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*REPORT  
OF THE  
STUDY GROUP  
ON  
BANKING COSTS*

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BOMBAY

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Rameshwar Thakur  
Chairman,  
Study Group on Banking  
Costs

BANKING COMMISSION  
(Government of India)  
'White House',  
Walkeshwar Road,  
Bombay-6.

Date: December 2, 1971.

Dear Shri Saraiya,

The Study Group on Banking Costs which was set up by the Banking Commission in August 1969 to examine, among other things, the manner in which cost accounting techniques can be used in the banking industry and to recommend on the extent and manner in which costs can be controlled in that industry, has completed its task. We have had to extend our endeavours for a period of over two years as we undertook a detailed survey of costs of a sample of 976 branches of Indian scheduled commercial banks. This involved collection and analysis of a prodigious mass of data and this being in the nature of a pioneering study of its kind in our country, we had to dwell somewhat longer on it than we expected. We have tried to cover the terms of reference in detail and have arrived at specific findings and recommendations keeping in view the conditions obtaining in India and the developments made in advanced countries like the U.S.A., West Germany, etc.

2. The accompanying Report is an outcome of our joint effort. We have had the benefit of the expertise of the members drawn from the Banking and Accounting fields each of whom made valuable contributions leading to the formulation of our conclusions. I feel it my duty to make special mention here of the excellent help and constant guidance we have received from Shri V.G. Pendharkar, Member-Secretary of the Banking Commission. My colleagues and I are deeply appreciative of Shri. Pendharkar's valuable contributions and great co-operation in the work entrusted to us.

3. We would be amply rewarded if our Report helps the Banking Commission in shaping its recommendations for the benefits of banks enabling them to apply management accounting techniques and improve the quality of services, efficiency, productivity and profitability, keeping in view the socio-economic objectives of the nation.

Yours sincerely,

Rameshwar Thakur

Shri R. G. Saraiya,  
Chairman,  
Banking Commission,  
(Government of India),  
Bombay.

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## CHAPTER I

# INTRODUCTION

1.1 In recent years considerable concern has been felt by monetary authorities and bank managements in India about increasing costs and their implications for profitability of the Indian banking industry. Thus the Report on Trend and Progress of Banking in India for the year 1962 submitted by the Reserve Bank to the Government of India observes that "for some years past, the banking industry has been confronted with the problem of rising costs owing to the rapid expansion of branches and the increase in establishment expenses resulting from the periodical awards of the Industrial Tribunals/Commissions and the raising of interest rates paid by banks on deposits from the public." The report adds that the banks "have to face the problem of how best to maintain the profitability of the banking industry in the face of rising costs" and emphasises the need for banks "to give greater attention to ways and means of increasing the quality of their services and improved efficiency all-round".\* Four years later in the Report on Trend and Progress of Banking in India for 1966 there is a reference to "the rising expenses of banks which have led them increasingly to seek to augment their other earnings".@ The problem of rising costs and their impact on profitability of banks became a prominent theme in the annual addresses of the Chairmen of Indian Banks during the years 1967-1969 when they had to face still higher interest on deposits and their borrowings from the Reserve Bank of India as well as increases in wage bills following the Bipartite agreement of 1966 with bank employees. Increasing cost consciousness led a number of bankers to question seriously the prevailing practice of banks of offering free services to the public indiscriminately. Even where charges were levied, several bankers felt that the schedule of charges prescribed did not fully reflect cost considerations.

1.2 Besides advocating a realignment of service charges which would increase the earnings of banks, bankers made a number of suggestions to improve the productivity in the banking industry. These comprised, amongst others, use of scientific management techniques, a reorganisation of procedures and methods and establishment of norms of work and productivity standards based on proper work measurement.

1.3 The manner in which banks' costs have been increasing in India is illustrated by Table I.1 which shows the trends in the various items of

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\* Trend and Progress of Banking in India, 1962, pp. 22-23.

@ Trend and Progress of Banking in India, 1966, p. 15.



costs of Indian commercial banks over 1961-68. It will be seen from this table that the total current operating expenses increased steadily from 5.01 per cent of average deposits in 1961 to 8.22 per cent by 1968. Of the two important elements of costs, establishment expenses which were 1.95 per cent in 1961 rose steadily to 3.18 per cent by 1968. The other important element, *viz.*, interest on deposits shows a period of slow increase from 2.30 per cent of deposits to 2.74 per cent (1961-1964) and then there are sudden jumps to 3.52 per cent and 4.04 per cent respectively in 1965 and 1966 as a result of the actions of the monetary authorities in raising the interest rate structure. Thereafter the percentage remains more or less constant. Other working expenses and interest paid on borrowings also show a rising trend.

1.4 In such a context it was only natural that the Banking Commission should have been asked "to examine the cost and capital structure and to review the adequacy of available surplus and reserves, having regard to the developmental needs of the banking system and to make appropriate recommendations in the light of the findings" under one of its Terms of Reference. Expressing Government's views on this matter at the time of inauguration of the Commission, the then Deputy Prime Minister, Shri Morarji Desai stated "there is another aspect about the Terms of Reference about which I would like to make a particular mention. This is about the costing structure of our banking system. The responsibilities which have devolved on our banks in the context of our social control scheme have raised certain justifiable questions about the adequacy of reserves, the quantum of its annual available surplus and similar matters. A good part of surplus that is available should be canalised for adequate developmental purposes. It would really be unfortunate if improvement in methods and procedures results in the reduction of cost and the surplus is appropriated between capital and labour without leaving anything for the future growth of the industry. Recently in the United Kingdom the Price and Incomes Board undertook a comprehensive study of the bank charges but I do not think we have so far undertaken a detailed study of the costing structure of our banks in relation to the imperative need for creating adequate reserves and carrying through the developmental process by extending banking facilities in hitherto unbanked areas."

#### CONSTITUTION OF THE STUDY GROUP BY THE BANKING COMMISSION

1.5 A survey of the existing information on costs in the banking industry by the Commission revealed that apart from the annual publication by the Reserve Bank of India of the data on the earnings and expenses, profit and allocation of profit of scheduled commercial banks in the Statistical Tables Relating to Banks in India, there was hardly any information of industry-wide applicability on the subject. In particular it was found that barring attempts by a few banks cost accounting had not made any progress in the banking industry. The data published by the Reserve Bank, though useful

from the point of view of establishing trends in the major items of income and expenditure in banks, were not suitable for the purposes of the Commission. At about the time the Commission was inaugurated the Indian Banks Association had set up a Study Group on Cost and Productivity in the Banking Industry. As that study had a rather limited objective, the Commission decided to set up a Study Group to go into this matter. An extract from the relevant communication dated 16th September 1969 of the Banking Commission is given in Annexure A to this Report.

### *Composition of the Study Group*

1.6 The Study Group consists of the following :

- (1) Shri Rameshwar Thakur, M.A., B.Com., LL.B., F.C.A., Chartered Accountant, New Delhi—Chairman.
- (2) Shri N. Ramanand Rao, Member, Banking Commission.
- (3) Shri Kantilal F. Ghiya, Chairman, The Gujarat State Co-operative Union, Ahmedabad.
- (4) Shri S. R. Mohindroo, General Manager, Punjab National Bank, New Delhi.
- (5) Shri R. K. Datta, Chief Accountant, United Bank of India, Calcutta.
- (6) Shri H. B. Dhondy, M.A., F.C.A. (England and Wales), F.C.A., Chartered Accountant, Bombay.
- (7) Shri L. Swaminathan, B.Sc., LL.B., F.I.C.W.A., Cost Accountant, Calcutta.
- (8) Shri A. V. Ramanathan, State Bank of India—Convener.

### *Terms of Reference*

1.7 The Terms of Reference given to the Study Group were—

- (i) To examine the manner in which cost accounting techniques can be used in the banking industry—both commercial and co-operative—and to examine the applicability of programmes on this subject developed elsewhere,
- (ii) To collect and analyse the data for cost accounting in the Indian Banking industry if necessary on a representative basis,
- (iii) To develop methods for estimating the net costs of the various services rendered by banks in India,
- (iv) To make recommendations on the extent to which costs in this industry are amenable to control and the manner in which they may be controlled, and

- (v) To make any recommendations on any other related subject matter as the Study Group may consider germane to the subject of enquiry or any related matters which may be specifically referred to the Group by the Commission.

### *Meetings of the Study Group*

1.8 The Group had its first meeting on August 22, 1969 and thereafter met on 17 occasions before finalizing its report in the meeting on 30th November 1971.

### SCOPE OF THE SURVEY CONDUCTED BY THE STUDY GROUP

1.9 In view of the absence of the necessary material for assessing costs in the Indian banking industry, the Group decided to organise a Survey to enable an assessment of costs in the industry on a representative basis. For this purpose, the Group decided to select branches of Indian scheduled commercial banks with the help of a suitably designed sample, and to select samples of the State (apex) co-operative banks, the central (district) co-operative banks and the urban co-operative banks. The Indian scheduled commercial banks were themselves grouped into three groups : the large sized, the medium sized and the small sized banks. In selecting the sample of branches of these banks further stratification was made on the basis of population as per the 1961 Census and four population groups were formed : centres with a population of 10 lakhs and above, those between 1 lakh and 10 lakhs, those between 10,000 and 1 lakh and lastly, centres with a population of less than 10,000. Foreign banks were excluded from the scope of the Survey as it was felt that these banks worked under special conditions and as such the data about their cost structure were not relevant to the objectives of the Group. Other types of co-operative banks such as land development banks and industrial co-operative banks have also been excluded, the former because such long term financing institutions are not being included under the Commission's study and the latter because the scale of their operations is very small.

### *The Time Period for the Survey*

1.10 Normally for a study of this type, the data should be collected over a period of one full year so as to remove the influence, if any, of the seasonal factors on the data. However, because of the time limit within which the Commission was required to complete its work, the Group decided to collect information pertaining to only one quarter, viz., January/March 1970. It is true that the quarter January to March is one when the banks have an extremely busy time. It was felt, however, that this would not affect the validity of the results very seriously. As regards urban co-operative banks, the factor of seasonality was considered to be of even less importance

and therefore the enquiry relating to them sought to obtain data from a sample for only two months, *viz.*, April and May 1970. On the other hand, such a procedure was totally inapplicable to the State and the central co-operative banks because their main activity of sanctioning credit limits to the lower level institutions in their three-tier structure is generally concentrated in particular months of the year. Accordingly, it was decided that information from the sample banks in these groups would cover the operations for the year ending 30th June 1969.

## OUTLINE OF THE REPORT

1.11 The next chapter of the Report, Chapter II, gives a brief description of the development of accounting techniques for cost analysis abroad and in India. This is followed by Chapter III giving the details of the methodology for estimation used in the Survey conducted by the Group. Chapters IV—VII present the results of the Survey for Indian scheduled commercial banks and the urban co-operative banks. In Chapter IV are given the profiles in terms of the volume of the different types of outputs and costs per unit of these outputs for the averages of bank branches on an all-India basis as well as on the basis of the different bank-groups and population groups. The problems arising in the calculation of the profitability of bank branches are discussed in Chapter V which also gives the results of such calculations for the average bank branches on the above basis. Chapter VI discusses the question of the relationship of the cost per unit of output of a branch to the size of the output produced by the branch. All this analysis relates to the domestic business of the banks. Costing of the foreign exchange business gives rise to certain special problems which are discussed and the results presented in Chapter VII. In Chapter VIII the results for State and central co-operative banks are given.

1.12 An immediate application of the results of the Survey is in the important field of the determination of bank charges. In a wider context this leads to a discussion of the considerations that should underlie the profit-objective for banks operating under Indian conditions and the manner in which it could be achieved once the objective is decided upon. These matters are discussed in Chapter IX.

1.13 The problems referred to the Group required it to make recommendations on how to develop a technique of Management Accounting for the Indian banking industry to enable regular assessment of the various factors influencing efficiency, productivity, costs and profits in the industry and identification of areas in which the rate of increase of costs could be controlled by the banks themselves and the areas where action would be needed on the part of the authorities. Chapter X discusses first the theoretical aspects of such a technique, and then how to apply it to the Indian banking industry and concludes with recommendations on an integrated costing and financial reporting

system for banks in India. This is followed in Chapter XI by recommendations on the extent and manner in which cost control techniques may be used in future by Indian banking industry. A summary of findings and recommendations appears in Chapter XII of the Report. This is followed by Annexures:

- A—Extract from Banking Commission's communication dated 17th September 1969.
- B—Proformae of returns called for by the Group.
- C—Technical note.
- D—System of charges.
- E—Cost Accounting for banks in Federal Republic of Germany.
- F—Acknowledgements.

#### ACKNOWLEDGEMENTS

1.14 The Group wishes to thank the Chairman, Member-Secretary and other members of the Banking Commission for giving it an opportunity to carry out a detailed study on the Banking Costs. The Group would also thank the Chairman and Dr. Bhabatosh Datta, Member, Banking Commission, for attending some of the meetings of the Group and offering very valuable suggestions. The Group wishes to acknowledge specially the keen interest taken by the Member-Secretary, Shri V. G. Pendharkar in the study and the invaluable contribution made by him. Shri Pendharkar identified himself completely with the Group by attending all the meetings of the Group and associating himself with the work of the Group. It would be no exaggeration to say that the report of the Group would not have taken its present shape but for his dedication and effort.

1.15 Shri K. J. Natarajan of the State Bank of India also attended the meetings of the Group and gave his expert professional advice on banking matters. Shri B. Venkata Rao, Deputy Chief Officer, Reserve Bank of India's Special Cell in the Banking Commission assisted by his staff, helped in identifying the special features of the apex and central co-operative banks relating to 'costs' and in giving shape to the Group's findings. Shri K.B. Chore, Convener of the Banking Commission's Study Group on Bank Procedures attended the meetings of the Group and gave very useful suggestions.

1.16 Shri R. Viswanathan of the State Bank of India assisted the Group in finalizing the various forms for collecting the necessary data from the branches. Shri G. Narasimha Rao of the Reserve Bank of India helped in selecting the representative sample of branches and dates for collection of data. Sarvashri A. V. Rajwade and N. Sivaramkrishnan of the State Bank

of India assisted the Group in the study of costs of Foreign Exchange business. Shri Mathuradas of I.B.M. and Shri P. M. Pattabhi Raman of the State Bank of India arranged for the card designs, etc.

1.17 The Group would like to thank sincerely the Custodians, Chairmen of the banks for instructing their branches selected for the study to furnish the necessary information. The Group thanks the officers deputed by banks who assisted in the preparatory work relating to foreign exchange and commercial bank cost analysis (list of these officers is enclosed in Annexure F). The Group would like to thank also the Managers and members of the staff of those branches for having taken real pains in furnishing the information promptly.

1.18 The scrutiny of the returns received from the various branches was a stupendous task. The Group is obliged to the team consisting of Sarvashri I. M. N. Fernandez, C. G. Acharya, P. L. Malandkar, Nanak Rai and F. I. Memon for the excellent work done in this matter. Sincere thanks are also due to Shri K. Shankar and Smt. M. V. Sasy, who assisted a great deal in this. Both of them along with Shri M. J. Laghate helped in the arrangements of the tables. Shri S. R. Waingankar of the State Bank of India guided the team in the scrutiny of returns.

1.19 The Study Group wishes to acknowledge with thanks the help of Sarvashri C. S. Ramachandran, D. K. Thuthija and K. R. Ganapathy of the Reserve Bank of India who planned and organized the arduous task of analysing the mass of data. Thanks are due to the Reserve Bank of India for the various facilities given including the use of its computer ; in particular the Group would like to acknowledge the help of Shri V. V. Divatia, Adviser, Department of Statistics, and the staff of the Data Processing Division of that Department and also the Division of Banking of the Economic Department. The Officers in charge of regional offices of the Department of Banking Operations and Development were also very helpful in pursuing the receipt of the various returns from the bank branches.

1.20 The Group had the benefit of two studies made for the Banking Commission by (i) Dr. C. Rangarajan and Shri Paul Mampilly on "Economies of Scale in Banking"\* and (ii) Kumari K. Pant on "Use of Inventory Control for Cash Management in Banks"\* and would like to convey its special thanks to the authors.

1.21 The Group thanks Dr. Schlesinger of the Bundesbank for furnishing valuable material on costs accounting in private banks in the Federal Republic of Germany and Kumari K. V. Pendharkar for translating important parts of this material.

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\*See, *Technical Studies Prepared for the Banking Commission, Volume I*, Reserve Bank of India, 1972, pp 244-268 and 269-317.

1.22 Shri R. Rajamani, Deputy Secretary of the Banking Commission helped the Group by organizing the meetings and in the scrutiny of data, analysis of results, etc. The staff of the Special Cell of the Reserve Bank of India in the Banking Commission gave valuable secretarial support.

1.23 In conclusion, the Group would like to place on record its sincere appreciation of the work done by the Convener, Shri A. V. Ramanathan. He supervised the work closely and effectively and the Group owes him a great deal for his extremely skilful, sincere and painstaking effort in digesting and analysing the data and applying it to the banking framework, which facilitated the production of this Report.

I.1 TREND IN BANK'S COSTS—INDIAN SCHEDULED COMMERCIAL BANKS 1961-68

	1961	1962	1963	1964	1965	1966	1967	1968
Amounts in lakhs of rupees								
1. Average deposits on weekly basis* ..	15,72,99.0	17,67,97.0	19,19,24.0	21,67,36.0	24,48,78.0	28,56,68.0	32,24,81.0	36,51,27.0
2. Interest paid on deposits .. ..	36,22.8	44,45.0	50,19.8	59,33.0	86,24.0	1,15,33.5	1,32,35.1	1,47,48.3
3. Interest paid on borrowings .. ..	1,91.9	1,22.7	1,70.7	2,92.9	6,08.0	4,28.6	5,07.8	5,84.0
4. Establishment expenses .. ..	30,60.2	37,04.0	42,94.4	52,07.1	65,49.5	80,79.8	1,00,24.5	1,16,08.9
5. Other working expenses** .. ..	8,91.2	11,33.0	12,70.3	14,78.3	17,63.1	21,01.9	22,91.4	26,71.5
6. Total operating expenses .. ..	78,81.8	95,48.3	1,09,28.0	1,31,14.3	1,77,95.7	2,24,37.6	2,64,08.3	3,00,17.2
Ratios								
(a) 2 as per cent of 1 .. ..	2.30	2.51	2.62	2.74	3.52	4.04	4.10	4.04
(b) 3 as per cent of 1 .. ..	0.12	0.07	0.09	0.14	0.25	0.15	0.16	0.16
(c) 4 as per cent of 1 .. ..	1.95	2.10	2.24	2.40	2.68	2.83	3.11	3.18
(d) 5 as per cent of 1 .. ..	0.57	0.64	0.66	0.68	0.72	0.74	0.71	0.73
(e) 6 as per cent of 1 .. ..	5.01	5.40	5.69	6.05	7.27	7.86	8.19	8.22

\* Relates to the financial year, as published in the RBI Bulletin.

\*\* Comprising Directors' fees, rent, postage, stationery, law charges, etc.



## CHAPTER II

# BRIEF SURVEY OF COST ANALYSIS STUDIES IN OTHER COUNTRIES AND IN INDIA

### INTRODUCTION

2.1 In this chapter it is proposed first to outline the main problems in costing of the services rendered by banks and then to review briefly the work done in the U.S.A., the U.K. and Germany in this field and the position in India. The review relating to the work done abroad is based on (i) published material in books on the subject, and (ii) the material obtained through the courtesy of the Federal Reserve Board and the First National City Bank, New York in the U.S.A. and the Bundesbank in the Federal Republic of Germany.

### MAIN PROBLEMS IN COSTING BANKS' SERVICES

2.2 Developing a system of costing the services rendered by banks to their customers is really a part of the wider problem of developing a proper Management Accounting system for this industry. This wider problem is discussed in detail later on in this Report. For the purposes of this chapter it is sufficient to draw attention to the special features of the banking industry which need to be taken into account for the purposes of developing a costing system for it.

#### *Distinguishing Characteristics of the Banking Industry*

2.3 The banking industry differs from other industries in several respects. Three important characteristics of the banking industry are, (i) it is a multi-product, service industry, (ii) it is extremely labour intensive in the sense of a very low ratio of fixed assets to labour, and (iii) borrowed funds form the bulk of the capital employed and hence the interest costs of these funds are an important constituent of costs. A fourth characteristic which is found generally amongst the relatively less developed banking systems is that the pricing of the various products offered by the industry do not have, with one exception, any precisely worked out relationship with the costs of supplying the product. The exception is the interest cost of funds. The basic level of the interest cost of funds mobilised by banks which is the largest single component of the price of their major service, *viz.*, supply of credit, is influenced very considerably by the actions of the monetary authorities. Furthermore, in many cases, these authorities determine even the rate of earnings of

banks for lending to particular sectors. Such actions of the monetary authorities influence both the costs and the income of the banks. The labour intensive character of the industry results in its costs being dependent to a very large extent on the results of collective bargaining between the banks and their employees. All this means that there are quite a number of rigidities in banking costs.

2.4 The situation thus calls for developing methods which work out as accurately as possible (i) the labour costs, (ii) other costs, of the services given by banks, and (iii) the interest cost of the funds used by banks, so as to enable the banks to develop efficient cost control and a rational scale of charges. Here the main problem is that in banking the overwhelming input is labour input which is likely to have considerable variation in productivity from unit to unit even for the same type of work owing to such factors as innate ability of the person, his background and training, place and time of work, etc. Then again there are a number of jobs in a bank which are connected with more than one type of service and it is difficult to allocate precisely the total labour input in the job as between the different services. Also depending on the size and organisational structure of a banking unit bank personnel work on more than one service during a given time period. In a situation of this type one method of calculating the costs of the various services would be to collect figures relating to the volumes of the services of different types given by a unit in the industry and the total labour input classified into its main categories such as officer man-hours, clerical man-hours and the subordinate staff man-hours and subject it to rather complicated statistical analysis so as to obtain the costs per unit of each of the different services. The more commonly used method however is to obtain as accurate data as possible of the time the various members of staff spend on each of the various activities that go on in a bank. These data are then suitably processed to give costs per unit of the various services given by banks. Again here too there can be two approaches. One is to use the technique of work measurement with the help of trained investigators who are thoroughly familiar with the procedures in banks and who record the amount of time spent on different activities by various members of the staff in a suitably selected sample of banks or branches of banks during the sample period. Another approach is to get the data from the staff themselves. These figures can then be converted into money costs with the help of appropriate multipliers representing the average money equivalent of an officer man-hour, clerical man-hour and so on. As will be seen in Chapter III, the Study Group has adopted the latter approach.

problem  
1

2

M 1

M 2

M 3

### Classification of Activities

2.5 Next, there are the problems of classifying the activities and measuring the output. From the point of view of cost analysis the activities in a bank can be classified into those that can be identified as linked wholly or largely with the particular services like deposits, advances, etc., rendered to customers

and those common to all. As regards the services themselves they can be classified into five main groups: Deposits, Advances, Remittances, Foreign Exchange and Other Services such as safe deposit vaults, investment management, trustee services, etc. Foreign Exchange Business comprises services which fall in the category of advances, those which fall in the category of remittances and the special service of buying and selling of forward exchange which is in the nature of an insurance facility. It is possible therefore to split this group of services into the other main groups. However on account of the highly specialised nature of these transactions and the fact that generally only the more important branches offer them to the public it is desirable to treat this group of services as *sui generis*.

2.6 As far as the measurement of the output is concerned, two broad types of measurement are possible : (i) output in terms of non-monetary variable like the number of vouchers handled, the number of drafts issued/paid, etc.; or (ii) output in monetary terms, e.g., outstandings of various types of deposits and advances, the total amount of drafts issued.

### Organisational Structure and its Relation to Costing

2.7 Another important relevant factor is the organisational structure of banks. Banks vary very greatly in size, area of operation, complexity of organisation, composition of deposits and advances portfolios and types of services rendered. Thus at one end of the scale there are very large banks with a nation-wide network of branches offering most types of banking services given by modern banks in industrially developed countries. These banks have a multi-tier structure with a central office, regional offices and branches. Also these banks have large specialised departments at the central and sometimes regional offices to facilitate particular types of lending business. At the other end of the scale there are very small banks operating over an area of a district or two and offering somewhat simpler type of services to their clientele. These banks have a two-tier structure with a Head Office and branch offices. The Head Office is also a comparatively simple affair without any specialised departments. In the larger and more developed units in the industry, there are functional departments at the central or regional headquarters, the work of which is related mostly to advances of various types and foreign exchange business. So that for some activities there are, as it were, three layers of overhead costs, *i.e.*, at the branch level, at the regional level and at the central office level while for the others there are two.

### BRIEF SURVEY OF WORK DONE IN COST ANALYSIS OF BANK SERVICES

2.8 Having outlined the main problems in developing a system for costing bank service, we now present a brief account of the work done in this field in the U.S.A., the U.K., Germany and of the position in India.

U.S.A.

2.9 Probably, the first recorded evidence of a study in banking costs occurs in the book 'Sound Policies for Bank Management' by Robert G. Rodkey\* where he reports that before World War I, there were instances of bankers who were keen to find out whether any department or portions of their business failed to contribute their equitable share to the total earnings of the Bank. In the early twenties, interest in this subject developed further, and there began to appear in banking journals many articles calling attention to the importance of careful analysis of relationships between the revenue and costs of the different services rendered by banks. Gradually, this subject of banking costs grew to become one of primary importance, and in 1940, scientific methods of cost analysis were first developed in the U.S.A.

2.10 One of the early pioneers in this field of cost analysis was William C. Rempfer, the President of the First National Bank of Parkston, South Dakota, (U.S.A.) and the Chairman of the Bank Management Committee of the South Dakota Bankers' Association. He defined Bank Cost Analysis as a method of allocating a portion of all expenses of a bank to each of the activities in order to determine the cost of each item of transactions. Such a cost analysis could be used with advantage to serve many purposes. The main objects sought to be achieved from any costs analysis system for banks are: (a) determination of cost of "service charge" items and of all other items and transactions ; (b) determination of earnings received from investing savings funds and the cost of servicing these deposits (for use as a basis in formulating sound policy relating to the savings interest rates) ; (c) determination of net profit or loss of each department ; (d) comparison of work output by the staff with target output ; (e) comparison of operational procedures and results with other banks ; (f) securing sound basis for formulating policies with regard to interest rates and service charges. Taking advantage of the basic principles developed by him, the American Bankers' Association set up separate Commissions to go into the different aspects of banking costs and arising out of their studies published various booklets from time to time. Two of these need special mention here:

- (a) Simplified Cost Analysis for Smaller Non-departmentalised Banks—published in 1948 ;
- (b) Analysing the Cost Factors of Instalment lending—published in 1946.

*Simplified Cost Analysis for Smaller Non-Departmentalised Banks*

2.11 A study on the above subject was published by the American Bankers' Association in 1948. The main objective of the Country Bank Operations Commission of the U.S.A., which had conducted this Study, was to evolve a suitable system of cost analysis which would apply to non-departmentalised

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\* Published by The Ronald Press Company, New York, in the year 1944.

banks, *i.e.*, smaller banks employing 'less than 15 full-time employees'. They also extended the scope of their recommendations to indicate how this simplified system could be elaborated into a 'Complete Method' to cover larger banks as well.

2.12 The 'Short Method' developed for small non-departmentalised banks laid down the following steps for cost analysis :

- (i) determine the number of transactions handled by the bank for the year classified under advances, remittances, current account transactions, savings bank account transactions, etc.
- (ii) determine the amount of time spent by employees and the total salaries paid to them, during a month ;
- (iii) consolidate all pertinent activity information, *i.e.*, the details of work involved in handling each transaction listed under (i) and the total output of each type of work ;
- (iv) determine the total number of work minutes produced both by officers and employees, based on a target 'work minutes' for each item of activity ;
- (v) compute the cost per minute of work done by the employees—salaries and other expenses separately; (In computing salaries, suitable weightage was to be given to relate an officer's salary to an employee's salary.)
- (vi) determine the cost of handling each transaction in the bank based on details under (iv) and (v) above; and
- (vii) determine the operating efficiency rating of bank staff, *i.e.*, the ratio of the number of minutes worked by the entire staff to the grand total of work minutes spent.

2.13 As compared to the 'Short Method', the 'Complete Method' provided a detailed analysis including per item costs, earnings from invested funds, profits and losses from each activity, etc. The report had given the complete set of each activity, etc. The report had given the complete set of forms used under both the methods with detailed instructions as to how they are to be completed.

2.14 In this report great emphasis was laid on the interpretation of results, the need for comparing one's own bank's results with those of all banks and applying the figures to get the necessary guidance in fixing service charges. The report had also recommended an operating efficiency rating system for the bank staff. The method for computing this operating efficiency rating is explained below.

2.15 The total number of items and transactions reported by a bank is multiplied by the normal time required for the handling of these items and transactions. This represents the total number of work minutes produced by the staff. It is then compared with the total number of minutes the bank reports its staff as having been on the job. To illustrate: a bank handles items and transactions which should normally require 4 lac minutes on the basis of the Commission's *normal time chart* but for which the bank staff is reported to have taken say 4,20,000 minutes. Then by dividing 4,00,000 by 4,20,000, a normal operating efficiency of 95.2% is obtained for this bank.

#### Analysing the Cost Factors of Instalment Lending

2.16 A pamphlet on the above subject was published by the American Bankers Association in 1946. This is a manual of procedures for determining the cost of operating a bank's consumer credit department. Its procedure is based primarily on a departmental analysis of expenses, a time study of the clerical man hours for each operation, and measurement of profitability of each one of the functions of the bank. Certain important recommendations made in its study are worth noting :

- (i) Simplification of operations to achieve reduction in costs ;
- (ii) Interest rates established should be fair to the bank as well as to the borrowers which in the case of small loans may involve the adoption of some form of minimum charge that would make such loans profitable ;
- (iii) Longer term loans to be encouraged, where possible, to increase gross income ;
- (iv) Unprofitable loans should be rejected ;
- (v) Necessity for accurate cost figures to be sufficiently emphasised to serve as an effective guide to the management in placing instalment loan operations on a sound and profitable basis.

#### The Functional Cost Analysis Programme of the Federal Reserve Banks of the U.S.A.

2.17 A major development in this field is the system of complete cost analysis and of providing an inter-bank comparison between a large group of banks worked out by the Federal Reserve Banks of the U.S.A. through their Functional Cost Analysis Programme.

2.18 This programme affords a most advanced and systematic method of cost analysis and is conducted annually by the Federal Reserve Banks in respect of a large number of banks in all the Federal Reserve districts. Though the study is conducted independently in each district, the form of reporting is uniform for all the districts and a final combined report covering all the

districts is also published. The schedules to be prepared, the method of analysis to be followed, etc., are very well described in full detail in the 'Manual of Instructions' issued by the Federal Reserve Banks.\*

2.19 To illustrate the extent to which emphasis is laid on cost analysis and the purposeful approach made in deriving useful benefits therefrom, the following paragraph on the responsibility of the management appearing in the 'Manual of Instructions' is reproduced below:

"Management's responsibility for obtaining a Functional Cost Analysis does not end with the assignment to collect the data. For the best possible report to be used as a reliable management tool, the executive management must assist the assignee to obtain co-operation in the sampling of officer work schedules and make adequate time available to the assignee to perform a thorough, thoughtful accumulation and allocation of bank data. There are no out of pocket costs but management must be prepared to spend from 4 to 14 man days by qualified personnel to gather the data. The length of time will vary depending upon the size of the bank and its record keeping practice. First-year time will diminish substantially in the second and subsequent years".

2.20 The Functional Cost Analysis programme is designed to enable banks to determine the income they earn and the expenditure they incur for discharging their various functions. For this purpose the functions are grouped into 3 broad groups and 11 sub-groups as under :

*Group 1*                      *Available Funds Functions :* ✓  
                                     *Sub-Groups*

- (i) Demand Deposits
- (ii) Time Deposits
- (iii) Capital Funds

*Group 2*                      *Portfolio Functions :* ✓  
                                     *Sub-Groups*

- (i) Real Estate Loans
- (ii) Instalment Loans
- (iii) Commercial and Agricultural Loans
- (iv) Security Investments

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\* Publication of the U.S. Federal Reserve Bank on "Functional Cost Analysis. Manual of Instructions for Uniform Preparation of Schedules and Assembly of Required Data"—Printed July 1967.

## Group 3

*Non-fund-using Departments :  
Sub-Groups*

- (i) Computer Service
- (ii) Trust
- (iii) Safe Deposit
- (iv) Non-banking Departments

2.21 Annually, banks are required to produce five main schedules. The necessary work-sheets to compile these schedules have been prescribed, and a detailed manual of instructions has also been published. The five schedules called for are:

- (i) Income allocation ;
- (ii) Expenses allocation ;
- (iii) Average balance sheet ;
- (iv) Instalment loan sub-allocations ; and
- (v) Supplemental data.

2.22 The procedure for allocation of income is far simpler than that of allocation of expenses. For the allocation of expenses the method that is followed is to divide expenses under two categories—direct costs and indirect costs.

2.23 Wherever possible a functional analysis of indirect cost is recommended through careful individual judgement ; in other cases the use of “experience factors” developed from expenses data of participating banks is suggested.

2.24 The objects sought to be achieved by the “Functional Cost Analysis” are summarised as under :

- (1) Reasonable approximation of functional cost ;
- (2) Year to year cost comparisons within the bank ;
- (3) Reliable inter-bank comparisons with group averages of similar banks.

2.25 The annual data produced under this scheme serve as a useful guide to bank management in its decision making and in making operating procedures more effective.



*Production/Analysis Programme of the First National City Bank of New York (FNCB)*

2.26 The First National City Bank of New York has also developed a system of cost accounting and control for its own units entitled the 'Production Analysis Programme'. This study attempts to arrive at the amount of manual labour in terms of certain time standards for all office routines and transactions and then costs them according to the wage rates prevalent. It is a five-phase programme consisting of analysis of the work, measurement of the work, orientation of supervision, institution of reporting systems, and auditing updating and maintaining standards. Of these the second, *viz.*, the system for Methods Time Measurement (MTM) is the main basis for this programme. The MTM is a procedure which analyses any manual operation or method into the basic motions required to perform it. Each motion is assigned a pre-determined time standard which is determined by the nature of the motion and the conditions under which it is made.

2.27 Based on the data established through MTM, FNCB developed Master Clerical Data (MCD) in which time values were worked out for all office routines. To take an instance, suppose we wish to measure the volume of work involved in cashing cheques presented at the counters, one can work out the time units for each of the operations involved in cashing a single cheque with the help of MTM and add these up to get MCD for cashing cheques. Similarly, one can work out the time units for each of the operations required for selling a draft and work out the MCD for that type of transaction. Thus, standards for the various items of work where a large amount of clerical labour is required can be set up. One can then examine how far the costs in different offices deviate from the standards set up. It is, however, worthwhile to note that this method would require a highly technical study of time, motion and work. The main benefit arising out of Production Analysis Programme is that it gives an accurate method of developing and controlling clerical costs and the procedural cost in the bank. Considering that a heavy percentage of cost in the banking industry arises out of clerical salaries, the paper work handled, and the methods followed, this can be a very useful method for control of banking costs if it could be effectively developed for banks.

*The U.K. : Report on Bank Charges Published by the National Board for Prices and Incomes*

2.28 In the U.K. no detailed cost study systems appear to have been developed as in the States. Individual banks are understood to have done work in this field. As regards published material, there is the study on 'Bank Charges' presented to the British Parliament in May 1967. This report (Report No. 34 of the National Board for Prices and Incomes) is a useful study on the system and level of charging customers in the context of the increasing profits in the banking industry.

2.29 The purpose of this report was to review the system and level of charging customers for services provided by the London Clearing Banks and Scottish Banks in the light of their profits and dividend record. In the course of the study, it was noted that published profits and dividends paid by the banks to their shareholders had substantially increased and that the sources for the profits were the general level of interest rates and charges to customers by way of interest rates on loans, for discounting of bills, for maintenance of current account sand for providing a variety of other services such as safe deposit facilities, executor and trustee business, advice on foreign exchange transactions, etc.

2.30 This body examined in detail the manner in which the banks acquired resources, the uses to which these were put, the income that was generated, and the associated cost therefor. Based on this study the Board recommended ways in which the system and level of charges could be changed.

2.31 One of the important points brought out in this report was the necessity for the effective use of clerical labour, since it was felt that considerable savings in clerical labour could be achieved through improved scheduling and allocation of work loads and more suitable training of supervisors and staff. The report further suggested that the following steps should be taken:

- (i) Special Courses in specific clerical operations for employees should be organised ;
- (ii) Supervisors should be trained in work measurements and cost techniques and encouraged to suggest and implement clerical work improvement methods ;
- (iii) More intensive O & M activities should be developed and banks which could afford an O & M Department should set up one ;
- (iv) Mechanisation of book-keeping operations must be maximised ;
- (v) There should be no rigidity in the system of uniform working hours of banks and greater flexibility should be exercised to suit the convenience of the public so as to make a more efficient use of resources.

*Germany : The Costing Systems Developed by the Commission on Costing of the Federal Union of Private Banking Industry*

2.32 In Germany the Commission on Costing for the Federal Union for the Private Banking Industry has developed an integrated costing and accounting system for banks. The system is such that it can take account of the special features of business of the different types of banks and is applicable to banks of various sizes.

2.33 In the German system of costing bank transactions costs are first divided into (a) work costs and (b) value costs. Work costs are those which are incurred as a result of the technology of handling particular banking transactions, the organisational structure of a bank and its administrative policies. Emoluments of bank employees and costs of materials used belong to this category. Value costs are those which depend on the value of the transaction. Mostly these comprise the interest paid on funds. The work costs are allocated to the various activities that go on in a bank. For this purpose a very detailed classification of the major and minor activities has been prepared by the Commission. Next the organisation of a bank is divided into cost centres, which are formed on the principle of bringing together activities belonging to a particular function. This enables the work done by an employee to be classified into work done for his own cost centre, *i.e.*, the cost centre corresponding to the function of the department for which he works and that done for other cost centres which are termed complementary cost centres. Each department is required to calculate the input in minutes per day of each individual member of the staff on the various activities in the case of his work. For arriving at these figures a sample of work which is representative of the work done by the staff member for the year as a whole has to be analysed. In the case of many activities however it is not always possible to estimate the time taken in a very precise manner. For example, if an employee is handling both inward and outward remittances, it may be difficult to split the time into that spent on outward remittances and that spent on inward remittances in an exact manner. For such cases the Commission has worked out a set of figures called Equivalence Figures. In the case mentioned for instance, if inward remittances are given the EF. 1.0, outward remittances may be given the EF. 1.4 based on some sample study of the average time taken by bank employees for handling the two types of remittances. The system of Equivalence Figures has been developed so as to avoid going into too many detailed calculations of the time spent on the various items of work done by bank employees. Next, the total emoluments (including an allowance for superannuation and other benefits paid to a staff member) are calculated also on a per minute basis. By multiplying the work input in minutes per day by emoluments per minute, the costs are first worked out for each of the activities on a per day basis and thereafter on a per year basis for the employee's own costs centre and the complementary costs centres for which he has worked. These calculations are entered on the form called the Staff Form which is maintained by each department. The various entries in the staff form enable a bank to calculate the personnel costs of the various outputs of the bank. To these have to be added the appropriate material costs to enable the calculation of what may be called the itemwise costs.

#### *The Position in India*

2.34 As far as banking in India is concerned, at the time the Group commenced its work, it found that a few banks had attempted cost analysis of their

services. Different methods were, however, adopted by different banks for this purpose. Thus, in one case work measurement techniques were used to find out the time required for handling different items of work. Another method used was to collect data relating to the time spent on handling the various transactions from the members of the staff working at the various desks in selected branches of a bank for a sample period. Generally, the work was in an exploratory stage. A totally different approach to a part of the problem of cost analysis has been made by Prof. Hester in his book "Indian Banks, Their Portfolio, Profits and Policy."\* In this study costs per hundred rupees of current deposits, etc., have been calculated with the help of the statistical technique of multiple regression by using the data from 32 banks for the year 1959. Thus the available material was very inadequate and also out of date.

2.35 The Group, therefore, decided to collect data relating to costs and output of Indian banks broadly on the lines of such work done in the U.S.A. and Germany. The details of the methodology used for the purpose and the results obtained by the Group are given in Chapters III—VIII.

## CHAPTER III

# COST ANALYSIS—METHODOLOGY USED

### INTRODUCTORY

3.1 The details of the methodology used by the Group to analyse costs of Indian scheduled commercial banks and urban co-operative banks for all services except Foreign Exchange are given in this chapter. The methodology for Foreign Exchange business is described in Chapter VII which also gives the results for that activity. Similarly, the methodology for the apex and district co-operative banks and the corresponding results are given in Chapter VIII. As the greater part of the work relates to the Indian commercial banks, the methodology used for these banks is described first and is followed by that used for the urban co-operative banks.

### INDIAN COMMERCIAL BANKS—DESIGN OF THE SAMPLE

3.2 The Group decided to collect the information pertaining to Indian commercial banks through a two-way stratified sample of their branches. In addition, the Group collected information from Head Offices of each of the banks any of whose branches were included in the sample. A branch of a bank for this purpose was the office or in the case of regional or Head Offices, that part of the office which actually renders services to the customers. The rest of the activities of such offices are regarded as Head Office activities. The Central or the Head Offices of all the banks the branches of which came in the sample were included in the sample for such offices. A two-way stratification scheme was adopted in preference to a simple random sample because of the considerable variation in the scale and diversity of the operations of bank branches according to the size of the bank to which they belong and the population of the area served by them. It should be mentioned however that in the absence of the necessary data it was not possible to use the population criterion in its strict sense, namely, the population of the area served by the particular branch. Instead the criterion chosen was the population of the town or the city in which the branch was located. As regards the grouping according to the size of banks, the groups consisted of—

- I. State Bank of India and the five large Nationalised Banks,
- II. the remaining 9 Nationalised Banks, the subsidiaries of the State Bank of India and the Andhra Bank Ltd., and
- III. the remaining Indian scheduled commercial banks.

It may be mentioned here however that for sampling reasons separate samples were taken in Group I for the State Bank of India and for the five other banks. In presenting the results the data have been combined and shown for the group as a whole. The population-wise classification as already mentioned consisted of centres with a population of (i) 10 lakhs and over, (ii) between 1 lakh and 10 lakhs, (iii) between 10,000 and 1 lakh and (iv) less than 10,000, according to the population census of 1961.

3.3 Keeping in view the limited time and processing capacity available, it was decided to take a sample of about 1,000 bank branches. As the objective of the survey was to estimate the cost of various services, it would have been desirable to allocate the total sample among the different groups in the sample on the basis of the establishment charges of the banks and on such factors as the number of deposit and advance accounts in each group which can be considered as having a close relationship with the cost of rendering the services. This, however, could not be done as the relevant branch level data were not available. Hence the sample was allocated to each bank/population group on the basis of the total number of branches in each category. Accordingly, 20 per cent of the branches in population areas of 10 lakhs and over and 1 lakh to 10 lakhs and 10 per cent of the branches in the population areas of 10,000 to 1 lakh and less than 10,000 have been taken, the reason for the variation being that there is generally a greater degree of uniformity amongst branches at smaller centres of population than at the bigger centres. The sample size for each bank/population group has been rounded off to the nearest multiple of 4 to facilitate the selection of the days for which the returns were to be filled in. The required number of offices in each bank/population cell has been selected by simple random sampling.

3.4 This sampling procedure yielded an overall sample of 976 bank offices, spread over the 12 groups, as in the table below :

#### DISTRIBUTION OF SAMPLE BANK BRANCHES

Bank Group	Population Group				Total
	10 lakhs and over	1 lakh-10 lakhs	10,000-1 lakh	Less than 10,000	
I { State Bank of India and Five big Nationalised Banks	104	140	136	52	432
II { Other Nationalised Banks, Subsidiaries of SBI and Andhra Bank Ltd.	92	128	112	56	388
III Other Indian Scheduled Commercial Banks	24	56	56	20	156
All Banks	220	324	304	128	976

The sampling fractions for the bank groups and the population groups and the percentage shares of the sub-samples in the total sample worked out are shown below:

SAMPLING FRACTIONS— BANK GROUP-WISE AND POPULATION GROUP-WISE

		Sampling fraction (per cent)	Pro- portion of bank branches (overall) (per cent)	Pro- portion of bank branches (Sample) (per cent)
I	State Bank of India .. .. .	12	17	14
	and Five big Nationalised Banks .. .. .	15	27	30
II	Other Nationalised Banks, Subsidiaries of SBI and the Andhra Bank Ltd. .. .. .	14	40	40
	III Other Indian Scheduled Commercial Banks .. .. .	13	16	16
All Banks .. .. .		14	100	100
I	Population 10 lakhs and above .. .. .	20	16	23
II	Population between 1 lakh—10 lakhs .. .. .	20	23	33
III	Population between 10,000—1 lakh .. .. .	10	43	31
IV	Population less than 10,000.. .. .	10	18	13
All population groups .. .. .		14	100	100

It may be seen that the sampling fraction for different bank groups is in the range of 12 to 15 per cent. The distribution of the branches in the sample thus broadly conforms to the overall distribution of branches among bank groups.

THE TIME PERIOD OF THE SURVEY INFORMATION

3.5 The time period with reference to which the data was to be collected presented another important problem. While some types of information such as average advances, accrued interest on deposits or advances, etc., can be obtained on a monthly basis, there are other types of information such as the man-hours spent in servicing various types of accounts which can be more easily collected on a daily basis. It was therefore decided to collect information through two sets of returns; one pertaining to specified days during the

three month reference period and the other pertaining to each of the three months in the reference period. In addition, statements of general ledger balances of the banks' offices concerned as on each Friday during these months were also called for.

### *Selection of Days*

3.6 For each of the three months of the reference period the selected branch was required to send 4 day-returns making in all 12 day-returns for the period as a whole. In selecting the particular days for which the branches should send the returns account was taken of the fact that in banks the volume of daily transactions differs substantially depending on whether it is a Monday, a Friday, a Saturday or any other working day during the week. The days were, therefore, selected in such a manner that the data collected would take into account these variations. For any selected branch, the 12 selected days were so spread over the quarter that Mondays, Fridays, Saturdays and mid-week days (*i.e.*, any other day) occurred with equal frequency. Though there are three mid-week days, *viz.*, Tuesday, Wednesday and Thursday, for the purpose of the present survey no distinction has been made among them. The actual allotment to bank branches of such days in the survey period was done with the help of a Latin Square Design. The bank holidays in different States were taken into account while selecting the dates to the extent possible. Since however it was likely that in one or the other State a selected date might fall on a day which might be declared a holiday by that State or no work might be transacted on the date for such reasons as a strike or a public disturbance, branches were given a procedure to select an alternative day. The procedure was as follows :

(i) In case the holiday on the selected date fell on Friday, the preceding day (Thursday) was to be selected.

(ii) In case the holiday fell on Monday or Saturday, the corresponding day (Monday or Saturday) of the preceding week was to be selected.

(iii) If the holiday fell on Tuesday, the information was to be filled in on Wednesday. If Wednesday or Thursday happened to be a holiday, then the returns were to be filled up for Tuesday.

### *Head Offices*

3.7 As Head Offices of the commercial banks are highly departmentalised, it was considered feasible for them to give the information called for for the entire 3 months under reference and as such the information has been called for for this quarter as a whole.



*Design of Forms\**

3.8 For branches of commercial banks five types of schedules called 'day-returns' were designed to collect data relating to transactions on selected days in the reference period and six types of schedules called 'monthly-returns' for data for the month as a whole for each of the three months of the reference period. To avoid confusion between the two types of schedules, the former were printed on white paper and the latter on pink coloured paper. In addition, as has been mentioned, branches were required to furnish certain data on a weekly basis. Code numbers were allotted to the branches containing digits to identify the bank, the bank group and the population code based on the population of the place or town where the branch in question was located. Similarly each type of service was given code number which was printed against the name of the service on the returns. A brief description of the various types of returns is given below. Proformae of the returns themselves are in Annexure B.

*Description of Day-returns**Cost Analysis Return 1.1—Allocation of Man-hours among Various Services*

3.9 Man-hours put in by each category of employees, *viz.*, Officers, Clerks/Cashiers and Subordinate Staff on the selected date, were to be filled in separately for each service in this return. Man-hours spent on inter-departmental services, *e.g.*, main day-book/clean cash books, records and establishment and man-hours spent by guards, sweepers, etc., being general in nature could not be distributed to individual services and hence were to be recorded against the service termed as 'General'. Man-hours spent on services which were not separately specified and coded, such as foreign exchange business, safe deposit lockers, etc., were to be recorded against 'Others'. Separate information regarding normal hours and overtime hours was called for in respect of award staff.

*Cost Analysis Return 1.2—Worksheet for Clearing Department*

3.10 Total number of inward and outward cheques/drafts handled separately for each of the departments, current accounts, savings bank accounts, Advance Department, Remittance Department, Bill Department and miscellaneous category on the date under reference was to be entered in this return.

*Cost Analysis Return 1.3—Worksheet for the Mail Department*

3.11 Number of letters despatched department-wise on the selected date was to be recorded in this return. Letters not classifiable according to departments were to be treated as 'Miscellaneous'.

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\* Note: Forms starting with the number 1,2,3 and 4 like 1.1., 1.3, 2.1, etc., are forms on which data were called from branches of Indian scheduled commercial banks. Forms starting with number 5 were meant for foreign exchange business. Forms starting with number 6 were for Head Offices of banks.

*Cost Analysis Return 1.4 — Worksheet for the Cash Department*

3.12 Number of vouchers passed separately for receipts and payments and the number of pieces of currency notes received and involved in payments corresponding to different services were to be recorded in this return.

*Cost Analysis Return 2.1—Quantum of Day's Turnover in respect of Various Services*

3.13 Information on number of vouchers passed, both debit and credit, separately for each type of deposit account and the various categories of advances was to be recorded here. In addition, details relating to number of and items in pledge invoices, delivery orders, stock statements, etc., involved in examination of securities against each type of advances were to be given here. Particulars of amount and number in respect of each type of remittance (issued and paid), outward bills negotiated or collected and inward bills relating to the reference date, were also to be furnished in this return.

*Description of Monthly Returns*

*Cost Analysis Return 1.5—Allocation of Man-hours Spent on Handling of Advances Proposals*

3.14 The information on number of new proposals, renewals or enhancements and the man-hours spent by officers and clerks on them, for each type of advance during the month under question, were to be recorded in this return.

*Cost Analysis Return 2.2—Quantum of Turnover in respect of Various Services*

3.15 This return is similar to Day-Return 2.1. Here data relating to quantum of turnover were to be given for the month as a whole.

*Cost Analysis Return 3.1—Establishment and Other Expenses and Man-hours Put in*

3.16 Details of establishment expenses and man-hours worked by each category of staff were to be recorded in this return. Information was to be given separately in respect of normal hours and overtime, *i.e.*, additional hours beyond normal working hours. Total expenses at the branch excluding interest paid and the information on depreciation charged and stationery consumed were also to be recorded in this return.

*Cost Analysis Return 3.2—Data relating to Interest Cost of Funds*

3.17 For accurate estimation of costs, the information on income and expenses should be based on accruals rather than on cash basis. Data on interest accrued during the month were to be furnished separately for each type of deposit in this return.

*Cost Analysis Return 4.1—Income or Discount Earned*

3.18 Information relating to income or discount accrued for the month for each type of advance, usance bills negotiated, etc., was to be recorded in this return. Information on outstandings and number of borrowers for each type was also to be given here.

*Cost Analysis Return 4.2—Exchange or Commission Earned*

3.19 In this return, the selected branch was requested to record the information on exchange or commission received separately for each of the relevant services.

*Head Office Including Regional Offices**Cost Analysis Return 6.1—Establishment Expenses*

3.20 In this return, the Head Offices of the banks were to give establishment expenses incurred on the staff in the various departments separately as well as other expenses such as rent, taxes, postages, etc., incurred at the Head Office. The establishment expenses incurred in providing banking facilities to the customers and the members of the public at the Head Office were to be indicated separately.

*Cost Analysis Return 6.2—Supplementary Information*

3.21 Supplementary information pertaining to allocation of Head Office costs such as number of proposals referred to the Head Office, number of employees of the bank as a whole, etc., were called for in this return.

*Analysis of the Returns—Scrutiny*

3.22 The returns received were subjected to initial scrutiny to verify broadly that whenever input, like man-hours spent, was reported, there was corresponding output, like vouchers passed, cheques cleared, remittances transacted, etc. Dimensional checks of data were also carried out to a certain extent. Checking of discrepancies including totals, misclassification of items, etc., was done on the computer of the Reserve Bank of India.

*Calculation of Averages for Input, Output, Income and Expenditure*

3.23 Each selected branch was to send 12 sets of day-returns each corresponding to specified dates and 3 sets of monthly returns corresponding to the 3 month reference period. The data in monthly returns was cumulated to obtain one set for each branch pertaining to the quarter. In case of partial response appropriate blowing up of the data was done to obtain figures on a

quarterly basis. In respect of outstandings, however, simple averages of the various figures were taken to represent the 3 month period.

3.24 As regards the day-returns, as stated earlier, the 12 days, selected for any branch spread over the quarter, were chosen in such a manner that they would cover three each of Mondays, Fridays, Saturdays and mid-week days. There were, however, some instances where returns for some of these days were not received or were not otherwise available for processing due to certain discrepancies in the data contained therein. To overcome this difficulty, it was decided to obtain averages for each of 3 specified days and an average corresponding to mid-week days in the first instance.

3.25 The 3 month reference period comprises approximately 13 weeks. It was observed that during this period the number of bank holidays for different States ranged from 4 to 8. For the country as a whole, it was, therefore, assumed that on an average there were six holidays during this period which is also equal to the number of working days in a week. It was further assumed that the distribution of the six holidays was uniform over all the working days of the week and the 3 month period is equivalent to about 12 working weeks, *i.e.*, 12 each of Mondays, Fridays and Saturdays and 36 mid-week days. To arrive at estimated totals for the quarter, therefore, the day averages were multiplied by 36 in case of mid-week days and by 12 for each of the other days and these products were added up. In this way estimates were obtained for (i) the labour input in terms of man-hours for officers and clerks, (ii) the output measured in both physical and monetary terms and (iii) the income and expenditure for the reference period for each of the branches in the sample. As regards the labour input of the subordinate staff, it was observed on preliminary scrutiny that it was very difficult for the branches to distribute this according to each individual service. In fact, many branches had clubbed the entire time spent by this category of staff against 'General' service. It may, however, be reasonably presumed that the work of subordinate staff would have a bearing on the effort expended by other categories of employees for the respective services. Hence the expenditure incurred on this category of staff was treated as overhead expenditure, and allocated to individual services indirectly, along with other overhead expenditure.

3.26 The consolidation of monthly returns gives the quantum of turnover such as number of accounts maintained, number of vouchers put through various accounts, number of drafts issued, number of bills collected, etc., amount of drafts issued, bills collected, etc., and the average balances/outstandings of various categories of accounts as well as the income received on various services for each office included in the sample.

#### *Allocation of Branch Expenditure to Individual Services*

3.27 In the next phase of analysis, the expenditure incurred by a branch was allocated to individual services rendered by it to its customers in the following manner.

(i) The normal and the overtime hours put in by clerks/cashiers as available in return 1.1 were combined to obtain the total man-hours put in for each service. No distinction was made between normal and overtime hours, even though the relative costs are different, as it was felt that services which do not have relative urgency are usually done after the normal hours. To assess the cost of these services at enhanced rate (*i.e.*, overtime rate) would not, therefore, be proper. For officers the problem of overtime did not arise.

(ii) In the case of one item, *viz.*, handling proposals for advances, the detailed break-up of man-hours put in was available in the day-return 1.1 as well as the monthly return 1.5. Since this type of work is frequently not of a day-to-day type, it was decided to use the data from monthly returns rather than from the day-returns.

(iii) These figures of labour input, for each type of service were then converted into money terms. For this purpose, total establishment expenses (including overtime payments) incurred on officers and clerks/cashiers were obtained from consolidated return 3.1 and allocated separately for each category of employee, to various services, including ancillary services, such as clearing, despatch, cash department service and general service on the basis of total man-hours expended on respective services by the corresponding category of employee. By adding up the expenses in respect of the input of officers and that of clerks/cashiers for each service, the total expenses directly attributable to that service were obtained.

(iv) Allocation of gross expenditure incurred at the branch, which includes all the overheads, establishment charges on subordinate staff, depreciation, stationery, etc., but excludes interest paid, was done on the basis of the expenses directly attributable to each type of service. At this stage, the establishment expenditure allocated to 'General' category was ignored and consequently the overall expenditure corresponding to this service automatically got re-allocated to each individual service in the ratio of magnitudes of establishment expenditure under each service. The assumption, underlying this, is that all the expenditure other than establishment expenditure is directly proportional to the establishment expenditure.

(v) The costs allocated to the following service groups: clearing house, despatch department and cash department, were re-allocated to other banking services, on the basis of the number of transactions in each of these departments which pertained to the individual service under consideration. Thus, the portion of cost on clearing house which was re-allocated to current account was proportional to the number of cheques entrusted for clearance. The details of transactions in these departments were available in the day-returns 1.2, 1.3 and 1.4. Re-allocation of expenses for receipts and payments in the cash department was done on the basis of total number of pieces of currency notes received or paid out, rather than on number of vouchers passed, for it

was felt, that bulk of cash department's time is spent on actual handling of currency notes.

(vi) In the above re-allocation procedure, the expenditure which got re-allocated to miscellaneous category was transferred to the service classified as other services.

(vii) In the final phase of analysis, estimates for each bank/population group for all Indian scheduled commercial banks were worked out. Bank-wise estimation was not attempted, as the sample was not designed to yield such estimates.

(viii) After the allocation of the gross expenses to the different services, certain services such as drafts issued, drafts paid were combined to give a new service, 'Drafts'. Similar combinations were carried out for Advances so as to include cost of component services, viz., handling of proposals, maintenance of ledger, inspection of stock, etc.

#### Calculation of Unit Costs

3.28 The unit costs of various services were then obtained by dividing the input by corresponding outputs. Unit costs were computed for each office separately for each service and for each of the outputs. Comparison of these results for various offices revealed that in a few cases the unit costs were either very high or very low. In such cases, the original documents were scrutinised again to find out whether there were discrepancies in reporting. These discrepancies, if any, were rectified and unit costs were re-calculated for these offices.

#### Calculation of Group Level Estimates

3.29 From the inputs, outputs and income of all offices belonging to any particular bank group or population group included in the analysis, estimates of inputs, outputs and income for the group were calculated by using appropriate weights. From these estimates the unit costs of the various services were worked out for each population group and bank group. These represent branch level costs. The Head Office costs were separately loaded to the estimates of inputs for each of the bank groups as described in the following two paragraphs. Based on these, unit costs were again worked out, thus now representing the costs inclusive of the element of Head Office costs. Similarly the income on various services was also worked out for each population group and bank group. All-India averages were also obtained by using a similar procedure.

#### *Allocation of Head Office Expenditure to Individual Services*

3.30 The information obtained from Head Offices related to (i) expenses of departments like staff, inspection, audit, etc., which serve all activities of the

bank and (ii) expenses of specialised departments like small-scale industries, agricultural advances, foreign exchange, etc., and the expenses in connection with branch reconciliation in the case of remittances and bills. The expenses of the general departments were expressed as a percentage of the total expenses incurred on all activities at the branch level. In the case of the specialised departments, the total expenses incurred at the Head Offices were expressed as a percentage of the expenses incurred by the branches in connection with those activities. The expenses on reconciliation were however worked out on a per voucher basis. The costs at the branch level were loaded: (i) for all activities by the general percentage; and (ii) in the case of specialised activities by the percentage for the particular activity. For remittances and bills, the branch level costs were loaded by the per voucher cost of reconciliation in addition to the percentage for general activities.

3.31 In case of bank groups, loading Head Office costs was done on the basis of percentages worked out separately for each group. However, in the case of population groups, as each group contained branches of banks from more than one bank group, loading of Head Office costs has been done on the basis of percentages computed for all the banks put together. Since in the different population groups, the distribution of the bank branches amongst different bank groups varies, the procedure adopted would introduce a certain amount of divergence from the true figures. For example, in population group I, where branches of bank groups I and II predominate, the figures would be somewhat under estimated. However, the error on account of such divergence is not likely to be appreciable.

#### URBAN CO-OPERATIVE BANKS

3.32 The number of banks included in the sample was 24. They were selected on a representative basis and included all the banks to which the Banking Commission had sent its questionnaire.

3.33 In view of the fact that the urban co-operative banks operate on a much smaller scale as compared to the Indian commercial banks and also of the fact that their business is also of a fairly simple nature, it was decided to ask them to fill up a smaller number of returns of a simplified type. Proforma of the returns on which information was collected are in Annexure B. Thus, they were asked to fill in only seven returns each on a monthly basis for the two months for which the survey was conducted for these banks. Though the returns resemble those which the Indian commercial banks were asked to fill in, the details were cut down. The main simplification was in respect of advances, where information was asked for in respect of advances for industries, trade and others only. Remittances of all categories were bunched together and in the case of bills only two categories, *viz.*, cheques and other

bills, were included. The seven returns sent to these banks and the corresponding returns to Indian commercial banks were as under :

	Urban Co-operative banks	Indian Commer- cial banks
Cost Analysis Return No.	7.1	1.1
	7.2	1.5
	7.3	2.2
	7.4	3.1
	7.5	3.2
	7.6	4.1
	7.7	4.2

The processing was more or less on the same lines as for returns from Indian commercial banks.



## CHAPTER IV

# RESULTS OF THE SURVEY

### INTRODUCTORY

4.1 The results of the survey may now be discussed. As in Chapter III the results are presented first for the Indian commercial banks and then for the urban co-operative banks. It will be recalled that the idea behind the scheme of two-way stratification of the sample of branches of Indian commercial banks was to take into account the influence, if any, of the size of a bank and of the size in terms of population of the place where the branch is located on the cost of various services. If these factors exert a significant influence then the averages per branch for deposits, advances, etc., and their servicing costs should differ from group to group to such an extent that the differences are more than what can be accounted for by purely random or chance factors which may have affected the sample. Whether this is so or not can precisely be ascertained by performing what is known as the 'analysis of variance' on the data. As is shown in Annexure C, where various technical aspects of the analysis are discussed in some detail, both the factors do have a statistically significant influence on several banking services and their costs. Hence in the discussion that follows the results are discussed according to the bank groups as well as according to the population groups.

### RESPONSE TO THE SURVEY

4.2 Out of the 976 branches selected for the sample usable returns were received from as many as 830, *i.e.*, a little over 83 per cent. The distribution of these according to the bank population groups is given below. This number includes only those branches which had submitted (i) the minimum number required of both the day and the monthly returns and (ii) amongst the day-returns at least one return relating to a Monday, a Friday, a Saturday and a mid-week day, as otherwise the data from the branch could not be utilised for the analysis. It may be mentioned in this connection that arrangements were made to distribute the schedule to the branches one month before the date of commencement of the survey so as to give time to study them and have their doubts if any resolved in good time. Also a two-day seminar was organised in Bombay for the officers in the Head Offices of the banks whose branches were selected for the survey to discuss the schedules and to modify, if necessary, the instructions in regard to particular items in them. As was to be expected, however, a number of branches raised further queries during the early days of the survey. Once these queries were answered to the satis-

## DISTRIBUTION OF OFFICES INCLUDED IN ESTIMATION

Bank Group	Population class				Total
	10 lakhs and above	1 lakh-10 lakhs	10,000-1 lakh	Less than 10,000	
State Bank of India and five big nationalised banks .. .. .	88	106	110	42	346
Other nationalised banks, subsidiaries of State Bank of India and the Andhra Bank Ltd. .. .. .	80	114	100	55	349
Other Indian scheduled commercial banks	16	50	53	16	135
All Banks .. .. .	184	270	263	113	830

fraction of the branches the quality of the response improved considerably. Amongst the branches not included in the analysis were those affected by strikes and those few which did not send any returns at all despite repeated reminders. Considering all these factors the response can be said to be very good and shows the keen interest taken in the survey by all those concerned.

## SCHEME OF PRESENTATION OF RESULTS

4.3 At the outset, before presenting the detailed results, a comparison is made between the estimates of deposits and advances for the three bank groups and for the Indian commercial banks from the survey data with the actuals for the period January-March 1970. Then the detailed results follow. The scheme of presentation of these is to discuss first the all-India average profile of a bank branch, *i.e.*, its business in terms of amounts of deposit or advances outstanding, amount of remittances handled, etc., or monetary outputs and in terms of number of vouchers, cheques, drafts, etc., handled or the physical outputs, the related inputs or cost in rupee terms and as percentages, the ratios of clerical to officer man-hours and the average costs per unit of either the monetary or the physical output or both according to data availability. This is followed by a discussion of average profiles and costs for each of the three bank groups and then for each of the four population groups. The costs in all these tables are shown, first, as branch level costs, and then after loading for Head Office overheads. For each profile type, five tables are given. These show output and costs of (1) Main Activities; (2) Categories of Deposits; (3) Categories of Advances; (4) Categories of Remittances; and (5) Categories of Bills. All tables are numbered consecutively from 1 to 5, suffixes B and P being added to distinguish the bank group-wise and the population group-wise profiles from the all-India average profiles. For the same type of table the format is identical for the three profile types. Each table gives

the results for the quarter ending 31st March 1970 computed from the data collected. At the end the details of loading on account of Head Office expenses are discussed.

#### COMPARISON OF THE ESTIMATES WITH ACTUALS

4.4 In order to ascertain how far the sampling procedure was successful an attempt was made to compare the estimates derived from the sample with the actuals the figures for which were available with the Reserve Bank. It was possible to do this in respect of only two items, *viz.*, Deposits and Advances. The Economic Department of the Reserve Bank of India compiled the figures furnished weekly by the Indian scheduled commercial banks to the Reserve Bank under Section 42 of the Reserve Bank of India Act for the three bank groups for the last Friday for each of the three months of the quarter January-March 1970. The figures under deposits excluded inter-bank deposits and demand and time liabilities not in the nature of deposits. The figures under advances include loans and advances, cash credits, overdrafts, etc., and inland bills but exclude foreign bills purchased and discounted. The table below shows that (i) generally the sample estimates are in many cases very close to the actuals (*i.e.*, the averages for the last Friday of the three months January-March 1970). On the whole, however, they tend to be a little on the low side, (ii) in the overall figures estimates for advances show somewhat wider divergence from actuals for advances than deposit estimates from actuals of deposits, and (iii) the estimates for advances for bank group I show the maximum divergence from the actuals, *viz.*, 8.91 per cent.

#### ACTUALS AND ESTIMATES FROM THE SAMPLE

Bank Group	(Rupees Crores)					
	Deposits			Advances (excluding Foreign bills)		
	Actuals	Estimates	Difference as percentage of Actuals	Actuals	Estimates	Difference as percentage of Actuals
I .. ..	2810.9	2776.5	- 1.22	2060.7	1877.1	- 8.91
II .. ..	1419.4	1384.6	- 2.45	1096.1	1073.5	- 2.06
III .. ..	262.3	265.5	+ 1.22	179.6	170.7	- 4.96
Total .. ..	4492.6	4426.6	- 1.47	3336.4	3121.3	- 6.45

An important reason for the under estimation appears to be the fact that while the actuals are the averages of the three Fridays at the end of each of the three months the sample estimates are representatives of all the days of the

quarter as a whole. To test the validity of this reasoning a comparison was made between the actuals for all the Fridays of the quarter for the totals of these two items for all Indian scheduled commercial banks with the sample estimates. As is seen below the difference is narrowed down in this comparison.

	Averages for all the Fridays of the quarter Jan.-March 1970 (Rs. in crores)	Sample Estimates (Rs. in crores)	Difference (as percentage of actuals)
Deposits	4458.0	4426.6	— 0.70
Advances (excluding Foreign Bills)	3285.1	3121.3	— 4.99*

\* A possible reason for the higher variance for Advances than for Deposits may be that the branches with larger Advances are somewhat under-represented in our sample.

Another reason is that the figures of actuals also contain deposits and advances of the newly opened branches during this quarter. However, on further examination this factor seems to be of a negligible order of importance. According to the figures supplied by the Reserve Bank of India the deposits and advances of the new branches opened during July 1969 to June 1970 increased by Rs. 22.1 crores and Rs. 13.6 crores respectively between the end of December 1969 and the end of March 1970. Those branches which were opened between July 1969 and the end of December 1969 are the ones which are likely to account for the major part of these increases in deposits and advances during the quarter January-March 1970 as the branches opened in the quarter would hardly have had enough time to get going. Hence branches opened during January-March 1970 are likely to have contributed very little to the differences between sample estimates and actuals.

#### THE PROFILE OF THE ALL-INDIA AVERAGE BANK BRANCH

4.5 The profile of the all-India average bank branch may now be discussed. Table IV.1 shows the output in money terms of the main activities, servicing costs, the percentage of total costs required by each of these activities and the ratios of the clerical man-hours to officer man-hours for them. Average outstandings of deposits of such a branch during the reference period work out to Rs. 62.09 lakhs and advances Rs. 41.87 lakhs. From the break-up of costs it will be seen that the major item of work is on deposits which account for 40.27 per cent of the total costs. Advances come next at 18.00 per cent, bills 14.79 per cent and remittances 11.92 per cent. Deposits are also the most clerical-oriented activity. Next comes bills of various types, drafts, and Mail Transfers (MTs). Telegraphic Transfers (TTs) are the most officer-oriented activity followed by advances.

### *Deposits : Main Categories*

4.6 The next Table IV.2 shows the break-up of deposits into the four main categories, current, savings, fixed and others with the corresponding output, input and cost data. Current deposits although they account for only 22.6 per cent of the total amount, generate the largest volume, *viz.*, 58.2 per cent of the physical output, *i.e.*, number of vouchers and account for 56.93 per cent of the servicing costs. Savings deposits are 25.7 per cent by amount or a little over a quarter of the total amount of deposits and generate nearly a third of the total physical output, *viz.*, 32.95 per cent and account for 30.4 per cent of the servicing costs. Thus these two types of deposits together generate a little over 91 per cent of the physical output and account for a little over 87 per cent of the total costs. Fixed deposits total a little less than one-half in terms of outstandings of all types of deposits. But the physical output generated by them is only 2 per cent of the total output and the cost of servicing 6.8 per cent of the total costs. As could be expected, current deposits require more clerical input per officer. Savings deposits come next while fixed deposits require the least number of clerks per officer. The last seven columns show the costs. First the interest costs are shown in terms of per cent per annum of the outstanding average balance. Then the servicing costs are shown in two different ways (*a*) in terms of per cent per annum of average balance outstanding and (*b*) in terms of Rs. per voucher. Under both these methods these costs are shown first as they occur at the branch level and then in the next column the costs after loading for Head Office overheads are shown. Total costs, *i.e.*, the sum of interest costs and servicing costs before and after loading are also shown in the table in terms of per cent per annum of average balance outstanding. The servicing costs in terms of per cent per annum of average balance are the highest for current deposits, 3.63 without loading and 3.93 with loading, and the lowest for fixed deposits, 0.20 without loading and 0.22 with loading. However, when the interest costs are added, the picture is completely reversed. Average cost of fixed deposits works out to 5.79 per cent per annum with loading, that of savings deposits to 5.14 and that of current deposits to 4.00. The last two columns show costs in terms of rupees per voucher. Here fixed deposits show a very high figure of 6.29 rupees per voucher with loading. Next come current deposit vouchers at rupees 1.88 per voucher and savings deposits vouchers at rupees 1.78 per voucher. From the fact that the average number of vouchers per account per quarter on savings accounts are only 2.11 as against 30.28 for current accounts, it can be seen that the savings accounts are rather inactive. That is to say a large number of them do represent savings and not just current accounts converted to take advantage of the interest obtainable.

### *Advances : Main Categories*

4.7 In Table IV.3, the data for advances has been analysed. As could be expected, advances to large and medium-scale industries form the largest

proportion (58.9 per cent) of total advances. These are followed by : (i) other advances (20.5 per cent) which are mostly advances to trade ; (ii) advances to small-scale industries (10.0 per cent) ; (iii) personal and professional loans (6.0 per cent); and (iv) direct loans to farmers (4.6 per cent). The position regarding proportion of cost incurred on these various activities is however quite different, as compared to the outstandings. Thus 'other advances' account for as much as 34.8 per cent of the total costs. The next most important activity from this point of view is small-scale industry which requires 29.8 per cent of input, followed by large and medium-scale industries (15.1 per cent). The remaining two categories, namely direct loans to farmers and personal and professional loans, take up nearly the same proportion of input namely 10.0 per cent and 10.3 per cent respectively. The servicing costs have been split up further into ledger keeping costs and others. On an overall basis these are about equal though between categories of advances there are some differences in their relative importance. The most clerical-oriented activity is advances to large and medium-scale industries. Advances to small-scale industries and other advances follow next. Direct loans to farmers are highly officer-oriented. As regards costs, it will be seen that small-scale industries are the costliest in terms of per cent per annum of average outstandings—3.42 after loading. Direct loans to farmers follow next at 2.72 per cent per annum. Advances to large and medium-scale industries are the least costly 0.32 per cent per annum while advances to the other two categories fall in between and cost about the same in terms of per cent per annum. Loading: Head Office expenses increases the difference between the minimum and maximum incidence of costs.

4.8 From the last column of Table IV.3 it will be seen that the gross income or interest income on advances of different categories varies within a narrow margin of 8.58 per cent per annum for large and medium-scale industries to 9.16 per cent per annum in the case of direct loans to farmers. The net yield, however, varies by a wider margin because of the larger variations in the servicing costs of the different categories of advances. It will be noted that large and medium-scale industries which show the lowest gross yield show the highest net yield of 8.26 per cent per annum on account of the very low incidence of servicing costs on outstandings. Advances to small-scale industries which show a gross yield which is a little higher than yield for advances to large and medium-scale industry show the lowest net yield of 5.29 per cent per annum because of the high incidence of servicing costs. The other three categories of advances show more or less similar net yields.

#### *Remittances*

4.9 In regard to remittances, Table IV.4 shows that drafts account for a little less than three-fourths of the costs for remittances. The balance is spread nearly equally between M.Ts. and T.Ts. Drafts are also the most clerical-oriented activity. M.Ts. follow drafts closely while T.Ts. are more

officer-oriented. In terms of costs per item T.Ts. are the costliest, M.Ts. come next and Drafts last. There is however not much difference between the last two.

