated the

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financial system as an instrument of public finance (Hanson and Kathuria 1999). Public institutions dominated the financial system; competition was limited, between banks and among banking sector, the capital markets and international financial markets. When problems of irregularities occurred, regulations were changed to prevent similar outbreaks, without much attention to their impact on the financial system as a whole. Now the financial system is in need of a second phase of reforms to meet some remaining and new challenge.\(^{53}\)

Growth of NBFIs is an integral part of the development process of financial markets in the Indian economy. A healthy and growing non-banking financial sector is necessary for promoting the growth of an efficient and competitive economy. NBFIs have catered to the financing needs of small and medium companies and households sector – segments not adequately served by traditional commercial banks. In 1980s and early 1990s, NBFIs expanded rapidly in response to the growing need for flexible and prompt financing at retail level, which the banks could not do due to the strict regulatory standards, state ownership and tradition. NBFIs increased their deposit base aggressively by offering attractive rates and reaching remote areas. However, at the same time seek higher returns on assets by lending to low quality borrowers by making investments. NBFIs were initially intended

to cater to the needs of small savers and investors, but later on they developed into institutions that can provide services similar to those of banks.  

India has witnessed a phenomenal growth in the number of Non-Banking Financial Companies during last decade. The number of such companies were stood at 7,003 in 1981 and it further increased to 24,009 in 1990. The compounded growth rate of companies works out to approximately 24 percent per annum.

Benefit funds (generally called Nidhis) are among the oldest NBFIIs incorporated under the Indian Companies Act and still functioning in different parts of the country. The oldest Benefit fund, the Mylapore Hindu Permanent Fund Ltd., was established in 1872. According to a study made by the RBI, there was 2027 benefit funds in India with total assets amounting to Rs.6278.28 crores at the end of November 2004.

An interesting feature about the growth of Benefit Funds was their heavy concentration in Tamil Nadu. The following table brought out the state wise distribution of Benefit Funds.

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TABLE No. 1.3

STATE WISE DISTRIBUTION OF BENEFIT FUNDS (2004)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>State</th>
<th>Number of Notified Benefit Funds</th>
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</thead>
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<tr>
<td>1.</td>
<td>Tamil Nadu</td>
<td>1099</td>
</tr>
<tr>
<td>2.</td>
<td>Andhra Pradesh</td>
<td>708</td>
</tr>
<tr>
<td>3.</td>
<td>Maharashtra</td>
<td>75</td>
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<tr>
<td>4.</td>
<td>Kerala</td>
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<td>5.</td>
<td>Karnataka</td>
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<tr>
<td>6.</td>
<td>Pondicherry</td>
<td>30</td>
</tr>
<tr>
<td>7.</td>
<td>Uttar Pradesh</td>
<td>10</td>
</tr>
<tr>
<td>8.</td>
<td>Delhi</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2027</td>
</tr>
</tbody>
</table>


The nature of the business of the benefit funds has been determined by the social customs and need of the members. Their business is mainly confined to cities or towns in which they incorporated. Until recently, these institutions were exempted from income taxes, and their operational costs were very low. Thus, due to several advantages such as immunity from taxation, low operational costs, intimate knowledge and direct contact with the members resulting in the reduction of the volume of bad and doubtful debts.
The mutual benefit funds have been viable intermediaries so far despite their small size and low turnover of business.\(^5^7\)

1.10 Growth of Benefit Funds in Tamil Nadu

Long before the organised financial institutions started catering to the credit needs of common people, Nidhis and Benefit funds have started functioning in our country, particularly in the south and very particularly in Tamil Nadu. They have celebrated centenary of their existence. These institutions were set up by a group of public spirited and philanthropic individuals in a town or locality. They confined their activities within their respective society.

Many benefit funds which have given a good account of themselves for over hundred years in Tamil Nadu.\(^5^8\) Hundred years old benefit funds in Tamil Nadu are Egmore Benefit Society Limited (1870), Mylapore Hindu permanent fund Limited (1872), Purasewakam Hindu Sunthatha Sunga Nidhi Ltd. (1879), Sriman Madhwa Sidhanta Onnahini Permanent Fund Ltd. (1881), Hindu Janopakara Saswatha Nidhi Ltd. (1882), The Nungambakkam Saswath Dhana Rakshaka Nidhi Ltd. (1883), Trivellor Janopakara Saswatha Nidhi (1890), Madras Hindu Permanent Fund Ltd.

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(1894), Kumbakonam Mutual Benefit Fund (1894), and Cuddalore permanent fund Ltd. (1899).\(^5^9\)

Trend of Benefit Funds in Tamil Nadu is given in table no. 1.4.

