Methodology for Surveys —A Rejoinder

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This is a rejoinder to Sri A. Bose's article entitled 'Methodology for Surveys' in the January 1962 issue of Economic Affairs. The contents of this article may be broadly divided into three sections :

(i) a review of the ILO report,

(ii) some strictures on Indian Surveys in general and National Sample Survey in particular, and

(iii) five points which the author considers to be of fundamental importance in Surveys.

The main aim of the paper, apparently, is to review the ILO report. Normally, such reviews should attempt to highlight some of the salient features of the methodology of the surveys discussed in the report, examine their efficiency in the particular conditions in which they were employed and explore the possibility of adapting them with or without modifications for similar surveys in our country. This would be of considerable value to the readers. But this has not been done. The review could have been made more analytical. As it is, the discussion is superficial and it merely expresses unqualified appreciation of various surveys. The purpose served is not much more than merely exhorting the reader to study the ILO report.

There is one paragraph of severe strictures on Indian Surveys. Every phase of the work of these surveys is, according to the author, improperly executed. But a reader has only the author's words as proof. It would have been judicious on the part of the author to point out, with specific instances the drawbacks of Indian Surveys. So long as this is not done, such strictures are not beneficial to anybody and they are likely to be interpreted as prejudiced opinions.

It is useful in this context to examine how far the author is justified in making such remarks about Indian Surveys. It is now well-known among persons interested in survey work that, the various State Governments and the National Sample Survey have a vast staff of field investigators with intensive training and considerable experience in survey work. Their work is checked at various stages starting from on the spot checks by field inspectors and ending with final scrutiny by the statisticians who are responsible for the planning of the survey and the analysis of its results. The technical work is done by highly qualified and experienced statisticians and economists who are not unaware of the country's needs in the direction of statistics. It is also well known that the results of these surveys are being extensively used by scientists within the country and abroad. This does not mean that these surveys are perfect. They may have their shortcomings. But the statement that they—particularly the surveys conducted by the National Sample Survey—are a discredit to the cause of surveys is a gross exaggeration, resulting from insufficient appreciation of the methodology of those surveys or motivated by extra-scientific considerations.

Lastly, we come to the five important points listed by the author. They are, of course, very important and basic considerations in survey work. But they are perhaps too obvious to need any repetition in the form of the main conclusion of an eight-page article in the Economic Affairs.

On the whole, the article is far below the standard, and there is plenty of scope for improvement. In fact, after reading the article, one is apt to wonder, how and why it got published.

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its depositors up to the amount of insurance. As the bank's assets are liquidated, FDIC is reimbursed to the extent of the funds realised. At the same time the depositors receive a pro rata share on the uninsured portion of their deposits.

Towards the Scheme

The deposit insurance scheme had the appreciation of Rural Banking Enquiry Committee (1950) and of the Committee on Finance for the Private Sector (1954) but it was not introduced as it was thought quite premature to the then banking conditions. The failure of Palai Central Bank, the liquidation of a large number of small banks, and the Reserve Bank Governor's categorical denial that the wide power of the Bank is a substitute of operational responsibilities of commercial banks running into 4000 branches all over the country created a sense of urgency for the adoption of deposit insurance scheme. At this point however the advocates of the scheme had to face oppositions that the sense of urgency was got-up because there had not been any sign of general banking crisis, instead big banks had been working with all soundness, and whatever slides had taken place were localised in nature. The suggestion was to make drastic the weeding out operations of the Reserve Bank. The suggestion has not gone by default. The Reserve Bank has been endowed with more wide power to weed out inefficient banks but at the same time deposit insurance has been introduced to accommodate the growth of banking habits.

The Scheme

The deposit insurance scheme has found expression in the Deposit Insurance Corporation Act. The Act has been enforced since 1 January 1962. The Act extends to the whole of India, and all commercial banks functioning at the time when the Act came into force are required to be registered with the Corporation as insured banks. The authorised capital of the Corporation is Rs. 1 crore, allotted to and subscribed by the Reserve Bank. The management has been vested in a Board of Directors consisting of (1) Governor of the Reserve Bank (Chairman), (2) Deputy Governor of the Reserve Bank nominated by the Bank, (3) an officer of the Central Government nominated by that government, and (4) two non-official directors nominated by the Central Government in consultation with the Reserve Bank.

