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A Study on Recent Issues in Indian Banking and Insurance Industry

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Abstract: *A significant financial improvement during the beyond 10 years has been India's quick monetary extension. The banking and protection areas contribute fundamentally to the development. These two businesses have seen significant changes since they were established because of changing demography and public interests. These regions were essentially influenced by quickly advancing innovation and quickly modifying guidelines. Because of these enhancements, they had an impact on the manner in which they worked and high level the execution of their arrangement. The banking and protection ventures are involved both general society and confidential areas. This article tries to feature the particular components of these two businesses, as well as current examples, issues, and likely fixes for their future development. As per the survey, public area banks keep on lingering behind confidential area banks regarding the quantity of administration choices, benefit, and how much NPA. The sluggish pace of extension and unfortunate degree of trust in protection items are different marks of consideration for the protection area. The review in light of optional information shows that to achieve the 2022 objectives, the recommended ground level activities should be set in motion.*

Keywords: Penetration, Public Sector Banks, Financial Inclusion, Insurance

I. INTRODUCTION

The two factors that have the biggest impact on a nation's economic development and overall stability are finance and risk management. The growth of business, trade, and industry is directly impacted by the development of these two sectors. The Bank of Hindustan, the first bank, was established in 1786. Later, in 1809, 1840, and 1843, respectively, the East India Company founded three banks: the Bank of Bengal, the Bank of Bombay, and the Bank of Madras. The Allahabad Bank was the first bank to be established in 1865 by just Indians. The transformation of the Indian banking sector can be divided into three phases: the premature phase, which saw the establishment of the country's formal banking system; the mature phase, which saw the regulation of banks and the introduction of various norms; and the innovative phase, which saw liberalisation, the entry of domestic and foreign players, the establishment of fin-tech institutions, and government-led initiatives for financial inclusion.

India lags behind other countries in the insurance sector by a significant margin. The first thing that gave rise to the insurance sector was general insurance goods. LIC and GIC have held the top two positions in this market since its creation in 1956 (inception 1973). The deployment of the LPG scheme after 1999 also opened doors for the private sector. The insurance market thus became more active and started to address customer needs. There are currently 29 general insurance companies and 24 life insurance companies, with a market share of 13% for life insurance and 14% for non-life insurance in 2017–18.

This paper makes an effort to analyse the Indian insurance and banking sectors. The basis for this study is secondary data. The information was compiled from a number of sources, including reports on the banking and insurance sectors, data provided by the IRDA and the RBI, appropriate statistical studies for numbers, and an analysis of previously released research papers on these sectors.

In India, the banking and insurance sectors are quite well organised. It emphasises how crucial it is for every area of the country's economy to grow. Commercial banks, co-operative banks, regional rural banks, development banks, specialised banks, and most recently a government initiative called MUDRA, or the Micro Units Development and Refinance Agency Bank, which provides financing for new start-ups, take into account all aspects, including

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improvements to trade, import-export, and agriculture. This chain of institutions starts with the RBI, an umbrella organisation. According to IRD rules, insurance plans prioritise customer interaction, technology use, a seamless distribution system, and straightforward transactions.

Banks and institutions in the public sector are companies where the government holds the majority of the equity. In India, there are a total of 27 PSBs, but only one, LIC, provides life insurance; the other six PSBs provide non-life insurance. Many people favour these institutions despite private ones. The public and regulatory framework is the major factor in the domination of the public sector. In 2015, the Insurance (Amendment) Act raised ownership from 29% to 49% while maintaining the public sector's dominant position. Second, figures show that from the beginning to the present, the private sector only provided 13% and 14% of both life and non-life activities, respectively.

The banking and insurance sectors in India are wholly governed by the RBI and IRDA, which were established in 1935 and 1999, respectively. With a perfect framework that can be understood by every Indian who pays attention to the concerns of the general population. Through a quarterly monetary policy, the RBI controls the amount of money in the economy. While highlighting the insurance industry's rapid and orderly growth and ideal self-regulation, the IRDA's mission statement.

The banking and insurance sectors in India have historically offered the most sought-after professional pathways. According to the McKinsey study on Banking, the Indian banking industry has the ability to contribute 7.7% of the country's GDP and create over 2 million job opportunities. In India, 18.27 lakh people (11.54 lakh Life and 6.73 lakh Non-Life) are employed as a result of life and non-life insurance, which has aided in maintaining the country's economic cycle.

According to McKinsey, banking could contribute 7.7% of GDP, which would be extremely encouraging for the Indian economy. According to estimates of insurance penetration in India, premiums collected by Indian insurers in 2014–15 represented 3.30 percent of GDP.

Despite being in their infancy and having a lot of promise, both sectors have developed enough to reach this point. The overall framework and ideal governing body are earnestly and vehemently pursuing this goal.

