Nonbank financial intermediaries like other intermediaries act as middlemen between surplus units and deficit units. Increasing importance of nonbank financial intermediaries (NFIs) has led to the problem of reorientation of monetary policy. It has been argued that the traditional techniques of monetary controls have become ineffective due to the growth of NFIs and the scope of monetary policy should be extended to cover these NFIs. Mere regulation of quantity of money and the level and structure of interest rates may not be sufficient in an economy where the structure of financial assets is fast changing.

An attempt is made in this chapter to examine the role of NFIs in the expansion of credit and to clarify the manner
in which they differ from commercial banks and also to examine the implications of the growth of NFIs for monetary policy. The issues are discussed in general context. Later on it has been tried to analyse the role of NFIs in the Indian context and the measures taken by the Government/Reserve Bank of India to regulate them.

**Banks and Nonbank Financial Intermediaries**

In recent years the efficacy of monetary policy limiting the direct central bank regulation to commercial banks has been challenged. This challenge is based on the view developed by Gurley and Shaw in a theory of finance that encompasses the theory of money and a theory of financial institutions that includes banking theory. The new view vehemently opposes the notion of a fundamental dichotomy between commercial banks and nonbank financial intermediaries. A long accepted dichotomy in traditional financial theory maintains that commercial banks are creators of loanable funds, while the NFIs are rather brokers or middlemen for loanable funds. More recently recognition of formal similarities in the operations of commercial banks and other financial institutions has provoked an extended controversy concerning whether the traditional dichotomy is substantial or merely terminological.

Financial intermediaries have been defined broadly as economic units whose principal economic activity is the holding of and trading in financial assets. Such a definition of financial intermediaries clearly includes the banking system.
Commercial banks acquire the primary securities of borrowers and provide their own indirect securities for the portfolio of lenders. Thus as financial intermediaries banks and NFIs are alike which serve the function of transmitting the savings of surplus economic units to deficit units. By virtue of their intermediation all financial intermediaries create liabilities against themselves which are the assets held by the ultimate lenders. It is suggested by some economists that the key feature which distinguishes banks from NFIs is that the liabilities created by banks are unique in that these liabilities are themselves spendable, whereas the liabilities of NFIs are not.

An alternative aspect of this controversy emphasises the creation aspect in the case of bank activities while transmission activity in the case of NFIs. Banks it is argued, can actually increase the total volume of spending in the economy by their capacity to add to the stock of credit in existence, whereas the NFIs are merely 'brokers' transmitting funds which have been created elsewhere i.e. by the banking system.

Thus the conventional monetary theory has distinguished between commercial banks, on the one hand, and NFIs, on the other, on the ground that only the liabilities of the former are widely accepted as a medium of exchange, thereby endowing the commercial banks with virtual monopoly of the administration of the payments mechanism.
The authors of the new theory of finance also acknowledge that the monetary system is unique in being the administrator of the payments mechanism. In fact, in its revised and definitive version, the new theory emphasises that the monetary system and other financial institutions alike can all increase the supply of loanable funds. The creation of loanable funds, therefore, is not the exclusive prerogative of commercial banks alone. The NFIs can also exercise this prerogative.

Guttantag and Lindsay view that banks are potentially a much more potent engine of credit creation, even if the expansion process is not exclusively a bank phenomenon. Banks are indeed uniquely important because, much more than other intermediaries, they are potentially a source of cyclical instability i.e. the uniqueness of banks is to be found in their ability to create credit in excess that of NFIs. Joseph Aschheim strongly maintains that this is not the essential attribute of uniqueness. Central to the true uniqueness of banks is their ability to create means of payments. He asserts correctly that even if NFIs hold all their reserves as deposits at the Central bank and hence possess the same credit creating potential as banks, banks would still be different for their absolute rather than conditional promise of convertibility. Thus the uniqueness of banks resides in their ability to create the means of payments.

Pritchard points out that it is an opinion that in their time deposit operations the commercial banks are brokers, while
in their demand deposit operations they are creators of loanable funds. To him this statement seems to reveal the basic misunderstanding of the modus operandi of the commercial banking system. For commercial banks are not middlemen or intermediaries in any of their lending operations. Banks do not loan out the proceeds of demand deposits, of time deposits or of capital accounts. From the standpoint of this system, new money is always created when banks loan to, or acquire securities from, the non-bank public, but what is always loaned is new money, money which never existed prior to the consummation of the loan or the purchase of the securities.

In reply to Pritchard, Aschheim asserts that Pritchard's clarification of the modus operandi of the banking system sidetracks, rather than faces, the source of difference. The banks in their time deposit operations are intermediaries, and not creators, of loanable funds. He further states that it is because of their demand deposit operations that commercial banks - under the fractional reserve system - have the capacity to perform net creation of new money. For demand deposits, but not time deposits are a widely accepted means of payment and are, therefore, money. In so far as banks are engaged in demand deposit operations, they are able to create loanable funds, but if they were suddenly denied the ability to carry on demand deposit operations, commercial banks would, in essence, be instantaneously transformed into saving banks - financial intermediaries.
The uniqueness of commercial banks according to Warren Smith is indicated by the speed and automaticity of the process by which reserves lost by one bank when it makes loans are restored to the banking system as a whole. He further states that the restoration of reserves to commercial banking system within a few days during which they are lost through lending is built-in feature of the payments mechanism, and it is for this reason that their distinct role as issuers of means of payments gives commercial banks a peculiar ability to expand credit.\(^{10}\)

John Wood states that one must be careful to distinguish the results of applications of the new view from the new view itself. Its proponents regard the new view as an approach, a framework, a focus, not a set of results.\(^{11}\)

The staunch advocate of the new view, Tobin, believes that the distinction between banks and other financial intermediaries has been too sharply drawn, the differences are of degree, not a kind. He further states that the commercial banks do not possess, either individually or collectively, a widow's cruse which guarantees that any expansion of assets will generate a corresponding expansion of deposit liabilities.\(^{12}\) In this connection it should be noted that the difference between banks and NFI is gradually disappearing in the USA and the UK.\(^{13}\)

A general conclusion might be drawn that banks and NFI have fundamental characteristics in common, i.e. both types of intermediaries perform the basic role and the function of
financial intermediation, and that the differences are of degree rather than of kind. It should be admitted that the liabilities created by the banks do have special quality of being used as money whereas the financial assets created by NFIs do not. However, there is nothing unique about being unique. In other words, a bank deposit has the special quality of being used as the medium of exchange but none the less the assets created by an NFI for its depositors is also special and different from other financial assets.

Credit Expansion by NFIs.

The operations of NFIs do increase the potential amount of credit that may be extended for any given increase in the liabilities of the central bank. This possibility of credit expansion by NFI constitutes one of the important impediments to the effective implementation of the conventional monetary policy.

The expansion of credit by the commercial banks in a fractional reserve ratio system is quite familiar. Any given increase in bank reserves enables the banking system to expand its deposit liabilities by some multiple of the increase in bank reserves. In the absence of NFI, these bank operations would amount for all credit that could be extended by the financial system.