### *Bills*

4.10 As to bills, it will be seen from Table IV.5 that 92 per cent of the cost is in respect of the various categories of demand bills such as cheques and clean bills and other demand bills. Usance bills make up the remaining. All these activities are clerical-oriented, there being not much difference between them. In terms of costs per item both before and after Head Office loading, usance bills are the costliest followed by 'other demand bills' while cheques and clean bills are the cheapest.

### PROFILE FOR AVERAGE BRANCHES—BANK GROUP-WISE

4.11 We may now study the differences in the profiles of the averages for the three bank groups given in Tables IV.1B to IV.5B.

4.12 From Table IV.1B giving the main activities for an average bank branch in each of the three bank groups it will be seen that as one moves down from the larger banks to the small banks, deposits, advances, and bills increase in importance in terms of the proportion they account of the total costs. This is because the larger banks offer a wider range of services than the smaller banks. In particular, in bank group I, which includes the State Bank, Government business is an important item from the costs point of view. Similarly foreign exchange activity is confined to bank groups I and II only. There are other services like custody of securities, provision of safe deposit vaults, etc., which are more common with the larger banks than with the smaller banks. These other services account for 18.1 per cent of the total costs in group I, 11.6 per cent in group II and only 6.3 per cent in group III.

### *Categories of Deposits*

4.13 The details of deposit categories and the costs according to per hundred rupees of deposit and per voucher are shown in Table IV.2B. It will be seen from this table that as one moves down from bank group I to bank group III ; (i) the proportion of current deposits in total deposits outstanding decreases ; (ii) savings deposits increase slightly in importance from group I to II and then fall in bank group III ; and (iii) the proportion of fixed deposits is practically the same in bank groups I and II but shows a marked increase in bank group III. It may also be noted that the total of current and savings deposits is 48-49 per cent of all deposits in groups I and II. Similar trends are observed in the case of physical output namely, number of vouchers per quarter also.

### *Size of Account and Volume of Activity*

4.14 Comparing the physical outputs to monetary outputs, it is interesting to observe that the total number of vouchers for the quarter differ comparatively very little as between bank group I and bank group II, though the total deposits of bank group II are only about half of those in bank group I. In other words, bank group II has to do the same volume of work though its earning power would be considerably smaller in view of its smaller deposit resources. A similar tendency though in a much less marked form is observed as between bank group II and bank group III. The physical volume of work in connection with deposit in bank group III is about half of that in bank group II but the deposits of that group are about 45 per cent of those of bank group II. Another way to look at it is to compare the average outstanding balance per account and the average number of vouchers per account per quarter, the figures for which are shown in columns (3) and (5) respectively. These figures also show that the amount of work to be done per account for current accounts is the same in bank groups I and II although the average outstanding balance in group II is only half of the former. In group III while the average outstanding per account of current deposit is around 36 per cent of that for group I the amount of work done per account is nearly 84 per cent of that for the other group. The position for savings accounts is similar. In other words, in respect of current and savings deposits, the activity per account not being very dependent on the size of the account, small sized accounts tend to push up the cost of servicing deposits.

### *Man-hours Ratios*

4.15 As far as the clerical/officer man-hours ratios are concerned, bank group II shows higher ratios for all the three categories than either bank group I or bank group III. In these two groups, bank group I has a higher ratio in current deposits but lower ratio in savings and fixed deposits than bank group III.

### *Costs*

4.16 As far as current accounts are concerned, banks in all the three groups pay a small amount by way of interest. For savings deposits, there are interest costs which go on increasing as one moves on to the smaller banks. In the case of fixed deposits it is rather surprising to see that bank group I has the highest average interest cost for deposits followed by bank group III although the smaller banks give higher rates of interest on deposits. This suggests that banks in group I tend to have more long term deposits. Bank group II has the cheapest fixed deposits. The branch level servicing costs for current deposits per hundred rupees per annum on average balance are the highest for bank group II and the lowest for bank group I. This is only to be expected in view of the relationship between the physical output and the monetary output commented upon in the previous paragraph. For savings



account they go up uniformly from bank group I to bank group III. The servicing costs per hundred rupees for fixed deposits vary very little. As a result of these factors, bank group II has the highest total cost per hundred rupees of deposits and bank group I the lowest total cost per hundred rupees of deposits. The study of the costs per voucher show however that the costs of operations in bank group I are the highest and those in bank group III the lowest. Loading for Head Office costs leaves the general pattern unchanged though the difference between group II and other groups widens.

#### *Advances : Main Categories*

4.17 The average profiles of these bank groups for the different categories of advances are given in Table IV.3B. In terms of the total outstandings average advances per branch in group II are 63 per cent of group I and those in group III about 25 per cent of group I. As regards their distribution by categories advances to large and medium-scale industries are most prominent in the portfolio of group I where they account for nearly 71 per cent of the total. In group II also they are very important accounting for 46 per cent of the total. But in group III they form only 8.3 per cent of the total. Advances to small-scale industries and direct loans to farmers appear to have nearly the same relative importance to total in the portfolios of groups II and III. In group I their relative importance is only slightly less. Personal and professional loans and other advances which are mostly to trade form an increasing proportion of the total as one moves from the larger to the smaller banks.

#### *Man-hour Ratios*

4.18 As regards clerical to officer man-hours ratios, it will be seen that direct loans to farmers and personal and professional loans are more officer-oriented. Next come loans to small-scale industries and other advances. Loans to large and medium-scale industries are the least officer-oriented.

#### *Costs*

4.19 Costs calculated in terms of per hundred rupees per annum of average outstanding, show that in all the three groups loans to large and medium-scale industries are the least expensive, while those to small-scale industries are the most expensive. The other three categories namely, direct loans to farmers, personal and professional loans and other advances come in between. It is also seen that costs as per cent per annum of outstandings increase gradually from group I to group III. This appears to be due to the preponderance of advances to large and medium-scale industries in group I. The per hundred rupee cost of these advances is also the least in this group being Re. 0.22 at branch level and Re. 0.30 after loading Head Office overheads as compared to Re. 0.29 and Re. 0.39 respectively for group II and Re. 0.53

and Re. 0.77 for group III. This would be the result of such factors as the large size of individual drawing transactions, well established methods and procedures and so on. On the other hand it will be seen that costs per hundred rupees of advances are the highest in group I for small-scale industries and direct loans to farmers. Group II shows the smallest cost for small-scale industries and group III for direct loans to farmers. With Head Office loading the differences between the three groups become even more marked in these two categories. As regards the splitting up of the cost between ledger keeping and other operations there does not seem to be any particular relationship with the bank size.

4.20 As regards the interest income on advances bank group III shows the highest rate of 9.58 per cent per annum followed by bank group II at 9.27 per cent per annum. Bank group I shows the lowest rate of 8.31 per cent per annum. There are also some differences in the yield pattern as between the three groups. Thus, in bank group I, personal and professional loans show the highest gross yield, viz., 9.35 per cent per annum and advances to large and medium-scale industries the lowest at 8.14 per cent per annum. In bank group II, the advances to large and medium-scale industries show the highest yield at 9.76 per cent per annum while those to personal and professional loans show the lowest at 7.90 per cent per annum. In bank group III, personal and professional loan show the highest at 11.01 per cent per annum while other advances show the lowest yield at 8.98 per cent per annum. When account is taken of the servicing costs, advances to large and medium-scale industries become the most profitable in bank groups I and II (7.84 per cent and 9.37 per cent per annum). In bank group III it is the direct loans to farmers which show the highest yield at 9.22 per cent per annum. The lowest yields are shown by advances to small-scale industries of bank groups I and III (4.23 per cent and 6.89 per cent per annum) and by personal and professional loans in bank group II (5.93 per cent per annum). In bank group II small-scale industries show the second lowest yield at 6.53 per cent per annum.

### *Remittances*

4.21 The next table, Table IV.4B shows the profiles for remittances. In all the three groups, drafts are the most important activity accounting for between 72 and 85 per cent of the total costs of remittances. M.Ts. come next accounting for 9 to 16 per cent while T.Ts. account from 5 per cent in the case of the smallest banks to 14 per cent in the case of the largest banks. This could be the result of the very low volume of T.Ts. in the case of group III. Drafts are generally more clerical-oriented while T.Ts. are most officer-oriented and M.Ts. come in between. As regards costs per item, drafts and M.Ts. show a progressive reduction from group II to group III, while costs of the T.Ts. are the highest in the case of group III.

*Bills*

4.22 The last table namely Table IV.5B gives the results for the various categories of bills. Cheques and clean bills are the most important, accounting for 48 to 51 per cent of the total cost for this activity. Next come other demand bills accounting for 43 to 44 per cent. Usance bills on the other hand are rather unimportant, accounting as they do for only 6 to 8 per cent of the costs for bills. The costs per item are the highest for cheques and clean bills in group I and the lowest in group II. Costs in group III are a little higher than in group II. For other demand bills costs per item go down progressively from group I to group III. For usance bills, the costs per item are the highest for group II.

PROFILES FOR AVERAGE BRANCHES—POPULATION GROUP-WISE

4.23 Turning now to the profiles according to the population groups, it will be seen from Table IV.1P that there are considerable differences in the output mix as between the different population groups. Thus the ratio between advances and deposits ranges from 108 per cent in the largest centres to 34 per cent in the smallest. The turnover of remittances and bills also goes down rapidly as one moves from the larger to the smaller centres. However, as regards the distribution of costs, deposits account for the largest proportion, 42.2 per cent of total costs in the largest centres, while in the other three groups the proportion is more or less around 39 per cent. As will be seen later, this is because of the large volume of work in regard to current account deposits in these centres. Advances account for between 16 per cent and 20 per cent of costs with no clear trend. Remittances, especially drafts become increasingly important cost-wise as one moves from the larger to the smaller centres. In the case of bills, cheques, clean bills and other demand bills account for 14 to 15 per cent of costs in groups II and III. In group I they account for 12 per cent and in group IV only 10 per cent. Usance bills diminish in importance cost-wise with the size of centres. As regards other services it will be seen that both in the largest and the smallest centres these are more important than in the other two centres. This is because in the largest centres, customers of banks avail of various services like foreign exchange, safe custody, etc., to a considerable extent. In the smallest centres the proportion is high because of the State Bank offices handling Government business, which in relation to the total business at these centres is quite important. Generally the man-hour ratios show that branches in the smaller centres are more officer-oriented than those in the larger ones.

*Deposits : Main Categories*

4.24 The analysis of deposits and their costs according to the main categories is given in Table IV.2P. This table shows that (i) the importance of current and fixed deposits decreases from the larger centres to the smaller

centres, (ii) correspondingly the importance of savings deposits increases. As far as the physical output is concerned however it is only in the case of current accounts that there is a steady decrease in importance from the larger to the small centres ; for both savings accounts and fixed deposits the trend is in the opposite direction. It is interesting to see that the average amount per account as well as the average number of vouchers *per account per quarter* in all except the largest centres is more or less the same for current accounts. In the case of savings account the averages of amount for population groups II and III are fairly close together. However, as regards the average number of vouchers, population groups I and II are closer together and so are population groups III and IV. In the lower population centres the man-hour ratio is more officer-oriented.

#### *Costs*

4.25 The last seven columns which give the data relating to costs show that interest costs are more or less same in groups I and IV and slightly lower in the case of groups II and III. Servicing costs on the other hand, go on decreasing from groups I to III and jump suddenly in the smallest population centre. In the result the costs per cent per annum on average balance decrease with the size of the centres though they are the highest in population group IV.

4.26 Costs per voucher for current accounts decrease from group I to group II and thereafter go on increasing. In population group IV, they are the highest. For savings account vouchers they are the highest in group I. Between groups II and IV they go on increasing as for current account vouchers. In the case of fixed deposits however there is a steady decrease from the higher centres to the lower centres. As a result the average costs for all vouchers are the lowest for population group II and the highest for population group IV. For population groups I and III they lie between these two limits.

#### *Advances : Main Categories*

4.27 Table IV.3P shows the distribution of various types of advances and their costs according to various population groups. In group I the most predominant advances are those to large and medium-scale industries accounting for a little less than three-fourths of the total outstandings. Their importance diminishes steadily with the size of the centre. All other categories of advances generally increase in relative importance with decrease in the size of the centre. As regards the clerical and officer man-hour ratios, there is a steady decrease in the overall ratio from group I to group IV. However as between the different categories there seems to be considerable variations.

#### *Costs*

4.28 The data relating to costs show that the cost per cent per annum of average outstandings increases steadily from group I to group IV. This

appears to be mainly the result of the decrease in the proportion to the total of advances to large and medium-scale industries as the size of the population centres decreases. The servicing cost of these advances calculated as per cent per annum of average outstandings is generally low and reaches the lowest point in population group I.

4.29 The average interest income for advances is the highest for branches in population group II (8.76% per annum) and the lowest for branches in population group IV (8.44% per annum). In population groups I and III the yield is practically the same at 8.71% per annum. There are however considerable differences in the pattern of yields in the four population groups. Thus in group I, personal and professional loans show the highest yield at 9.39% per annum. In group II other advances at 9.03% per annum and in groups III and IV direct loans to farmers at 9.43% per annum and 10.03% per annum respectively register the highest yields. The lowest gross yields are shown in group I by direct loans to farmers (8.44% per annum), personal and professional loans in group II (8.42% per annum), large and medium-scale industries in group III (8.14% per annum) and small-scale industries in group IV (8.06% per annum). When adjustments are made for total servicing costs the average yields for all advances go down steadily from 8.00% per annum for branches in population group I to 5.72% per annum for branches in population group IV. Also advances to small-scale industries show the lowest yields for population groups I, II and IV (4.22%, 5.61% and 4.53% per annum). In group III the lowest yields are shown by other advances (5.96% per annum) followed by small-scale industries (7.23% per annum). The highest yields in groups I, II and III are shown by large and medium-scale industries (8.34%, 8.29% and 7.68% per annum). In group IV the highest yield is shown by direct loans to farmers which show a yield of 7.03% per annum.

### *Remittances*

4.30 The profiles for this activity given in Table IV.4P show some interesting features. Drafts issued are about the same in amount as between group I and group II centres but about twice as many by numbers in the latter than in the former. Thereafter there is a steep fall in amounts but in numbers the fall is less steep. M.Ts. and T.Ts. show a continuous steep fall from the largest to the smallest centres. Again in terms of numbers the fall is less steep. Finally the largest centres pay out more than they receive in the case of all types of remittances. In group II centres this happens only for Drafts and M.Ts. In all other centres generally more remittances are issued than paid out. That is to say these centres are net receivers of funds in providing this service. The clerical-officer ratios show that branches are more officer-oriented as one moves to the smaller centres. As regards costs per item they are the highest for drafts and M.Ts. issued in group I and for T.Ts. in group IV. Group II centres report generally the lowest figures for all types of remittance transactions. The data relating to costs per item show that the

lowest costs are in group II. Thereafter the costs go on increasing and are the highest for group IV. Costs in group I are higher in all categories than in group II.

### *Bills*

4.31 Finally Table IV.5P gives the figures relating to the various categories of bills. This table shows that cheques and clean bills are the most important in population group I and population group IV. In the remaining two groups other demand bills are as important as cheques and clean bills. Usance bills form a negligible proportion of business in population group IV. Their importance goes on increasing though in groups III and II it is still quite low. The input ratios generally become more and more officer-oriented as one moves from the higher centres to the lower centres. Costs per item are the highest in the lowest centres. In population group III, they are the lowest. Generally their behaviour seems to be somewhat erratic.

### *Loading on Account of Head Office Expenses*

4.32 The manner in which the Head Office expenses have been loaded on the costs incurred at branch level has been explained in Chapter III paragraph 3.30. Tables IV.6 and IV.6B give the details of this loading respectively for all banks and for the three bank groups. The first seven rows in these tables give the details of Head Office expenses on particular activities like advances of various types, foreign exchange business and the work of inter-bank reconciliation. Foreign exchange business is shown only in the tables for first two bank groups and in the all-banks tables, the figures from these groups are included. The expenses incurred at the Head Offices on these activities and the expenses incurred at all branches at the all-India level and in the three bank groups are shown in columns 3 and 5 of these tables and the ratio of Head Office expenses to the branch level expenses is expressed as a percentage in the last column (column 6 of these tables). The last row of these tables shows particulars of expenses for departments of an administrative nature whose cost is loaded uniformly on the costs of all services.

4.33 It will be seen from these tables that at the all-India level for all-banks as well as banks groups I and II, the highest percentage of loading is around 50 per cent in respect of foreign exchange business. The next highest for all-banks and bank group I is for medium and large-scale industries, around 24 per cent followed by direct loans to farmers. For bank group II, it is direct loans to farmers (30%). Advances to large and medium-scale industry require a loading of 26 per cent for these banks too. The loading for small-scale industries is around 12% in the case of bank groups I and II. Generally loading on account of specialised departments is considerably low in the case of bank group III presumably because these banks being small are not able to afford the expenses of maintaining specialised departments for the concerned activities at their Head Offices. The only exception is direct

loans to farmers. As regards general administrative expenses, it will be seen that this is quite uniform around 9% in all the bank groups and therefore for all banks.

#### PROFILE OF AN AVERAGE URBAN CO-OPERATIVE BANK

4.34 Tables IV.1 U.C. to IV.4 U.C. give the all-India average profiles for the average urban co-operative banks on the same lines as the profiles for average bank branches of Indian commercial banks except that in Table IV.4 U.C. remittances and bills have been combined. Comparing Table IV.1 U.C. with IV.1B it appears that as far as deposits and advances outstandings are concerned, the profiles of the urban co-operative banks compare with those of an average bank branch in bank group II. However, the remittance business is much smaller than for an average bank branch in bank group III and the bill business even smaller. The total servicing costs per quarter are somewhat between those of an average bank branch in group II and in group III.

##### *Deposits and their Costs*

4.35 The distribution of deposits in various categories in urban co-operative banks is more on the lines of bank group III than bank group II. However, average outstanding per account is about half of the figure of bank group III in the case of current accounts and about 80 per cent of that for bank group III in the case of savings accounts. Activity in these accounts as shown by the average number of vouchers per account is also considerably less, about 55 per cent of that in bank group III. Total servicing costs for deposits are somewhat between those for bank group II and bank group III. The servicing costs of current and savings account deposits are considerably lower for the urban co-operative banks than for the commercial banks. The costs of fixed deposits per cent per annum are however comparatively high. Interest costs of fixed deposits are also comparatively high for these banks. The average cost of deposits however is lower than that of both the bank groups.

##### *Advances and their Costs*

4.36 The distribution of advances of the urban co-operative banks given in Table IV.3 U.C. shows that advances to industry play a very small part in their portfolio (5.2 per cent). Advances to trade predominate at nearly 37 per cent. Personal and professional advances also form an important part of the portfolio (25.8 per cent). The total servicing cost of advances appears quite high in relation to that of deposits as compared to all the bank groups. In terms of per cent per annum, however, the servicing cost comes quite close to that of bank group III. The rate of income earned per hundred rupees of advances per annum is higher than that for bank group III, though generally the rates according to categories of advances are a little lower than in bank group III. The net income per cent per annum of all advances is slightly higher than for both bank groups II and III.

### *Remittances and Bills*

4.37 As regards the servicing costs of remittances and bills for these banks it is difficult to make a comparison because the figures comprise all types of remittances and bills. Taking into account however the fact that the physical output is considerably lower than that of bank group III, while the total costs per quarter are not proportionately lower, it may be inferred that the costs of these services are somewhat higher in the case of these banks than for commercial banks in group III.

### GENERAL OBSERVATIONS

4.38 In interpreting these results it should be borne in mind that the cost-structure of any given bank branch is the resultant of a number of factors. The influence of two of these, *viz.*, the size of the bank to which the branch belongs and its location in terms of population, have been taken into account in the stratification scheme. The size of the bank can influence the costs of its branches through : (i) the level of the overhead costs ; (ii) the salary structure; and (iii) the facilities which exist within the bank for investment of surplus funds of the branch, or for the bank for borrowing funds necessary for expansion of business of the branch. The location factor influences : (i) the overall quantum of business which a branch can get and its distribution into such activities as different types of deposits and advances, remittance business, bill business, etc. ; and (ii) the opportunities for investment of surplus funds locally or the need for borrowing them. Changes in the composition of business influence both costs and earnings because the servicing costs differ according to the type of output and so do the rates of interest paid on different types of deposits and earned on different types of advances.

Among other factors, the important ones are : (a) the methods and procedures used ; (b) the productivity of the employees ; and (c) the age of the branch. Generally, for the more common types of bank operations, methods and procedures are fairly standardised and should not make much difference. As to productivity of employees, this is rather a complex matter because it depends not only on methods and procedures followed in a branch, but also on the degree of harmony prevailing between the various categories of staff in the branch and the period for which the data are collected, which determines whether the branch happens to be under-employed or has more than its normal business owing to the operation of seasonal factors. The age of the branch can affect its costs, especially in its early stages when business has not fully developed. This however is offset to an extent by the lower levels of salaries paid to the employees in the branch, because they are in the early stages of their time-scales of pay. The age factor is unlikely to make much difference in so far as the variations from one bank group to another are concerned. However, as regards population groups the costs for the smaller centres are likely to be affected somewhat in the upward direction because a larger proportion of the branches in this group are of recent origin.



TABLE IV.1 ALL-INDIA AVERAGE BANK BRANCH PROFILE—  
MAIN ACTIVITIES

(For the quarter ended  
31st March 1970)

Activities	Output (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost (Rs.)
	(1)	(2)	(3)
1. <i>DEPOSITS</i> .. .. .	62.09*	3.74	22345 (40.27)
2. <i>ADVANCES</i> .. .. .	41.87*	2.41	9985 (18.00)
3. <i>REMITTANCES</i>			
(a) Drafts .. .. .	34.74	3.21	4854 (8.75)
(b) M. Ts. .. .. .	10.79	2.89	932 (1.68)
(c) T. Ts. .. .. .	62.40	2.03	826 (1.49)
Total (a+b+c) .. .. .			6612 (11.92)
4. <i>BILLS NEGOTIATION/COLLECTION</i>			
(a) Cheques and clean bills .. .. .	23.03	3.42	3974 (7.16)
(b) Other Demand Bills .. .. .	17.07	3.65	3580 (6.45)
(c) Usance Bills .. .. .	3.03	3.49	652 (1.18)
Total (a+b+c) .. .. .			8206 (14.79)
5. <i>OTHER SERVICES</i> .. .. .			8335 (15.02)
6. <i>TOTAL (1 TO 5)</i> .. .. .		3.38	55483 (100.00)

Figures within brackets indicate percentages to total.

\* Average Balance/Outstanding.

TABLE IV.2—ALL-INDIA AVERAGE BANK BRANCH PROFILE—OUTPUT AND COSTS  
CATEGORIES OF DEPOSITS

(For the quarter ended  
31st March 1970)

Category of Deposits	OUTPUT				INPUT			COSTS							
	No. of Accounts	Monetary		Physical		Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	% per annum of average balance				Per voucher			
		Out-standings (lakhs of Rs.)	Average per Account (Rs.)	No. of Vouchers	Average per Account			Interest	Servicing		Total		Branch level (Rs.)	H.O. Costs Loaded (Rs.)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)		(8)	Branch level	H. O. Costs Loaded	Branch level			H.O. Costs Loaded
1. Current	242	14.03 (22.60)	5797.52	7328 (58.24)	30.28	4.21	12721 (56.93)	0.07	3.63	3.93	3.70	4.00	1.74	1.88	
2. Savings	1964	15.96 (25.70)	812.63	4146 (32.95)	2.11	3.44	6792 (30.40)	3.29	1.70	1.85	4.99	5.14	1.64	1.78	
3. Fixed	—	30.55 (49.20)	—	261 (2.07)	—	2.67	1515 (6.78)	5.57	0.20	0.22	5.77	5.79	5.80	6.29	
4. Other Deposits	—	1.55 (2.50)	—	848 (6.74)	—	2.92	1317 (5.89)	—	—	—	—	—	—	—	
5. TOTAL (1 to 4)	—	62.09 (100.00)	—	12583 (100.00)	—	3.74	22345 (100.00)	3.94	1.44	1.56	5.38	5.50	1.78	1.93	

Figures within brackets indicate percentages to total.  
H.O. = Head Office.

TABLE IV.3—ALL-INDIA AVERAGE BANK BRANCH PROFILE—OUTPUT AND COSTS

## CATEGORIES OF ADVANCES

(For the quarter ended 31st March 1970)

Category of Advances	OUTPUT		INPUT			COSTS				INCOME		
	Out-standings (lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing Cost			Per cent per annum of average outstandings				Interest income	Net income	
			Ledger keeping cost (Rs.)	Maintenance of securities and other servicing cost (Rs.)	Total (Rs.)	Ledger keeping cost	Maintenance of securities & other servicing cost	Total servicing cost	Branch level		H. O. Costs Loaded	Branch level
					(3)+(4)	(3)×4	(4)×4	(6)+(7)		(10)–(8)	(10)–(9)	
(1)	(2)	(3)	(4)	(5)	(1) (6)	(1) (7)	(8)	(9)	(10)	(11)	(12)	
1. Small-Scale Industries ..	4.20 (10.03)	2.77	1187 (27.42)	1793 (31.70)	2980 (29.84)	1.13	1.71	2.84	3.42	8.71	5.87	5.29
2. Large and Medium-Scale Industries	24.67 (58.92)	3.08	604 (13.95)	902 (15.95)	1506 (15.08)	0.10	0.15	0.25	0.32	8.58	8.33	8.26
3. Direct Loans to Farmers	1.91 (4.56)	1.24	159 (3.67)	842 (14.89)	1001 (10.03)	0.33	1.76	2.09	2.72	9.16	7.07	6.44
4. Personal and Professional Loans .. ..	2.51 (5.99)	1.74	424 (9.79)	603 (10.66)	1027 (10.29)	0.68	0.96	1.64	1.90	8.91	7.27	7.01
5. Other Advances .. ..	8.58 (20.50)	2.72	1955 (45.17)	1516 (26.80)	3471 (34.76)	0.91	0.71	1.62	1.88	8.90	7.28	7.02
6. TOTAL (1 to 5) .. ..	41.87 (100.00)	2.41	4329 (100.00)	5656 (100.00)	9985 (100.00)	0.41	0.54	0.95	1.16	8.71	7.76	7.55

Figures within brackets indicate percentages to total.  
H.O.=Head Office.

TABLE IV. 4—ALL-INDIA AVERAGE BANK BRANCH PROFILE—OUTPUT AND COSTS

## CATEGORIES OF REMITTANCES

(For the quarter ended  
31st March 1970)

Category of Remittances	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	Servicing Costs per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
	(1)	(2)	(3)	(4)	(4) (2) (5)	(6)
<b>1. DRAFTS</b>						
(a) Issued .. .. .	32.89	1109	3.34	3261 (49.32)	2.94	3.42
(b) Paid .. .. .	36.60	1127	2.95	1593 (24.09)	1.41	1.76
Total (a) + (b) .. .. .	—	—	—	4854 (73.41)	4.35	5.18
<b>2. M. Ts.</b>						
(a) Issued .. .. .	9.48	198	2.98	643 (9.72)	3.25	3.75
(b) Paid .. .. .	12.11	199	2.68	289 (4.38)	1.45	1.80
Total (a) + (b) .. .. .	—	—	—	932 (14.10)	4.70	5.55
<b>3. T.Ts.</b>						
(a) Issued .. .. .	58.41	64	2.25	527 (7.97)	8.23	9.16
(b) Paid .. .. .	66.39	72	1.68	299 (4.52)	4.15	4.74
Total (a) + (b) .. .. .	—	—	—	826 (12.49)	12.38	13.90
<b>4. TOTAL (1 to 3) .. .. .</b>						
	—	—	—	6612 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O. — Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of remittances show the total cost of issuing and paying one remittance.

TABLE IV.5—ALL-INDIA AVERAGE BANK BRANCH PROFILE—OUTPUT AND COSTS

## CATEGORIES OF BILLS

(For the quarter ended  
31st March 1970)

Category of Bills	OUTPUT		INPUT		COSTS		
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	Servicing Costs per item		
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)	
(1)	(2)	(3)	(4)	(4)	(2)	(5)	(6)
<b>1. CHEQUES AND CLEAN BILLS</b>							
(a) Negotiation/collection .. .. .	25.89	1127	3.34	2232 (27.20)	1.98	2.38	
(b) Remittances .. .. .	20.17	829	3.53	1742 (21.23)	2.10	2.51	
Total (a) + (b) .. .. .	—	—	—	3974 (48.43)	4.08	4.89	
<b>2. OTHER DEMAND BILLS</b>							
(a) Negotiation/Collection .. .. .	14.92	354	3.59	1315 (16.03)	3.71	4.26	
(b) Remittances .. .. .	19.22	615	3.68	2265 (27.60)	3.68	4.22	
Total (a) + (b) .. .. .	—	—	—	3580 (43.63)	7.39	8.48	
<b>3. USANCE BILLS</b>							
(a) Negotiation/collection .. .. .	3.63	83	3.59	293 (3.57)	3.53	4.06	
(b) Remittances .. .. .	2.43	59	3.41	359 (4.37)	6.08	6.83	
Total (a) + (b) .. .. .	—	—	—	652 (7.94)	9.61	10.89	
<b>4. TOTAL (1 to 3) .. .. .</b>							
	—	—	—	8206 (100.00)	—	—	

Figures within brackets indicate percentages to total  
H.O.—Head Office

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of bills show the total cost of negotiating/collecting and remitting the proceeds of one cheque/bill.

TABLE IV.1B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS

MAIN ACTIVITIES							(For the quarter ended 31st March 1970)		
BANK GROUP I							Output (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost (Rs.)
Activities							(1)	(2)	(3)
1.	DEPOSITS	..	..	..	..	..	88.32*	3.59	28366 (38.96)
2.	ADVANCES	..	..	..	..	..	57.31*	2.41	12394 (17.02)
3.	REMITTANCES	..							
	(a) Drafts	..	..	..	..	..	49.49	3.20	6403 (8.80)
	(b) M.Ts.	..	..	..	..	..	17.95	3.10	1213 (1.67)
	(c) T. Ts.	..	..	..	..	..	111.19	2.20	1226 (1.68)
	Total (a + b + c)	..	..	..	..	..	—	—	8842 (12.15)
4.	BILLS NEGOTIATION/COLLECTION								
	(a) Cheques and Clean Bills	..	..	..	..	..	26.09	3.42	4818 (6.62)
	(b) Other Demand Bills	..	..	..	..	..	24.36	3.80	4411 (6.06)
	(c) Usance Bills	..	..	..	..	..	4.27	3.44	815 (1.12)
	Total (a + b + c)	..	..	..	..	..	—	—	10044 (13.80)
5.	OTHER SERVICES	..	..	..	..	..	—	—	13151 (18.07)
6.	TOTAL (1 TO 5)	..	..	..	..	..	—	3.36	72797 (100.00)

Figures within brackets indicate percentages to total.

\*Average Balance/Outstanding.

TABLE IV. 1B —ALL-INDIA AVERAGE BANK PROFILE ACCORDING TO  
BANK GROUPS—OUTPUT AND COSTS—(Contd.)

MAIN ACTIVITIES

BANK GROUP II

(For the quarter ended  
31st March 1970)

Activities	Output (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost (Rs.)
	(1)	(2)	(3)
1. DEPOSITS .. .. .	49.19*	4.13	21286 (42.22)
2. ADVANCES .. .. .	36.15*	2.34	9396 (18.64)
3. REMITTANCES			
(a) Drafts .. .. .	27.27	3.28	4231 (8.39)
(b) M. Ts. .. .. .	6.81	2.66	905 (1.80)
(c) T.Ts. .. .. .	32.86	1.72	661 (1.31)
Total (a + b + c) .. .. .	—	—	5797 (11.50)
4. BILLS NEGOTIATION/COLLECTION			
(a) Cheques and Clean Bills .. .. .	26.34	3.51	3919 (7.77)
(b) Other Demand Bills .. .. .	13.97	3.62	3502 (6.95)
(c) Unsance Bills .. .. .	2.36	3.92	646 (1.28)
Total (a + b + c) .. .. .	—	—	8067 (16.00)
5. OTHER SERVICES .. .. .	—	—	5866 (11.64)
6. TOTAL (1 TO 5) .. .. .	—	3.49	50412 (100.00)

Figures within brackets indicate percentages to total.

\* Average Balance/Outstanding.

TABLE IV.1B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING  
TO BANK GROUPS—OUTPUT AND COSTS—(Contd.)

MAIN ACTIVITIES

BANK GROUP III							(For the quarter ended 31st March 1970)		
Activities							Output (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost (Rs.)
							(1)	(2)	(3)
1.	<i>DEPOSITS</i> .. .. .						22.73*	3.24	8698 (41.20)
2.	<i>ADVANCES</i> .. .. .						14.03*	2.70	4914 (23.27)
3.	<i>REMITTANCES</i>								
	(a) Drafts .. .. .						13.07	3.00	2188 (10.36)
	(b) M.Ts. .. .. .						1.15	2.49	238 (1.13)
	(c) T.Ts. .. .. .						2.31	1.92	140 (0.66)
	Total (a + b + c) .. .. .						—	—	2566 (12.15)
4.	<i>BILLS NEGOTIATION/COLLECTION</i>								
	(a) Cheques and Clean Bills .. .. .						6.82	3.14	1838 (8.71)
	(b) Other Demand Bills .. .. .						4.89	2.96	1530 (7.25)
	(c) Usance Bills .. .. .						1.31	2.32	229 (1.08)
	Total (a + b + c) .. .. .						—	—	3597 (17.04)
5.	<i>OTHER SERVICES</i> .. .. .						—	—	1339 (6.34)
6.	<b>TOTAL (1 TO 5)</b> .. .. .						—	3.02	21114 (100.00)

Figures within brackets indicate percentages to total.

\* Average Balance/Outstanding.



TABLE IV.2B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS

## CATEGORIES OF DEPOSITS

BANK GROUP I

(For the quarter ended 31st March 1970)

Category of Deposits	OUTPUT				INPUT		COST							
	No. of Accounts	Monetary		Physical		Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	% per annum of average balance				Per voucher		
		Out-standing (lakhs of Rs.)	Average per Account (Rs.)	No. of Vouchers	Average per Account			Interest	Servicing		Total		Branch level (Rs.)	H.O. Costs Loaded (Rs.)
							Branch level	H. O. Costs Loaded	Branch level	H.O. Costs Loaded				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(7)×4 (9)	(10)	(8)+(9) (11)	(8)+(10) (12)	(13)	(14)	
1. Current .. ..	281	21.90 (24.79)	7793.59	8641 (61.73)	30.75	4.07	16903 (59.59)	0.06	3.09	3.33	3.15	3.39	1.96	2.11
2. Savings .. ..	2207	21.89 (24.78)	991.84	4256 (30.40)	1.93	3.10	8066 (28.44)	3.27	1.47	1.59	4.74	4.86	1.90	2.05
3. Fixed .. ..	—	43.00 (48.68)	—	300 (2.14)	—	2.62	2019 (7.12)	5.65	0.19	0.20	5.84	5.85	6.73	7.27
4. Other Deposits ..	—	1.53 (1.75)	—	801 (5.73)	—	3.10	1378 (4.85)	—	—	—	—	—	—	—
5. TOTAL (1 to 4) ..	—	88.32 (100.00)	—	13998 (100.00)	—	3.59	28366 (100.00)	3.67	1.28	1.39	4.95	5.06	2.03	2.19

Figures within brackets indicate percentages to total.

H.O.—Head Office.

TABLE IV.2B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF DEPOSITS

BANK GROUP II

(For the quarter ended 31st March 1970)

Category of Deposits	OUTPUT				INPUT		COST							
	No. of Ac-accounts	Monetary		Physical		Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	% per annum of average balance				Per voucher		
		Out-standings (lakhs of Rs.)	Average per Account (Rs.)	No. of Vouchers	Average per Account			Interest	Servicing		Total		Branch level (Rs.)	H.O. Costs Loaded (Rs.)
							Branch level	H. O. Costs Loaded	Branch level	H.O. Costs Loaded				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(8)+(9) (11)	(8)+(10) (12)	(13)	(14)	
1. Current .. ..	243	9.49 (19.29)	3905.35	7441 (55.51)	30.62	4.63	11503 (54.04)	0.11	4.85	5.28	4.96	5.39	1.55	1.68
2. Savings .. ..	2118	13.81 (28.07)	652.03	4824 (35.99)	2.28	4.06	7077 (33.25)	3.28	2.05	2.23	5.33	5.51	1.47	1.60
3. Fixed .. ..	—	24.05 (48.89)	—	229 (1.71)	—	2.77	1293 (6.07)	5.42	0.22	0.23	5.64	5.65	5.65	6.15
4. Other Deposits ..	—	1.84 (3.75)	—	911 (6.79)	—	2.89	1413 (6.64)	—	—	—	—	—	—	—
5. TOTAL (1 to 4) ..	—	49.19 (100.00)	—	13405 (100.00)	—	4.13	21286 (100.00)	4.45	1.73	1.88	6.18	6.33	1.59	1.73

Figures within brackets indicate percentages to total.

H.O.—Head Office.

TABLE IV.2B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS—(Contd.)

## CATEGORIES OF DEPOSITS

BANK GROUP III

(For the quarter ended 31st March 1970)

Category of Deposits	OUTPUT				INPUT		COST							
	No. of Accounts	Monetary		Physical		Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	% per annum of average balance				Per voucher		
		Outstandings (lakhs of Rs.)	Average per Account (Rs.)	No. of Vouchers	Average per Account			Interest	Servicing		Total		Branch level (Rs.)	H.O. Costs Loaded (Rs.)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(8)+(9) (11)	(8)+(10) (12)		
1. Current ..	138	3.83 (16.85)	2775.36	3525 (51.82)	25.54	3.65	4406 (50.65)	0.04	4.60	5.03	4.64	5.07	1.25	1.37
2. Savings .. ..	938	5.20 (22.87)	554.37	2217 (32.59)	2.36	3.14	2679 (30.80)	3.47	2.06	2.25	5.53	5.72	1.21	1.32
3. Fixed .. ..	—	12.72 (55.96)	—	236 (3.47)	—	2.71	693 (7.97)	5.50	0.22	0.24	5.72	5.74	2.94	3.21
4. Other Deposits .. ..	—	0.98 (4.32)	—	825 (12.12)	—	2.48	920 (10.58)	—	—	—	—	—	—	—
5. TOTAL (1 to 4) ..	—	22.73 (100.00)	—	6803 (100.00)	—	3.24	8698 (100.00)	4.14	1.53	1.67	5.67	5.81	1.28	1.40

Figures within brackets indicate percentages to total.

H.O.—Head Office.

TABLE IV.3 B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS

CATEGORIES OF ADVANCES

BANK GROUP I

(For the quarter ended 31st March 1970)

Category of Advances	OUTPUT		INPUT			COSTS				INCOME		
	Out-standings (lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost			Per cent per annum of average outstandings				Net income		
			Ledger keeping cost	Maintenance of securities and other servicing cost	Total	Ledger keeping cost	Maintenance of securities and other servicing cost	Total servicing cost		Interest income	Net income	
								Branch level	H.O. Costs Loaded		Branch level	H.O. Costs Loaded
(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(3)×4	(4)×4	(6)+(7)	(10)	(10)-(8)	(10)-(9)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
1. Small-Scale Industries ..	5.20 (9.07)	2.91	1573 (36.36)	3094 (38.35)	4667 (37.66)	1.21	2.38	3.59	4.32	8.55	4.96	4.23
2. Large and Medium-Scale Industries ..	40.59 (70.82)	3.03	827 (19.12)	1458 (18.07)	2285 (18.44)	0.08	0.14	0.22	0.30	8.14	7.92	7.84
3. Direct Loans to Farmers	2.16 (3.77)	1.20	182 (4.21)	1391 (17.24)	1573 (12.69)	0.34	2.58	2.92	3.67	9.14	6.22	5.47
4. Personal and Professional Loans ..	2.12 (3.70)	1.61	273 (6.31)	584 (7.24)	857 (6.91)	0.52	1.10	1.62	1.81	9.35	7.73	7.54
5. Other Advances ..	7.24 (12.64)	2.65	1471 (34.00)	1541 (19.10)	3012 (24.30)	0.81	0.85	1.66	1.87	8.52	6.86	6.65
6. TOTAL (1 to 5) ..	57.31 (100.00)	2.41	4326 (100.00)	8068 (100.00)	12394 (100.00)	0.30	0.56	0.86	1.04	8.31	7.45	7.27

Figures within brackets indicate percentages to total.  
H.O.—Head Office.

TABLE IV. 3B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS—(Contd.)

## CATEGORIES OF ADVANCES

## BANK GROUP II

(For the quarter ended 31st March 1970)

Category of Advances	OUTPUT		INPUT			COSTS				INCOME		
	Out-standings (lakhs of Rs.)	Ratio of clerical to officer man- hours	Servicing cost			Per cent per annum of average outstandings				Interest income	Net income	
			Ledger keeping cost  (Rs.)	Mainte- nance of securi- ties and other serv- icing cost (Rs.)	Total  (Rs.)	Ledger keeping cost	Mainte- nance of securi- ties and other serv- icing cost	Total servicing cost			Branch level	H.O. Costs Loaded
	(3)+(4)	(3)×4						(4)×4	(6)+(7)	(10)-(8)		
(1)	(2)	(3)	(4)	(5)	(1) (6)	(1) (7)	(8)	(9)	(10)	(11)	(12)	
1. Small-Scale Industries ..	4.18 (11.56)	2.41	988 (20.03)	937 (20.99)	1925 (20.49)	0.95	0.90	1.85	2.23	8.76	6.91	6.53
2. Large and Medium-Scale Industries .. ..	16.65 (46.06)	3.10	585 (11.86)	605 (13.56)	1190 (12.66)	0.14	0.15	0.29	0.39	9.76	9.47	9.37
3. Direct Loans to Farmers	2.09 (5.78)	1.24	160 (3.24)	527 (11.81)	687 (7.31)	0.31	1.01	1.32	1.83	8.95	7.63	7.12
4. Personal and Professional Loans .. ..	3.01 (8.33)	1.70	520 (10.54)	718 (16.09)	1238 (13.18)	0.69	0.95	1.64	1.97	7.90	6.26	5.93
5. Other Advances .. ..	10.22 (28.27)	2.68	2680 (54.33)	1676 (37.55)	4356 (46.36)	1.05	0.66	1.71	2.04	9.18	7.47	7.14
6. TOTAL (1 to 5) .. ..	36.15 (100.00)	2.34	4933 (100.00)	4463 (100.00)	9396 (100.00)	0.55	0.49	1.04	1.28	9.27	8.23	7.99

Figures within brackets indicate percentages to total.

H.O.—Head Office.

TABLE IV.3B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS  
CATEGORIES OF ADVANCES

BANK GROUP III		(For the quarter ended 31st March 1970)												
Category of Advances	OUTPUT		INPUT			COSTS				INCOME				
	Out-standings (lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost			Per cent per annum of average outstandings				Interest income	Net income			
			Ledger keeping cost	Maintenance of securities and other servicing cost	Total	Ledger keeping cost	Maintenance of securities and other servicing cost	Total servicing cost			Branch level	H.O. Costs Loaded	Branch level	H.O. Costs Loaded
								(Rs.)	(Rs.)					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)			
1. Small-Scale Industries ..	1.55 (11.05)	2.88	621 (21.72)	361 (17.57)	982 (19.98)	1.60	0.93	2.53	2.94	9.83	7.30	6.89		
2. Large and Medium-Scale Industries ..	1.16 (8.27)	4.20	53 (1.85)	117 (5.69)	170 (3.46)	0.18	0.40	0.58	0.77	9.75	9.17	8.98		
3. Direct Loans to Farmers	0.80 (5.70)	1.74	83 (2.90)	131 (6.37)	214 (4.35)	0.42	0.66	1.08	1.43	10.65	9.57	9.22		
4. Personal and Professional Loans ..	2.35 (16.75)	2.08	596 (20.85)	376 (18.30)	972 (19.78)	1.01	0.64	1.65	1.95	11.01	9.36	9.06		
5. Other Advances ..	8.17 (58.23)	3.05	1506 (52.68)	1070 (52.07)	2576 (52.43)	0.74	0.52	1.26	1.48	8.98	7.72	7.50		
6. TOTAL (1 to 5) ..	14.03 (100.00)	2.70	2859 (100.00)	2055 (100.00)	4914 (100.00)	0.82	0.59	1.41	1.66	9.58	8.17	7.92		

Figures within brackets indicate percentages to total.  
H.O.—Head Office.

TABLE IV.4B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS

CATEGORIES OF REMITTANCES

BANK GROUP I

(For the quarter ended 31st March 1970)

Category of Remittances	OUTPUT		INPUT		COSTS	
	Amount (lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	Servicing Costs per item	
					Branch level (Rs.)	H.O Costs Loaded (Rs.)
	(1)	(2)	(3)	(4)	(5)	(6)
<b>1. DRAFTS</b>						
(a) Issued .. .. .	43.53	1283	3.47	4340 (49.08)	3.38	3.91
(b) Paid .. .. .	55.44	1325	2.72	2063 (23.33)	1.56	1.94
Total (a)+(b) .. .. .	—	—	—	6403 (72.41)	4.94	5.85
<b>2. M.Ts</b>						
(a) Issued .. .. .	15.69	228	3.10	831 (9.40)	3.64	4.20
(b) Paid .. .. .	20.20	235	3.11	382 (4.32)	1.63	2.02
Total (a)+(b) .. .. .	—	—	—	1213 (13.72)	5.27	6.22
<b>3. T.Ts</b>						
(a) Issued .. .. .	105.17	92	2.48	771 (8.72)	8.38	9.32
(b) Paid .. .. .	117.21	110	1.78	455 (5.15)	4.14	4.73
Total (a)+(b) .. .. .	—	—	—	1226 (13.87)	12.52	14.05
<b>4. TOTAL (1 to 3) .. .. .</b>						
	—	—	—	8842 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of remittances show the total cost of issuing and paying one remittance.

TABLE IV.4B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF REMITTANCES

BANK GROUP II

(For the quarter ended 31st March 1970)

Category of Remittances	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	Servicing Cost per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
	(1)	(2)	(3)	(4)	(5)	(6)
					(2)	
					(4)	
					(5)	
						(6)
<b>1. DRAFTS</b>						
(a) Issued .. .. .	29.35	1095	3.22	2785 (48.05)	2.54	2.96
(b) Paid .. .. .	25.19	1015	3.40	1446 (24.94)	1.42	1.74
Total (a)+(b) .. .. .	—	—	—	4231 (72.99)	3.96	4.70
<b>2. M.Ts</b>						
(a) Issued .. .. .	5.98	221	2.85	625 (10.78)	2.83	3.27
(b) Paid .. .. .	7.64	217	2.25	280 (4.83)	1.29	1.59
Total (a)+(b) .. .. .	—	—	—	905 (15.61)	4.12	4.86
<b>3. T.Ts</b>						
(a) Issued .. .. .	29.12	54	1.83	428 (7.38)	7.93	8.81
(b) Paid .. .. .	36.59	56	1.52	233 (4.02)	4.16	4.73
Total (a)+(b) .. .. .	—	—	—	661 (11.40)	12.09	13.54
<b>4. TOTAL (1 to 3) .. .. .</b>	—	—	—	5797 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note : The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of remittances show the total cost of issuing and paying one remittance.



TABLE IV.4B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING  
TO BANK GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF REMITTANCES

BANK GROUP III

(For the quarter ended 31st March 1970)

Category of Remittances	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man- hours	Servicing Cost  (Rs.)	Servicing Costs <sup>1</sup> per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
	(1)	(2)	(3)	(4)	(2) (5)	(6)
(4)						
(2) (5)						
(6)						
<b>1. DRAFTS</b>						
(a) Issued .. .. .	12.76	673	2.99	1504 (58.61)	2.23	2.69
(b) Paid .. .. .	13.38	864	3.02	684 (26.66)	0.79	1.11
Total (a)+(b) .. .. .	—	—	—	2188 (85.27)	3.02	3.80
<b>2. M. Ts</b>						
(a) Issued .. .. .	1.18	63	2.70	181 (7.06)	2.87	3.40
(b) Paid .. .. .	1.13	60	1.93	57 (2.22)	0.95	1.28
Total (a)+(b) .. .. .	—	—	—	238 (9.28)	3.82	4.68
<b>3. T. Ts</b>						
(a) Issued .. .. .	3.15	13	2.34	104 (4.05)	8.00	9.00
(b) Paid .. .. .	1.46	8	1.07	36 (1.40)	4.50	5.13
Total (a)+(b) .. .. .	—	—	—	140 (5.45)	12.50	14.13
<b>4. TOTAL (1 to 3) .. .. .</b>	—	—	—	2566 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note : The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories or remittances show the total cost of issuing and paying one remittance.

TABLE IV. 5B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS

## CATEGORIES OF BILLS

## BANK GROUP I

(For the quarter ended 31st March 1970)

Category of Bills	OUTPUT		INPUT		COSTS		
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical officer man-hours	Servicing to Cost (Rs.)	Servicing cost per item		
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)	
	(1)	(2)	(3)	(4)	(4)	(5)	(6)
							(4)
							(2)
							(5)
							(6)
<b>1. CHEQUES AND CLEAN BILLS</b>							
(a) Negotiation/Collection .. .. .	32.03	1327	3.34	2687 (26.75)	2.02	2.45	
(b) Remittances .. .. .	20.15	802	3.51	2131 (21.22)	2.66	3.13	
Total (a)+(b) .. .. .	—	—	—	4818 (47.97)	4.68	5.58	
<b>2. OTHER DEMAND BILLS</b>							
(a) Negotiation/Collection .. .. .	21.49	424	3.43	1587 (15.80)	3.74	4.30	
(b) Remittances .. .. .	27.23	653	4.02	2824 (28.12)	4.32	4.93	
Total (a)+(b) .. .. .	—	—	—	4411 (43.92)	8.06	9.23	
<b>3. USANCE BILLS</b>							
(a) Negotiation/Collection .. .. .	5.57	129	3.37	335 (3.34)	2.60	3.06	
(b) Remittances .. .. .	2.97	69	3.49	480 (4.77)	6.96	7.77	
Total (a)+(b) .. .. .	—	—	—	815 (8.11)	9.56	10.83	
<b>4. TOTAL (1 to 3) .. .. .</b>	—	—	—	10044 (100.00)	—	—	

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note : The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of bills show the total cost of negotiating/collecting and remitting the proceeds of one cheque/bill.

TABLE IV. 5B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF BILLS

BANK GROUP II

(For the quarter ended 31st March 1970)

Category of Bills	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing cost (Rs.)	Servicing cost per item	
					Branch Level (Rs.)	H.O. Costs Loaded (Rs.)
	(1)	(2)	(3)	(4)	(5)	(6)
<b>1. CHEQUES AND CLEAN BILLS</b>						
(a) Negotiation/Collection .. ..	27.49	1193	3.47	2277 (28.23)	1.91	2.27
(b) Remittances .. .. .	25.19	974	3.56	1642 (20.35)	1.69	2.03
Total (a)+(b) .. .. .	—	—	—	3919 (48.50)	3.60	4.30
<b>2. OTHER DEMAND BILLS</b>						
(a) Negotiation/Collection ..	11.95	373	3.93	1387 (17.19)	3.72	4.24
(b) Remittances .. .. .	16.00	675	3.44	2115 (26.22)	3.13	3.60
Total (a)+(b) .. .. .	—	—	—	3502 (43.41)	6.85	7.84
<b>3. USANCE BILLS</b>						
(a) Negotiation/Collection ..	2.29	57	4.19	326 (4.04)	5.72	6.42
(b) Remittances .. .. .	2.43	55	3.68	320 (3.97)	5.82	6.51
Total (a)+(b) .. .. .	—	—	—	646 (8.01)	11.54	12.93
<b>4. TOTAL (1 to 3)</b> .. .. .	—	—	—	8067 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a)+(b)" under each of the categories of bills show the total cost of negotiating/collecting and remitting the proceeds of one cheque/bill.

TABLE IV. 5B—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO BANK GROUPS—OUTPUT AND COSTS—(Contd.)

## CATEGORIES OF BILLS

## BANK GROUP III

(For the quarter ended 31st March 1970)

Category of Bills	OUTPUT		INPUT		COSTS		
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing cost (Rs.)	Servicing cost per item		
					Branch Level (Rs.)	H.O. Costs Loaded (Rs.)	
(1)	(2)	(3)	(4)	(4)	(2)	(5)	(6)
<b>1. CHEQUES AND CLEAN BILLS</b>							
(a) Negotiation/Collection .. ..	5.50	432	2.82	901 (25.05)	2.09	2.53	
(b) Remittances .. ..	8.14	552	3.49	937 (26.05)	1.70	2.11	
Total (a)+(b) .. ..	—	—	—	1838 (51.10)	3.79	4.64	
<b>2. OTHER DEMAND BILLS</b>							
(a) Negotiation/Collection .. ..	4.38	117	2.97	410 (11.40)	3.50	4.08	
(b) Remittances .. ..	5.40	372	2.96	1120 (31.14)	3.01	3.54	
Total (a)+(b) .. ..	—	—	—	1530 (42.54)	6.51	7.62	
<b>3. USANCE BILLS</b>							
(a) Negotiation/Collection .. ..	1.64	26	2.62	103 (2.86)	3.96	4.62	
(b) Remittances .. ..	0.98	42	2.12	126 (3.50)	3.00	3.55	
Total (a)+(b) .. ..	—	—	—	229 (6.36)	6.96	8.17	
<b>4. TOTAL (1 to 3)</b> .. ..	—	—	—	3597 (100.00)	—	—	

Figures within brackets indicate percentages to total:

H. O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of bills show the total cost of negotiating/collecting and remitting the proceeds of one cheque/bill.

TABLE IV.1P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING  
TO POPULATION GROUPS—OUTPUT AND COSTS

MAIN ACTIVITIES

POPULATION GROUP I

(For the quarter ended 31st March, 1970)

Activities	Output (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost (Rs.)
	(1)	(2)	(3)
1. DEPOSITS .. .. .	148.20*	3.95	56138 (42.22)
2. ADVANCES .. .. .	160.60*	2.65	23414 (17.61)
3. REMITTANCES			
(a) Drafts .. .. .	87.02	3.33	7351 (5.53)
(b) M.Ts. .. .. .	33.45	2.95	1848 (1.39)
(c) T.Ts. .. .. .	256.71	2.55	2470 (1.86)
Total (a+b+c) .. .. .	—	—	11669 (8.78)
4. BILLS NEGOTIATION/COLLECTION			
(a) Cheques and Clean Bills .. .. .	56.30	4.32	9058 (6.81)
(b) Other Demand Bills .. .. .	32.05	4.12	6540 (4.92)
(c) Usance Bills .. .. .	11.25	3.89	2651 (1.99)
Total (a+b+c) .. .. .	—	—	18249 (13.72)
5. OTHER SERVICES .. .. .	—	—	23480 (17.67)
6. TOTAL (1 TO 5) .. .. .	—	3.68	132950 (100.00)

Figures within brackets indicate the percentages to total.

\* Average Balance/Outstanding.

TABLE IV.1P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

## MAIN ACTIVITIES

## POPULATION GROUP II

(For the quarter ended 31st March 1970)

Activities	Output (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost (Rs.)
	(1)	(2)	(3)
1. DEPOSITS .. .. .	78.78*	3.94	27454 (39.48)
2. ADVANCES .. .. .	41.66*	2.50	13844 (19.91)
3. REMITTANCES			
(a) Drafts .. .. .	43.89	3.28	6371 (9.16)
(b) M.Ts. .. .. .	16.49	2.79	963 (1.38)
(c) T.Ts. .. .. .	54.72	1.68	916 (1.32)
Total (a+b+c) .. .. .	—	—	8250 (11.86)
4. BILLS NEGOTIATION/COLLECTION			
(a) Cheques and Clean Bills .. .. .	33.39	3.38	5352 (7.70)
(b) Other Demand Bills .. .. .	24.00	3.67	5542 (7.97)
(c) Usance Bills .. .. .	3.21	3.10	654 (0.94)
Total (a+b+c) .. .. .	—	—	11548 (16.61)
5. OTHER SERVICES .. .. .	—	—	8436 (12.14)
6. TOTAL (1 TO 5) .. .. .	—	3.46	69532 (100.00)

Figures within brackets indicate the percentages to total.

\* Average Balance/Outstanding.

TABLE IV.1P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

MAIN ACTIVITIES

POPULATION GROUP III

(For the quarter ended 31st March 1970)

Activities	Output (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost (Rs.)
	(1)	(2)	(3)
1. DEPOSITS .. .. .	42.13*	3.72	13993 (38.98)
2. ADVANCES .. .. .	14.82*	2.33	6101 (17.00)
3. REMITTANCES			
(a) Drafts .. .. .	23.07	3.31	4211 (11.73)
(b) M.Ts. .. .. .	3.70	3.03	810 (2.26)
(c) T.Ts. .. .. .	21.36	1.82	414 (1.15)
Total (a+b+c) .. .. .	—	—	5435 (15.14)
4. BILLS NEGOTIATION/COLLECTION			
(a) Cheques and Clean Bills .. .. .	13.80	3.03	2610 (7.27)
(b) Other Demand Bills .. .. .	13.29	3.50	2689 (7.49)
(c) Usance Bills .. .. .	1.23	2.99	185 (0.52)
Total (a+b+c) .. .. .	—	—	5484 (15.28)
5. OTHER SERVICES .. .. .	—	—	4884 (13.60)
6. TOTAL (1 TO 5) .. .. .	—	3.31	35897 (100.00)

Figures within brackets indicate the percentages to total.

\* Average Balance/Outstanding.

TABLE IV.1P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING  
TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

MAIN ACTIVITIES

POPULATION GROUP IV

(For the quarter ended 31st March 1970)

Activities	Output (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost (Rs.)
	(1)	(2)	(3)
1. <i>DEPOSITS</i> .. .. .	15.67*	2.40	7089 (38.03)
2. <i>ADVANCES</i> .. .. .	5.29*	1.54	2968 (15.92)
3. <i>REMITTANCES</i>			
(a) Drafts .. .. .	6.70	2.43	2379 (12.77)
(b) M.Ts. .. .. .	1.25	2.39	407 (2.18)
(c) T.Ts. .. .. .	4.28	1.82	287 (1.54)
Total (a+b+c) .. .. .	—	—	3073 (16.49)
4. <i>BILLS NEGOTIATION/COLLECTION</i>			
(a) Cheques and Clean Bills .. .. .	3.77	2.41	1179 (6.33)
(b) Other Demand Bills .. .. .	4.71	2.63	738 (3.96)
(c) Usance Bills .. .. .	0.10	3.04	58 (0.31)
Total (a+b+c) .. .. .	—	—	1975 (10.60)
5. <i>OTHER SERVICES</i> .. .. .	—	—	3534 (18.96)
6. TOTAL (1 TO 5)	—	2.30	18639 (100.00)

Figures within brackets indicate the percentages to total.

\* Average Balance/Outstanding.



TABLE IV. 2P.—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS  
CATEGORIES OF DEPOSITS

## POPULATION GROUP I

(For the quarter ended 31st March 1970)

Category of Deposits	OUTPUT				INPUT		COST							
	No. of Ac- counts	Monetary		Physical		Ratio of clerical to officer man- hours	Servic- ing Cost  (Rs.)	% per annum of average balance				Per voucher		
		Out- stand- ings (Lakhs of Rs.)	Average per Account  (Rs.)	No. of Vouchers per Account	Average per Account			Interest	Servicing		Total		Branch level (Rs.)	H.O. Costs Loaded (Rs.)
						Branch level	H. O. Costs Loaded	Branch level	H.O. Costs Loaded					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(7)×4 (9)	(10)	(8)+(9) (11)	(8)+(10) (12)	(13)	(14)
1. Current .. ..	481	40.49 (27.32)	8417.88	19933 (67.91)	41.44	4.42	34207 (60.93)	0.03	3.38	3.66	3.41	3.69	1.72	1.86
2. Savings .. ..	3090	29.05 (19.60)	940.13	7773 (26.48)	2.52	3.57	15693 (27.95)	3.19	2.16	2.34	5.35	5.53	2.02	2.19
3. Fixed .. ..	—	75.28 (50.80)	—	504 (1.72)	—	2.60	3513 (6.26)	5.49	0.19	0.20	5.68	5.69	6.97	7.56
4. Other Deposits ..	—	3.38 (2.28)	—	1143 (3.89)	—	3.15	2725 (4.86)	—	—	—	—	—	—	—
5. TOTAL (1 to 4) ..	—	148.20 (100.00)	—	29353 (100.00)	—	3.95	56138 (100.00)	4.07	1.52	1.64	5.59	5.71	1.91	2.07

Figures within brackets indicate percentages to total.

H.O.—Head Office.

TABLE IV.2P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF DEPOSITS

POPULATION GROUP II

(For the quarter ended 31st March 1970)

Category of Deposits	OUTPUT				INPUT		COST							
	No. of Accounts	Monetary		Physical		Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	% per annum of average balance				Per Voucher		
		Outstandings (Lakhs of Rs.)	Average per Account (Rs.)	No. of Vouchers	Average per Account			Interest	Servicing		Total		Branch level (Rs.)	H.O. Costs Loaded (Rs.)
						Branch level	H. O. Costs Loaded	Branch level	H.O. Costs Loaded					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1. Current .. ..	356	16.72 (21.22)	4696.63	9931 (55.91)	27.90	4.40	15232 (55.48)	0.11	3.64	3.95	3.75	4.06	1.53	1.66
2. Savings .. ..	2668	20.51 (26.03)	768.74	6338 (35.68)	2.38	3.79	8799 (32.05)	3.31	1.72	1.86	5.03	5.17	1.39	1.51
3. Fixed .. ..	—	39.04 (49.56)	—	325 (1.84)	—	2.67	1803 (6.57)	5.55	0.18	0.20	5.73	5.75	5.55	6.01
4. Other Deposits ..	—	2.51 (3.19)	—	1167 (6.57)	—	2.95	1620 (5.90)	—	—	—	—	—	—	—
5. TOTAL (1 to 4) ..	—	78.78 (100.00)	—	17761 (100.00)	—	3.94	27454 (100.00)	3.87	1.39	1.51	5.26	5.38	1.55	1.68

Figures within brackets indicate percentages to total.

H.O.—Head Office.

TABLE IV.2P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF DEPOSITS

POPULATION GROUP III

(For the quarter ended 31st March 1970)

Category of Deposits	OUTPUT			INPUT		COST								
	No. of Accounts	Monetary		Physical		Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	% per annum of average balance				Per Voucher		
		Out-standings (Lakhs of Rs.)	Average per Account (Rs.)	No. of Vouchers	Average per Account (Rs.)			Interest	Servicing		Total		Branch level (Rs.)	H.O. Costs Loaded (Rs.)
							Branch level	H. O. Costs Loaded	Branch level	H.O. Costs Loaded				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(7)×4 (2)	(8) + (9)	(8)+(10)	(13)	(14)		
1. Current .. ..	174	7.98 (18.94)	4586.21	3938 (50.51)	22.63	4.22	7658 (54.73)	0.06	3.84	4.16	3.90	4.22	1.94	2.11
2. Savings .. ..	1669	13.19 (31.31)	790.29	2846 (36.50)	1.71	3.34	4295 (30.69)	3.30	1.30	1.41	4.60	4.71	1.51	1.64
3. Fixed .. ..	—	20.06 (47.61)	—	209 (2.68)	—	2.77	1080 (7.72)	5.68	0.22	0.23	5.90	5.91	5.17	5.60
4. Other Deposits ..	—	0.90 (2.14)	—	804 (10.31)	—	3.09	960 (6.86)	—	—	—	—	—	—	—
5. TOTAL (1 to 4) ..	—	42.13 (100.00)	—	7797 (100.00)	—	3.72	13993 (100.00)	3.84	1.33	1.44	5.17	5.28	1.79	1.95

Figures within brackets indicate percentages to total.  
H.O.—Head Office.

TABLE IV.2P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF DEPOSITS

POPULATION GROUP IV

(For the quarter ended 31st March 1970)

Category of Deposits	OUTPUT				INPUT		COST							
	No. of Ac- counts	Monetary		Physical		Ratio of Servicing to officer man- hours	Servicing Cost  (Rs.)	% per annum of average balance				Per Voucher		
		Out-stand- ings (Lakhs of Rs.)	Average per Account (Rs.)	No. of Vouchers	Average per Account (Rs.)			Interest	Servicing		Total		Branch level (Rs.)	H.O. Costs Loaded (Rs.)
						Branch level	H. O. Costs Loaded	Branch level	H.O. Costs Loaded					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(7) × 4 (2)	(8) + (9)	(8) + (10)	(13)	(14)	
1. Current .. ..	60	2.61 (16.66)	4350.00	1414 (43.62)	23.57	2.55	3358 (47.37)	0.05	5.15	5.58	5.20	5.63	2.37	2.57
2. Savings .. ..	834	5.78 (36.89)	693.05	1416 (43.68)	1.70	2.32	2647 (37.34)	3.53	1.83	1.99	5.36	5.52	1.87	2.03
3. Fixed .. ..	—	6.92 (44.16)	—	101 (3.11)	—	2.57	496 (7.00)	5.64	0.29	0.31	5.93	5.95	4.91	5.32
4. Other Deposits ..	—	0.36 (2.29)	—	311 (9.59)	—	1.86	588 (8.29)	—	—	—	—	—	—	—
5. TOTAL (1 to 4) ..	—	15.67 (100.00)	—	3242 (100.00)	—	2.40	7089 (100.00)	4.02	1.81	1.96	5.83	5.98	2.19	2.37

Figures within brackets indicate percentages to total.  
H.O.—Head Office

TABLE IV. 3P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS  
CATEGORIES OF ADVANCES

## POPULATION GROUP I

(For the quarter ended 31st March 1970)

Category of Advances	OUTPUT		INPUT			COSTS				INCOME		
	Out-standings (Lakhs of Rs.)	Ratio of clerical to officer man- hours	Servicing cost			Per cent per annum of average outstandings						
			Ledger keeping cost	Main- tenance of securi- ties and other ser- vicing cost	Total	Ledger keeping cost	Main- tenance of securi- ties and other ser- vicing cost	Total ser- vicing cost		Interest income	Net income	
								Branch level	H.O. Cost Loaded		Branch level	H.O. Cost Loaded
(Rs.)	(Rs.)	(Rs.)	(3)+(4)	(3)×4 (1) (6)	(4)+4 (1) (7)	(6)+(7)	(8)	(9)	(10)	(10)—(8)	(10)—(9)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
1. Small-Scale Industries ..	8.19 (5.10)	2.92	2490 (25.60)	4804 (35.10)	7294 (31.15)	1.22	2.35	3.57	4.29	8.51	4.94	4.22
2. Large and Medium-Scale Industries	119.59 (74.46)	2.87	2654 (27.29)	3743 (27.35)	6397 (27.32)	0.09	0.13	0.22	0.28	8.62	8.40	8.34
3. Direct Loans to Farmers	1.24 (0.77)	1.07	71 (0.73)	346 (2.53)	417 (1.78)	0.23	1.12	1.35	1.75	8.44	7.09	6.69
4. Personal and Profession- al Loans ..	5.45 (3.39)	1.58	422 (4.34)	1237 (9.04)	1659 (7.09)	0.31	0.91	1.22	1.42	9.39	8.17	7.97
5. Other Advances ..	26.13 (16.28)	2.67	4089 (42.04)	3558 (25.98)	7647 (32.66)	0.63	0.54	1.17	1.36	8.96	7.79	7.60
6. TOTAL (1 to 5) ..	160.60 (100.00)	2.65	9726 (100.00)	13688 (100.00)	23414 (100.00)	0.24	0.34	0.58	0.71	8.70	8.12	7.99

Figures within brackets indicate percentages to total.  
H.O.—Head Office.

TABLE IV. 3P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

POPULATION GROUP II		CATEGORIES OF ADVANCES										
		(For the quarter ended 31st March 1970)										
Category of Advances	OUTPUT		INPUT			COSTS				INCOME		
	Out-standings (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost			Per cent per annum of average outstandings						
			Ledger keeping cost	Maintenance of securities and other servicing cost	Total	Ledger keeping cost	Maintenance of securities and other servicing cost	Total servicing cost		Interest income	Net income	
								Branch level	H.O. Cost Loaded		Branch level	H.O. Cost Loaded
(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(1)	(1)	(6)+(7)	(9)	(10)	(11)	(12)	
(1)	(2)	(3)	(4)	(3)+(4)	(3)×4 (1) (6)	(4)+4 (1) (7)	(8)	(9)	(10)	(10)–(8)	(10)–(9)	
1. Small-Scale Industries ..	7.59 (18.22)	2.61	1917 (31.82)	2859 (36.56)	4776 (34.50)	1.01	1.51	2.52	3.03	8.64	6.12	5.61
2. Large and Medium-Scale Industries ..	16.92 (40.61)	3.63	567 (9.41)	827 (10.58)	1394 (10.07)	0.13	0.20	0.33	0.44	8.73	8.40	8.29
3. Direct loans to Farmers	2.19 (5.26)	0.85	86 (1.43)	1059 (13.54)	1145 (8.27)	0.16	1.93	2.09	2.72	8.55	6.46	5.83
4. Personal and Professional Loans ..	3.50 (8.40)	1.77	489 (8.12)	848 (10.84)	1337 (9.66)	0.56	0.97	1.53	1.78	8.42	6.89	6.64
5. Other Advances ..	11.46 (27.51)	3.03	2965 (49.22)	2227 (28.48)	5192 (37.50)	1.03	0.78	1.81	2.11	9.03✓	7.22	6.92
6. TOTAL (1 to 5) ..	41.66 (100.00)	2.50	6024 (100.00)	7820 (100.00)	13844 (100.00)	0.58	0.75	1.33	1.61	8.76	7.43	7.15

Figures within brackets indicate percentages to total.  
H.O.—Head Office.

TABLE IV. 3P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF ADVANCES

POPULATION GROUP III

(For the quarter ended 31st March 1970)

Category of Advances	OUTPUT		INPUT			COSTS				INCOME		
	Out-standings (Lakhs of Rs.)	Ratio of clerical to officer man-hours	Servicing cost			Per cent per annum of average outstandings						
			Ledger keeping cost (Rs.)	Main-tenance of securities and other servicing cost (Rs.)	Total (Rs.)	Ledger keeping cost (1) (6)	Main-tenance of securities and other servicing cost (1) (7)	Total servicing cost		Interest income (9)	Net income	
								Branch level	H.O. Costs Loaded		Branch level (11)	H.O. Costs Loaded (12)
(3)	(4)	(5)	(3)×4	(4)×4	(6)+(7)	(10)	(10)−(8)	(10)−(9)				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
1. Small-Scale Industries	2.28 (15.38)	3.03	676 (24.45)	726 (21.76)	1402 (22.98)	1.19	1.27	2.46	2.96	9.24	6.78	6.28
2. Large and Medium-Scale Industries	4.65 (31.38)	3.17	141 (5.10)	263 (7.88)	404 (6.62)	0.12	0.23	0.35	0.46	8.14	7.79	7.68
3. Direct Loans to Farmers	2.35 (15.86)	1.54	216 (7.81)	1078 (32.31)	1294 (21.21)	0.37	1.83	2.20	2.86	9.43	7.23	6.57
4. Personal and Professional Loans	1.62 (10.93)	1.95	454 (16.42)	377 (11.30)	831 (13.62)	1.12	0.93	2.05	2.39	9.02	6.97	6.63
5. Other Advances	3.92 (26.45)	2.62	1278 (46.22)	892 (26.75)	2170 (35.57)	1.30	0.91	2.21	2.57	8.53	6.32	5.96
6. TOTAL (1 to 5)	14.82 (100.00)	2.33	2765 (100.00)	3336 (100.00)	6101 (100.00)	0.75	0.90	1.65	2.00	8.71	7.06	6.71

Figures within brackets indicate percentages to total.  
H. O. — Head Office.

TABLE IV. 3P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUTS AND COSTS—(Contd.)

CATEGORIES OF ADVANCES

POPULATION GROUP IV

(For the quarter ended 31st March 1970)

Category of Advances	OUTPUT		INPUT			COSTS				INCOME			
	Out-standings (Lakhs of Rs.)	Ratio of clerical to officer manhours	Servicing cost			Per cent per annum of average outstandings				Interest income	Net income		
			Ledger keeping cost	Main- tenance of securi- ties and other ser- vicing cost	Total	Ledger keeping cost	Main- tenance of securi- ties and other ser- vicing cost	Total ser- vicing cost			Branch level	H.O. Costs Loaded	Branch level
								(Rs.)	(Rs.)	(Rs.)			
(1)	(2)	(3)	(4)	(5)	(3)+(4)	(3)×4 (1) (6)	(4)×4 (1) (7)	(6)+(7)	(8)	(9)	(10)	(10)—(8) (11)	(10)—(9) (12)
1. Small-Scale Industries	1.10 (20.79)	2.21	373 (27.92)	431 (26.41)	804 (27.09)	1.36	1.57	2.93	3.52	8.06 <sup>v</sup>	5.13	4.54	
2. Large and Medium-Scale Industries	1.14 (21.56)	2.06	15 (1.12)	90 (5.51)	105 (3.54)	0.05	0.32	0.37	0.49	6.77	6.40	6.28	
3. Direct Loans to Farmers	1.09 (20.60)	0.89	185 (13.85)	445 (27.27)	630 (21.23)	0.68	1.63	2.31	3.00	10.03 <sup>v</sup>	7.72	7.03	
4. Personal and Professional Loans	0.86 (16.26)	1.31	273 (20.43)	292 (17.89)	565 (19.03)	1.27	1.36	2.63	3.06	8.44 <sup>~</sup>	5.81	5.38	
5. Other Advances	1.10 (20.79)	1.68	490 (36.68)	374 (22.92)	864 (29.11)	1.78	1.36	3.14	3.65	9.07 <sup>~</sup>	5.93	5.42	
6. TOTAL (1 to 5)	5.29 (100.00)	1.54	1336 (100.00)	1632 (100.00)	2968 (100.00)	1.01	1.23	2.24	2.72	8.44	6.20	5.72	

Figures within brackets indicate percentages to total.  
H.O.—Head Office.