**TABLE No. 1.4**

**NUMBER OF BENEFIT FUNDS IN TAMIL NADU YEAR WISE**

<table>
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<td>4.</td>
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<td>1995</td>
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<td>7.</td>
<td>1996</td>
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<td>8.</td>
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<td>9.</td>
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<td>15.</td>
<td>2004</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1099</strong></td>
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</table>

**SOURCE:** Department of Company Affairs, Chennai, 2004.

\(^5^9\) Gopalakrishnan, M.S., and Srikumar, S., *op.cit.*, pp.55.
There are 1099 Benefit Funds registered in Tamil Nadu because the middle class people of the state are generally frugal and thrifty minded and would prefer to place their hard earned savings in credit institution that offer higher rates of interest than banks and finance companies. Secondly, the depositors have greater confidence in the management and stability of Benefit Funds. Another reason for the high concentration of Benefit Funds in Tamil Nadu was the reliance of the middle class people on benefit funds for their credit needs and the general tendency among them to pay their loan installments promptly, as they were raised against their gold ornaments and house property to which they had sentimental attachment.

The Benefit Funds were distributed among various districts of Tamil Nadu, with Chennai city alone accounting for 555 benefit funds. The district wise distribution of Benefit Fund in the State is presented in Table 1.5.

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60 Department of Company Affairs, www.roc.chennai.tn.nic.in.
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**SOURCE:** Department of Company Affairs, www.roc-chennai.tn.nic.in
Table No. 1.5 reveals that there are 555 benefit fund functioning in Chennai alone which is followed by Vellore (51) district. The third place is occupied by Kanyakumari District (50).

Under the NBFIs Directions, a Benefit Fund shall accept or renew any deposit only from its shareholders and such deposits may be repayable on demand or on notice or after any period specified in "any contract between the company and its shareholders". Many more BFCs are in the habit of accepting deposits even for 20 years or more under re-investment scheme whereas other NBFCs are permitted to accept deposits for a period of over 12 months and at the maximum of 60 months. Table No. 1.6 shows the aggregate deposits growth of benefit funds in Tamil Nadu during the period 1991-2004.

---

### TABLE No. 1.6

**AGGREGATE DEPOSITS GROWTH OF BENEFIT FUNDS**

**IN TAMIL NADU (1991-2004)**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Fiscal Year</th>
<th>Amount of Deposits (Amount in Crores of Rs.)</th>
<th>Percentage of Deposits</th>
<th>Percentage of Increase/Decrease over the previous years</th>
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<td>1991</td>
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**SOURCE:** Computed from various issues of RBI Bulletin.

Table No. 1.6 reveals that the amount of deposits increased from Rs.168 crores in 1991 to Rs.1509 crores in 1996. After that the deposit
amount declined from Rs.990.60 crores in 1997 to Rs.375.56 crores in 2004. The tremendous short fall of deposit due to withdrawal of membership and RBI regulations and control over the benefit funds.63

Many more benefit funds came up without registering under the Indian Companies Act and they were declared as illegal. As a consequence many benefit funds had to be liquidated and with debtors default in payment, they could not go to court. This was a disastrous blow to many benefit companies, though well managed companies were able to survive and prosper. These failures made many promoters realize the importance of sound and prudent management, subordinating their own interests to that of their depositors.64

Consequently the Central Government appointed a committee under the Chairmanship of Shri. P. Sabanayagam, Retired Chief Secretary of Tamil Nadu Government in September 2000, to review the functioning of benefit funds and submit it recommendations. On the basis of the recommendations of Sabanayagam Committee Report, stringent regulations were made by the Central Government for the entire benefit companies. It became extremely difficult even for well performing companies to carry on business. On one hand public confidence was shaken and on the other was

stringent RBI Regulations that tied the hands of even the healthy players. Medication is to cure the disease and not kill the patient.

After great amount of persuasion by Chamber of Benefit Funds, the Central Government and Department of Company Affairs, appointed an Expert Group with the representatives from the industry to study the issues and to recommend remedial measures. The Central Government accepted the recommendations of the Expert group into do. This gave the benefit funds the much needed breathing space for settling down. At the same time it paved the way for companies to professionalise their services in a gradual manner.65

1.11 Benefit Funds in Kanyakumari District

Kanyakumari is the smallest district in Tamil Nadu and the southern most district of India. The district with it headquarters at Nagercoil has an area of 1684 square kilometers. The population is 621.12 lakhs as per 2001 census, with a density of 478 person per square kilometre. The district is situated at the footstep of the western ghats and is bounded by Tirunelveli district in the North and North East, by Kerala State on the North West, and has sea in the South East Bay of Bengal, South Indian Ocean and West Arabian Sea.

The district has been divided into four taluks for the purposes of revenue and development administration. There are 67 revenue villages, 1424

hamlets, 4 municipalities and one township. For the purpose of development administration the district has been divided into 9 community development blocks, 224 village panchayats, 64 town panchayats and one township.\textsuperscript{66}

Table 1.7 states the number of benefit funds registered in Kanyakumari district. There are 50 benefit funds in Kanyakumari district. In that 23 Benefit Funds are situated in Agasteeswaram, 3 in Killiyoor, 6 in Kurunthencode, 5 in Melpuram, 2 in Munchirai, 3 in Rajakkamangalam, 4 in Thovalai, 3 in Thuckalay and only one benefit fund is situated in Thiruvattar block.