How far will this situation be changed by the introduction into the credit system of an NFI, e.g. building society which
accepts deposits on the same conditions as the banks and which makes only mortgage loans? If a private individual shifts a deposit from a bank to an NFI, say in response to an interest rate differential and the NFI deposits this sum in its own bank account, the total deposits of the banking system will remain unchanged. All that has happened is the change in the ownership of these deposits, the deposits of the private individuals have fallen and the deposits of the intermediaries have risen by the same sum. However, the total deposits of the financial system have increased since the building society has accepted a deposit liability which did not exist before. The corresponding asset held by the intermediary at this initial stage is a deposit with the banking system. Provided the NFIs hold their reserves in the form of deposits with the banking system, the use of funds which they have newly acquired for the expansion of mortgage loans will leave the reserves of the banking system unchanged. Since the loans and investments of the banks are unaffected by the shift in deposit, loans by the NFIs represent a net addition to the credit extended to the public. If the customary reserve ratio of the building society is \( r \), then the society may lend an amount equal to \( (1-r) \) times the increase in its deposits. If some of this increase in credit extended by the NFI results in a further rise in the deposits of the NFIs a further rise in credit will be possible in a manner similar to that in which the bank credit multiplier operates. It may be noted here in this connection that the initial shift in deposits from banks to NFI will allow a net addition to total credit outstanding to the
public. The multiplier effect of any return flow to the NFI increases only the amount of the NFI's net addition to total credit.

There is a multiplier effect arising from a switch out of money into nonbank deposits. Whatever may be the size of cash ratio, the remainder will be used mainly to make loans and thus to generate income expansion process.

A proportion of saving generated in the process will be diverted to the intermediaries, which in turn will come back in the income generation process through further loans, thereby helping to finance another round of income expansion.16

Here, in the above analysis all deposits are treated as if they are identical. But in reality this may not be the case. There are important differences between demand deposits and time deposits. Demand deposits are a part of money supply defined customarily whereas the time deposits are not. When an individual shifts his primary deposits from a bank to an intermediary, it is very likely that he is shifting a time deposit, since deposits with NFI are closer substitutes for time deposits than for demand deposits. But when the intermediary deposits the received sum with a bank, it normally keeps it in a demand deposit account. Hence the total deposits of the banking system may remain in tact but the deposit composition changes, i.e. the ratio of demand deposits to time deposits of the banking system rises. This rise may have significant secondary effects which will tend to reduce the
amount of potential credit.\textsuperscript{17}

Traditionally and conveniently banks keep higher reserves against demand deposits. The rise in ratio of demand deposits to time deposits—i.e., average ratio of bank reserves to deposits—is thereby raised which will result in the reduction of bank credit multiplier and will partially offset the potential increase in the credit extended by the NFI\textsuperscript{s}. The net amount of the potential credit expansion allowed by a shift in deposits from banks to NFI will, therefore, depend on (1) the reserve ratio maintained by banks against time and demand deposits, (2) the percentage of shifts represented by time deposits, and (3) the NFI multiplier.

The above analysis suggests that the growth of NFI\textsuperscript{s} introduces an increasingly important element of credit expansion in the economy which can not be effectively controlled by the conventional monetary policy. An expansion of monetary control is, therefore, needed, because in some degree the debt they (NFI\textsuperscript{s}) create is a substitute for money. In some degree hence their expansion results in excess money and, therefore, to control the total volume of credit effectively direct controls should be applied to the supply function of NFI\textsuperscript{s}.\textsuperscript{18}

\textbf{Money Substitutes and Liquidity}

NFI\textsuperscript{s} by offering a wide range of assets combining liquidity, convenience, safety and yield in varying proportion encourage wealth owners to hold wealth in these assets rather than in idle money balances.
NFIs make the supply of finance more responsive to changes in demand and demand for finance more responsive to changes in supply. NFIs make the supply of finance more responsive to demand implies that they make the velocity of circulation of money more variable. It may be argued that this reduces the significance of the supply of money. A reduction in the quantity of money may be offset or partially offset by an increase in its velocity. For example, if bank lending is curtailed by restrictive monetary policy, borrowers may turn to NFIs. The stock of bank deposits may be reduced by restrictive monetary policy, but a larger proportion of that reduced stock may be drawn into circulation by being transferred to the ownership of NFIs. The ability of the banks to create money is important but so, too is the ability of NFIs to draw money into active circulation.

Since the mid-fifties, however, the centre of attention has been shifted to the obligations of NFIs. It has been shown that the liabilities of intermediaries constituted increasingly and important element in the overall liquidity position of the economy. Hence, arisen the need for widening the monetary policy and extending central banks' regulatory weapons. The narrowly defined term 'money' could include only currency and bank deposits could be treated as money substitutes but the wider definition of money could include currency and time deposits also and to treat the liabilities of NFIs as money substitutes.
The unit of liquidity could be defined as the liquidity flow provided by the possession of one unit of money stock, and a money substitute would be any item the possession of which provides some liquidity but less than one unit of liquidity per unit of money stock worth of the money substitutes. Money substitutes constitute cushion that diminish the effects of a given change in money stock if their supply increases in response to a tightening of liquidity and decrease in response to an easing of liquidity.  

The liabilities of NFIs which are highly liquid would become better substitute for money and they would cause the demand curve for money to shift leftwards and to become more elastic. If the real supply of money remains constant, the rate of interest will have to fall. On the other hand if it is visualised to raise the rate of interest, the real money supply will have to be reduced much more when NFI are present than in the case where they are not there.

Monetary Policy

The principal function of monetary policy is to bring about changes in the flow of spending in the economy through changes in the stock of money.

According to the Radcliffe Committee the immediate object of monetary action is to influence the level of total demand and regard the structure of interest rates rather than supply of money as the centre piece of the monetary mechanism.
The Committee clearly justify this view by stating that the decision to spend depends upon liquidity in the broad sense and not upon the immediate access to money. Because their spending is not limited by the amount of money in existence, but it is related to the amount of money people think they can get hold of, whether by receipts of income, by disposal of capital assets or by borrowing.25

The Committee argued that the monetary authorities can theoretically influence the total level of demand in two ways. First, by bringing about a change in interest rates the monetary authorities can influence a change in the incentive to purchase capital goods and so cause a change in the actual spending on labour and other means of production of these goods. Secondly, the monetary authorities can bring about a change in the liquidity condition of financial institutions and of business firms and people generally, so that those wanting money to spend find it more difficult to get than it was before. The first is the interest incentive effect and the second the general liquidity effect.26

The money substitutes created by NFIs would reduce the effectiveness of alterations in the stock of money by their elasticity of substitution for money and by their elasticity of supply. The greater the number and varieties of money substitutes the greater are likely to be their overall elasticity of substitution and supply. The money substitutes differ from each other with respect to the degree of substitution, and the
closer the substitutes more adverse would be their effects on monetary policy. With rapid economic growth, diversification and proliferation of financial structure occur and this indirectly strengthens the position of NFIs relative to that of banks. If the rate of growth of NFIs, which create money substitutes is faster, it would weaken the effectiveness of monetary policy. This is particularly more true in a world with a complex financial structure, wherein the NFIs are outside the purview of central bank's control. In general, restrictions on the ability of NFIs to expand the supply of money substitutes would strengthen the effectiveness of monetary policy to control the total liquidity in the economy.

Monetary Policy : Historical Perspective

Looking back, it is found that there was a time in the history of monetary policy when only currency notes were controlled and the bank deposits were almost untouched. With the rapid development of commercial banking the bank deposits appeared as the principal category of money substitutes. During this phase of the development of the financial structure the monetary policy was shaped in such a way as to include within its ambit the bank deposits along with currency notes. Thus when the total monetary demand threatens to become excessive, the central bank can regulate the supply of reserves with banks by applying conventional techniques of monetary controls in response to their tightened reserve position banks will raise credit standards for borrowers and increase interest.
rates on advances and thereby usher in an era of restrictive monetary policy. Monetary policy can be effectively implemented if banks were the only source of credit available to borrowers.