TABLE IV.4P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS

## CATEGORIES OF REMITTANCES

## POPULATION GROUP I

(For the quarter ended 31st March 1970)

Category of Remittances	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost  (Rs.)	Servicing Costs per item	
					Branch level (Rs.)	H.O. Cost Loaded (Rs.)
(1)	(2)	(3)	(4)	(4) — (2) (5)	(6)	
<b>1. DRAFTS</b>						
(a) Issued .. .. .	47.64	839	2.98	3393 (29.08)	4.04	4.61
(b) Paid .. .. .	126.40	3198	3.70	3958 (33.92)	1.24	1.57
Total (a)+(b) .. .. .	—	—	—	7351 (63.00)	5.28	6.18
<b>2. M.Ts</b>						
(a) Issued .. .. .	28.86	225	2.48	982 (8.42)	4.36	4.96
(b) Paid .. .. .	38.03	521	3.65	866 (7.42)	1.66	2.03
Total (a)+(b) .. .. .	—	—	—	1848 (15.84)	6.02	6.99
<b>3. T.Ts</b>						
(a) Issued .. .. .	193.57	154	2.74	1419 (12.16)	9.21	10.21
(b) Paid .. .. .	319.85	238	2.31	1051 (9.00)	4.42	5.02
Total (a)+(b) .. .. .	—	—	—	2470 (21.16)	13.63	15.23
<b>4. TOTAL (1 to 3) .. .. .</b>						
	—	—	—	11669 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of remittances show the total cost of issuing and paying one remittance.

TABLE IV.4P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

## CATEGORIES OF REMITTANCES

## POPULATION GROUP II

(For the quarter ended 31st March 1970)

Category of Remittances	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost  (Rs.)	Servicing Costs per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
(1)	(2)	(3)	(4)	(4) (2) (5)	(6)	
<b>1. DRAFTS</b>						
(a) Issued .. ..	45.66	1578	3.58	4225 (51.21)	2.68	3.13
(b) Paid .. ..	42.12	1600	2.80	2146 (26.01)	1.34	1.68
Total (a)+(b) .. ..	—	—	—	6371 (77.22)	4.02	4.81
<b>2. M.Ts</b>						
(a) Issued .. ..	10.22	235	3.16	643 (7.79)	2.74	3.20
(b) Paid .. ..	22.76	304	2.18	320 (3.88)	1.05	1.37
Total (a)+(b) .. ..	—	—	—	963 (11.67)	3.79	4.57
<b>3. T.Ts</b>						
(a) Issued .. ..	79.53	93	1.90	649 (7.87)	6.98	7.80
(b) Paid .. ..	29.91	64	1.27	267 (3.24)	4.17	4.75
Total (a)+(b) .. ..	—	—	—	916 (11.11)	11.15	12.55
<b>4. TOTAL (1 to 3) .. ..</b>						
	—	—	—	8250 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of remittances show the total cost of issuing and paying one remittance.

TABLE IV.4P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

## CATEGORIES OF REMITTANCES

## POPULATION GROUP III

(For the quarter ended 31st March 1970)

Category of Remittances	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost  (Rs.)	Servicing Costs per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
(1)	(2)	(3)	(4)	(4) (2) (5)	(6)	
<b>1. DRAFTS</b>						
(a) Issued .. ..	31.06	1222	3.54	3309 (60.88)	2.71	3.17
(b) Paid .. ..	15.07	523	2.62	902 (16.60)	1.72	2.10
Total (a)+(b) .. ..	—	—	—	4211 (77.48)	4.43	5.27
<b>2. M.Ts</b>						
(a) Issued .. ..	5.41	214	3.26	659 (12.13)	3.08	3.57
(b) Paid .. ..	1.98	94	2.23	151 (2.77)	1.61	1.98
Total (a)+(b) .. ..	—	—	—	810 (14.90)	4.69	5.55
<b>3. T.Ts</b>						
(a) Issued .. ..	20.80	36	2.10	274 (5.04)	7.61	8.47
(b) Paid .. ..	21.92	43	1.37	140 (2.58)	3.26	3.77
Total (a)+(b) .. ..	—	—	—	414 (7.62)	10.87	12.24
<b>4. TOTAL (1 to 3) .. ..</b>						
	—	—	—	5435 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of remittances show the total cost of issuing and paying one remittance.

TABLE IV.4P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUTS AND COSTS—(Contd.)

CATEGORIES OF REMITTANCES

POPULATION GROUP IV

(For the quarter ended 31st March 1970)

Category of Remittances	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost  (Rs.)	Servicing Costs per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
(1)	(2)	(3)	(4)	(4) (2) (5)	(6)	
<b>1. DRAFTS</b>						
(a) Issued .. ..	8.95	492	2.45	1845 (60.04)	3.75	4.29
(b) Paid .. ..	4.45	209	2.35	534 (17.38)	2.56	3.00
Total (a)+(b) .. ..	—	—	—	2379 (77.42)	6.31	7.29
<b>2. M.Ts.</b>						
(a) Issued .. ..	1.73	92	2.34	322 (10.48)	3.50	4.02
(b) Paid .. ..	0.77	45	2.58	85 (2.76)	1.89	2.27
Total (a)+(b) .. ..	—	—	—	407 (13.24)	5.39	6.29
<b>3. T.Ts.</b>						
(a) Issued .. ..	6.30	17	2.34	213 (6.93)	12.53	13.82
(b) Paid .. ..	2.25	10	0.79	74 (2.41)	7.40	8.20
Total (a)+(b).. ..	—	—	—	287 (9.34)	19.93	22.02
<b>4. TOTAL (1 to 3).. ..</b>						
.. ..	—	—	—	3073 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of remittances show the total cost of issuing and paying one remittance.

TABLE IV. 5P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

CATEGORIES OF BILLS						
POPULATION GROUP I						
(For the quarter ended 31st March 1970)						
Category of Bills	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost  (Rs.)	Servicing Cost per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
					(4)	
	(1)	(2)	(3)	(4)	(2)	(6)
					(5)	
<b>1. CHEQUES AND CLEAN BILLS</b>						
(a) Negotiation/Collection	64.07	2266	3.94	5660 (31.02)	2.50	2.94
(b) Remittances .. ..	48.54	1615	5.03	3398 (18.62)	2.10	2.51
Total (a)+(b) .. ..	—	—	—	9058 (49.64)	4.60	5.45
<b>2. OTHER DEMAND BILLS</b>						
(a) Negotiation/Collection	24.66	896	4.16	3725 (20.41)	4.16	4.74
(b) Remittances .. ..	39.45	506	4.07	2815 (15.43)	5.56	6.26
Total (a)+(b) .. ..	—	—	—	6540 (35.84)	9.72	11.00
<b>3. USANCE BILLS</b>						
(a) Negotiation/Collection	14.99	406	3.94	1463 (8.02)	3.60	4.14
(b) Remittances .. ..	7.52	148	3.82	1188 (6.50)	8.03	8.93
Total (a)+(b) .. ..	—	—	—	2651 (14.52)	11.63	13.07
<b>4. TOTAL (1 to 3) .. ..</b>						
	—	—	—	18249 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note : The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of bills show the total cost of negotiating/collecting and remitting the proceeds of one cheque/bill.

TABLE IV. 5P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

## CATEGORIES OF BILLS

## POPULATION GROUP II

(For the quarter ended 31st March 1970)

Category of Bills	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost  (Rs.)	Servicing Cost per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
(1)	(2)	(3)	(4)	(4) (2) (5)	(6)	
<b>1. CHEQUES AND CLEAN BILLS</b>						
(a) Negotiation/Collection	38.54	1956	3.42	2932 (25.39)	1.50	1.86
(b) Remittances .. ..	28.21	1083	3.34	2420 (20.96)	2.23	2.65
Total (a)+(b) .. ..	66.75	3039		5352 (46.35)	3.73	4.51
<b>2. OTHER DEMAND BILLS</b>						
(a) Negotiation/Collection	16.92	392	3.30	1555 (13.47)	3.97	4.53
(b) Remittances .. ..	31.08	1063	3.83	3987 (34.52)	3.75	4.30
Total (a)+(b) .. ..	48.00	1455		5542 (47.99)	7.72	8.83
<b>3. USANCE BILLS</b>						
(a) Negotiation/Collection	2.78	48	2.68	197 (1.71)	4.10	4.69
(b) Remittances .. ..	3.64	88	3.30	457 (3.95)	5.19	5.85
Total (a)+(b) .. ..	6.42	136		654 (5.66)	9.29	10.54
TOTAL (1 to 3) .. ..	119.17	4630		11548 (100.00)		

Figures within brackets indicate percentages to total.

H. O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a)+(b)" under each of the categories of bills show the total cost of negotiating/collecting and remitting the proceeds of one cheque/bill.

TABLE IV.5P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

## CATEGORIES OF BILLS

## POPULATION GROUP III

(For the quarter ended 31st March 1970)

Category of Bills	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost  (Rs.)	Servicing Cost per item	
					Branch level (Rs.)	H.O. Costs Loaded (Rs.)
(1)	(2)	(3)	(4)	(4) (2) (5)	(6)	
<b>1. CHEQUES AND CLEAN BILLS</b>						
(a) Negotiation/Collection	14.47	670	2.90	1313 (23.94)	1.96	2.35
(b) Remittances .. ..	13.13	681	3.16	1297 (23.65)	1.90	2.30
Total (a) + (b) .. ..	—	—	—	2610 (47.59)	3.86	4.65
<b>2. OTHER DEMAND BILLS</b>						
(a) Negotiation/Collection	14.20	255	3.37	787 (14.35)	3.09	3.58
(b) Remittances .. ..	12.37	618	3.56	1902 (34.68)	3.08	3.57
Total (a)+(b) .. ..	—	—	—	2689 (49.03)	6.17	7.15
<b>3. USANCE BILLS</b>						
(a) Negotiation/Collection	1.52	22	3.34	44 (0.80)	2.00	2.41
(b) Remittances .. ..	0.93	33	2.89	141 (2.58)	4.27	4.88
Total (a)+(b) .. ..	—	—	—	185 (3.38)	6.27	7.29
<b>4. TOTAL (1 to 3) .. ..</b>	—	—	—	5484 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a)+(b)" under each of the categories of bills show the total cost of negotiating/collecting and remitting the proceeds of one cheque/bill.

TABLE IV.5P—ALL-INDIA AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—OUTPUT AND COSTS—(Contd.)

## CATEGORIES OF BILLS

## POPULATION GROUP IV

(For the quarter ended 31st March 1970)

Category of Bills	OUTPUT		INPUT		COSTS	
	Amount (Lakhs of Rs.)	Physical number	Ratio of clerical to officer man-hours	Servicing Cost  (Rs.)	Servicing Costs per item	
					Branch level (Rs.)	H.O. Cost Loaded (Rs.)
(1)	(2)	(3)	(4)	(4) (2) (5)	(6)	
<b>1. CHEQUES AND CLEAN BILLS</b>						
(a) Negotiation/Collection	4.77	208	2.43	629 (31.85)	3.02	3.51
(b) Remittances .. ..	2.77	200	2.38	550 (27.85)	2.75	3.21
Total (a)+(b) .. ..	—	—	—	1179 (59.70)	5.77	6.72
<b>2. OTHER DEMAND BILLS</b>						
(a) Negotiation/Collection ..	5.92	80	2.83	222 (11.24)	2.78	3.24
(b) Remittances .. ..	3.49	146	2.55	516 (26.13)	3.53	4.06
Total (a)+(b) .. ..	—	—	—	738 (37.37)	6.31	7.30
<b>3. USANCE BILLS</b>						
(a) Negotiation/Collection	0.07	1	2.14	11 (0.56)	11.00	12.00
(b) Remittances .. ..	0.14	8	3.26	47 (2.37)	5.88	6.63
Total (a)+(b) .. ..	—	—	—	58 (2.93)	16.88	18.63
<b>4. TOTAL (1 to 3) .. ..</b>	—	—	—	1975 (100.00)	—	—

Figures within brackets indicate percentages to total.

H.O.—Head Office.

Note: The figures shown under Columns (5) and (6) in the line "Total (a) + (b)" under each of the categories of bills show the total cost of negotiating/collecting and remitting the proceeds of one cheque/bill.



TABLE IV.6—ALL-INDIA HEAD OFFICE EXPENSES EXPRESSED AS PERCENTAGE OF BRANCH EXPENSES ON VARIOUS ACTIVITIES

## ALL BANKS

(For the quarter ended 31st March 1970)

Sr. No.	Head Office Expenses Name of the Department	Expenses incurred (Rs. in 000's)	Nature of services on which H.O. expenses are to be loaded	Expenses incurred at all branches on these services (estimated) (Rs. in 000's)	Ratio
(1)	(2)	(3)	(4)	(5)	(3)x100 (5)x1 (6)
1.	Advance Department	2549	Small-Scale Industries	21232	12.01
2.	-do-	2588	Medium and Large-Scale Industries	10732	24.11
3.	-do-	1536	Direct Loans to Farmers	7130	21.54
4.	-do-	2525	Personal and Professional Loans	32052	7.88
5.	-do-	9198	Total Advances	71146	12.92
6.	Foreign Exchange Department	1760*	Foreign Exchange	3532*	49.83
7.	Reconciliation	4848	Other Services	20810**	0.23@
8.	Staff/Personnel, Inspection/Audit and other Administrative and Service Departments	33235	All services	395370	8.41

\* Figures from bank groups I and II only.

\*\* Number of vouchers.

@ Cost per voucher.

TABLE IV.6B—HEAD OFFICE EXPENSES EXPRESSED AS PERCENTAGE OF BRANCH EXPENSES ON VARIOUS ACTIVITIES ACCORDING TO BANK GROUPS

## BANK GROUP I

(For the quarter ended 31st March 1970)

Sr. No.	Head Office Expenses Name of the Department	Expenses incurred (Rs. in 000's)	Nature of services on which H.O. expenses are to be loaded	Expenses incurred at all branches on these services (estimated) (Rs. in 000's)	Ratio
(1)	(2)	(3)	(4)	(5)	(3)x100 (5)x1 (6)
1.	Advance Department	1816	Small-Scale Industries	14667	12.38
2.	-do-	1671	Medium and Large-Scale Industries	7183	23.26
3.	-do-	891	Direct Loans to Farmers	4945	18.02
4.	-do-	515	Personal and Professional Loans	12161	4.23
5.	-do-	4893	Total Advances	38956	12.56
6.	Foreign Exchange Department	1496	Foreign Exchange	2977	50.25
7.	Reconciliation	2742	Other Services	10499*	0.26@
8.	Staff/Personnel, Inspection/Audit and Other Administrative Service Departments	18320	All Services	228800	8.01

\* Number of vouchers.

@ Cost per voucher.

TABLE IV.6B—HEAD OFFICE EXPENSES EXPRESSED AS PERCENTAGE OF BRANCH EXPENSES ON VARIOUS ACTIVITIES ACCORDING TO BANK GROUPS(Contd)

## BANK GROUP II

(For the quarter ended 31st March 1970)

Sr. No.	Head Office Expenses Name of the Department	Expenses incurred (Rs. in 000's)	Nature of services on which H.O. expenses are to be loaded	Expenses incurred at all branches on these services (estimated) (Rs. in 000's)	Ratio
					(3)x100 (5) x 1 (6)
(1)	(2)	(3)	(4)	(5)	(6)
1.	Advance Department	654	Small-Scale Industries	5418	12.07
2.	-do-	873	Medium and Large-Scale Industries	3351	26.05
3.	-do-	584	Direct Loans to Farmers	1935	30.18
4.	-do-	1663	Personal and Professional Loans	15747	10.56
5.	-do-	3774	Total Advances	26451	14.26
6.	Foreign Exchange Department	264	Foreign Exchange	555	47.57
7.	Reconciliation	1631	Other Services	8428*	0.19**
8.	Staff/Personnel, Inspection/Audit and other Administrative and Service Departments	12633	All Services	141909	8.90

\*Number of vouchers.

\*\*Cost per voucher.

TABLE IV.6B—HEAD OFFICE EXPENSES EXPRESSED AS PERCENTAGE OF BRANCH EXPENSES ON VARIOUS ACTIVITIES ACCORDING TO BANK GROUPS(Contd.)

## BANK GROUP III

(For the quarter ended 31st March 1970)

Sr. No.	Head Office Expenses Name of the Department	Expenses incurred (Rs. in 000's)	Nature of services on which H.O. expenses are to be loaded	Expenses incurred at all branches on these services (estimated) (Rs. in 000's)	Ratio
					(3)x100 (5) x 1 (6)
(1)	(2)	(3)	(4)	(5)	(6)
1.	Advance Department	79	Small-Scale Industries	1147	6.89
2.	-do-	44	Medium and Large Scale Industries	198	22.22
3.	-do-	61	Direct Loans to Farmers	250	24.40
4.	-do-	347	Personal and Professional Loans	4144	8.37
5.	-do-	531	Total Advances	5739	9.24
6.	Foreign Exchange Department	—	Foreign Exchange	—	—
7.	Reconciliation	475	Other Services	1883*	0.25@
8.	Staff/Personnel, Inspection/Audit and other Administrative and Service Departments	2282	All Services	24661	9.25

\* Number of vouchers.

@ Cost per voucher.

TABLE IV.1UC—ALL-INDIA AVERAGE URBAN CO-OPERATIVE BANK PROFILE—  
OUTPUT AND COSTS

MAIN ACTIVITIES

(For the quarter ended 31st March 1970)

Activities								Output (Lakhs of Rs.)	Servicing Cost (Rs.)
								(1)	(2)
1 Deposits	..	..	..	..	..	..	..	50.43*	15,633 (45.22)
2. Advances	..	..	..	..	..	..	..	37.95*	15,548 (44.98)
3. Drafts, T.Ts., & M.Ts. Issued	..	..	..	..	..	..	..	3.56	584 (1.69)
4. Cheques Collected or Negotiated	..	..	..	..	..	..	..	9.83	1456 (4.21)
5. Bills Collected or Negotiated	..	..	..	..	..	..	..	4.48	1347 (3.90)
6. TOTAL (1 to 5)	..	..	..	..	..	..	..		34,568 (100.00)

Figures within brackets indicate percentages to total.

\*Average Balance/Outstanding.

TABLE IV.2UC—ALL-INDIA AVERAGE URBAN CO-OPERATIVE BANK  
PROFILE—OUTPUT & COSTS

CATEGORIES OF DEPOSITS

(For the quarter ended 31st March 1970)

Category of Deposits	OUTPUT				INPUT		COSTS			
	No. of Ac- counts	Monetary		Physical		Servicing Cost (Rs.)	% per annum of average balance			Per Vou- cher (Rs.)
		Out- standings (Lakhs of Rs.)	Aver- age per A/c. (Rs.)	No. of Vou- chers	Aver- age per A/c		In- terest	Servic- ing	Total	
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	
1. Current ..	415	5.84 (11.58)	1407.23	5815 (46.05)	14.00	4721 (30.20)	0.14	3.23	3.37	0.81
2. Savings ..	2807	13.70 (27.17)	488.07	3791 (30.02)	1.35	5855 (37.45)	2.93	1.71	4.64	1.54
3. Fixed ..	—	27.54 (54.61)	—	689 (5.46)	—	3385 (21.65)	5.89	0.49	6.38	4.92
4. Others ..	—	3.35 (6.64)	—	2333 (18.47)	—	1672 (10.70)	—	—	—	—
5. TOTAL (1 to 4)	—	50.43 (100.00)	—	12628 (100.00)	—	15633 (100.00)	4.28	1.24	5.52	1.24

Figures within brackets indicate percentages to total.

TABLE IV.3UC—ALL-INDIA AVERAGE URBAN CO-OPERATIVE BANK PROFILE—  
OUTPUT AND COSTS

## CATEGORIES OF ADVANCES

(For the quarter ended  
31st March 1970)

Category of Advances	OUTPUT	INPUT	COSTS		INCOME
	Out-standings (Lakhs of Rs.)	Servicing Cost (Rs.)	Per cent per annum of average outstanding		Net income (4) — (3)
			Servicing Cost	Income	
(1)	(2)	(3)	(4)	(5)	
1. Industries .. .. .	1.97 (5.19)	868 (5.58)	1.76	8.54	6.78
2. Trade .. .. .	14.02 (36.94)	2905 (18.68)	0.83	9.57	8.74
3. Personal and Professional Loans (Consumers Loans) .. .. .	9.78 (25.77)	6568 (42.24)	2.69	10.00	7.31
4. Other advances .. .. .	12.18 (32.10)	5208 (33.50)	1.71	9.73	8.02
5. TOTAL (1 to 4) .. .. .	37.95 (100.00)	15549 (100.00)	1.64	9.68	8.04

Figures within brackets indicate percentages to total

TABLE IV.4UC—ALL-INDIA AVERAGE URBAN CO-OPERATIVE BANK  
PROFILE—OUTPUT AND COSTS

## CATEGORIES OF REMITTANCES &amp; BILLS

(For the quarter ended  
31st March 1970)

Category of Remittances and Bills	OUTPUT		INPUT	COSTS
	Amount (Lakhs of Rs.)	Physical number	Servicing Cost	Servicing costs per item (Rs.)
				(3)
(1)	(2)	(3)	(4)	
1. Drafts, M.Ts & T.Ts. Issued .. .. .	3.56	181	584 (17.24)	3.23
2. Cheques Collected or Negotiated .. .. .	9.83	472	1456 (42.99)	3.08
3. Bills Collected or Negotiated .. .. .	4.48	179	1347 (39.77)	7.53
4. TOTAL .. .. .	—	—	3387 (100.00)	—

Figures within brackets indicate percentages to total.

## CHAPTER V

# ANALYSIS OF PROFITABILITY OF BANK ACTIVITIES AND OF BRANCH LEVEL PROFITABILITY

### INTRODUCTORY

5.1 In this chapter the results of the analysis of the survey data are used to analyse the profitability of banks, of the various activities of banks and of bank branches of different types. The analysis is of an illustrative nature since the survey data relate only to one quarter of a year and not to a full year and further, they do not cover foreign exchange business and the various miscellaneous services banks render to their customers.

### CLASSIFICATION OF ACTIVITIES, COSTS AND INCOME

5.2 For the purpose of this profitability analysis the activities of banks are divided into activities of branches and activities of the Head Offices. The activities of branches are divided into three groups: (i) Funds Activities, (ii) Remittances and Bills for collection and (iii) Other Services. Funds Activities consist of obtaining funds from outside the bank by way of deposits and borrowings and their use for bank credit by way of advances and bills purchased or discounted. Since in the course of their collection and remittance business banks acquire some funds which they can use only for short periods, account has to be taken of such funds in Funds Activities. The costs of Funds Activities for the branch consist of: (i) the actual interest and servicing costs it has incurred for obtaining deposits, for servicing deposits and advances and (ii) imputed interest cost of funds generated by remittances and bills for collection and temporarily available for use. Likewise its income consists of: (i) the actual income it earns from its advances and (ii) interest earned on liquid assets and in inter-bank call money market. As regards Remittances and Bills for collection, the costs are the actual servicing expenses and the income consists of: (i) Commission or Exchange levied on drafts, etc., (ii) collecting commission on bills for collection and (iii) the imputed interest on funds generated by them and temporarily available for use. This imputed interest is exactly equal to item (ii) above under the costs of Funds Activities. As regards other services the commission levied would be the income and the costs are the servicing expenses.

#### *Head Office Activities*

5.3 Adjustments have to be made on account of the costs incurred and the income earned by the Head Office in the course of its operations to maintain

adequate liquidity and the costs incurred by the Head Office either as general overheads or as special overheads for special types of activities. As regards the former the Head Office has : (i) to maintain liquid assets for the bank as a whole in the form of cash, balances with the Reserve Bank, and investments in approved securities on which it earns some income and (ii) to meet temporary strains on its liquidity by borrowing either in the Inter Bank Call Money Market or from the Reserve Bank or from abroad. As regards the latter, the method of allocating Head Office overheads has already been described in Chapter III. The Profitability Analysis for a bank can be shown in Schematic form as in the Table V.I.

### *Data Used*

5.4 For doing profitability analysis of this type, it was necessary to use certain other data specially collected from the Reserve Bank in addition to the survey data. The figures relating to interest cost of deposits, servicing cost of all activities, interest income on advances and other income on remittances and bills are from the survey returns. For working out the imputed interest income on funds generated by remittances it was estimated that on an average they stay with the branch concerned for a period of 10 days. Thus at any point of time a branch is estimated to have with it funds equal to 10 days' total of collections and remittances. Since these are very short term funds, an interest rate of 10 paise per cent (*i.e.*, about 3 per cent per annum which was the Treasury Bill Rate at the time of the survey) was taken to represent the rate which they could earn. This leaves for consideration the income from investments. For this, use was made of the data available in the survey of investments of banks as at the end of March 1970 conducted by the Reserve Bank of India. For this survey the banks are required to give the amounts held by them of the different types of investments, *e.g.*, Central Government loans, State Government loans, State Electricity Board bonds, various other types of debentures issued by public authorities as well as private companies, and shares. In the case of securities issued by Central and State Governments as well as important local Governmental authorities, the information is available loan-wise. This information was classified according to the three bank groups and the average rates of yield worked out by taking into account the total amount of the different types of investments and the yields on them. Next the averages of holdings of investments by the various banks were worked out from the returns under Section 42 of the Reserve Bank of India Act for the survey period and classified into the three bank groups. The average yields were then applied to these average holdings of investments and the total investment income thus arrived at was divided by the number of banks in each group to obtain the bank averages. As regards interest on borrowings by the Head Office, an attempt was made to collect the relevant data. However, in the absence of adequate information, it had to be given up. To that extent, the figures of net profit arrived at in the analysis are over-estimated. On the other hand,

as mentioned already the analysis leaves out information either on the costs or income of two other activities of banks, namely the Foreign Exchange business and other miscellaneous services such as safe custody, trustee business and so on. Foreign Exchange business has been discussed separately in Chapter VII. As regards other services, these are insignificant in size in relation to the two main activities for which the data have been presented.

## MAIN RESULTS

5.5 The details of profitability analysis for the all-India average bank are shown in Table V.2 and those for the average banks in the three bank groups in Table V.2B. It will be seen from these tables that Funds Activities are almost the only source of profit for banks. Comparing the total income from these activities with their costs, it will be seen that the larger the size the greater the margin of profit on these activities. This happens mainly because in relation to interest income on Funds Activities, the servicing costs are relatively lower as size increases. Further interest costs also give an advantage, although much smaller, to the larger banks. These matters are examined in greater detail in the subsequent paragraphs. Remittance business results in a loss even after taking into account the imputed interest income for an average bank in all groups and the loss becomes relatively more as the bank size decreases. This is due to the fact that the average size of remittance decreases with the size of the bank so that the servicing costs for the same amount of remittances are larger for small sized banks.

### *Profitability of the Various Categories of Deposits*

5.6 Since the interest elements and the servicing cost elements differ for the different categories of deposits and advances, it would be interesting to work out the profitability of each of the deposit and advances categories.

For arriving at the profitability of the various categories of deposits, it is necessary to compute the income on the employment in advances and investments of the funds mobilised as deposits. This is done by taking into account the interest received on advances, and on investments made from out of the deposits mobilised and deducting from the total the servicing cost incurred on such advances and investments. For the Indian commercial banks as a whole, the yield on deposits works out on this basis to 6.66 per cent per annum (Table V.3). As against this, the total cost of deposits (comprising interest cost, servicing cost and Head Office cost) works out to 5.50 per cent per annum. This means that for funds activity as a whole, the profitability margin is 1.16 per cent per annum. The highest yield of 7.43 per cent on deposits is earned by the medium sized banks. The other two groups show more or less the same yield : 6.30 per cent per annum for the large sized and 6.33 per cent per annum for the small sized. However, when costs of deposits are deducted from this, it is seen that the size of the bank

has a strong relationship with the margin. The large sized banks have a margin of 1.24 per cent per annum, the medium sized 1.10 per cent per annum, and the small sized only 0.52 per cent per annum. The reason for this is the substantially larger profit margin on current deposits which banks in the large sized group are in a position to make. As was pointed out in Chapter IV, while the average size of the account decreases rapidly with bank-size, the number of vouchers per account does not and hence there is a greater incidence of servicing costs in the total cost of deposits for the smaller banks. The same reasoning applies to savings accounts as well.

#### *Profitability of Different Categories of Advances*

5.7 For calculating profitability for different categories of advances, the cost of loanable funds has to be computed, *i.e.*, the funds available for lending after satisfying the liquidity requirements. Since, under the requirements in force at the time of the survey out of a deposit of Rs. 100 a loan of only Rs. 72 could be given by way of advances and out of the balance, Rs. 6 used to be maintained as cash and the remainder invested in approved securities, the cost of raising Rs. 72 for advances would be equal to the cost of raising Rs. 100 of deposits less the interest received on investment of Rs. 22. However, in actual practice the level of investment is generally higher than the statutory requirements. For a bank as a whole, the cost of loanable funds can be computed as the total of : (a) the cost of deposits (comprising interest cost, servicing cost and Head Office cost); *plus* (b) the imputed cost on funds raised by remittances and collections on account of interest on funds in transit ; *less* (c) the interest yield on investments. In Table V.4 these costs have been worked out for the different bank groups and for all banks. For all banks, the average cost of loanable funds is 5.98 per cent per annum. The net yield on advances works out to 7.55 per cent. Thus the average profit margin for all Indian commercial banks works out to 1.57 per cent per annum. A comparison of the different bank groups again shows that the highest margin of 1.77 per cent per annum is earned by the large sized banks. This happens in spite of the fact that the net yield is the lowest for these banks in almost all categories of advances (in the case of advances to small-scale industries, they actually seem to lose) mainly because the net cost of loanable funds to them as a percentage per annum of average advances outstanding is the lowest.

#### *Profitability of a Branch : Practice Currently Followed*

5.8 Next, we may turn to the analysis of profitability of a bank branch. Traditionally banks in India have been working out the profitability of their branches by taking into account : (i) the total costs at the branch, comprising interest costs of deposits and establishment costs, (ii) the income directly earned by the branches from their loans and advances, and from other types of business, and (iii) the interest paid or charged to the branch



at a certain pre-determined rate if the branch has surplus funds or if it needs funds from the Head Office. While the first two factors are easily recognisable and calculable, the last one gives rise to the problem of determining the proper transfer prices for these purposes. In addition, where banks centralise to any considerable extent the decision-making on specific activities such as advances, the branches' share of expenses at the Head Office on such activities would have to be allocated more or less directly to only those branches concerned in such activities. While this does not seem to have been done on any scientific basis, so far as the current practice of Indian banks goes, it is essential for a fair comparison of branch-level results. In our workings we have taken this factor also into account, as will be seen later.

5.9 The Banking Commission in its questionnaire had asked the banks to give details of their practice in this regard. An analysis of the replies from ten important banks shows considerable divergence as to : (i) the basis on which the rates are fixed, (ii) the levels of the rates themselves, and (iii) the differential between the rates paid by, and charged by, the Head Office to branches for funds lent to, and borrowed from, it respectively. The Bank Rate forms the basis for fixing the rate on funds lent by branches to Head Office in the majority of the cases. In addition, some banks take into consideration the average cost of deposits and the need for mobilising deposits. As an alternative to Bank Rate some banks take either the average interest rates on deposits or the rates for one year deposits. Where Bank Rate is the basis, the rate paid by Head Office to branches on funds lent to it is generally 1 per cent above the Bank Rate. In one case, it was  $\frac{1}{2}$  per cent over the Bank Rate while there were some with 1-1/2 per cent over the Bank Rate. One bank which wanted to encourage deposit mobilisation had fixed a rate as high as 3 per cent above the Bank Rate during the initial years of a branch. As regards the rate charged for funds borrowed from Head Office, banks have taken into account such factors as average cost of lending, average yield on advances, call money rates and so on. The differential between the rate of funds lent to Head Office and of funds borrowed from Head Office varies from 0 to 2 percentage points. The bank which gives a special rate in the initial years for funds lent to Head Office also charges a special low rate for funds borrowed from Head Office in those initial years. Thus not only is there diversity in the levels of the rates, but also in the factors on the basis of which they are fixed. The existence of such differences indicates that the matter requires deeper consideration than has been given hitherto. Especially, now that the major sector of the banking industry has to follow the same overall policy objectives while competing with each other in the same market for deposits and advances, the banks should adopt a practice in this matter which is suitably designed to the needs of the times. The object of what follows in this chapter is to illustrate how this can be done. For this purpose there is first a brief theoretical discussion of the various aspects of the matter. This is then followed by branch level profitability analysis on the basis of the Survey Data.

## THE CONCEPT OF TRANSFER PRICES

5.10 The role of transfer price in other industries has been well recognised by cost accountants and a considerable amount of theory has already been developed in this regard. The main object of the transfer price mechanism is to measure profit contribution of various divisions and to facilitate evaluation of their performance. The mechanism is also used to ensure that the divisional performance coincides with the broad policies of the company, and to provide management with a tool to offer incentives to its divisions in accordance with its policies. In the case of a composite textile mill for example, where the spinning unit and the weaving unit are under the same management, it is customary for the weaving unit to pay a price for the yarn supplied by the spinning unit at a reasonable rate in order to assess the performance of these units separately. The rate itself can either be based on : (i) market prices or (ii) costs.

### *Market-based Transfer Prices*

5.11 Transfer prices based on market prices are preferred to transfer prices based on cost, the principle being that if a unit is willing to meet the outside market price and wants the business, it should have the business. In the example given above, the weaving unit has to pay a price at a rate ruling in the market for the yarn. This has the advantage that it takes into account the influence of demand and supply position in the open market. Under this method rates get fixed at the level of opportunity cost.

### *Cost-based Transfer Prices*

5.12 In the absence of a market price, the transfer price mechanism has to be built up on the basis of cost. In other industries, cost-based transfer prices use a standard cost because if the actual cost is used for fixing transfer price, then the selling division can bury its inefficiency in the transfer price. On the other hand, if the standard cost-based transfer price is used, the inefficiency shows up in the income statement of the selling division. However, the pricing mechanism should be such that the selling division should benefit from savings arising from new methods ; otherwise it will not be motivated to introduce new methods.

### *Application to Banks—Special Features of Banking*

5.13 In applying the Transfer Price concept to banking, it is necessary to take into account the special features of the banking industry. In the first place, banks occupying as they do a crucial position in the savings and investment mechanism of the economy of a country are subject to a considerable degree of control from the governmental authorities in regard to the volume

of their business and its sectoral distribution, the prices they are allowed to charge and so on. Secondly, the funds which branches collect are acquired at varying costs depending on the type of service, *e.g.*, current deposits, savings deposits, etc. Similarly when they are put to use, the yields on them vary according to use. Thirdly, the same branch can, during the course of a year, be sometimes in a surplus position, in the sense that its deposits exceed its advances, and at other times in deficit. Similarly at any point of time, there will be some branches in surplus and others in deficit. However, the surplus branches do not directly lend funds to the deficit branches. This is done through the Head Office. Fourthly, the Head Office is responsible not only for incurring expenditure for the overall administrative functions and for maintaining specialised departments but it has also to maintain a certain minimum level of liquid assets as prescribed by law or as directed by the central bank of the country (in our case the Reserve Bank of India) and to make arrangements for meeting temporary shortages of liquidity by borrowing either from the money markets within or outside the country or from the central bank. In the course of maintaining statutory liquid assets, the Head Office has to lock up a part of the funds mobilised by the branches in certain specified types of assets, *e.g.*, cash, balances with the Reserve Bank or a notified bank, investments in approved securities and so on. The yield on these assets is lower than what the branch can earn on its advances. Again, when the bank has to borrow for meeting liquidity shortages, the rate at which it can do so also varies from time to time depending upon the policies of the authorities. All this means that, in evolving a method for profitability analysis of bank branches, it is necessary to ensure that the method is such that the profit performance of a branch is measured against the background of the policies of the bank. Thus if branches have to achieve certain targets fixed by the management in respect of advances to priority sectors, fulfilling of such targets should not be detrimental to profit performance of branches. Proper incentives could be given to branches to encourage them to carry out certain activities, say, mobilising more deposits. It is in the light of these considerations that one has to decide on : (i) the quantum of funds to which the transfer price principle should be applied, (ii) the factors that should be taken into account in fixing the level or levels of these rates, (iii) whether there should be one rate for funds lent to and borrowed from Head Office or whether there should be separate rates, and (iv) how frequently the calculations should be made.

### *The Quantum of Funds*

5.14 As regards the quantum of funds to which transfer price should be applied, the usual practice is to take the net difference between the deposits and advances of a branch. Though simple, there is one drawback in adopting this concept. It is that, under it, a branch whose deposits equal its advances neither borrows nor lends funds to Head Office and hence it neither receives nor pays any price on these funds. However, to enable the branch

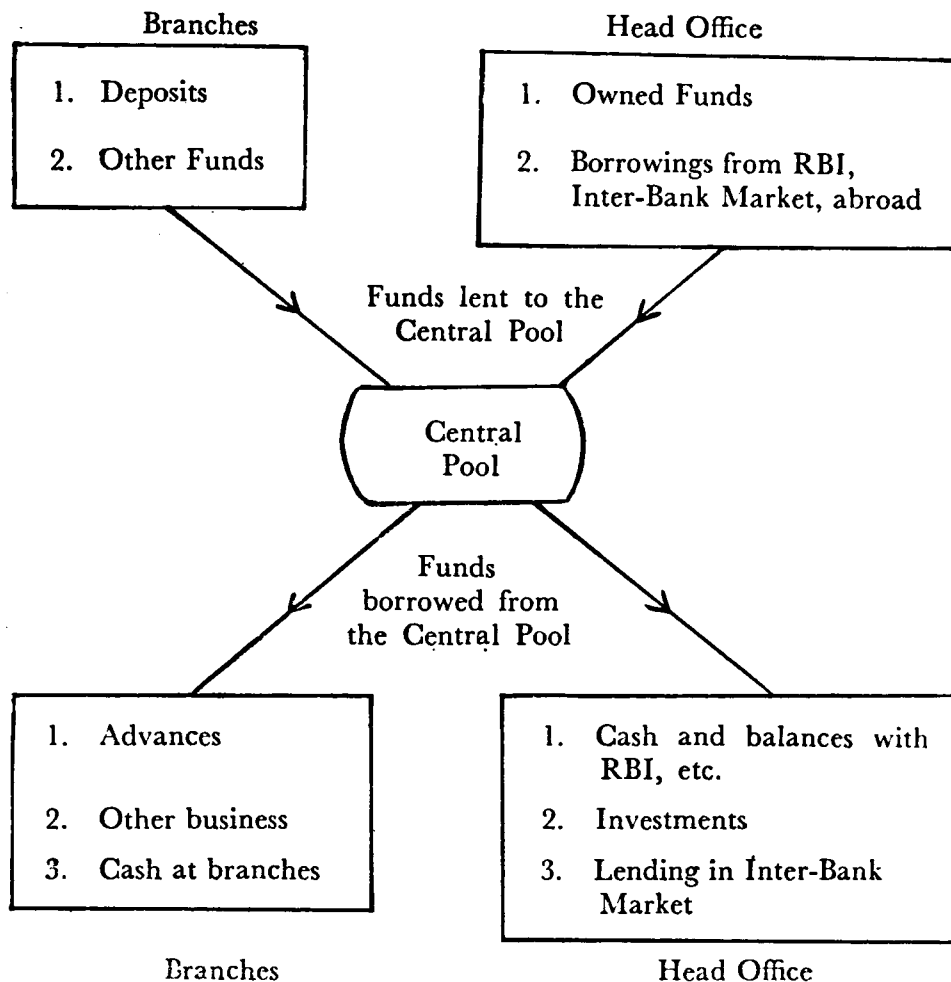
to lend its entire deposits, the Head Office has to invest a certain amount of funds in Government securities and maintain a cash position to take care of the statutory liquidity requirements against the deposits collected by the branch. The cost of this liquidity is not passed on to the branch. In fact it is not only in the case of a branch where the deposits equal advances that such a drawback exists but it arises even where deposits are greater than advances so long as the difference between deposits and advances is less than the statutory liquid assets which have to be maintained against deposits. To illustrate, if the branch has collected Rs. 10 lakhs as deposits and if the advances of the branch are Rs. 7.2 lakhs, then the surplus of the branch, *viz.*, Rs. 2.8 lakhs is exactly equal to the statutory liquidity requirements and if the advances are more than Rs. 7.2 lakhs, the surplus falls short of the funds for statutory liquidity by the amount of the excess.

5.15 One method of getting over this difficulty would be to work out the quantum of funds regarded as lent or borrowed by the branches after adjusting for the liquidity requirements against their deposits. Thus in the example given above, the branch which has collected Rs. 10 lakhs as deposits would be regarded as having lent to the Head Office only the balance left after setting apart Rs. 2.8 lakhs for liquidity purposes and after meeting its own requirements for advances. As regards the balance of Rs. 7.2 lakhs if the advances of the branch are also Rs. 7.2 lakhs then there is no transfer of funds to or from the Head Office. It is only when the advances fall short of or exceed the figure of Rs. 7.2 lakhs that transfer prices have to be applied to the difference. On the amount set apart for liquidity purposes, the branch will be supposed to have earned an income equal to the average rate of earnings by the Head Office on such assets. Many banks abroad follow this method of adjusting for liquidity in arriving at the quantum of funds lent or borrowed by the branches. Similar concepts have been developed by Paul Mampilly and V. Mahadevan of the National Institute of Bank Management in their paper on "Transfer Price Mechanism".

#### CONCEPT OF CENTRAL POOLING OF ALL FUNDS

5.16 The method mentioned in the previous paragraph needs working out branch by branch the quantum of funds to which transfer prices have to be applied. Since both deposits and advances fluctuate, such banks tend to keep liquid assets at a slightly higher level than warranted by the requirements. As a result calculations on the above basis for each branch would be voluminous. Also whenever the statutory requirements change, the basis of the calculations has to change accordingly. An alternative method which is more neat conceptually and simpler to work — and which we therefore recommend for adoption by Indian commercial banks — would be to assume that each branch lends the whole of its deposits and other funds to the Head Office, (which is regarded as constituting a Central Pool for funds of the bank) and borrows the entire requirements for its advances, etc., from out of this

**Central Pool.** To this Central Pool are added the Owned Funds of the Bank, *i.e.*, capital and reserves, and the funds obtained by the Head Office by borrowing. The Central Pool meets the statutory liquidity requirements, lends funds to branches for their advances and invests the balance in the money market, treasury bills and other Government securities, or holds cash. The Head Office itself is not supposed to be collecting deposits or giving advances. This is regarded as a branch function. The flow of funds to and from the Central Pool may be represented schematically as shown below :



### *The Basis for Fixing Transfer Prices with Central Pooling*

5.17 The Central Pool, in this method is regarded as paying a price for all the deposits and other funds mobilised by the branches and receiving a price for the total amount of funds branches have utilised in advances, other busi-

ness or kept as cash in their tills. This leads to some further questions, viz., what factors should be taken into account in fixing these prices, whether the rates should be the same, or different, and if so in what way.

*Use of Cost-based Transfer Prices for Indian Banks Preferable to Use of Market-based Transfer Prices*

5.18 It was mentioned earlier in paragraph 5.10 that transfer prices based on market prices are preferable to those based on cost. At first sight, it appears that it is possible to use the market price principle for banks and indeed some foreign banks in India follow such a practice. From the theoretical point of view, this method seems to be equitable, as at times when the authorities are following a tight money policy and as a result the short term rates are very high, the branches which mobilise deposits will get an equally high return, while the branches which borrow from the Central Pool for advances have to pay a similar high price. This should encourage the branches to mobilise more deposits in such times and discourage them from increasing advances. The basic idea underlying this method is to regard each branch office as an independent unit capable of raising its own funds and finding avenues for employing its own funds. Each branch office then looks to other branch offices only to a limited extent for its surplus or deficit funds. It can always raise funds in the local call money market or borrow from the Reserve Bank to meet its deficit, or can invest its surplus funds in the local money market. This method of working suits the foreign banks in India as their branch network is restricted and most of their business is in centres where call money markets also exist and hence they can operate on the basis of a transfer price which is equal to the call money market rate.

5.19 It is, however, a moot point, whether it would be proper to apply these highly volatile short term rates, which represent basically the marginal cost of funds, to the entire funds lent or borrowed by the branches of the Indian commercial banks. Their position is very different. Unlike these foreign banks, the Indian commercial banks have a greater geographical spread of branches, considerably more complex organisational structure and also less decentralisation in the matter of decision-making by the branches. It is not necessary for these banks to use a highly volatile rate like the call money rate to make the branches conform to the overall policies of the Head Office. Also at a practical level, these banks would face a host of problems if they have to fix a transfer price on weekly basis depending on the call money market rate. Moreover, funds raised in the call market form after all only a very small proportion of the total funds handled by them. The market-based transfer price is therefore not suitable for Indian commercial banks.

*Use of Average Costs*

5.20 The alternative is to fix the transfer prices on the basis of costs. For this, standard costs should be utilised. This raises the problem of determin-

ing standard costs for each unit of the Indian banking industry. This problem has been referred to in Chapters X and XI. In the absence of standard costs, a bank can use its own average costs for working out the transfer prices.

### *Profit Margin in Transfer Prices*

5.21 The cost-based transfer prices should include an element of profit margin, which should normally be a standard profit margin, *i.e.*, a standard return on funds employed. In the banking industry, the profit margin may be a fixed percentage of funds involved. Such a profit margin would enable the management to evaluate the performance of a branch over a period of years, and also to compare it with other branches for the same period. An increasing trend in profit of a branch would then clearly indicate : (i) that it is increasing its volume of business and/or (ii) that it is operating more efficiently. This, however, would be true only if the transfer prices were fixed on the basis of standard costs. In the absence of standard costs, the standard profit margin concept is difficult to apply. As an alternative, the profit margin may be related to the actual profit made by the bank on its Funds Activity. The calculation of actual profit in funds activities has already been explained in paragraph 5.2 onwards. By dividing the actual profit by deposits *plus* advances, the profit margin is arrived at. Thus, if the profit of a bank on its funds activities is Rs. 35 lakhs and its average deposits and advances are Rs. 10 crores and Rs. 7 crores respectively, the profit margin would be 0.5 per cent.  $\left\{ \frac{\text{Rs. 35 lakhs}}{\text{Rs. 17 crores}} \right\}$

### *Should There be One Rate or More*

5.22 Next we may consider the question whether the rate should be the same for both funds lent and funds borrowed or there should be more than one rate. Although the system of fixing only one rate for funds lent to and borrowed from the Central Pool appears simple, from a practical angle it suffers from two drawbacks. The more important of these is that a single rate does not adequately take into account both the income generated and the expenses incurred on the funds. The other drawback is that in a unitary rate system, it is difficult to incorporate appropriate types of incentives for expanding business of certain types or disincentives for discouraging business of certain types. Therefore, there should be at least two rates, one for funds lent to the Central Pool and the other for funds borrowed from it. The Central Pool should pay the branches for the deposits mobilised by them, the average interest and servicing cost per cent (branch level as well as Head Office level) of deposits for the bank as a whole and the profit margin. Similarly it should charge them for the funds required for their business, the net average yield on advances for the bank as a whole, *i.e.*, the average yield *less* the branch and Head Office level servicing costs, *minus* the profit margin.

### *Differentiation in Rates According to Category of Deposits and Advances*

5.23 The next question that arises is whether the Pool should pay the branches the same rate on deposits irrespective of whether they are current, savings, or fixed deposits and whether it should charge them the same rate for funds used for advances irrespective of the category of advances. In both cases, the interest element varies according to the category of deposits (for which it is a cost) and advances (for which it is a return). Similarly in both cases, servicing costs also vary. In addition, in the case of advances the overall policies require that branches give priorities to certain sectors over others. And it happens that the net yield on advances to the priority sectors is lower than that on advances to other sectors.

5.24 As far as the various types of deposits are concerned, if as in India, there is no difference between the statutory liquidity requirements against the various types of deposits, it matters very little to the Central Pool what type of deposits are mobilised by the branch, except that, if a branch mobilised high cost deposits, that will depress the net profit of the bank as a whole. But the corrective for this already exists in the transfer price mechanism. Because that branch will get a price for its deposits from the Central Pool which is lower than its own costs of deposits and so its profitability will be affected. Thus, there should be only a single rate for all categories of deposits. There may, however, be areas where because of various factors deposit mobilisation though desirable is rather difficult especially in the early years of a branch. Account can be taken of this in the transfer price by suitably altering the profit margin on the lines discussed later in the case of advances.

5.25 As regards advances, however, if the same rate is applied on funds borrowed by branches irrespective of whether they are used for advances to priority sectors or not, the branches may be reluctant to go in for priority sectors advances as their profit performance will be affected adversely. It is, therefore, necessary that the branches are adequately reimbursed to cover the higher cost of servicing advances to priority sectors in order to make their performance coincide with the Bank's policy. This can be achieved by charging at separate rates on funds borrowed for priority sector advances and other advances on the basis of average yield and average servicing charges of these two types of advances.

### *Weighting System to Indicate Priorities for the Different Activities*

5.26 Instead of using a single fixed percentage of deposits and advances as the profit margin, different percentages can be used, corresponding to the priorities between the various activities, such as deposit mobilisation, lending to priority sectors and lending to other sectors, so that the profit margin can act as an effective tool in bank management for making branches conform



to the policies of the bank. To illustrate, suppose the net average profit margin balance comes to 0.5 per cent of the total of deposits and advances of the bank. Suppose further that deposits are Rs. 100 crores, priority sector advances are Rs. 20 crores, and other advances Rs. 50 crores. If no distinction is made between the priority sector and non-priority sector advances, then in both the rate paid on funds by the Pool and the rate charged by the Pool, the profit margin will be 0.5 per cent. If, however, advances to priority sector are given the highest priority, deposit mobilisation the next highest and non-priority sector advances the least the profit margins will need to be altered. To do this, it is necessary to use a system of weighting to represent the priorities. Thus suppose we treat priority sector advances as 3 times as important as the non-priority sector then we can give these two types of advances the weights 3 and 1 respectively. For deposit mobilisation, let us give the weight 2. Then the profit margin becomes 0.82 per cent for priority sector advances, 0.27 per cent for the non-priority sector advances and 0.54 per cent for deposit mobilisation.

### *Frequency of Calculations*

5.27 Finally, there is the question of the frequency of calculations. The answer to this depends mainly on how close a watch the management of a bank wishes to keep on the efficiency of its branches. Since such operational data relating to a bank's work as the total of its deposits and distribution according to categories, the total of advances and distribution into categories, the interest payable to depositors and payable by borrowers, etc., is up-to-date, there is in theory no difficulty in making the calculations fairly frequently and with the latest data. So long, however, as the interest rate pattern remains fairly stable and there are no materially significant fluctuations in costs, it would suffice to make the calculations of transfer prices at the most on a quarterly basis. Whenever, there is a major change affecting either the level of the interest rates or their pattern, it would be necessary to revise the transfer prices.

### ILLUSTRATION OF BRANCH PROFITABILITY ANALYSIS

5.28 The suggestions made in the foregoing paragraphs can be applied to the Average Bank Branch Profiles in the four population groups. These averages represent the position obtaining in these regions, averaged over bank-branches coming from banks in different bank groups. There are no banks which work exclusively for any of the four population groups. However, the credit-deposit ratios, the patterns of deposits, advances, remittance and bill business handled by these average branches are representative of the business conditions in these areas. The concept used, therefore, is to regard them as representative branches in these areas of the *whole of the Indian banking system* and their profitability worked out by using the average rates on Funds Activities for the All-India Average bank. The schematic break-up of the analysis is given in Table V.5.

The profitability analysis for the average bank branches in the four population groups given in Table V.6., shows that the average bank branch in population group IV was incurring a small loss of Rs. 2,950 per quarter mainly because of the loss on remittance business. With increases in the size of the population centre, the profitability per branch of Funds Activities increases and thus branches in the larger population centres show profitable working.

#### *Effect of Different Systems of Transfer Prices on Branch Profitability*

5.29 It was mentioned in paragraph 5.26 that the system of transfer prices can be used to provide incentives to branches to take up business which normally they would not on grounds of lower income. In Table V.7, an illustration of how this would affect the interest on Pool funds is given. Part I of the table shows that under the system of equal weights for all types of deposits and advances, branches in population group I have to make a net payment to the Central Pool while those in the lower centres receive a payment from the Pool. This is the system adopted for Table V.6. In Part II of Table V.7, the effects of a variation in weights for the different types of advances on the allocation of the profit margin to branches are shown. The weights are :

Direct Loans to Farmers	..	..	5
Advances to Small-Scale Industries	..	..	4
Personal and Professional Loans	..	..	3
Other Advances	..	..	2
Advances to Large and Medium-Scale Industry			1
Deposits (all types)	..	..	3

It will be seen that under this system, the average branch in metropolitan centres has to make a larger payment to the Central Pool because of : (i) the high credit deposit ratio and (ii) the preponderance of advances to large and medium-scale industries in its portfolio. Branches in other population centres gain.

#### GENERAL REMARKS

5.30 The results obtained in the previous chapter and this one based as they are on the data collected for only one quarter are to be regarded mainly as illustrating the manner in which costs of various banking services can be calculated and the profitability of : (a) banks, (b) the various types of business handled by them, and (c) their individual branches be analysed so as to provide bank management with a correct evaluation of the efficiency

with which their organisations function. The cost and profitability analysis of the different services rendered by banks helps in devising pricing policies and methods of cost control so as to attain such profit objectives as may be considered desirable. These matters are discussed in Chapters IX and XI respectively. The use of the transfer price mechanism on the lines discussed in the foregoing paragraphs will assist banks in making their branches conform to their overall policies. The Group recommends adoption of such a method by banks. Further, the Group recommends that the Head Offices of banks should advise their branches at the beginning of each quarter the transfer prices that would be in force for that quarter. It must also be emphasised that the work done so far only marks the beginning of a systematic attempt to evolve methods of cost and profitability analysis appropriate to the conditions under which banks have to function in India. These methods need to be developed further and studies of this type continued in a regular manner, so that the banking system works in an efficient manner in the pursuit of the overall objectives of national policy. This matter is discussed later on in Chapters X and XI where an outline of a scheme for regular cost and profitability analysis is given.

TABLE V.1—SCHEMATIC PROFITABILITY ANALYSIS OF AVERAGE BANK-BRANCH (1) ALL-INDIA (2) BANKGROUP-WISE

Sr. No.	Activities	COSTS		INCOME	
		Interest	Other	Interest	Other
1.	Funds Activities (Deposits, Advances including Usance Bills, Investments, etc.)	<p>(i) Interest on Deposits (Table IV.2)/ (Table IV.2B)</p> <p>(ii) Imputed interest on Funds generated by remittances and temporarily available for use. (Per contra to item 2(i) under income)</p> <p>(iii) Interest cost of borrowings by the average bank, all-India/Bank Group-wise.</p>	<p>(i) Servicing Cost of Deposits (Table IV.2)/ (Table IV.2B) &amp; Advances, including Usance Bills (Table IV.3) (Table IV.3B)</p> <p>(ii) H. O. Overheads on Deposits and Advances and on investments.</p> <p>—</p>	<p>(i) Income on Advances (Table IV.3)/ (Table IV.3B) (includes interest &amp; commitment charges)</p> <p>(ii) Discount earned on Usance Bills.</p> <p>(iii) Interest earned by the average bank all-India/ Bank Group-wise on liquid assets and in inter-bank call money market</p>	<p>(i) Service charge if any, on Current Accounts.</p>
2.	Remittances, Bills for Collection, etc.	—	<p>(i) Servicing cost at the branch (Table IV.4) (Table IV.4B)</p> <p>(ii) Head Office overheads allocated to these activities.</p>	<p>(i) Imputed interest on funds generated by remittances and temporarily available for use.</p>	<p>(i) Exchange and commission levied on Drafts, Bills, etc.</p>
3.	Other Services	—	<p>(i) Servicing cost.</p> <p>(ii) Head Office overheads allocated to these activities.</p>	—	<p>(i) Service charges levied on customers</p>

TABLE V. 2—ALL-INDIA AVERAGE BANK—PROFIT ANALYSIS

No. of Branches 123

Deposits Rs. 76.41 crores

Advances Rs. 53.90 crores

(For the quarter ended  
31st March 1970)

Sr. No.	Activities	Interest Cost	Other Cost	Interest Income	Other Income	Profit (+) or Loss (-)
		1	2	3	4	5
(Rupees in lakhs)						
1.	<b>FUNDS ACTIVITIES</b>					
	(Deposits, Advances including Usance Bills and Investments)	75.64	40.52	117.93	0.41	—
		5.59*	5.01**	30.47@	—	—
		81.23	45.53	148.40	0.41	(+)22.05
2.	Remittances and bills for collection, etc.	—	17.40	5.59*	9.55	(-) 2.26
3.	<b>TOTAL (1) + (2)</b>	81.23	62.93	153.99	9.96	(+)19.79

\* Yield @ 3% for 10 days on funds generated by Drafts &amp; M.Ts.

\*\* Head Office cost

@ Interest on investment

TABLE V. 2B—AVERAGE BANK—ACCORDING TO BANK GROUPS—PROFIT ANALYSIS

(For the quarter ended 31st March 1970)

Sr. No.	Activities	Interest Cost	Other Cost	Interest Income	Other Income	Profit (+) or Loss (-)
1	2	3	4	5	6	7
(Rupees in lakhs)						
Average Bank in						
<b>BANK GROUP I</b>		No. of Branches 524	Deposits Rs. 462.90 crores	Advances Rs. 312.99 crores		
1.	<b>FUNDS ACTIVITIES</b> .. ..	426.62	217.79	655.63	1.79	—
	(Deposits, Advances including Usance Bills and Investments) .. ..	35.32*	25.73**	192.03@	—	—
		461.94	243.52	847.66	1.79 (+)	143.99
	2. Remittances & Bills for collection, etc. .. ..	—	94.67	35.32*	54.16 (-)	5.19
3.	<b>TOTAL (1) + (2)</b> .. ..	461.94	338.19	882.98	55.95 (+)	138.80
(Rupees in lakhs)						
Average Bank in						
<b>BANK GROUP II</b>		No. of Branches 166	Deposits Rs. 81.66 crores	Advances Rs. 63.31 crores		
1.	<b>FUNDS ACTIVITIES</b> .. ..	91.24	51.88	146.48	0.68	—
	(Deposits, Advances including Usance Bills and Investments) .. ..	5.64*	6.85**	30.73@	—	—
		96.88	58.73	177.21	0.68(+)	22.28
	2. Remittances & Bills for collection, etc.	—	21.89	5.64*	10.94(-)	5.31
3.	<b>TOTAL (1) + (2)</b> .. ..	96.88	80.62	182.85	11.62(+)	16.97
(Rupees in lakhs)						
Average Bank in						
<b>BANK GROUP III</b>		No. of Branches 33	Deposits Rs. 7.50 crores	Advances Rs. 4.83 crores		
1.	<b>FUNDS ACTIVITIES</b> .. ..	7.90	4.62	11.88	0.05	—
	(Deposits, Advances including Usance Bills, and Investments) .. ..	0.47*	0.58**	2.64@	—	—
		8.37	5.20	14.52	0.05(+)	1.00
	2. Remittances & Bills for collection etc.	—	1.98	0.47*	1.22(-)	0.29
3.	<b>TOTAL (1) + (2)</b> .. ..	8.37	7.18	14.99	1.27(+)	0.71

\* Yield @ 3% for 10 days on funds generated by Drafts and M.Ts.

\*\* Head Office cost.

@ Interest on investment.

TABLE V. 3—AVERAGE BANK—ACCORDING TO BANK GROUPS  
YIELD ON DEPOSITS AND PROFITABILITY OF DEPOSITS—CATEGORY-WISE

(For the quarter ended  
31st March 1970)

Bank Group	I	II	III	All banks
(Rupees in lakhs)				
1. Income of Advances .. .. .	623.46	138.78	11.22	111.95
2. Interest on Investments .. .. .	192.03	30.73	2.64	30.47
3. Income of Usance Bills .. .. .	32.17	7.69	0.66	5.98
4. TOTAL Income .. .. .	847.66	177.20	14.52	148.40
5. Servicing Cost of Advances.. .. .	78.28	19.16	1.94	14.88
6. Imputed Interest Cost of Funds Raised by Items-in-Transit .. .. .	35.32	5.64	0.47	5.59
7. Servicing Cost of Usance Bills .. .. .	4.75	1.18	0.09	0.89
8. Total 5 to 7 .. .. .	118.35	25.98	2.50	21.36
9. Net Yield (4-8) .. .. .	729.31	151.22	12.02	127.04
(Rs. Crores)				
10. Average Deposits Outstanding .. .. .	462.75	81.45	7.59	76.32
(Per cent per annum)				
11. Net Yield on Deposits (9) x4 x100 (10) .. .. .	6.30	7.43	6.33	6.66
12. TOTAL Costs on Deposits				
(i) Current .. .. .	3.39	5.39	5.07	4.00
(ii) Savings .. .. .	4.86	5.51	5.72	5.14
(iii) Fixed .. .. .	5.85	5.65	5.74	5.79
(iv) All .. .. .	5.06	6.33	5.81	5.50
13. Profit Margin on Deposits (11)-(12)				
(i) Current .. .. .	2.91	2.04	1.26	2.66
(ii) Savings .. .. .	1.44	1.92	0.61	1.52
(iii) Fixed .. .. .	0.45	1.78	0.59	0.87
(iv) All .. .. .	1.24	1.10	0.52	1.16

TABLE V.4—COST OF LOANABLE FUNDS AND PROFITABILITY OF ADVANCES—CATEGORY-WISE

(For the quarter ended 31st March 1970)

Bank Group	I	II	III	All banks
(Rupees in lakhs)				
1. Interest on Deposits .. .. .	426.62	91.24	7.90	75.64
2. Servicing Cost of Deposits .. .. .	160.49	38.38	3.17	29.76
3. Interest Cost of Items-in-Transit .. .. .	35.32	5.64	0.47	5.59
4. TOTAL Cost of Deposit Resources (1 to 3) .. .. .	622.43	135.26	11.54	110.99
5. Yield on Investments .. .. .	192.03	30.73	2.64	30.47
6. Net Cost of Loanable Funds (4-5) .. .. .	430.40	104.53	8.90	80.52
(Rs. Crores)				
7. Average Advances Outstanding .. .. .	312.85	63.15	4.88	53.82
(Per cent per annum)				
8. $\frac{(6) \times 4 \times 100}{(7) \times 1} =$ Cost of Loanable Funds <sup>1,2</sup> .. .. .	5.50	6.62	7.29	5.98
9. Net Yield on Advances				
(i) S.S.I. .. .. .	4.23	6.53	6.89	5.29
(ii) L. & M.I. .. .. .	7.84	9.37	8.98	8.26
(iii) Direct Loans—Farmers .. .. .	5.47	7.12	9.22	6.44
(iv) P. & P. .. .. .	7.54	5.93	9.06	7.01
(v) Other .. .. .	6.65	7.14	7.50	7.02
(vi) All .. .. .	7.27	7.99	7.92	7.55
10. (9)–(8) Profit Margin on Advances				
(i) S.S.I. .. .. .	-1.27	-0.09	-0.40	-0.69
(ii) L. & M.I. .. .. .	2.34	2.75	1.69	2.28
(iii) Direct Loans—Farmers .. .. .	0.03	0.50	1.93	0.46
(iv) P. & P. .. .. .	2.04	0.69	1.77	1.03
(v) Other .. .. .	1.15	0.52	0.21	1.04
(vi) All .. .. .	1.77	1.37	0.63	1.57

S.S.I.—Small-Scale Industries

L. &amp; M.I.—Large and Medium-Scale Industries

P. &amp; P.—Personal and Professional loans



TABLE V.5—SCHEMATIC PROFITABILITY ANALYSIS OF AVERAGE BANK-BRANCH—POPULATION GROUP-WISE

Sr. No.	Activities	COSTS		INCOME	
		Interest	Other	Interest	Other
1.	Funds Activities (Deposits, Advances including Usance Bills).	(i) Interest on Deposits (Table IV.2P)  (ii) Imputed interest on Funds generated by remittances and temporarily available for use, (Per contra to item 2(i) under income)  (iii) Transfer Price paid to Central Pool for funds required for credit activities	(i) servicing cost of Deposits (Table IV.2P) and Advances (Table IV.3P) including Usance Bills.  —  —	(i) Income on Advances (Table IV.3P) (includes interest and commitment charges)  (ii) Discount earned on Usance Bills.  (iii) Transfer Price Received from Central Pool for funds contributed to the Pool.	(i) Service charges, if any on Current Accounts.  —  —
2.	Remittances, Bills for Collections, etc.	—	(i) Servicing Cost at the Branch (Table IV.4P)  (ii) Head Office overheads allocated to these activities.	(i) Imputed interest on funds generated by remittances and temporarily available for use.	(i) Exchange and Commission levied on Drafts, Bills, etc.
3.	Other Services	—	(i) Servicing Costs  (ii) Head Office overheads allocated to these activities.	—	Service charges levied on customers.

TABLE V.6—AVERAGE BANK BRANCH PROFILE ACCORDING TO POPULATION GROUPS—PROFIT ANALYSIS

(For the quarter ended 31st March 1970)						
Sr. No.	Activities	Interest Cost	Other Cost	Interest Income	Other Income	Profit (+) or loss (—)
(Rupees in thousands)						
<b>POPULATION GROUP I</b>						
<b>1. FUNDS ACTIVITIES</b>						
	(Deposits, Advances, including Usance Bills) .. .. .	151.63	82.20	368.32	0.86	—
	Cost/Income on funds borrowed from/ lent to Central Pool .. .. .	284.24 12.05*	—	224.54	—	—
		447.92	82.20	592.86	0.86	(+)63.60
2.	Remittances & Bills for collections, etc.	—	27.27	12.05*	14.01	(—) 1.21
3.	TOTAL of (1) + (2) .. .. .	447.92	109.47	604.91	14.87	(+) 62.39
<b>POPULATION GROUP II</b>						
<b>1. FUNDS ACTIVITIES</b>						
	(Deposits, Advances, including Usance Bills) .. .. .	76.72	41.95	95.90	0.44	—
	Cost/Income on funds borrowed from/ lent to Central Pool .. .. .	73.70 6.04*	—	119.40	—	—
		156.46	41.95	215.30	0.44	(+)17.33
2.	Remittances & Bills for collections, etc.	—	19.15	6.04*	9.91	(—) 3.20
3.	Total of (1) + (2) .. .. .	156.46	61.10	221.34	10.35	(+)14.13
<b>POPULATION GROUP III</b>						
<b>1. FUNDS ACTIVITIES</b>						
	(Deposits, Advances, including Usance Bills) .. .. .	40.68	20.28	34.18	0.22	—
	Cost/Income on funds borrowed from/ lent to Central Pool .. .. .	26.27 2.68*	—	63.84	—	—
		69.63	20.28	98.02	0.22	(+) 8.33
2.	Remittances & Bills for collections, etc.	—	10.73	2.68*	6.74	(—) 1.31
3.	TOTAL of (1) + (2) .. .. .	69.63	31.01	100.70	6.96	(+) 7.02
<b>POPULATION GROUP IV</b>						
<b>1. FUNDS ACTIVITIES</b>						
	(Deposits, Advances, including Usance Bill) .. .. .	15.81	10.12	11.28	0.05	—
	Cost/Income on funds borrowed from/ lent to Central Pool .. .. .	9.40 0.80*	—	23.76	—	—
		26.01	10.12	35.04	0.05	(—) 1.04
2.	Remittances & Bills for collections, etc.	—	4.99	0.80*	2.28	(—) 1.91
3.	TOTAL of (1) + (2) .. .. .	26.01	15.11	35.84	2.33	(—)2.95

\* Yield @ 3% for 10 days on funds generated by Drafts and M.Ts.

TABLE V.7—EFFECT OF DIFFERENT SYSTEMS OF TRANSFER PRICES ON BRANCH PROFITABILITY

(For the quarter ended 31st March 1970)

Particulars	I	II	III	IV
	(Rupees in thousands)			
<b>I. Under equal weights</b>				
(a) Interest paid to the central pool .. .. .	284.24	73.70	26.27	9.40
(b) Interest received from the central pool .. .. .	224.54	119.40	63.84	23.76
Net (b) — (a) .. .. .	-59.70	+54.70	+37.57	+14.36
<b>II. Varying weights</b>				
(a) Interest paid to the central pool .. .. .	299.95	68.73	23.72	8.02
(b) Interest received from the central pool .. .. .	233.79	124.28	66.46	24.72
Net (b) — (a) .. .. .	-66.16	+55.55	+42.74	+16.70

## CHAPTER VI

# VARIATION IN COSTS IN RELATION TO SIZE OF PHYSICAL OUTPUT

### INTRODUCTORY

6.1 An important aspect of cost analysis is to study the behaviour of costs in relation to changes in physical output. The data collected in the present survey can within certain limits be utilised to study such relationships. Thus for instance, the relationship between deposits and their cost of servicing can be studied by taking an appropriate measure of output for the deposits at each of the branches included in the survey and comparing it with the corresponding cost figures. Plotting these branch level deposit outputs on the X-axis and the corresponding costs on the Y-axis a scatter diagram is obtained showing the kind of relationship that exists in the data.

#### *Constant Elasticity Relationship between Banking Costs and Output*

6.2 Such an exercise was done for current account deposits by taking the number of current account vouchers handled during the reporting period by each branch and plotting the corresponding costs of handling these vouchers. The scatter diagrams, shown in Figure Nos. 1, 2 and 3\* suggest that the relationship between the two was one where the incremental or marginal cost of one unit of output and therefore, the average cost per unit of output, decline with increases in output. Different types of equations were tried out to see which type explained the relationship best. For this purpose the data for the whole of the sample was used. It was found that a constant elasticity relationship between cost and output gave a very good fit to the data, the elasticity coefficient being less than one. This coefficient shows the percentage increase in total cost for one per cent increase in the output. Another way of interpreting it is in terms of incremental or marginal costs and average costs. The incremental cost of the output at any point (that is, the additional cost for an additional unit of output at that level) is given by multiplying the average cost at that point by the elasticity coefficient at that point. A constant elasticity coefficient means that at every point the incremental cost per unit of output is the same proportion of the average cost per unit of output at that point. When the coefficient is less than one, the incremental cost is always less than the average cost and hence the average cost decreases as out-

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\* For bank groups I, II & III respectively.

put increases. The converse also holds true. It may be mentioned here that such constant elasticity production functions have been found very useful in quantitative analysis of bank behaviour by bank experts in the U.S.A.\*

### *Behaviour of Costs when a Bank-branch Expands*

6.3 The relation described above combines the data for all the branches large and small in the survey. It is, therefore, of somewhat limited use. What one would like to know is how the average cost per unit of output varies in any branch of a bank when its output varies. Thus when a new branch is set up by a bank, the average costs per unit of output in such a branch will be high in the initial period. As the branch expands its business, they will fall off until the branch is functioning in such a manner that there is absolutely no surplus capacity. This point may be reached before every member of staff is fully occupied and is turning out the maximum output, *i.e.*, when the branch cannot handle any additional work without making some members of the staff to work overtime and thus increasing the cost per unit of output.

6.4 At this point, the branch has to expand its staff if there is a permanent increase in its output. It cannot handle this by making the staff work overtime for a prolonged period as that would result in loss of efficiency and therefore further increase the cost per unit of output on that account. The result of expanding staff will generally be to push up average cost per unit of output immediately. Thereafter, it will start declining until the branch again reaches full capacity with the expanded strength when it has to expand its staff once again. Under such conditions there will be a tendency for cost per unit of output to fall more rapidly with the increase in output at lower levels of total output than at higher levels of output. From the management's point of view, it is useful to have, if possible, a quantitative expression of the behaviour of costs when output changes occur.

6.5 Actually, when a branch expands its staff in the above manner, it cannot keep all the other costs constant. This is so because as the branch grows, it requires bigger premises, more furniture, and so on. This means that as the branch expands, the increase in its average costs per unit in the initial stages of expansion can be somewhat higher than the increase on account of additional staff.

6.6 Again when a branch expands, there is some diversification in its output. Thus, it may introduce new types of deposits or go in for advances to sectors it had not lent to before or provide other customer services like standing instructions, safe deposit vaults, investment management and so on.

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\* Costs in Commercial Banking : A Quantitative Analysis of Bank Behaviour and its Relation to Bank Regulation, Research Report to the Federal Reserve Bank of Boston by Frederick W. Bell and Neil B. Murphy.

This will also cause its cost per unit of output to go up, because the volume of such new business will be small in the initial stages. Also, the staff will need to be trained for the purpose.

6.7 For studying such relationships, it is necessary to have data on the behaviour of costs of the same branch at different levels of output. Such data have not been collected in the survey. The survey data consist of the costs and outputs of branches belonging to different bank groups and situated at centres of different population groups. Since the branches in the same bank-population group are likely to be more homogeneous than branches in different bank-population groups, a better understanding of the relationship can be obtained by studying how the outputs and costs are related in the various bank-population groups.

#### *Composite Measure of Output*

6.8 Such studies can be made for each of the different kinds of output, *viz.*, deposits, advances, remittances, bills, etc. However, it would be preferable to relate costs to some composite measure of output at the branch level if it can be constructed. Such a composite measure was attempted by taking the figures of physical output such as the number of vouchers for the various types of transactions handled, etc., weighting each type of output by the average cost of that type of output for the sample as a whole and adding up the results for various output. Figure Nos. 4, 5 and 6 give the scatter diagrams between costs and output in terms of the composite measure for the three bank groups.

#### *Mathematical Model Used*

6.9 The scatter diagrams between the total branch costs and the total physical output for each of the bank-population groups suggest that within each of these groups, the relationship is similar to that between the number of current account vouchers and the cost of servicing them. However, the precise nature of the relationship varies from group to group. To understand the significance of these variations, a word of explanation is necessary as to the type of equation that was fitted to the data.

