

Issues and Challenges in Indian Banking and Insurance Sector

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Abstract

Economic growth of India is inevitable on reach the economically powerful nation. Banking and Insurance sector has very prominent role in growth process. Since the formation these two sectors has gone through major changes with changing demographics and priorities of public. These sectors had greatly been impacted by the changing regulations and fast change in technology. Due to these changes, they changed the way of its operations and made progress to take actions for this purpose. Banking and Insurance sector includes both public and private sector. This paper makes an attempt to highlight the features of these two sectors, recent trends, challenges faced and suggests some feasible measures for growth of these two sectors. Insurance sector is also highlighting slow pace of growth and negligible trust in insurance products. The study based on secondary data indicates that ground level measures need to be inculcated as advised by study in pursuance of 2023 goals.

Keywords: Inevitable, Public sector banks, Insurance, Penetration, Financial inclusion

INTRODUCTION

Business and Management of risk are observed two most vital attributes for countries economic growth and overall stability. Growth of these two sectors has direct impact on growth of industry, trade & commerce. Roots of these two sectors can be found back from British period, as the first Bank was set up in 1786, Bank of Hindustan, latter on East India Company established three banks Bank of Bengal, Bank of Bombay and Bank of Madras in year 1809, 1840 and 1843 respectively. The first Bank established entirely by Indians is Allahabad Bank in 1865. Indian Banking sector saw dramatic transformation; we can understand it with three phases, **Pre-matured phase**—introduction of formal banking sector in India, **Mature phase** – regulating the banks and introduction of various Norms, **Innovation phase** – liberalization, introduction of private as well as foreign players, Fin-tech institutions, initiatives taken by Government for financial inclusion.

Coming to Insurance sector, India was far behind from other countries. The origin of insurance sector started with general insurance products. The two prominent players in this sector are LIC (inception 1956) and GIC (inception 1973). With the inception of LPG policy, doors for private sector were also opened after 1999. Today there are 29 general insurance companies and 24 life insurance companies with 13% life insurance and 14% non-life insurance market share of private insurance in 2017-18.

Objectives

The specific objectives of the paper are:

1. To study the present Banking and Insurance sector development.
2. To study the key functions and futures of Indian Banking and Insurance sector.
3. To evaluate the recent trends in Indian Banking and Insurance sector.
4. To study the issues and challenges faced by these sectors.
5. To suggest feasible measures for improvement of these two sectors.

Research Methodology

This paper tries to look in to Banking and Insurance sector of India. The study for this paper is based on secondary data. The data is collected from various sources like various reports published on Banking and Insurance sector, reports and information published by IRDA and RBI, relevant statistical study for numbers and study of previous research papers published on Banking and Insurance sector.

Main features of Indian Banking and Insurance Sector

1. Well planned and structured sectors

Indian Banking and Insurance system is very well structured. It pays emphasis on need of each sector of country adding to advancement of economy. Starting from RBI, an apex body, commercial banks, co-operative banks, Regional Rural banks, Development Banks, Specialized Banks and most recently government initiative MUDRA i.e. Micro Units Development and Refinance Agency Bank for new start-ups, takes into consideration every part i.e. commercial, trade, import-export, agricultural improvements. According to instruction of IRD, Insurance policies are paying emphasis on consumer interest, use of technology, perfect distribution network facilitating and easy transactions.

2. Areas of Public sector

Public sector Banks and institutions are institutions in which majority of shares is owned by government. There are total 27 PSB's in India while LIC is the only public sector life insurance company with 6 non-life public sector insurers. People choose these institutions in spite of private institutions. Public and regulatory framework is the prominent cause for dominance of public sector. Insurance (amendment) Act, 2015 changed percentage of ownership from 29% to 49% still public sector has the main character. Second thing is that data says that private sector devoted only 13% and 14% share in life and non-life from beginning till today.

3. Regulatory framework of Indian banking system

Indian Banking and Insurance industry is wholly regulated by RBI and IRDA established in year 1935 and 1999 respectively with a perfect structure that can reach up to every single Indian paying attention to the interest of general public. With quarterly monetary policies RBI manages the money supply in the economy. While mission statement of IRDA clearly shows fast and orderly growth of insurance sector and optimum self-regulation.

4. Huge employment avenues

India Banking and Insurance sector has been always the most favored avenues of employment. According to the McKinsey report on Banking, Indian banking sector has the potential to account 8.7% GDP with avenues of job over 2 million. As per 2012-13 Government data, life and non-life insurance has provided employment to 19.27 lakhs (12.54 lakh Life and 7.73 lakh non-life) Indian population contributing to run economic cycle of India continuously.

5. Major contributors to Indian economy in service sector

According to Insurance penetration of India i.e. premium collected by Indian insurers is 4.30% of GDP in 2015-16, while McKinsey says Banking has potential to account 8.7% of GDP and this is really a healthy sign for Indian economy.

6. Sustainable sectors of India

Both sectors are young as it has huge potential to capture still these sectors are matured one to attain this goal. The Broad structure and perfect regulating body trying with force and enthusiasm to achieve this goal.