Every insured bank is liable to pay a premium to the Corporation on its deposits (excluding the deposits of Central and State Governments, a foreign government or a banking company). The rate of premium is not to exceed 15 nP per annum for every Rs. 100 of the total deposits. The actual rate that has been fixed by the Corporation is however 5 nP per annum for every Rs. 100 of deposits. The Corporation has been empowered to borrow from the Reserve Bank a sum not exceeding Rs. 5 crores.

The limit of insurance cover has been fixed, for the present, at Rs. 1500 in respect of each depositor in each bank, in the same capacity and in the same right. The present limit, although modest, will give full protection to 80 per cent depositors and cover 24 per cent of total deposits. The Corporation may, subject to the prior approval of the Central Government and having regard to its financial position and to the interest of the banking system, raise the limit of insurance.

If an insured bank fails, within three months from the winding up of the bank, the liquidator shall furnish to the Corporation a list of depositors showing the deposits in each case and the amount set off against them. If a scheme of compromise or arrangement or of reconstruction or amalgamation has been sanctioned, the bank involved is required to furnish the Corporation a list showing deposits standing against each depositor, the amount set off against each and the amount paid or credited to the account of each under the scheme. On receipt of the list the Corporation shall, within two months, make the payment to all depositors.

The Corporation shall maintain two funds: Deposit Insurance Fund, and General Fund. All amounts of premium collected by the Corporation shall be credited to the Deposit Insurance Fund and the Fund shall be applied to make payments in respect of insured deposits, meet liability in respect of advances taken from the Reserve Bank, and meet liability in respect of amount transferred from the General Fund. All other receipts shall be credited to the General Fund and all other payments shall be made out of the fund. All moneys belonging to these two funds shall be invested in promissory notes, stock or securities of the Central Government and all other moneys shall be deposited with the Reserve Bank.

For the successful operation of scheme the Corporation has been empowered by the Act to request the Reserve Bank to inspect the books and accounts or investigate the affairs of an insured bank and the Reserve Bank should undertake such inspection or investigation and report to the Corporation.

The Corporation has also been empowered to ask any insured bank to furnish any information relating deposits and to have free access to any record of an insured bank for the dischargement of its function.

Some Observations

The present scheme cannot escape some criticisms. First, the capital of the Corporation is small. The Committee on Finance for Private Sector proposed an initial capital for the corporation of Rs. 5 crores. In USA the Corporation's capital and insured bank's total deposit ratio is about 0.73%. In our country it was .00049% in the year 1959. The capital therefore provides a very poor support in the event of a failure of insured bank. Secondly, the insurance limit of 1500 is too modest. It covers only 24% of total deposits. True that big depositors have their deposits in big banks but between big and small depositors (having deposits up to Rs. 1500) there exist a large number of depositors having their deposits in small and moderately large banks that are not beyond vulnerable. The present scheme refuses to afford full protection to them. They may as such be tempted to split up their deposit accounts much at the operational cost of banks and at the cost of upgrading the liability of the Corporation. It is sometimes suggested that the rationale would be to fix up the limit of insurance on the basis of the average size of deposits. This would have raised the limit. The psychological effects in the mind of depositors would have been better still. Thirdly, the rate of premium is exceedingly low. The rate has little relevance to actuarial valuations or income of banks. Lastly, the inspection and investigation operation of the Reserve Bank is likely to be less effective under the divided responsibility, one to the Bank and the other to the Corporation. For finer operational efficiency a supervisory directorate should be sponsored by the Reserve Bank in consultation with the Corporation, and the directorate should have two distinct wings to deal separately the Bank's and the Corporation's inspection and investigation functions.

Conclusion : A Pragmatic Necessity

The deposit insurance scheme is not universally acclaimed in the country. The big banks are its rank oppositionists. Because they have been called upon to pay the highest price for the maintenance of the Corporation for no direct benefit to them. On the other hand the scheme penalises banking efficiency so much so that the greater the efficiency the greater the penalty. All this is true. But in view of that small banks should exist in our collective economy, small depositors should be given full protection, and of that a large scale failure of small banks may precipitate a general banking crisis the risk of which cannot be borne by the credit system of a planned economy, big banks should yield to the scheme of deposit insurance gracefully and as an alternative to nationalisation of credit.