During the next phase of diversification and proliferation of the financial structure the NFIs appeared on the scene with their liabilities as near money assets and became strong rivals to banks. The credit can also be made available by NFIs but their operations are not subject to quantitative controls of the central bank.

Thus under the changing circumstances conventional monetary policy requires thorough renovation and reorientation. As a remedy for such a situation it has been suggested that the controlling powers of the central bank should be extended beyond the commercial banks so as to encompass within its operations the NFIs also.

It is true that in the beginning, especially in an under-developed stage of money and capital markets, the growth with NFIs might facilitate the activation of hoarded resources. This would help to accelerate the rate of economic development. This role of NFI if properly controlled and regulated, may prove to be conducive to financial development.

However, the anxiety is expressed at a stage when the large amount of credit expansion was made possible by these NFIs which were uncontrolled. This uncontrolled expansion of financial assets of the NFIs is assumed to have threatened the effectiveness of credit control policy.
NFIs in India

The phrase: Non-Bank Financial Intermediaries (NFIs) covers a wide variety of institutions ranging from such highly specialised ones as development banks or insurance companies to fairly simple institutions like mutual benefit financial companies. Among the NFIs working in India, certain institutions such as development banks and statutory bodies like the LIC and the UTI are not included in the present study because they work in a highly specialized field, their problems are somewhat different from those of other NFIs and their working is constantly under review by various authorities and, therefore, their operations are not of much significance from the point of view of diluting the effective implementation of monetary policy. Here an attempt has been made to focus attention on the working of the important nonbank financial intermediaries operating in India.

This group of institutions comprises of different types of financial agencies. They are: investment trusts and investment companies, chit funds, loan and finance companies or finance corporations, mutual benefit funds or nihis, housing finance companies and hire purchase finance companies. These institutions as a group are indicated as nonbank financial companies (NFCs). These institutions constitute the small scale and decentralised sector of the financial system in India. They are organised as either public or private limited companies or partnership concerns.
Moreover, the market for loanable funds in India has for long possessed an additional channel for the transmission of funds, namely, the acceptance of deposits directly from the public by manufacturing and other business concerns. This is in a sense a direct financing technique. This is a unique feature of the Indian financial system in so far as there is no practice abroad of such concerns accepting deposits directly from the savers. This is a combination of manufacturing and financial functions in the case of business units. The practice of acceptance of deposits by companies has become widespread and well established. This has implications for formulating a policy for the financial sector of the economy in general and efficacy of monetary policy in particular. These trading and manufacturing companies are indicated as nonbank nonfinancial companies (NNFCs).

Thus the group NFIs in the present study covers two categories viz., (1) NFCs and (2) NNFCs.

Features of NFCs

NFCs cover a wide range of institutions differing in their main activities and the services they offer. The one essential feature being that of mobilization of savings of the public and the utilization for financing various types of economic activities. There are certain important common features of these diverse institutions.
(1) Functional coverage of each type of financial institutions belonging to this group is narrow and specialized. Almost all of them give loans for only such purposes as consumption, commerce and trading. Their industrial loans are negligible. They finance such important needs as house building, education, medical needs and such priority sectors as small transport operators.

(2) Many of these institutions have closed local links and hence, have a good potential for decentralising the financial structure of the company. Many of these institutions have not assumed all India character in the sense that we do not find them properly developed in all parts of India.

(3) The interest rate they charge for financial assistance are higher than those charged by commercial banks and other organised financial institutions. These institutions are in a position to get loan business inspite of higher interest rates because often these loans are unsecured and the procedures are simple, and because the borrowers find it difficult to obtain finance from banks, etc.

(4) These institutions also offer higher interest rates on deposits accepted by them. But a higher interest rate is only one reason why people keep deposits with them, the other reason being the possibility of borrowing funds in amounts not linked with the volume of deposits or contribution of each borrowers.
Role of NFIs in India

There is a view that NFIs in India do not have a useful part to play in the economy because commercial banks are major repositories of savings and with the operation of their geographical and functional coverage, they are filling all credit gaps.

Like commercial banks NFIs are also mobilizing savings from the surplus units. A question may be posed here is whether the deposits attracted by NFIs are only transfer savings of banks or represent fresh mobilisation of deposits. NFIs generally do not accept demand deposits and hence they compete with banks only in time deposits. Since these deposits are not liquid, the main factors involved from the point of view of depositors would be the safety and yield on such funds. Depositors of banks have a measure of protection due to deposit insurance and the surveillance of the RBI which has an obligation to safeguard the depositors interest. One of the important reasons why NFIs have been able to thrive in areas where banks are well represented is the differential rates paid on deposits. It is reasonable to presume that at the margin there is a substitution of deposits from lower yielding to higher yielding categories even at the cost of incurring some risks. This differential in the rates causes a transfer of deposits from banks to NFIs or attract funds which otherwise would have come to the banking system. However, a part of funds of NFIs consists of deposits which are transfers from currency holdings and to
that extent the process of resource mobilization by NFIs may be presented.

On the lending side, the clientele of banks and NFIs is different. While the major activity of banks has been lending to business, NFIs have mostly concentrated on traditional individual lending or have been lending to individual business sector. The loans of NFIs are made for purposes like purchase and repair of houses, acquiring durable consumer goods, whereas the major part of loans made by banks is for industrial or commercial purposes. NFIs are gap fillers.29 With the change in emphasis on lending in the organised banking system after nationalisation of 14 major banks in 1969 towards the neglected and weaker sections of society, there may be a shift in clientele from NFIs, to banks. This would not mean that there would be no scope for NFIs because with the extensive credit requirements of the growing economy of the country, there will be an area of credit beyond which banks would not be prepared may not be able to go. Many NFIs are local institutions and have an intimate knowledge of local conditions which vary greatly in India. They, therefore, are in a position to offer financial instruments to suit the varying requirements of savers and borrowers, which banks might not find possible to offer. Thus, in spite of the spreading network of banking system and the extension of its activities, NFIs would continue to find scope for their operations in the foreseeable future.
The acceptance of public deposits by the NNFCs is not a new phenomenon. However, the spate of advertisements found in newspapers is a significant departure from the past practices. Among others, it indicates the corporate sector's large demand for funds. Regarding the justification for acceptance of deposits by NNFCs, it was contended before the Study Group on Non Banking Companies (popularly known as Raj Committee) by the various chambers of commerce and industry that acceptance of deposits by companies is to supplement their needs for working capital and it has been a traditional source of finance in India. They were of the view that in so far as these deposits promote the basic purpose of inducing large savings and directing them towards production activity, they serve the larger policy objective of maximising production. It was further pointed out by them that deposits have played a prominent role even in the financing of fixed assets in some cases and that the textile industry in Ahmedabad and Coimbatore owes its present position to the financing of industry by way of deposits taken from the public.

Certain other advantages are enumerated below:

1. The lenders get what the borrowers pay. The reward for financial intermediaries is eliminated, this being shared by the ultimate lenders and the ultimate borrowers. The resulting higher rates on deposits encourage financial savings.
(2) The companies get easy and timely credit at rates lower than those charged by banks.

(3) The deposits find immediate application. Production bottlenecks for want of liquid funds are eliminated.