6.10 The equation between total output and total costs is in the following form :

$$\text{Log (Total Costs)} = a + b \text{ Log (Total Output)} \dots\dots\dots (1)$$

$$\text{or Total Costs} = A (\text{Total Output})^b \dots\dots\dots (2)$$

$$\text{Where } A = (10)^a \dots\dots\dots (3)$$

The coefficient 'b' gives the elasticity of costs with reference to output changes and its meaning has already been given in para 6.2. The interpretation of

'A' however is a matter of some difficulty. For this purpose, equation (2) may be transformed as under :

$$\frac{\text{Total Costs}}{\text{Total Output}} = A (\text{Total Output})^{b-1} \dots\dots\dots (4)$$

$$\text{or Average Cost Per Unit of Output} = A (\text{Total Output})^{b-1} \dots\dots (5)$$

When 'b' is unity, that is to say when the percentage increase in total costs is exactly equal to the percentage increase in total output, the average per unit cost of output is constant and given by 'A'.

### Results

6.11 The 'A' and 'b' for the branches in the 12 bank-population groups are given in Table VI. 1. The table also gives the average outputs per branch for each bank-population group for the quarter January-March 1970. An examination of this table shows that (i) generally the 'A' coefficients decrease as one moves from population group IV to population group I in all the three bank groups ; (ii) similarly the 'b' or the elasticity coefficients go on increasing from population group IV to population group I ; (iii) there is a strong inverse relationship between the 'A' and the 'b' coefficients ; when one increases, the other decreases and *vice versa*. The average output per branch decreases with the size of the population centre and the size of the bank.

6.12 These results can be interpreted in the following manner. The fact that 'A' coefficients are large in the smaller population centres shows that when the level of output is low, for the same quantum of output the average cost per unit of output tends to be higher in the smaller centres than in the large centres. On the other hand, the smaller values of the elasticity coefficients in the smaller centres of population show that in these centres the average costs per unit of output decrease more rapidly as output increases than in the larger population centres. The inverse relationship between the two coefficients enables us to work out the level of average costs per unit of output when the elasticity is unity. This is 1.47.

6.13 Examination of the figures according to bank groups does not indicate any relationship between the coefficients and the size of a bank. This suggests that the variation in costs with increases or decreases in the quantum of output depends more on the population groups than on bank groups. A probable reason for this would be that the type of business a branch can get depends on the size of the town in which it is working except of course when it is located in places which have an industrial project. One interesting implication of the results mentioned above is that in the smaller centres, it appears more profitable to encourage existing branches to increase their business rather than ask other banks to open branches there.

## BANK SIZE AND COSTS

6.14 In this connection, reference may be made to the studies\* conducted by Professors Rangarajan and Mampilly for the Banking Commission on the relationship between the size of a bank and its costs. The authors of this study worked out the relationship between establishment expenses on the one hand and the amount of deposits (in crores of rupees), the nature of the deposit-mix, the number of branches and salary structure for the years 1967, 1968 and 1969. In all cases, they found that marginal costs as percentage of deposits go on decreasing initially with increases in bank's size as measured by the amount of deposits until a size of around Rs. 300 crores of deposits. Thereafter, the marginal costs go on increasing. This study is, of course, in terms of one particular output, namely, deposits measured in monetary terms. Moreover, it is done by taking the figures for a bank as a whole, and not for branches.

### *Possibility of an Optimum Size for a Bank and for a Bank-branch*

6.15 At first sight, it may appear that the results of the study of variability of costs with increasing output for bank branches are somewhat contradictory to the results for banks as a whole. The elasticity coefficients in Table VI.1 are all less than unity apparently indicating that in all bank-population groups, there is indefinite scope for expansion of the output of bank branches in a profitable manner. That is to say for every increase in output the average cost per unit of output would decrease apparently without any limit as to the maximum output. However, such is not the case because it is also seen that as the average level of output goes on increasing, the elasticity coefficients also go on increasing. So that there is a limit to the output which a branch can handle beyond which the average cost per unit ceases to decline and may well increase when the output increases. Thus, it appears that just as there is an optimum size of a bank in relation to costs, there is also an optimum size for a branch in relation to costs. In practice, of course, besides the cost factor as such, one has to take into account the customer service angle. It is quite likely that while there appears to be some scope for increase in output on pure cost and profitability considerations, customer service may begin to suffer. This would then set the limit to the optimum size of the branch at a lower level of output than that on cost and profitability considerations.

## GENERAL REMARKS

6.16 A major limitation of this type of study is the problem of constructing a composite measure of output. The weighting system adopted is only one amongst many other possibilities. Similarly the relationship tried out was of the simplest type. By taking into account various other factors such

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\* See, "Technical Studies prepared for the Banking Commission, Volume I", Reserve Bank of India, 1972, pp. 244-268.



as for instance the differences in salary scales, the age of the branch, the importance of various types of activities in its business and so on, it is possible to gain much greater insight into this field. Further study is needed of this subject. The Group recommends that such research should be carried out bank-wise in order to find out the scope for increasing banks' profitability by increasing the business of their branches. Thus for instance branches with low elasticity coefficients can expand business and bring in proportionately larger profits to the banks than branches with high elasticity coefficients. Where the coefficients exceed unity, the branches will have exceeded the optimum size and their organisation and methods of working need to be looked into carefully. For research of this type, historical data are necessary giving the total outputs of the branches and their costs at various points of time. Such data can be combined for branches doing similar type of business and the relationships worked out.

TABLE VI.1 —COEFFICIENTS OF EQUATION (2) BETWEEN TOTAL COSTS AND TOTAL OUTPUT

Population Group	'A' Coefficients				'B' or Elasticity Coefficients			
	I	II	III	IV				
Bank Group I ..	26.52	5.32	23.18	44.35	0.7110	0.8521	0.7097	0.6390
„ II ..	9.71	11.18	29.99	153.70	0.7908	0.7635	0.6600	0.4757
„ III ..	8.02	6.18	43.93	27.64	0.7897	0.7893	0.5839	0.5963

## Average output per Branch

Bank Group I ..	56230	52730	26200	10090
„ II ..	66310	50460	25190	8874
„ III ..	46630	27490	16140	8037

FIGURE 1 - SCATTER DIAGRAM BETWEEN NUMBER OF CURRENT ACCOUNT VOUCHERS AND CORRESPONDING COSTS IN RUPEES FOR INDIVIDUAL BANK BRANCHES

BANK GROUP I

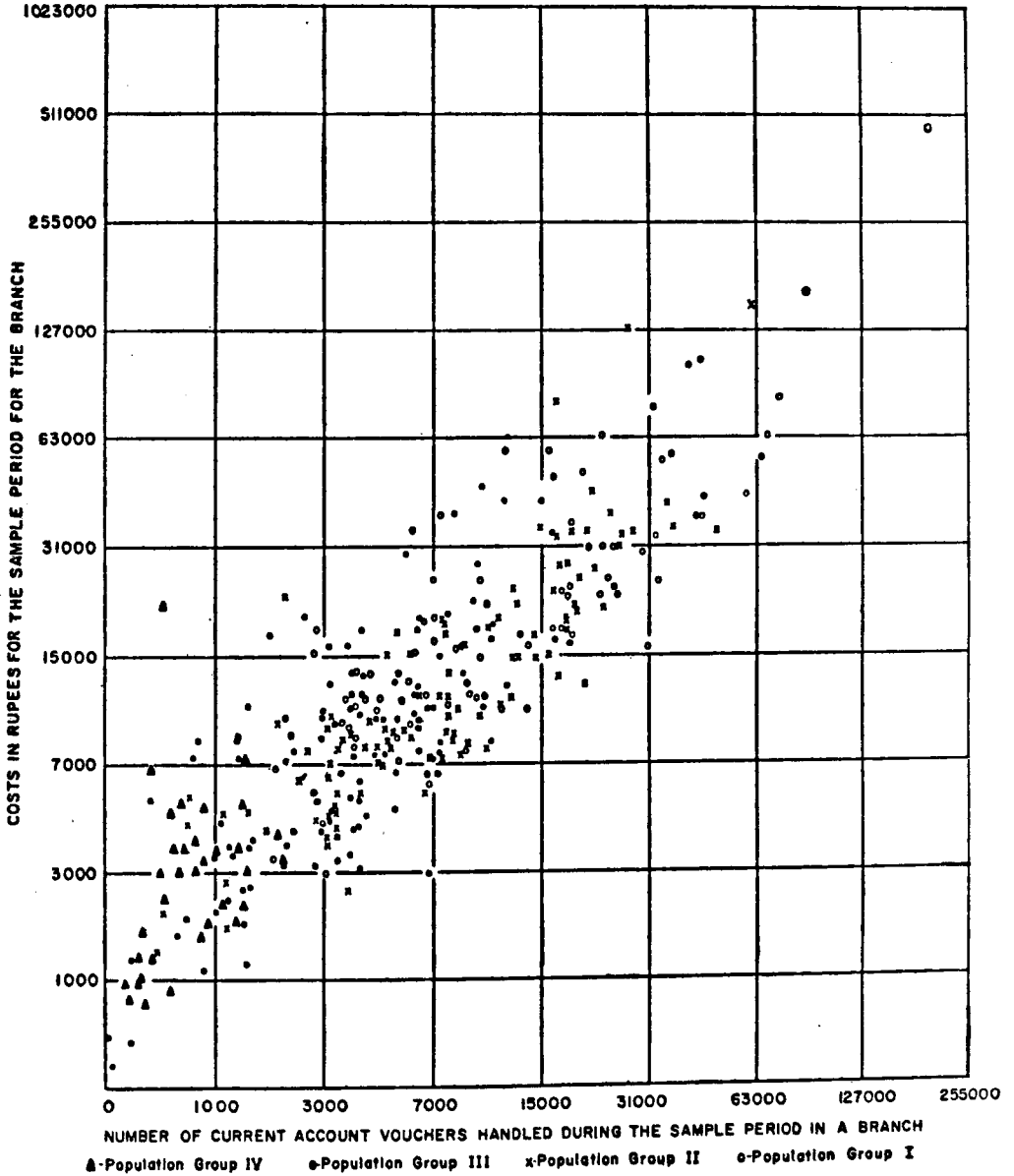
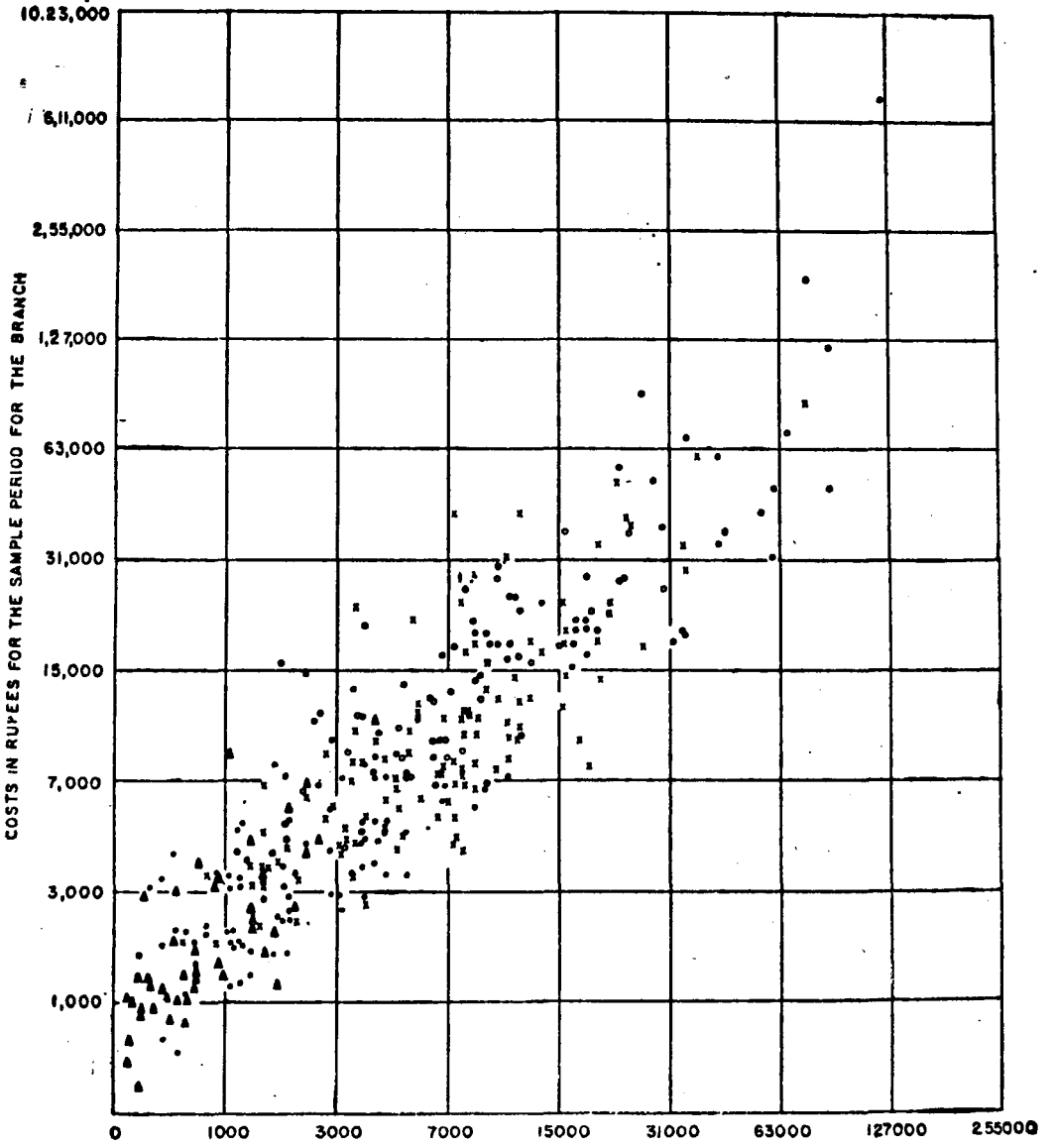


FIGURE 2 - SCATTER DIAGRAM BETWEEN NUMBER OF CURRENT ACCOUNT VOUCHERS AND CORRESPONDING COSTS IN RUPEES FOR INDIVIDUAL BANK BRANCHES

BANK GROUP II



○-Population Group IV    □-Population Group III    ×-Population Group II    △-Population Group I

FIGURE 3 - SCATTER DIAGRAM BETWEEN NUMBER OF CURRENT ACCOUNT VOUCHERS AND CORRESPONDING COSTS IN RUPEES FOR INDIVIDUAL BANK BRANCHES

BANK GROUP III

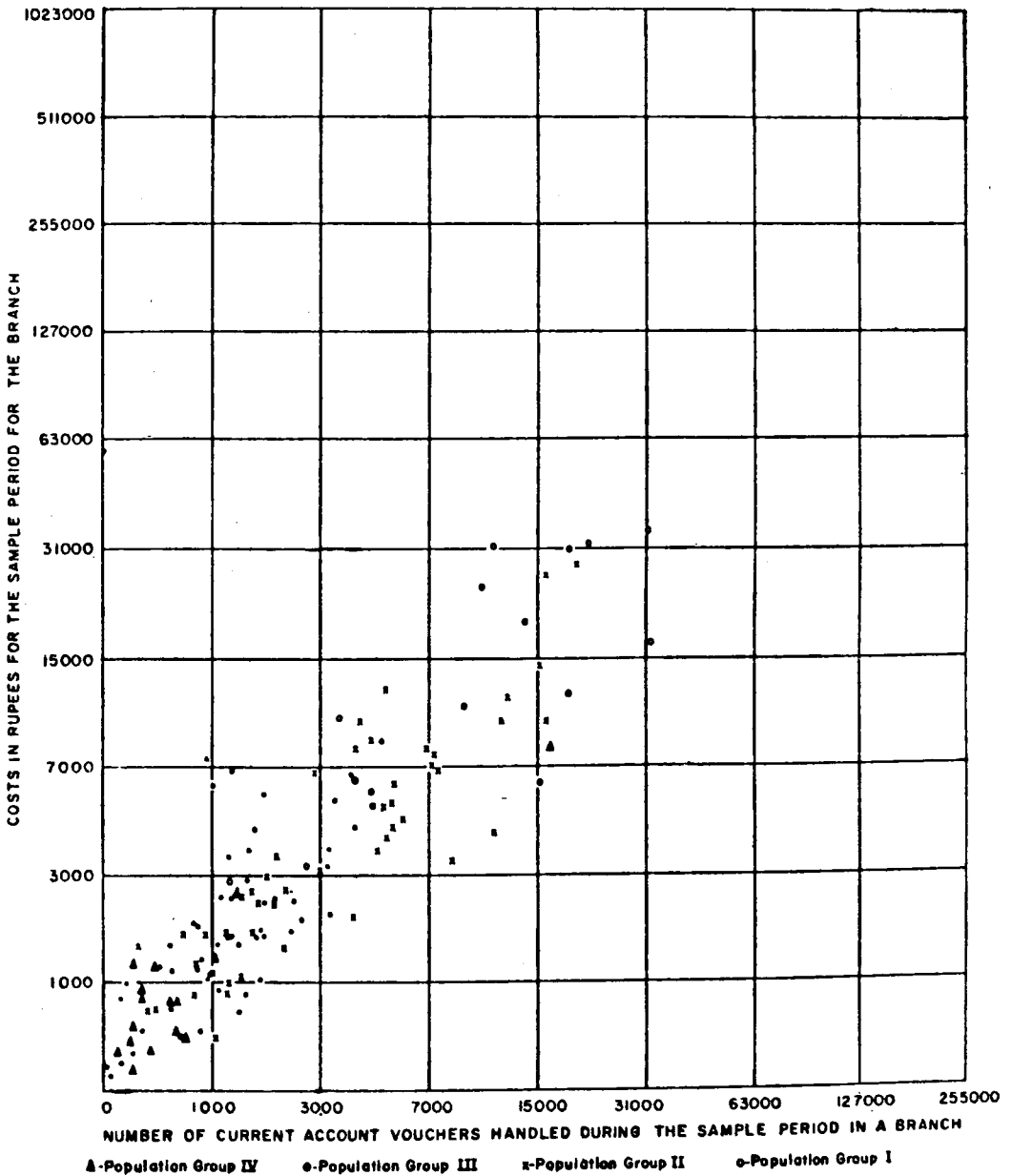


FIGURE 4 - COMPOSITE OUTPUT AND TOTAL COSTS IN RUPEES FOR INDIVIDUAL BANK BRANCHES

BANK GROUP I

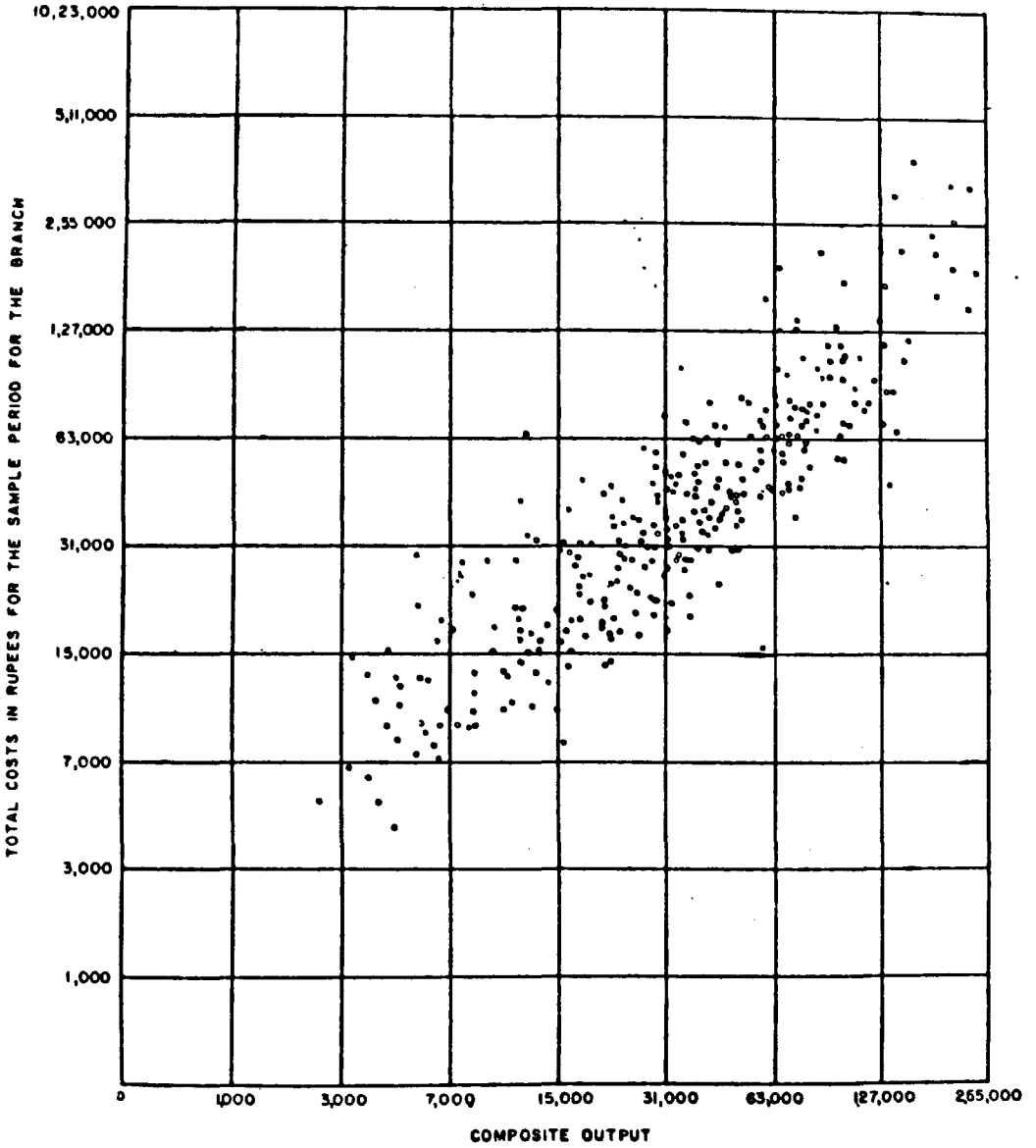


FIGURE 5 - COMPOSITE OUTPUT AND TOTAL COSTS IN RUPEES FOR INDIVIDUAL BANK BRANCHES

BANK GROUP II

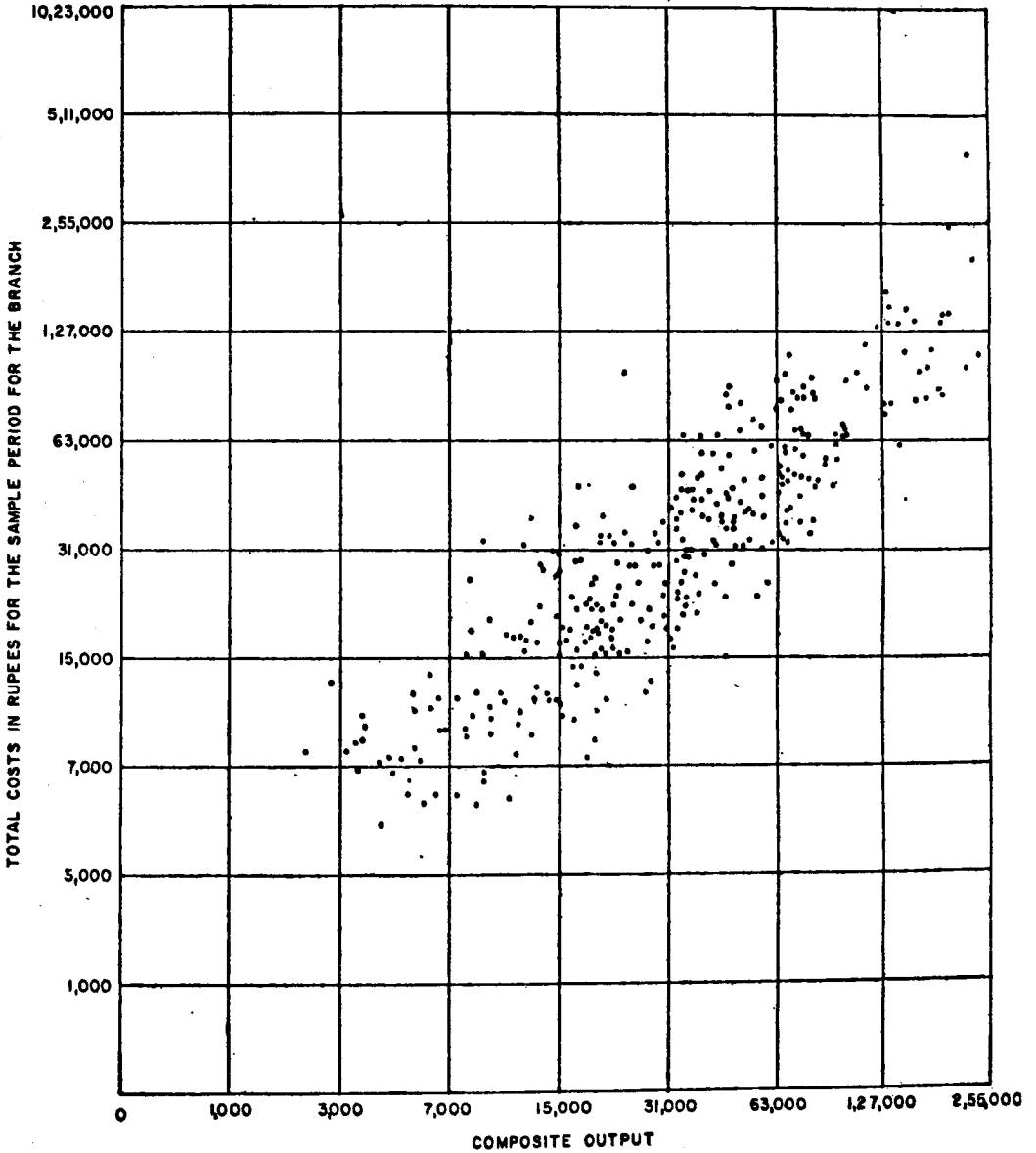
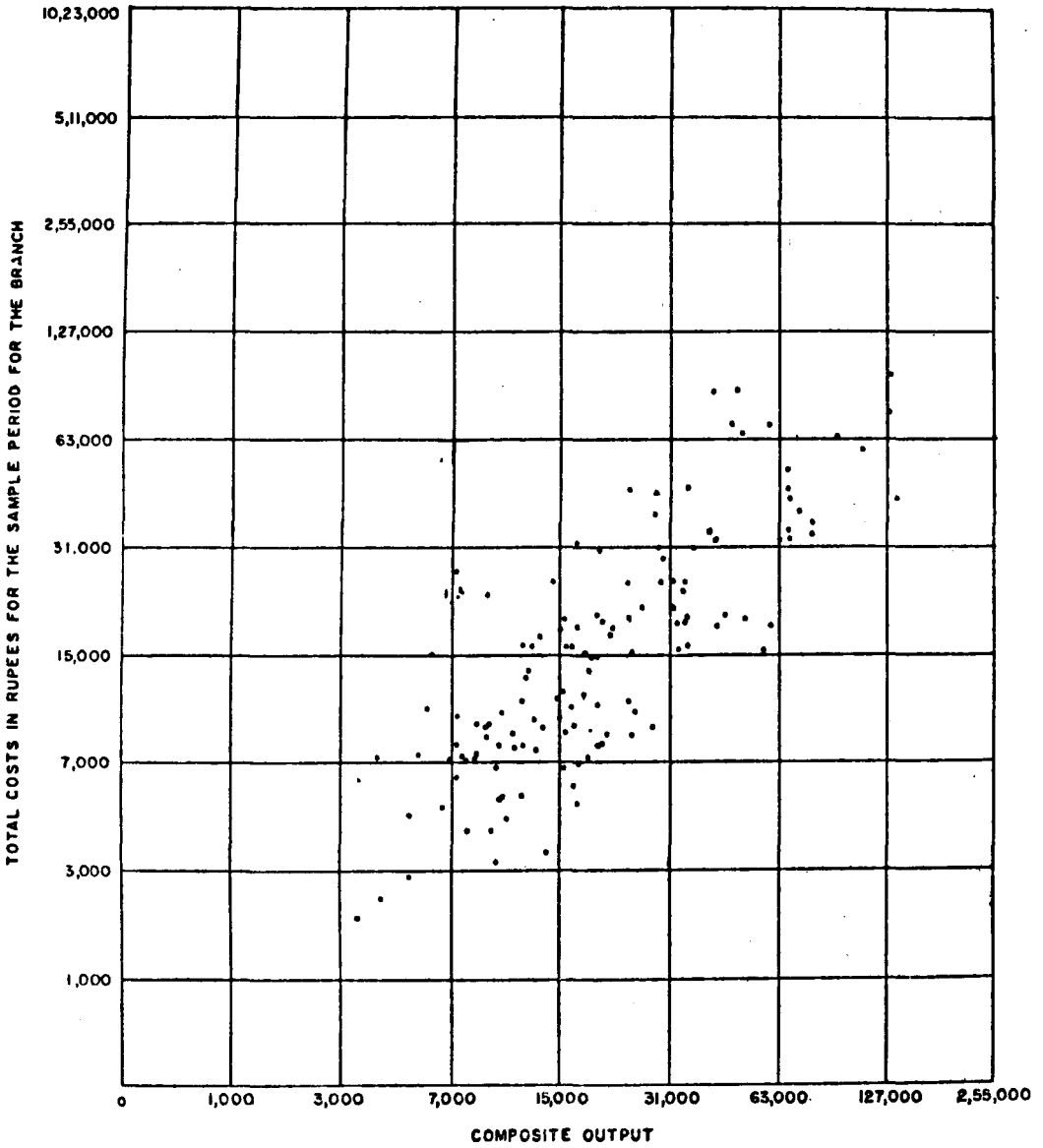


FIGURE 6 - COMPOSITE OUTPUT AND TOTAL COSTS IN RUPEES FOR INDIVIDUAL BANK BRANCHES

BANK GROUP III





## CHAPTER VII

# COST STRUCTURE OF THE FOREIGN EXCHANGE BUSINESS OF BANKS

### INTRODUCTORY

7.1 Foreign exchange business is handled in India by only those banks which are authorised to do so by the Reserve Bank of India. This group comprises all the major Indian banks, a few of the smaller Indian banks and all the foreign banks. Even in the case of those who conduct foreign exchange business, most of the work is done in a few centres.

### CLASSIFICATION OF ACTIVITIES

7.2 It was also mentioned in Chapter II that foreign exchange business of banks comprises services which fall in the category of advances, those which fall in the category of remittances, collection and negotiation of bills and the special service of buying and selling of forward exchange which is in the nature of an insurance facility. For the purposes of cost analysis, however, it is necessary to adopt a somewhat different classification of the activities under this head. The actual classification used is given below :

#### IMPORTS

- Letters of Credit opened
- Bills Received under L/Cs.
- Bills for collection

#### EXPORTS

- Letters of Credit advised
- Bills negotiated under L/Cs.
- Other Bills purchased
- Bills for collection
- Bills covering exports on consignment basis.

#### Medium-term Export Credit :

- Proposals
- Follow-up

- Export incentives
- Export Interest Rate Subsidy Scheme

## CLEAN REMITTANCES

Inward  
Outward

## FORWARD CONTRACTS

## GUARANTEES

Deferred Payment Guarantees :

Proposals  
Follow-up  
Other guarantees

Subsequently it was found that in respect of the following activities the results indicated wide divergences either because of the divergences in the practices of the reporting banks or because of the fact that the transactions under them were few and far between during the reporting period:

1. Bills covering exports on consignment basis
2. Medium-Term Export Credit
3. Export incentives
4. Export Interest Rate Subsidy Scheme
5. Forward Contracts
6. Guarantees

Such results could not, therefore, be used for the purpose of this study. These activities together with other miscellaneous activities accounted for 21 per cent of total expenses incurred on foreign exchange business.

7.3 The reason for this scheme of classification is the highly specialised nature of the main activities such as imports, exports, clean remittances, forward contracts and guarantees. All of them require expert knowledge of the Indian Exchange Control regulations. In addition, each of the main activities requires special expertise of its own such as knowledge of the trade and payments practices prevalent in the various commodities traded under imports or under exports, the exchange control regulations if any of the countries from which goods are imported and the countries to which goods are exported, knowledge of the techniques of operation in the foreign exchange market and so on.

## DETAILS OF THE SAMPLE

7.4 Like the main sample, the sample for the cost structure of the Foreign Exchange Business covers only Indian banks. It will be recalled

that for the study of costs relating to inland activities, the banks were classified into three bank groups. Since however in bank group III only three banks are authorised to deal in foreign exchange business, these three banks forming part of that group were included in bank group II. As to the actual sample of branches, the sample selected for the study of cost of inland activities was not suitable for the study of costs in this business and hence data were collected only from those branches where the business is concentrated. The State Bank of India was asked to submit data relating to its top ten branches in this field ; the data submitted by it account for 85 per cent of that bank's total foreign exchange business. Similarly, the five major nationalised banks were asked to submit data relating to their five most active branches each, which account for the bulk of their total foreign exchange business. The remaining 19 Indian banks were similarly asked to submit data relating to three top branches in this field. Thus, in all, data were called for from 92 branches. The sample branches would account for about 80 per cent of the total foreign exchange business conducted by each of the banks.

#### TIME PERIOD

7.5 The selected branches were asked to furnish the necessary data on four returns designed for this purpose (*vide* Annexure B). The information called for related to the three-month period of January, February and March 1970, the period for which information was collected in respect of inland business. While in the case of inland business some returns pertained to specified days during the three-month period and others pertained to each of the three months, in the case of foreign exchange business, the returns called for pertained to the entire period of three months.

#### DESCRIPTION OF RETURNS

##### *Cost Analysis Return 5.1—Allocation of Man-hours Among Various Services*

7.6 Man-hours put in by each category of employees, *viz.*, officers, clerks/cashiers and subordinate staff during the three-month period were supplied in this return. The information was given separately for each service and related only to the staff in the Foreign Exchange Departments of the officers selected or to those who were otherwise engaged in work relating to foreign exchange. Man-hours spent by despatch clerk, establishment clerk, day-book writer, stationery and record keeper, etc., are so general in nature that these could not be distributed to individual services ; the man-hours spent on such activities were therefore recorded against the service termed as 'General'. Man-hours spent on certain miscellaneous services forming part of foreign exchange business but which have not been separately specified and coded were recorded against 'others'. Man-hours spent by award staff include normal hours and overtime hours. This return is similar to Day Return 1.1 referred to in Chapter III.

*Cost Analysis Return 5.2—Quantum of Turnover*

7.7 Information on number of letters of credit, etc., and amounts thereof was recorded here. This return is similar to Return 2.2 referred to in Chapter III.

*Cost Analysis Return 5.3—Establishment and Other Expenses and Man-hours Put in*

7.8 Details of establishment expenses and man-hours spent by each category of staff were recorded in this return. The information related to the entire office and not confined only to the staff engaged in foreign exchange work. Total expenses at the office excluding interest paid was also recorded. This return is similar to Return 3.1 referred to in Chapter III.

*Cost Analysis Returns 5.4 and 5.5—Data Relating to Income Earned on Foreign Exchange Business*

7.9 Information relating to the volume of merchant business handled, interest subsidy claimable in respect of export credits and interest and commission earned by each branch was recorded in Return 5.4. Similar information for the bank as a whole was recorded in Return 5.5 which was called for from the Head Offices of the banks.

*Analysis of Returns*

7.10 The total expenses incurred at the office (as given in item 5 of Return 5.3), which include all the overheads, establishment charges, depreciation, stationery, etc., but exclude interest paid, were allocated to each category of staff on the basis of establishment expenses. The assumption made was that all the expenditure other than establishment expenditure is directly proportional to the establishment expenditure. Total expenditure allocated to each category of staff was then divided by the total man-hours put in by them to give the cost per man-hour separately for officers, clerks/cashiers and subordinate staff. Total man-hours expended by officers, clerks and subordinate staff on various activities were multiplied by the respective costs per man-hour and the results were added up to give the total expenses incurred on each service. The cost allocated to general activities was re-allocated proportionately to other foreign exchange activities.

*Response*

7.11 Out of 92 branches of 25 banks from which data were called for, some did not send the returns; some returns received could not be considered owing to apparent inconsistency of data and lack of adequate time to have them rectified. Even so it was possible to have returns from as many as 53 branches of 12 banks (which include all banks in bank group I and 6 banks in bank group II) for the purposes of the analysis. Considering the com-

plexity of foreign exchange business and the difficulty involved in compiling the returns in the manner required by the survey, the response from the branches can be deemed to be fairly good.

#### DISCUSSION OF THE RESULTS

7.12 Although at the time of taking the sample the banks were grouped into two groups a study of the results of the two groups did not indicate any fixed pattern of variation in costs. It thus appeared that no useful purpose would be served by presenting the results separately for the two bank groups. Accordingly, only a single all-India average profile of the Foreign Exchange Department in a bank-branch has been prepared to show its business in terms of monetary and physical outputs, the relative input percentages, the staffing patterns and the average costs per unit of the monetary and the physical output. For computing the average, figures relating to only 53 offices considered for the study have been taken into account. Hence, the profile is the average of these branches which are major offices conducting a substantial volume of foreign exchange business.

##### *Allocation of Head Office Costs*

7.13 The costs shown in Table VII.1 are branch level costs loaded with the Head Office costs. In the case of inland business, the Head Office costs were loaded to the branch level costs on a percentage basis for each of the bank groups separately. In the case of foreign exchange business, however, it was noticed that the Head Office administrative expenses attributable to foreign exchange activities as a percentage of branch level expenses on these activities, varied widely from bank to bank. This is attributable to the fact that there is no uniformity in the arrangements for the servicing and/or control of the foreign exchange business handled at branches as between the different banks. In some cases, branches have full powers to conduct all types of foreign exchange business including the maintenance of nostro accounts,\* cover operations, etc., thereby resulting in a comparatively low incidence of costs at the Head Office. In many other banks, the Head Offices have to play a bigger role in sanctioning business proposals and providing the ancillary services. The Head Office costs were, therefore, loaded to branch level costs separately for each bank. The Head Office costs relating to general supervision and control of branches (those relating to Staff Section, Inspection and Audit, etc., at Head Office) were thereafter loaded proportionately at all-banks level.

##### *The Profit of All-India Average Bank-branch Foreign Exchange Department*

7.14 Table VII.1 shows the output in money terms of the main foreign exchange activities, the percentage of total costs required by each of these activities, the ratios of the clerical man-hours to officer man-hours and

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\* Note: Nostro accounts are those maintained by a bank with correspondent banks abroad.

the costs calculated on a per item basis. Further a column has been added to show the range of variation of per item costs over the sample. From the break-up of costs, it will be seen that both import and export activities are of equal importance each accounting for a third of the total input. Clean remittances account for about 13.4 per cent of the total input. Other services such as, bills covering exports on consignment basis, medium-term export credit, deferred payment and other guarantees, etc., account for the remaining 21 per cent of the input. Foreign exchange business as a whole is less clerical-oriented than deposit activities and more clerical-oriented than advance activities. All foreign exchange activities seem to require more or less the same ratio of officer man-hours to clerical man-hours.

#### *Average Costs and the Range of Variation*

7.15 Table VII.1 also shows the average cost per unit of output and the range of variation of the average cost from bank to bank. For the transactions listed in the table, the cost works out to 0.04 per cent of the total amount of transaction. But as will be noticed from column 7 of the table, the range of variation of unit costs is rather large for most items. It would, however, not be correct to infer that there is therefore an equally wide variation in the efficiency with which the different banks handle foreign exchange business. Some part of the variation is likely to be due to some degree of specialisation on account of foreign trade of the bank's clientele being restricted to certain commodities or to certain countries. This would be because of the differences in trading and payments practices as between commodities as well as countries. A bank which has a greater spread in its business in either or both these respects can be expected to have somewhat higher costs than a bank which has clientele trading in a smaller range of commodities or with a particular group of countries. Another reason would be differences in salaries of the foreign exchange department staff, amongst the different banks. It is likely however, that even after allowing for these factors, the inescapable conclusion that could be drawn is that they have not paid sufficient attention to the cost factor in foreign exchange transactions. They should, therefore, examine their procedures to improve efficiency and reduce costs in handling this type of business.

#### *Profitability of Foreign Exchange Business*

7.16 The earnings of foreign exchange business fall under two major heads, *viz.*, 'exchange profit' and 'commission'. Certain data were called for from banks (Returns 5.4 and 5.5) with a view to ascertaining the quantum of 'exchange profit' earned by banks on the foreign exchange business handled by them during the quarter. From a study of these returns, it appears that there is no uniformity in the calculation of 'exchange profit' amongst the different banks. It was, therefore, necessary to compute 'exchange profit' by utilising the data relating to sales and purchases of foreign exchange and

using the prevalent structure of merchant rates for these transactions. As all the rates of exchange applicable to sterling transactions have been fixed by the Foreign Exchange Dealers' Association of India, it is easier to do this exercise in respect of sterling transactions than for transactions in other currencies which in any case are of a small order.

### *Profit on Transactions in Sterling*

7.17 The rate of exchange applicable to merchant purchase of sterling TT, *i.e.*, purchase of sterling from customers of the bank as distinct from purchases from other banks or the Reserve Bank, during the survey period was £ 5.5605 = Rs. 100. If a TT purchase were covered by a sale of sterling to the Reserve Bank of India at their then buying rate of £ 5.5556 = Rs. 100, the margin of profit to the bank on this transaction would have been £ 0.0049 per Rs. 100 or approximately 0.09 per cent. Similarly, a sterling sale effected to the customer at the rate of £ 5.5280 = Rs. 100 could be covered by purchase of sterling from the Reserve Bank of India at the rate of £ 5.5380 = Rs. 100 ; the margin of profit to the bank on this transaction would then be £ 0.0100 or approximately 0.18 per cent. If a bank were in the fortunate position of being able to marry a sterling TT purchase made by it with a TT sale for the same amount made by it on the same day the total profit margin on both the transactions together would be as much as £ 0.0325 as against the total profit of £ 0.0149 on a TT purchase and TT sale covered individually with the Reserve Bank of India. However, in actual practice, such occasions are rare. Another possibility is to cover sales or purchases of sterling in the inter-bank market at better rates than those available from the Reserve Bank. Technically, the rates for cash sterling could fluctuate in the inter-bank market between 5.5380 and 5.5540 ; the latter rate being the same as Reserve Bank's buying rate for sterling *less* 0.03 per cent brokerage payable by the selling bank on inter-bank operations. However, until the recent international currency developments, the inter-bank rate for cash sterling was mostly around 5.5380 with the result that sterling sales covered through the inter-bank market did not yield a higher profit than what was available on similar transactions covered with the Reserve Bank. As regards sterling purchases though the inter-bank market at about 5.5380 could give a much higher profit in practice this did not happen because the bulk of the purchases represented bills and/or deliveries under forward contracts booked by the exporters. Such transactions have necessarily to be covered by means of forward sales in the inter-bank market. Thus the scope for banks to earn a large exchange profit through dealings in the market is very limited. Taking into account the above, it appears that a bank's profit on sterling sales and purchases cannot be much higher than that available if the transactions were to be covered with the Reserve Bank of India. As against the profit margin of 0.18 per cent on sales and 0.09 per cent on purchases available on the basis of the prevailing merchant rates and the Reserve Bank's cover rates, the average profit to banks on such transactions

(partly covered with the Reserve Bank and partly in the inter-bank market) should be in the region of 0.25 per cent and 0.12 per cent respectively. For the business as a whole, *i.e.*, purchases and sales the exchange profit works out to 0.21 per cent.

### *Transactions in Other Currencies*

7.18 In respect of transactions in foreign currencies other than sterling, the merchant rates applicable used to be fixed by the Exchange Banks' Association until 1955-56. For the last fifteen years, banks have been permitted to quote their own rates for such transactions. It would have required very detailed data on such transactions to estimate properly the profit margin available to banks on transactions in such currencies. The exchange profit on large transactions which are of a competitive nature is likely to be low and banks can earn a higher spread only in respect of transactions for relatively smaller amounts. While it has not been possible to collect the necessary data to arrive at the average exchange profit on such transactions, it appears that the profit margin on them would not be far different from that on sterling transactions.

### *Commission*

7.19 Apart from exchange profit, the other earning on foreign exchange business is commission charged on various services. The rates at which commission may be charged on different types of foreign exchange activities have been laid down by the Foreign Exchange Dealers' Association of India. Banks are not permitted to charge commission at rates lower than these. There has not been any material change in the rates of commission for the past fifteen years or more. Also, the minimum commission prescribed in respect of certain activities, *e.g.*, Letters of Credit opened, Bills for Collection, etc., is very low as compared with the cost per transaction. As regards the actual figures relating to 'commission', it was not possible for the banks to give figures separately for inward and outward foreign transactions. In the circumstances, the amounts earned by way of commission can only be related to the total of all such business. This yields a figure of 0.03 per cent for the transactions of the 52 branches.

## GENERAL REMARKS

7.20 The study indicates that there is a need for banks to examine carefully their existing procedures and methods of handling foreign exchange transactions and also for developing methods of cost and profitability analysis in this field. The Group recommends further work in this matter by bankers who have the necessary expertise.



TABLE VII-1—ALL-INDIA AVERAGE BANK BRANCH PROFILE—OUTPUT AND COSTS  
CATEGORIES OF FOREIGN EXCHANGE BUSINESS

ACTIVITY	OUTPUT			INPUT		COSTS			
	Amount of bills/L/Cs., etc. Rs. (000's)	Number of bills/L/Cs., etc.	Amount per bill Rs. (000's)	Ratio of clerical to officer man-hours	Servicing Cost (Rs.)	Cost per bill (Rs.)	Range of cost/per bill (Rs.)		
							Head Office Costs loaded		
					Highest	Lowest			
(1)	(2)	(1) (2) (3)	(4)	(5)	(5) (2) (6)	(7)	(8)		
<b>IMPORT</b>									
1. Letters of Credit Opened .. ..	15910 (9.36)	219 (8.24)	73	3.39	16554 (12.31)	75.59	252.60	31.42	
2. Bills Received under L/C .. ..	17351 (10.21)	232 (8.73)	75	3.41	15767 (11.72)	67.96	119.60	28.10	
3. Bills for Collection .. ..	8787 (5.17)	190 (7.15)	46	3.82	10723 (7.97)	56.44	171.15	8.53	
<b>EXPORT</b>									
4. Letters of Credit Advised .. ..	23824 (14.02)	141 (5.31)	169	2.82	7475 (5.56)	53.01	87.32	3.46	
5. Bills Negotiated under L/C .. ..	24259 (14.28)	299 (11.25)	81	3.27	17616 (13.10)	58.91	150.95	24.37	
6. Other Bills Purchased .. ..	8490 (5.00)	253 (9.52)	34	3.23	11996 (8.92)	47.42	159.16	17.56	
7. Bills for Collection .. ..	3941 (2.32)	168 (6.32)	23	1.49	8452 (6.28)	50.30	303.17	1.73	
<b>CLEAN REMITTANCES</b>									
8. Inward .. ..	6603 (3.89)	650 (24.46)	10	3.17	8935 (6.64)	13.75	96.31	4.26	
9. Outward .. ..	5512 (3.24)	286 (10.76)	19	3.26	9031 (6.71)	31.58	94.24	8.38	
10. Other Services .. ..	55250 (32.51)	219 (8.26)	252	3.40	27972 (20.79)	127.73	—	—	
11. TOTAL (1 to 10) .. ..	169927 (100.00)	2657 (100.00)	64	3.11	134521 (100.00)	50.63	100.67	28.35	

Figures within brackets indicate percentages to total.

## CHAPTER VIII

# COST STRUCTURE OF THE APEX AND CENTRAL CO-OPERATIVE BANKS

### INTRODUCTION

8.1 When we come to analyse costs relating to apex and central co-operative banks, we are in an altogether different field. In some important respects having a bearing on costs, the State and central banks differ from the commercial banks. In the first place, there is the division of functions between the 'higher' level institutions, namely, the apex and central co-operative banks and the 'primary' level institutions, namely, the credit societies. Whereas in the case of commercial banks the functions of mobilising resources and making loans are combined in the same institution, in the case of co-operative banking structure, the function of raising resources is mainly that of the 'higher' level institutions, that of making loans to ultimate borrowers being carried out by the primary credit societies. Since it is extremely difficult to get the requisite type of data from the primary credit societies which are, strictly speaking, not 'banks', only the first two types of institutions are included in the cost analysis in this Report.

8.2 Secondly, both owned funds (*i.e.*, share capital and reserves) and borrowings of the co-operative banks, mainly from the Reserve Bank of India, account for a very substantial proportion of the working funds, as compared with commercial banks. Owned funds form the basis for the maximum borrowing power for these banks. But whatever they borrow from the Reserve Bank is available at a concessional rate—2 per cent below Bank Rate for short-term agricultural finance and 1-1/2 per cent below Bank Rate for medium-term loans and loans for financing industrial co-operatives. For commercial banks there is no limitation on borrowing power on the basis of owned funds. However, they are subject to the net liquidity ratio system whereby beyond specified limits, except for refinancing their credit to priority sectors, the rate of interest for borrowing from the Reserve Bank increases with the amounts borrowed. A related point about the borrowings of co-operative banks from the Reserve Bank is that the conditions and procedures governing borrowings—which take place all round the year—are such that, in order to conform to them, these banks incur certain expenses the significance of which needs to be properly ascertained.

8.3 Thirdly, wide seasonal variations characterise the operations of these banks. In most States, there are two main agricultural seasons—Kharif

and Rabi — for financing which funds are required by the banks. While these generally account for the fluctuations in the volume of borrowings and loans of the banks during a year, their borrowings are also influenced by the fact that the credit line from the Reserve Bank is available for the period July to June. Generally, therefore, the banks are accustomed to effecting maximum drawals on the credit limits towards the end of the co-operative year, whether or not such drawals immediately lead to maximum advances by them to the institutions at the level below and eventually to the ultimate borrowers. The effect of these operations on the cost of funds to the banks needs to be clearly appreciated.

8.4 Fourthly, the co-operative banks, by and large, also operate within the framework of a number of known factors, the rate at which funds are available from the Reserve Bank and the rate at which they are normally to be lent being two of them. These have tended to lend, generally, some measure of rigidity to the cost structure of co-operative banks. Those banks which depend on the Reserve Bank marginally, and have diversified their deposits as well as loan portfolios can thus enjoy a greater degree of freedom in their operations than other banks.

#### OBJECTIVES OF ANALYSIS

8.5 The analysis of costs attempted in the case of State and central co-operative banks endeavours to bring out the behaviour of costs in the following respects :

(a) The cost at which funds are available to the apex and central banks by way of deposits and borrowings and the impact of higher or lower level of deposits on the cost of funds ;

(b) The impact of funds borrowed from the Reserve Bank on the cost of funds available to the banks ;

(c) The cost of operating deposit activities, borrowing activities and the rest ;

(d) Whether the availability of concessional finance from the Reserve Bank and the excessive borrowings from it during certain periods has led to any uneconomic use of resources and, thereby, avoidable increase in the cost of funds ;

(e) Whether the existence of two-tiers, instead of one, for the purpose of raising resources adds to the cost at which funds are available to the primary level institutions ;

(f) The relationship of the margin maintained by the banks between the cost of borrowings and return on loans to the costs of operations ; and

(g) Whether the returns on investments are sufficiently remunerative.

## SELECTION OF BANKS

### *State Co-operative Banks*

8.6 There are altogether 25 State co-operative banks — 17 in the major States and 8 in the Union Territories. All of them were asked to submit returns. Twenty State co-operative banks submitted them. However, only 13 returns, all from banks in the major States were fairly complete for the purpose of the analysis. The rest were found to be incomplete in some respects and therefore not used.

### *Central Co-operative Banks*

8.7 Similarly, data were called for from 40 central co-operative banks, 38 of which are among the 132 to which the Banking Commission had earlier sent a detailed questionnaire covering various aspects of their working. In selecting the banks for the purpose, an important test applied was that the bank should be known for satisfactory maintenance of its books of accounts as only such banks would be in a position to furnish complete data. Further, in order to ensure adequate representation in the sample for all States, about 10 per cent of the banks in each State had been selected for the purpose though in some cases where the ability of the 'selected' banks to furnish the data was in doubt a larger number was selected. Also, in selecting the banks preference was given to those with 'A' or 'B' audit class. Thus, data were requested from 6 banks in Uttar Pradesh, 5 in Madhya Pradesh and 2 or 3 from each of the other States, thus making a total of 40 banks from a universe of 343 in the country. Out of the 40 banks, 31 have replied of which, 13 were classified under 'A', 10 under 'B' and 7 under 'C' in audit for 1967-68. One bank was not given any audit classification. Of the 31, data, complete in all respects, have been furnished only by 18 central banks. Near complete data were furnished by 21 banks.

## DESIGN OF FORMS

8.8 For the purpose of analysis, basic data have been collected from the State and central co-operative banks mainly through the Cost Analysis Return issued by the Study Group, and the questionnaires issued by the Commission to selected banks. These were supplemented by the data furnished by the selected co-operative banks in their quarterly returns to the Agricultural Credit Department of the Reserve Bank and the data published by that Department in the "Statistical Statements Relating to the Co-operative Movement in India."

8.9 The Cost Analysis Returns No. 8.1 and 8.2 for the State co-operative banks and the Cost Analysis Returns No. 8.6 and 8.7 for the central co-operative banks call for data relating to their liabilities and assets, respectively, as on 30th June 1969. The particulars covered in the liabilities

side include : (a) deposits, sub-divided to show (i) the deposits of central banks/primary credit societies, as the case may be, and "others", (ii) savings bank deposits, and (iii) fixed and other deposits ; (b) borrowings sub-divided into borrowings from the Reserve Bank/State co-operative bank, as the case may be, and other borrowings, (c) share capital and other liabilities, and (d) total liabilities.

8.10 On the assets side, the particulars include (a) loans to central banks or primary credit societies, as the case may be, and loans to others; (b) investments ; (c) balances with other banks showing separately 'current' and 'other deposit' accounts; (d) cash; (e) other assets; and (f) total assets.

8.11 For both the State and central co-operative banks the particulars of assets and liabilities were called for as on last Friday of the month for September, October, November and December 1968 and January, February, March and April 1969, and as on each Friday during the months July and August 1968 and May and June 1969. This gives the weekly position for 26 weeks, ending Friday, for the year 1968-69 and enables a study of the fluctuations in the borrowings and lendings and the position of idle funds.

8.12 The Cost Analysis Return No. 8.3 for the State co-operative banks and No. 8.8 for the central co-operative banks give particulars of income and expenses and the other particulars of business (number of deposit accounts, number of loan accounts, etc., and distribution of staff, *i.e.*, officers, field staff, clerks/cashiers, etc., under different activities, namely, deposit activities, loan activities and general activities). These data are also called for as on 30th June 1969. In addition information was specially called for on the number of vouchers handled for the various types of accounts during the year ended June 1969. This information was available complete in all respects only from 8 State level banks and 11 central co-operative banks.

#### METHODOLOGY

8.13 The figures as on Friday of each week were taken for 4 months, July, August 1968 and May, June 1969. Then, based on the assumption that the figures for the last Friday of each month hold good for the other weeks of the months also, figures as on the last Friday of the remaining 8 months were also taken. The accounts were not expected to be very active in this off-season period. Thus, the position for various items of liabilities and assets as at the end of each week is available for 50 weeks out of 52 for the year 1968-69. The other set of figures available are the income earned for the whole year on different activities, commission, exchange, etc., and the expenses incurred for the whole year 1968-69 by way of interest on various types of deposits and borrowings, and expenses on salaries and allowances of staff, and other expenses.

8.14 The average outstanding amount per week for each of the items thus worked out formed the basis for calculation of (a) composition of liabilities and assets, (b) interest cost of deposits and borrowings, (c) cost of servicing of deposit accounts, borrowing accounts and of loan accounts, (d) return on loans and investments, and (e) relationship of income attributable to deposit activities to total income.

#### *Interest Cost of Deposits and Borrowings*

8.15 With the average position of outstandings in respect of different types of deposits and borrowings available and the expenses incurred by way of interest on them available, the average interest cost per year on different types of deposits and borrowings separately, and overall is worked out. Similarly, with the total income received on account of investments and loans known, the average rate of return on investments and on loans to the affiliated organisations and others was worked out.

#### *Allocating Expenditure between Main Activities*

8.16 The allocation of expenditure as between the different activities presented a problem. Unlike in the case of commercial banks, the State and central co-operative banks were not required to furnish data regarding man-hours spent on the various activities as the information called for related to a past period. Instead they were asked to give the distribution of their staff between the different activities. Most banks have shown separately the number of staff engaged on deposit activity, that engaged on loan activity, and for 'general activities'. The expenditures for these three types of activities were estimated by multiplying the total expenditure on say, clerks in a bank, by the ratio of the number of clerks employed on a particular activity to the total number of clerks in the bank. There is, however, one other problem. Both in the case of State and the central banks, borrowings, particularly from the Reserve Bank, constitute a very important source of funds. In the returns obtained from these banks information regarding the staff attending to activities connected with borrowings was not called for. It is assumed therefore that these staff have been shown by the banks under general activities. Since a considerable amount of work such as data and information relating to the financial position of the central banks and of the primary credit societies to be financed, the overdue statements, and supply of documents of various types, has to be done in connection with the credit limits for borrowings from the Reserve Bank and drawing from the credit limits from time to time, it is important to allocate the expenditure under general activities between that for borrowings and that for other activities.

8.17 For ascertaining the proportion of expenses incurred on borrowing activities, it has been assumed for each bank that the proportion of such expenses for this activity to the total expenses on salaries and allowances

under "general activities" will be the same as the proportion of borrowings of that bank to its working capital. Applying this formula the expenses incurred on salaries and allowances for those attending to borrowing activity has been worked out for each bank. The rest is regarded as for general activities.

8.18 The expenditure on deposit activity obtained was further allocated according to the three categories of deposits, *viz.*, current, savings and fixed deposits by assuming that the ratios of servicing costs of State co-operative banks for the three types of deposits would be comparable to the ratio for the medium sized commercial banks and that of central co-operative banks to that of small sized commercial banks. Such further sub-division could be done only in respect of the 8 State co-operative banks and 11 central co-operative banks which submitted the data relating to numbers of vouchers in the various accounts during the reporting year.

8.19 Finally the residual expenses arrived at in paragraph 8.17 are added on to the "other expenses" (*i.e.*, other than salaries and allowances) of the bank which together are taken to constitute the "over-head" expenses of the bank. These "over-head" expenses incurred by a bank distributed between deposits, borrowings and loans in the ratio of their weekly average outstandings are added to the salaries and allowances of those attending to each of the three activities, in order to arrive at the cost of service under each of the three activities of the bank.

#### *Income Attributable to Deposits*

8.20 Because of the importance of owned funds and borrowings in the total resources of these banks it is necessary to separate the income attributable to deposit funds from total income. For the purpose of income attributable to deposit activities, the average outstanding position of deposits at the end of each week is the starting point. From this figure the bank's cash balances and current account balances with other banks together with 'investments and other deposits' which are not attributable to its Reserve Fund (it is assumed that the Reserve Fund of a bank is always invested outside its business) are deducted, thus leaving a balance available for lending. Though the Agricultural Stabilization Fund of each bank is also normally invested in Government securities or fixed deposits, this is not adjusted against investments. In any case, such investments are likely to make only marginal difference to the funds available for loaning. The average rate of lending having been already calculated, the income on account of loaning deposit resources is ascertained. The average rate of return on investments also having been worked out, the income from investments is also calculated. To these two different incomes, the income by way of exchange and commission earned by the bank is added, which is treated as income from deposit activities.

## PRESENTATION OF RESULTS

8.21 In presenting the results the pattern followed is somewhat different from that for commercial banks, firstly because of the special features of these types of banks, and secondly because the necessary data for average bank branch profiles are not available in the same degree of detail. Hence most of the discussion that follows is on a bank-wise basis rather than on branch-wise basis. First there is a discussion on the composition of the resources of these banks. This is followed by a discussion on the costs of the various activities. Here as regards deposits an attempt has been made to present average branch profiles and work out separately the costs of servicing the various types of deposits. This is followed by a discussion of the income side. Finally there is a discussion of certain special problems such as the cost escalation as funds pass from higher level institutions to lower level ones, the management of liquid funds and the significance of owned funds.

### *Composition of Resources*

8.22 The composition of a Bank's resources influences considerably the cost at which resources are available for loaning. One of the distinguishing features of the State and central co-operative banks relates to the composition of their working capital. Both owned funds (*i.e.*, share capital and reserves) and borrowings in the case of co-operative banks account for a larger proportion of working capital than in the case of commercial banks.

### *Owned Funds*

8.23 As shown in Table VIII.1 for the 13 State co-operative banks in the major States, the weekly average of owned funds accounts for 18.6 per cent, borrowings for 50.7 per cent and deposits for 30.7 per cent of their working capital. Of the borrowings, those from the Reserve Bank alone account for 44.9 per cent of the working capital. For the 21 central banks the corresponding proportion in relation to working capital works out to : owned funds 22.2 per cent ; borrowings 39.9 per cent ; and deposits 37.9 per cent.

8.24 There are, however, wide variations from bank to bank in the the composition of resources. Thus, for 5 out of 13 State co-operative banks the proportion of owned funds is higher than the average for all banks, the highest being 30.5 per cent. Other banks operate with a much smaller owned funds base. For central banks in the case of 12 banks the proportion of owned funds to working capital is higher than the average, the maximum being 32.4 per cent. The lowest percentage is 15.4.

### *Deposits : State Co-operative Banks*

8.25 For the 13 apex banks deposits constitute 30.69 per cent of working capital. Of the total deposits current deposits form 21.5 per cent. The



proportion of current deposits to total deposits varied from bank to bank, the highest being 62.8 per cent and the lowest 8.4 per cent. Of particular significance in this regard is the substantial proportion of current deposits maintained by affiliated central banks with the State banks amounting to 40.3 per cent of all current deposits. The highest proportion is observed at 84.5 per cent of current deposits, and the lowest at 13.8 per cent. Savings deposits amount to hardly 7.4 per cent of total deposits. These deposits are significant (12 to 15 per cent of total deposits) in three States only. The lowest percentage recorded is 0.3. The fixed and other deposits of all the 13 banks amount to 71.1 per cent of total deposits. Five banks show above average percentage, the maximum being 87.8. The lowest percentage is 34.0.

#### *Deposits : Central Co-operative Banks*

8.26 As compared with apex banks, deposits in the case of 21 central banks account for a somewhat higher proportion (37.9 per cent) of working capital. For 9 banks, it is much less than the average, the lowest being 14 per cent. In the case of 7 banks the proportion is higher than the average. Also central banks' current deposits account for a larger proportion of the total deposits than in the case of the apex banks. For the 21 banks, current deposits work out to 32.9 per cent. But there is considerable variation, the maximum being 65.0 per cent and the minimum 4.0 per cent. Savings deposits form on the average 25.4 per cent. Here too the range of variation is wide from 1.0 per cent to 61.0 per cent. Fixed deposits form a much smaller percentage of 41.7 for these banks than for the apex banks. The range of variation is from 9.4 per cent to 78.6 per cent.

#### *Borrowings*

8.27 The Reserve Bank of India is the main source for borrowing for almost all the apex banks and through them their affiliated central banks. Whereas the weekly average outstanding borrowings for 13 apex banks from the Reserve Bank and other source works out to 50.68 per cent, those from the Reserve Bank alone account for 44.93 per cent of working capital. The highest proportion of borrowings to working capital is 69.4 per cent.

8.28 For the 21 central banks for which data are available, borrowings account for 39.9 per cent of working capital, those from the apex bank/Reserve Bank being 38.8 per cent of working capital. In the bank showing the heaviest dependence on borrowings they account for 64.4 per cent of working capital. There are, however, variations between bank and bank both on account of the degree of dependence on the apex/Reserve Bank and the composition of borrowings from it. Direct borrowings by central banks from sources other than apex bank are negligible, probably on account of the enforcement of the 'discipline' of the three-tier co-operative credit structure under which any funds coming from outside the co-operative structure are required to be channelised through the apex banks.

### *Interest Cost of Deposits : State Co-operative Banks*

8.29 For the 13 banks, the average interest cost of all deposits works out to 4.62 per cent per annum but varies from 4.08 per cent to 6.95 per cent. Where the average interest cost of deposits of some banks is higher than the average of the 13 banks it is mainly on account of the high proportion of fixed deposits to total deposits. Also in several cases the rate of interest paid on fixed deposits is rather high—over 6 per cent per annum. It may be mentioned here that as many as eight banks pay on an average 0.22 per cent on current deposits. The average rate for savings deposits is 3.63 per cent per annum.

### *Interest Cost of Deposits : Central Co-operative Banks*

8.30 To most central banks, interest cost on current deposits is nil. On fixed and other deposits, the average interest cost to central banks works out to 6.45 per cent which is higher than that for the apex banks.

Significantly, however, the overall interest cost of deposits to the central banks is lower than that for the apex banks. Whereas to the latter, the interest cost amounts to 4.62 per cent per annum, to the former it amounts to 3.88 per cent. This is on account of the fact that the current deposits of the affiliated societies on which little or no interest is paid by the central banks account for 79 per cent of the total current deposits of central banks. In some cases, the proportion of current deposits of societies works out to 100 per cent of all current deposits with the central banks. These current deposits are mainly, the loans sanctioned to the societies by the central banks (out of the Reserve Bank of India credit limits) but kept in the current accounts pending their use for loaning.

8.31 It may be mentioned in this connection that the cost of deposits for most of the apex banks would have been very much higher than what it actually is had it not been for the fact that they have a sizeable proportion of current deposits, mainly from the central banks, on which little or no interest is paid. These current deposits of the central banks appear to be largely the funds drawn by them from the credit limits sanctioned by the Reserve Bank of India and kept in the current accounts with the apex banks, pending their being drawn for the purpose intended. For the 13 banks together, the outstanding funds so kept by the central banks per week work out to around 4.35 per cent of the outstanding borrowings of the latter.

### *Servicing Cost of Deposits*

8.32 As shown in Table VIII.2 for the 13 banks, the cost of servicing deposits works out to 0.67 per cent of deposits. The range is between 0.14 per cent to 1.07 per cent. Together with interest cost of deposits, *i.e.*, 4.62 per cent, the total cost of deposits works out to 5.29 per cent.

8.33 Computed on the same principle as for the apex banks, the average cost of servicing deposits in the case of 18 central banks amounts to 1.22 per cent, the highest and lowest respectively being 2.99 per cent and 0.64 per cent. The average interest cost of deposits together with servicing costs works out to 5.10 per cent, the highest and lowest being 8.37 per cent and 4.05 per cent.

*Servicing Costs of the Three Types of Deposits—State Co-operative Banks*

8.34 As mentioned in paragraph 8.20 an attempt was made to work out the servicing costs separately of the three categories of deposits, *viz.*, current, savings and fixed of the State and central co-operative banks on the assumption that the relativity between the costs of different types of deposits for State co-operative banks would be the same as for Indian commercial banks in bank group II and for central co-operative banks, Indian commercial banks in bank group III. Table VIII.3 gives the per branch profile on a quarterly basis for the 8 apex and 11 central banks which supplied the data relating to the number of vouchers handled by them during 1968-69 for the different categories of deposits. Their branches totalled 56 and 173 respectively. It will be seen from this table that as far as the monetary output is concerned, the average outstandings per branch of the State co-operative banks are very substantial especially in regard to fixed deposits. Comparing these figures with those of commercial banks, it will be seen that the per branch outstandings on deposits of these banks are even larger than those for bank group I. Fixed deposits in particular are very large and account for as much as 71.4 per cent of the outstandings. The number of vouchers handled per quarter is also considerably larger though here current account vouchers have the predominant position, being 76.3 per cent of total vouchers. The servicing cost of current accounts is 71.9 per cent of the total cost, that of savings accounts 20.1 per cent and the balance 8.0 per cent is for fixed deposits. The per voucher costs are about 85 per cent of the per voucher cost of commercial banks in group II. Because of this and because of the very substantial outstandings of deposits of the various categories the per cent per annum costs of servicing are quite low.

*Central Co-operative Banks*

8.35 The deposit distribution of central co-operative banks shows that except for current account deposits the outstandings per branch are smaller than for bank group III of commercial banks. Current deposits are as much as 35.4 per cent of the total. Savings deposits form about a quarter and fixed deposits two-fifths of the total. The physical outputs are also considerably lower. Vouchers on current account are 60.1 per cent of the total. Current account vouchers require 58.5 per cent of the total expenditure on servicing deposits. Savings accounts require 32.3 per cent and fixed deposits 9.2 per cent. The servicing costs calculated as percentage per annum of the

outstandings are even lower than those of the apex banks. However, costs per voucher are substantially higher, 210 per cent of or slightly more than double those of bank group III. This could be due to the low volume of vouchers which means that the staff shown for this activity are also occupied on other activities.

### *Interest Cost of Borrowings*

8.36 The average interest cost of borrowings to the apex banks from the Reserve Bank and other sources ranges from 3.00 per cent to 4.19 per cent, the average being 3.65 per cent. For 21 central banks the average cost of borrowing from the apex banks/Reserve Bank works out to 4.26 per cent. The range of variation is between 3.33 and 9.42 per cent.

8.37 The variations in the cost of borrowings between banks can be attributed to two main factors—(1) the cost at which funds from sources other than the Reserve Bank are raised and (2) the composition of funds coming from the Reserve Bank: Reserve Bank of India charges 2 per cent below the Bank Rate on short-term agricultural loans,  $1\frac{1}{2}$  per cent below that Rate on medium-term loans and on loans for financing industrial co-operatives (e.g., Handloom Weavers' Society) and at the Bank Rate on loans for financing fertilizer stocking and distribution.

8.38 There also seem to be very wide variations between banks in the interest cost at which other 'borrowings', principally from the State Governments and the State Bank of India and other commercial banks are obtained by the apex banks.

### *Servicing Cost of Borrowings*

8.39 For all the 13 apex banks the average cost of servicing borrowings works out to 0.21 per cent. This is on account of the fact that when the apex banks borrow from the Reserve Bank they do so on behalf of the individual affiliated central co-operative banks. Not only when credit limits are applied for, but also when the drawals are made by the central banks, the financial position, advances, overdues, non-overdue cover, other particulars, etc., of the respective central banks are scrutinised by the apex bank, the cost of scrutiny of all of which logically become attributable to borrowing activities.

8.40 The expenses on account of borrowing activity vary from bank to bank, the highest being 0.56 per cent, the lowest at 0.10 per cent. The variations in the relative expenses may be attributed to the nature of information called for by each apex bank from the affiliated central banks for scrutiny, the number of central banks in the State, the number of times borrowings and repayments are effected and the variations in staff emoluments and staff productivity. The interest cost of borrowings, together with the cost of servic-

ing borrowings works out to 3.86 per cent for all the 13 banks the highest being 4.57 per cent, the lowest 3.18 per cent.

8.41 In respect of 18 central banks for which detailed data regarding expenses are available, the average 'servicing' cost of borrowings works out to 0.91 per cent of borrowings the range of variation being from 0.20 per cent to 2.06 per cent, the variations being due to reasons similar to those in the case of the apex banks. The interest cost of borrowings together with the cost of servicing borrowings works out to 5.15 per cent of borrowings for all the 18 banks.

#### *Interest Cost of Outside Funds*

8.42 For the 13 apex banks the average interest cost of outside funds, *i.e.*, borrowings together with deposits, amounts to 4.01 per cent. The highest cost is 4.45 per cent and the lowest 3.35 per cent. In the case of as many as 9 apex banks, the average cost of funds works out to less than 4.00 per cent and only in the case of 4 banks it is more than that figure. Of particular interest is the fact that amongst these 9 banks there are some banks having an average proportion of deposits to working capital much higher than the overall average for the 13 banks. The general impression among co-operative banks that a higher proportion of deposits to working capital escalates the interest cost of funds does not seem to be necessarily correct. The important factors which influence the cost of total funds are the proportion of borrowings from the Reserve Bank to working capital, composition of such borrowings, proportion of deposits to working capital and composition of deposits. To illustrate, in the case of two important apex banks the average cost of deposits and borrowings is the same, *viz.*, 3.99 per cent though for one of them deposits form 48.6 per cent of the working capital and it has to pay 3.75 per cent for borrowings from the Reserve Bank, while for the other deposits form 33.9 per cent of the working capital and it pays only 3.00 per cent for borrowings. The reason is that the average interest cost of deposits of the former is 4.13 per cent while that of the latter is 5.33 per cent. In other words a higher interest cost on borrowings can be off-set by greater diversification of deposit portfolio, which is associated with diversification of banking services and of loaning activities.

8.43 As against 4.01 per cent in the case of 13 apex banks, for the 21 central banks, the interest cost of funds including borrowings and deposits amounts to 4.09 per cent. The highest combined cost reported is 8.09 per cent, the lowest being 2.68 per cent.

8.44 Taking the interest cost of borrowings and deposits and the cost of servicing of the same together amounts to 4.40 per cent for the 13 apex banks and 5.12 per cent for the 18 central banks. The corresponding figure for all the commercial banks is 5.31 per cent.

*Return on and Cost of Lending*

8.45 The average rate of return on loans of the 13 apex banks to the affiliated central banks amounts to 4.67 per cent ; the range of variation is from 3.77 per cent to 5.57 per cent.

8.46 As for the cost of servicing loans, the average for all banks works out to 0.20 per cent. The highest is 0.51 per cent and the lowest is 0.09 per cent. This is on the assumption that all the work connected with the scrutiny of financial statements, advances, overdues, etc., in the case of individual central banks is part of borrowing activity.

8.47 The average return on loans of the central banks to the primary credit societies and others amounts to 7.01 per cent for banks. The maximum rate is as high as 10.96 per cent and the minimum as low as 2.26 per cent.

8.48 For 18 central banks, for which data are available, the average servicing cost of loans works out to 1.21 per cent. The highest figure is 2.17 per cent and the lowest 0.77 per cent.

8.49 It may be mentioned here that in some States the cost of supervision is borne by the banks themselves, while in some others (*e.g.*, the Punjab) it is partly/mainly borne by the State. In some (*e.g.*, Maharashtra) supervision charges are collected by the central banks from the societies. Where such charges are borne either by the Governments or the societies, they are apparently not reported by the central banks. This is one of the reasons for the average cost of loaning being low in these cases.