There are more benefit funds in Agasteeswaram Block. Density of population, high level of literacy, standard of living, the level of income, saving habit of the people and business purposes are more that is the reason for growth of benefit funds in Agasteeswaram block compared to other blocks.

The first benefit fund in Kanyakumari District was established in Agasteeswaram Block in 1990. In the year 1994 to 1996 many benefit funds are established in Kanyakumari district because in that time RBI relaxed its rules; it is most favourable for benefit fund and beneficiaries.\textsuperscript{67}

\footnotesize
\textsuperscript{66} Lead Bank, Annual Credit Plan, 2002-2003, p.4.
\textsuperscript{67} Registered of Company, www.roc.chennai.tn.nic.in.
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SOURCE: Department of Company Affairs, www.roc.chennai.tn.nic.in
1.12 Problem formulation

The growth of benefit funds in Kanyakumari district has been increased rapidly from 1990 onwards, leading to severe competition among themselves. Consequently some of the companies faced failure, ultimately severely affecting the depositors. As a result, even the companies providing better services to their customers found difficulty in the mobilization of funds. There is fall in the quantum of deposits adversely affected the deployment of funds and thereby reducing their profitability. In general, their total financial performance is not very much encouraging. The study mainly focuses to overcome from the problems of difficulty in mobilization of deposits, low deployment of funds and low profitability faced by the benefit funds.

This study would help not only the government and regulatory authorities in the correct assessment of the structural weakness but also to identify the operational problems of the mutual benefit funds. Analysis of the regulatory framework with help to understand their problems and thereby to take remedial measures. The research is also made an attempt to analyse the financial performance of the benefit funds and a comparison between the blocks after 1994 will provide an insight into the working benefit companies.

1.13 Objectives of the Study

The main objective of the study is to highlight the performance
of the Benefit Funds from the point of view of the funds mobilisation, application of funds and profitability on the basis of the published annual reports. The specific objectives of the study are

1. To analyse the socio-economic conditions of the sample beneficiaries.
2. To review the structure and functioning of the Benefit Funds Limited.
3. To examine the operational performance of the benefit funds.
4. To evaluate the assets and liabilities, profit and loss structure repayment performance and loan outstanding.
5. To investigate the problems faced by the benefit funds in their day to day operations.
6. To enquire the problems faced by the beneficiaries while borrowing and repaying the loans.

1.14 Hypotheses

Hypothesis – 1:

Benefit funds are localized and de-centralized financial institutions and hence their profit making will be dependent on local factors. Thus the data will show uniformity within every block and not within the different blocks of the particular annual period. Further local factors will be determinants in deciding all the aspects of the profit of the benefit fund. The
factors that affect the profit of the fund will be nature of deposits and depositors.

Hypothesis - 2:

Loan recovery is an important aspect of the benefit funds and this too will be influenced by local factors. Loan recovery is important in deciding the profit structure. Particularly the nature of family, earner-dependent ratio, the problems encountered by the respondents and the kind of income annually obtained will influence the recovery performance of the benefit funds.

Hypothesis - 3:

Saving pattern increases with increase in income. As benefit funds are involved in investments they cannot risk very highly and hence they try to give loans to people who are highly non-mobile to the area. This results in high degree of investment in agriculture. This will result in annual patterns of low profit or low recovery performance during the periods of draught.

1.15 Chapterisation

The present study “A Study of Non-Banking Financial Intermediaries with Special Reference to Benefit Funds in Kanyakumari District” is organised into six chapters.
The first chapter is the introductory chapter. This chapter deals with the meaning and definition of Non-Banking financial Intermediaries, Classification, Need for and importance, NBFIs in developed and underdeveloped countries, structure and functioning of benefit fund, moreover it gives overall picture about benefit fund in India, Tamil Nadu, and Kanyakumari, Problem formulation, Objectives of the study, Hypotheses and Chapterisation.

The second chapter gives a concept of the study and a survey of related literature.

The third chapter deals with the Methodological Strategies. It covers significance of the study, choice of the study area, selection of samples, collection of data, statistical tools and techniques used, period of study and limitations of the study.

The fourth chapter analyses the socio-economic profile on the sample beneficiaries. It deals with the age composition, sex, caste, religion, mother tongue, marital status, nature of family, housing, ownership of housing, level of education, size of the family, earner-dependent ratio, occupational status, annual income, sources of income, pattern of expenditure and saving, amount of credit borrowing, purpose of borrowing and credit utilisations.
The fifth chapter deals with the performance and evaluation of benefit funds in Kanyakumari district. It covers membership, share capital, reserve funds, deposits, borrowings, loan disbursement, purpose-wise distribution of credit, repayment of loans, difficulties in the repayment of loans, overdues, reasons for overdues, recovery, problems encountered by the beneficiaries, problems encountered by the benefit funds, assets, liabilities, profit and profitability, factors affecting profitability in benefit funds and profit and loss structure.

The sixth chapter gives the summary of findings, suggestions and conclusion of the study.