(4) Most of the companies after exhausting their existing credit limits with banks due to the prevalence of higher level of prices of inputs, find it difficult to get additional limits sanctioned from banks. Such companies which are in need of additional limits also find acceptance of deposits a more convenient source of finance.

(5) The term lending institutions have a list of priorities for considering the term loan proposals. They cannot meet the requirements of non-priority industrial units. Besides, the corporate sector fears that borrowing from term lending institutions might be converted into equity. For all these reasons, NNFCs find public deposits more suitable and convenient.

Preferability of Public Deposits

Apart from the inadequacy of bank credit and its higher costs, it involves a lot of constant controls by banks over companies. For ensuring end use of bank credit, banks take various steps which borrowing companies generally considered unnecessary and avoidable botherations. Bank borrowings also involve a lot of paper work such as documentation, submission of periodical statements, besides payment of stamp duty and other incidental costs. From this point of view also public deposits are more attractive. Deposits from the public can be
used as margin money against bank borrowings for speculative activities, hoarding of goods in short supplies etc. Thus from the point of easy availability, lower cost, facility and control, public deposits are preferable to bank borrowings.

Growth of Deposits with NFIs.

The amount of deposits with NFIs increased from Rs. 593.65 crores at the end of March 1969 to Rs. 2062.5 crores at the end of March 1978. The shares of NFCs and NNFCs in the aggregate deposits account for Rs. 193.14 crores and Rs. 400.51 crores, respectively in 1969 and Rs. 749.5 crores and Rs. 1313 crores, respectively, in 1978 (vide Statement 1). The percentage share of NFCs in the aggregate deposits of NFIs was 32.5 per cent in 1969. It rose to 36.3 per cent in 1978 while that of NNFCs declined from 67.8 per cent in 1969 to 63.7 per cent in 1978. It is clear from the data presented in Statement 1 that NNFCs account for the lion's share in the aggregate deposits of NFIs. The percentage growth of aggregate deposits of NFIs in 1978 over 1969 was 374 per cent while that of NFCs and NNFCs was 388 per cent and 328 per cent, respectively.

Total number of NFIs reporting deposits went up from 2241 in 1969 to 5796 in 1978 - a rise of 259 per cent. The number of companies in the NFCs group rose from 727 in 1969 to 2242 in 1978 and that in the NNFCs group of companies increased from 1514 in 1969 to 3554 in 1978. The percentage share of NFCs group of companies in the total NFIs increased to 38.3 per cent.
in 1978 from 32.4 per cent in 1969 while that of NNFCs declined to 61.4 per cent in 1978 from 67.7 per cent in 1969.

**Distribution of Deposits with NNFCs.**

The distribution of deposits held by NNFCs engaged in various types of industries as on March 31, 1978 is presented in Statement 2. The aggregate deposits held by 3554 NNFCs amounted to Rs. 1313 crores. It can be observed from the Statement 2 that 828 reporting NNFCs in engineering industry representing 23.3 per cent of all reporting NNFCs, held the largest (31.0 per cent) share of aggregate deposits while 1159 companies engaged in miscellaneous activities forming 32.6 per cent of reporting NNFCs, held 18.1 per cent of the aggregate deposits. Companies in cotton textiles, chemicals and iron and steel industries constituting 7.9 per cent, 8.2 per cent and 1.6 per cent of the reporting companies accounted for 11.8 per cent, 11.4 per cent and 5.7 per cent, respectively, of the aggregate deposits whereas 481 companies engaged in trading held only 6.1 per cent of the aggregate deposits although such companies formed 13.5 per cent of the reporting NNFCs.

From the above analysis it emerges that industry-wise, companies in engineering industry had the largest dependence on public deposits followed by cotton textile companies, chemical companies and iron and steel companies, on the other hand the dependence of trading companies on public deposits was comparatively/less inspite of their forming significant percentage in reporting companies. As regards the position
of aggregate deposits vis-a-vis the net owned funds, it is found that the aggregate deposits of Rs. 1313 crores held by reporting NNFCs constituted 36 per cent of their total net owned funds of Rs. 3623.6 crores as on March 31, 1978. The aggregate deposits of the textile companies other than cotton textile constituted higher percentage (62 per cent) of their net owned funds followed by electricity companies (57 per cent) engineering (49 per cent) coal mining (40 per cent), trading (38 per cent), cotton textile and other industries (37 per cent each). The aggregate deposits of all other categories of NNFCs were below the average of 36 per cent of the net owned funds. As regards the deposits as a percentage of net owned funds the overall average works out to 19 per cent (as against the permissible ceiling of 40 per cent) the deposits held by companies in other textile (33 per cent), electricity generation (27 per cent), engineering and cotton textile (23 per cent each), sugar (22 per cent), silk and rayon (21 per cent) were in excess of the overall percentage as well as the deposits held by each group of companies were far below ceiling of 40 per cent of the net owned funds as permissible under the Companies (Acceptance of Deposits) Rules, 1975 as at the end of March 1978, this does not exclude the possibility of deposits held by a few individual NNFCs having been in excess of the statutory ceiling limit.31

In the case of NFCs the loan companies forming only 28.1 per cent of all reporting financial companies held the largest share (75.1 per cent) of the aggregate deposits while investment
companies accounted for only 8 per cent of the aggregate deposits although such companies constituted a significant percentage (53.0 per cent) of the reporting companies, indicating their lesser dependence on public deposits as compared to that of loan companies, hire-purchase finance companies, housing finance companies and mutual benefit financial companies representing 14.3 per cent, 0.4 per cent and 4.2 per cent of the reporting financial companies held 12 per cent, 1.6 per cent and 3.3 per cent respectively, of the aggregate deposits of all such reporting financial companies. It is further observed from Statement 2 that the aggregate deposits of all reporting NFCs constituted 139 per cent of the total net owned funds. The mutual benefit financial companies, loan companies and hire purchase finance companies held aggregate deposits in excess of the net owned funds of the respective group of companies whereas the aggregate deposits of investment companies and housing finance companies constitute 32 per cent and 56 per cent of their respective net owned funds. As regards deposits vis-a-vis net owned funds, the deposits held by the investment and loan companies forming 12 per cent and 16 per cent of their respective net owned funds were within the statutory ceiling of 35 per cent and 40 per cent respectively, prescribed for the purpose. The deposits of hire-purchase finance companies which could accept deposits up to ten times their net owned funds were also within limit.

As regards housing finance companies, no ceiling is applicable to them and as such they can accept deposits without
any limit while the mutual benefit financial companies are eligible to accept deposits only from their members without any restriction.

The conventional chit fund companies representing 74 per cent of the reporting miscellaneous nonbanking companies held 43.5 per cent of aggregate deposits (vide Statement 2) on the other hand prize chit companies accounted for 56.5 per cent of the aggregate deposits although they formed 26 per cent of the reporting miscellaneous nonbanking companies. The position of deposits and exempted deposits of miscellaneous nonbanking companies in relation to their net owned funds continued to be highly unsatisfactory. As regards the prize chit companies, their owned funds showed a negative position as a result of which the entire deposits held by these companies had been rendered excess.