Recent Trends in Banking and Insurance sectors

1. Focusing on innovation to retain and enhance competitive differentiation

According to Capgemini, new Fintech firms are creating danger to traditional financial institutions; in order to handle with them aggressive approach is required to develop innovative offerings. The main reason behind this is the changing customer demographics and expectations.

2. Change ways of transactions

Electronic payment services, Real Time Gross Settlement, electronic fund transfer, electronic clearing services, ATM's point of sale terminal, m-banking, these are some new ways that changed the way of banking practices. Likewise, Insurance companies now- a days also using online payment, telephonic and online advisory services, and cross-processes with Banks etc resulting into multi-distribution, product innovation, claim management etc.

3. Financial management, business growth and customer regularization

Indian banking system is well versed with Banking system but there is need to pay more focus on rural Banking hence there is huge portion of the population that is unbanked or say under banked, requires financial literacy. With the help of Government, Indian Banks are focusing on it to increase the business growth as well as to get participated each and every individual under banking system. According to parliament announcement in 2014 insurance penetration in India at 4.9% was below the world average 7.3%. in order to have good business, Indian Insurance sector along with Government again working effectively to capture this un insured targeted population.

Challenges Before Banking and Insurance Sector

Banking Sector

1. Huge NPA's is an vital issue to be taken care of, according to Hindu Indian Banking Sector, gross NPA at 11.2%, highest in past 14 years and expected to rise further in future. Lending to poor credit worthy peoples, no vigor investigation mostly by PSB's, corruption and such Other economic issues like unemployment, natural calamities are main causes of rising NPA's in India.
2. Near about 68% of Indian population resides in remote rural area and delivering financial services to them at affordable cost and low-income segment of society is currently the main challenge. According to 2009 report on Financial Inclusion by Dr. C. Rangrajan, over 74% of farmers currently do not have access to Banks and Banking system.
3. Using right technology at right time for delivering quality services and maintaining the efficiency with standards is a great challenge for Indian Banking sector. Those who have implemented such technologies facing the issues of computer illiteracy, infrastructural issues, diversified technological needs of customers, coping up with technical regulatory framework, up gradation are main concerns.

4. With development of technologies way of transaction changed, with use of internet over computer, mobile and social media ran into higher cyber risk. Data breach, lower safety to customer information leading to reduce trust in online transactions. So even though we are trying to accomplish banking accessibility, its becoming difficult and still we are experiencing rush at banks for transaction.

Insurance Sector development status in India :

1. Non-life insurance sector is very pathetic. 22.5% insurance business in terms of premium collected in comparison of 79.5% of life insurance business. Total insurance penetration in India showing very slow changes as it was 1.6% in 1991, 3.88% in 2004 and 4.30% in 2015-16 & 4.49% in 2019.
2. There is still difference between expected performance and actual performance by insurance players causing into greater customer discontent.
3. Deciding right price of product, premium, cost and claims at future date is very puzzling task. Long-term sustainability as well as return on equity is main points that one can look into for perfect pricing.
4. Sudden regulatory changes are having negative impact on product segment. Industry needs to incorporate huge modification to sustain the impact of regulatory changes.
5. Distribution channels is still great challenge for insurance industry, agents need to upgrade themselves, agents incapability to enter rural area, virtual threats to agents are main points must be looked into.

Effective measures for improvement of Banking and Insurance sector in India

1. Activating demand stimulator is the primary and vital measure. For Banking Market dynamics, Technology and Household savings are the main triggering factors that need Special attention. Consumer behavior, demographics, appointment of agency by insurance committee to create insurance awareness can be of great use for growth of insurance industry in India.
2. Operating expenses of public sector banks are much higher than private Banks. It has to be looked into.
3. Strict policies have to be made for customer defaults.
4. Entry of foreign players somewhere threatening Indian players. So competence need to be accepted.
5. Mentality of India population is still worst about insurance sector and distribution channels are designed in such a way that products have to be bought and not to be sold.
6. Insurance sector is spending more on distribution i.e. agent have to travel to customer, convince him/her so tying to SHG's, co-operative Banks, RRB's and such ways will cut cost of distribution.
7. Inflation, income per capita income and such other economic factors have great impact on insurance industry so collective efforts by Government with insurance players need to be taken to resolve growth issue.
8. Variety of insurance product, lower premium, short-term contract, confidence in agent will also help insurance industry to grow well.

Conclusion

In this paper Banking and Insurance sector of India is critically analyzed with its recent trends, features, challenges and measure to face these challenges effectively. After study it is found that our public sector Banks are still lagging behind in various ways like overburdened service offering; cutting valuable time

of doing business resulting in lower profitability, increasing NPA's. Insurance sector is also showing very slow growth literally in points only and trust in Insurance products is still very negligible, it has to be looked into somewhere. Both sectors are experiencing technological advancement; it's a good sign in terms of cost cutting, speedy and making fast transaction, but the thing is that only 35% population have access to internet and such facilities still resulting in rush at Banks and Insurance offices for transactions and inquiries and such related activities. Paper reflects that these two sectors are main drivers of Indian economy still their contribution in GDP is very low. Ground level measures need to be followed as suggested in last part of this paper to aid in vision 2022 of India.

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