*Estimated Income from Investments*

8.50 The return on investments for the 13 apex banks works out to an average of 4.30 per cent. The proportion of investments to the total assets for the 13 banks is around 12 per cent. Although this return is higher than the average return on lending, it would not be correct to infer that it would be advantageous for the State co-operative banks to have their resources employed in investments rather than in loans as that would be contrary to the purpose for which they came into being.

8.51 In the case of central co-operative banks, almost invariably the average return on investments is lower than the average rate of return on loans to primary credit societies. For 21 banks for which complete data are available, the average return on investments works out to 4.47 per cent as against 7.05 per cent on loans. In some cases, the difference between the average rate of return on investments and that on loans is quite appreciable because though the average is 4.47 per cent, there are quite a few banks with an average rate of return on investments very much lower than that. This

suggests that it should be possible to improve the income of the banks on account of investments by paying more attention to the management of investments.

### *Estimated Income from Deposit Activities*

8.52 An important question that often arises in connection with discussions on the apex and central co-operative banks is whether they find collection of deposits economical. At this stage, it needs to be noted that our observations in this regard with reference to the central banks covered under this analysis give the position of those banks which are known to have succeeded in varying degrees in mobilising deposits.

8.53 It is observed that for all the 13 apex banks the estimated income from deposit activity to the total income works out to 32.05 per cent, the highest being 50.21 per cent and the lowest 13.68 per cent.

8.54 The average percentage of income from deposit activity is slightly higher than the proportion of deposits to working capital at 30.69 per cent for these banks. Only in the case of two banks, the percentage of estimated income from deposits activity to total income is much higher than the percentage of deposits to working capital. For most others, it is much less.

8.55 In the case of central banks the estimated income from deposit activity to total income for all the 21 banks, works out to 37.13 per cent, the highest being 70.18 per cent. The higher proportion of income from deposit activity in the case of some banks can be attributed to one or more of the four factors: (a) a high proportion of deposits to total working capital, (b) a lower average cost of deposits which is attributable to a fairly high proportion of current deposits to total deposits, in particular, those from the affiliated institutions, (c) a relatively high level of income from exchange, commission, etc., as compared with other banks (these being included as income from deposit activities *vide* para 8.20), and (d) a relatively high level of return on investments. The lowest level of income from deposit activities (5.09 per cent) to total income is found in the case of a bank which also has, perhaps, the lowest amount of income from exchange, commission, etc., and also the lowest rate of return on investments.

8.56 On the expenses side, for the 13 apex banks in question, the average cost of servicing deposits works out to 14.30 per cent of estimated income from deposits. The highest proportion is 21.74 per cent.

8.57 In the case of 18 central banks for which full data are available it was noticed that the average cost of servicing deposits to estimated income from deposits works out to 21.56 per cent. The highest is 56.97 per cent. The lowest is 9.59 per cent.

### *Margins*

8.58 The problem of the margin maintained by the State and central banks between the average cost of funds and the average return on loans may now be examined. It was mentioned in para 8.44 that the combined interest and servicing cost of funds for the 13 apex banks worked out to 4.40 per cent and for the 18 central banks to 5.12 per cent. As against these figures their average lending rates were 4.67 per cent and 7.01 per cent (paras 8.45 and 8.47). This gives an average margin of 0.27 per cent for the apex banks and 1.89 per cent for the central banks. Comparing this with the servicing cost of lending of 0.20 per cent and 1.21 per cent respectively it appears as if the margins are adequate to cover the costs and also to provide something for reserves and dividends. A closer examination, however, shows that it is not so. For two apex banks and one central bank the margin itself is negative. For one apex and five central banks, it is less than the servicing costs of lending. And in several it is only barely adequate, not to speak of strengthening of reserves and declaring a reasonable dividend on capital.

8.59 One of the ways in which the co-operative banks can improve profitability is to increase the proportion of low interest deposits like current accounts—other than those representing funds borrowed by lower level institutions and temporarily deposited with the higher level institutions pending use—and, savings accounts. This would require these banks to develop other types of services which depositors who go in for such accounts need.

8.60 Efficient management of cash and liquid assets is another method of improving profitability. An examination of the cash and current account balances held by these banks suggests that in many cases these are significantly higher than those maintained by commercial banks, giving rise to either avoidable costs or loss of income. Of course, a part of the problem in regard to maintenance of cash is that a number of these banks operate in areas where even commercial banks are required to maintain higher cash balances for operational reasons. Secondly, many of the central co-operative banks have to maintain current account balances with banks other than the 'notified' banks to facilitate remittances and other operations. Since the concerned banks are not 'notified', these balances cannot be included in the statutory liquid assets and hence the co-operative banks suffer. Also to some extent, the excesses in cash reserves are attributable to the practice generally followed by co-operative banks of borrowing from the Reserve Bank to the maximum extent of their eligibility, though during certain periods the need for funds may not be that large and to their failure to reduce their borrowings from the Reserve Bank promptly, when resources are available. One of the remedies for this would be firstly to persuade the authorities to 'notify' the scheduled banks with whom such balances are maintained by co-operative banks.



Since most of these banks are nationalised banks, this should not be difficult. All the same, the co-operative banks on their part too need to give attention to better management of resources. As regards liquid assets in excess of the minimum required under the statute, one reason seems to be the inability of the banks to find avenues for profitable employment of resources, particularly where co-operative marketing and processing are not well-developed, or to diversify their business ; another is that sometimes a good number of societies may be ineligible for loans on account of overdues. To the extent that the banks' activities are not diversified and the absorbing capacity of the primary units is not improved, the scope for further improvement of business and profitability remains limited.

#### *Return on Owned Funds*

8.61 Of the 13 apex co-operative banks, only 6 have reported distributing dividend on their share capital in 1968-69 at rates varying from 3 to 6 per cent. The total amount distributed by them as a proportion of the paid-up share capital of all the 13 banks works out to 2.9 per cent. Out of the 21 central banks, 13 have reported distributing dividend ranging from 1 per cent to 6 per cent. The total amount of dividend declared by them works out to 2.24 per cent of the paid-up share capital of all the 21 banks. Thus the dividend performance of these banks is rather inadequate.

8.62 We have already discussed the position regarding the margin and cost of lending. As far as servicing costs of funds and advances go, the figures for co-operative banks compare well with commercial banks. So that the main reason for the indifferent performance in regard to dividends appears to be that in many cases the quantum of owned funds is much too large in relation to the business of the banks. This is also clear from the fact that generally the banks have a considerable part of their maximum borrowing power which is 15 times owned funds for the apex banks and 12 times for the central banks unutilised. Apparently this is due to much thought not having been given to the question of prescribing suitable ratios between the paid-up capital and working funds in the case of apex and central banks, most of the attention having been paid to improving their position to absorb shocks inherent in agricultural financing. There may be very valid reasons for doing so. Nevertheless, purely from an economic stand point, suitable though flexible ratios seem to be called for, so that a return on capital approximating to reasonable return elsewhere on capital can be ensured. To the extent that this is not ensured, it is reasonable to assume that the cost of funds raised by the banks by way of deposits and borrowings will increase to the extent of the difference between the return on capital elsewhere, say fixed deposits and the actual return on capital. For this reason, it may perhaps be desirable to re-examine the validity, in the present context, of policies being pursued now to strengthen the capital base of co-operative banks through member contribution as well as Government participation.

## EFFECTS OF TWO-TIER SYSTEM

8.63 There seems to be some duplication of work at the apex and central levels in connection with borrowings effected by the structure from outside agencies, as there is some measure of duplication of share capital at the two levels for the same amount of borrowings coming into the system, giving rise to large unused maximum borrowing power. Whether at all there should be maximum borrowing power in the case of co-operative banks when there is none in the case of commercial banks is a separate question. Even so, to the extent there is duplication of capital and paper work for the same amount of borrowings, as well as in the maintenance of cash reserves and liquid assets, at the two levels, the two-tier system of co-operative banking seems to add to the cost of operating the system.

TABLE VIII. 1—COMPOSITION OF ASSETS AND LIABILITIES

(Figures in %)

	State Co-operative Banks*		Central Co-operative Banks@	
	Average	Range	Average	Range
<b>WORKING CAPITAL</b>				
1. Owned Funds .. .. .	18.6	13.3—30.5	22.2	15.4—32.4
2. Outside Funds				
(i) Deposits :				
(a) Current .. .. .	6.6	2.1—10.9	12.4	.. —34.4
(b) Savings .. .. .	2.3	0.1— 4.9	9.6	0.5—40.9
(c) Fixed .. .. .	21.8	5.9—33.8	15.8	5.3—30.6
Total .. .. .	30.7	13.2—48.6	37.9	14.0—67.2
(ii) Borrowings :				
(a) From Reserve Bank/Apex Banks	44.9	28.8—64.9	38.8	13.1—64.0
(b) From Others .. .. .	5.8	.. —19.2	1.1	.. — 5.5
Total .. .. .	50.7	30.4—69.4	39.9	13.1—64.4
Total Outside Funds .. .. .	81.4	69.5—86.7	77.8	67.6—84.4
Total Working Capital .. .. .	100.0		100.0	
<b>ASSETS</b>				
1. Cash and Bank Balances .. .. .	3.9	0.2— 8.1	6.4	2.4—24.4
2. Investments .. .. .	12.2	4.4—20.3	10.6	4.1—29.1
3. Loans:				
(i) To lower level institutions .. .. .	61.1	38.3—81.8	71.9	54.8—82.9
(ii) Others .. .. .	18.9	0.2—37.0	7.1	... —23.4
Total .. .. .	80.0	60.0—89.1	79.0	61.2—85.6
4. Other Assets .. .. .	4.0	0.2—21.0	3.9	1.4—9.8
Total Assets .. .. .	100.0		100.0	

\* 13 Banks

@ 21 Banks

TABLE VIII. 2—COSTS

		STATE CO-OPERATIVE BANKS*					
		Interest		Servicing		Total	
		Average	Range	Average	Range	Average	Range
I. Costs per cent per annum							
1. Deposits	.. ..	4.62	4.08—6.95	0.67	0.14—1.07	5.29	4.39—6.30
2. Borrowings	.. ..	3.65	3.00—4.19	0.21	0.10—0.56	3.86	3.18—4.57
3. Total on Outside Funds	.. ..	4.01	3.35—4.45	0.39	0.11—0.77	4.40	3.46—4.72
4. Loans	.. ..			0.20	0.09—0.51		
II. Income							
1. Investments	.. ..	4.30	3.19—5.78				
2. Return on Loans	.. ..	4.67	3.77—5.57				
III. Margin	.. ..	0.27	—0.12—0.91				

TABLE VIII. 2—COSTS (Contd.)

		CENTRAL CO-OPERATIVE BANKS@					
		Interest		Servicing		Total	
		Average	Range	Average	Range	Average	Range
I. Costs per cent per annum							
1. Deposits	.. ..	3.88	2.24—7.03	1.22	0.64—2.99	5.10	4.05—8.37
2. Borrowings	.. ..	4.24	3.33—9.42	0.91	0.20—2.06	5.15	3.95—10.54
3. Total on Outside Funds	.. ..	4.05	2.68—8.09	1.07	0.58—2.35	5.12	4.05—9.43
4. Loans	.. ..			1.21	0.77—2.17		
II. Income							
1. Investments	.. ..	4.47	0.98—7.94				
2. Return on Loans	.. ..	7.01	2.26—10.96				
III. Margin	.. ..	1.89	—2.13—3.42				

Estimated Income on Deposits as percentage is not readily available.

\* 13 Banks

@ 18 Banks

VIII-3—PER BRANCH PROFILE OF STATE AND CENTRAL CO-OPERATIVE BANKS  
1968---1969

Deposits	OUTPUT		INPUT	COSTS			Average per voucher (Rs.)
	Monetary outstandings (Lakhs of Rs.)	Physical No. of vouchers per quarter	Servicing Cost per quarter (Rs.)	Per cent per annum of average Balance			
				Interest	Servicing	Total (4)+(5)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
<b>I. State Co-operative Banks</b>							
(a) Current .. .. .	44.04 (20.1)	17972 (76.3)	25700 (71.9)	0.22	2.32	2.54	1.43
(b) Savings .. .. .	16.36 (7.5)	5028 (21.3)	7190 (20.1)	3.63	1.76	5.39	1.43
(c) Fixed .. .. .	158.98 (71.4)	556 (2.4)	2847 (8.0)	5.96	0.72	6.68	5.20
<b>Total (a+b+c) .. .. .</b>	<b>219.38</b> <b>(100.0)</b>	<b>23556</b> <b>(100.0)</b>	<b>35737</b> <b>(100.0)</b>	<b>4.63</b>	<b>0.64</b>	<b>5.27</b>	<b>1.52</b>
<b>II. Central Co-operative Banks</b>							
(a) Current .. .. .	4.67 (35.4)	883 (60.1)	2553 (58.5)	0.33	2.18	2.51	2.89
(b) Savings .. .. .	3.26 (24.7)	504 (34.8)	1407 (32.3)	3.48	1.72	5.20	2.79
(c) Fixed .. .. .	5.26 (39.9)	59 (5.1)	398 (9.2)	6.86	0.30	7.16	6.75
<b>Total (a+b+c) .. .. .</b>	<b>13.19</b> <b>(100.0)</b>	<b>1446</b> <b>(100.0)</b>	<b>4358</b> <b>(100.0)</b>	<b>3.71</b>	<b>1.32</b>	<b>5.03</b>	<b>3.01</b>

Figures within brackets indicate percentages to total.  
These figures pertain to 8 apex banks and 11 central co-operative banks from which figures of Physical output were available.

## CHAPTER IX

# PROFIT PLANNING, BANK CHARGES AND INTEREST RATES

### INTRODUCTORY

9.1 It is proposed to discuss in this chapter the implications of the findings of the previous chapters for profit planning by banks and their pricing policy, *i.e.*, the interest rates paid by banks to depositors and charged to borrowers and the various other charges which banks levy on the customers for rendering different services to them. It is one of the important advantages of cost analysis that it provides information useful for evolving a rational price structure for the different products of a firm or an industry. In the banking industry too, one common purpose of all the methods of cost analysis is to arrive at cost figures which would provide a base for the computation of service charges, and to measure the profitability of each one of the bank's services. Again, since the structure of interest rates for the different categories of deposits and advances has a vital bearing on the profitability of a bank's operations, knowledge of the costs of providing various types of services to the depositors and borrowers can help banks in adopting interest rate policies that can achieve their objectives in terms of maximum deposit mobilisation and a proper pattern of advances at minimum cost.

9.2 However, as in any industry, the need for knowledge of the costs and profitability of each one of the bank's services was not keenly felt as long as the profits earned by banks were high ; with the increasing costs of bank operations, the necessity arose for scientific determination of service charges. Simultaneously the method of levying service charges also underwent a change, taking advantage of the more reliable and comparative statistics provided by the Cost Analysis studies.

9.3 In the U.S.A. the need for levy of service charges particularly on Current Accounts and Savings Accounts was first recognised as early as 1925 by the St. Louis Clearing House Association. They published booklets on the subject ("How a Bank makes money" ; "The World's Cheapest Book-keeper" ; etc.) to highlight the insignificantly small gross returns which a bank received for all the services it rendered. This preliminary study not only convinced the banks' customers of the importance of keeping certain minimum balances in their account which would be sufficiently large to enable the banks to service them at least without a loss, but also led to the evolution of 'Flat

Service Charge' method on all small accounts. In the years that followed more equitable systems like the 'Measured Service Charge' and 'The Complete Analysis Method' were evolved.

#### *The Flat Service Charge Method*

9.4 Under this method, all current and savings accounts of depositors which fall below a specified average minimum balance during the period are charged for services at a flat rate. This rate is decided upon rather arbitrarily and is expected to cover the loss which the bank incurs in rendering the service. This method has the following advantages :

- (i) It is easy to operate ;
- (ii) It is levied only on those accounts whose balances fall below a specified minimum (hence big depositors' accounts are not affected);
- (iii) It leads to the elimination of numerous small accounts.

9.5 This method has, however, one major drawback. It does not differentiate between active and inactive accounts. In other words, it ignores the variations in activity or the services rendered in respect of each account.

#### *The Measured Service Charge Method*

9.6 Under this method, in addition to a basic charge on accounts falling below a specified minimum balance with a certain number of 'free cheques', a definite charge is made for cheques in excess of the specified number of free cheques. The significant improvement of this method over the 'Flat Service Charges' method is that it is applicable to all accounts irrespective of their size, and it ensures that all the accounts handled contribute in some way or other to the cost of handling them.

#### *The Complete Analysis Method*

9.7 The principle behind this method is that each customer should pay a service charge to the bank which would be sufficient to compensate for the differences between the cost of the services rendered and the income arising out of the utilisation of the average balance in his account. Thus, it is ensured that each customer pays such charges as are attributable to his account. The only way to determine whether the use of customer's average balance is enough to reimburse the bank for services rendered is to subject each individual account to a complete analysis, for which purpose the following procedure has been evolved :

- (a) First determine the average available balance. This is the amount of a depositor's account (average for the period), less the legal

and cash reserves which have to be statutorily provided for. This amount in fact represents the funds which the bank can use in its operations, to generate further income.

(b) Apply to this balance, the average rate of return that is current in the market.

(c) From this gross income deduct the expenses incurred in handling the account, which in turn are collected and analysed under four heads, *viz.* :

(i) Maintenance Expenses : the basic minimum cost of maintaining an account, irrespective of how active and how big it is ;

(ii) Administration Expenses : the cost of investing and safeguarding the depositors' money which is mostly variable with the size of the deposit ;

(iii) Activity Expenses : the cost of crediting to each account the deposits made, and the cost of debiting to each account all withdrawals ; and

(iv) Special Services :

(a) mail transfers and telex transfers ;

(b) handling of returned items ; and

(c) special cash services, etc.

9.8 The above costs are computed separately for each account for each period. If the income from the account exceeds the cost, the bank makes a profit on the account, and no charge is made to the customer. On the other hand, if the income from the account is insufficient to meet the expenses on that account, the shortfall is made up by charging the customer the difference.

### *Interest Rates*

9.9 Interest rates on deposits or on advances are generally subject to two types of regulations : (i) overall regulation through monetary policy ; and (ii) detailed regulation of rates for categories of deposits or advances. The former type of regulation, which is more or less universal, operates through the impact on the basic interest rate level in the economy of the various actions of the monetary authorities directed at controlling the cost and the supply of credit. The latter type of regulation, which seeks to fix the minimum or the maximum of the interest rates for particular services is less common. Where it exists it may be imposed either by the monetary authorities or by the banks themselves. The objective in regulating deposit rates in this fashion is to prevent wasteful competition for deposits. As regards rates for advances the objective is to assist national economic policy by prescribing concessional low rates for priority sectors and high rates to discourage borrowing by low priority sectors in the economy. Banks can, therefore, vary inte-



rest rates within the limits of all these constraints. Generally, variation is practised in the case of advances rather than in the case of deposits because of the risk factor which varies from borrower to borrower.

#### THE POSITION AS REGARDS BANKING INDUSTRY IN INDIA

9.10 The banking industry in India has generally been working on the principle that it is the total profit that matters. That is to say, so long as banks make a reasonable profit on their overall operations, it does not make much difference whether some operations are highly profitable while others are conducted at a loss. As has been mentioned in Chapter I barring a few exceptions there have been no attempts on the part of banks at analysing costs. As regards pricing of their services the position varies as between service charges and interest rates.

9.11 Charges on the various types of domestic services rendered by banks to their customers are left to individual banks while those for foreign exchange transactions are prescribed by the Foreign Exchange Dealers' Association (FEDA). There is quite a variety in the manner in which the charges are calculated, and the total incidence of the charges for a particular service as between one bank and another. An attempt was made in 1968 to rationalise the then existing structure of charges when the Indian Banks' Association (IBA) appointed a committee for the purpose as it was felt that the charges (having been fixed on an *ad hoc* basis many years ago) did not bear any relation to the cost of services. The Association fixed rates for 19 types of services. However, these could not be introduced owing to opposition from the public. It may be added that in March 1970 the Reserve Bank directed the banks to levy a commitment charge on borrowers on the unutilised portion of the credit limits sanctioned, for limits over Rs. 10 lakhs, excepting limits for exports and governmental food procurement operations. This, however, is more a control measure than a charge designed specifically to enable the banks to recover the cost of a service rendered.

9.12 Over the post-war period, control of interest rates through both types of regulations mentioned in paragraph 9.9 has developed in India in depth as well as in extent. It may also be mentioned that in regard to the second type of regulation the system of self-imposed regulation by the industry which existed till 1964 for deposit interest rates has been replaced by regulation by the monetary authorities. It was found that the structure of deposit interest rates evolved by the industry did not differentiate sufficiently between deposits held as transactions balances and deposits representing longer term savings. Currently, interest rates are controlled in the following manner.

#### *Overall Regulation through Monetary Policy*

9.13 The Bank Rate is 6 per cent with effect from January, 1971. However, the actual rate of interest payable by a bank to the Reserve Bank for

accommodation from it can vary. The commercial banks are required to have a net liquidity ratio (*i.e.*, the ratio of liquid assets *less* borrowings of a bank from the Reserve Bank of India and certain banks called notified banks, to its demand and time liabilities) to be eligible for accommodation at the Bank Rate. Whenever borrowings of a bank from the Reserve Bank and notified banks reduce the ratio below this level, the rate is raised by adding 1 per cent per annum to the Bank Rate for a fall of every one point or less in the ratio. There is a maximum of 15 per cent to the rate charged by the Reserve Bank. Concessions are, however, given to banks to encourage their lending to export credit, small-scale industries, agriculture and by way of food procurement advances as well as for their efforts to popularise the new Bill Market Scheme by providing refinance at 4½ per cent in certain cases and 6 per cent in others irrespective of net liquidity ratio. State co-operative banks obtain finance for short-term agricultural operations in their States at 2 per cent below the Bank Rate. In addition, there are certain selective credit controls which are designed to limit the expansion of credit, to discourage speculative inventory building of foodgrains, cotton, oil seeds, etc.

#### *Detailed Regulation of Rates*

9.14 Detailed regulation of deposit interest rates (except on inter-bank deposits) is through a directive from the Reserve Bank specifying rates according to the term of the deposits. For banks with deposits of Rs. 50 crores and above the minimum is 2 per cent per annum for deposits of 15 days to 45 days and the maximum is 7¼ per cent per annum for deposits above 5 years. For deposits below 15 days the banks are not allowed to pay any interest except in the case of the money at call or short notice placed by the Life Insurance Corporation of India (LIC), or the Unit Trust of India (UTI). Smaller banks are allowed to pay a higher rate of interest, the margins being determined according to the amount of total deposits with the bank. In the case of advances the Reserve Bank has prescribed a ceiling for interest rate on advances for exports (7 per cent per annum) a minimum for advances against cotton and kapas, oil seeds, vegetable oil and vanaspati (12 per cent per annum) and against foodgrains (10 per cent per annum). Advances in respect of food procurement operations are exempt.

9.15 It may be noted that in all these decisions, whether of the authorities or of the banking industry, in fixing the prices of bank services there has not been any detailed scientific examination of the costs of these services, so that the cost element in the prices fixed is unknown. An equally important drawback is that these decisions do not seem to involve any kind of profit objective for the industry. It is difficult to expect in these conditions to get a price structure which is optimal from the point of view of any desirable objectives except by pure chance. The Group recognises of course that evolving an optimal price structure for the banking industry is no mean task. For it has to satisfy not only the profit requirements of the industry on the lines

discussed in later paragraphs, but has also to fulfil such overall objectives in regard to deposit mobilisation, pattern of bank credit and its cost to the various sectors of the society and the general development of banking facilities and banking habit all over the country as the authorities have in mind. This raises a host of questions as to the extent to which the authorities, or the banks acting in concert, should resort to uniform price fixing, as opposed to allowing freedom to banks to compete with each other by varying their prices, the importance they should give to the cost element in such an exercise, and so on. Moreover, considerable research is needed to ascertain the effects of changes in interest rates and service charges on the demand for banks' services. While many of these questions are beyond the scope of its terms of reference, the Group feels that, with the major part of the banking industry in India in the public sector, a restructuring of the prices with due attention to the cost element will help the authorities significantly in the realisation of their broader objectives. The Group, therefore, recommends that this matter receive the urgent attention of the authorities as well as the nationalised banks.

9.16 This should be so for the following reasons. Firstly, since fixing the price of a product below cost subsidises the customer and fixing it above cost taxes him, knowledge of costs helps in fixing prices in such a way that the subsidy and tax effects are in the desired directions and are of the right magnitude. The Group feels that there is scope for modifying the pricing system so that, in fixing charges levied on the different customers, the use they make of the banking system is taken into account. Secondly, since the the cost structure can be modified, it will be possible by the use of appropriate procedures and methods to reduce costs wherever feasible and to utilise the consequent benefits to further the objectives before the authorities.

### *Profit Objective for Banks*

9.17 The manner in which a solution to the problem of restructuring of the prices for banks services should be approached may now be discussed. An important first step for this purpose in the Group's view is to define the profit objective which the banks should have. Here we are concerned mainly with banks in the public sector, *i.e.*, the State Bank of India and its Subsidiaries and the 14 nationalised banks, as these banks account for the preponderant share of banking business in the country. It is now an accepted principle that these banks are not to be run solely or even mainly with the object of making maximum profits. However, this does not mean that they are not to make any profits at all. In particular, there is a substantial investment of public funds in these banks and a reasonable return on this investment would be expected by the Government. As to what this should be is a matter for the Government to decide. Thus for instance in the case of the nationalised banks Government may consider that the banks should earn sufficient profit to enable them to make adequate plough-backs to reserves and pay at least

5½ per cent on the compensation amount paid by Government. In the case of the State Bank of India and its Subsidiaries, it could be the average rate of dividend paid in say, the past three years. From the point of view of cost control and pricing policy for the banks, the return which the Government considers as reasonable on its equity is a datum. The method of cost control and pricing policy should be such as to ensure this rate of return.

### *Allocations to Reserves*

9.18 Before, however, the banks are able to pay any return to the Government, certain allocations (other than those for special provisions) should be made to reserves from the profits of banks. These are :

(i) An allocation for the expansion in the fixed assets of the banks necessary to enable them to conduct their growing business in a satisfactory manner. Thus, banks need : (a) properly constructed premises for their business, (b) furniture, and increasingly, (c) other office equipment such as typewriters, calculating and accounting machinery and even electronic data processing equipment. In some cases they may even have to construct quarters for their staff. It is the practice of the banking industry in most countries to cover their fixed assets 100 per cent by the equity funds. In our case too replies by banks to the Banking Commission's questionnaire indicate that the Indian banking industry considers that banks' fixed assets requirements should be met from their owners' equity.

(ii) Next there is the question of some kind of provision for the risks in banking business. This is a rather complicated matter and will be discussed in some detail a little later.

(iii) Finally, account has to be taken of the payment of bonus to the staff.

### *Capital Cover for Risk Assets*

9.19 We may now consider the question of capital cover for risk assets of banks. This subject has received fairly elaborate treatment in the banking literature in the U.S.A., and to some extent in Germany. In the U.K., while no rigid principles have been laid down, it is well-known that banks are well aware of the need to increase equity capital in the light of the changing needs of the business. In the U.S.A., the depression of the 1930s led to a crisis in banks and focussed attention on the question of capital adequacy for banks. This led to the evolution of the principle that the primary function of the capital funds of a bank is to reassure both the public and the supervisory authorities that the bank is in a position to withstand whatever strains may be placed upon it. But to translate this general principle into practice raised a host of difficulties principally for two reasons. At any given point of time the different assets of a bank differ considerably from the point of view of the risk of either

non-repayment of the funds lent to the borrower or the depreciation in the market value of the securities acquired by the bank. Secondly, over a period these risks go on changing as some businesses prosper and others decline. After consideration of the matter in all its aspects, two ideas have emerged in the U.S.A. One is to discuss capital adequacy in terms of what is called the adjusted risk asset ratio and the other is to consider capital adequacy not only from the point of view of the degree or risk attached to the various assets but also from the point of view of the liquidity of the banks. In the adjusted risk assets approach the various assets are classified into : (i) Reserve Assets, *i.e.*, the reserves required to be maintained by banks, (ii) the minimum risk assets, which consists of assets that have first class liquidity or assets which have been insured, (iii) portfolio assets comprising various types of investments and loans, (iv) sub-standard and specially mentioned assets, (v) work-out assets consisting of real estate not used for bank premises and defaulted bonds ; and finally (vi) fixed assets. The requirements of capital against each of these are as follows : (i) 0 per cent, (ii) 5 per cent, (iii) 12 per cent, (iv) 20 per cent, (v) 50 per cent, and (vi) 100 per cent. In the case of the latter approach the idea is to provide for extra capital which may be needed to cover possible losses in forced liquidation of assets if this has to be done to provide liquidity to the bank at a time of emergency. In any case it appears that as a result of these elaborate calculations, banks in the U.S.A. are required to maintain roughly a ratio of equity funds to risk assets of about one to six. Recent thinking in the U.S.A. appears to have come to the view that this is somewhat high because of the considerable strengthening of the banking structure, the existence of the Federal Deposit Insurance Corporation, and improvement in quality of bank assets. In Germany also the authorities have fixed ratios of this type on similar considerations.

### *Adequacy of Capital for Banks in India*

9.20 In India, the ratio of paid-up capital and reserves to aggregate deposits has been continuously declining. In the early 1960s the problem of capital adequacy for banks engaged the attention of the authorities. The problem, it may be noted, is confined to commercial banks. For co-operative banks, as has been seen in Chapter VIII, the problem appears to be one of over-capitalisation because of the prescription of a ratio between owned funds and total borrowings of these banks. The Reserve Bank had at one time suggested that the commercial banks should maintain a ratio of one to sixteen between equity capital and deposits. However it was found that this was not practicable because these banks would have to keep on going to the capital market in a big way for funds on account of their rapidly increasing deposits. True, they could have retained larger amounts from their profits, but these in any case were not sufficient to keep pace with the deposit accumulation. Moreover the very fact of larger allocation of profits to reserves would have led to reduction in dividends and this would have reacted adversely on bank shares. Certain other developments, such as the establishment of

the Deposit Insurance Corporation and the Credit Guarantee Organisation for advances to small-scale industries helped to reduce the risk of loss to depositors in the case of possible bank failure and to banks themselves in the case of the failure of borrowers from small-scale industries. The progress made in restructuring the banking system through compulsory or voluntary liquidation of non-viable units in the industry or their merger with bigger banks also helped to increase the safety of bank deposits. In the process, the question of capital adequacy has gone completely into the background and currently the practice seems to be to allocate to the reserves only (a) what is necessary by way of a reserve for bad and doubtful debts, (b) the allocation required by law which is a minimum of 20 per cent of profits after tax ; and (c) some allocation to secret reserves.

#### NEED FOR MORE SYSTEMATIC ARRANGEMENTS

9.21 The point of this rather long discussion is to draw attention to the necessity of having somewhat more systematic arrangements in regard to the size of equity funds which the banking system in India should have so that banks can plan their profits accordingly. Thus at a minimum it appears reasonable to say that there should be a common policy for all the public sector banks in this matter, which would lay down that the banks must provide to the full extent towards their fixed capital requirements and the bad and doubtful debts classified as such by an appropriate authority. However, it appears that it would be desirable to provide something more than this. What this should be is a matter for consideration by the appropriate authorities. The Group would only like to draw the attention of the authorities to the desirability of making such a provision.

9.22 In this way, a bank should be able to decide upon the level of profits it should earn in a year. In the case of the public sector banks, the return on capital would depend, as mentioned in para 9.17 above, on the Government's policy. In the case of banks in the private sector, the return to shareholders will be largely determined by the policies of the banks in the nationalised sector. However, the Group believes that it would be possible for these banks to control to some extent their profits by following appropriate policies in regard to cost control and charges.

#### *Effects on Earnings Resulting from Actions of Authorities*

9.23 Once the overall profit objective is determined in this manner, there is the question as to the extent to which the banks can take initiative on their own so that the profits planned for are actually realised, taking into account the actions of the authorities which affect the earnings as well as the costs of banks. Thus control through a device like the net liquidity ratio system checks the expansion of risk assets like loans and advances which are more profitable to the banks than the 'liquid' assets and hence affects their

income adversely. At the same time, any general upward revision of the interest structure effected in order to control credit increases the earning power of the banks. Selective credit controls and prescription of concessional rates affect banks' incomes adversely, but to a limited extent. In particular, it may be noted that sectors for which concessional rates are prescribed are also those for which the servicing costs are rather high. Prescription of high minimum rates for some types of advances may at first sight appear as increasing banks' incomes, but these are also usually the sectors to which credit is restricted by selective credit controls and hence the net effect is rather uncertain.

#### *Effect on Costs of Deposits, Interest Cost*

9.24 The steps taken in regard to deposit interest rates are designed broadly to mobilise the savings of the public in the form of bank deposits of longer term. However, in the absence of adequate information on the manner in which the public reacts to the interest rates for the various types of deposits, it is difficult to indicate the precise effect on banks of interest costs of deposits. Fixing different rates for deposits of different terms enables the depositor to select the most profitable and convenient combination of amounts in deposits of different terms from his point of view. When the differential between short term deposits and long term deposits widens, there will be a tendency on the part of depositors to alter their holdings in favour of the longer term deposits. This means that the interest costs of deposits of banks will increase ; (a) whenever there is a general increase in the level of interest rates ; and (b) when the pattern of interest rates moves in favour of longer term deposits. In addition, there is also the possibility that changes of both types will bring in proportionately larger amounts of longer term deposits and therefore the marginal and the average cost of deposits to the banks will increase considerably.

9.25 From the point of view of maximum deposit mobilisation, the deposit interest rate structure has to conform to the public's expectations about the appropriate rates for deposits of different terms. Where rates are fixed administratively, this is unlikely to happen. One way of getting over the problem is to let banks compete freely for deposits, so that market forces determine the rate structure. Bankers however are generally opposed to such a course. In the absence of market determination of rates, to indicate which rates need revision and in what direction requires a considerable amount of research which the Group would strongly recommend to be undertaken. This apart, one other important feature of the present pattern of deposit rates however may be noticed. It is that the larger banks seem to be benefitted to a greater extent cost-wise as (a) they have proportionately more deposits in current account which are the cheapest types of deposits in terms of total costs per cent per annum; and (b) they are required to pay lower rates for savings and fixed deposits.

### *Effect on Costs of Deposit-Servicing*

9.26 Changes in interest rates for deposits are unlikely to have appreciable effects on servicing costs of deposits as a result of the shifts in the distribution of deposits. At first sight it may appear that a shift towards longer term deposits should result in a reduction in the servicing cost of deposits. If the money was already in term deposit, the impact on servicing cost will be marginal. If however the money was in current account, then it depends on whether it was an idle balance or an active one. If the former, then again there will be no impact on the servicing cost. It is only when active balances are converted into term deposits that the servicing costs of deposits will go down. The effects on servicing costs because of shifts in the distribution of deposits between current, savings and fixed consequent on changes in interest rates for deposits is an area in which research is needed to ascertain the direction and the magnitude of such effects.

### SCOPE OF ACTION BY BANKS

9.27 We may now discuss the scope available to banks to vary their prices. For this purpose bank services may be grouped into four main groups (i) Deposits, (ii) Advances, (iii) Remittances and Bills, and (iv) Other Services.

#### *Deposits*

9.28 Taking deposits first it will be recalled that interest bearing deposits account for about 75 per cent of the total deposits. It will also be noted that the servicing cost of deposits is an appreciable element of the total cost of deposits. It follows therefore that, if no attempts are made to recover the servicing cost from the depositors, then other customers of the bank are getting penalised for the services rendered to the depositors. They are in effect paying for the services banks render to their depositors. Many banks in India do attempt to recover a part of the servicing cost of current and savings deposits from the depositors on the basis of the Flat Service Charge Method which, as is pointed out in paragraph 9.5, suffers from the major drawback that it does not distinguish between an active and an inactive account. There is no uniform practice however. Some banks stipulate that a minimum balance should be maintained in the current account and levy a charge if the balance goes below this level, while others make a flat service charge in respect of the account. For savings deposits some banks prescribe a minimum balance if the depositor wishes to avail of the facilities of a cheque book. In some banks, there are also rules about maximum number of withdrawals during a year and/or the maximum amount that may be withdrawn at a time. Systems like these which do not take into consideration the volume of activity in an account result in : (a) reducing the net earnings of banks; and (b) discriminate against the less costly accounts.



9.29 Banks could improve their profitability and also have a more equitable system of charges by adopting for deposits the Measured Service Charge Method described in paragraph 9.6. The Complete Analysis System, though theoretically still more equitable, would be very difficult to apply in practice except for very large accounts because of the detailed calculations it involves. The Group therefore recommends the adoption of a simpler method, the main elements of which are : (i) minimum balances are prescribed for each type of account ; (ii) the extent of free facilities depends on the size of the account ; (iii) a charge is made per transaction if the balance in the account is below the minimum or the total number of transactions in a period exceeds the maximum allowed for the account ; and (iv) consideration is given to the need to encourage the banking habit particularly amongst the small account holders. The manner in which such a system can be evolved by using cost and profitability analysis on the lines of Chapters IV and V is illustrated in the following paragraphs.

#### *Current Account Deposits*

9.30 From Table IV.2 it will be seen that the average servicing cost per voucher for current account deposits for *all* banks worked out to Rs. 1.88 during the survey period. According to Table V.3 the average yield on deposits worked out to 6.66 per cent per annum during the same period. As no interest is paid on current account, an average balance of Rs. 1,000 would have yielded the bank Rs. 66.60 per annum which was just sufficient to cover the servicing cost of 35 vouchers. This suggests that the maximum number of free transactions (credit as well as debit) that an average bank could permit for a *current* account with an average balance of Rs. 1,000—all the year round without running into a loss should be 35. However both these limits will be considered as too stringent particularly on smaller accounts. It may therefore be considered reasonable to require a current account depositor to maintain a minimum of say, Rs. 500. As regards the number of free transactions the ceiling could be the same as the average number of transactions per account per quarter given in Table IV.2. On the annual basis, this works out to 120 transactions. If the minimum balance is below Rs. 500 in any month, then each transaction whether credit or debit should bear a service charge at the rate of Rs. 2 per transaction (the half yearly or annual closing of accounts however is not to be considered as a transaction for this purpose). Thus if an account is inactive it is not penalised merely because the minimum balance falls below the prescribed limit. The limit of 120 transactions should remain so long as the minimum balance does not exceed Rs. 1,000. For a minimum balance exceeding Rs. 1,000, 30 free entries may be allowed for every slab of Rs. 1,000, any transaction over and above the free limit in each case being charged at the rate of Rs. 2 per entry.

#### *Savings Deposits*

9.31 For Savings accounts, a distinction needs to be made between cheque-operated savings accounts and the rest. The latter are generally

from small account-holders and hence there need not be any restrictions regarding either the minimum balance or the number of free transactions. For cheque-operated savings accounts, a system similar to current accounts may be used. Here since the depositor also receives interest, the number of free transactions should be less than that for current accounts and similarly the free transactions allowed for increase in average balance over the first slab should also be smaller. In case of Savings Bank Deposits, the average rate of interest works out to 3.29 per cent per annum (Table IV.2) which allows an operating margin of 3.37 per cent per annum (*i.e.*, 6.66 per cent — 3.29 per cent). Taking into account the servicing cost per voucher of Rs. 1.78 a workable arrangement would be 60 free transactions (credit or debit) for balances upto Rs. 1,000 and thereafter 20 free transactions for each slab of Rs. 1,000. It may also be useful to prescribe a minimum balance of say Rs. 250 for such accounts. Entries in excess of these limits may be charged at Re. 1 per voucher. Where a minimum balance is prescribed a similar charge should be made on all transactions when the balance falls below the minimum.

### *Fixed Deposits*

9.32 As far as fixed deposits are concerned, it is obvious that deposits for a short term cost more in terms of servicing than those which are for a longer term because generally the former go on turning over as and when their term expires and thus the cost for renewals is incurred. It is also obvious that the incidence of the servicing cost varies inversely as the size of the deposit. To illustrate both these points, consider two fixed deposits, one of Rs. 10,000 and the other of Rs. 1,000. If both these deposits are for 90 days then they will be renewed four times during the year and the servicing cost for the year at Rs. 6.29 per voucher comes to a little over Rs. 25 for each deposit. As a percentage of the amount of the deposit it works out to 0.25 and 2.5 per cent per annum respectively. If on the other hand both of them are for one year, then the servicing cost will work out to 0.06 and 0.6 per cent per annum. Since the average profit margin on fixed deposits for all banks is only 0.89 per cent per annum, there is need to have minimum limits for deposits for shorter periods so that the servicing cost is not an excessive burden on the bank.

### *Advances*

9.33 In the case of advances, Table IV.3 shows that while the gross income per cent per annum of average outstandings varies within a small margin for the different types of advances, there are considerable differences in the servicing cost per cent per annum. As a result, the net income\* varies

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\* This, and the references to "net income" hereafter, refers to the gross profits on the fund-using activity (such as advances), before deduction of the pre-requisite cost of fund-raising activities.

from 5.29 per cent per annum for small-scale industries to 8.26 per cent in the case of large and medium-scale industries. Similarly Table V.4 shows that the profit margin on advances varies from *minus* 0.53 per cent per annum to 2.44 per cent per annum. Tables IV.3B and V.4 also show that there are considerable differences in the servicing costs and the profit margin for the same type of advance as between banks in different groups. Such variations in servicing cost for the same type of advance suggest possibilities of cost reduction which can come about partly by a change in procedures and, where surplus capacity exists in a bank to handle more accounts through better utilisation of that capacity. For instance, where the advance is of a cash credit overdraft type a certain amount of cost is incurred in ledger-keeping by the banks. The bank in such cases could either persuade the borrower to change his method of borrowing so that the bank does not have to incur costs of ledger-keeping, or alternatively it can stipulate a certain maximum number of items beyond which it would levy an item-wise charge. Since, however, the accent of economic policy is to provide bank credit to low income groups deserving financial assistance for productive endeavour, banks have to put greater emphasis on procedural simplifications in the case of such borrowers to reduce their costs, rather than resort to service charges.

#### *Remittances and Bills for Collections*

9.34 As regards remittances and bills for collection different banks have different systems of charges as will be seen from Annexure-D. Thus sometimes there is a charge per instrument and sometimes there is a percentage charge with a minimum. The percentages are very odd, *e.g.*, 1/64 to 1/4, 1/2 to 12 paise, 6 to 9 paise, 8 to 10 paise, 12 to 15 paise, etc. Most of these systems are quite complicated and banks would do well to simplify them. Another drawback of these systems is that where a percentage charge is made for remittances or bills, the more money a person makes available to the bank between the period the instrument is issued and paid, the more he is charged. Thus the bank not only makes a larger profit on a larger amount by investing it for the period it remains with the bank, but also collects a larger income. The manner in which a simplified and more equitable system can be devised is described below.

##### (a) *Remittances*

For drafts and M.Ts. the charge could be Re. 1 for amounts less than Rs. 1,000 and 10 paise per cent for amounts over Rs. 1,000 upto Rs. 10,000, thereafter 5 paise per cent subject to a minimum of Rs. 10. In the case of T.Ts., the charges should be double those for drafts and M.Ts. In addition, telegram charges should be recovered from the remitter.

##### (b) *Bills*

For cheques and bills sent for collection, the same schedule of charges as in the case of drafts and M.Ts. could be applied excepting that the minimum

charges in the case of bills for collection could be Rs. 2 instead of Re. 1. An additional charge of 5 paise per cent may be levied if the customer wishes to have the credit of the proceeds by telegram within 5 days. For demand bills negotiated or purchased, the charge could be 30 paise per cent with a minimum of Rs. 3 per bill. If the bill is not paid within 3 days of presentation overdue interest at the prevailing rate could be charged. For usance bills, the discount charged should be at the current rate of interest/discount. Postage and telegram charges should be recovered from the customer in all the above cases.

### *Other Services*

9.35 As far as other services are concerned, since these are not very significant at present, the banks could work out the actual cost and recover the same.

### REPORT OF THE COMMITTEE ON DIFFERENTIAL INTEREST RATES

9.36 In making the above suggestions, the Group has carefully considered the Report of the Committee on Differential Interest Rates set up by the Reserve Bank of India in September 1970 to examine the question of differential interest rates in the light of the suggestion of the Finance Minister that lower interest rates should be charged to carefully selected low-income groups, who deserve financial assistance for productive endeavour but cannot easily negotiate with banks, while higher rates may be charged to the more affluent borrowers. Although the Committee could not come to unanimous conclusions, the Group feels that neither the majority report nor the minority report affect the recommendations made by the Group. The suggestions of both the majority and the minority relate to the differentials between the rates to be charged to the different classes of borrowers. Thus the majority report suggests that "the lowest interest rate to be charged to any borrower (exclusive of any direct subsidies) should be approximately equal to the ratio that the cost of raising and using funds (*i.e.*, interest charges and operational expenses) bears to total resources (deposits, borrowings and owned funds). With the present structure of interest rates, it is estimated that this rate is, on an average, about  $8\frac{1}{2}$  per cent" and further that interest rates to the preferred classes of borrowers should vary between  $8\frac{1}{2}$  per cent to 10 per cent while to all other borrowers on the basis of the principle of what the traffic can bear and in the light of the present legal requirements or the directions given by the Reserve Bank. The majority also recognises that the guarantee fees in the case of all borrowers who are granted preferential interest rates should be borne by the lending bank. The fee is 1/10th of 1 per cent in the case of the existing guarantee scheme for small-scale industry and one half of 1 per cent in all other cases. In this connection the report points out that "the fee paid would constitute an expense for the bank and would hence be deductible for tax purposes. At the same time, it has to be conceded that

there are some additional charges, incidental to the new Guarantee Scheme, that banks would have to bear. These arise out of requirements such as the separation of all registers, ledgers, etc. pertaining to the guaranteed accounts, preparation of detailed statements of individual accounts every quarter, quarterly verification of eligibility for guarantee cover etc. all of which would add further to the cost of servicing loans." In making these suggestions, the majority stated "in the present context of rapid extension of the geographic and functional operations of banks, the need to arrest any declining trend in profits and to strengthen reserves is all the greater" and proceeded on the implicit basic assumption "that a reduction in interest to some borrowers should not adversely affect the earnings of banks". The minority report which advocates a much wider differential between the minimum rate and the maximum rate to be charged by the banks subject to the average interest rate on advances being at least 10 per cent also agrees that a reduction in the interest rate charged to some borrowers must not adversely affect the overall earnings of banks. Thus these suggestions do not conflict with the concept of a profit objective recommended by the Group and the suggestions made by it to reframe the schedule of charges in the light of the results of cost analysis and also taking into account the policy objectives of the Government.

#### GENERAL OBSERVATIONS

9.37 Before concluding the Group would like to emphasise that the actual details of the schedule of charges given in paragraphs 9.30 — 9.34 are only of an illustrative nature. They could, and indeed should, be improved upon in the light of more comprehensive data on costs such as would be obtained if and when the arrangements recommended (in Chapter XI) for collecting such data are brought into effect. It needs also to be pointed out that the suggestions made above are on the basis of the averages for all banks. A more correct way would be to fix the charges according to the size groups of the banks. It is also possible to work out modifications in the schedule of charges which take into account the objective of encouraging banking habit in the rural areas. For this purpose the analysis according to population groups done in Chapter IV can be used. Finally, it is very important to keep a watch on how the revisions actually work out in practice. If for instance, they result in over-fulfilling the profit objectives, prompt adjustments should be made to lower the schedule in the interests of the broader objective of spreading the banking habit.

## CHAPTER X

# MANAGEMENT ACCOUNTING FOR THE INDIAN BANKING SYSTEM

### THE KEY ROLE OF MODERN MANAGEMENT

10.1 The times in which we live have been called an 'era of change'. Like most descriptions, this tends to be an over-simplification. The transformation of *homo sapiens* from cave man to international jet traveller which history records obviously represents great change, but this transformation took place gradually over many, many centuries. What is new in our day is the pace and scope of change. In the words of Robert Oppenheimer "the years of a man's life now measure not some small growth or re-arrangement or moderation of what he learns in childhood, but a great upheaval."

10.2 Two of the most significant areas in which this tremendously increased pace of change is occurring are in Technology (including notably, the development of the modern computer) and in Management.

10.3 Of these two, the second, namely the silent changes in the world of Management may perhaps have a less visual effect on the average man, but has nonetheless pervasive and profound effect on his world. This transformation, sometimes called the Managerial Revolution, places the most onerous responsibility on today's Managers and makes the heaviest demands on their ability and spirit of dedication.

### THE MANAGER'S TASKS IN THE BANKING INDUSTRY

10.4 The tasks of the Manager in the banking industry in India today are basically no different from the tasks of the modern professional Manager in any industry in the country. Basically, they are to develop and maintain the optimum levels of efficiency, productivity and profitability in the particular Bank or unit under his management.

10.5 In the discharge of his responsibilities, bank management in India has to be involved in the same processes as any modern professional Manager in industry. These processes comprise the task of :—

- (1) forecasting and planning
- (2) organising
- (3) motivating
- (4) co-ordination and
- (5) control

## THE ROLE OF ACCOUNTING IN PROVIDING INFORMATION FOR MANAGEMENT

10.6 To discharge these responsibilities, management requires information of a range and scope and at a speed undreamt of till even very recent years. This information-oriented management function, in turn, has had its impact on the development of modern accounting. Since the end results of all business operations are ultimately expressed in monetary terms, even before the Managerial Revolution, Accounting served as the international language of business and the provider of the data on which Managements took business decisions generally. But with his increased responsibilities, the modern Manager has felt and expressed the need for far more comprehensive, timely and better presented information than he was satisfied with in earlier days. This in turn has led to the enlarging of the role of Accounting in Management performance. It has now become generally accepted that Accounting provides the information system within business enterprises and it has a key role to play in the Management of modern business and industry. As Mary E. Murphy has said\* 'modern management is management through accounting'.

10.7 This modern concept of the role of Accounting has given rise to the use of the expressions 'Management Accountancy' and 'Management Accounting' which the Report of the Anglo-American Council of Productivity (1950) describes as 'the presentation of accounting information in such a way as to assist the Management in creation of policy and the day to day operation of an undertaking'. The Management Accountant is concerned with the collection and recording of data, its validation before its communication to Management, along with interpretation of such data aimed at motivating management action.

10.8 A number of tools and techniques have been evolved by Management Accountants to enable them to discharge this wider role. In addition to the Balance Sheet and Profit and Loss Account which companies are required by law to publish annually for the information of their shareholders, and the public at large, the Managements of manufacturing companies have for long been provided with historical cost accounting statements, in which costs are analysed according to direct manufacturing costs on materials, labour and other items, and overheads analysed as between production, administrative, financial, distribution and so forth. Systems of job, or batch costing and process costing have found application in a number of engineering and chemical industries. Standard Costing and Budgetary Control are of more recent origin, but nonetheless have already firmly established their usefulness as tools in the case of industries whose expenses are capable of material control over variances through the pre-determination of 'standards' and timely reporting of variances of actual expenses from such pre-determined 'standards'.

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\* "Managerial Accounting" published by Affiliated East West Press, New Delhi, (1968).

The effects of inflation, causing constant fluctuations and erosion in the purchasing power of currency, have led to a system of Revaluation Accounting which aims at maintaining the capital of the enterprise intact in real terms, by calculating profit with reference to the current value of items in the accounts which may have originated at a time when the currency value was considerably higher or lower. In the area of Financial Management, techniques have also been evolved for the maintenance of a sound balance between the profitability and liquidity goals of an enterprise, through the use of Funds Flow Analysis, and Operational—and Financial—Leverage Studies, including Ratio Analysis and the use of Break-Even Point calculations. The latter are again a very useful tool in the most recent and notable contribution to effective managerial decision-taking provided by the system of Marginal or Incremental Expense and Income Analysis. The key to the successful operation of this technique lies in the correct classification of all expenses between variable and fixed and the timely reporting of opportunities that arise for profit-making. This is done by acceptance of new business on terms which would conventionally have been thought to result in a 'loss' but which in point of fact leaves room, after covering the entire variable costs on the additional output, for something more as contribution towards the profit of the enterprise—the whole of the fixed cost having already been absorbed by sales of earlier output. A number of statistical techniques such as the use of Scatter Diagrams and Regression Lines, Control Charts based on Standard Deviation, Sampling and Linear Programming have also gained increasing acceptance in modern Management Accounting, not to speak of PERT (Programme Evaluation and Review Techniques) and Critical Path Analysis. In an era of substantial expansion, combining with rapid inflation, opportunities for growth through new alternative choices of capital investment became available and the use of discounted Cash Flow Technique and other Capital Evaluation Tools came increasingly into prominence.

#### PAST EMPHASIS OF MANAGEMENT ACCOUNTING ON MANUFACTURING AND TRADING ORGANISATIONS

10.9 Most of the Accounting tools and techniques referred to above originated in manufacturing concerns. The common characteristics of many of the concerns which experimented with these techniques in the early days were that they operated on a fairly large scale, to take advantage of mass production and economies of size, and that the products of these units generally were such that raw materials constituted a substantial proportion of the costs. Moreover, these raw materials were subjected to manufacturing processes, either mechanical or manual, of such a nature that the time and cost of each process could be more or less standardized in advance of the operations, and the actuals controlled by comparison with such standards.

10.10 We believe it would be fair to say that by and large the rapid development of modern Management Accounting techniques has advanced



far more in the production-oriented industries than in the distributive, or service type of organisations. Most of the methodologies evolved have been developed in manufacturing concerns and the terminology used is also indicative of this.

10.11 What has been stated above will make it clear that there are obvious limitations in attempting to super-impose such techniques and tools on an industry such as the banking industry, which is predominantly a service industry, without first fully examining and assessing their relevance and applicability to the particular characteristics of the banking industry and the conditions and circumstances in which its operations have to be carried out.

#### CHARACTERISTICS OF THE BANKING INDUSTRY

10.12 Before we consider how far the tools and techniques evolved in modern Management Accounting may be applied in the banking industry, we would remind readers of the special characteristics of this industry. Banking is a service industry, an activity that exists, not to make and sell some products or physical objects, but to render to the community a service which, though vital to the nation's economic well-being and development is often an "intangible". The primary function of the banking industry is to serve as the organiser and provider of credit (in the wider connotation of the term and not merely lending) within the community. In discharging this function, banks serve as the media for organised collection of the savings of the community and their direction for investment or use in channels and activities considered necessary or advantageous to the community.

10.13 Incidental to the discharge of this primary function, banks help transfers of liquid funds from one sector of the economy to the other and from one geographical area to another, and also serve as record-keeper to substantial sectors of the economy. The periodical statements of the operations on their accounts, which customers receive from their bankers, should serve the customer as a dependable and ready-made record of those operations. In addition, banks provide several other useful services such as giving advice to customers and carrying out their instructions on investments of their funds, looking after trust funds, providing safe deposit vault facilities, etc. Thus banks help to bring an increasingly larger part of the totality of commercial and industrial activities within the country into the organised sector.

10.14 The largest investment of resources by banks is in human skills and labour, although modern banks do invest substantial amounts in up-to-date office premises and equipment. The employment, training and management of large numbers of people is a characteristic of banking which makes the human factor decisive in the attainment of satisfactory levels of efficiency, productivity and profitability. Human behaviour cannot be standardized into pre-cast moulds and predicted nearly as readily or as precisely as machine

process behaviour. The range of variances that must be tolerated in the output of intangible services by individuals has necessarily to be much wider than the permissible variances in yields from mechanical processes. What is more, the bank's output is received far more directly than in most manufacturing industries by its customers or clients—another composite of individual human beings, each with his particular traits of character and idiosyncrasies—so that the direct relationship between employee and customer comes into play far more in the case of banks than in most other industries. All this brings the subjective factor into play in the management of a bank's operations much more than in the case of most other types of business or industry.

10.15 Yet another characteristic peculiar to the banking industry is the nature of what may be called its 'stock-in-trade'. This is money,—cash, the most liquid and easily transferable of all liquid assets, and therefore, the one most susceptible to loss through theft and pilferage. Hence, a complete, daily internal check and control on the correct balancing and agreement of its record of each day's operations before employees leave work at the end of that day is of paramount importance to the operations of a bank. This implies that banks cannot afford to sacrifice the requirements of prudence in ensuring the safety of, and correct accounting for, depositors' hard-earned savings to the goal of maximising profitability. Thus the cost of prudence in banking is far greater than in most other types of industrial activity.

#### ADAPTATION OF MODERN MANAGEMENT ACCOUNTING TECHNIQUES FOR THE BANKING INDUSTRY

10.16 It is therefore inadvisable to apply many of the tools of modern Management Accounting in manufacturing concerns (which are designed to evaluate the efficiency of operations in terms of their effects on productivity and profitability) indiscriminately to banking operations.

10.17 This does not mean that modern Management Accounting has no role to play, or has nothing to contribute to the improvement of the management of banks. Far from it, since the overriding objectives of a Bank Manager are basically the same as those of professional Management in other industries, all that it implies is that the appropriate tools and techniques from the bag of the modern Management Accountant must be selected with care by bank Managements and adapted to suit the requirements of their particular type of operations. In applying the methods of functional cost and income analysis to banks in India in the foregoing chapters the Study Group has attempted to make a beginning in the selection and adaptation of these Management Accounting techniques to meet the requirements of the banking industry in India today.

10.18 The results of the Survey conducted by the Group show that it is possible to adapt the tools and techniques of modern Management Accounting

to serve the interests of improved managerial performance in the banking industry in India. The theoretical base of the approach in such an attempt at adaptation is the understanding of the nature of the various services rendered by Indian banks and the implications in terms of income earned by the banks on each such service in co-relationship to the relevant expenses.

10.19 One of the most difficult areas in regard to the Management of funds activities at branch level, as well as the exercise of effective supervision by the Head Office is the correct determination of the revenues that may be attributed to each of the categories of deposits accepted by banks. For a branch to obtain the total cost or the total income for a year's operation is not a difficult task. Before any meaningful evaluation can be made, these income and expenditure figures must be allocated to the appropriate functions. While a sufficiently elaborate and accurate costing of time and expenses on the servicing of each class of deposit accounts is relatively less complicated, the problem areas lie in the allocation of the income generated by the funds-using activities of the bank (principally advances) to the several funds-raising activities. It is difficult to associate specific assets with the funds obtained by specific types of deposits. A "Pool" approach wherein all uses of funds are made from a Central Pool of all available funds, without regard to their sources, and a Transfer Price Mechanism which affords a system for working out the relative profitability of operations at individual branches, by allowing to each branch a notional "price" or credit for interest on all deposits mobilized by it, and charging each branch a notional "price" or debit for interest on funds used by the branch for advances or other activities has been explained at length in Chapter V (*vide* paragraphs 5.16 to 5.28). Assuming that such a Transfer Price System is in operation, the revenues to be reflected in the monthly returns for deposits could be based on such notional debits and credits for interest to the branch. Alternatively, the information in relation to revenues generated would have to be derived from "actuals", on either cash or accrual basis, flowing from the prescribed method of ascribing a suitable earnings rate to the deposits based on the bank's policies.

10.20 The expenses in turn have to be carefully analysed on two different bases, the first or 'primary' according to the nature of each item of expenses, (this is being done in the existing profit and loss accounts) and the second or 'functional' according to the purpose for which the expense is incurred. Thus, for example, under the 'primary' basis salaries and provident fund contributions in respect of all employees in a bank are analysed under the heads salaries and 'provident fund contribution' regardless of the activities on which the different employees worked in the bank. In the system of functional analysis, the expenses are regrouped according to the function for which the expense "input" was incurred. By a carefully thought out and co-ordinated system of allocation under these two broad methods and of correlation between the inputs for, and the corresponding physical outputs of, and the income from, each type of banking service, valuable data can be

provided to the bank's management on the basis of which it can assess and control the efficiency, productivity and profitability of each type of service rendered by the bank.

10.21 The next phase of development to be worked towards would be the classification of all costs between those which are immediately controllable at various Managerial levels, and the others which are less controllable in the short run. While, in a sufficiently long run, all costs should be amenable to control, there are in every industry certain costs or overheads which remain "fixed" regardless of the volume of output and cannot be controlled or reduced in the short run. This is particularly so in the context of the Banking industry in India at the present stage, when the time and efforts of human beings represent by far the major element of cost of the industry (apart of course from the interest cost of funds) and, for reasons of public policy and social welfare, it may not be practicable for bank Managements to attempt drastic reductions in man-power, or substitution of manual by mechanical or computerized processes. Since, as already stated, the purpose of reporting any information (including costs) to Management in a particular manner should be to prompt the Managerial action called for on such information, it follows that the intervals at which the controllable and less controllable groups of costs would be reported would be spaced according to the periods over which it is practicable to exercise effective control over their movements.

10.22 Yet a further refinement of analysis would be to segregate variable, direct costs from fixed costs, so as to study the behaviour of costs in relation to changes in physical output. Management could then attempt to ascertain the levels over which reductions in the prices charged for particular services based on, not the total cost, but only the marginal or incremental cost of rendering such services, beyond a certain level of volume, should be considered, for reasons of optimizing profitability, or productivity or some other objective which the Bank Management considers desirable. In Chapter VI the Group has attempted to use the data collected in its Survey to study the effects on cost of variations in output. The Group has also recommended in that chapter that further study of this relationship be carried out bankwise in order to find out the scope for increasing banks' profitability with marginal increases in their volume of business.

10.23 A comprehensive discussion of the details of the information collected and the manner in which it was analysed by the Group has already been given in Chapter III. The main points of the methodology used are as under :

(i) The inputs of the various banking operations are measured in terms of the time devoted by the banks' employees to these activities, because, as already mentioned, the time and efforts of human beings represent by far the major element of cost in the banking industry (apart

from the interest cost on obtaining funds). In Management Accounting and economic terms, these inputs are expressed in man-hours of the various categories of employees, including officers.

(ii) The man-hours of the various categories of employees are made comparable and interchangeable by the allocation of appropriate weights based on the cost per man-hour in each category.

(iii) Units for the measurement of the different outputs of the various services rendered by the bank to its customers are specified in order to evaluate the return derived by the banks from the investment in outputs. Examples of such units of output are :

Number of vouchers,  
 Number of accounts/cheques/bills/drafts processed,  
 Number of currency notes handled,  
 Number of accounts, Rs. 100 of average outstanding, etc.

(iv) Cost per unit of output/service and its sub-division between variable and fixed costs are worked out by correlating the information on inputs and outputs with establishment and other expenses of the bank and the data relating to interest, discount, exchange and commission earned.

#### OBJECTIVES OF RE-ORIENTATION OF ACCOUNTING PROCEDURES OF BANKS IN INDIA

10.24 It is evident that banks will have to modify their information system considerably in order to be able to use the tools of Management Accountancy. One of the major sources of information readily available with the banks is the record of their daily transactions. This record is maintained at present by the use of accounting procedures which have aimed primarily at meeting the statutory requirements for disclosure of information in the published annual reports and accounts of banks and, beyond that, for the minimum requirements for centralized administration and control. As more and more information and returns were called for from time to time over the years by the Reserve Bank of India, the accounting system and procedures have been modified and adjusted on an *ad hoc* basis with a view to making available the information for complying with the requirements of the Reserve Bank of India. However, there has been no consistent and conscious attempt hitherto to develop and introduce a comprehensive system of accounting which would serve as a modern Management Information System to be used by all decision-making levels within the organisation for the day-to-day management of the affairs of the bank. The Group would like to suggest that Indian commercial banks, especially after nationalisation of the larger units, should lose no time in studying such Systems employed by banks in the U.S.A.

and the Federal Republic of Germany, which have been referred to at some length earlier in this chapter. The Group believes that, if the Chairmen/Custodians of banks in India initiate active attempts at formulation of comprehensive Management Information System for their respective banks on the basis indicated in this Report, they will be moving in the right direction in advancing the objective of improved performance, productivity and profitability in the Banking Industry in India.

#### RELEVANCE OF THE ORGANIZATIONAL STRUCTURE TO THE DESIGNING OF AN APPROPRIATE MANAGEMENT INFORMATION SYSTEM

10.25 It will be appreciated that the requirements of Management for information for the purpose of enabling them to take timely decisions regarding the operations of a particular bank will depend to a considerable extent on the pattern of organisational structure adopted within the bank and the extent of delegation of authority and responsibility to different decision-making levels down the line within the organisation. Further, the particular organisational structure within a banking unit would no doubt have a considerable impact on the costs, productivity and profitability of its operations. The Group finds that the replies received to the questionnaire issued by the Banking Commission to commercial banks as regards the organisation at their Head Offices, as also the pattern of managerial control over the branches of various sizes spread out all throughout the country, evidence that the organisational structure of the various banks is not uniform. The Group understands that the question of the most appropriate organisational structure of banking units from the view point of managerial efficiency, and optimization of productivity as well as profitability, in banking in India after nationalisation of the larger banks, is being considered by the Banking Commission.

#### THREE LEVELS OF MANAGEMENT INFORMATION

10.26 For the development of an integrated costing and financial reporting system, it is necessary to obtain information on costs incurred and income earned from three levels of managerial decision-making. The first of these is the micro level where information is required by the monetary authorities from the various banking units for the purpose of formulating and prescribing the broad policy to be followed by banks to implement the Government's decisions in this field. The second level is that of the Head Office of each of the present banking units, the Chief Executive Authority of which is the Chairman/Custodian of the bank. This is the senior micro level and the information required here may be of quite different nature and for quite different purposes than that furnished to monetary authorities. The Chairman/Custodian primarily has responsibility for the overall management of the particular banking unit under his control and the decisions at this level will relate to the overall planning and control of the various aspects of the operations of only the particular banking unit concerned. The third and

lowest management level is, in fact, that at which the day-to-day operations of banking take place and this may be referred to as the Branch level. The Branch Manager would be responsible for the performance of the Branch in his charge in regard to what may be termed the 'grass roots' matters of operational efficiency and profitability and will have to be furnished the requisite information for guidance. In this chapter, we shall be concerned mainly with the information required at the latter two levels, namely, the Head Office level and the Branch level. As regards the information required by the monetary authorities, the Group feels that the information called for is of such a nature that it should in any case be available without incurring disproportionately heavy additional effort or expense provided the banks maintained a reasonably comprehensive and up-to-date Management Information System (MIS). The cost of preparation of the various returns to the monetary authorities should be considered as a part of the fixed overheads relating respectively to the Deposits, Advances, Foreign Exchange, or other activities of the banks concerned, according to the nature of the information required by the respective returns.

#### "COST," A RELATIVE CONCEPT

10.27 Before we consider at greater length the different needs—and therefore types of information—of each of these three levels at which managerial decisions affecting the banking industry in India are taken, it is necessary to stress that "Cost" is a relative concept, not an absolute quantity. It has been said that "Cost" represents an effort to achieve a certain objective. It represents something spent to achieve something intended. The costs should be incurred. They should not just occur by themselves. What is more, any particular cost has to be quantified and evaluated relative to a particular purpose. Thus, when it is stated that the cost of a particular bank branch, for example, are high, or that they are low, this should not be understood as a judgement in absolute terms, but only in co-relation to some other relevant factor such as, for example, the level of operations or the corresponding revenues of that particular branch. Further, each cost has a behaviour of its own, dependent on the nature and characteristics of the particular cost. Quite incorrect managerial decisions are often taken by assuming that some particular costs have behaved in a particular way, for example, moving proportionately to some other item of cost, whereas in point of fact their behaviour may have been quite different. For correct managerial decision-making by banks, it is therefore essential that their costs be analysed in stages and that they should not be grouped together irrespective of their behaviour. Moreover, one should avoid assuming relationships between costs where none such exists, but should instead attempt to determine the correct yardstick in relation to which each particular item of cost should be evaluated. Thus, for example, in multi-product manufacturing concerns, it often used to be assumed that factory and other overhead costs could be apportioned to each of the products manufactured in proportion to direct manu-

facturing labour charges. It often happened that a substantial proportion of these overhead costs were of a fixed nature, while only a few components of such costs varied directly with the output of each of the products manufactured. In determining separately the costs of each of the products manufactured, the allocation of the total overheads on the above incorrect assumption often led management to quite incorrect conclusions. In the context of the Banking industry, the relevance of this observation lies in the importance of correctly co-relating the various costs of banks to the purposes for which they are incurred, and, in turn, to the corresponding revenues of the bank obtained from the undertaking of each such purpose.

### *Need for Integrating Cost and Financial Accounting*

10.28 The implications of what has been stated above are that a Management Information System in which the reporting of: (a) levels of operations in quantitative terms (b) incomes, and (c) costs is kept separate and distinct, each from the other, will tend to result in a compartmentalisation of the bank's managerial decision-making which may not lead to improved operational efficiency, cost reduction and improved profitability. Unless the inter-relationships between the levels of volume of business, costs and related income are clearly brought out in the reports furnished to the three managerial levels mentioned in paragraph 10.23 above, the action which seems to be suggested by such separated information may not lead to the desired goals. Integrated reports to management on these three aspects can only flow from an accounting or Information System in which the compilation of the data relating to each of them is not done separately and independently from that for the others. These considerations have led the Group to recommend that the re-orientation of the Accounting System of banks in India should not proceed on the lines of the super-imposition of a separate departmentalized costing system on the existing reporting systems of such banks, but that the present reporting system should be gradually replaced by the blending of the cost and financial Accounting into an integrated Management Information System which combines and co-relates the collection, analysis, interpretation and reporting on each of these three aspects. The Group understands that such a system has been evolved in the Federal Republic of Germany. A note of the details of this system is given in Annexure-E to this Report.

### *Information for the Head Office*

10.29 As mentioned earlier (*vide* paragraph 10.25 above), the pattern of organisation at the Head Offices of commercial banks in India is far from uniform. The replies received by the Banking Commission to the questions to commercial banks on this matter indicate, moreover, that the extent to which responsibility and authority are delegated by the Head Office to operating branches also varies from unit to unit. Hence the extent of detailed information required by the Chairmen/Custodians at the Head Offices of the



various existing banking units would necessarily vary somewhat depending on the abovementioned factors.

10.30 Nonetheless the overall functions and responsibility of each of the Chairmen/Custodians at the Head Offices of banks in India are broadly the same. Therefore, the purposes for which information has to be supplied to this managerial level, and the broad nature of the information required, are the same for all of them. This information would relate to the overall planning and control of the various aspects of the operations of the particular banking unit concerned. We may, therefore, discuss some of the implications which the nature of managerial decision-making at this level will impose on the Management Information System of the bank.

10.31 The primary functions of the Chairman/Custodian and his staff at the Head Office may be summed up as —

- (a) planning and development of new business; and
- (b) control over current business.

Both these functions, it may be emphasised, have to be performed in conformity with the objectives of the socio-economic policy of the Government and the guidance given to and the restrictions imposed on the banks by the authorities from time to time. These functions involve concentration on—

- (i) deposit mobilisation policy,
- (ii) lending policy,
- (iii) management of 'liquid' assets,
- (iv) staff policy,
- (v) organisation and methods,
- (vi) inspection and audit, and
- (vii) profitability.

As far as (i) and (ii) are concerned, the Head Office lays down the policy and the operating branches handle the actual business; the Head Office function is to watch the performance of the branches and give them advice or instructions as to how they can improve their performance. Though (iii) is an exclusively Head Office function, it is affected by the performance of branches in regard to (i) and (ii); (iv), (v) and (vi) are Head Office functions while (vii) is the net result of the actions taken by the Head Office and the branches as well as of the actions in regard to banking of the authorities.

10.32 For watching the performance of branches in regard to deposit mobilisation, loans and advances, foreign exchange business, etc., there is no

need to devise any special forms. Already bank branches are required to furnish information regularly to the Reserve Bank of India on the outstandings of deposits of different categories and the outstandings of advances in the UBB proformae which give a considerable amount of information as regards the status of the borrower, the purpose of the advance, security against it, the rate of interest and so on. What is necessary for the Head Offices is to organise processing of this information so that it is available to the management in properly classified form. The coverage of information relevant for control over current operations, as also the direction of future operations, would require highlighting of the inter-connection between the volume of deposits, the revenues generated therefrom and the related costs. The figures from such returns, aggregated for all the branches, would enable the Management at the Head Office to compare the actual results of the funds-raising activities at operating centres with the pre-determined targets (fixed in consultation with those centres) and give directions for any remedial action that might be called for. These figures would also serve at the same time as the starting point for the planning of this activity and the determination of targets for the next period.

10.33 It is not enough however for the Head Office to know merely how well it has fared in deposit mobilisation or in having a pattern of bank credit which conforms to the credit policy objectives of the monetary authorities. The Head Office has to know in addition the degree of efficiency with which the bank is functioning, the weak spots in its working and the extent of success of remedial measures taken by it to remove them. Thus it has to be concerned with operational efficiency, *i.e.*, maximum income at optimum cost.

#### *Information for the Branch Manager*

10.34 At this point we have to consider the branch level at which the day-to-day operations of banks take place. It is at the "grass roots" level at which the collection and analysis of information for an integrated Management Information System has to begin. The branch manager already has in his registers a complete record of the various transactions. When he prepares the periodical returns for the Reserve Bank, he is required to classify the various transactions in economically meaningful categories, *e.g.*, fixed deposits, direct loans to farmers, etc. Maintaining such classified totals in the form of a time series will provide him with information on the rates of growth of particular types of business and he can then find out for himself the degree to which he has been able to conform to the guidance, if any, from the Head Office in regard to these. The Group wishes to emphasize that, between these two Managerial levels, it is essential that the flow of information and communication should be in *both* directions, so that there is a constant interchange of information which serves to assist each Managerial level in the better and more effective discharge of its decision-making responsibilities. Assuming that both the branch and the Head Office are

each of optimum size, modern Management thought would appear to point towards the maximum possible delegation and decentralization of decision-making authority, combined with prompt, frequent and dependable reporting on Accountability to the Head Office. To enable him to know how efficiently his branch is working, the branch manager should be able to analyse his costs and income and compare them with those of branches comparable to his in terms of overall size and character of business, location and so on. This can be done if a system of costs and income analysis, and assessment of branch profitability, is developed. In this and the foregoing chapters, the Study Group has given an approach to the problem. In the chapter that follows recommendations are made for organising a continuous study of it.