Regression Analysis

To examine the influence of domestic savings on the deposits of NFIs, NFCs and NNFCs, the method of regression analysis is adopted. The linear regression equations are estimated using the information for the time series data for the period of March 1969 to March 1978. In the analysis domestic savings (X) is considered as an independent variable and deposits with NFIs, NFCs, and NNFCs in the respective cases is considered as dependent variable (y). The empirical results of the analysis are as under.
(1) **Domestic savings and deposits with NFIs.**

The regression equation is \( y = a + bx \).

\[
\frac{dy}{dx} = b \quad \ldots \ldots \ldots \ldots \ldots \text{marginal value} \ldots \ldots \ (1)
\]

\[ Eyx \ldots \ldots \ldots \ldots \text{elasticity of } y \text{ with respect to } x. \]

\[
Eyx = b \cdot \frac{X}{Y} \quad \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (2)
\]

Where \( y \) refers to deposits with NFIs and \( x \) domestic savings. 

\( \bar{x} \) and \( \bar{y} \) indicate the mean value of \( x \) and \( y \), respectively.

\[
y = 229.2457 + 0.09749**
\]

\[(0.005224)\]

\[ r = 0.98871 \quad R^2 = 0.97754 \]

\[ Eyx = 0.7822 \text{ per cent.} \]

The empirical results indicate that there exists the **linear** relationship between domestic savings and deposits with NFIs.

The simple correlation coefficient works out to 0.9887 which is highly significant. The value of \( R^2 = 0.9775 \) indicates the goodness of fit of the linear equation. The regression coefficient of \( x \) (i.e. 0.09749 ) indicates that one rupee increase in domestic savings will lead to an increase in deposits with NFIs by Rs. 0.097. In other words with the rise in domestic savings by Rs. 100, the deposits with NFIs will rise by Rs. 9.75.

** Indicates that the regression coefficient is significant at one per cent level of probability and this applies to the subsequent regression analysis in this chapter.
The elasticity of deposits with NFIs with respect to domestic savings worked out to 0.7822 per cent i.e. one percent rise in existing domestic savings will lead to a rise in existing deposits with NFIs by 0.7822 per cent.

(2) Domestic savings and deposits with NFCs.

Regression equation.

\[ y = a + bx \]
\[ y = \text{Deposits with NFCs} \]
\[ x = \text{Domestic savings} \]
\[ y = 14.969884 + 0.040866x \]

\( r = 0.9840945 \)
\( R^2 = 0.9684 \)

The above statistical results indicate that there exists the linear relationship between domestic savings and deposits with NFCs. The simple correlation coefficient works out to 0.9841 which is highly significant. The value of \( R^2 = 0.9684 \) shows goodness of fit of the linear equation. The regression coefficient of \( x \) (i.e. 0.040866) indicate that one rupee increase in domestic savings will lead to an increase in deposits with NFCs by Re. 0.040. In other words with an increase in domestic savings by Rs. 100, the deposits with NFCs will go up by Rs. 4.09.

The elasticity of deposits with NFCs with respect to domestic savings turned out to be 0.9584 per cent i.e. one
per cent rise in existing domestic savings will lead to an increase in existing deposits with NFCs by 0.9584 per cent.

(3) Domestic savings and deposits with NNFCs.

Regression equation
\[ y = a + bx \]
\[ y = \text{Deposits with NNFCs} \]
\[ x = \text{Domestic savings} \]
\[ y = 212.88384 + 0.056551x \]

(0.003745)
\[ r = 0.9829 \quad R^2 = 0.9661. \]

Eyx = 0.6916

The above empirical results show that there exists the linear relationship between domestic savings and savings with NNFCs. The simple correlation coefficient works out to 0.9829 which is highly significant. The value of \( R^2 = 0.9661 \) indicates goodness of fit of the linear equation. The regression coefficient of \( x \) (i.e. 0.056551) indicate that one rupee rise in domestic savings will push up deposits with NNFCs by Rs. 0.057. In otherwords with an increase in domestic saving by Rs. 100, the deposit with NNFCs will rise by Rs. 5.65.

The elasticity of deposits with NNFCs with respect to domestic savings works out to 0.6916 per cent i.e. one per cent rise in the existing domestic savings will lead to an increase in existing deposits with NNFCs by 0.6916 per cent.
Relative Growth of Deposits with NFIs and Banks

Statement 3 presents the comparative position of deposits with all scheduled commercial banks and the NFIs during the last 10 years commencing from 1969 to 1978 and the rate of growth in the deposits of both the sectors. It is seen that the aggregate deposits of the reporting NFIs formed 10.8 per cent of the total deposits held by the scheduled commercial banks in 1969 and it declined to 8.7 per cent in 1973 and again it went up to 10.1 per cent in 1974 but in the subsequent years it revealed a declining tendency and reached 9.3 per cent in 1978, while the rate of growth in the deposits of scheduled commercial banks over the previous years worked out to 13.1 per cent in 1969 and it went up to 26.0 per cent in 1977 and it again declined to 23.1 per cent in 1978. There are wide fluctuations in the rate of growth in the aggregate deposits by the NFIs. In 1969 the rate of growth in the aggregate deposits of NFIs over the previous year worked out to 18.5 per cent and it went up to 37.1 per cent in 1977 and again it declined to 18.9 per cent in 1978, but in between the years it fluctuated widely between 5.7 per cent and 37.5 per cent. It can easily be seen that the growth in the aggregate deposits with NFIs is higher than that of bank deposits in 1969, 1972, 1974 and 1977. This tendency is important for the purpose of policy formulation.

Thus although in absolute terms deposits with NFIs compare very poorly with deposits with banks but the rate of growth in the deposits of the former cannot, however, be ignored. The
aggregate deposits with NFIs as a percentage of deposits with scheduled commercial banks has declined in 1978 in comparison with that in 1969. This result may be obvious due to the fact that after nationalisation of major commercial banks in 1969 there has taken place the spread of bank net work in unbanked areas and, therefore, the branch expansion of the commercial banks has resulted in the increased volume of bank deposits. This fact is also being explained by the percentage rise in bank deposits by 506.6 per cent which is higher than the percentage rise in aggregate deposits with NFIs during the period under study. This analysis, however, need not suggest that the growth in deposits with NFIs is not significant from the point of view of monetary policy.

Moreover, it is true that if the present rate of growth of deposits with NFIs, is maintained or is allowed to be maintained, the NFIs are likely to emerge as competitors of importance to banks in feature in the deposit mobilisation from the public. Again to an extent this type of financing viz., mobilisation of deposits from the public on part of NFIs is likely to reduce the demand for loans from the banks. The faster growth in deposits with NFIs (e.g. 37.5 per cent in 1974, 37.1 per cent in 1977, and 18.9 per cent in 1978) can be expected to impair the future growth of banking system not only by reducing their deposit growth but also by weakening the banks' position in terms of their lending activities.
Need for Regulation

The question whether operations of NFIs thwart the efforts of monetary authorities to make credit policy effective can be answered by examining the nature and dimensions of the activities of these institutions. If the liabilities of NFIs were good substitutes for money, they could induce a shift from idle money balances into these money substitutes and thus increase the flow of money expenditure in the economy. Generally, the liabilities of these institutions are not convertible into cash on demand and therefore, they are not close substitutes for money. The effectiveness of monetary policy would not be adversely affected on this account. It is possible, however, that the effective implementation of monetary policy may be adversely affected in other ways i.e.

(1) In addition to providing business credit in the speculative and other non-priority sectors, NFIs may provide margin money in respect of advances where high margin might have been prescribed as part of selective credit control. NFIs found it advantageous to meet part of requirements for funds by mobilizing deposits from the public.

(2) NFIs can weaken monetary policy by competing with banks in their intermediary role if their activities are not effectively regulated though currently in India the scale of their operations in relation to that of banks is small. For instance, at the end of March 1978 the deposits of NFIs were 9.3 per cent of the deposits of banks. Yet in the absence of effective supervision
the operations of these institutions may grow in such a way as to weaken the effectiveness of monetary policy.

(3) In the absence of any regulation of acceptance of deposits by NFIs, several unhealthy features to the surface in the sixties when a sharp increase in the volume of deposits held by such companies was also noticed. NNFCs and later NFCs began to issue advertisements soliciting deposits from the public offering lucrative rates of interest but without giving any particulars regarding their financial position and management. Such unfettered growth of deposits outside the banking system and the proliferation of institutions, both NFCs and NNFCs, depending mainly or wholly on deposits from the public were viewed with concern by the authorities. In the interest of depositors also, it was considered desirable that these institutions should not have unlimited and unrestricted access to public deposits.

Thus the purpose of regulating the activities of NFIs should be (a) to safeguard the depositors' interests, and (b) to create conditions for the growth of dynamic and forward-looking NFIs.

Approved and Non-approved NFIs.

For the purpose of regulation over NFIs, the Banking Commission recommended that in general, NFIs be classified into two categories - approved and non-approved. While a specified minimum degree of control may be exercised on all NFIs those units - to be designated approved NFIs - which satisfy certain
additional requirements to be laid down by the regulating authority, may be allowed a special and favourable treatment. However, the basic factor to identify an approved institution in each category will be the judgement of the regulating authority regarding the quality and scope of its operations. These institutions should be inspected at least on a sample basis by the RBI or any other regulating authority which may be set up in this behalf. Approved institutions should be eligible for refinance facilities from the banking system and their lending operations should also be covered under the credit guarantee scheme. Eventually the Deposit Insurance Scheme should also be extended to those of the approved NFIs, whose manner of conducting business meets the requirements of the Deposit Insurance Corporation. 35

Recommendation of the Study Group on Nonbanking Companies

The broad approach of the Group in the case of NNFCs has been that the acceptance of deposits by such companies may not be prohibited altogether but the measure should be so designed as to ensure against disruption of the productive process, consistent with the need to safeguard the depositors' interest. At the same time the ultimate object should be to discourage further growth of these deposits and to roll them back gradually so that they would cease to be a significant source of finance for industry and trade.

In the case of NFCs, having regard to the fact that they borrow from the public for the purpose of lending and investment
and as the nature of the operations is akin to that of banks, the Group has recommended that their activities should be regulated broadly on the same lines as banks and brought under the close surveillance of the RBI.

In order to decide upon the nature of regulation of financial companies the Group has made a distinction between financial companies which are run purely on commercial considerations such as hire-purchase finance, housing finance, investment, loan and miscellaneous financial companies on the one hand and companies which are run for mutual benefit of the members, viz., companies conducting only conventional types of chits and nidhis on the other. The Study Group also recommended that prize chit/benefit/saving schemes, etc., benefit primarily the promoters and do not serve any social purpose. On the contrary they are prejudicial to the public interest and also adversely affect the efficacy of fiscal and monetary policy. Such schemes, by whatever name called, should be totally banned in the larger interests of the public and suitable legislative measures should be taken for the purpose if the provisions of the existing enactments are considered inadequate.

MEASURES TAKEN

Amendments of the RBI Act, 1934

Looking to the problem of NIFIs, it was felt necessary by the authorities to have statutory control over acceptance of deposits by non-banking institutions and to vest the RBI, as
the custodian of the monetary and credit system of the country, with certain powers enabling it to effectively supervise, control and regulate the deposit acceptance activities of such institutions. Accordingly, the RBI Act, 1934 was amended by the Banking Laws (Miscellaneous Provisions) Act, 1963, whereby a new chapter III-B containing "provisions relating to non-banking institutions receiving deposits and financial institutions" was inserted in the Principal Act.

The new chapter was brought into force with effect from 1st February 1964. By virtue of this chapter, the Bank* has been vested with powers, inter alia, to regulate or prohibit the issue of any prospectus or advertisement by non-banking institutions soliciting deposits from the public and to call for returns and information from such institutions relating to deposits accepted by them including the rates of interest payable on such deposits and periods for which deposits may be received and from nonbanking financial institutions, information statements relating to their business, including information in respect of paid up capital, reserves and other liabilities, investments made and advances granted. The Bank has also powers to give directions generally to such financial institutions relating to the conduct of their business. The Bank has been empowered to cause an inspection of any non-banking institution being made for the purpose of verifying the correctness or completeness of any statement or information or particulars.

* The word 'Bank' implies the Reserve Bank of India.
which the institution may have failed to furnish on its being called upon to do so. The Act provides for penalties for persons and institutions for their failure to comply with the directions issued by the Bank and for wilful submission of incorrect or incomplete information.36

Further Amendments to the RBI Act, 1934

The provisions of chapter III B of the RBI Act, 1934 were further amended by the RBI (Amendment) Act, 1974, vesting the RBI with greater powers to exercise control over nonbanking institutions receiving deposits and financial institutions. The amended provisions came into force on December 13, 1974. The amendments empower the RBI to (i) inspect nonbanking financial institutions whenever such inspection is considered necessary or expedient by the Bank, (ii) impose a statutory obligation on the auditor of a nonbanking institution to report to the RBI the aggregate amount of deposits held by it where institution had failed to furnish the return, etc., required to be submitted by it, (iii) insert the definition of the term deposit in the statute itself so as to place beyond any doubt that any money received by nonbanking institutions otherwise than by way of share capital constitutes deposits, (iv) make the definition of the term financial institution precise and comprehensive so as to plug the loopholes, (v) make it compulsory not only for nonbanking institutions but also for brokers to disclose full particulars and information before
soliciting deposits, and (vi) provide for enhanced penalties for contravention of the provisions of the Act and directions issued by the Bank. 37

This suggests that the RBI has been vested with greater powers to regulate the activities of NBIs.

**Directions/Orders Issued**

With a view to evolving appropriate regulatory measures, the RBI issued certain orders in 1964 and 1965, requiring non-banking companies to furnish, in prescribed forms, certain informations relating to or connected with their deposits from the public and other business allied to banking. On the basis of the informations collected, the Bank issued for the first time in January 1966, two directions governing acceptance of deposits by nonbanking nonfinancial companies and amongst the financial companies only in respect of hire purchase finance companies, called the Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966 and the Non-Banking Financial Companies (Reserve Bank) Directions, 1966, respectively, which came into force from January 1, 1967. Since it was found that Prize chit types of companies had not been adequately covered by the existing directions issued to financial companies, the RBI issued a new set of direction called the Miscellaneous Non-Banking Companies (Reserve Bank) Direction, 1973, which seek to regulate the acceptance of deposits by companies conducting prize chits, lucky draws, savings schemes etc.
In view of the recommendations made by the Study Group on Nonbanking Companies for the aim of tightening up control over the deposit acceptance activities of non banking financial companies as also operational aspects relating to their working, the RBI has issued two fresh sets of directions (in supersession of the earlier directions). These directions styled as Non Banking Financial Companies (Reserve Bank) Directions, 1977 and Miscellaneous Non Banking Companies (Reserve Bank) Directions, 1977 which became effective from July 1, 1977.38

For facilitating speedy winding up of the existing business of prize chits and money circulation schemes the RBI had prepared a draft of the model rules which State Governments could frame under the Prize Chit and Money Circulation Schemes (Banking) Act, 1978, which became operative with effect from December 12, 1978.39 The Chit Funds Act, 1982 regulates the conduct of the conventional chit fund business.