#### SETTING OF PERFORMANCE TARGETS AND BUDGETARY CONTROL

10.35 At this point we propose to discuss the question of achieving operational efficiency, *i.e.*, maximum income at optimum cost, in some detail. This can be effectively done through a proper planning of the year's activities sufficiently in advance and by fixing targets for performance and income and limits for expenditure. This in turn would require Budgets to be prepared and a good system of Budgetary Control to be established. An outline of such a system is given in the following paragraphs in some detail. In applying it to any particular banks, modifications may be necessary to suit the circumstances of that bank. Thus, for instance, the smaller branches may not be required to go into the same degree of detail as the larger ones. Furthermore, for banks with a large branch network, some decentralization of the system is necessary. Thus, these banks can set up regional offices which would look after the budgets of medium and small sized branches in their areas, while the Head Office concerns itself directly only with the important branches. Also, the system may need to be introduced in a suitably worked out phased programme, starting with the more important branches and gradually extending it over the whole branch network.

10.36 In "Cost Terminology" published by the Institute of Cost and Works Accountants, London, "Budget" and "Budgetary Control" are defined as under:

##### *Budget*

A financial and/or a quantitative statement prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective.

##### *Budgetary Control*

The establishment of budgets relating the responsibilities of executives to the requirement of a policy and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a basis for its revision.

Thus in the case of banks the budget would spell out the targets to be achieved in respect of their activities (Deposits, Loans and Advances), income (Interest, Exchange, Commission received) and expenditure (Interest paid, staff expenses and other expenses). These targets will be analysed into such detail as is necessary in the light of the prevalent policies of the bank and the monetary authorities so that the responsibility for achieving these targets can be related to a single individual who controls that activity, income or expenditure.

10.37 A system of budgetary control would have the following advantages for a bank and/or its branches. It—

- (i) lays down a target for its activities during a given period ;
- (ii) ensures a direct control on the various income and cost factors ;
- (iii) probes into the reasons for the deviations from targets and takes corrective action where necessary ;
- (iv) promotes a feeling of cost-consciousness and restricts expenditure to the minimum ;
- (v) encourages healthy competition between branches ; and
- (vi) helps in reviewing current policy and in determining future policy.

#### *Budget Factor, Budget Centre and Budget Period*

10.38 The first steps in a budgetary control system would be to determine in the order of their relative importance the 3 vital bases on which the whole edifice of Budget is built up, *viz.*, (a) the Budget Factor, (b) the Budget Centre, and (c) the Budget Period.

##### (a) *Budget Factor*

The Budget is related to the policy to be followed during a given period and in determining this policy there should always be a “start-off point” to which all the other activities will be correlated. This “start-off point” is termed as the Budget Factor, which in the case of banking business will naturally be the Deposits to be mobilised. It is the determination of Deposit targets for each branch which will determine in turn the policy and costs in respect of the utilisation and servicing of the mobilised funds.

##### (b) *Budget Centre*

A budget fixes the responsibility to work to a target, and this responsibility is delegated to an individual. The area of authority and of operation of this individual determines the Budget Centre. It is important that in any organisation, Budget Centres should be linked with the level of responsibility delegation. In banking business a “branch” would perhaps be the ideal Budget Centre since most of the activities of a bank are concentrated in bran-

ches. Of course, it should also be noted that in the case of certain activities like Investments, Legal matters, etc., the Head Office of a bank and not the branches would be the Budget Centre. In formulating the Budgets, therefore, the responsibility for the budgets at each Budget Centre should be clearly defined.

(c) *Budget Period*

This is the period which a budget covers and it would vary according to the type of the budget itself. Normally the budgeting period is taken as one year. There could be long-term budgets, *e.g.*, Capital Expenditure Budgets covering more than a year's period, and short-term budgets, *e.g.*, Cash Budgets which are either quarterly or even monthly. It should, however, be noted that though the budget as a whole could be for a specific period, say a year, its build-up should relate to the period for which reporting on budget performance has to be made, which should in most cases be a month. For banks the budgets are best prepared for one year (preferably the calendar year rather than the fiscal year), with a system of monthly reporting. This would apply to Capital Expenditure Budgets also; though the Capital Expenditure is usually projected over the next few years, it will be more purposeful and convenient to budget it for the immediate next year only.

*Planning Out the Budget Schedule*

10.39 Having decided that the Budget Period for banks should be the calendar year starting on 1st of January, it is essential that all budgets for any one year should be drawn and agreed upon latest by the 3rd week of December of the preceding year. This would first require setting up of the performance target for the Budget Factor, *i.e.*, the deposits to be mobilised. In fixing this target due account has to be taken of the prevalent monetary policy the details of which are generally conveyed by the authorities to the banks in the month of November.

10.40 It is also necessary that the branches also should send in to the Head Office\* their annual Business Survey Reports. This report should generally cover the business trends noticeable at the time as well as anticipated to develop in the budget period in the area served by the branch and should be prepared taking into account the various environmental factors and consulting, wherever feasible, the local associations of farmers, small-scale and other industrialists, traders and the district authorities. Branches should be encouraged to make suggestions for the formulation of the future policy of the bank and highlight those factors which are likely to affect the expansion (or contraction) of their own activities.

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\* In this and subsequent paragraphs the term Head Office is used to denote the Head Office proper as well as the regional offices for banks with large branch networks.

10.41 Based on these, *viz.*, the monetary policy and the branch business survey reports, the Head Office of each bank should formulate its overall performance targets for the year concerned and invite each branch to fix its own share of the overall targets through a budget prepared in the context of its Business Survey Report, well before the beginning of the year to which they relate. This is a very important “policy making step” and sufficient care and attention must be bestowed on the fixation of the performance targets of the branches so as to avoid any impression of imposition from above and to ensure involvement as well as a feeling of participation on the part of the branches. The targets should be so fixed that they inspire in the branch a spirit of challenge as well as a confidence of attainability.

#### *Submission and Consolidation of Budgets*

10.42 The budgets along with the branch Agents’ comments if any on Head Office policy, should be forwarded to Head Office latest by 1st of December. These should then be scrutinised at the Head Office, discussed with the branch Agents, individually or collectively, where necessary, and finalised before the 3rd week of December. The Budgets Section at the Head Office will consolidate the budgets received from the branches under each category, *i.e.*, Deposits, Advances, etc., to arrive at the consolidated budgets for the bank as a whole in respect of Deposits, Advances, etc.

10.43 If after the consolidation the total of any one or more of the branch targets is found to fall short of the corresponding overall target(s) or where the target(s) set up for itself by a branch are found to be rather too low for the optimum possible under the circumstances, the deficit in the first instance should be distributed amongst all or some of the branches which are prepared to take up the additional load or loads and the targets in the second instance should be raised to the optimum level, of course after discussion with all concerned.

10.44 From the consolidated budget the Head Office should prepare:

- (i) the Funds Flow Chart to estimate the overall need for investments and borrowings during the budget period for the bank as a whole ; and
- (ii) a forecast Profit and Loss Account for, and Balance Sheet as at the end of the year, and each quarter, for the purpose of check up.

10.45 In this context it may be mentioned that certain foreign banks adopt a budgetary system in which “sub-budget centres” called “Market Segments” are defined for each branch and budgets are prepared to reflect the profitability of each market segment. These market segments would be, say, Small-Scale Industries and Small Business, Agriculture, Exports, large and medium-scale industries and Commercial and Financial Institu-

tions, etc. This concept necessarily takes for granted that it is possible for each branch to exercise its discretion in choosing its most profitable market segment, and that each segment is a self-supporting activity. But these need not always be true, particularly under Indian conditions. Hence for our purposes it is felt that we should present the performance of the branch as one whole unit rather than by Market Segments.

### *The Budgets to be Prepared*

10.46 A fairly simple system of Budgetary Control would require each branch to submit separate Budgets in respect of :

- (i) Deposits classified under Current, Savings and Time.
- (ii) Advances and Loans classified under: (a) Priority Sectors, *i.e.*, Small Scale-Industries, Farmers, Exports, etc.; (b) Large and Medium-Scale Industries ; and (c) Other Advances.
- (iii) Foreign Exchange business wherever applicable.
- (iv) Other specialised services in the case of branches where these are given.
- (v) Interest payable on Deposits and Borrowings including the notional interest to be paid on Inter-branch Transfers from Head Office.
- (vi) Income expected from interest on Loans and Advances, including the notional interest to be received on monies transferred to Head Office.
- (vii) The operating costs of the branch analysed by each item of expenditure. These include:
  - (a) a notional rent to be charged in respect of own buildings ;
  - (b) the method of treating income arising out of renting out a portion of branch premises ; and
  - (c) the percentage share of Head Office expenses to be borne by the branches as advised by the Head Office.
- (viii) Funds flow.
- (ix) Staff requirements classified by each activity, expressed in terms of clerical and officer man-hours.

Items (v) and (vi) are to be calculated at the rates which the Head Office will communicate to branches from time to time as recommended in Chapter V. As regards items (vii) (a) and (vii) (b), there are opinions for and against taking cognisance of these factors. In our opinion a fair rent for owned premises should be charged, after deducting the depreciation provided in accounts ; as for the rent income, this and the amount of depreciation pertaining to let-out premises should both be excluded from branch accounts.

Item (viii), Funds flow can be prepared on a rough and ready basis by a branch of a bank by examining the expected rise of deposits and remittance activities during each month of the next year and corresponding rise in advances, mentioned sectorwise and examining their seasonal pattern and past history. The branch is also to look to the Cash Management to work with minimum amount of cash by (a) looking at the inflows and outflows of cash from week to week over a period of two to three years, (b) studying the likely requirements of cash due to the expected growth of funds activities. For greater precision, a more sophisticated method such as the one developed in the study by Kum. Pant on 'Use of Inventory Control Technique for Cash Management in Banks'\* could be adopted. For branches with a large volume of business, this type of approach would be necessary.

In this method, the techniques of inventory management developed for manufacturing industries are applied to the management of cash in the banking industry, taking into account the special features of the banking industry—in particular the repercussions of a branch not having adequate cash to meet its obligations. In order to be able to apply the method, it is necessary for banks : (i) to use the method known as ABC analysis to find out the contribution of the various branches to the holdings of cash ; and (ii) to study with the help of appropriate statistical techniques the seasonal behaviour of daily inflows and outflows of cash at the various branches and correlate it with such factors as the location of the branch, the type of business handled by it, and so on. On the basis of such a study, it is possible to work out safe levels of holdings of cash by branches of banks according to their location and business.

In addition to these, there should also be a summary budget, incorporating the first 7 budgets listed above, to forecast the profits to be earned.

#### *Special Budgets at Head Office Level*

10.47 At the Head Office budgets should be prepared in respect of:

- (i) Investment Department,
- (ii) Capital Expenditure, and
- (iii) Expenses of Centralised Service Departments like Secretarial, Legal and Management Services.

10.48 Further, as noted in paragraph 10.44 above, Head Office will also prepare a Funds Flow Chart on the basis of the consolidated projections in respect of deposits, advances, etc. The chart will be based on the following factors :

On one side—

- (1) Head Office funds, such as Capital, Reserves and Contingent Funds,  
less Fixed Assets ;

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\* See, "Technical Studies prepared for the Banking Commission, Volume I", Reserve Bank of India, 1972, pp. 269-317.



- (2) Projections of deposits and other liabilities ; and
- (3) Borrowings ;

and on the other side—

- (1) Cash required for branch working ;
- (2) Cash required under statutory obligation ;
- (3) Investments required under statutory obligation ; and
- (4) Advances.

and show them at different points during the budget period. From the Funds Flow Chart the Head Office of each bank will be able to estimate the extent of borrowings, if any, the bank may be required to make at those points during the budget period and proceed to make its own arrangements for raising the required funds at the cheapest cost to the bank, taking due notice of the Reserve Bank policy. Similarly, there may be surplus funds; in that case the bank will be required to consider how best such surplus funds can be utilised to maximise profit.

### *Budget Forms*

10.49 The form in which these budgets are to be prepared and the details to be shown therein would vary from management to management and therefore no attempt has been made here to suggest any specimen set of forms to be adopted by all banks. However, as a challenge for the future, specimen forms of Monthly Reports on Funds Activities that may be introduced after budgets and standards have been evolved on a reasonably dependable basis are given at the end of this chapter (Specimen Proformae 10.1 and 10.2)

### *Reporting and Follow-up*

10.50 The main object of any reporting system should be to initiate action where needed, so as to obtain the desired result. In a system of budgetary control, action will be required to localise and eliminate unfavourable variations from target, so that at least the budgeted profits are earned. Every budget report should, therefore, compare (month-wise and cumulatively) the targets against actuals, throw out the variations, analyse the variations due to controllable and non-controllable factors, and relate such variations as are controllable to the individual executive so that he can initiate necessary corrective actions. Ultimately, when sufficiently accurate and realistic standards have been established, and have found willing acceptance at all management levels, the aim to be worked towards—in so far as reporting to Head Office at short, regular intervals within each year is concerned—would be to minimise the valuable time which the top management has to devote

to the perusal of these reports, by the introduction of a system of "Management by Exception". Thus, such reports would only contain abnormal variations from budgeted figures, so that the attention of the management at the Head Office would be automatically focussed on those areas where it should make further enquiry or initiate remedial action. It is advisable that each bank develop a uniform system of reporting which all the branches should follow. The branches should include in their reports their own reactions to the variations from targets and point out precisely whether any of the targets would require to be revised.

10.51 In this context, it would also be necessary that the Head Office should keep the branches continuously informed during the year of the following trends :

- (a) growth rate of deposits and advances in other branches of the bank ;
- (b) growth rate of deposits and advances in the branches of other banks, if possible, also in the same area ;
- (c) the extent to which the funds would be available from the Head Office, or borrowings could be made from elsewhere ;
- (d) the likely rate of interest payable against (c) above (*vide* the diagram in Chapter V, para 5.16) ;
- (e) the current and anticipated trends in the money market and capital market ; and
- (f) the trends in the Government's fiscal policies and their probable impact on the bank's activities.

10.52 The budget reports received from the branches and that of the Central Office must be consolidated monthly so that a continuous watch on the performance of the bank as a whole is maintained. It is also advisable that at least once in a quarter the heads of branches should assemble at the Head Office to discuss their budget reports. This meeting should review the corrective actions taken by the branches on points discussed at earlier meetings and decide on the specific points which would require action in the immediate future. In order to emphasise the importance of working to the budget and to make all concerned cost conscious the Board of Directors should review each month the consolidated Budget Report in addition to noting the actual working results.

#### *Limitations of Budgetary Control*

10.53 Before concluding this description of the method of budgetary control, it is necessary to point out that in the initial years of the application of this method the various forecasts are liable to contain a rather large margin of error. Even in the best of circumstances there are always some unforeseen

developments which cause deviation in the actual performance from the forecasts. Account has also to be taken of the fact that in many branches the staff may not be equipped to prepare detailed budgets with a high degree of accuracy. With experience however it should be possible to draw up fairly satisfactory budgets by branches. In the preparation of budget, the previous statistical behaviour of both deposits and advances have to be taken note of, as also the fact that as people get more bank minded—this would depend on the branch expansion programme and the increased use of cheques instead of cash as means of settlement of financial obligations — a higher rate of growth may have to be posited; the assumption of a constant growth rate may be not only misleading but also overrate the performance of a branch.

#### THE PHILOSOPHY OF AND APPROACH TO BUDGETING

10.54 The Group wishes to emphasise that the exercise of budgetary control in the manner described earlier should be made as simple and understandable as possible. What is required is perspective analysis, at the Head Office level, of the returns submitted, and personal contacts and discussions with branches as frequently as possible in order to assess and assist their progress. The budget system has to be established on the highest possible level of motivation. It is to be used as a means for setting standards of performance for measuring actual results and for guiding management to satisfactory achievement. This means the rejection of the use of budgets primarily as a “pressure device” to goad people to greater effort. Unless this is understood and accepted as the very starting point of budgeting philosophy and practice, no budget programme can ever advance to the stage of maximum fruition. To use the graphic language of Mr. James L. Pierce,\* like all other techniques for better management, the budget should “be a door open to more satisfying and profitable work,—not an instrument of torture. Then it will be known that what you can do without a budget, you can do better with one . . . Planning is but another word for the vision that sees a creative achievement before it is manifest. Control is but a name for direction. The genius of management cannot fail to turn the budget idea finally into positive channels, so that people individually, as well as business leadership generally, will reap the harvest that it promises.”

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\* “The Budget Comes of Age”—Harvard Business Review, May—June 1954.

SPECIMEN PROFORMA 10-1

.....BANK ..... BRANCH .....1971

REPORT ON FUNDS-RAISING ACTIVITIES

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
VOLUME			INCOME				COSTS												
No. of A/cs.		Whereof New A/cs.	Average B/c. O/s.					Servicing				Interest				Total			
			(lakhs of Rs.)	A.	B.	C.	D.	A.	B.	C.	D.	A.	B.	C.	D.	A.	B.	C.	D.
				(Refer key below) (in '000s of Rupees)															

*Current Deposits*

Budgeted	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Actual	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Variance (plus/minus)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Similarly, Sections 2, 3 and 4 would appear, each on a separate page, for Savings Deposits, Fixed Deposits and Total Deposits.

- KEY**
- A. Current Month
  - B. Same Month Previous Period.
  - C. Current Year to date
  - D. Corresponding Part Previous Period.

SPECIMEN PROFORMA 10-2

..... Bank

..... Branch

..... 1971  
(Month)

REPORT ON ADVANCES

1 Particulars	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
	TOTAL				TYPE 1				TYPE 2				TYPE 3				TYPE 4			
	A.	B.	C.	D.	A.	B.	C.	D.	A.	B.	C.	D.	A.	B.	C.	D.	A.	B.	C.	D.

(-----Refer key below-----)

I. VOLUME

1. No. of A/cs. ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
2. Average B/cc. O/s ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

II. INCOME

3. Interest ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
4. Other Service Charges ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
5. Total ..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

III. DIRECT EXPENSES

..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
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IV. CONTRIBUTION (II—III)

..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
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V. FIXED CHARGES

..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----

VI. P/L on ADVANCES

..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----

KEY

- A. Current Month
- B. Same Month Previous Period
- C. Current Year to date
- D. Corresponding Part Previous Period

## CHAPTER XI

# EXTENT AND THE MANNER OF USING COST CONTROL TECHNIQUES IN BANKING

### OBJECTIVES OF COST CONTROL

11.1 If the business of banking is to be carried out economically and efficiently, it is necessary that, for each branch :

(i) the income should exceed the expenditure, *i.e.*, there should be a net profit (as is the objective in any business) except perhaps in the very early years of its establishment ;

(ii) the mobilisation of deposits and the utilisation of funds are intelligently planned so as to fulfil the desired objectives of deposit growth, achieving the proper pattern of loans and advances and increasing income of the branch; and

(iii) certain pre-determined norms of staff efficiency and cost efficiency are achieved. (Staff efficiency would reflect the efficient use of clerical and officer man-hours and cost efficiency would reflect the optimum utilisation of cost factors).

### METHODS TO BE ADOPTED

11.2 The profitability and efficiency of a bank can be improved through :

- (a) standardisation and simplification of systems and procedures ;
- (b) setting up of performance targets for the bank's activities and budgetary control of income and expenditure both at branch and at Head Office levels ;
- (c) developing a system for funds forecast and cash management ;
- (d) developing a uniform system for a centralised compilation and presentation of inter-branch figures for cost and performance ;
- (e) improvement of productivity of staff services ;
- (f) measurement of operating efficiency and profitability through Management/Financial Ratios ; and

(g) developing a rating system for comparative measurement of inter-branch efficiency at yearly intervals.

Of these (b) and (c) have already been discussed in Chapter X. The remaining are discussed in the following paragraphs.

#### *Standardisation and Simplification of Systems and Procedures*

11.3 Expense on staff is by far the most significant item of a bank's total cost apart from the interest cost of funds. The two important factors of this expense item are : (i) the effort that is put in ; and (ii) the rate of remuneration paid for this effort. Under present day conditions, the rate of remuneration for certain categories of staff depends to a large extent on external factors and as such is not amenable to control by bank managements. So, for any reduction in staff cost, or its control, bank management has to examine how best the effort required to do a particular job can be reduced to a workable minimum. The importance of standardisation and simplification of systems and procedures arises here. The establishment of an Organisation and Methods Department in some of the larger banks is a step in the right direction, which other banks would be well advised to follow.

11.4 Another study group of the Banking Commission has gone into this aspect in detail and has made many recommendations. These indicate that there is ample scope for improving working efficiency if the following steps are taken :

(i) delegation of more decision-making powers to lower levels of management ;

(ii) tightening up of inspection procedures through expanding the scope and increasing the frequency of inspections ;

(iii) carrying out a detailed job analysis of each item of work and studying the possibility of avoiding repetitive and unnecessary work ;

(iv) reviewing the existing forms with a view to consolidating two or more of them where justified, eliminating those considered unnecessary and/or redesigning any one or more forms to ensure speed and facility in the filling up of the forms. This should be a continuous process of research entrusted to a Central Organisation so that the necessity and suitability of the forms are under constant review and in course of time standardisation of forms for all banks may be effected ;

(v) reviewing the necessity and effectiveness of the various statements and returns that are now compiled ;

(vi) staggering the target dates for the submission of periodical returns so that a peak load at the preparation end and an accumulation at the receiving end are avoided. It is not necessary, for instance, that

all monthly statements should be for the month ending, requiring to be submitted in the first week of the following month. A planned staggering of the submission dates can ensure a greater attention to the figures compiled at the preparation end and a proper assimilation of the information presented at the receiving end ;

(vii) improving productivity of clerical effort, wherever possible, through mechanisation of the four main clerical functions, *viz.*, posting, copying, totalling and calculating ; and

(viii) formation of a Management Services Division at Head Office to improve, review and clarify procedures. It should also be the function of this division to compile a "Manual of Instructions" and to organise training programmes for the staff at all levels. Under this division will function an Organisation and Methods Department under the control of a Management Accountant. The functions of this department would mainly be to instal and run the procedures laid down by the Management Services Division. In the present day context this department is no more a luxury which big banks alone can think of. It is, on the other hand, a necessity for survival, as it would aim at the utilisation and control of the highest single item of expenditure, *viz.*, staff expenses.

*Developing a Uniform System for a Centralised Compilation and Presentation of Comparative Figures for Cost and Performance*

11.5 Periodic reporting and dissemination of comparative information are essential steps to promote efficiency. In Chapter X we have broadly indicated the nature of reporting required for a budgetary control system for the branches of a bank. On the same lines, a reporting system for banks can and should be developed by the authorities concerned. In fact this is already being done to some extent and our suggestion aims at systematising and widening the scope of the process. What is lacking in the present arrangements however is arrangements for regular and systematic information on costs and income at the various levels of the banking industry.

11.6 As already mentioned in Chapter X, there are three levels at which information relating to costs and income is required. To start with, at the branch level, the Manager of a branch should be able to compare past performance in regard to costs and income of the branch with the current, with the aid of records maintained by each department as to the quantum of activity and the remuneration earned. This would enable not only himself, but his controlling authorities, to compare the performance, given the economic environment of that particular branch. The second level of examination of costs and income would be at the Head Office where, on the basis of periodical reports submitted by branches, a critical analysis can be made of the progress made by them. For this purpose, the Head Office would need to be fully informed about the potential existing in the area of operation of a parti-



cular branch, in order that no unfair comparisons are made. At the top level, which could be the Reserve Bank of India, the data collected could be assembled for comparison of inter-bank performance, bearing in mind the differences in the economies of the regions in which the banks operate.

### *Management Information with the Help of a Sample Survey*

11.7 The methods described in Chapter III to work out the cost and income of bank activities are such that they can be used in all types of branches of banks. It is however neither practicable nor necessary to ask all the bank branches to go on collecting this type of data all the year round. What is needed at the branch level is a simple system which will enable the branch manager to work out the costs and income at his branch and to compare them with those for the bank as a whole. At the level of the Head Office the bank should know from time to time : (a) which of its branches show above average performance, and which are below average ; (b) to what extent the various improvements in organisation and methods have been successful in increasing the operational efficiency of branches ; and (c) how do the bank's costs and income for different services compare with the averages for all banks in the country. The requirements at the branch and Head Office levels can be met by : (a) requiring all branches to maintain a regular record of all physical outputs, *e.g.*, vouchers, number of drafts handled, etc., according to the type of services, as in the proforma No. XI-1 at the end of this chapter, in addition to the record of monetary outputs, *e.g.*, outstandings of deposits, advances, etc., already maintained ; and (b) organising a sample survey on a regular basis to obtain detailed estimates of unit costs and income for the different types of output for representative types of branches. Such estimates of unit costs and income can then be used in conjunction with the record of the physical and the monetary outputs and of the earnings and expenses maintained by the branches to evaluate their efficiency and profitability in the manner described in Chapter V.

### *Outline of a Scheme for a Continuous Sample Survey*

11.8 Based on the experience gained in the Sample Survey conducted by us, we recommend the following arrangements for a continuous Sample Survey for Bank Costs and Income Analysis :

(i) The Sample Survey should be conducted by a Central Agency which may be either the Reserve Bank of India, or an Agency set up by the Reserve Bank and the scheduled banks—both commercial and co-operative. The important point is that the Agency should be such as : (a) has the necessary expertise and facilities like a computer ; and (b) can secure co-operation from the banks.

(ii) This Agency should prepare the sampling frame for commercial banks, *i.e.*, the list of branches together with important particulars such as the type of area in which each branch works, the population

of the centre, total outstandings of deposits and advances on a specified date and total earnings and expenses at the branch. The sampling frame will need to be up-dated from time to time. Separate sampling frames will be needed for the different types of co-operative banks.

(iii) The Agency should conduct pilot studies on the sampling frames to decide which of these particulars could be used for selecting the sample units, *i.e.*, the bank branches. Although the Group found its two-way classification scheme for commercial banks useful, it feels that the scheme can be improved upon. The pilot studies will enable the necessary improvements to be effected. The Agency can use the data already collected by the Group for the purpose of these studies. The sample selected should be such that it will enable bank-wise estimates to be made for large and medium sized banks with a satisfactory degree of accuracy.

(iv) As the Survey is to be a continuing one, it is necessary to change the selected branches and Head Offices from time to time. This again is a matter in which pilot studies are needed to evolve an arrangement which gives satisfactory results and which is not too onerous on the branches and Head Offices.

(v) The data from the selected branches should be of the daily type and the monthly type for the commercial and urban co-operative banks. For both types of data the Group found the sampling scheme used by it quite useful and would therefore recommend a similar scheme for the continuous survey. For the State and central co-operative banks also, it will be useful to collect data on a similar basis, though here the sample of days and months has to be different from that for the commercial and urban co-operative banks because of seasonal factors.

(vi) The proforma and the methods of analysis used by the Group are considered by it to be quite satisfactory for the purposes of the continuous survey. However, this does not rule out such improvements, as are found useful in the light of further experience.

(vii) The Agency should advise each bank of the costs and income for representative types of branches, and also the average costs and income for each of the large and medium sized banks taking into account the details of their branch network.

(viii) It is also necessary that the Agency calculates all-India averages for the various costs and income so as to help the authorities in framing their policies in regard to interest rates on deposits and advances and the various charges levied by the banks.

### *Index of Costs*

11.9 While the Agency will be the source of accurate assessment of costs, the results will take some time before they become available to banks

and their branches. In the meantime, in order to have a rough and ready indication of the way branch costs are moving, all branches should be asked to submit quarterly returns as in the proforma referred to in paragraph 11.7 showing the particulars of their outputs. The Head Office can work out what the total costs for the branch would have been by using the unit cost figures for the different activities supplied by the Agency mentioned in paragraph 11.8 for the representative branch type. The ratio of the actual costs at the branch to the estimated costs would be the cost index for the branch. This will provide the management with a fairly good idea of the efficiency at branch level and would enable it to take appropriate corrective action.

#### MEASUREMENT OF OPERATING EFFICIENCY AND OF PROFITABILITY THROUGH MANAGEMENT/FINANCIAL RATIOS

11.10 Measurement of operating efficiency and of profitability through ratios has been an effective tool in manufacturing industries, particularly for comparison between different units. Such measurements have certain distinctive advantages over studying the total figures by themselves. For instance, profit, except when viewed in relation to turnover, funds employed, etc., will not by itself mean much. (It may be noted here in passing that unlike in manufacturing industries "Capital employed" is not a significant factor for banks but Working Funds are). Similarly, in comparing inter-branch or inter-bank efficiency, merely the amount of profit, or for that matter the size of deposits, will not give a true measure of profitability. This can be better ascertained through certain ratios, such as Management ratios and Financial ratios.

##### *Management Ratios*

- (a) Operating ratios
- (b) Efficiency ratios
- (c) Liquidity ratios

##### *Financial Ratios*

- (a) Profitability ratios
- (b) Stability ratios
- (c) Capital ratios

11.11 These ratios can be worked out at intervals indicated against each ratio and the averages worked out for the year for comparison either at inter-branch level or at inter-bank level.

*At the Branch Level***(I) Operating Ratios**

- (a) Advances to aggregate Deposits (Weekly)
- (b) Priority Sector Advances to Total Advances (Quarterly)
- (c) Demand Deposits to aggregate Deposits (Monthly)
- (d) Other Demand and Time liabilities to aggregate Deposits (Monthly)

**(II) Efficiency Ratios**

- (a) Deposits per employee (Monthly)
- (b) Gross income per employee (Monthly)
- (c) Net income per employee (Monthly)
- (d) Man-hours employed to man-hours required (Monthly)

**(III) Profitability Ratios**

- (a) Interest earned to aggregate deposits (Half yearly)
- (b) Interest paid to aggregate deposits (Half yearly)
- (c) Interest earned to total advances (Half yearly)
- (d) Servicing costs to aggregate deposits (Half yearly)
- (e) Gross profit to aggregate deposits (Half yearly)
- (f) Net profit to aggregate deposits (Half yearly)

*At the Bank Level*

11.12 By consolidating the ratios detailed above for inter-branch comparison the Operating, Efficiency and Profitability ratios of each bank as a whole should be worked out for inter-bank comparison. Besides, the following additional ratios should also be developed for the year :

**(I) Stability Ratios**

- (a) Net worth to aggregate deposits (Annually)

**(II) Liquidity Ratios**

- (a) Cash-in-hand and balance at banks to working funds (Weekly)
- (b) Investments to working funds (Weekly)
- (c) Borrowings to aggregate deposits (Weekly)
- (d) Advances to aggregate deposits (Weekly)
- (e) Priority Sector Advances to Total Advances (Quarterly)
- (f) Demand deposits to aggregate deposits (Monthly)

*Note :* Because of their relevance in inter-bank comparison the ratios under (d), (e) and (f), although included under Operating ratios, are also given under Liquidity ratios.

(III) *Capital Ratios*

- (a) Dividends to capital and reserves (Annually)
- (b) Net profit per share (Annually)
- (c) Dividend per rupee of share price (yield) (Annually)
- (d) Book value of shares to face value (Annually)

For the 14 nationalised banks which do not have share capital ratios (a) — (d) will be substituted by a single ratio, viz., net profit to capital and reserves.

*Developing a Rating System for Comparative Measurement of Inter-branch Efficiency*

11.13 The management/financial ratios taken collectively will be indicative of the branch efficiency and the branches should be ranked according to the efficiency revealed. However, before attempting this type of efficiency rating, it would be essential to ensure that the branches are grouped for purposes of comparison into basically comparable groups. Further these ratings must be in addition to other qualitative checks by way of inspections, etc. To facilitate measurement rankings should be evaluated by allocating to them marks either in the descending or in the ascending order, and a comparative tabulation of the rankings as expressed in marks should be made in a chart as shown below. The tabulation chart will throw out how each branch fared compared to others in its group, and on the basis thereof the final ratings of the branches would be made.

Branch Rating Chart for the year ended .....

S. No.	Efficiency Factor								
	BRANCHES	(A)	(B)	(C)	(D)	(A)	(B)	(C)	(D)
		This year				Previous year			
I.	<i>Operating Ratios :</i>								
	(a) Advances to aggregate deposits (Weekly)								
	(b) Priority sector advances to Total Advances (Quarterly)								
	(c) Demand Deposits to aggregate deposits (Monthly)								
	(d) Other demand and time liabilities to aggregate deposits (Monthly)								

## II. *Efficiency Ratios :*

- (a) Deposits per employee  
(Monthly)
- (b) Gross income per employee  
(Monthly)
- (c) Net income per employee  
(Monthly)
- (d) Man-hours employed to man-  
hours required (Monthly)

## III. *Profitability Ratios :*

- (a) Interest earned to aggregate  
deposits (Half yearly)
- (b) Interest paid to aggregate  
deposits (Half yearly)
- (c) Interest earned to total ad-  
vances (Half yearly)
- (d) Servicing costs to aggregate de-  
posits (Half yearly)
- (e) Gross profit to aggregate deposits  
(Half yearly)
- (f) Net profit to aggregate deposits  
(Half yearly)

In such evaluation it may perhaps be necessary to give weightage to the relative importance of each ratio to the overall branch efficiency. If for one ratio, say the ratio of total man-hours employed to man-hours required, the first rank is awarded 10 marks and the second rank 8 marks, it is not necessary that for another item, say ratio of gross profits to working funds also, the first rank should be 10 and the second 8. The difference could be large if the second ratio is considered more important than the first. The exact basis to be followed for giving weightage to any ratio is a matter of policy, which each bank should be free to decide, depending upon the extent to which these are directly controllable by the branch managers.

### *Ratio of Man-hours Employed to Man-hours Required*

11.14 This comparison will pre-suppose the fixation of norms by each bank in its own way for estimating the total budgeted man-hours during the budget period. Branches should make their own estimates but the estimates must be made in conformity with the norms determined by the Head Office. Alternatively, the budgeted man-hours may be arrived at using the data provided by the agency mentioned in paragraph 11.8 for the appropriate representative type of branch. Both these methods have their own advantages. The first is a target fixed for itself by the bank, whilst the second is a target

fixed by an external organization. Whilst comparison with one's own target might be enough in case of inter-branch efficiency, the second method will enable comparison of inter-bank efficiency. In arriving at the total man-hours both for targets and actuals, it will be necessary to take into account the overtime hours with due weightage and also to give weightage to the officer man-hours as these are comparatively costly. There is no doubt that the fixation of the target man-hours for inter-bank comparison will be a difficult task. Considering, however, that staff cost is the most sizeable expenditure in a bank (apart, of course, from the interest cost of obtaining funds) and that it also has a tendency to continuously increase, the value of the results obtained would outweigh the cost and effort incurred.

### *Improvement of Productivity*

11.15 As discussed above, improvement of productivity can be partly achieved through improvement in systems and methods. So, for the fulfilment of the latter, a more direct approach is required. The directions in which such an approach is to be made, can be known if each individual branch works out for itself the impact of clerical and officer cost on its various activities on the lines indicated in the statements presented in Chapter IV. The results so obtained should be compared with those of the representative branch appropriate to it. Such direct comparisons would reveal whether the branch has more or less of employees of the two categories for each of the different activities. Once this is done, it should be the responsibility of the Management Services Division to evolve methods by which a reduction in unit costs can be brought about. The experience of those who have made such an approach in the past has shown that productivity of employee effort can be improved through :

- (i) bringing in maximum job experience into each work in preference to lower costs ;
- (ii) providing job satisfaction through affording due recognition of merit, seniority and experience ;
- (iii) adopting the policy of "choosing the job for a man rather than a man for the job". (This would require a technical assessment of the job-specifications and relating them to the nature of job effort required);
- (iv) replacing overtime hours by additional normal hours wherever the quantum of work so warrants ;
- (v) relating the remuneration for the work to the effort and responsibility it calls for ;
- (vi) evolving that method of doing a job which would be both convenient to the clerk and economical to the Management ; and
- (vii) laying a greater emphasis on group performance rather than on individual performance in determining special rewards or payments for good work done.

## SPECIMEN PROFORMA XI-1

## STATISTICS RELATING TO PHYSICAL OUTPUT OF BRANCHES

BANK :

Branch : .....

Return for the quarter .....

Nature of Service	Unit	Output
<b>DEPOSITS</b>		
Current Accounts .. .. .	No. of Vouchers	_____
Savings Bank Accounts .. .. .	-do-	_____
Fixed Deposits .. .. .	-do-	_____
<b>ADVANCES</b>		
To Small-Scale Industries .. .. .	Average outstanding in thousands of rupees	_____
To Medium & Large-Scale Industries .. .. .	-do-	_____
Direct Loans to Farmers .. .. .	-do-	_____
To Others .. .. .	-do-	_____
<b>OUTWARD REMITTANCES</b>		
Drafts issued .. .. .	No. of Drafts issued	_____
M.Ts. issued .. .. .	No. of M.Ts. issued	_____
T.Ts. issued .. .. .	No. of T.Ts. issued	_____
<b>INWARD REMITTANCES</b>		
Drafts paid .. .. .	No. of Drafts paid	_____
M.Ts. paid .. .. .	No. of M.Ts. paid	_____
T.Ts. paid .. .. .	No. of T.Ts. paid	_____
<b>OUTWARD BILLS</b>		
Cheques and clean bills .. .. .	No. of cheques and clean bills sent for collection	_____
Other demand bills .. .. .	No. of other demand bills sent for collection	_____
Usance bills .. .. .	No. of usance bills sent for collection	_____
<b>INWARD BILLS</b>		
Cheques and clean bills .. .. .	No. of cheques and clean bills received for realisation	_____
Other demand bills .. .. .	No. of other demand bills received for reali- sation	_____
Usance bills .. .. .	No. of usance bills received for realisation	_____
<hr/>		
Sub-total		
<b>OTHER SERVICES</b>		
	As a percentage of the sub-total	_____
<hr/>		
<b>Final Total</b>		
<hr/>		



## CHAPTER XII

# SUMMARY OF FINDINGS AND RECOMMENDATIONS

12.1 A summary of important findings and recommendations contained in the previous chapters of this Report has been presented for convenience in this chapter. The Group would like to take this opportunity of making certain observations of a general nature.

12.2 The work done by the Group in applying methods of costs and profitability analysis to the Indian banking industry constitutes only the first step in this field. As it was the first time that a sample survey covering all the Indian scheduled commercial banks was carried out for this purpose, the details on which information was collected were kept to the bare minimum. Also, for want of time, the sample survey could be related only to one quarter of the year. The estimates of costs and profitability arrived at from the survey represent, therefore, the conditions obtaining during that period and it would be a mistake to regard them as firm figures capable of being used for future periods without further study. Hence the Group has emphasised at appropriate places the illustrative nature of the calculations made with the help of these figures. However, the more important aspect of the Group's work is the application of the methods by which these estimates were arrived at. The Group feels confident that these methods have shown their usefulness and are capable of being applied in the conditions of the Indian banking industry. Indeed, the Group has recommended certain arrangements for conducting this type of study on a regular basis. When these arrangements get going, it should be possible to develop the methods further, taking into account the work done elsewhere in this field, and to obtain cost estimates and estimates of profitability of the various activities which will prove a very valuable aid to bank managements as well as to central policy makers. Work of such type is being done regularly in the U.S.A., where the *Functional Cost Analysis Programme* is now well established and provides very useful material to banks and students of banking. The Group has relied in its work largely on these methods. At the same time, the Group would like to draw the attention of those concerned to the very useful material on *Cost Accounting for Banks in Germany* which it has collected. This material may be studied to see whether the kind of integration of Accounts designed by the Commission of the Federal Union of Private Banks in Germany is possible for Indian banks. This system, with its detailed classifications of cost centres, account heads and employee classification, facilitates systematic compilation of informa-

tion relating to conventional profit and loss accounts, as well as analysis of profitability of activities, branches and customers' accounts, man-power utilization, and so on.

12.3 The other aspect of the Group's work is the various recommendations about *management accounting and cost control*. The Group realises that this field is very new to Indian banks and it may take some time before the latest techniques of management accounting are successfully adopted and applied by them. The need for Indian banks to introduce such methods in their working becomes more and more pressing every day. The nationalisation of 14 major banks has raised the peoples' expectations about the role banks can play in the country's economy to such levels that banks have to make an all-out effort if they are to fulfil these expectations to a reasonable extent.

12.4 It will be useful in this context to refer briefly to the vast changes that have taken place over the post-war years in the conditions in which banks function. It has been mentioned in Chapter IX that *banks in India have generally been working on the principle of total overall profitability, without detailed analysis of the relative profitability of each of the several types of their various operations*. They could do so without giving rise to any serious difficulties because of a number of favourable factors. *Firstly*, though the deposits of banks increased at a high rate, their capital base expanded very slowly. Thus the ratio of paid-up capital and reserves of Indian commercial banks to their deposits, which was 8.8 per cent in 1951, came down to 4.2 per cent in 1960 and to 2.5 per cent in 1968. Such progressive increase in the working funds of the banks, relative to the shareholders' equity, enabled them to earn profits at a level that was satisfactory from the point of view of the shareholders. *Secondly*, bank credit expanded at a rate faster than bank deposits. Banks met this ever rising demand for bank credit by running down their ratios of cash and investments to deposits. Thus, the cash ratio declined from 11.5 per cent in 1950-51 to 6.3 per cent in 1960-61, and has since remained more or less around that level. Similarly, the investment ratio declined from 36.5 per cent in 1951-52\* to 31.1 per cent and to 30.8 per cent in 1960-61† and 1968 respectively. This enabled the banks to increase the proportion of higher yielding assets, such as advances, in their portfolio. *Thirdly*, there has been a considerable change in the banks' portfolios of advances. Advances to medium and large-scale industry which, as has been already seen in Chapter V, have a larger profit margin than advances to other types of borrowers, increased at a faster rate than advances to other types of borrowers.

12.5 None of these factors are likely to be of much assistance to the banks in the likely conditions under which they will have to operate here-

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\* Figures for 1950-51 are not available.

† The ratio in 1960-61 is somewhat inflated on account of inclusion of investments of P.L. 480 deposits with the State Bank of India.

after. In particular, there is no longer any scope for them to economise on their 'liquid' assets in order to expand 'risk' assets, *as the present policy* of the authorities is to require them to maintain a higher minimum ratio of 'liquid' assets to deposits than in the past. *Secondly*, the banks have to give special attention to satisfying the need for credit of the hitherto neglected sectors. There would thus have to be a re-distribution of bank credit, reducing the proportion of business which is attractive from a purely profit-making point of view. *Thirdly*, banks have to open branches in underdeveloped areas to enable these areas to develop. Until these areas progress, the new branches are likely to show losses in their working. *Fourthly*, as has been pointed out in Chapter IX, there is need for banks to change their existing policies regarding owned funds and strengthen these, particularly so as to provide for their requirements of fixed assets for expansion of bank branches and modernisation of their working, and also to provide a safety margin against possible deterioration of their banking assets. *Finally*, in the wake of inflation, banks have to periodically face demands for higher wages from the various categories of their staff.

12.6 All these developments mean that the banks have to examine very critically their methods of working, control over operations, cost structure, and pricing policies so that they can employ their resources in an optimum manner for the discharge of the wider responsibilities placed on them. The Group believes that the various recommendations made by it in this Report will help them to achieve these objectives.

The findings and recommendations are summarised below :

<i>Serial No. and Para No.</i>	<i>Findings</i>
F.1 1.3	The total current operating expenses of Indian banks in relation to their deposits have increased steadily from 5.01 per cent of average deposits in 1961 to 8.22 per cent in 1968.
F.2 2.2	Developing a system of costing the services of banks is really a part of the wider problem of developing an efficient Management Accounting system for the banking industry.
F.3 2.3	The interest cost of deposits constitutes the largest single component of the price charged by banks for their major service, the supply of credit. This cost is affected very considerably by the actions of the monetary authorities who, in many cases determine even the rates of interest for advances to particular sectors and who thus significantly influence both the costs and the income of banks.

F.4  
2.9 to 2.27

There were some attempts by bankers to determine costs of their business before World War I, but the subject developed further only from the nineteen twenties onwards. In 1940 scientific methods of cost analysis were first developed in the U.S.A. A simplified cost analysis for smaller non-departmentalised banks was developed by 1948 with a short method for very small banks and a complete method for bigger banks. The emphasis was on comparison of inter-bank results and building up operating efficiency rating system for the bank staff. Subsequent efforts in the U.S.A. include the functional cost analysis programme of the Federal Reserve Bank of U.S.A. and the production analysis programme of the First National City Bank of New York. The former is designed to help banks to correlate function-wise, income and expenditure while the latter is designed to arrive at labour inputs in terms of time standards for different transactions and costing them according to prevalent wages.

F.5  
2.28

In the U.K., no detailed cost study system appears to have been developed. While individual banks are reported to be costing services, there is no literature readily available on that subject. The National Board for Prices and Incomes has, however, done a study on the system and level of service charges in banking industry in 1967.

F.6  
2.32 and  
Annexure-E

In the Federal Republic of Germany, the Commission of the Federal Union of Private Banking Industry evolved between 1960 and 1969 an integrated system of accounting covering costs of services, income and profitability calculations and complete analysis for customers' accounts.

F.7  
2.34

A few attempts have been made so far in India to work out costs of services but until recently the work was mainly in an exploratory stage and no up-to-date or comprehensive information was available in this field.

F.8  
4.1, 4.38,  
4.39 and  
Annexure-C

The size of the banks and the population location of its branch both have a statistically significant influence on the costs and profitability of the services rendered. The size factor influences branch costs through (i) the level of the overhead costs; (ii) the salary structure; and (iii) the facilities within the bank for investment of surplus funds or for borrowing funds necessary for the branch.

The location factor influences : (i) the over all quantum of business of a branch and its distribution into different types

of activities, and (ii) the opportunities for investment of surplus funds locally, or the need for borrowing them. Composition of business influences both costs and earnings, because the servicing costs and the rates of interest differ according to types of output.

Amongst other important factors are : (1) the methods and procedures used ; (2) the productivity of the employees ; and (3) the age of the branch. Generally, the first factor should not make much difference, because of standardization. The second is rather a complex matter, depending both on the first and on the degree of harmony prevailing in the branch, and the operation of seasonal factors at the time the data are collected. The last factor can affect its costs, especially in its early stages when business has not fully developed, but is offset to an extent by the lower levels of salaries paid because the employees are in the early stages of their time-scales of pay. This factor is unlikely to be significant as between the bank groups but for population groups, the costs for the smaller centres are likely to be somewhat higher ; because a larger proportion of the branches in this group are new.

F.9                      The all-India average bank branch profile, based on  
4.5 and                the data collected by the Group for Indian banks shows the  
Table IV.1            following costs distribution :

*Costs of each service as a percentage of total costs  
of all services*

	%
Costs on Deposits	40.27
Costs on Advances	18.00
Costs on Remittances	11.92
Costs on Bills	14.79
Costs on Other Services	15.02

F.10                      Deposits are the most clerical-oriented activity, followed  
4.5 and                by bills of various types, drafts and mail transfers. Telegraphic  
Table IV.1            transfers are the most officer-oriented activity, followed by  
advances.

F.11  
4.6 and  
Table IV.2

As regards deposits, the profile shows—

	Current	Savings	Fixed	Others
	<i>Percentages</i>		<i>to the</i>	<i>Total</i>
1. Average Outstanding	22.6	25.7	49.2	2.5
2. No. of Vouchers	58.2	32.9	2.1	6.8
3. Servicing Cost	56.9	30.4	6.8	5.9
	<i>Per cent per annum of Average Balance</i>			
4. Interest Cost	0.1	3.3	5.6	—
5. Servicing Costs	3.9	1.9	0.2	—
6. Total Costs	4.0	5.1	5.8	—
	(In Rupees)			
7. Servicing Cost per Voucher	1.9	1.8	6.3	—

Thus current and savings deposits generate over 91 per cent of the physical output and account for over 87 per cent of the total servicing cost. Fixed deposits, while accounting for nearly half of the total average deposits, generate only 2.1 per cent of the physical output and 6.8 per cent of the total servicing cost. However, when Interest Cost is added, and the Total Cost is compared, fixed deposits are the costliest, followed by savings deposits.

F.12  
4.6 and  
Table IV.2

Among deposits, current deposits are the most clerical-oriented, followed by savings deposits. Fixed deposits require the highest officer to clerk ratio.

F.13  
4.6 and  
Table IV.2

The comparative average number of vouchers per quarter on savings and current deposits respectively indicate that savings deposits are rather inactive, representing mostly genuine savings and not current deposits converted to take advantage of the interest obtainable.

F.14  
4.7 and  
Table IV.3

As regards the categories of advances, the all-India average bank branch profile shows —

	Industry		Personal		Others
	Large and Medium	Small	Farm-ers	and Professional	
<i>(Percentage to the total)</i>					
1. Average outstanding	58.9	10.0	4.6	6.0	20.5
2. Ledger Keeping Cost	13.9	27.4	3.7	9.8	45.2
3. Other Servicing Cost	15.9	31.7	14.9	10.7	26.8
4. Total Servicing Cost	15.1	29.8	10.0	10.3	34.8
<i>Per cent per annum of Average Outstanding</i>					
5. Total Servicing Cost	0.3	3.4	2.7	1.9	1.9
6. Interest Income	8.6	8.7	9.2	8.9	8.9
7. Net Direct Income	8.3	5.3	6.4	7.0	7.0

F.15  
4.7 and  
Table IV.3

Among advances, advances to large and medium-scale industry are the most clerical-oriented, followed by advances to small-scale industry. Direct loans to farmers are the most officer-oriented, followed by personal and professional advances.

F.16  
4.9 and  
Table IV.4

As regards remittances, the all-India average bank branch profile shows—

	Drafts	M.Ts.	T.Ts.
1. Servicing Cost as percentage of total servicing cost of remittances	73.4	14.1	12.5
2. Servicing Cost—per item	Rs. 5.2	Rs. 5.6	Rs. 13.9

Thus drafts account for a little less than three-fourths of the total Servicing Costs of remittances, the balance being spread nearly equally between M.Ts. and T.Ts. The cost per item is highest for T.Ts. followed by M.Ts. and drafts.

F.17  
4.9 and  
Table IV.4

Among remittances, drafts are the most clerical-oriented activity, followed by M.Ts. T.Ts. are the most officer-oriented activity.

F.18 As regards the categories of bills, the all-India average  
4.10 and bank branch profile shows—  
Table IV.5

	Cheques and Clean Bills	Other Demand Bills	Usance Bills
1. Total Servicing Cost as percentage of total servicing cost of bills	48.4	43.6	8.0
2. Servicing Cost per item	Rs. 4.9	Rs. 8.5	Rs. 10.9

Thus, demand bills account for 92 per cent of total cost, and usance bills for only 8 per cent. However per item, usance bills cost the most and cheques and clean bills are the cheapest.

F.19 All categories of bills show almost the same ratio of clerical  
4.10 and to officer man-hours, round about 3.5 : 1, *i.e.*, all these acti-  
Table IV.5 vities are clerical-oriented.

F.20 Tables IV.1B to IV.5B present the findings for the three  
4.20 and separate bank groups. The all-India average bank branch  
Tables profiles, bank group-wise, show the following relative figures  
IV.1B to of servicing cost of the principal activities.  
IV.5B

	BANK GROUPS		
	I	II	III
1. DEPOSITS — Servicing Costs —as percentage per annum of average balance	1.4	1.9	1.7
2. DEPOSITS — Servicing Costs —as percentage of total servic- ing cost of the branch	39.0	42.2	41.2
3. ADVANCES — Servicing Costs —as percentage per annum of average outstanding	1.0	1.3	1.7
4. ADVANCES — Servicing Costs —as percentage of total servic- ing cost of the branch	17.0	18.6	23.3

Thus (i) the Servicing Cost per cent of deposits and more so of advances as a proportion of the total servicing cost of the branch and (ii) the proportion of total servicing costs incurred on deposits, advances and bills increase significantly as the size



of the bank diminishes. This is because the larger banks offer a wider range of services : in particular Government business with the State Bank included in bank group I, foreign exchange activity which is confined to bank groups I and II only and other services like custody of securities, provision of safe deposits vaults, etc., commonly offered by the larger banks. All these account for 18.1 per cent of total costs in group I, 11.6 per cent in group II and only 6.3 per cent in group III.

F.21  
4.13 to  
4.22 and  
Tables  
IV.2B to  
IV.5B

The findings as regards relationship between volume of business and costs on the various categories of deposits, advances, remittances and bills, as also the relative man-hour ratios are given in paragraphs 4.13 to 4.22 of the Report.

F.22  
4.23 to  
4.31 and  
Tables  
IV.1P to  
IV.5P

The profiles of the average bank branch in each of the 4 population groups are given in paragraphs 4.23 to 4.31 and Tables IV.1P to IV.5P and show the following :

	POPULATION GROUPS			
	I	II	III	IV
1. DEPOSITS—Servicing Cost — percentage per annum of average balance	1.6	1.5	1.4	2.0
2. DEPOSITS—Servicing Costs as percentage of total servicing cost of the branch	42.2	39.5	38.9	38.0
3. SERVICING COST— Percentage per annum of average outstanding	0.7	1.6	2.0	2.7
4. ADVANCES — Servic- ing Costs — as per- centage of total servicing cost of the branch	17.6	19.9	17.0	15.9

The servicing costs of deposits are higher in the smaller population centres. The servicing cost per cent of average balances of advances increases considerably as one moves to the smaller centres, as will be seen from the above table. This appears to be mainly the result of the decrease in the proportion of advances to large and medium-scale industries to the total advances as the population size decreases.

- F.23  
4.32, 4.33  
and Tables  
IV.6 and  
IV.6B
- The proportion which expenses at the Head Office bear to expenses at the branch level on the various activities for each of the bank groups, as also for the average all-India bank branch, are given in Tables IV.6 and IV.6B. These show that the highest proportion (of about 50 per cent) at the all-India level as well as in bank groups I and II, is in respect of foreign exchange business, followed by, for all banks and bank group I, medium and large-scale industries and then by direct loans to farmers. In bank group II the second highest proportion is in respect of direct loans to farmers (30 per cent) closely followed by large and medium-scale industries (26 per cent). Generally, expenses at the Head Office for specialised departments show lower proportions in bank group III. General administrative expenses at the Head Office level are uniform at around 9 per cent for the all-India as well as for each of the 3 bank group levels.
- F.24  
4.34 to  
4.37 and  
Tables  
IV.1.U.C.  
to IV.4.U.C.
- The profile of the all-India average urban co-operative bank—which is somewhat comparable to that of the average branch in bank group II as regards the level of deposits and advances—and the findings therefrom have been given in paragraphs 4.34 to 4.37 and Tables IV.1.U.C. to IV.4.U.C.
- F.25  
5.5 and  
Tables V.2  
and V.2B
- Funds activities are almost the only source of profits for banks.
- F.26  
5.5 and  
Tables V.2  
and V.2B
- The larger the size of a bank the greater the margin of profit on its funds activities, mainly because servicing costs and to a lesser extent, interest costs are relatively lower as size increases.
- F.27  
5.5 and  
Tables V.2  
and V.2B
- Remittance business results in a loss, even after taking into account the imputed interest income for an average bank in all groups. The loss increases as the bank size decreases, because the average amount of each remittance decreases with the size of the bank, so that the servicing cost per constant amount of remittance is larger for the smaller size banks.
- F.28  
5.6 and  
Table V.3
- The data for the all-India average bank branch profile shows that for Indian commercial banks as a whole, the yield on deposits works out to 6.66 per cent per annum on the average deposits outstanding. The total cost of deposits works out to 5.50 per cent per annum yielding a profit margin of 1.16 per cent per annum on the average deposits outstanding.

F.29  
5.6 and  
Table V.3

Bank group-wise, the highest yield on deposits is 7.43 per cent for bank group II followed by 6.63 per cent for bank group III and 6.30 per cent for bank group I. However, after deducting the total costs of deposits from this the profitability margins for bank groups I, II and III respectively work out to 1.24, 1.10 and 0.52 per cent per annum on average deposits outstanding. Thus the size of the bank has a strong relationship with the ultimate profitability margin, which increases with increase in size of the bank.

F.30  
5.7 and  
Table V.4

For all banks, the average cost of loanable funds is 5.98 per cent per annum of the average advances outstanding. The net yield on advances is 7.55 per cent and thus the average profit margin on advances for all Indian commercial banks is 1.57 per cent per annum. Among the different bank groups, the highest margin of 1.77 per cent per annum is earned by the largest sized banks, though the net yield is the lowest in their case for almost all categories of advances. This is mainly because the net cost of loanable funds to them as a percentage per annum of average advances outstanding is the lowest.

F.31  
5.8 and  
5.9

Considerable divergences in practice exist as regards the policy of the rates allowed (Transfer Prices) in respect of funds transferred to and from a bank branch and its Head Office. Thus, in ten important banks, the practices differed widely with regard to the basis of fixing such rates, the level of the rates themselves, and the differential between the rates paid by and charged by the Head Office to branches for funds lent to and borrowed from it respectively.

F.32  
5.9

The existence of such differences not only in the level of rates but also in the factors on which they are based indicates that this question requires to be paid a greater attention than hitherto. Since they compete with each other in the same market for deposits and advances, the banks should adopt a uniform practice in this matter.

F.33  
5.28 and  
Table V.6

On the basis of the method for fixing Transfer Prices evolved by the Group, the average bank branch in population group IV was incurring a small loss of Rs. 2,950 per quarter, mainly because of the loss on remittance business. With increase in the size of the population centre, the profitability per branch of funds activities increases.

F.34  
6.1

The data collected in the present survey can within certain limits be utilised to study the behaviour of costs in relation to changes in physical output.

- F.35  
6.2           The relationship in respect of current account deposits between the number of vouchers handled and the corresponding cost of handling these vouchers is one where the incremental or marginal costs of one unit of output and therefore, the average costs per unit of output decline with the increases in output. It is noticed that a constant elasticity relationship between cost and output with the elasticity coefficient less than one fitted the data very well.
- F.36  
6.11 and  
6.12           The average output per branch decreases with the size of the population centre and the size of the bank. When the level of output is low, for the same quantum of output, the average cost per unit of output tends to be higher in the smaller centres than in the larger centres. In these smaller centres, the average cost per unit of output decreases more rapidly as the output increases.
- F.37  
6.13           The variation in cost with the increases or decreases in the quantum of output depends more on the population groups than on bank groups. This suggests that in the smaller centres it will be more profitable to encourage existing branches to increase their business rather than ask other banks to open additional branches there.
- F.38  
6.15           Both for banks and branches of banks, there is an optimum size in relation to cost. Beyond this optimum point, the average costs tend to increase.
- F.39  
7.14 and  
Table VII.1   The Group's study of the cost structure of the foreign exchange business of Indian banks shows that the costs of import and export activities are of equal importance, each accounting for a third of the total input. Clean remittances account for about 12.8 per cent of the total input. Other services account for the remaining 21 per cent.
- F.40  
7.14           Foreign Exchange is, as a whole, less clerical-oriented than deposit activities, and more clerical-oriented than advances activities. All Foreign Exchange activities seem to require more or less the same ratio of officer man-hours to clerical man-hours.
- F.41  
7.15           The range of variation of unit costs is rather large for most items. Some part of the variation is likely to be due to some degree of specialization on account of foreign trade of the bank's clients being restricted to certain commodities or to certain countries. It appears, however, that there is scope for Indian commercial banks to examine their procedures to improve efficiency and reduce costs in handling this type of business.

F.42  
7.16 There does not appear to be any uniformity in the calculation of 'exchange profit' amongst the different banks.

F.43  
7.17 It appears that a bank's profit on sterling sales and purchases cannot be much higher than that available if the transactions were to be covered with the Reserve Bank of India. As against the profit margin of 0.18 per cent on sales and 0.09 per cent on purchases available on the basis of the merchant rates and the Reserve Bank's cover rates prevailing at the time of the Survey, the average profit to banks on such transactions (partly covered with the Reserve Bank and partly in the inter-bank market) worked out in the region of 0.25 per cent and 0.12 per cent respectively. For the business as a whole, *i.e.*, purchases and sales, the exchange profit works out to 0.21 per cent.

F.44  
8.1 Whereas in the case of commercial banks the function of mobilisation of resources and of making loans are combined in the same institution, in the case of co-operative banking structure, the function of raising resources is mainly that of the higher level institution, *viz.*, the apex and central co-operative banks while that of making loans to ultimate borrowers is carried out by lower level institutions *i.e.*, the primary credit societies.

F.45  
8.22 Both owned funds (*i.e.*, share capital and reserves) and borrowings in the case of apex and central co-operative banks account for a larger proportion of working capital than in the case of commercial banks.

F.46 The composition of resources is as follows :

8.23, 8.25, 8.26 and 8.27	13 Apex Co-operative Banks	21 Central Co-operative Banks
Owned Funds	.. 18.6%	22.2%
Borrowings	.. 50.7%	39.9%
Of which, from Reserve Bank of India	.. 44.9% (from RBI/Apex Bank)	38.8%
Deposits	.. 30.7%	37.9%
Of which		
Current	.. 21.5%	32.9%
Savings	.. 7.4%	25.4%
Fixed	.. 71.1%	41.7%

F.47                      The costs of deposits are as follows :

8.29 and  
8.32

	Apex Banks	Central Banks
Average Interest Cost	4.6%	3.9%
Servicing Costs (as per- centage of deposits)	0.7%	1.2%
Total Costs	5.3%	5.1%

The interest cost is lower for central banks, as current deposits of affiliated societies, on which little or no interest is paid, account for 79 per cent of their total current deposits.

F.48  
8.31

The cost of deposits for most of the apex banks is low because a sizeable proportion of their current deposits, is mainly from the central banks, on which little or no interest is paid. These current deposits appear to be largely the funds drawn by the central banks from the credit limits sanctioned by the Reserve Bank of India and kept by them with the apex banks, pending their being drawn for the purpose intended.

F.49  
8.34

Per branch outstandings on deposits of apex banks are even larger than those for commercial bank group I. The number of vouchers handled is also considerably larger. The per voucher costs are about 85 per cent of those of commercial banks in group II. Because of this and because of the very substantial outstandings of deposits of the various categories, the per cent per annum costs of servicing are quite low.

F.50  
8.35

Per branch outstandings of deposits of central co-operative banks are smaller than for commercial bank group III branches. The number of vouchers handled is lower. But costs per voucher are substantially higher, being slightly more than double those of bank group III. This could be due to the low volume of vouchers, which means that the staff shown for this activity are also occupied on other activities.

F.51  
8.36 to  
8.42

The costs of borrowings and outside funds are as follows :

	Apex Banks	Central Banks
<i>Borrowings</i>		
Average interest cost (borrowings from Reserve Bank of India and other sources—from apex bank also in case of central bank)	3.7%	4.2%

	Apex Banks	Central Banks
Servicing Costs	0.2%	0.9%
Total Costs of borrowings	3.9%	5.1%
<i>Outside Funds (i.e. borrowings plus deposits)</i>		
Average interest cost	4.0%	4.1%
Total costs including costs of servicing (corresponding figure for commercial banks is 5.31%)	4.4%	5.1%

The general impression among co-operative banks that a higher proportion of deposits to working capital escalates the interest costs of funds does not seem to be correct. The important factors which influence the cost of total funds are the proportion of borrowings from the Reserve Bank to working capital, composition of such borrowings, proportion of deposits to working capital and composition of deposits.

F.52  
8.45 to  
8.57 and  
8.61

Returns on lending, investments, deposits and owned funds and returns on cost of lending are as follows :

	Apex Banks	Central Banks
1) Return on loans	4.7%	7.0%
2) -do- investments	4.3%	4.5%
3) Estimated return on deposit activities as a percentage of total income	32.0%	37.1%
4) Cost of servicing deposits as a per- centage of return on deposits	14.3%	21.6%
5) Return on owned funds or dividends	2.9%	2.2%
6) Cost of lending	0.2%	1.2%

(for 18 banks)

The average cost of lending is low in some cases as supervision charges are not always borne by the banks. The dividend performance is inadequate.

F.53  
8.50

The difference between the average rate of return on investments and that on loans is quite appreciable in some cases. This suggests that it should be possible to improve the income of the banks on account of investments by paying more attention to the management of investments.

- F.54  
8.58           The margin on lending of apex banks is 0.3 per cent (4.7%–4.4%) and of central banks 1.9 per cent (7%–5.1%). Servicing costs are 0.2 per cent and 1.2 per cent respectively and therefore margins appear to be adequate to cover the costs and also to provide something for reserves and dividends. A closer examination shows it is not so. In three cases, the margin is negative. In six cases, the margin is less than servicing costs and in other cases, it is barely adequate.
- F.55  
8.59 and  
8.42           The co-operative banks can improve profitability by increasing the proportion of low interest deposits like current accounts—other than those representing funds borrowed by lower level institutions and temporarily deposited with the higher level institutions pending use—and savings accounts. They could diversify the banking services to depositors and also lending activities.
- F.56  
8.60           Excess cash reserves are maintained because (1) a number of co-operative banks operate in areas where even commercial banks maintain high cash balances for operational reasons, (2) many of the banks maintain current account balances with non-notified banks to facilitate remittances and other operations. Some banks borrow from the Reserve Bank to the maximum extent of their eligibility even in the off-season and fail to reduce their borrowings promptly when resources are available.
- F.57  
8.60           Liquid assets in excess of the minimum required under the statute are maintained because banks do not (1) have avenues for profitable employment of resources, particularly where co-operative marketing and processing are not well-developed, (2) diversify their business or (3) find a good number of societies eligible for loans.
- F.58  
8.62           The main reason for the indifferent performance in regard to dividends appears to be that in many cases the quantum of owned funds is much too large in relation to the business of the banks. Apparently this is due to much thought not having been given to the question of prescribing suitable ratios between the paid-up capital and working funds in the case of apex and central banks. To the extent that this is not done, the cost of funds raised by the banks by way of deposits and borrowings may increase by the difference between the return on capital elsewhere say fixed deposits, and the actual return on capital.
- F.59  
8.63           At the apex and central levels, there seems to be some duplication of capital and paper work for the same amount



of borrowings from outside agencies, giving rise to unused maximum borrowing power, and also in the maintenance of cash reserves and liquid assets. To this extent, the two-tier system of co-operative banking seems to add to the cost of operating the system.

F.60  
9.1

As in any industry, in the banking industry too, cost analysis helps to arrive at cost figures which would provide a base for the computation of service charges, and to measure the profitability of each one of the banks' services. Again, since the structure of interest rates for the different categories of deposits and advances has a vital bearing on the profitability of a bank's operations, knowledge of the costs of providing various types of services to the depositors and borrowers can help banks in adopting interest rate policies that can achieve their objectives in terms of maximum deposit mobilisation and a proper pattern of advances at minimum cost.

F.61  
9.3 to 9.8

For computing service charges, different methods have been adopted by different banks. These include the Flat Service Charge Method, the Measured Service Charge Method and the Complete Analysis Method, which have been explained in paragraphs 9.4 to 9.8. In the flat service charge method, a charge at a flat rate is levied on all current and savings accounts of depositors which fall below a specified average minimum balance during the period. Under the measured service method, in addition to a basic charge on accounts falling below a specified minimum balance with a certain number of free cheques, a definite charge is made for cheques in excess of this specified number of free cheques. The principle behind the complete analysis method is that each customer should pay a service charge to the bank which would be sufficient to compensate for the difference between the cost of the services rendered and the income arising out of the utilisation of the average balance in his account.

F.62  
9.9

Banks can vary interest rates within the limits set by regulations which are of two types (i) overall regulation through monetary policy, and (ii) detailed regulation of rates for categories of deposits or advances. Generally, variation is practised in the case of advances rather than in the case of deposits, because of the risk factor which varies from borrower to borrower.

F.63  
9.10

In the banking industry in India, there have been practically no attempts at analysing costs. The banks have been generally working on the principle that so long as they make a

reasonable profit on their overall operations, it does not make much difference whether some operations were profitable or others resulted in a loss.

F.64  
9.10 and  
9.11           Charges on the various types of domestic services rendered by banks to their customers are left to individual banks. An attempt was made in 1968 to rationalise the then existing structure of charges and the Indian Banks' Association appointed a Committee for this purpose. This Committee fixed rates for 19 types of services which could not however then be introduced owing to opposition from the public.

F.65  
9.15           In fixing the prices of bank services, there has not been any detailed scientific examination of the costs of these services, and the cost element in the prices fixed is unknown. These decisions do not seem to involve any kind of profit objective for the industry. It is difficult to expect in these conditions to get a price structure which is optimal from the point of view of any desirable objectives except by pure chance.

F.66  
9.16           Knowledge of costs helps in fixing prices in such a way that the subsidy and tax effects of the charges on the customer are in the desired directions and are of the right magnitude.

F.67  
9.16           Since the cost-structure can be modified, it will be possible by the use of appropriate procedures and methods to reduce costs wherever feasible and to utilise the consequent benefits to further the objectives before the authorities.

F.68  
9.19           The subject of capital cover for risk assets of banks has received fairly elaborate treatment in the U.S.A. and to some extent in Germany. In the U.K., no rigid principles have been laid down. In the U.S.A., the depression of the 1930s led to the evolution of the principle that the primary function of the capital funds of a bank is to reassure both the public and the supervisory authorities that the bank is in a position to withstand whatever strains may be placed upon it. As a result of a detailed study into this subject, banks in the U.S.A., were required to maintain roughly a ratio of equity funds to risk assets of about one to six. In Germany also ratios have been fixed on considerations of this type.

F.69  
9.20           In India, the ratio of paid-up capital and reserves to aggregate deposits has been continuously declining. The Reserve Bank had at one time suggested that the commercial banks should maintain a ratio of one to sixteen between equity

capital and deposits. It was found that it was not practicable because these banks would have to keep on going to capital market in a big way for funds on account of their rapidly increasing deposits. Subsequent thinking on this subject has tended to push into the background the question of capital adequacy. The practice now is to allocate to reserves only what is necessary by way of provision for bad and doubtful debts, the statutory minimum of 20 per cent of profits after tax and make some allocation to secret reserves.

F.70  
9.24

The interest costs of deposits of banks will increase; (a) whenever there is a general increase in the level of interest rates and (b) when the pattern of interest rates moves in favour of longer term deposits. In addition, there is also the possibility that changes of both types will bring in proportionately larger amounts of longer term deposits and therefore the marginal and the average cost of deposits to the banks will increase considerably.

F.71  
9.26

Changes in interest rates for deposits are unlikely to have appreciable effects on servicing costs of deposits as a result of the shifts in the distribution of deposits. It is only when active balances are converted into term deposits that the servicing costs of deposits will go down.

F.72  
9.28

The servicing cost of deposits is an appreciable element of the total cost of deposits. Many banks in India do attempt to recover a part of the servicing cost of current and savings deposits from the depositors on the basis of the flat service charge method. The details of the method, however, show a wide variation between one bank and another. Such systems which do not take into consideration the volume of activity in an account result in : (a) reducing the net earnings of banks ; and (b) discrimination against the less costly accounts.

F.73  
9.34 and  
Annexure-D

As regards remittances and bills for collection, different banks have different systems of charges. Sometimes there is a charge per instrument and sometimes there is a percentage charge with a minimum. The percentages are very odd, e.g.,  $1/64$  to  $1/4$ ,  $1/2$  to 12 paise, 6 to 9 paise, 8 to 10 paise, 12 to 15 paise, etc. Most of these systems are quite complicated. Another drawback of these systems is that where a percentage charge is made for remittances or bills for collection, the more money a person makes available to the bank between the period the instrument is issued and paid, the more he is charged. Thus the bank not only makes a larger profit on a larger amount

by investing it for the period it remains with the bank but also collects a larger income.

F.74  
10.14           The largest investment resources by banks is in human skills and labour. The employment, training and management of large numbers of people by a bank makes the human factor decisive in the attainment of satisfactory levels of efficiency, productivity and profitability.

F.75  
10.15           Another characteristic peculiar to the banking industry is in the nature of what may be called its 'stock-in-trade'. This is money,—cash, the most liquid and easily transferable of all liquid assets, and therefore, the one most susceptible to loss through theft, etc. This implies that banks cannot afford to sacrifice the requirements of prudence in ensuring the safety of, and correct accounting for, depositors' hard-earned savings to the goal of maximising profitability.

F.76  
10.16 and  
10.17           It is not advisable to apply the various tools of modern Management Accounting in manufacturing concerns—designed to evaluate efficiency of operation in terms of productivity and profitability—indiscriminately to banking operations. This does not, however, mean that Management Accounting has no role to play in the efficient management of banks but only that tools and techniques of Management Accounting must be selected with care to suit the requirements of the particular types of banking operations.

F.77  
10.18           The results of the Survey conducted by the Group show that it is possible to adapt the tools and techniques of modern Management Accounting in the banking industry in India.

F.78  
10.19           It is not difficult to obtain for any bank the total costs and the total income for the year's operations; before, however, any evaluation can be made out of these total figures, these figures of income and expenditure have to be allocated to the appropriate functions. While a sufficiently elaborate and accurate costing of time and expenses on the servicing of each class of deposit accounts is relatively less complicated, the problem area lies in the allocation of the income generated by the funds-using activities of the bank to the several funds-raising activities.

F.79  
10.20           By a carefully thought out and co-ordinated system of allocation under the two broad methods of primary and functional analysis of expenses and of correlation between the inputs

for, and the corresponding physical outputs of, and the income from, each type of banking service, valuable data can be provided to the bank's management, on the basis of which it can assess and control the efficiency, productivity and profitability of each type of service rendered by the bank.

F.80  
10.21

The next step would be the classification of all costs between those which are immediately controllable at various Managerial levels, and the others which are less controllable in the short run.

F.81  
10.21

The intervals at which the controllable and less controllable groups of costs could be reported may have to be spaced according to the periods over which it is practicable to exercise effective control over their movements.

F.82  
10.22

A further refinement would be to segregate variable, direct costs from fixed costs, so as to study the behaviour of costs in relation to changes in physical output, and to ascertain the levels over which reductions in the prices charged for particular services should be considered based on marginal costs for reasons of optimizing profitability, or productivity, or some other objective which the Bank Management considers desirable.

F.83  
10.24

Indian banks will have to modify their information system considerably in order to be able to use the tools of Management Accountancy.

F.84  
10.25

The requirements of a Bank Management for information to facilitate taking timely decisions on operations will depend to a considerable extent on the pattern of organizational structure adopted within the bank and the extent of delegation of authority and responsibility in the organization. Further, the particular organizational structure within a banking unit would no doubt have a considerable impact on the costs, productivity and profitability of its operations.