Amendments to the Companies Act, 1956.

The Companies (Amendment) Act, 1974 has come into force with effect from February 1, 1975. This Act has introduced, inter alia, two new sections in the principal Act which empowers the Central Government to regulate the acceptance of deposits by nonbanking companies in consultation with the RBI. Prior to the same amendment the deposit acceptance activities of all types of NFIs were regulated by respective set of directives
issued to them by the RBI in exercise of powers vested under chapter III-B of the RBI Act, 1934. However, with the coming into operation of the said Amendment Act, the acceptance of deposits by NNFCs from the public or from their members is regulated by sections 58A and 58B and the rules made in this behalf.

Under the powers vested in terms of section 58A, the Central Government has, after consultation with the RBI, made rules governing acceptance of deposits by non-financial companies called the Companies (Acceptance of Deposits) Rule, 1975, which have been brought into force with effect from February 3, 1975.

The analysis of the measures taken to control the activities of the NFIs as presented above clearly indicates that the RBI or the Government has been vested with necessary powers to control the deposit acceptance activity of NFIs.

Conclusions

An increasing importance of NFIs has led to the problem of reorientation of monetary policy. The traditional techniques of monetary controls have become ineffective due to the growth of NFIs and the scope of monetary policy should be extended to cover NFIs.

Monetary policy can be effectively implemented if banks were the only source of finance available to borrowers. But with the growth of NFIs the financial structure of the country
registered a change. Credit can now also be available from the banks. Thus under changing circumstances conventional monetary policy requires thorough renovation and reorientation. As a remedy it has been suggested that the controlling powers of Central Bank should be extended beyond the commercial banks so as to encompass within its operations the NFIs also.

From the empirical analysis it is found that with the rise in domestic savings by Rs. 100 the deposits with NFIs rise by Rs. 9.75 and NFCs and NNFCs taken separately rise by Rs. 4.09, and Rs. 5.65 respectively.

In absolute terms the deposits with NFIs compare very poorly with the bank deposits but the rate of growth in the former can not be ignored. However, it is true that if the present rate of growth of deposits with NFIs is maintained or is allowed to be maintained, the NFIs are likely to emerge as competitors of importance to banks in the future in the field of deposit mobilisation.

The deposit acceptance activities of the NFIs though not much serious at present, but in the depositors interest the necessary precautions have to be taken by the Government or the Reserve Bank of India to regulate the activities of the NFIs, however, such regulatory measures should not result in intercepting the new financial technology.
References


28. Ibid., p. 128.


33. RBI., op. cit. p. 18.

34. GOI., op. cit., p. 417.

35. Ibid.


Statement 1: Aggregate Deposits with Non-Banking Companies (including Branches of Foreign Companies)

(Period End of March) (Figures in crores of rupees)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Non-financial companies</td>
<td>1514</td>
<td>400.51</td>
<td>1535</td>
<td>451.37</td>
<td>1472</td>
<td>419.0</td>
<td>2234</td>
<td>480.0</td>
<td>1962</td>
<td>517.4</td>
<td>3048</td>
<td>724.6</td>
</tr>
<tr>
<td></td>
<td>(67.6)</td>
<td>(67.5)</td>
<td>(69.4)</td>
<td>(71.37)</td>
<td>(67.7)</td>
<td>(73.7)</td>
<td>(70.8)</td>
<td>(69.5)</td>
<td>(69.1)</td>
<td>(69.2)</td>
<td>(71.9)</td>
<td>(70.5)</td>
</tr>
<tr>
<td>2) Financial companies</td>
<td>727</td>
<td>193.14</td>
<td>876</td>
<td>181.95</td>
<td>768</td>
<td>149.7</td>
<td>921</td>
<td>211.0</td>
<td>876</td>
<td>230.4</td>
<td>1188</td>
<td>304.0</td>
</tr>
<tr>
<td></td>
<td>(32.4)</td>
<td>(32.5)</td>
<td>(30.6)</td>
<td>(28.7)</td>
<td>(34.3)</td>
<td>(26.3)</td>
<td>(29.2)</td>
<td>(30.5)</td>
<td>(39.9)</td>
<td>(30.8)</td>
<td>(28.1)</td>
<td>(29.5)</td>
</tr>
<tr>
<td>Total</td>
<td>2241</td>
<td>593.65</td>
<td>2211</td>
<td>633.32</td>
<td>2240</td>
<td>568.7</td>
<td>3155</td>
<td>691.8</td>
<td>2841</td>
<td>747.8</td>
<td>4236</td>
<td>1028.6</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
</tr>
</tbody>
</table>

Contd...
## Statement 1 Contd...

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>14%</td>
<td>15%</td>
<td>16%</td>
<td>17%</td>
<td>A</td>
</tr>
<tr>
<td>1) Non-financial companies</td>
<td>2959</td>
<td>754.3</td>
<td>3589</td>
<td>803.7</td>
<td>3545</td>
</tr>
<tr>
<td></td>
<td>(64.1)</td>
<td>(63.0)</td>
<td>(63.7)</td>
<td>(63.5)</td>
<td>(60.8)</td>
</tr>
<tr>
<td>2) Financial companies</td>
<td>1653</td>
<td>422.4</td>
<td>1851</td>
<td>461.5</td>
<td>2283</td>
</tr>
<tr>
<td></td>
<td>(35.9)</td>
<td>(37.0)</td>
<td>(36.3)</td>
<td>(36.5)</td>
<td>(39.2)</td>
</tr>
<tr>
<td>Total</td>
<td>4662</td>
<td>1196.7</td>
<td>5640</td>
<td>1265.2</td>
<td>5828</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
</tr>
</tbody>
</table>

### Note:
- A = No. of companies reporting deposits,  B = Aggregate deposits.
- Figures in the brackets represent percentage to total.

### Source:
RBI, Bulletin, Various Issues.
Statement 2: Distribution of deposits according to the types of industries (for non-financial companies) and as percentage of net owned funds as on March 31, 1978

(Rs. in crores)