F.85  
10.26

For the development of an integrated costing and financial reporting system, it is necessary to obtain information on costs incurred and income earned from three levels of managerial decision-making. The first is the micro level, where information is required by the monetary authorities for formulating and prescribing the broad policy to be followed by banks. The second level is that of the Chief Executive Authority (Chairman/Custodian) of banks who would require information relating to overall planning and control of the

various aspects of the operations of his bank. The third is the level of the Branch Manager who would require information regarding the operational efficiency and profitability of his branch.

F.86  
10.27            In the banking industry, it is important to correctly correlate the various costs of banks to the purposes for which they are incurred, and to the corresponding revenues of the bank.

F.87  
10.32            The coverage of information relevant for control over current operations, as also the direction of future operations, would require highlighting of the inter-connection between the volume of deposits, the revenues generated therefrom and the related costs. The figures from such returns, aggregated for all the branches, would enable the Management at the Head Office to compare the actual results of the funds-raising activities at operating centres with the pre-determined targets, and give directions for any remedial action that might be called for.

F.88  
10.36            In the case of banks, the budget would spell out the targets to be achieved in respect of their activities (Deposits, Loans and Advances), income, (interest, exchange, commission received) and expenditure (interest paid, staff expenses and other expenses).

F.89  
10.37            The system of budgetary control would have the following advantages for a bank and/or its branches : It

- (i) lays down a target for its activities during a given period ;
- (ii) ensures a direct control on the various income and cost factors ;
- (iii) probes into deviations from targets and takes corrective action ;
- (iv) promotes a feeling of cost-consciousness ;
- (v) encourages healthy competition between branches; and
- (vi) helps in reviewing current policy and in determining future policy.

F.90  
10.38            The Budget Factor in the case of banking business will naturally be the Deposits to be mobilised. It is the determination of Deposit targets for each branch which will determine in turn the policy and costs in respect of the utilisation and servicing of the mobilised funds.

- F.91  
10.38                    A "branch" could perhaps be the ideal Budget Centre since most of the activities of a bank are concentrated in branches. For certain activities like Investments, Legal matters, etc., the Head Office of a bank could be the Budget Centre.
- F.92  
10.38                    For banks the budgets are best prepared for one year with a system of monthly reporting.
- F.93  
10.46                    A fairly simple system of Budgetary Control would require each branch to submit separate budgets in respect of—
- (i) Deposits
  - (ii) Advances and Loans
  - (iii) Foreign Exchange business
  - (iv) Other specialised services
  - (v) Interest payable on Deposits and Borrowings
  - (vi) Income from Loans and Advances
  - (vii) The operating costs of the branch
  - (viii) Funds flow
  - (ix) Staff requirements in terms of clerical and officer man-hours.
- F.94  
10.46                    In addition to these, there should also be a summary budget, incorporating the first 7 budgets listed above, to forecast the profits to be earned.
- F.95  
10.47                    At the Head Office budgets should be prepared in respect of :
- (i) Investment Department
  - (ii) Capital Expenditure
  - (iii) Expenses of Centralised Service Departments like Secretarial, Legal and Management Services.
- F.96  
11.2                    The profitability and efficiency of a bank can be improved through :
- (a) standardization and simplification of systems and procedures ;
  - (b) setting up of performance targets for the bank's activities ;
  - (c) operating a system of budgetary control covering income and expenditure at the branch and Head Office levels ;
  - (d) developing a system of funds forecast and cash management;

- (e) developing a uniform system for a centralised compilation and presentation of inter-branch figures for cost and performance ;
- (f) improvement of productivity of staff services ;
- (g) measurement of operating efficiency and profitability through Management/Financial Ratios ; and
- (h) developing a rating system for comparative measurement of inter-branch efficiency.

*Serial No.  
and Para No.*

*Recommendations*

- R.1  
5.9                      Now that the major sector of the banking industry has to follow the same overall policy objectives while competing with each other in the same market for deposits and advances, the banks should adopt a practice in regard to transfer prices which is suitably designed to the needs of the times.
- R.2  
5.13                     The Study Group recommends that in evolving a method for profitability analysis of bank branches, care should be taken to ensure that the method truly and fairly measures the profit performance of a branch against the background of the policies of the bank.
- R.3  
5.16                     In the context of transfer price mechanism in respect of funds transferred to and from branches to Head Office, the Study Group recommends the adoption of the concept of "Central Pooling" of all funds. This system which is simpler to work with than others assumes that each branch lends the whole of its deposits and other funds to the Head Office which is regarded as constituting a Central Pool for funds of the banks and borrows the entire requirements for its advances from out of this Central Pool. To this Central Pool are added the owned funds of the banks, *i.e.*, capital and reserves, and the funds obtained by the Head Office by borrowing. The Central Pool meets the statutory requirements, lends funds to branches for their advances, and invests the balances in the money market, treasury bills and other Government securities.
- R.4  
5.19 and  
5.21                     The Study Group feels that "market rate" as the transfer price rate is not suitable for the Indian commercial banks. It would recommend a cost-based transfer price rate which should include also an element of profit margin. The profit margin may be related to the actual profit made by the bank on its funds activity.



R.5  
5.22           There should be two separate rates — one for funds lent to Central Pool and the other for funds borrowed from it.

R.6  
5.24 and  
5.26           No differentiation in rates according to the category of deposits needs be made. There should be only one single rate for all deposits. This is not however the case in respect of advances for the different activities. It is necessary that instead of adopting one common rate for all advances, a weightage system to indicate priorities should be worked out and separate rates for priority sector, other advances and deposits should be computed.

R.7  
5.27           The calculation of rates to be charged for transfer price mechanism should be done at quarterly intervals. If, however, there is a major change affecting either the level of the interest rates or their pattern, it will be necessary to revise the transfer price immediately such a change occurs.

R.8  
5.30           The use of transfer price mechanism on the lines discussed in this Report will assist banks in making their branches conform to their overall policies. The Group therefore recommends that the Head Office of banks should advise their branches at the beginning of each quarter the transfer prices that would be in force for that quarter.

R.9  
5.30           The Group recommends that the work done so far, which marks the beginning of a systematic attempt to evolve methods of cost and profitability analysis appropriate to the conditions under which banks have to function in India, should be developed further and studies of this type continued in a regular manner, so that the banking system works in an efficient manner in the pursuit of the overall objectives of national policy.

R.10  
6.16           It is possible to gain much greater insight into the relationship between output and costs through statistical analysis of the data and further research on various aspects of these relationships. The Group recommends that such research should be carried out bank-wise in order to find out the scope for increasing banks' profitability by increasing the business of their branches. For this purpose, historical data are necessary giving the total outputs of the branches and their costs at various points of time. These can be combined for branches doing similar type of business and the relationships worked out.

R.11  
7.20           The Group's study indicates that there is a need for banks to examine carefully their existing procedures and methods of

handling foreign exchange transactions and also for developing methods of cost and profitability analysis in this field. The Group recommends further work in this matter by bankers who have the necessary expertise.

R.12  
8.60 Profitability of co-operative apex and central banks can be improved by (a) bringing down excess cash reserves for which the authority should 'notify' the scheduled banks with whom balances are maintained to facilitate remittances and other operations and the co-operative banks giving attention to better management of resources and (b) by efficient management of liquid assets by diversifying activities and improving the absorbing capacity of primary societies.

R.13  
8.62 The validity of policies being pursued now to strengthen the capital base of co-operative banks through members' contribution as well as Government participation has to be re-examined to ensure a reasonable return on capital.

R.14  
9.15 and  
9.16 The Group recognises that evolving an optimal price structure for the banking industry is no mean task. This has to satisfy not only the profit requirements of the industry but has also to fulfil the overall objectives of the Government in regard to deposit mobilisation, pattern of bank credit and the general development of banking facilities and banking habit. Considerable research is needed to ascertain the effects of the changes in interest rates and service charges on the demand for banks' services. The Group feels that, with the major part of the banking industry in India in the public sector, a restructuring of the prices with due attention to the cost element will help the authorities significantly in the realization of their broader objectives. The Group is of the opinion that there is scope for modifying the pricing system, so that, in fixing charges levied on the different customers, the use they make of the banking system is taken into account.

R.15  
9.17 An important first step in restructuring the price for banks' services, in the Group's view, is to define the profit objective which the banks should have. In the case of nationalised banks, a reasonable return on this investment would be expected by the Government. As to what this should be is a matter for the Government to decide. The method of cost control and pricing policy in such cases should be such as to ensure this rate of return.

R.16  
9.21 The Group recommends that there should be a common policy for all the public sector banks in regard to size of equity

funds, which would lay down that the banks must provide to the full extent towards their fixed capital requirements and the bad and doubtful debts classified as such by an appropriate authority and also make an additional provision to be decided on by the appropriate authorities.

R.17  
9.25

From the point of view of maximum deposit mobilisation, the deposit interest rate structure has to conform to the expectations of the public about the appropriate rates for deposits of different terms. One method of achieving this is to let banks compete freely for deposits, so that market forces determine the rate structure. In the absence of market determination of rates, a considerable amount of research will have to be undertaken to determine which rates need revision and in what direction. The Group recommends that this should be done.

R.18  
9.26

The effects on Servicing Costs because of shifts in the distribution of deposits between current, savings and fixed consequent on changes in interest rates for deposits is also an area in which research is needed to ascertain the direction and the magnitude of such effects.

R.19  
9.29

Banks could improve their profitability and also have a more equitable system of charges by adopting for deposits, the Measured Service Charge Method described in paragraph 9.6 of the Report. The Complete Analysis System, though theoretically still more equitable, would be very difficult to apply in practice except for very large accounts because of the detailed calculations it involves. The Group therefore recommends the adoption of a simpler method, the main elements of which should be (i) minimum balances to be prescribed for each type of account ; (ii) the extent of free facilities should be dependent on the size of the account ; (iii) a charge should be made per transaction if the balance in the account is below the minimum, or the total number of transactions in a period exceeds the maximum allowed for the account ; and (iv) consideration should be given to the need to encourage the banking habit particularly amongst the small account holders. The manner in which such a system can be evolved by using cost and profitability analysis on the lines of Chapters IV and V is illustrated from paragraphs 9.30 onwards.

R.20  
9.37

The Group would like to emphasize that the actual details of the schedule of charges given from paragraphs 9.30 onwards are only of an illustrative nature. They could and

indeed should be improved upon in the light of more comprehensive data on costs such as would be obtained when the arrangements recommended for collecting such data are brought into effect. It needs also to be pointed out that the suggestions made are on the basis of the averages for all banks. A more correct way would be to fix the charges according to the size groups of the banks.

R.21  
9.37

It is very important to keep a watch on how the revision of charges actually works out in practice. If for instance, they result in over-fulfilling the profit objectives, suitable adjustments should be made to lower the schedule in the interests of the broader objective of spreading the banking habit.

R.22  
10.24

The Group would like to suggest that Indian commercial banks, especially after nationalisation of the larger units, should study the Management Information Systems employed by banks in the U.S.A. and the Federal Republic of Germany and initiate active attempts at formulation of comprehensive Management Information Systems for their respective banks with a view to achieving improved performance, productivity and profitability.

R.23  
10.28

The Group recommends that the re-orientation of the Accounting System of banks in India should not proceed on the lines of the super-imposition of a separate departmentalised costing system on the existing reporting systems of such banks ; on the other hand, the present reporting system should be gradually replaced by the blending of the cost and financial accounting into an integrated Management Information System which combines and correlates the collection, analysis reporting and interpretation.

R.24  
10.34

The Group wishes to emphasize that, between the two Managerial levels of Branches and Head Office, it is essential that the flow of information and communication should be in *both* directions, so that there is a constant interchange of information making for better discharge of responsibilities at each level.

R.25  
10.34

To know how efficiently his branch is working, the branch manager should be able to analyse his costs and income and compare them with those of branches comparable to his in terms of overall size and character of business, location and so on. This can be done if a system of costs and income analysis, and assessment of branches profitability is developed.

R.26  
10.35

Operational Efficiency, *i.e.*, maximum income at optimum cost has to be necessarily achieved by every bank. This can be effectively done through the proper planning of the year's activities sufficiently in advance and fixing targets for performance, income and expenditure. This would require a system of Budgetary Control to be established.

R.27  
10.40

The basis on which the budget should be built-up will be the annual "Business Survey Report" sent by branches to their Head Offices. This report would generally cover the business trend noticeable at the time as well as anticipated to be developed during the budget period in the area served by the branch. Branches should also be encouraged to make suggestions for the formulation of the future policy of the bank and highlight those factors which are likely to affect the expansion of their own activities.

R.28  
10.41

Based on the monetary policy and the business survey report the Head Office should formulate its overall performance targets for the year, and invite each branch to fix its own share of the overall targets through a budget. The targets should be so fixed as to inspire in the branch a spirit of challenge and a confidence of attainability.

R.29  
10.46

Cash management in banks is akin to inventory management in industries. The Group feels that greater attention has to be paid to develop techniques of cash management, to study in particular, the consequences of a branch not having adequate cash to meet its obligations or having locked-up cash in excess of its requirements.

R.30  
10.50

The main object of any reporting system under the scheme of budgetary control should be to initiate action where needed so as to obtain the desired result. It is advisable that each bank should develop a uniform system of reporting which all its branches should follow. The branches should include in their reports their own reactions to the variations from targets and point out precisely whether any of the targets would require to be revised.

R.31  
10.52

In order to emphasize the importance of working to the budget and to make all concerned cost-conscious, the Board of Directors should review each month the consolidated Budget Report in addition to noting the actual working results.

R.32  
10.53

In the preparation of a budget, the previous statistical behaviour of both deposits and advances have to be taken note

of, as also the fact that a higher growth rate has to be assumed as people get more bank minded. The assumption of a constant growth rate may be not only misleading but also overrate the performance of a branch.

R.33  
10.54

The Group wishes to emphasize that the budget system has to be used as a means for setting standards of performance, for measuring actual results and for guiding management to satisfactory achievement and not as a "pressure device" to goad people to greater effort.

R.34  
11.3

For any reduction in staff cost, or its control, a bank management has to examine how best the effort required to do a particular job can be reduced to a workable minimum. The establishment of an Organization and Methods Department will be a step in the right direction.

R.35  
11.7

The requirements of cost analysis at the branch and Head Office levels can be met by : (a) requiring all branches to maintain a regular record of all physical outputs, in addition to the record of monetary outputs, and (b) organising a sample survey on a regular basis to obtain detailed estimates of unit costs and income for the different types of outputs for representative types of branches. Such estimates of unit costs and income can then be used in conjunction with the record of physical and the monetary outputs and of the earnings and expenses maintained by the branches to evaluate their efficiency and profitability in the manner described in Chapter V.

R.36  
11.8

Based on the experience gained from the sample survey conducted by the Group, it is recommended that the following arrangements for continuous sample survey should be organised for the analysis of bank costs and income :—

- (i) The sample survey should be conducted by a Central Agency which should have the necessary expertise, facilities (like computers) and the status to secure co-operation from all banks.
- (ii) This agency should prepare the "sampling frame" for all the banks which will need to be up-dated from time to time.
- (iii) The Agency should conduct pilot studies on the sampling frame to decide which of these particulars could be used for selecting the sample units, i.e., the branches. (The sample selected should be such

that it will enable bank-wise estimates to be made for a large and medium sized banks with a satisfactory degree of accuracy).

- (iv) As the survey is to be a continuing one, it is necessary to change the selected branches from time to time.
- (v) The Agency should advise each bank of the cost and income for representative types of branches and also the average cost and income for each of the large and medium sized banks, taking into account the details of their branch network.
- (vi) The Agency should calculate all-India averages for the various cost and income so as to help the authorities in framing their policies in regard to interest rates on deposits and advances, and the various charges levied by the banks.

R.37  
11.9

Based upon the figures of costs and income as worked out by the Central Agency, each branch should compare its own actual cost with the average costs for a comparable unit and develop a cost index to measure its relative efficiency.

R.38  
11.10  
11.11 and  
11.12

In comparing inter-branch or inter-bank efficiency merely the amount of profit or size of deposits will not give a true measure of profitability. This can only be ascertained through certain management/financial ratios. At the branch level, the useful ratios to be worked out should be operating ratios, efficiency ratios and profitability ratios; at the bank level, the ratios which should be worked out will be stability ratios, liquidity ratios and capital ratios.

R.39  
11.13

The management/financial ratios taken collectively will be indicative of the branch efficiency and the branches should be ranked according to the efficiency thus revealed. To facilitate measurement, branches should be ranked by allocating to them marks either in the descending or in the ascending order and a comparative tabulation should be made of the ranks as expressed in marks. In such valuations, it may perhaps be necessary to give weightage to the relative importance of each ratio in the measurement of the overall branch efficiency. The exact basis to be followed for giving this weightage to any ratio, is a matter of policy which each bank should be free to decide, depending upon the extent to which these are directly controllable by the branch managers.

R.40  
11.14

The ratio of man-hours employed to man-hours required both at the branch and bank levels would be a useful comparison. In the case of inter-branch efficiency, the comparison should be related to the banks' own target of the man-hours required whereas for inter-bank efficiency the target should be related to the overall average for the industry as compiled by the Central Agency referred to earlier.

Shri Rameshwar Thakur—*Chairman*

Shri N. Ramanand Rao

Shri Kantilal F. Ghiya

Shri S. R. Mohindroo

Shri R. K. Datta

Shri H. B. Dhondy

Shri L. Swaminathan

Shri A. V. Ramanathan—*Convener*.

BOMBAY,  
2nd December 1971.



## ANNEXURE—A

*Extracts from Banking Commission's Communication dated September 17, 1969.*

OFFICE ORDER NO.BC/S-Costs-1/69-70

Subject : *Constitution of a Study Group on Banking Costs*

The Banking Commission appoints the following persons to constitute the Study Group on Banking Costs with effect from August 22, 1969.

- (1) Shri Rameshwar Thakur, — *Chairman*  
M.A., B.Com., LL.B., F.C.A.,  
Chartered Accountant,  
Thapar House,  
124, Janpath,  
NEW DELHI.
- (2) Shri N. Ramanand Rao,  
Managing Director,  
State Bank of India and Member,  
Banking Commission,  
BOMBAY.
- (3) Shri Kantilal F. Ghiya,  
Chairman,  
Ahmedabad District Co-operative Bank Ltd.,  
AHMEDABAD.
- (4) Shri S. R. Mohindroo,  
General Manager,  
Punjab National Bank,  
Parliament Street,  
NEW DELHI-1.
- (5) Shri R. K. Datta,  
Chief Accountant,  
United Bank of India,  
4, Narendra Chandra Dutta Saraini,  
CALCUTTA-1.

- (6) Shri H. B. Dhondy,  
Chartered Accountant,  
Messrs. H. B. Dhondy & Co.,  
Taj Building, 2nd Floor,  
210, Dr. D. N. Road,  
BOMBAY-1.
- (7) Shri L. Swaminathan,  
B.Sc., LL.B., F.C.W.A., F.I.C.W.A.,  
Messrs. Budge Budge Amalgamated Mills Ltd.,  
8, Clive Row,  
CALCUTTA-1.
- (8) Shri A. V. Ramanathan, *Convener*  
Staff Officer,  
Planning Department,  
State Bank of India,  
BOMBAY-1.

2. The Terms of Reference of the Study Group will be as follows :

- (i) To examine the manner in which cost accounting techniques can be used in the Banking industry—both commercial and co-operative—and to examine the applicability of programmes on this subject developed elsewhere,
- (ii) To collect and analyse the data for cost accounting in the Indian banking industry, if necessary on a representative basis,
- (iii) To develop methods for estimating the net costs of the various services rendered by banks in India,
- (iv) To make recommendations on the extent to which costs in this industry are amenable to control and the manner in which they may be controlled, and
- (v) To make any recommendations on any other related subject matter as the Study Group may consider germane to the subject of enquiry or any related matter which may specifically be referred to the Group by the Commission.

Sd/—V. G. PENDHARKAR  
Member-Secretary.

## ANNEXURE—B

## PROFORMAE OF RETURNS CALLED FOR BY THE GROUP

<i>Nature of Return</i>	<i>No. of Return</i>
Day>Returns ..	1.1, 1.2, 1.3, 1.4 and 2.1
Monthly Returns ..	1.5, 2.2, 3.1, 3.2, 4.1 and 4.2
Foreign Exchange Returns ..	5.1, 5.2, 5.3, 5.4 and 5.5
Head Office Returns ..	6.1 and 6.2
Urban Co-operative Bank Returns ..	7.1, 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7
Apex/State Co-operative Bank Returns ..	8.1, 8.2 and 8.3
District Central Co-operative Bank Returns ..	8.6, 8.7 and 8.8

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**COST ANALYSIS RETURN 1-1**

Please read carefully the explanatory notes given in the form before filling it in.

**Allocation of man-hours among various services**

Name of Bank: .....

Branch Code No.: .....

Branch: .....

Area : I/II/III

Date : .....19

Nature of Service  (1)	Service Code No.  (2)	MAN-HOURS PUT IN BY									
		Officers (a)		Clerks/Cashiers (b)				Subordinate Staff (c)			
		(3)		Normal (4)		Overtime (5)		Normal (6)		Overtime (7)	
		Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.
<b>DEPOSITS</b>											
Current Accounts (d) .. .. .	01										
Savings Bank .. .. .	02										
Fixed Deposits .. .. .	03										
Miscellaneous Deposits and other Time and Demand Liabilities (e)	04										
<b>ADVANCES (f)</b>											
Ledger Accounts .. .. .	06										
Proposals .. .. .	07							x x	x x	x x	x x
Security etc. Small-Scale Industries ; Pledge—Lock and Key .. .. .	20										
Other Pledge, Hypothecation .. .. .	21										
Overdrafts against Bills in the Course of Collection .. .. .	22										

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**COST ANALYSIS RETURN 1·1—(Contd.)**

Allocation of man-hours among various services

Please read carefully the explanatory notes given in the form before filling it in.

Name of Bank: .....

Branch Code No.: .....

Branch: .....

Area : I/II/III

Date :.....19

Nature of Service  (1)	Service Code No.  (2)	MAN-HOURS PUT IN BY									
		Officers (a)		Clerks/Cashiers (b)				Subordinate Staff (c)			
		(3)		Normal (4)		Overtime (5)		Normal (6)		Overtime (7)	
		Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.
<b>Medium and Large-Scale Industries :</b>											
Pledge—Lock and Key .. ..	25										
Other Pledge, Hypothecation .. ..	26										
Overdrafts against Bills in the Course of Collection .. ..	27										
<b>Direct Loans to Farmers :</b>											
Pledge—Lock and Key .. ..	30										
Other Pledge, Hypothecation .. ..	31										
<b>Personal and Professional Loans :</b>											
Pledge—Lock and Key .. ..	35										
Other Pledge, Hypothecation .. ..	36										
<b>Others (g)</b>											
Pledge—Lock and Key .. ..	40										
Other Pledge, Hypothecation .. ..	41										
Overdrafts against Bills in the Course of Collection .. ..	42										

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**COST ANALYSIS RETURN 1-1—(Contd.)**

**Allocation of man-hours among various services**

Please read carefully the explanatory notes given in the form before filling it in.

Name of Bank: .....

Branch Code No.: .....

Branch: .....

Area : I/II/III

Date : .....19

Nature of Service  (1)	Service Code No.  (2)	MAN-HOURS PUT IN BY									
		Officers (a)		Clerks/Cashiers (b)				Subordinate Staff (c)			
		(3)		Normal (4)		Overtime (5)		Normal (6)		Overtime (7)	
		Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.
<b>REMITTANCES (h)</b>											
Drafts Issued .. .. .	50										
M.Ts. Issued .. .. .	51										
T.Ts. Issued .. .. .	52										
Drafts Paid .. .. .	53										
M.Ts. Paid .. .. .	54										
T.Ts. Paid .. .. .	55										
<b>OUTWARD BILLS NEGOTIATED OR COLLECTED (j)</b>											
Cheques and Clean Bills .. .. .	60										
Other Demand Bills .. .. .	61										
Usance Bills .. .. .	62										

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## COST ANALYSIS RETURN 1·1—(Contd.)

Please read carefully the explanatory notes given in the form before filling it in.

## Allocation of man-hours among various services

Name of Bank: .....

Branch Code No.: .....

Branch: .....

Area : I/II/III

Date : .....19 ..

Nature of Service  (1)	Service Code No.  (2)	MAN-HOURS PUT IN BY											
		Officers (a)		Clerks/Cashiers (b)				Subordinate Staff (c)					
		(3)		Normal (4)		Overtime (5)		Normal (6)		Overtime (7)			
		Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.		
INWARD BILLS (k)													
Cheques and Clean Bills .. .. .	65												
Other Demand Bills .. .. .	66												
Usance Bills .. .. .	67												
OTHER SERVICES													
Securities .. .. .	70												
Others (m) .. .. .	71												
CLEARING .. .. .	80												
DESPATCH .. .. .	81												
CASH DEPARTMENT													
Receipts (n) .. .. .	82												
Payments .. .. .	83												
GENERAL (p) .. .. .	90												
TOTAL (q) .. .. .	95												
Staff Attending Office(r) .. .. .	96	Officers (a).....				Clerks/Cashiers (b).....				Subordinate Staff (c).....			

Place : .....

Agent/Manager

Date : .....

(a) Comprises only non-Award staff, including Agents/Managers. Actual man-hours put in (including additional time even beyond normal working hours, if any, spent) should be indicated. The entire man-hours put in by the officers in the Cash Department should be allocated to items bearing Service Code Nos. 82 and 83 only. These hours should *not* be allocated under other heads.

(b) Comprises all Award staff in these categories, including supervisors like Head Clerks, Dy. Head Cashiers, etc. Man-hours of godown-keepers should be allocated to Advances (Service Code Nos. 20 to 42). The entire man-hours put in by the cashiers should be allocated to items bearing Service Code Nos. 82 and 83 only. These hours should *not* be allocated under other heads.

(c) Comprises all Award staff other than clerks and cashiers; Godown-watchmen, guards, sweepers, etc., should be included under this category.

(d) All accounts, whether in credit or overdrawn, maintained in current account ledgers should be included here. Overdraft accounts for which separate ledgers are maintained should be included under Service Code No. 06. Man-hours pertaining to the preparation, posting and passing of vouchers, writing of day-books and statements and other connected work should be allocated under this head.

(e) Call deposits, payment orders, manager's cheques, cash certificates, recurring deposits, "pigmy" deposits and all kinds of deposits not covered by the first three items under Service Code Nos. 01 to 03 should be included here.

(f) Man-hours spent on advances of all kinds should be allocated in the following manner :

(i) *Ledger Accounts—Service Code No. 06*

Man-hours spent on maintaining ledger accounts pertaining to overdrafts, cash credits, demand loans, term loans, instalment credit (excluding overdraft accounts for which separate ledgers are not maintained and which are dealt with under (d) above) should be allocated under this head. In other words, man-hours pertaining to the preparation, posting and passing of vouchers, writing of day-books and statements and other connected work relating to the above mentioned accounts should be allocated under this head.

(ii) *Proposals—Service Code No. 07*

Man-hours spent on handling new proposals, renewals, enhancements, other connected work like credit guarantee applications, insurance of security charged, etc., relating to *all advances* should be allocated against this head. Man-hours spent on follow-up of medium-term loans should also be included here. In the case of advances against G. P. Notes, shares, gold ornaments, etc., time spent on verifying G. P. Notes and scrips and weighing gold ornaments, etc., at the time of accepting them as security should be included under this head.

(iii) *Security, etc.—Service Code Nos. 20 to 42*

Man-hours spent on all other aspects pertaining to the various types of advances shown in the return which have not been covered under Service Code Nos. 06 and 07 under the various types of borrowers should be allocated under the appropriate security head. This would include the periodical verification and evaluation of security, computation of drawing powers, etc.

(g) All advances to borrowers other than those listed in items mentioned in Service Code Nos. 20 to 36 should be included here.

(h) Only remittances—outward and inward—pertaining to inland transactions should be included here.

(j) Bills covered under 'overdrafts against bills in the course of collection' *vide* Service Code Nos. 22, 27 and 42 should not be included here. All other inland bills (*i.e.*, bills payable in India) should be included here.

(k) Only inland bills (*i.e.*, bills drawn and payable in India) should be included here.

(m) All other services to customers not specified elsewhere, such as foreign exchange business, safe deposit lockers, etc., should be included here.

(n) Man-hours spent on shroffing notes and coin should be allocated to receipts.

(p) Man-hours spent on inter-departmental services, *e.g.*, on main day-book/clean cash book, records and establishment and man-hours spent by guards, sweepers, etc., should be allocated here. Also man-hours which cannot be specifically allocated to any of the Service Code Nos. 01 to 83 should be included here.

(q) Please ensure that the entire man-hours put in by the branch staff are allocated amongst the above items so that the *totals arrived at here are equal to the totals of the man-hours put in on the day.*

(r) The number of staff attending office on the day should be indicated here.



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**COST ANALYSIS RETURN 1-2**

**Work Sheet for Clearing Department**

Name of Bank : .....

Branch Code No : .....

Branch : ..... Area : I/II/III

Date : .....19

Nature of Service (1)	Service Code No. (2)	Number of Cheques/ Drafts handled (both inward and outward) (3)	Explanatory Notes
Current Accounts (a) .. ..	01		<p>(a) Instruments relating to all accounts (whether in credit or over-drawn) maintained in current account ledgers should be included here. Those relating to overdraft accounts for which separate ledgers are maintained should be included under Advances Service Code No. 06.</p> <p>(b) All instruments collected by the Branch on behalf of other offices of the bank, correspondent banks, etc., should be included here.</p> <p>(c) All instruments cleared, which cannot be classified under any of the above five heads, should be included here.</p>
Savings Bank .. ..	02		
Advances .. ..	06		
Drafts Paid .. ..	53		
Cheques, etc., under collection (b)	65		
Miscellaneous (c) .. ..	90		
<b>TOTAL .. ..</b>	<b>80</b>		

Place: .....

Date : .....

.....  
*Agent/Manager*

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## COST ANALYSIS RETURN 1-3

## Work Sheet for Mail Department

Name of Bank : .....

Branch Code No. : .....

Branch : ..... Area : I/II/III

Date : .....19

Nature of Service (1)	Service Code No. (2)	Number of letters despatched (a) (3)	Explanatory Notes
<b>DEPOSITS</b>			
Current Accounts (b) .. .. .	01		(a) All letters, advices, statements, etc., despatched should be classified in this return. Even if two or more advices, letters, etc., are despatched in one envelope, these should be counted separately.
Savings Bank .. .. .	02		
Fixed Deposits .. .. .	03		
Miscellaneous Deposits and other Time and Demand Liabilities (c) .. .. .	04		
<b>ADVANCES</b>			(b) Letters, advices, etc., relating to all accounts, whether in credit or overdrawn, maintained in current account ledgers should be included here. Those relating to overdraft accounts for which separate ledgers are maintained should be included under "Advances—Ledger Accounts" Service Code No. 06.
Ledger Accounts .. .. .	06		
Proposals .. .. .	07		(c) Letters, advices, etc., relating to call deposits, payment orders, manager's cheques, cash certificates, recurring deposits, pigmy deposits and to all kinds of deposits not covered under the first three items (Service Code Nos. 01 to 03) should be included here.
<b>REMITTANCES (d)</b>			
Drafts Issued .. .. .	50		
M.Ts. Issued .. .. .	51		
T.Ts. Issued .. .. .	52		(d) Only letters, advices, etc., relating to inland remittances should be included here.
<b>OUTWARD BILLS NEGOTIATED OR COLLECTED (e)</b>			
Cheques and Clean Bills .. .. .	60		
Other Demand Bills .. .. .	61		(e) Only letters, advices, etc., relating to inland bills (i.e., bills payable in India) should be included here. Those relating to bills covered under "overdrafts against bills in the course of collection" should not be included here, but under "Miscellaneous"—Service Code No. 90.
Usance Bills .. .. .	62		
<b>INWARD BILLS (f)</b> .. .. .			
Cheques and Clean Bills .. .. .	65		(f) Only letters, advices, etc., relating to inland bills (i.e., bills drawn and payable in India) should be included here.
Other Demand Bills .. .. .	66		
Usance Bills .. .. .	67		
<b>OTHER SERVICES</b> .. .. .			(g) All letters, advices, etc., which cannot be classified under any of the above heads should be included here.
Securities .. .. .	70		
Others .. .. .	71		(h) Total letters, advices, etc., indicated here should agree with the total letters, advices, etc., despatched during the day.
<b>MISCELLANEOUS (g)</b>	90		
<b>TOTAL (h)</b> .. .. .	81		

Place : .....

Date : .....

Agent/Manager

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**COST ANALYSIS RETURN 1-4**  
 Work Sheet for Cash Department

Please read carefully the  
 explanatory notes given in  
 the form before filling it in.

Name of Bank : .....

Branch Code No .....

Branch .....

Area : I/II/III

Date : .....19

Nature of Service (1)	Service Code No. (2)	Number of Vouchers		Total Number of Pieces	
		Receipts (3)	Payments (4)	Receipts (5)	Payments (6)
<b>DEPOSITS</b>					
Current Accounts (a) .. ..	01				
Savings Bank .. .. .	02				
Fixed Deposits .. .. .	03				
Miscellaneous Deposits and other Time and Demand Liabilities (b)	04				
<b>ADVANCES</b>					
Ledger Accounts .. .. .	06				
<b>REMITTANCES (c)</b>					
Drafts Issued .. .. .	50		x x x		x x x
M.Ts. Issued .. .. .	51		x x x		x x x
T.Ts. Issued .. .. .	52		x x x		x x x
Drafts Paid .. .. .	53	x x x		x x x	
<b>OUTWARD BILLS NEGOTIATED OR COLLECTED (d)</b>					
Cheques and Clean Bills .. ..	60	x x x		x x x	
<b>INWARD BILLS (e)</b>					
Cheques and Clean Bills .. ..	65		x x x		x x x
Other Demand Bills .. .. .	66		x x x		x x x
Usance Bills .. .. .	67		x x x		x x x
<b>MISCELLANEOUS (f)</b> .. .. .	90				
<b>TOTAL (g)</b> .. .. .	84				

Place : .....

Date : .....

Agent/Manager

(a) Transactions relating to all accounts, whether in credit or overdrawn, maintained in current account ledgers should be included here. Those relating to overdraft accounts for which separate ledgers are maintained should be included under "Advances—Ledger Accounts" Service Code No. 06.

(b) Transactions relating to call deposits, payment orders, manager's cheques, cash certificates, recurring deposits, "pigmy" deposits and to all kinds of deposits not covered by the first three items (Service Code Nos 01 to 03) should be included here.

(c) Only transactions relating to inland remittances—both inward and outward—should be included here.

(d) Only transactions relating to inland bills (i.e., bills payable in India) should be included here.

(e) Only transactions relating to inland bills (i.e., bills drawn and payable in India) should be included here.

(f) All transactions which cannot be classified under any of the above heads should be included here.

(g) Total number of cash vouchers and number of pieces handled indicated here should agree with the totals of the day as indicated in the branch books.

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Please read carefully the explanatory notes given in the form before filling it in.

COST ANALYSIS RETURN 2-1

CONFIDENTIAL

Quantum of a day's turnover in respect of various services

Name of Bank : .....  
Branch : .....

Branch Code No. : .....  
Date : .....19 ..

Area : I/II/III

Nature of Service (1)	Service Code No. (2)	Nature of Unit (3)	Quantity (4)	Nature of Unit (5)	Quantity (6)
<b>DEPOSITS</b>					
Current Accounts (a) .. ..	01	x x x	x x x	Vouchers (Debit and Credit)	
Savings Bank .. .. .	02	x x x	x x x	-do-	
Fixed Deposits .. .. .	03	x x x	x x x	-do-	
Miscellaneous Deposits and other Time and Demand Liabilities (b) ..	04	x x x	x x x	-do-	
<b>ADVANCES</b>					
<b>Ledger Accounts :</b>					
Small-Scale Industries .. ..	10	x x x	x x x	-do-	
Medium and Large-Scale Industries	11	x x x	x x x	-do-	
Direct Loans to Farmers .. ..	12	x x x	x x x	-do-	
Personal and Professional Loans ..	13	x x x	x x x	-do-	
Others .. .. .	14	x x x	x x x	-do-	
<b>Security etc. :</b>					
<b>Small-Scale Industries :</b>					
Pledge—Lock and Key .. ..	20	Number of Pledge Invoices and Delivery Orders		Items in Pledge invoices and Delivery Orders	
Other Pledge, Hypothecation .. ..	21	Number of Stock Statements		Items in Stock Statements	
Overdrafts against Bills in the Course of Collection .. .. .	22	x x x	x x x	Number of Bills accepted for Collection and/or removed from Cover	

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**COST ANALYSIS RETURN 2·1—(Contd.)**

**Quantum of a day's turnover in respect of various services**

Please read carefully the explanatory notes given in the form before filling it in.

254

Name of Bank : .....

Branch Code No. : .....

Branch : .....

Area : I/II/III

Date : .....19

Nature of Service (1)	Service Code No. (2)	Nature of Unit (3)	Quantity (4)	Nature of Unit (5)	Quantity (6)
Medium and Large-Scale Industries : Pledge—Lock and Key .. ..	25	Number of Pledge Invoices and Delivery Orders		Items in Pledge Invoices and Delivery Orders	
Other Pledge, Hypothecation .. ..	26	Number of Stock Statements		Items in Stock Statements	
Overdrafts against Bills in the Course of Collection .. ..	27	x x x	x x x	Number of Bills accepted for Collection and/or removed from Cover	
Direct Loans to Farmers : Pledge—Lock and Key .. ..	30	Number of Pledge Invoices and Delivery Orders .. ..		Items in Pledge Invoices and Delivery Orders	
Other Pledge, Hypothecation .. ..	31	Number of Stock Statements		Items in Stock Statements	
Personal and Professional Loans : Pledge—Lock and Key .. ..	35	Number of Pledge Invoices and Delivery Orders		Items in Pledge Invoices and Delivery Orders	
Other Pledge, Hypothecation .. ..	36	Number of Stock Statements		Items in Stock Statements	
Others : Pledge—Lock and Key .. ..	40	Number of Pledge Invoices and Delivery Orders		Items in Pledge Invoices and Delivery Orders	
Other Pledge, Hypothecation .. ..	41	Number of Stock Statements		Items in Stock Statements	
Overdrafts against Bills in the Course of Collection .. ..	42	x x x	x x x	Number of Bills accepted for Collection and/or removed from Cover	

**BANKING COMMISSION**

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Please read carefully the explanatory notes given in the form before filling it in.

**COST ANALYSIS RETURN 2·1—(Contd.)**

**Quantum of a day's turnover in respect of various services**

Name of Bank : .....

Branch Code No. : .....

Branch : .....

Area : I/II/III

Date : .....19

Nature of Service (1)	Service Code No. (2)	Nature of Unit (3)	Quantity (4)	Nature of Unit (5)	Quantity (6)
<b>REMITTANCES (c)</b>					
Drafts Issued .. .. .	50	Amount in round Rupees		No. of Drafts Issued	
M.Ts. Issued .. .. .	51	-do-		No. of M.Ts. Issued	
T.Ts. Issued .. .. .	52	-do-		No. of T.Ts. Issued	
Drafts Paid .. .. .	53	-do-		No. of Drafts Paid	
M.Ts. Paid .. .. .	54	-do-		No. of M.Ts.	
T.Ts. Paid .. .. .	55	-do-		No. of Telegrams	
<b>OUTWARD BILLS NEGOTIATED OR COLLECTED (d)</b>					
Cheques and Clean Bills .. .. .	60	-do-		Number	
Other Demand Bills .. .. .	61	-do-		-do-	
Usance Bills .. .. .	62	-do-		-do-	

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**COST ANALYSIS RETURN 2.1—(Contd.)**

Quantum of a day's turnover in respect of various services

Please read carefully the explanatory notes given in the form before filling it in.

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Name of Bank : .....

Branch Code No. : .....

Branch : .....

Area : I/II/III

Date : .....19

Nature of Service (1)	Service Code No. (2)	Nature of Unit (3)	Quantity (4)	Nature of Unit (5)	Quantity (6)
<b>INWARD BILLS (e)</b>					
Cheques and Clean Bills .. ..	65	Amount in round Rupees		Number	
Other Demand Bills .. ..	66	-do-		-do-	
Usance Bills .. ..	67	-do-		-do-	
<b>OTHER SERVICES</b>					
Securities .. ..	70	-do-		Number of scrips handled.	

Place : .....

.....

Date : .....

Agent/Manager

(a) Vouchers relating to all accounts, whether in credit or overdrawn, maintained in current account ledgers should be included here. Those relating to overdraft accounts for which separate ledgers are maintained should be included under "Ledger Accounts" Service Code Nos. 10 to 14.

(b) Vouchers relating to call deposits, payment orders, manager's cheques, cash certificates, recurring deposits, "pigmy" deposits and to all kinds of deposits not covered by the first three items (Service Code Nos. 01 to 03) should be included here.

(c) Only data relating to inland remittances—both inward and outward—should be included here.

(d) Bills covered by "Overdrafts against bills in the course of collection" vide Service Code Nos. 22, 27 and 42 should not be included here. All other inland bills (i.e., bills payable in India) should be included here.

(e) Only inland bills (i.e., bills drawn and payable in India) should be included here.

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## COST ANALYSIS RETURN 1-5

(Pink Form)

Allocation of man-hours spent on handling of advance proposals during the month of.....

Name of Bank : .....

Branch Code No. : .....

Branch : ..... Area : I/II/III

Date : .....19 ..

Nature of Service	Service Code No.	Number of new proposals/ renewals/ enhancements	MAN-HOURS PUT IN BY	
			Officers (a)	Clerks (b)
(1)	(2)	(3)	(4)	(5)
<b>SHORT-TERM ADVANCES</b>				
Small-Scale Industries .. ..	10			
Medium and Large-Scale Industries	11			
Direct Loans to Farmers .. ..	12			
Personal and Professional Loans ..	13			
Others .. .. .	14			
<b>MEDIUM-TERM ADVANCES</b>				
Small-Scale Industries .. ..	15			
Medium and Large-Scale Industries	16			
Direct Loans to Farmers .. ..	17			
Personal and Professional Loans ..	18			
Others .. .. .	19			
<b>TOTAL</b> .. .. .	<b>07</b>			

Place : .....

Date : .....

.....  
Agent/ Manager

Note:— Man-hours spent on handling new proposals (whether accepted or rejected), renewals, enhancements, other connected work like credit guarantee applications, insurance of security charged, etc., relating to all advances should be included, break-up thereof being indicated in Column Nos. 4 and 5.

- (a) Comprises only non-Award staff, including Agents/Managers. Actual man-hours put in should be indicated.
- (b) Comprises all Award staff in this category, including supervisors, e.g., Head Clerk.



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**COST ANALYSIS RETURN 2-2**  
(Pink Form)

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Quantum of turnover in respect of various services during the month of .....

Name of Bank : .....

Branch Code No. : .....

Branch : .....

Area : I/II/III

Nature of Service (1)	Service Code No. (2)	Nature of Unit (3)	Quantity (4)	Nature of Unit (5)	Quantity (6)
<b>DEPOSITS</b>					
Current Accounts (a) .. .. .	01	Number of Accounts as at the end of the month		Vouchers (Debit and Credit)	
Savings Bank .. .. .	02	-do-		-do-	
Fixed Deposits .. .. .	03	Number of Receipts issued		-do-	
Miscellaneous Deposits and other Time and Demand Liabilities (b) ..	04	x x x	x x x	-do-	
<b>ADVANCES</b>					
Ledger Accounts .. .. .	06	Number of Accounts as at the end of the month		-do-	
<b>Small-Scale Industries :</b> Overdraft against Bills in the Course of Collection	22	Value of Bills accepted for collection		Number of Bills accepted for collection	
<b>Medium and Large-Scale Industries :</b> Overdrafts against Bills in the Course of Collection .. .. .	27	Value of Bills accepted for collection		Number of Bills accepted for collection	
<b>Others :</b> Overdraft against Bills in the Course of Collection .. .. .	42	Value of Bills accepted for collection		Number of Bills accepted for collection	

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COST ANALYSIS RETURN 2-2 (Contd.)  
(Pink Form)

Please read carefully the explanatory notes given in the form before filling it in.

Quantum of turnover in respect of various services during the month of .....

Name of Bank : .....

Branch Code No. : .....

Branch : .....

Area : I/II/III

Nature of Service (1)	Service Code No. (2)	Nature of Unit (3)	Quantity (4)	Nature of Unit (5)	Quantity (6)
<b>REMITTANCES (c)</b>					
Drafts Issued .. .. .	50	Amount (in round Rupees)		No. of Drafts Issued	
M.Ts. Issued .. .. .	51	-do-		No. of M.Ts. Issued	
T.Ts. Issued .. .. .	52	-do-		No. of T.Ts. Issued	
Drafts Paid .. .. .	53	-do-		No. of Drafts Paid	
M.Ts. Paid .. .. .	54	-do-		No. of M.Ts. Paid	
T.Ts. Paid .. .. .	55	-do-		No. of Telegrams	
<b>OUTWARD BILLS NEGOTIATED OR COLLECTED (d)</b>					
Cheques and Clean Bills .. .. .	60	-do-		Numbers	
Other Demand Bills .. .. .	61	-do-		-do-	
Usance Bills .. .. .	62	-do-		-do-	

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**COST ANALYSIS RETURN 2.2 (Contd.)  
(Pink Form)**

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Quantum of turnover in respect of various services during the month of .....

Name of Bank : .....

Branch Code No. : .....

Branch : .....

Area : I/II/III

Nature of Service (1)	Service Code No. (2)	Nature of Unit (3)	Quantity (4)	Nature of Unit (5)	Quantity (6)
<b>INWARD BILLS (e)</b>					
Cheques and Clean Bills .. ..	65	-do-		-do-	
Other Demand Bills .. ..	66	-do-		-do-	
Usance Bills .. ..	67	-do-		-do-	
<b>OTHER SERVICES</b>					
Securities .. ..	70	-do-		Number of Scrips handled	

Place : .....

Date : .....

.....  
*Agent/Manager*

- (a) Vouchers relating to all accounts whether in credit or overdrawn, maintained in current account ledgers should be included here. Those relating to overdraft accounts for which separate ledgers are maintained should be included under "Ledger Accounts" Service Code No. 6.0 to 14.
- (b) Vouchers relating to call deposits, payment orders, manager's cheques, cash certificates, recurring deposits, "pigmy" deposits and to all kinds of deposits not covered by the first three items (Service Code Nos. 01 to 03) should be included here.
- (c) Only data relating to inland remittances—both inward and outward—should be included here.
- (d) Bills covered by "Overdrafts against bills in the course of collection" vide Service Code Nos. 22, 27 and 42 should not be included here. All other inland bills (*i.e.*, bills payable in India) should be included here.
- (e) Only inland bills (*i.e.*, bills drawn and payable in India) should be included here.

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**COST ANALYSIS RETURN 3-1**  
(Pink Form)

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Establishment and other expenses and man-hours put in for the month of.....

Name of Bank : .....  
Branch : .....

Branch Code No. : .....  
Area : I/II/III

(1)	Number	Establishment Expenses									Actual No. of Hours worked			
		Normal			Overtime			Total*			Normal		Overtime@	
		(3)			(4)			(5)			(6)		(7)	
		Rs.	P.	Rs.		P.	Rs.		P.	Hrs.	Mts.	Hrs.	Mts.	
<b>NON-AWARD STAFF</b>														
1. Officers (including Agents/Managers) ..					x	x	x							
2. Cash Department Staff ..					x	x	x							
<b>AWARD STAFF</b>														
3. Clerical Staff ..														
4. Godown-keepers ..														
5. Cashiers ..														
6. Subordinate Staff ..														
7. TOTAL ..														

8. Total expenses at the Branch excluding interest paid Rs.....

Place : .....

Date : .....

.....  
*Agent/Manager*

- £ The number of employees paid for during the month, regardless of whether they are present or on leave.
- @ Additional hours beyond normal working hours, if any, put in by non-Award Supervisory Officials should be indicated.
- \* The total figure under this column should agree with the total establishment expenses for the month as per the Branch record.

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**COST ANALYSIS RETURN 3.2**

**CONFIDENTIAL**

(Pink Form)

Data relating to interest cost of funds for the month of.....

Name of Bank : .....

Branch Code No. ....

Branch : .....

Area : I/II/III

Nature of Service	Service Code No.	Interest accrued during the month in Rupees	Notes
(1)	(2)	(3)	
Current Account .. .. .	01		Interest accrued during the month whether actually credited/paid or not should be included. Even with regard to interest credited/paid during the month, only that portion which relates to the current month should be included.
Savings Bank .. .. .	02		
Fixed Deposits .. .. .	03		
Miscellaneous Deposits and other Time and Demand Liabilities ..	04		

Place : .....

Date : .....

.....  
*Agent/Manager*

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COST ANALYSIS RETURN 4-1  
(Pink Form)

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Data relating to Income from Interest/Discount accrued for the month of.....

Name of Bank : .....

Branch Code No. ....

Branch : .....

Area : I/II/III

Nature of Service	Service Code No.	Outstandings '000s' omitted (Average of Fridays in the month)	No. of borrowers	Interest/Discount in Rupees
(1)	(2)	(3)	(4)	(5)
<b>ADVANCES</b>				
<b>Short-Term :</b>				
Small-Scale Industries .. .. .	10			
Medium and Large-Scale Industries .. .. .	11			
Direct Loans to Farmers .. .. .	12			
Personal and Professional Loans .. .. .	13			
Others .. .. .	14			
<b>Medium-Term :</b>				
Small-Scale Industries .. .. .	15			
Medium and Large-Scale Industries .. .. .	16			
Direct Loans to Farmers .. .. .	17			
Personal and Professional Loans .. .. .	18			
Others .. .. .	19			
<b>BILLS (NEGOTIATED)</b>				
Usance Bills .. .. .	62			
Others .. .. .	65			
<b>TOTAL .. .. .</b>	<b>97</b>			

*Note :* Interest accrued during the month whether charged or not should be included. Even with regard to interest charged during the month, only that portion which relates to the current month should be included.

The total of column 3 should agree with the average total advances of the Branch for the month.

Place : .....

Date : .....

Agent/Manager

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**CONFIDENTIAL****COST ANALYSIS RETURN 4-2**

(Pink Form)

Data Relating to Exchange and Commission for the Month of.....

Name of Bank : .....

Branch Code No. ....

Branch : .....

Area : I / II / III

Nature of Service (1)	Service Code No. (2)	Exchange/Commission in Rupees (3)
<b>DEPOSITS</b>		
Current Accounts .. ..	01	.....
<b>REMITTANCES</b>		
Drafts Issued .. ..	50	.....
M.Ts. Issued .. ..	51	.....
T.Ts. Issued .. ..	52	.....
<b>OUTWARD BILLS NEGOTIATED OR COLLECTED</b>		
Cheques and Clean Bills .. ..	60	.....
Other Demand Bills .. ..	61	.....
Usance Bills (only collections) .. ..	62	.....
<b>INWARD BILLS</b>		
Cheques and Clean Bills .. ..	65	.....
Other Demand Bills .. ..	64	.....
Usance Bills .. ..	67	.....
<b>OTHER SERVICES</b>		
Securities .. ..	70	.....
Others (including Foreign Ex- change) .. ..	71	.....
<b>TOTAL .. ..</b>	<b>99</b>	

Place : .....

Date : .....

.....  
*Agent/Manager*

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## BANKING COMMISSION

Please read carefully the explanatory notes attached before filling it in.

## COST ANALYSIS RETURN 5-1—ALLOCATION OF MAN-HOURS SPENT ON FOREIGN EXCHANGE BUSINESS DURING THE QUARTER ENDING 31st MARCH 1970

Name of Bank : ..... Branch Code No. ....

Branch. ....

Nature of Service  (1)	Service Code No.  (2)	Man-hours put in by					
		Officers (a)		Clerks (b)		Subordinate Staff (c)	
		(3)		(4)		(5)	
		Hrs.	Mts.	Hrs.	Mts.	Hrs.	Mts.
<b>IMPORT</b>							
Letters of Credit Opened (d)	.. 10						
Bills Received under L/Cs (e)	.. 11						
Bills for Collection (e)	.. 12						
<b>EXPORT</b>							
Letters of Credit Advised (f)	.. 21						
Bills Negotiated under L/Cs	.. 22						
Other Bills purchased	.. 23						
Bills for Collection	.. 24						
Bills covering Exports on Consignment Basis	.. 25						
Medium-Term Export Credit (g)	.. 28						
Proposals	.. 29						
Follow-up	.. 30						
Export Incentives	.. 30						
<b>CLEAN REMITTANCES (h)</b>							
Inward	.. 40						
Outward	.. 41						
FORWARD CONTRACTS	.. 50						
<b>GUARANTEES</b>							
Deferred Payment Guarantees : (j)							
Proposals	.. 60						
Follow-up	.. 61						
Other Guarantees	.. 62						
SUBSIDY SCHEME (k)	.. 70						
OTHER SERVICES (l)	.. 80						
GENERAL (m)	.. 90						
<b>TOTAL</b>	<b>.. 95</b>						

Place : .....

Date : .....

.....  
Agent/Manager



## Footnotes to Return 5-1

(a) Comprises only non-Award staff, including Agents/Managers. Actual man-hours put in (including additional time even beyond normal working hours, if any, spent) should be indicated.

(b) Comprises all Award staff including supervisors like head clerks, etc. Actual man-hours put in (including overtime) should be indicated.

(c) Comprises all Award staff other than clerks and cashiers. Actual man-hours put in (including overtime) should be indicated.

(d) Man-hours spent on work relating to amendments to letters of credit (*e.g.*, enhancement, extension, etc.) should be included here.

(e) Man-hours spent on realising documents against trust receipts in respect of bills received under Letters of Credit (Service Code No. 11) or for collection (Service Code No. 12) should be properly allocated to these Service Codes.

(f) Man-hours spent on advising amendments to letters of credit should also be included here.

(g) Man-hours spent on medium-term export credit should be allocated in the following manner :-

(i) Proposals—Service Code No. 28 : Man-hours spent on handling proposals and other connected work like obtaining foreign bank guarantee, ECGC cover, refinancing from IDBI, participation with IDBI and other banks relating to medium-term export credits should be included here.

(ii) Man-hours spent on the realisation of the instalments, as and when they become due, should be included here.

(h) Man-hours spent on all remittances (inward and outward) which are not included under any other heads should be included here. Man-hours spent on sale and purchase of travellers cheques should also be included here.

(j) Man-hours spent on deferred payment guarantees will be allocated to (i) proposals and (ii) follow-up (Service Codes Nos. 60 and 61) in the same manner as in the case of man-hours put in under medium-term export credit, *vide* footnote (g) above.

(k) Man-hours spent in maintaining records, calculating subsidy and other related activities should be included under this head.

(l) All other services to customers not specified elsewhere such as Packing Credit, Advances against exports sent on consignment basis, etc., should be included here.

(m) All man-hours spent on Foreign Exchange activities including those spent on inter-departmental services, *e.g.*, Day Book, records, establishment, despatch, filing and man-hours spent on collecting statistics, compiling returns for the Reserve Bank and Head Office, etc., should be allocated to the extent possible, to the respective activities detailed in column 1 above. Any man-hours spent on general activities of the Foreign Exchange Department which cannot be so allocated should be included here.

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## BANKING COMMISSION

## COST ANALYSIS RETURN 5.2—QUANTUM OF TURNOVER IN RESPECT OF FOREIGN EXCHANGE BUSINESS FOR THE QUARTER ENDING 31st MARCH 1970

Name of Bank \_\_\_\_\_ Branch Code No. \_\_\_\_\_  
 Branch Name \_\_\_\_\_

Nature of Service (1)	Service Code No. (2)	Amount of L/Cs, Bills, etc. (3)	No. of L/Cs., Bills, etc. (4)
<b>IMPORT</b>			
Letters of Credit opened (a) .. .. .	10		
Bills Received under L/C .. .. .	11		
Bills for Collection .. .. .	12		
<b>EXPORT</b>			
Letters of Credit Advised (b) .. .. .	21		
Bills Negotiated under L/Cs .. .. .	22		
Other Bills Purchased .. .. .	23		
Bills for Collection .. .. .	24		
Bills concerning exports on Consignment basis .. .. .	25		
Medium-term Export Credit : (c)			
Proposals .. .. .	28		
Follow-up .. .. .	29		
Export incentives .. .. .	30		
<b>CLEAN REMITTANCES (d)</b>			
Inward .. .. .	40		
Outward .. .. .	41		
<b>FORWARD CONTRACTS (e)</b>			
<b>GUARANTEES</b>			
Deferred Payment Guarantees (f) .. .. .			
Proposals .. .. .	60		
Follow up .. .. .	61		
Other guarantees .. .. .	62		
<b>SUBSIDY SCHEME (g)</b>			
Check Total .. .. .	95		

Place : \_\_\_\_\_

Agent/Manager

Date : \_\_\_\_\_

(a) Amounts of letters of credit opened and enhancements of existing letters of credit should be included under this head in column 3. Only the number of letters of credit opened (amendments to letters of credit being ignored) should be included in column 4.

(b) Under this head, the amount of letters of credit advised as well as all enhancements in the existing letters of credit should be included under column 3, while only the number of letters of credit advised (amendments to letters of credit being ignored) should be included in column 4.

(c) In case of medium-term export credits, aggregate amount and the number of such credits granted during this period should be included in columns 3 and 4 respectively under the head 'Proposals' (Service Code No. 28). As regards 'follow-up' (Service Code No. 29) the amount of instalments realised during the period and the number of such repayments should be indicated in columns 3 and 4 respectively.

(d) All remittances, inward and outward, which cannot be classified under any other heads, should be included here. Sale and purchase of travellers cheques should also be included here.

(e) Only the amount and number of forward contracts booked during the period should be indicated against this head.

(f) Figures under this head should be included in the same manner as in the case of medium-term export credit.

(g) The amount of subsidy claimable, whether actually claimed or not, should be indicated under this head.

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**COST ANALYSIS RETURN 5.3—ESTABLISHMENT AND OTHER EXPENSES AND  
 MAN-HOURS PUT IN FOR THE QUARTER ENDING 31st MARCH 1970**

Name of Bank: \_\_\_\_\_

Branch Code No. \_\_\_\_\_

Branch : \_\_\_\_\_

Sr. No.	Num- ber*	Establishment' Expenses£	Actual No. of Hours worked in- cluding overtime	
(1)	(2)	(3)	(4)	(5)
			Rs.	P.    Hrs.    Mts.

1. Officers (including Agents/Managers)
2. Clerical Staff/Cashiers
3. Subordinate Staff

4. **TOTAL**

5. Total expenses at the Branch excluding interest paid Rs.....

\* The number of employees paid for during the quarter, regardless of whether they are present or on leave.

£ The total figure under this column should agree with the total establishment expenses for the quarter as per the Branch record.

**COST ANALYSIS RETURN 5.4—DATA RELATING TO INCOME EARNED ON  
FOREIGN EXCHANGE BUSINESS FOR THE QUARTER ENDING MARCH 1970**

Name of Bank : \_\_\_\_\_

Branch Code No. \_\_\_\_\_

Branch : \_\_\_\_\_

Particulars	Code No.	Amount in Rupees 000' omitted
<b>A. Volume of merchant business handled (only total rupee amounts paid in respect of purchases and received in respect of sales are to be reported):—</b>		
Purchases in Sterling .. .. .	11	
Purchases in U.S.A. Dollar .. .. .	12	
Purchases in Other Foreign Currencies .. .. .	13	
<b>Total purchases</b> .. .. .	<b>15</b>	
Sales in Sterling .. .. .	21	
Sales in U.S.A. Dollar .. .. .	22	
Sales in Other Foreign Currencies .. .. .	23	
<b>Total sales</b> .. .. .	<b>25</b>	
		(in rounded rupees)
<b>B. Interest subsidy claimable in respect of :</b>		
Export bills in foreign currencies purchased :		
Sterling .. .. .	31	
U.S.A. Dollars .. .. .	32	
Other Foreign Currencies .. .. .	33	
Indian rupees .. .. .	34	
All other types of export finances ( <i>e.g.</i> , pre-shipment finance, etc.) .. .. .	35	
<b>Total interest subsidy claimable</b> .. .. .	<b>36</b>	
<b>C. Total interest credited to Interest Account</b> .. .. .	<b>41</b>	
Less interest subsidy received and credited to Interest Account	42	
Net interest earned .. .. .	45	
<b>D. Total amount of commission earned on all types of foreign exchange business including rupee transactions</b> .. .. .	<b>50</b>	

**COST ANALYSIS RETURN 5.5—DATA RELATING TO EXCHANGE PROFIT ON  
FOREIGN EXCHANGE BUSINESS FOR BANK AS A WHOLE FOR THE QUARTER  
ENDING MARCH 1970**

Name of Bank : \_\_\_\_\_

Code No. \_\_\_\_\_

Particulars	Code No.	Amount in Rupees 000' omitted
<b>A. Volume of merchant business handled (only total rupee amounts paid in respect of purchases and received in respect of sales are to be reported):—</b>		
Purchases in Sterling .. .. .	11	
Purchases in U.S.A. Dollar .. .. .	12	
Purchases in Other Foreign Currencies .. .. .	13	
<b>Total purchases</b> .. .. .	<b>15</b>	
Sales in Sterling .. .. .	21	
Sales in U.S.A. Dollar .. .. .	22	
Sales in Other Foreign Currencies .. .. .	23	
<b>Total sales</b> .. .. .	<b>25</b>	
<b>B. Interest subsidy claimable for the Bank as a whole</b> .. .. .	<b>35</b>	
<b>C. Exchange profit earned by the Bank on all foreign currency transactions</b>		
Sterling .. .. .	61	
U.S.A. Dollars .. .. .	62	
Other Foreign Currencies .. .. .	63	
<b>Total</b> .. .. .	<b>65</b>	
<b>D. Interest @ 7½% on funds laid out by the Bank for maintenance of foreign currency accounts</b>		
Sterling .. .. .	71	
U.S.A. Dollar .. .. .	72	
Other Foreign Currencies .. .. .	73	
<b>Total</b> .. .. .	<b>75</b>	

## BANKING COMMISSION

COST ANALYSIS RETURN 6.1—ALLOCATION OF HEAD OFFICE COSTS FOR THE  
QUARTER ENDED 31st MARCH 1969

Name of the bank : \_\_\_\_\_ Bank Code \_\_\_\_\_

Departments	Code No.	Establishment Expenses (a)
<b>ADVANCES : (b)</b>		
Small-scale industries .. .. .	01	
Medium and large-scale industries .. .. .	02	
Agricultural finance .. .. .	03	
Others including personal and professional .. .. .	04	
Staff, Personnel (c) .. .. .	05	
Inspection/Audit .. .. .	06	
Foreign Exchange (d) .. .. .	07	
Reconciliation of inter-branch transactions .. .. .	08	
Other administrative and service Departments (e) .. .. .	09	
<hr/>		
Banking Department ( f ) .. .. .	10	
Total Establishment Expenses (g) .. .. .	20	
Rent, Wages, Insurance, lighting, etc. .. .. .	21	
Law Charges .. .. .	22	
Postage, telegrams and stamps .. .. .	23	
Auditors fee .. .. .	24	
Advertisement .. .. .	26	
Stationery, printing, etc. .. .. .	27	
Other expenditure .. .. .	28	
<hr/>		
Total Charges as per general ledger balance (h) .. .. .	30	
<hr/>		
Depreciation and stationery written off during the year 1969 (j)	25	

(a) Establishment expenses, *i.e.*, those expenses incurred on the staff such as salaries and allowances, provident fund contributions, overtime, house rent, etc., may be allocated to the various departments on the basis of the staff attached to each department.

(b) Expenses incurred on staff in the advances department who attend to the work relating to advances granted at the Head Office, should not be included here. (These should be included in Code No. 10). Only expenses incurred on those staff attending to the examining and processing of proposals received from branches and other related work thereto should be taken into account. These expenses should be allocated separately for the different categories of advances, *i.e.*, those relating to small-scale industries, medium and large-scale industries, Agricultural finance and other advances including personal and professional loans.

(c) In addition to other establishment expenses pertaining to these departments all expenses incurred on the training of the bank staff should also be allocated to these departments.

(d) Only expenses incurred on staff attending to cover operations, maintenance of foreign currency accounts, reference to exchange control authorities and to other enquiries relating to foreign exchange business emanating from branches should be included here; *i.e.*, expenses relating to Head Office's foreign exchange business should not be included here.

(e) Establishment expenses incurred in providing information, guidance, instruction and other services (*e.g.*, stationery, advertisement, etc.) to branches should be included under this head. The other expenses incurred on stationery but under Code No. 10 and advertisement should be indicated against Codes Nos. 27 and 26.

(f) All establishment expenses incurred in respect of the banking business of the Head Office (*e.g.*, maintenance of deposits, accounts, granting of advances, issue of drafts, T.Ts., collection of bills, etc.) should be included here.

(g) The total of the establishment expenses shown here should agree with the total amount of establishment expenses incurred at Head Office.

(h) Total charges incurred by the Head Office indicated here should agree with the relative general ledger account.

(j) Depreciation provided on Head Office premises and stationery used by Head Office during 1969 should be shown here.

## BANKING COMMISSION

COST ANALYSIS RETURN 6.2—SUPPLEMENTARY INFORMATION PERTAINING  
TO ALLOCATION OF HEAD OFFICE COSTS

Particulars	Code No.	Quantity
Number of proposals referred to Head Office by branches and finally disposed of whether sanctioned or not during the quarter ended 31st March 1970 :		
ADVANCES TO		
Small-scale industries .. .. .	01	
Medium and large-scale industries .. .. .	02	
Agriculture .. .. .	03	
Others .. .. .	04	
Total number of employees in the Bank as on 31st December 1969 .. .. .	05	
Total exchange and commission earned during the year 1969 .. .. .	06	
Total charges incurred during the year 1969 .. .. .	09	

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COST ANALYSIS RETURN 7.1—ALLOCATION OF MAN-HOURS AMONG VARIOUS SERVICES FOR THE SELECTED DATE (a)

CONFIDENTIAL

Name of Bank : \_\_\_\_\_

Bank Code No. \_\_\_\_\_

Date : \_\_\_\_\_

Nature of Service (1)	Service Code No. (2)	Man-hours put in by			
		Officers (b) (3)		Clerks/Cashiers (c) (4)	
		Hrs.	Mts.	Hrs.	Mts.
<b>DEPOSITS</b>					
Current Accounts (d) .. .. .	01				
Savings Bank .. .. .	02				
Fixed Deposits .. .. .	03				
Miscellaneous Deposits and other Time and Demand Liabilities (e) .. .. .	04				
<b>ADVANCES (f)</b>					
Ledger Accounts .. .. .	06				
Proposals .. .. .	07				
Security, etc.					
Industries .. .. .	20				
Trade and Commerce .. .. .	25				
Personal and Professional (consumer loans) .. .. .	30				
Others (g) .. .. .	35				
<b>REMITTANCES AND COLLECTION</b>					
Drafts, TTs., MTs., Issued and Paid .. .. .	40				
Cheques collected or negotiated (outward and inward) .. .. .	45				
Bills collected or negotiated (outward and inward) .. .. .	50				
<b>OTHER SERVICES (h)</b> .. .. .	70				
<b>GENERAL (j)</b> .. .. .	90				
<b>TOTAL (k)</b>					
Staff Attending Office (l) .. .. .	96	Officers (b) Clerks/Cashiers (c)			

Place : \_\_\_\_\_

Date : \_\_\_\_\_

\_\_\_\_\_  
Agent/Manager.



*Explanatory notes to Return 7.1*

(a) This return 7.1 should show the total number of man-hours spent by the staff performing the various services in the bank. For example, if two clerks and two cashiers put in 7 hours of work on a selected date, the total number of man-hours spent by them should be shown as 28 and this should be allocated against different service codes in the return.

(b) Comprises only officers including Agents/Managers. Actual man-hours put in (including additional time even beyond normal working hours, if any, spent) should be indicated.

(c) Comprises all other staff including Head Clerks, Deputy Head Cashiers, etc. Man-hours of godown keepers should be allocated to Advances (Service Codes Nos. 20 to 35).

(d) All accounts, whether in credit or overdrawn, maintained in current account ledgers should be included here. Overdraft accounts for which separate ledgers are maintained should be included under Service Code No. 06. Man-hours pertaining to the preparation, posting and passing of vouchers, writing of day-books and statements and other connected work should be allocated under this head.

(e) Call deposits, payment orders, manager's cheques, cash certificates, recurring deposits, "pigmy" deposits and all kinds of deposits not covered by the first three items under Service Codes Nos. 01 to 03 should be included here.

(f) Man-hours spent on advances of all kinds should be allocated in the following manner :

(i) Ledger Accounts—Service Code No. 06

Man-hours spent on maintaining ledger accounts pertaining to overdrafts, cash credits, demand loans, term loans, instalment credit (excluding overdraft accounts for which separate ledgers are not maintained and which are dealt with under (d) above) should be allocated under this head. In other words, man-hours pertaining to the preparation, posting and passing of vouchers, writing of day-books and statements and other connected work relating to the abovementioned accounts should be allocated under this head.

(ii) Proposals—Service Code No. 07

Man-hours spent on handling new proposals, renewals, enhancements, other connected work like credit guarantee applications to the Reserve Bank of India, in respect of advances to small-scale industries, insurance of security charged, etc., relating to all advances should be allocated against this head. Man-hours spent on follow-up of medium-term loans should also be included here. In the case of advances against G. P. Notes, shares, gold ornaments, etc., time spent on verifying G. P. Notes and scrips and weighing gold ornaments, etc., at the time of accepting them as security should be included under this head.

(iii) Security, etc.—Service Codes Nos. 20 to 30

Man-hours spent on all other aspects pertaining to the various types of advances shown in the return which have not been covered under Service Codes Nos. 06 to 07 under the various types of borrowers should be allocated under the appropriate security head. This would include the periodical verification and evaluation of security, computation of drawing powers, etc.

(g) All advances to borrowers other than those listed in item mentioned in Service Codes Nos. 25 to 38 should be included here.

(h) All other services to customers not specified elsewhere such as safe deposit lockers, etc., should be included here.

(j) Man-hours spent on inter-departmental services, e.g., on clearing, cash department, main day-book/clean cash book, records and establishment and man-hours spent by messengers/mail department guards, sweepers, etc., should be allocated here. Also man-hours which cannot be specifically allocated to any of the Service Codes Nos. 01 to 70 should be included here. If man-hours spent by top management cannot be allocated to specific activities, they may be included here.

(k) Please ensure that the entire man-hours put in by the bank staff are allocated amongst the above items so that the totals arrived at here are equal to the totals of the man-hours put in on the day.

(l) The number of staff attending office on the day should be indicated here.

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COST ANALYSIS RETURN 7.2—ALLOCATION OF MAN-HOURS SPENT ON HANDLING OF ADVANCE PROPOSALS DURING THE MONTH OF \_\_\_\_\_ 1970

CONFIDENTIAL

Name of Bank : \_\_\_\_\_

Bank Code No. \_\_\_\_\_

Nature of Service	Service Code No.	Number of new proposals/renewals/enhancements	Man-hours put in by	
			Officers (a)	Clerks (b)
(1)	(2)	(3)	(4)	(5)

**ADVANCES**

Industries	.. .. .	10
Trade	.. .. .	11
Personal and Professional (consumer loans)	..	12
Others	.. .. .	13

**TOTAL**

Place : \_\_\_\_\_

Date : \_\_\_\_\_

\_\_\_\_\_  
*Agent/Manager.*

*Note:* Man-hours spent on handling new proposals (whether accepted or rejected), renewals, enhancements, other connected work like credit guarantee applications, insurance of security charged, etc., relating to all advances should be included, the break-up thereof being indicated in columns Nos. 4 and 5.

(a) Comprises only officers including Agents/Managers. Actual man-hours put in should be indicated.

(b) Comprises all other staff in this category, including Head Clerk.

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COST ANALYSIS RETURN 7.3—QUANTUM OF TURNOVER IN RESPECT OF  
VARIOUS SERVICES DURING THE MONTH OF \_\_\_\_\_ 1970

CONFIDENTIAL

Name of Bank : \_\_\_\_\_

Bank Code No. \_\_\_\_\_

Nature of Service (1)	Service Code No. (2)	Nature of Unit (3)	Quan- tity (4)	Nature of Unit (5)	Quan- tity (6)
<b>DEPOSITS</b>					
Current Accounts(a) .. .. .	01	No. of Accounts as at the end of the month		Vouchers (Debit plus Credit)	
Savings Bank .. .. .	02	-do-		-do-	
Fixed Deposits .. .. .	03	No. of Receipts issued		-do-	
Miscellaneous Deposits and other Time and Demand Liabilities (b) .. .. .	04	XXX	XXX	-do-	
<b>ADVANCES</b>					
Industries .. .. .	10	No. of Accounts as at the end of the month		-do-	
Trade .. .. .	11	-do-		-do-	
Personal & Professional (Consumer loans)	12	-do-		-do-	
Others .. .. .	13	-do-		-do-	
<b>REMITTANCES (c)</b>					
Drafts, MTs., TTs., issued .. .. .	40	Amount (in round Rs.)		No. of Drafts, MTs., TTs., issued	
<b>OUTWARD BILLS NEGOTIATED OR COLLECTED</b>					
Bills (d) .. .. .	50	-do-		No. of cheques (outward only)	
		-do-		No. of bills (outward only)	

Place : \_\_\_\_\_

Date : \_\_\_\_\_

\_\_\_\_\_  
Agent/Manager.

Aggregate amount of Drafts, M. Ts., T.Ts. issued only should be indicated in Column 4. Likewise total No. of drafts, M.Ts., T. Ts. issued should be indicated in Column 6.

Only inland bills negotiated or received for collection should be included here.

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COST ANALYSIS RETURN 7.4—ESTABLISHMENT AND OTHER EXPENSES AND MAN-HOURS PUT IN FOR THE MONTH OF \_\_\_\_\_ 1970

CONFIDENTIAL

Name of Bank \_\_\_\_\_

Bank Code No. \_\_\_\_\_

Sr. No.	Number*	Establishment Expenses@	Actual No. of Hours worked**	
(1)	(2)	(3)	(4)	(5)
			Hrs.	Mts
1. Officers (including Agents/Managers)				
2. Clerical Staff/Cashiers				
3. Subordinate Staff				
4. TOTAL				
5. † Total expenses at the office including salaries, allowances, rent, postage, etc.		Rs. _____		
6. Total amount written off as depreciation for the year ended 30th June 1969.				

\* The number of employees paid during the month, regardless of whether they are present or on leave.

@ In case the bank has only one office, total figure under this column should agree with the total establishment expenses for the month as per the office record. Otherwise proportionate establishment expenses attributable to the main office should be indicated here.

\*\* Additional hours put in beyond normal working hours should also be included.

† In case the bank has more than one office that proportion of the total expenses attributable to the main office should be indicated here.

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COST ANALYSIS RETURN 7.5—DATA RELATING TO INTEREST COST OF FUNDS FOR THE MONTH OF \_\_\_\_\_ 1970

Name of Bank \_\_\_\_\_

Bank Code No. \_\_\_\_\_

Nature of Service	Service Code No.	Average interest rate *	Average of Friday Balances during the month
(1)	(2)	(3)	(4)
Current Account .. .. .	01		
Savings Bank .. .. .	02		
Fixed Deposits .. .. .	03		
Miscellaneous deposits and other Time and Demand Liabilities .. .. .	04		
TOTAL .. .. .	05		

\* The average interest rate may be computed by dividing the interest paid on each category of deposits during the year ended 30th June 1969, by the average balances computed with reference to the fifty two Fridays in that year. The total of column (4) should agree with the average total deposits of the branch for the month.

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COST ANALYSIS RETURN 7.6—DATA RELATING TO INTEREST/DISCOUNT  
ACCRUED FOR THE MONTH OF \_\_\_\_\_ 1970

Name of Service	Service Code No.	Outstanding '000's omitted (average of Friday in the month)	No. of Borrowers	Interest/Discount in rupees
(1)	(2)	(3)	(4)	(5)
<b>ADVANCES</b>				
Industries .. .. .	10			
Trade .. .. .	11			
Personal and Professional (consumers loans) .. .. .	12			
Others .. .. .	13			
<b>BILLS (Negotiated) .. .. .</b>	<b>64</b>			
<b>TOTAL .. .. .</b>	<b>97</b>			

Note : Interest accrued during the month whether charged or not should be included. Even with regard to interest charged during the month, only that portion which relates to the current month should be included.

The total of column 3 should agree with the average total advances of the Branch for the month.

Place : \_\_\_\_\_

Date : \_\_\_\_\_

\_\_\_\_\_  
Agent/Manager.

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COST ANALYSIS RETURN 7.7—DATA RELATING TO EXCHANGE AND  
COMMISSION FOR THE MONTH OF \_\_\_\_\_ 1970

Name of Bank \_\_\_\_\_

Bank Code No. \_\_\_\_\_

Nature of Service	Service Code No.	Exchange/Commission in rupees
(1)	(2)	(3)
Drafts, M. Ts. and T. Ts. issued .. .. .	40	
Cheques collected or negotiated .. .. .	45	
Bills collected or negotiated .. .. .	50	
Others .. .. .	71	
<b>TOTAL .. .. .</b>	<b>99</b>	

Place : \_\_\_\_\_

Date : \_\_\_\_\_

\_\_\_\_\_  
Agent/Manager.

CONFIDENTIAL

## BANKING COMMISSION

COST ANALYSIS RETURN 8.1—PARTICULARS OF LIABILITIES OF APEX/STATE  
CO-OPERATIVE BANKS

Name of the Bank : \_\_\_\_\_ Bank Code No. \_\_\_\_\_

(Rupees in thousands)

Balances as on	DEPOSITS			BORROWINGS		Share capital & other liabilities	Total liabilities*	
	Current		Savings Bank	Fixed and Others	From Reserve Bank of India			Other borrowings
	District Central Co-op. Banks	Others						
	1.	2.	3.	4.	5.	6.	7.	8.
5- 7-1968								
12- 7-1968								
19- 7-1968								
26- 7-1968								
2- 8-1968								
9- 8-1968								
16- 8-1968								
23- 8-1968								
30- 8-1968								
27- 9-1968								
25-10-1968								
29-11-1968								
27-12-1968								
31- 1-1969								
28- 2-1969								
28- 3-1969								
25- 4-1969								
2- 5-1969								
9- 5-1969								
16- 5-1969								
23- 5-1969								
30- 5-1969								
6- 6-1969								
13- 6-1969								
20- 6-1969								
27- 6-1969								

\* Figures reported under this head should agree with the figures reported against corresponding dates under 'Total Assets' Column 8 in return 8.2.

Place : \_\_\_\_\_

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

Designation : \_\_\_\_\_

CONFIDENTIAL

## BANKING COMMISSION

COST ANALYSIS RETURN 8.2—PARTICULARS OF ASSETS OF APEX/STATE  
CO-OPERATIVE BANKS

Name of Bank : \_\_\_\_\_

Bank Code No. \_\_\_\_\_

(Rupees in thousands)

Balances as on	LOANS		Invest- ments	Balances with other banks		Cash	Other Assets	Total Assets*
	To District Central Co-op. Banks	To Others		Current	Other Deposit Accounts			
	1.	2.						
			3.			6.	7.	8.

5- 7-1968

12- 7-1968

19- 7-1968

26- 7-1968

2- 8-1968

9- 8-1968

16- 8-1968

23-8-1968

30- 8-1968

27- 9-1968

25-10-1968

29-11-1968

27-12-1968

31- 1-1969

28- 2-1969

28 -3-1969

25- 4-1969

2- 5-1969

9- 5-1969

16- 5-1969

23- 5-1969

30- 5-1969

6- 6-1969

13- 6-1969

20- 6-1969

27- 6-1969

\* Figures reported under this head should agree with the figures reported against corresponding dates under 'Total Liabilities' (Column No. 8) in return 8.1

Place: \_\_\_\_\_

Signature \_\_\_\_\_

Date : \_\_\_\_\_

Designation \_\_\_\_\_

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## BANKING COMMISSION

COST ANALYSIS RETURN 8.3—PARTICULARS OF INCOME AND EXPENSES  
OF APEX/STATE CO-OPERATIVE BANKS FOR THE YEAR ENDED 30TH JUNE 1969

Name of the Bank : \_\_\_\_\_

Bank Code No. \_\_\_\_\_

Particulars	Code No.	Amount in Rupees		
<b>I. Expenditure</b>				
INTEREST PAID ON :				
Current Account				
Of District Central Co-operative Banks .. .. .	01			
Of Others .. .. .	02			
Savings Bank Accounts .. .. .	03			
Fixed and Other Deposits .. .. .	04			
INTEREST PAID ON BORROWINGS :				
From Reserve Bank of India .. .. .	11			
Other borrowings .. .. .	12			
SALARIES AND ALLOWANCES :				
Officers .. .. .	21			
Field Staff .. .. .	22			
Clerks/Cashiers .. .. .	23			
Subordinate Staff .. .. .	24			
Other expenses .. .. .	30			
TOTAL EXPENDITURE .. .. .	40			
<b>II. Income</b>				
INTEREST AND DIVIDENDS RECEIVED ON INVESTMENTS .. .. .	51			
INTEREST RECEIVED ON LOANS GRANTED TO				
District Central Co-operative Banks .. .. .	52			
Others .. .. .	53			
INTEREST RECEIVED ON DEPOSITS WITH BANKS				
Current Accounts .. .. .	54			
Other Deposits .. .. .	55			
EXCHANGE COMMISSION AND OTHER INCOME .. .. .	61			
TOTAL INCOME .. .. .	65			
<b>III. Other particulars of business</b> (Position as at 30th June 1969)				
Number of Deposit Accounts .. .. .	71			
Number of Loan Accounts				
Of District Central Co-operative Banks .. .. .	72			
Of Other Co-operative Institutions .. .. .	73			
Of Others .. .. .	74			
Number of Branches .. .. .	75			
<b>IV. Distribution of Staff</b>				
	No. of Staff Attending to			
	Deposit activities	Loan activities	General activities	Total
Officers	XXXX		XXXX	
Field Staff				
Clerks/Cashiers				
Subordinate Staff				



CONFIDENTIAL

## BANKING COMMISSION

COST ANALYSIS RETURN 8.6—PARTICULARS OF LIABILITIES OF DISTRICT  
CENTRAL CO-OPERATIVE BANKS

Name of Bank: \_\_\_\_\_

Bank Code No. \_\_\_\_\_  
(Rupees in 000s')

Balances as on	DEPOSITS				BORROWINGS		Share Capital and other liabilities	Total liabilities*
	Primary Credit Societies	Others	Savings Bank	Fixed and Others	From Apex/ State Co-op. Banks	Other borrow- ings		
	1.	2.	3.	4.	5.	6.	7.	8.
5- 7-1968								
12- 7-1968								
19- 7-1968								
26-7-1968								
2- 8-1968								
9- 8-1968								
16- 8-1968								
23- 8-1968								
30- 8-1968								
27- 9-1968								
25-10-1968								
29-11-1968								
27-12-1968								
31- 1-1969								
28- 2-1969								
28- 3-1969								
25- 4-1969								
2- 5-1969								
9- 5-1969								
16- 5-1969								
23- 5-1969								
30- 5-1969								
6- 6-1969								
13- 6-1969								
20- 6-1969								
27- 6-1969								

\* Figures reported under the head should agree with the figures reported against corresponding dates under 'Total Assets' Column No. 8 in return 8.7.

Place : \_\_\_\_\_

Signature \_\_\_\_\_

ate : \_\_\_\_\_

Designation: \_\_\_\_\_

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## BANKING COMMISSION

COST ANALYSIS RETURN 8-7—PARTICULARS OF ASSETS OF DISTRICT CENTRAL  
CO-OPERATIVE BANKSName of Bank : \_\_\_\_\_ Bank Code No. \_\_\_\_\_  
(Rupees in 000s')

Balances as on	LOANS		Invest- ments	Balances with other Banks		Cash	Other Assets	Total Assets*
	To Primary Credit Societies	To Others		Current	Other Deposit Accounts			
	1.	2.						
5- 7-1968								
12- 7-1968								
19- 7-1968								
26- 7-1968								
2- 8-1968								
9- 8-1968								
16- 8-1968								
23- 8-1968								
30- 8-1968								
27- 9-1968								
25-10-1968								
29-11-1968								
27-12-1968								
31- 1-1969								
28- 2-1969								
28- 3-1969								
25- 4-1969								
2- 5-1969								
9- 5-1969								
16- 5-1969								
23- 5-1969								
30- 5-1969								
6- 6-1969								
13- 6-1969								
20- 6-1969								
27- 6-1969								

\* Figures reported under this head should agree with the figures reported against corresponding dates under 'Total Liabilities' Column No. 8 in return 8-6.

Place : \_\_\_\_\_

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

Designation : \_\_\_\_\_

CONFIDENTIAL

## BANKING COMMISSION

**COST ANALYSIS RETURN 8-8—PARTICULARS OF INCOME AND EXPENSES OF  
DISTRICT CENTRAL CO-OPERATIVE BANKS FOR THE YEAR ENDED  
30TH JUNE 1969**

Name of the Bank : \_\_\_\_\_ Bank Code No. \_\_\_\_\_

Particulars	Code No.	Amount in Rupees
<b>I. Expenditure</b>		
<b>INTEREST PAID ON :</b>		
Current Deposits		
<i>Of Primary Credit Societies</i> .. .. .	01	
<i>Of Others</i> .. .. .	02	
Savings Bank Accounts .. .. .	03	
Fixed And Other Deposits .. .. .	04	
<b>INTEREST PAID ON BORROWINGS :</b>		
From the Apex/State Co-operative Bank .. .. .	11	
Other borrowings .. .. .	12	
<b>SALARIES AND ALLOWANCES :</b>		
Officers .. .. .	21	
Field Staff .. .. .	22	
Clerks/Cashiers .. .. .	23	
Subordinate Staff .. .. .	24	
Other expenses .. .. .	30	
Total Expenditure .. .. .	40	

**II. Income**

Interest/Dividends received on Investments .. .. .	51	
Interest received on loans granted to		
<i>Primary Co-operative Credit Societies</i> .. .. .	52	
<i>Others</i> .. .. .	53	
Interest received on deposits with banks		
Current Accounts .. .. .	54	
Other Deposits .. .. .	55	
Exchange commission and other income .. .. .	61	
Total Income .. .. .	65	

**III. Other particulars of business**

(Position as at 30th June 1969)		
Number of Deposit Accounts .. .. .	71	
Number of Loan Accounts		
<i>Of Primary Co-operative Credit Societies</i> .. .. .	72	
<i>Other Co-operative Institutions</i> .. .. .	73	
<i>Of Others</i> .. .. .	74	
Number of branches .. .. .	75	

**IV. Distribution of Staff**

	No. of staff attending to			Total Staff
	Deposit activities	Loan activities	General activities	
Officers				
Field Staff	XXXX			
Clerks/Cashiers				
Subordinate Staff				

## ANNEXURE—C

## TECHNICAL NOTE

The general outline of the banking costs study, details of information called for in the various returns, selection of the sample of branches, percentage of response, etc., have been described in Chapter III of the Report. In this annexure, a brief description is given of the various phases of processing of the data. The method followed for estimation of the cost per unit and the variances thereof is also explained.

The reference period for the banking costs survey was the quarter ended March 1970. The data for the survey were collected through three types of questionnaires—a set of daily returns covering specified days during the three month reference period, a set of monthly returns covering each of the three months and the third, a weekly return, giving information on general ledger balances of the offices concerned as of each Friday during the three months. The day questionnaires comprise 5 forms each termed as “white returns” and monthly questionnaires comprise 6 forms termed as “pink returns”.

The blank sets of printed forms were sent to each of the 976 branches (offices) selected as sample and they were requested to fill in the day-returns for 12 predetermined days during the three month period, the monthly returns for each of the 3 months and the weekly returns for all the Fridays during the quarter. Of the 976 branches from which the returns were called for, there was no response from 56 branches. The returns received from another 63 branches were not complete as they did not send all the three types of returns, *viz.*, Day, Monthly and Weekly. The remaining 857 branches accounting for 88 per cent of the branches in the sample sent all the three types of returns but some of these branches also had to be discarded as the number of returns sent by them was insufficient from the point of view of methodology. Ultimately 830 branches, accounting for 85 per cent of the branches which were addressed, were considered for processing and tabulation. The percentage of returns received from these 830 branches to the total number of returns they were required to send, for each type of return, is as under :

Type of Returns	No. of returns called for	Returns received	Column (2) as percentage of Column (1)
	(1)	(2)	(3)
Day-returns .. .. .	9960	9507	95.5
Monthly returns .. .. .	2490	2401	96.4
Weekly returns .. .. .	10790	9857	91.4

The processing of the data was done on the Honeywell-400 electronic computer system of the Reserve Bank of India. The processing can be broadly divided into the following four phases.

1. Creation of basic input data involving punching, taping, editing and updating.
2. Consolidation and estimation of data for the quarter January to March 1970 at branch level separately for Day, Monthly and Weekly returns.
3. Allocation of cost to individual banking services based on estimated man-hours spent for each service and the total cost at each branch during the period. This phase includes formation of certain new services involving computation of inputs and various outputs corresponding to these services. The final output of this phase yielded branch-wise information on cost, different types of outputs or the quantum of turnover and the income generated separately for each service.
4. Obtaining estimates of cost per unit or cost per annum as percentage of balances/outstandings for each service in respect of bank groups, population groups and for the entire banking system and calculation of the variances thereof.

The first stage in the processing of data was to transfer the data from the returns to punched cards through appropriate card designs. In respect of day-returns and monthly returns 6 different types of card designs were drawn up. As regards the weekly returns, there was only one card design. The punching and verification work was entrusted to International Business Machines Co. Ltd. (IBM).

Before punching, some basic scrutiny of the data was carried out in order to correct mistakes of an obvious nature and rectify ambiguous or abnormal entries. Omissions and incomplete entries were also detected. For easy identification by type of return a five digit running serial number was assigned to each set of day and the monthly returns. The day-returns were assigned serial number starting from 00001 and the monthly returns from 20001. The serial numbers facilitated the linking up of different cards for each branch for each day or each month at later stages of processing. This also reduced the punching work considerably as the fixed information for each branch such as bank code, branch code, group code and reference date were punched on only one card each pertaining to return 1.2 of the day-returns and return 3.2 of the monthly returns.

The processing during the preliminary phase consisted of taping of different types of cards, checking intra-card consistencies while taping itself, checking intra-return consistencies after suitable sorting of the tapes and finally

updating of the mistakes or omissions detected. The recorded totals on each return were also punched on the cards and taped in order to locate punching errors (including shift in fields) and cases where data or the punched cards were missing.

While updating, the corrections of the deletions in the data was done only after there was complete match of not only the service code and other identifications but also of the existing data on the tapes with corresponding data on the updating cards which was also punched on these cards in addition to the revised data.

In the second phase of processing, the data were consolidated branch-wise to obtain the estimates for the quarter. For consolidation of branch-wise data in respect of day-returns, separate averages corresponding to Mondays, Fridays, Saturdays and the mid-week days were worked out in the first instance. The total of averages for Mondays, Fridays and Saturdays was then multiplied by 12 and the product so obtained was added to 36 times the average corresponding to the mid-week days to get the estimate corresponding to the whole quarter. The monthly and the weekly data were aggregated except for outstandings to get the figures for the whole quarter. In the case of outstandings, averages of the monthly data or the weekly data as the case may be, were obtained to get the outstandings for the quarter. Before consolidation, the day-returns were subjected to scrutiny to ensure that each individual branch had submitted at least one return for each type of day, *viz.*, Monday, Friday, Saturday and mid-week day (one of Tuesday, Wednesday or Thursday). Such of the branches which did not satisfy this prerequisite were rejected from further processing.

The next processing phase involved allocation of costs to individual banking services in respect of each branch using information available in day and monthly returns. In the first place, based on total man-hours put in, the establishment cost was distributed to individual services, separately for officers and clerks and cashiers. The gross expenditure incurred at the branch, including the rent, electricity consumed, depreciation and stationery and other overhead charges was next allocated service-wise in the ratio of total establishment cost corresponding to each service. The expenditure which would have got allocated to the 'general service' was indirectly distributed to each individual service by subtracting the establishment expenditure allocated to the general service from the overall establishment expenditure. At this stage of analysis, the unmatched branches, *i.e.*, the branches which had submitted only one type of the returns, had to be discarded as allocation of the cost in their case was not possible.

Initially, the expenditure was allocated to the prime banking services rendered as also to certain service groups such as Cash Department, Clearing House and Despatch Department. Subsequently, the expenditure allocated

to these service groups was reallocated to the basic services, based on the number of transactions involved in each of these departments corresponding to individual service under consideration. Thus the portion of cost on Clearing House which was reallocated to the current account was proportional to the number of cheques transacted for these accounts. Thereafter, the cost of certain derived service groups like total advances which include cost of component services, *viz.*, inspection of proposals and securities offered against advances, maintenance of ledger accounts, was worked out.

At the last stage of this phase, as the data was already summarised to a substantial scale, the tape files were re-organised service-codewise. The information on average balances outstanding by type of deposit, available in the tape containing weekly data, was also included in the service-codewise tape. The basic tape file thus created for each service code including derived service codes, contains the value of inputs, quantum of outputs (upto a maximum of three types) and the income generated for the quarter under study apart from identification particulars such as branch code and the group to which the branch belongs. In addition, the details of clerical and officer man-hours put in for each type of service are also available.

The branch-wise figures were analysed to ascertain whether the variation in unit cost between bank groups and population groups was significant. For this purpose, an analysis of variance test was carried out for selected unit costs—bank-wise and population-wise. The results of the analysis are embodied in the appended statements. It would be observed therefrom that the F value is significant in all categories of deposits, both for cost per voucher and cost expressed as per cent per annum of the balance. In respect of advances, however, the F values were uniformly not significant. This may be due to the fact that the variation in the unit cost in respect of advances between branches is very high on account of the complexity of advances and this overshadows the variation on account of bank groups or population groups. In regard to drafts and bills, the analysis of variance test shows significant variation between population groups and bank groups to a fair degree. It was, therefore, felt that it would be meaningful to present and discuss the results of the study for different population groups and different bank groups as also for the entire banking system. Even though the advances data did not show significant variation as between bank groups and population groups, for the sake of uniformity, the results for advances data are also discussed for population groups and bank groups separately as also for the entire banking system.

As the selection of sample was done after classifying the branch offices into four major bank groups and four population groups within each bank group, the estimation was done in respect of each of the sixteen bank group X population group cells for the various characteristics and they were combined through appropriate weights to obtain the estimates for bank groups as well as population groups. To estimate the cost per voucher or cost as percentage

of balances ( $C_c$ ) for each cell the method of estimation adopted uses the ratio of total cost within each cell ( $Y_c$ ) to the total output in terms of volume of turnover or outstanding, etc., within each cell ( $X_c$ ). It may be argued that the mean of the cost ratios ( $y/x$ ) for individual branches within each cell would be a better estimate of the cost per unit for each cell. As the selection of the unit within each cell was done with simple random sampling, obtaining the cost per unit for the cell as the mean of cost ratios ( $y/x$ ) for individual branches would not appear to be appropriate. With a finite population, the average of the cost per unit for individual branches is not consistent since the average taken over all the sampling units within the cells does not equal the cell average ( $C_c$ ). The formula used for obtaining the estimates variances thereof is given below :

- Let  $Y_{ijk}$  be the cost for the  $k^{\text{th}}$  branch in the  $j^{\text{th}}$  population group, of the  $i^{\text{th}}$  bank group.
- $X_{ijk}$  be the corresponding figure of output.
- $N_{ij}$  be the total number of branches in the  $j^{\text{th}}$  population group of the  $i^{\text{th}}$  bank group.
- and  $n_{ij}$  be the total number of branches in the sample for the  $j^{\text{th}}$  population group of the  $i^{\text{th}}$  bank group.

An estimate of the average cost per unit for a bank group is given by :

$$C_{Bi} = \frac{\sum_{j=1}^4 \bar{Y}_{ij} N_{ij}}{\sum_{j=1}^4 \bar{X}_{ij} N_{ij}}$$

and an estimate of the average cost per unit for a population zone is given by

$$C_{Pj} = \frac{\sum_{i=1}^4 \bar{Y}_{ij} N_{ij}}{\sum_{i=1}^4 \bar{X}_{ij} N_{ij}}$$

An estimate of the overall average cost per unit is given by

$$C = \frac{\sum_{i=1}^4 \sum_{j=1}^4 \bar{Y}_{ij} N_{ij}}{\sum_{i=1}^4 \sum_{j=1}^4 \bar{X}_{ij} N_{ij}}$$

where  $\bar{Y}_{ij} = \frac{1}{n_{ij}} \sum_{k=1}^{n_{ij}} Y_{ijk}$

and  $\bar{X}_{ij} = \frac{1}{n_{ij}} \sum_{k=1}^{n_{ij}} X_{ijk}$



The estimates of the corresponding variances are given by

$$V(C_{Bi}) = \sum_{j=1}^4 \frac{(N_{ij}-n_{ij}) \cdot N_{ij} (S_{yij}^2 + C_{Bi}^2 S_{xij}^2 - 2C_{Bi} S_{yxij})}{n_{ij} N_i \bar{X}_i^2}$$

$$V(C_P) = \sum_{i=1}^4 \frac{(N_{ij}-n_{ij}) \cdot N_{ij} (S_{yij}^2 + C_{Pj}^2 S_{xij}^2 - 2C_{Pj} S_{yxij})}{n_{ij} N_j \bar{X}_j^2}$$

$$\text{and } V(C) = \sum_{i=1}^4 \sum_{j=1}^4 \frac{(N_{ij}-n_{ij}) \cdot N_{ij} (S_{yij}^2 + C^2 S_{xij}^2 - 2CS_{yxij})}{n_{ij} N^2}$$

$$\text{where } S_{yij} = \frac{1}{(n_{ij}-1)} \sum_{k=1}^{n_{ij}} (Y_{ijk} - \bar{Y}_{ij})^2$$

$$S_{xij} = \frac{1}{(n_{ij}-1)} \sum_{k=1}^{n_{ij}} (X_{ijk} - \bar{X}_{ij})^2$$

$$S_{yxij} = \frac{1}{(n_{ij}-1)} \sum_{k=1}^{n_{ij}} (X_{ijk} - \bar{X}_{ij}) (Y_{ijk} - \bar{Y}_{ij})$$

$$N_i = \sum_{j=1}^4 N_{ij}; \quad N_j = \sum_{i=1}^4 N_{ij}; \quad N = \sum_{i=1}^4 \sum_{j=1}^4 N_{ij}$$

$$\bar{X}_i = \frac{\sum_{j=1}^4 \bar{X}_{ij} N_{ij}}{N_i}; \quad \bar{X}_j = \frac{\sum_{i=1}^4 \bar{X}_{ij} N_{ij}}{N_j}$$

$$\bar{X} = \frac{\sum_{i=1}^4 \sum_{j=1}^4 \bar{X}_{ij} N_{ij}}{N}$$

The estimates of cost per unit and standard errors thereof obtained by the above method are given in the appended statement for the main activities in the banking system, *viz.*, deposits, advances, remittances and bills for bank groups, population groups and overall for the entire banking system.

## ANALYSIS OF VARIANCE OF UNIT COST—DEPOSITS

Source of Variation	Degrees of Freedom	Mean sum of squares	F Value	Mean sum of squares	F Value	Mean sum of squares	F Value	Mean sum of squares	F Value
	Current Deposits			Savings Bank		Fixed Deposits		Total Deposits	
<b>Per cent per annum of average balance</b>									
Between Bank Groups	3	608.54	2.99*	36.61	7.80**	0.22	2.44	40.68	10.60**
Between Population Groups	3	2110.88	10.38**	45.39	9.67**	0.56	6.33**	34.03	8.87**
Interaction	9	195.88	1.04	8.24	1.75	0.16	1.83	4.76	1.24
Residual	811	203.33		4.70		0.09		3.84	
<b>TOTAL</b>	<b>826</b>	<b>212.16</b>		<b>5.00</b>		<b>0.09</b>		<b>4.10</b>	

Source of Variation	Degrees of Freedom	Mean sum of squares	F Value	Mean sum of squares	F Value	Mean sum of squares	F Value
	Current		Savings		Fixed		
<b>Per voucher</b>							
Between Bank Groups	3	69.44	24.23**	26.42	22.43**	326.83	12.40**
Between Population Groups	3	60.63	21.16**	14.22	12.07**	154.69	5.87**
Interaction	9	1.27	2.26	1.43	1.21	27.03	1.03
Residual	811	2.87		1.18		26.36	
<b>TOTAL</b>	<b>826</b>	<b>3.34</b>		<b>1.32</b>		<b>27.97</b>	

\* Significant.

\*\* Highly significant.

## ANALYSIS OF VARIANCE OF UNIT COST @—ADVANCES

Source of Variation	Degrees of Freedom	Mean sum of squares	F Value	Mean sum of squares	F Value	Mean sum of squares	F Value
	Small-Scale Industries		Large and Medium-Scale Industries		Direct Loans to Farmers		
Between Bank Groups	3	1691.24	1.35	7.68	1.04	1344.06	1.77
Between Population Groups	3	1300.01	1.76	9.74	1.31	637.68	1.19
Interaction	9	695.92	3.28	2.86	2.59	235.63	3.22
Residual	811	2281.82		7.41		758.93	
<b>TOTAL</b>	<b>826</b>	<b>2258.62</b>		<b>7.37</b>		<b>754.73</b>	

Source of Variation	Degrees of Freedom	Mean sum of squares	F Value	Mean sum of squares	F Value	Mean sum of squares	F Value
	Personal and Professional Loans		Other Advances		Total Advances		
Between Bank Groups	3	790.15	1.24	617.96	1.15	756.45	1.75
Between Population Groups	3	892.90	1.09	1151.75	1.62	1943.17	1.47
Interaction	9	604.24	1.62	608.88	1.17	886.23	1.49
Residual	811	977.38		711.87		1324.71	
<b>TOTAL</b>	<b>826</b>	<b>971.86</b>		<b>712.27</b>		<b>1320.28</b>	

\* Significant.

@ Expressed as per cent per annum of average outstanding.

\*\* Highly significant.

## ANALYSIS OF VARIANCE OF UNIT COST @ — REMITTANCES

Source of Variation	Degrees of Freedom	Issued		Paid		Total	
		Mean sum of squares	F Value	Mean sum of squares	F Value	Mean sum of squares	F Value
<b>Drafts :</b>							
Between Bank Groups .. ..	3	108.53	13.04**	55.22	2.16	370.99	14.11**
Between Population Groups ..	3	182.96	21.98**	181.20	7.07**	552.35	21.00**
Interaction .. ..	9	25.24	3.03	19.43	1.32	41.87	1.59
Residual .. ..	811	8.32		25.62		26.30	
<b>TOTAL .. ..</b>	<b>826</b>	<b>9.53</b>		<b>26.26</b>		<b>29.72</b>	
<b>M.Ts. :</b>							
Between Bank Groups .. ..	3	15.48	2.20	31.96	2.01	63.63	1.81
Between Population Groups ..	3	119.56	3.51*	140.70	8.87**	472.23	13.42**
Interaction .. ..	9	28.34	1.20	20.00	1.26	25.69	1.37
Residual .. ..	811	34.11		15.86		35.19	
<b>TOTAL .. ..</b>	<b>826</b>	<b>34.30</b>		<b>16.42</b>		<b>36.78</b>	
<b>T.Ts. :</b>							
Between Bank Groups .. ..	3	1135.90	2.04	273.62	3.01*	1994.47	1.47
Between Population Groups ..	3	338.29	1.64	215.04	2.36	944.92	1.44
Interaction .. ..	9	1150.31	2.07	116.25	1.28	1673.09	1.23
Residual .. ..	811	556.43		91.00		1357.22	
<b>TOTAL .. ..</b>	<b>826</b>	<b>564.36</b>		<b>92.44</b>		<b>1361.65</b>	

\* Significant

@ Cost per draft, M.Ts., etc.

\*\* Highly significant.

## ANALYSIS OF VARIANCE OF UNIT COST @ — BILLS

Source of Variation	Degrees of Freedom	Negotiation/Collection		Remittances		Total	
		Mean sum of squares	F Value	Mean sum of squares	F Value	Mean sum of squares	F Value
<b>Cheques and Clean Bills:</b>							
Between Bank Groups .. ..	3	17·19	1·24	126·74	1·09	88·25	1·94
Between Population Groups ..	3	109·22	7·90**	2073·13	15·00**	651·33	14·35**
Interaction .. ..	9	15·60	1·13	107·97	1·28	171·08	3·77
Residual .. ..	811	13·82		138·17		45·39	
<b>TOTAL .. ..</b>	<b>826</b>	<b>14·21</b>		<b>145·37</b>		<b>49·07</b>	
<b>Other Demand Bills :</b>							
Between Bank Groups .. ..	3	202·56	2·29	76·01	2·74*	166·69	1·15
Between Population Groups ..	3	1264·18	2·72*	130·51	4·70**	841·79	5·82**
Interaction .. ..	9	334·53	1·39	34·53	1·24	208·46	1·44
Residual .. ..	811	464·80		27·76		144·59	
<b>TOTAL .. ..</b>	<b>826</b>	<b>465·46</b>		<b>28·39</b>		<b>148·11</b>	
<b>Usance Bills :</b>							
Between Bank Groups .. ..	3	386·00	1·69	187·08	2·81*	2834·40	6·68**
Between Population Groups ..	3	1799·32	7·89**	410·11	6·15**	1885·23	4·44**
Interaction .. ..	9	954·15	4·18	87·77	1·32	675·17	1·59
Residual .. ..	811	228·03		66·64		424·51	
<b>TOTAL .. ..</b>	<b>826</b>	<b>241·82</b>		<b>68·46</b>		<b>440·20</b>	

\* Significant

@ Cost per bill

\*\* Highly significant.

STANDARD ERROR OF ESTIMATES OF UNIT COST — DEPOSITS

Category of Deposit	Bank Group						Population Group								All-India					
	I		II		III		I		II		III		IV							
	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE				
<i>Per cent per annum of average balance</i>																				
1. Current accounts	..	..	..	..	3.09	0.18	4.85	0.29	4.60	0.73	3.38	0.29	3.64	0.20	3.84	0.32	5.15	0.93	3.63	0.16
2. Savings Bank	..	..	..	..	1.47	0.07	2.05	0.12	2.06	0.13	2.16	0.15	1.72	0.08	1.30	0.09	1.83	0.27	1.70	0.07
3. Fixed Deposits	..	..	..	..	0.19	0.01	0.22	0.02	0.22	0.01	0.19	0.02	0.18	0.01	0.22	0.02	0.29	0.03	0.20	0.01
4. Total Deposits	..	..	..	..	1.28	0.06	1.73	0.09	1.53	0.10	1.52	0.10	1.39	0.06	1.33	0.08	1.81	0.16	1.44	0.05
<i>Per Voucher</i>																				
1. Current accounts	..	..	..	..	1.96	0.07	1.55	0.13	1.25	0.09	1.72	0.14	1.53	0.08	1.94	0.09	2.37	0.23	1.74	0.06
2. Savings Bank	..	..	..	..	1.90	0.06	1.47	0.09	1.21	0.07	2.02	0.13	1.39	0.05	1.51	0.07	1.87	0.10	1.64	0.05
3. Fixed Deposits	..	..	..	..	6.73	0.47	5.65	0.64	2.94	0.24	6.97	0.82	5.55	0.38	5.17	0.58	4.91	0.58	5.80	0.33
4. Total Deposits	..	..	..	..	2.03	0.06	1.59	0.11	1.28	0.08	1.91	0.14	1.55	0.06	1.79	0.08	2.19	0.12	1.78	0.06

SC — Estimate of branch level *servicing costs* expressed as per cent per annum of average balance or as per voucher.

SE — *Standard error* of the servicing costs.

STANDARD ERROR OF ESTIMATES OF UNIT COST — ADVANCES

Category of Advances	Bank Group						Population Group								All-India	
	I		II		III		I		II		III		IV			
	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE
1. Small-Scale Industries .. .. .	3.59	0.28	1.85	0.20	2.53	0.53	3.57	0.24	2.52	0.32	2.46	0.41	2.93	0.57	2.84	0.20
2. Large and Medium-Scale Industries ..	0.22	0.05	0.29	0.05	0.58	0.20	0.22	0.06	0.33	0.06	0.35	0.07	0.37	0.13	0.25	0.04
3. Direct Loans to farmers .. .. .	2.92	0.41	1.32	0.20	1.08	0.20	1.35	0.25	2.09	0.51	2.20	0.32	2.31	0.51	2.09	0.23
4. Personal and Professional Loans ..	1.62	0.23	1.64	0.20	1.65	0.21	1.22	0.25	1.53	0.22	2.05	0.20	2.63	0.60	1.64	0.13
5. Other advances .. .. .	1.66	0.19	1.71	0.28	1.26	0.22	1.17	0.23	1.81	0.13	2.21	0.21	3.14	0.36	1.62	0.15
6. Total advances .. .. .	0.86	0.14	1.04	0.11	1.41	0.13	0.58	0.12	1.33	0.13	1.65	0.16	2.24	0.40	0.95	0.09

SC — Estimate of branch level *servicing costs* expressed as per cent per annum of average outstanding.

SE — *Standard error* of the *servicing costs*.

STANDARD ERROR OF ESTIMATES OF UNIT COST — REMITTANCES

Category of Remittances	Bank Group						Population Group								All-India	
	I		II		III		I		II		III		IV			
	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE
<b>1. Drafts</b>																
(a) Issued .. .. .	3.38	0.13	2.54	0.10	2.23	0.13	4.04	0.31	2.68	0.13	2.71	0.10	3.75	0.26	2.94	0.08
(b) Paid .. .. .	1.56	0.14	1.42	0.13	0.79	0.12	1.24	0.20	1.34	0.06	1.72	0.11	2.56	0.40	1.41	0.08
TOTAL .. .. .	4.94	0.19	3.96	0.17	3.02	0.18	5.28	0.37	4.02	0.14	4.43	0.15	6.31	0.48	4.35	0.11
<b>2. M.Ts.</b>																
(a) Issued .. .. .	3.64	0.17	2.83	0.15	2.87	0.25	4.36	0.34	2.74	0.16	3.08	0.17	3.50	0.35	3.25	0.11
(b) Paid .. .. .	1.63	0.18	1.29	0.15	0.95	0.16	1.66	0.29	1.05	0.12	1.61	0.15	1.89	0.41	1.45	0.12
TOTAL .. .. .	5.27	0.25	4.12	0.21	3.82	0.30	6.02	0.44	3.79	0.20	4.69	0.23	5.39	0.54	4.70	0.16
<b>3. T.Ts.</b>																
(a) Issued .. .. .	8.38	0.56	7.93	0.46	8.00	2.48	9.21	0.75	6.98	0.48	7.61	0.47	12.53	6.54	8.23	0.38
(b) Paid .. .. .	4.14	0.46	4.16	0.29	4.50	0.70	4.42	0.77	4.17	0.31	3.26	0.26	7.40	0.82	4.15	0.27
TOTAL .. .. .	12.52	0.73	12.09	0.54	12.50	2.57	13.63	1.08	11.15	0.57	10.87	0.54	19.93	6.59	12.38	0.47

SC — Estimates of branch level servicing costs per draft, per M.T., etc.  
 SE — Standard error of the servicing costs.

STANDARD ERROR OF ESTIMATES OF UNIT COST — BILLS

Category of Bills	Bank Group						Population Group								All-India			
	I		II		III		I		II		III		IV					
	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE	SC	SE		
<b>1. Cheques and Clean Bills</b>																		
(a) Negotiation/Collection	..	..	2.02	0.28	1.91	0.29	2.09	0.19	2.50	0.48	1.50	0.27	1.96	0.21	3.02	0.49	1.98	0.19
(b) Remittances	..	..	2.66	0.18	1.69	0.27	1.70	0.26	2.10	0.63	2.23	0.20	1.90	0.10	2.75	0.29	2.10	0.18
TOTAL	..	..	4.68	0.33	3.60	0.39	3.79	0.32	4.60	0.80	3.73	0.34	3.86	0.24	5.77	0.57	4.08	0.26
<b>2. Other Demand Bills</b>																		
(a) Negotiation/Collection	..	..	3.74	0.53	3.72	0.41	3.50	0.43	4.16	0.86	3.97	0.31	3.09	0.30	2.78	0.75	3.71	0.34
(b) Remittances	..	..	4.32	0.18	3.13	0.17	3.01	0.24	5.56	0.47	3.75	0.18	3.08	0.16	3.53	0.38	3.68	0.12
TOTAL	..	..	8.06	0.56	6.85	0.45	6.51	0.49	9.72	0.98	7.72	0.36	6.17	0.34	6.31	0.84	7.39	0.36
<b>3. Usance Bills</b>																		
(a) Negotiation/Collection	..	..	2.60	0.74	5.72	1.22	3.96	1.37	3.60	1.27	4.10	0.95	2.00	0.58	11.00	6.89	3.53	0.98
(b) Remittances	..	..	6.96	0.60	5.82	1.13	3.00	0.27	8.03	1.27	5.19	0.55	4.27	0.72	5.88	2.92	6.08	0.53
TOTAL	..	..	9.56	0.95	11.54	1.66	6.96	1.39	11.63	1.80	9.29	1.10	6.27	0.92	16.88	7.48	9.61	1.11

SC — Estimates of branch level servicing costs per bill.  
 SE — Standard error of the servicing costs



ANNEXURE—D  
SYSTEM OF CHARGES

On a perusal of the information relating to the schedule of rates for the services rendered, as furnished by the different banks, in reply to the questionnaire of the Banking Commission, it is observed that there is no uniformity in the rates prescribed. For instance, one of the banks in the public sector has not prescribed any rates of commission/exchange in respect of local as well as outstation demand and usance bills received for collection and the agents have been vested with discretion for quoting rates after taking into consideration factors such as work involved, value of the constituent's account to the bank and the existing competition from other banks. Another nationalised bank has not similarly prescribed any rates for local demand as well as usance bills and discretion in this regard has been vested with the branch managers. The rates prescribed for both local as well as outstation demand and usance bills for collection by four banks belonging to one group differ as between themselves. The schedules of rates fixed for remittance of funds by different banks also differ widely.

The schedule of rates are shown in the following pages :

**SCHEDULE OF RATES LAID DOWN BY THE DIFFERENT BANKS FOR THE SERVICES RENDERED BY THEM**

Particulars of services rendered	Schedule of rates laid down by			
	Nationalised Banks	State Bank of India and its Subsidiaries	Foreign Banks	Other Scheduled Banks
(1)	(2)	(3)	(4)	(5)
<b>Remittances</b>				
Issue of drafts, mail transfers and telegraphic transfers ..	<p>1½ to 12 paise % (Minimum 25 paise to Rs. 1·50), plus telegram charges in respect of telegraphic transfers.</p> <p>While one of the nationalised banks allows free mail transfers upto Rs. 1,000 to Savings Bank depositors and upto Rs. 10,000 to current account depositors per day, two other nationalised banks allow free remittances upto Rs. 10,000 and Rs. 1,000 per day to their constituents.</p>	<p>As under the remittance facilities scheme.</p> <p>For other remittances : 6 to 25 paise % (Minimum 25 paise to Rs. 7·50) plus telegram charges in respect of telegraphic transfers.</p> <p>Under special credit transfer scheme, remittances upto Rs. 2,500/- on one day can be effected at par to the account of the remitter maintained at any branch of the bank or its subsidiary.</p>	<p>1/64 to 1/4% (Minimum Re. 1 to Rs. 6·25) commission of Re. 1 is charged on each draft if the beneficiary has no account with bank's branches.</p>	<p>2 to 10 paise % (Minimum 25 paise to Re. 1), plus telegraphic charges in respect of telegraphic transfers.</p>
<b>Local cheques/bills for collection</b>				
Local clearing cheques ..	At par	At par	At par	At par
Cheques on non-clearing banks	25 to 50 paise per instrument	Actual out of pocket expenses	At par to 6 paise % (Minimum 50 Paise)	At par
Clean demand hundies or bills	At par to Re. 1 per instrument	9 to 25 paise % (Minimum 75 paise to Rs. 12·50)	3 to 6 paise % (Minimum 50 paise)	3 paise % (Minimum Re. 1)
Clean usance hundies or bills	12 paise % (Minimum Rs. 1·25 to Rs. 2)			5 paise % (Minimum Rs. 1·50)
Demand documentary bills	6 to 9 paise % (Minimum 75 paise to Rs. 4·50)			At par and 1/16 to 1/4% (Minimum Rs. 2·50 to Rs. 125)

SCHEDULE OF RATES LAID DOWN BY THE DIFFERENT BANKS FOR THE SERVICES RENDERED BY THEM (Contd.)

Schedule of rates laid down by					
Particulars of services rendered	Nationalised Banks	State Bank of India and its Subsidiaries	Foreign Banks	Other Scheduled Banks	
(1)	(2)	(3)	(4)	(5)	
Usance documentary bills ..	10 to 12 paise % (Minimum Rs. 1.25 to Rs. 2.00)	In the case of State Bank of India no fixed rates have been laid down. Agents have been vested with discretion for quoting rates with regard to the work involved, value of constituents account to the bank and the existence of competition from other banks.		10 paise % (Minimum Rs. 1.50 to Rs. 2.50)	
Supply Bills .. .. .	10 to 12 paise % (Minimum Re. 1 to Rs. 2.00)				
Collection of pay bills and Pension bills from Government Treasuries .. .. .	25 paise to Re. 1 per instrument	Pension bills at par. For other bills out of pocket expenses on postage.	(Minimum Re. 1)	4 to 50 paise % (Minimum Re. 1 to Rs. 2.00)	
<b>Outward bills for collection</b>					
Cheques and clean demand bills .. .. .	5 to 10 paise % (Minimum 50 paise to Rs. 2)	9 to 25 paise % (Minimum 75 paise to Rs. 20.00)	1½ to 6 paise % (Minimum Rs. 1.50)	6 to 15 paise % (Minimum Re. 1 to Rs. 7.50)	
Clean usance bills .. .. .	5 to 10 paise % (Minimum Re. 1 to Rs. 2)	The scale is laid down as a general guide to agents who have discretion to depart therefrom according to circumstances.		5 to 20 paise % (Minimum Rs. 1.50 to Rs. 10.00)	
Documentary demand bills	8 to 10 paise % (Minimum Rs. 1.75 to Rs. 2.50)				5 to 20 paise % (Minimum Rs. 1.50 to Rs. 10)
Documentary usance bills ..	10 to 12 paise % (Minimum Rs. 2 to Rs. 3)				15 paise % (Minimum Rs. 2.50)
Bills covering parcels .. .. .	8 to 10 paise % (Minimum Rs. 1.75 to Rs. 2)			Nil and 1/8 to 1/64% (Minimum Rs. 2 to Rs. 15.50)	15 paise % [(Minimum Re. 1)
	Storage charges at 25 paise % per parcel after 3 days from the date of receipt of parcel				

**SCHEDULE OF RATES LAID DOWN BY THE DIFFERENT BANKS FOR THE SERVICES RENDERED BY THEM (Contd.)**

Particulars of services rendered	Schedule of rates laid down by			
	Nationalised Banks	State Bank of India and its Subsidiaries	Foreign Banks	Other Scheduled Banks
(1)	(2)	(3)	(4)	(5)
Supply bills .. .. .	12 to 15 paise % (Minimum Re. 1 to Rs. 3). One of the nationalised banks collects outstation cheques free of charges. In case of collections effected through other banks, it charges only collecting bank's expenses.			
Inward bills received from up-country non-customers for collection and remittance of proceeds .. .. .	3 to 15 paise % (Minimum 75 paise to Rs. 1.75)	15 to 25 paise % (Minimum Rs. 1.50 to Rs. 10) (At the discretion of the Agent, in the case of State Bank of India)	1/16 to 1/4% (Minimum Re. 1 to Rs. 125)	10 to 12 paise % (Minimum 75 paise to Re. 1)
<b>Purchase and sale of Government securities and shares</b>				
Purchase and sale of securities	6 to 12 paise % (Minimum Rs. 2)	1/4%	1/8 to 1/16% (Minimum Re. 1)	1/4 to 1%
Collection of interest and dividend .. .. .	6 paise % (Minimum Re. 1)	1/4% (Minimum 25 paise to Re. 1)	1/4% (Minimum 50 paise to Re. 1)	6 to 25 paise % (Minimum Re. 1 to Rs. 10)
Payment of calls and collection and repayment of capital		1/4% (Minimum 25 paise)	1/8% (Minimum Re. 1)	6 paise %
<b>Safe custody facilities</b>				
Shares and securities (on the face value of Govt. securities and debentures, etc., and paid-up value of shares at the time of withdrawal of securities).	At the discretion of the Manager (Re. 1 per scrip per year) (Maximum Rs. 30)	1/4%	1/8 to 1/4% (Minimum Re. 1)	Re. 1/- per scrip per year and 50 paise for the subsequent year.

**SCHEDULE OF RATES LAID DOWN BY THE DIFFERENT BANKS FOR THE SERVICES RENDERED BY THEM (Contd.)**

Particulars of services rendered	Schedule of rates laid down by			
	Nationalised Banks	State Bank of India and its Subsidiaries	Foreign Banks	Other Scheduled Banks
(1)	(2)	(3)	(4)	(5)
Bank's own fixed deposit receipt .. .. .	No charge	No charge	No charge	} Rs. 3 to Rs. 6 per quarter
Sealed envelopes .. ..		Rs. 3 to Rs. 6 per annum		
Sealed packets containing documents, valuables, etc.		Rs. 2.50 to Rs. 5 per quarter		
Boxes .. .. .		Rs. 5 to Rs. 10 per quarter		
Periodic payments under standing instructions .. .. .	Re. 1 per item	50 paise per payment (Minimum charge of 50 paise for each payment by draft)	Re. 1 per payment	No charge
<b>Incidental charges Current Account</b>				
Return of cheques .. ..	Re. 1		Rs. 2 to Rs. 5	
Closing of account .. ..	Re. 1			
Service charges .. .. .	Rs. 3 to Rs. 5 per half year	Rs. 3 to Rs. 5 per half year with Rs. 1.50 to Rs. 3 for each additional folio, if more than two folios are consumed	Rs. 2 to Rs. 10 per half year. (Minimum Rs. 5.00)	
<b>Savings Bank Account</b>				
Closure of account within one year of its opening .. ..	Re. 1		Re. 1 to Rs. 3	
Copy of statement of account	Re. 1 to Rs. 3		Rs. 5	
Issuing a duplicate pass book	Re. 1 to Rs. 3		50 paise	

**Note :—**None of the non-scheduled banks has given proper information regarding schedules of rates.

## ANNEXURE—E

## COST ACCOUNTING FOR BANKS IN FEDERAL REPUBLIC OF GERMANY

## I

In November 1959, a Commission of the Federal Union of the Private Banking Industry in the Federal Republic of Germany for Cost Accounting was set up as a result of the general desire expressed by private banks to work out a system of cost accounting for banks. The Commission found that the work done in the thirties by Rummels was very useful and it tried to adopt that work to the present requirements of the banking industry. At the same time it took into account the work done elsewhere as well as by Klinge in Germany on organisational questions and earning capacity of private banks. The three basic requirements of the work of the Commission were that the banks and other credit institutions should —

- (i) make available all information on individual categories of work and furnish employee statistics,
- (ii) make a clear division of all incomes and expenditures in the account books, and
- (iii) present systematically costs and income of the bank as a whole as well as of individual areas of activity in the bank and of individual types of business transactions.

The Commission prepared as long ago as in 1960 model forms for statistics relating to the physical output of the different types of jobs in banks (Output Statistics) and a year later a frame for accounts and model forms for showing the accounts of commercial banks (the Accounts Plan). The Accounts Plan was subsequently revised and the revised plan published in 1969. Between 1960 and 1969 the Commission published various papers on (i) Cost Accounting (1964), (ii) Calculation of rates of interest paid and received on funds activities (1966), (iii) profitability calculations (1966), and (iv) complete analysis for customers' accounts (1968). In designing the various forms the Commission took into account the variations found in regard to classification of various items and the manner in which records were kept in the different banks. Hence the Commission has tried to evolve forms and methods in such a way that they are practically independent of the form of organisation or arrangement of the various departments in individual banks. The forms and methods can be readily adapted to the peculiarities of individual banks and other credit institutions. As a result of the Commission's work there is now a well integrated management information system designed for banks in the Federal Republic of Germany. In doing this work, the Commission utilised the practical experience of many years of a number of banks in

this field and of the literature that was available on the subject. This note is concerned with the Commission's recommendations on the paper on Cost Accounting. In the appendix to this note a brief description is given of the other forms evolved by the Commission.

The Commission wrote in 1964 that the usefulness of costing in evaluating their profitability was not perceived by bank managements. It observed that the often heard excuse that a number of services offered free of charge by the banks are such that their profitability cannot be calculated exactly and hence calculation of costs of individual banking activities is beset with an unusually large number of imponderables is nothing but making a virtue of necessity. In fact, in today's banking a large number of transactions are uniform to a great extent and hence it is possible to calculate their costs. It is true that in contrast to production in industry most of these transactions cannot be planned in advance and are subject to fluctuations from day-to-day. This means that banks have always to be ready to handle a heavy volume of transactions in peak periods of activity making costing difficult. There is also the point that a large number of accounts with the bank possess their own peculiarities. But these peculiarities can be taken into consideration in making the accounts' calculation.

One difficulty in profitability calculations in bank work is that the income is value-oriented, whereas the work costs (expenditure) are dependent on the number of items handled. Hence the former can be more easily worked out for different activities than the latter. This is why bank management is generally well informed about the provisional income aimed at in the individual branches. In the accounts plan prepared by the Commission, the expenditure of a bank is shown in the general customary way namely, interest, personnel costs and material costs. The personnel costs and material costs together help to determine the servicing costs of various bank activities. Since almost every activity requires the services of several departments in a bank, it is necessary to divide the cost of each department in a functional manner.

### *The Staff Form (SF)*

The basis of this division is the Staff Form (SF). (A simplified version of the SF is given later in this note). With the help of this form one can determine the division of the total output of an individual employee into the different functional groups of work. Since the greater part of the expenditure in banking, apart from interest expenditure, is on personnel, special care has to be taken in filling up the SF. Thus for instance while it is not necessary to fill up the SF every day in most cases, it is also not sufficient to make the calculations on the basis of very accurate measurements for only one day. Rather one should try to obtain for any accounting period a typical cross section of days in order to balance out the various types of seasonal fluctuations which normally occur in the different types of work handled by individual

employees. The exact method for filling up the SF and the frequency with which data should be obtained should be left to the individual institutions. The Commission has given a typical list of items of work for banks to serve as a basis for drawing up of the SF. This list is the same as that for the Output Statistics form given in the appendix to this note. The work done by individual employees can be classified according to this list.

### *The Form for the Settlement of Accounts of Banks (SAF)*

This form enables the distribution of personnel and material expenditures amongst the different cost centres. The Commission has prepared directions as to how this form should be filled up. Apart from actual expenditures as are incurred imputed expenditures, *e.g.*, the rate payable by department for the use of bank premises, etc., are also calculated on this form. In the distribution of the total expenditure on this form, the Commission strove to draw up a model which was as simple and, more particularly, as close to practice as possible. It also took into account the existing theory on the subject. However since the Commission found that complete agreement of views had not been reached on some theoretical matters it had to develop its own definitions in such a way that even a person untrained in theory can fill up the form.

To facilitate the adoption of the system of costing recommended by the Commission the SF, the SAF, and the item-wise costing form (ICF) to be discussed later—have been filled with numerical examples. (Proformae of the SAF and the ICF are given later in this note). These examples are arbitrary and designed to serve only as examples and not giving the cost details of any particular bank. For the purposes of checking and especially for examination of the practical applicability of the model prepared by it, the Commission availed itself of the co-operation of experts outside its working committee. As a result, the Commission was satisfied that the costing method devised by it was applicable to joint stock banks as well as private banks.

### *Item-wise Costing*

The basis for determining item-wise cost for the different types of work done by the bank is the allocation of expenditures to the cost centres with the help of the SAF. These item-wise cost figures which are obtained by dividing the total costs by the total number of items in any activity are the average costs per item for that activity. These facts should be borne in mind particularly when calculating the cost of individual customer's account; for the expenditure incurred by a bank for rendering the same service can vary according to the account. Such variations need to be suitably adjusted. Also considerable difficulties can arise in comparing item-wise costs of different institutions or even of different branches of the same institution. The smaller the institution the greater will be the influence of specific factors on costs. Similarly the figures for individual cost centres may be affected by specific factors.



Since personnel costs are also used as the key for distributing expenditures on materials like stationery, etc., amongst the different cost centres, this means that one must investigate the reasons for substantial deviations occurring in individual cases. The form for item-wise costing is given in Table 3.

### *The Value of Item-wise Costing*

The determination of item-wise costs enables an institution to obtain an exact idea of the whole cost structure. It should be noted however that it is the comparison over different accounting periods which is more useful than ascertaining the cost just once. This method of costing is useful in discovering the strength and weaknesses of the internal organisation of the institution. Especially when organisational change has been carried out purely departmental costing is of no help. Firstly, with such a change there are transfers of work amongst the various departments. Secondly, the division into various departments itself varies from bank to bank according to size and type of business. Of course, if departmental costing is required, it can easily be done by using item-wise costs.

In the Commission's view, the usefulness of costing will be substantially enhanced if bank managements exchange information amongst themselves on item-wise costs of their institutions.

The Commission has not dealt with the problem of commitment charges, *i.e.*, costs which arise in making money available to producers. It feels that this question belongs to the field of calculation of the income and expenditure account.

Thus, the manner in which the Cost Accounting for banks proceeds is from the staff form (SF) to the form for settlement of accounts (SAF) and from there to the item-wise costing form (ICF). In the item-wise costing calculation form, the calculations are done for each cost centre separately. The costs are grouped under direct and indirect labour costs, direct and indirect material costs, allocation of costs incurred by auxiliary cost centres and by administrative cost centres. The total costs obtained for the cost centre are then distributed over the various items by taking the number of items, converting them into suitable units with the use of Equivalent Figures and then working out the average cost per item.

## II

### COST ACCOUNTING — DETAILED DISCUSSION

Banking costs can be divided into (a) work costs and (b) value costs. Work costs are those which are caused by the technical/organisational factors as well as the general administrative measures affecting transactions of a banking institution. Personnel and material costs belong to this category.

All the types of costs which should be regarded as work cost are recorded on the SAF. Value costs are those which are dependent on the value of a transaction. In banks this means primarily expenditure on interest.

In item-wise costing only work costs are included. The aim of item-wise costing is to determine the work costs of the various types of transactions. Value costs have to be added to these when questions of profitability of the various activities of a bank are discussed. For calculating item-wise costs it is advisable to select the accounting year as the period for calculation because both the work-load and costs are subject to seasonal fluctuations during the course of a year.

For the purposes of the cost calculation the whole organisation is divided into cost centres (C.Cs.). Individual departments can become C.Cs. if the object is to determine the cost structure and changes in costs according to the areas of responsibility in the institution. However, in smaller banks and in branches of even bigger banks, there is generally no strict organisational division into departments. In the bigger banks, there is often an overlapping of the operational areas of individual departments. Hence the Commission favours the formation of C.Cs. on the basis of common activities (functional arrangements of C.Cs.). Thus for instance, all activities which are necessary for dealing with incoming and outgoing remittances are brought under the C.C. "Remittances". Some of these activities may be outside the remittances department. On the other hand, when the remittances department deals with other activities for purely organisational reasons, *e.g.*, entries pertaining to cheques out of clearing, such activities will not be under the C.C. 'remittances' but under the C.C. 'cheques'.

Since personnel costs are the most important in work costs of a bank they have to be ascertained precisely for each cost centre. This is often difficult because many bank employees do a number of activities. Hence the staff form (SF) is used to determine the personnel costs for each of the C.Cs. From the SF the figures are carried over to the SAF and then to ICF.

#### THE USE OF THE STAFF FORM (SF) FOR THE DISTRIBUTION OF PERSONNEL COSTS

The staff form is to be maintained for every department (area of responsibility) for the purpose of ascertaining the personnel costs of the C.Cs. For each member of the staff, there is a column for showing the cost incurred for his own cost centre and those incurred for other cost centres [complementary cost centres or (C.C.C.)]. The form itself has the following columns: (i) Name of the staff member, salary scale and actual position in it at the time of reporting, (ii) Personnel costs unit, (iii) Staff category, (iv) Working time measured in minutes per day, (v) Total personnel costs incurred during the accounting period, (vi) Personnel costs for own cost centre of the employee, (vii) Code

numbers of complementary cost centres for which the employee works, (viii) Names of the complementary cost centres, (ix) Personnel costs of complementary cost centres.

A simplified example of the staff form is given in Table 1.

TABLE — 1

Staff Form the period \_\_\_\_\_

Set up by Cashier for Cost Centre : 10-Cash P.....  
(Deptt.)

Name, (Salary Group and Position—Not Shown)	Personnel Cost Unit Dm. Pfg.	Type of work input	Work input in minutes per day	Personnel costs per year	Personnel costs for own cost centre	C. C. C.		Personnel costs for C.C.C.'s
						No.	Name	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Hannen, Geraldine	18-00	In and out payments including counter values of foreign currency Interest Warrants and D.W.S.	325		5850			
		In and out payments on Savings Accounts.	105			23	Savings Accounts	1890
		Night-Safe payments work	60		1080			
		Daily balancing of cash in hand	20	9180	360			
Herbst Aurora	17-60	Buying and selling foreign currency	200			16	Foreign currency	3520
		Interest and D.W. S. handed in including Treasury Coupons.	80			19	Coupons	1408
		Cheques	110			12	DM. Cheques	1936
		Consultation on Savings Transactions Accts. Rectification, change and closure.	60			23	Savings (Accounts)	1056
		Assisting Cashier	60	8976	1056			

In filling up the various columns of the S.F., the following points are to be noted :

Col. 2 *Personnel Cost Unit* : The calculation of the Personnel Cost Unit (PU) is necessary only for employees working in more than one cost centre. The PU is calculated by the following formula :

$$PU = \frac{PC}{WW}$$

Where PC are the total personnel costs in DM per annum as shown in column 5 and WW is the working time in minutes per day.

Col. 3 *Type of Input* : The work done by every employee is described in this column and classified as follows :

(a) Work typical for only one's own department is shown under work for the employees' own cost centres, (b) work done whether regularly or as an exception for other cost centres is to be shown under 'work for complementary cost centres'. Any item of work which requires on an average less than 10 minutes per day is not to be mentioned.

Col. 4 *Labour Input in Minutes per Day*: In this column the labour input is to be shown in 10 minutes or multiples of 10 minutes corresponding to the work listed in column 3. The division of the total time per week of an employee has to be done in a way which corresponds to the typical pattern of work for the employee for a whole year. For a person who was working in a department for only a part of the year the total time has to be so distributed that the input shown under each department is representative of the time when he worked in that department. This can be done with the help of output statistics for individual employees or by obtaining statements from the individual employees, especially the Head of a Department. For employees who work most of the time in one cost centre and whose tasks are few and definite it is not necessary to maintain extra statistics. Where employees have been recruited for seasonal jobs or where employees work in several cost centres such statistics are essential.

Col. 5 *Personnel Costs Total* : Under this column the total personnel costs incurred for an individual employee are to be stated. Employees transferred from one department to another in the course of the year have to be shown on the S.F. of both departments and their personnel costs shared accordingly. In the case of regular employees the total emoluments consisting of salaries, allowances, provident fund, retirement benefits, etc., have to be taken. Payments for overtime are however not recorded on this form but on the SAF. For apprentices an average rate is worked out on the basis of remuneration paid for all the apprentices employed by the bank during the accounting year.

Col. 6 *Personnel Costs for One's Own Cost Centre* : To fill this column one has to take the work entered in column 3 for one's own cost centre. The timings shown in column 4 are to be multiplied by the PU shown in column 2.

Col. 7 *Number of C.C.Cs.* : The column numbers of C.C.Cs. are to be given here according to the form of settlement of accounts.

Col. 9 Personnel costs for the C.C.Cs. are to be determined in the same way as those for one's own cost centre.

### III

#### FORM FOR SETTLEMENT OF ACCOUNTS (SAF)

This form serves the purpose of allocating the costs to the cost centres. The form is divided horizontally according to the cost areas/cost centres and vertically according to cost types. P. 1 is for personnel costs, P. 2 for costs of material used and P. 3 for allocation of costs. A simplified version of the SAF is given in Table 2.

For dividing the institution into cost areas the cost centres are grouped into three groups called the main cost centres, administration cost centres and auxiliary cost centres. The main cost centres are those which carry out the usual bank transactions with customers. Together they form the main area. The administration cost centres are those which lead, organise, control, inform, do propaganda or advertise for banks. They form the administrative area. The auxiliary cost centres are those which help either the main or the administrative cost centres.

For apportioning the total costs incurred in the administrative cost centres and the auxiliary cost centres to the main centres the Commission recommends for the sake of simplicity the application of the personnel cost key. To do this the totals for the individual cost centres on P. 1 and P. 2 of the SAF for direct and indirect personnel costs as well as direct and indirect material costs are entered in P. 3 of the SAF.

The total of auxiliary cost centres are allocated to the cost centres in the main and the administrative fields. For this purpose, the total of direct personnel costs for all the main and the administrative cost centres is set equal to 100 per cent. The percentage-wise shares of the individual main and administrative centres are then calculated and used as the distribution key for distributing the cost of auxiliary centres to the main and administrative cost centres. Next, the costs of the administrative field are to be distributed to the main cost centres. For this purpose the total of the direct personnel costs of the main cost centres is used to work out the distribution keys.

P.1 TABLE 2—FORM FOR SETTLEMENT OF ACCOUNTS

Personnel Costs						
Departments	Total Expenditure on Personnel	Adjustments, if any	Net Exp.	Distributed Among Main Cost Centres	Administration Cost Centres	Auxiliary Cost Centres
(1)	(2)	(3)	(4)	: : : Etc.	: : : Etc.	: : : Etc.
1.						
2.						
3.						
.						

Information to be collected from Staff Form and brought here Cost Centre-wise

TOTAL

Material Costs						
Materials	Total Expenditure on Material	Adjustments, if any	Net Exp.	Distributed Among Main Cost Centres	Administration Cost Centres	Auxiliary Cost Centres
(1)	(2)	(3)	(4)	: : : Etc.	: : : Etc.	: : : Etc.
A.						
B.						
C.						
D.						
.						

TOTAL

P.3 Settlement of Accounts									
% Loading for Auxiliary Centres	Administration	Total	Total of			Details			
			main	adm.	aux.	Main Cost Centres	Adm. Cost Centres	Aux. Cost Centres	
% Loading				: : : Etc.			: : : Etc.		

1. Direct Personnel Costs

2. Indirect Personnel Costs

3. Total Personnel Costs

4. Direct Material Costs

5. Indirect Material Costs

6. Total Material Costs

Centre Costs (3) + (6)

Loading for Aux. Centres

Sub-Total

Loading for Adm. Centres

GRAND TOTAL

## IV

## ITEM-WISE COST CALCULATION

After the total working costs for the main cost centres have been ascertained with the help of the SAF, the item costs are calculated. A special form called the item cost calculation form is used for every cost centre the contributions to which are to be calculated (see Table 3). In the first part of this form, the different types of costs for this cost centre are shown on the lines of P. 3 of the SAF for the fiscal year. In the second part, the statistics from the output data for this cost centre are shown. The average total cost per transaction for the concerned cost centre is then obtained.

TABLE 3—ITEM-WISE COST CALCULATION

Year _____	Cost Centre 22 Book Keeping No. & Name		
<b>A. COSTS</b>			
Personnel Costs			
Direct			
Indirect			
Material Costs			
Direct			
Indirect			
Allocation in respect of Aux. C.C.'s			
Allocation in respect of Adm. C.C.'s			
Total Costs			
<hr/>			
<b>B. Per Item Calculation</b>	No. of Items (1)	Equivalent Figures (2)	Units (1) x (2)
<hr/>			
Book Keeping			
in D.M. of Customers' Accounts			
in D.M. of Internal Accounts			
in D.M. of Nostro Accounts			
Foreign Currency Accounts			
<hr/>			
Total			
<hr/>			
Total Costs per item			
<hr/>			

## V

## CALCULATION OF ITEM COSTS BY MEANS OF EQUIVALENT FIGURES (EF's)

The allocation by cost centres described in the preceding paragraphs can be precise if there is only one type of transaction in it or if there are several types each requiring the same amount of work. However this case is an exception. In most main C.C.S. different types of transactions have to be included. Obviously in such cases it would be useful if the C.C.S. could be further classified. But this is only possible in big organisations and then too only under certain conditions. On the other hand no satisfactory results can be obtained if the number of items of different types of transactions of a C.C. are added together and compared with the total costs of this C.C. to obtain the average per item costs. Such an average does not necessarily correspond to the actual average cost of one particular type of transaction but merely represents a mean value of the average costs per item of different types of operations. With the help of the Equivalent Figures (EF's) average values for the various types of transactions can be calculated even in such cases. Both item-wise costing as well as the use of E.F. are demonstrated by the following example :

The C.C. "Remittances" has an annual total cost of DM 29,000/-. There are 71,000 outgoing and 45,000 incoming remittances. By simple division we get the average costs as 25 pf. per remittance. In order to obtain the cost rates for the actual types of transactions in this Cost Centre, we can try to divide the C.C. "Remittances" into "Remittances—outgoing" and "Remittances—incoming". Let us suppose that this was possible and the costs for C.C. "R—I" were DM.15,365/- and for C.C. "R—O" DM.13,635/-. The average item costs would then be 21.6 pf. for incoming and 30.3 pf. for outgoing remittances.

Alternatively, let us assume that though the splitting up of the C.C. "Remittances" is not possible, one can ascertain by studying the work time that the expenditure for processing the outgoing remittances is 1.4 times the expenditure for the processing of incoming remittances. Then the following calculations can be made :

Transaction of the C.C. "Remittances"			
Type of Remittance	No.	E.F.	Units
Income	71,000	1.0	71,000
Outgoing	45,000	1.4	63,000
	116,000		134,000
Total expenditure 29,000	No. of Units 134,000	= =	Cost per Unit 21.6



=average per item cost of the incoming remittances. The average per item cost for outgoing remittances is  $21.6 \times 1.4 = 30.3$  pf.

As a rule the most important type of transaction is taken as the basis of reference and all other types of transactions are compared to it. This basis of reference is called the transaction unit (or work unit) and given the value of the E.F. 1.θ.

For obtaining the E.Fs it is necessary to have work-studies. A list is made for every type of transaction, in which all part-occupations are shown.

Example : Discount Bills

- (1) Accepted at counter
- (2) Examination of the correctness of every exchange
- (3) Completion of list of payees, etc., etc.

For every part-occupation the work time (*e.g.*, in minutes) is ascertained and a note is made whether it has been executed in a normal way by a cheaply or averagely paid or expensive staff and whether extra costs were incurred (*e.g.*, when the bill copy book is kept in the form of photocopies).

By comparing the individual types of transactions with one another the different costs incurred can be ascertained. Only a limited number of transaction types should be taken so that the calculation does not become too complicated—a certain inaccuracy in the calculation of the transactions and their evaluation has to be accepted.

## VI

### CALCULATION OF THE COSTS OF A BUSINESS CASE

In most cases a 'business event' consists of two or more transactions. In order to ascertain the total costs of a 'business event' it is necessary to add the item costs of the individual transactions. The following examples illustrate this. (The numbers represent the code numbers for output statistics).

1. Example : Drawing of Cheque debited to the account of a client

Output  
Statistics  
Code Nos.

101	Money Paid Out
+ 800	Entry in the clients account

## 2. Example : Discounting 5 bills

400	5 Entries of DM discount bills
+ 800	1 (representing 5) entry in clients account
+ 413	5 issues on settlement
+ 801	One entry in internal account

Added to this is the cost share of the credit department for processing the credit.

## 3. Example : Buying of a currency travellers' cheque

650	Buying by client
+ 102	Payment of corresponding value of DMs.
+ 613	Entry of cheque
+ 801	Entry in internal account

## 4. Example : Buying securities for client

706	Purchase through broker
+ 700	Settlement against client
+ 800	DM entry for client
+ 760	Depot entry for client
+7500	Entry of effective prices

In calculating average costs one must note that often several business transactions involve not the same but a smaller number of entries. Therefore one must take into consideration whether and to what extent the inclusion of individual documents into records is customary (compare Example 2). Further one must take note that in certain book-keeping procedures additional entries in internal accounts are necessary.

## VII

## SUMMARY OF THE TRANSACTIONS TO BE CALCULATED IN THE BANK

In order to be able to evaluate the results of item-wise costing in institutional comparisons, care must be taken to ensure that transactions are similar and costs are worked out on a similar basis.

## APPENDIX

1. *Form for Output Statistics*

The system of output statistics is divided into the following main groups of work.

1. Cash transactions
2. Transfer
3. D. M. Cheques
4. D. M. Bills of Exchange
5. Document business
6. Foreign Exchange, Bullion, etc.
7. Securities
8. Book-keeping
9. Bank Credit

Each one of these headings is further sub-divided by using a decimal system of numbering. Thus for instance, document business which is No. 5 is sub-divided into :—

50 Imports	51 Exports	52 Inland
------------	------------	-----------

These three sub-headings are further divided under :—

500 L/Cs and guarantees of payment	510 Same as 500	520 Same as 500
501 L/Cs and guarantees from other banks	511 Same as 501	521 Incoming business
502 Orders from abroad regarding incoming documents	512 Receipt of documents abroad	
503 Incoming documents from other banks	513 Orders from other banks regarding receipts of documents abroad.	

One or more forms are provided for each *two digit* heading for each month. Columns are provided for the three digit headings in these forms and under each column entries have to be made daily as to the number of items handled. At the end of a month a total is given and in the last line of the form the



### 3. *The Accounts Plan*

The Accounts Plan also follows the decimal system of notation. Thus there are nine main heads of which only seven relate to the operational headings. These are as follows :

1. Cash reserves, and liquid instruments.
2. Business liabilities.
3. Business assets.
4. Reconciliation.
5. Business income.
6. Business expenditures.
7. Other incomes and expenditures.
8. Nil.
9. Capital accounts and net balance of Profit and Loss Account.

All these headings except of course 4 and 8 (which do not contain anything) are further sub-divided, by using a four digit system of notation. Thus the head 2—Business liabilities is further sub-divided into headings such as : (20) Current Accounts of credit institutions, (21) Current Accounts of customers, (22) Savings deposits, (23) Obligations like cheques, drafts, etc., (24) Own bonds, (25) Own acceptance and bills of exchange and so on. The following is an example of three digit classification: (22) Savings deposits sub-divided into (220) those withdrawable by a notice as prescribed in the law, (221) those withdrawable by notice by agreement with the customers within four years, (222) those withdrawable by notice by agreement with the customers after four years, and (223) deposits at a special rate.

An example of four digit classification is as follows :—

The main head 5 gives Business Income. The head (50) gives Yield Rates. (506) gives the Yield on Foreign Exchange Discounting. Under this head the following four digit heads are given : (5060) discount from trade, bills, invoiced in D.M. (5061) discount from trade, bills, invoiced in other currencies. (5062) discount on partly paid bills of exchange. (5063) discount on private paper. (5064) discount on foreign banks acceptances. (5065) discount on foreign bills of exchange. (5066) discount on own acceptances purchased. (5067) discount on own drawings purchased. An idea of the extent of details provided for in the accounts plan can be obtained from the following table.



C. Costs of Maintaining Account

(a) *Item Cost*

<i>Items</i>	<i>Average costs per item</i>	<i>Amount</i>
Book Keeping		
Cashiers' Deptt.		
Incoming Transactions		
Outgoing Transactions		
Standing Orders		
Drawing of Cheques		
Payment of Cheques		

(b) *Other Costs*

Basic Cost of Account

D. Other Charges on the Account

Turnover Provision

Taxes.

Other Charges, *e.g.*, postage *etc.*

E. Cost of maintaining Account *Less* Yield.

F. Risk Cost of Money Invested

G. Uncovered Costs of Money Invested

Net use

ANNEXURE—F  
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| 22. Shri R. Somanathan                     | Dena Bank              |
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