<table>
<thead>
<tr>
<th>Type of company</th>
<th>No. of companies reporting</th>
<th>Exempted Deposits or sites</th>
<th>Total Deposits</th>
<th>Net Owned Funds</th>
<th>Col. 4 as % of Col. 5</th>
<th>Col. 5 as % of Col. 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>A: Non-Financial Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1: Cotton textile</td>
<td>280</td>
<td>566</td>
<td>99.6</td>
<td>156.2</td>
<td>428.4</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>(7.9)</td>
<td>(11.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2: Jute textile</td>
<td>26</td>
<td>4.6</td>
<td>3.0</td>
<td>7.6</td>
<td>40.4</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>(0.7)</td>
<td>(0.6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3: Silk, Rayon and other artificial fibre</td>
<td>34</td>
<td>14.0</td>
<td>22.4</td>
<td>36.4</td>
<td>105.2</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>(1.0)</td>
<td>(2.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4: Other textile</td>
<td>99</td>
<td>12.8</td>
<td>14.2</td>
<td>27.0</td>
<td>43.7</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td>(2.7)</td>
<td>(2.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5: Sugar</td>
<td>70</td>
<td>9.3</td>
<td>16.5</td>
<td>25.8</td>
<td>76.8</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>(2.0)</td>
<td>(2.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6: Iron &amp; Steel</td>
<td>58</td>
<td>40.7</td>
<td>33.6</td>
<td>74.5</td>
<td>308.2</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>(1.6)</td>
<td>(5.7)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7: Non-ferrous metal</td>
<td>9</td>
<td>0.2</td>
<td>0.7</td>
<td>0.9</td>
<td>4.8</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>(0.3)</td>
<td>(0.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8: Electricity generation and supply</td>
<td>10</td>
<td>17.9</td>
<td>15.9</td>
<td>33.8</td>
<td>59.3</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td>(0.3)</td>
<td>(2.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9: Engineering</td>
<td>828</td>
<td>217.5</td>
<td>189.9</td>
<td>407.4</td>
<td>825.9</td>
<td>49</td>
</tr>
<tr>
<td></td>
<td>(23.3)</td>
<td>(31.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Contd...
<table>
<thead>
<tr>
<th></th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Chemicals</td>
<td>290</td>
<td>54.6</td>
<td>95.2</td>
<td>149.8</td>
<td>588.5</td>
<td>25</td>
<td>16</td>
</tr>
<tr>
<td>11. Coal mining</td>
<td>17</td>
<td>1.9</td>
<td>1.0</td>
<td>2.9</td>
<td>7.3</td>
<td>40</td>
<td>14</td>
</tr>
<tr>
<td>12. Paper and paper products</td>
<td>61</td>
<td>7.4</td>
<td>13.4</td>
<td>20.8</td>
<td>83.1</td>
<td>26</td>
<td>16</td>
</tr>
<tr>
<td>13. Cement</td>
<td>15</td>
<td>17.5</td>
<td>19.8</td>
<td>37.3</td>
<td>108.1</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>14. Tea, Coffee and Rubber plantation</td>
<td>63</td>
<td>4.8</td>
<td>4.7</td>
<td>9.2</td>
<td>50.2</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>15. Shipping and other transport</td>
<td>54</td>
<td>3.2</td>
<td>1.6</td>
<td>4.8</td>
<td>31.9</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>16. Trading</td>
<td>481</td>
<td>47.9</td>
<td>33.1</td>
<td>61.0</td>
<td>216.0</td>
<td>38</td>
<td>15</td>
</tr>
<tr>
<td>17. Other industries</td>
<td>1159</td>
<td>116.9</td>
<td>120.7</td>
<td>237.6</td>
<td>645.8</td>
<td>37</td>
<td>19</td>
</tr>
<tr>
<td>18. Sub-Total</td>
<td>3554</td>
<td>627.5</td>
<td>685.5</td>
<td>1313.0</td>
<td>3623.6</td>
<td>36</td>
<td>19</td>
</tr>
</tbody>
</table>

B: Financial Cos.

1: Hire-purchase finance companies | 223 | 18.4 | 60.5 | 78.9 | 26.1 | 302 | 232 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2: Loan companies</td>
<td>440</td>
<td>451.5</td>
<td>42.4</td>
<td>494.3</td>
<td>260.4</td>
<td>190</td>
<td>16</td>
</tr>
<tr>
<td>3: Investment companies</td>
<td>829</td>
<td>33.2</td>
<td>19.5</td>
<td>52.7</td>
<td>164.7</td>
<td>32</td>
<td>12</td>
</tr>
<tr>
<td>Statement 2: Contd...</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>----------------------</td>
<td>---</td>
<td>---</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td><strong>4: Housing Finance companies</strong></td>
<td></td>
<td>6</td>
<td>-</td>
<td>10.7</td>
<td>10.7</td>
<td>19.2</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.4)</td>
<td>-</td>
<td>(1.6)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>5: Mutual Benefit Financial Cos.</strong></td>
<td></td>
<td>66</td>
<td>21.7</td>
<td>-</td>
<td>21.7</td>
<td>1.6</td>
<td>1356</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4.2)</td>
<td>-</td>
<td>(3.3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total (1 to 5)</strong></td>
<td>1564</td>
<td>525.2</td>
<td>133.1</td>
<td>658.3</td>
<td>472.0</td>
<td>139</td>
<td>28</td>
</tr>
<tr>
<td><strong>C: Miscellaneous Nonbanking Cos.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1: Conventional Chit Cos.</strong></td>
<td></td>
<td>502</td>
<td>35.2</td>
<td>4.5</td>
<td>437</td>
<td>39.7</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(74.0)</td>
<td>(43.5)</td>
<td>(43.5)</td>
<td>(-)0.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>2: Prize Chit Companies</strong></td>
<td></td>
<td>176</td>
<td>4.0</td>
<td>47.5</td>
<td>51.5</td>
<td>(-)0.6</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total (1 to 2)</strong></td>
<td>678</td>
<td>39.2</td>
<td>52</td>
<td>91.2</td>
<td>2.0</td>
<td>4560</td>
<td>2600</td>
</tr>
<tr>
<td><strong>Total Financial Companies (B+C)</strong></td>
<td>2242</td>
<td>563.4</td>
<td>185.1</td>
<td>749.5</td>
<td>474</td>
<td>4699</td>
<td>2628</td>
</tr>
<tr>
<td><strong>Total All companies (A+B+C)</strong></td>
<td>5796</td>
<td>1191.9</td>
<td>870.6</td>
<td>2062.5</td>
<td>4097.6</td>
<td>50</td>
<td>21</td>
</tr>
</tbody>
</table>

**Notes:** Figures in the brackets indicate percentages to the total of each category of companies. 
* paid up capital and free reserves have been completely eroded by balances of loss etc.

Statement 3: Growth in deposits with the scheduled commercial banks and non-banking corporate sector.

(At the end of March)  
(Figures Rs. in crores) 

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. All scheduled commercial banks</td>
<td>4348.4</td>
<td>5065.1</td>
<td>5947.4</td>
<td>7105.9</td>
<td>8598.0</td>
<td>10170.1</td>
<td>11921.5</td>
<td>14325.1</td>
<td>18045.5</td>
<td>22211.2</td>
<td>506.6</td>
</tr>
<tr>
<td>2. Nonbanking companies</td>
<td>472.1</td>
<td>505.2</td>
<td>568.7</td>
<td>691.8</td>
<td>747.8</td>
<td>1028.6</td>
<td>1196.7</td>
<td>1265.2</td>
<td>1734.9</td>
<td>2062.5</td>
<td>436.9</td>
</tr>
<tr>
<td>(i)</td>
<td>(ii)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>In respect of (1)</td>
<td>13.1</td>
<td>15.5</td>
<td>17.4</td>
<td>19.5</td>
<td>21.0</td>
<td>18.3</td>
<td>17.2</td>
<td>20.2</td>
<td>26.0</td>
<td>23.1</td>
</tr>
<tr>
<td>(ii)</td>
<td>In respect of (2)</td>
<td>18.5</td>
<td>7.0</td>
<td>12.5</td>
<td>21.7</td>
<td>6.1</td>
<td>37.5</td>
<td>16.5</td>
<td>5.7</td>
<td>37.1</td>
<td>18.9</td>
</tr>
<tr>
<td>4. Percent of 2 to 1.</td>
<td>10.8</td>
<td>10.0</td>
<td>9.6</td>
<td>9.7</td>
<td>8.7</td>
<td>10.1</td>
<td>10.0</td>
<td>8.8</td>
<td>9.6</td>
<td>9.3</td>
<td></td>
</tr>
</tbody>
</table>

Note: Figures in brackets from 1969 to 1971 represent deposit including foreign loans.