Recent changes in the banking and insurance sectors

1) Focusing on innovation to preserve and strengthen competitive distinctiveness

According to Capgemini, incumbent financial institutions are at risk from growing Fintech companies, hence novel services must be developed quickly to counter this threat. The main causes of this are changing customer expectations and demographics.

2) Modify your corporate policies

A few of the new technologies that have changed how banks function are Real Time Gross Settlement, electronic currency transfers, electronic clearing services, ATMs with point-of-sale terminals, and mobile banking. Insurance firms employ online payment, telephone and online advising services, and cross-processes with banks in a manner similar to how banks now use these services. This results in many distribution channels, product innovation, claim handling, and other benefits.

3) Consumer engagement, company growth, and financial inclusion

India's banking system is well-established in metropolitan regions, while rural areas require greater attention due to a significant underbanking or unbanking of the population, which calls for the development of financial literacy. With the help of the government, Indian banks are focusing on it to promote business growth and integrate everyone into the financial system. India had an insurance penetration rate of 3.9% in 2013, which was lower than the 6.3% average for the world. In order to successfully conduct business, the Indian insurance industry and the government are once again collaborating well to reach this target uninsured group.

Issues Facing the Banking and Insurance Sector

1) The gross non-performing assets (NPA) are at 11.2%, the highest level in the previous 12 years, and are expected to keep increasing, according to the Hindu Indian Banking Sector. Rising NPAs in India are mostly brought on by other economic concerns including unemployment and natural catastrophes, as well as lending to people with bad credit, a lack of vigour in investigations, notably by PSBs, corruption, and other problems.

2) The current main issue is the inexpensive provision of financial services to the low-income segment of society and the approximately 69% of Indians who reside in remote rural areas. More than 73% of farmers do not currently have access to banks or the banking system, according to Dr. C. Rangrajan's 2008 research on financial inclusion.
3) Using the right technology at the right time to deliver exceptional services and maintain efficiency with standards is a big challenge for the Indian banking sector. Computer illiteracy, infrastructure issues, the variety of technological needs of consumers, adherence to technical regulatory frameworks, and updating are the main hurdles for those who have deployed such technologies.
4) The nature of transactions altered as technology improved. Internet usage has exceeded computer usage, putting social media and mobile devices at higher risk of cyberattack. As a result of data breaches and diminished client information security, online transactions are less trusted. As a result, despite our efforts, it is becoming more difficult to access banking, and there is still a queue at the banks for transactions.

Overview if Indian Insurance sector

1) The market for non-life insurance is awful. 21.5% of the premiums collected by the insurance industry come from the 78.5% of life insurance company. From 1.5% in 1990 to 2.88% in 2003 to 3.30% in 2014–15 and 3.49% in 2018, India's total insurance penetration has varied very little over time.
2) There is still a performance gap between participants in the insurance industry's expected and actual performance, which is making customers angrier.
3) Deciding on the right pricing for a product, premium, cost, and claims later on is a challenging problem. Long-term viability and return on equity are the two main variables one may take into account for appropriate pricing.
4) Sudden regulatory changes are having a negative effect on the product segment. Industry must make considerable adjustments if regulatory improvements are to remain effective.
The main difficulties that need to be taken into account are agents' incapacity to access remote regions, their need for professional growth, and agents' virtual risks. The insurance industry's top worry is still distribution networks.

Potentially beneficial changes to the Indian banking and insurance sectors

1) The demand stimulator must be turned on as the first and most crucial step. When it comes to the dynamics of the banking market, the two main topics that require special attention are technology and family savings. Consumer behaviour, demography, and the insurance committee's choice of an organisation to promote insurance literacy can all be highly beneficial in developing the Indian insurance industry.
2) The operational costs of public sector banks are significantly higher than those of private banks. It has to be looked into.
3) Strict rules must be set up for consumer defaults.
4) The risk posed to Indian players by the presence of international players. Competence must be recognised as a result.
5) The insurance business still receives the worst treatment from Indians, and the means of distribution are designed such that items must be bought rather than sold.
6) The insurance sector spends more on marketing; agents must visit clients to convince them that affiliating with SHGs, cooperative Banks, RRBs, and other organisations will reduce marketing expenses.
7) Because factors like inflation, per capita income, and other economic factors have a substantial impact on the insurance sector, the government and insurance industry participants must collaborate to address the growth issue.
8) A diversity of insurance products, reduced rates, short-term contracts, and agent confidence will all be advantageous for the insurance industry.

II. CONCLUSION

The Indian banking and insurance sectors are critically analysed in this essay, along with their current trends, traits, issues, and remedies. Our public sector banks continue to lag behind in a lot of areas, including crowded service delivery, lost time from business operations leading to weaker profitability, and rising NPAs, it was found after an inquiry. Similarly, the insurance sector is expanding very slowly (in terms of points only), and customer confidence in insurance products is still very low. Investigations into this scenario are required. Although both industries are

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benefiting from technological advancements that lower costs and speed up transactions, only 35% of people have access to the internet and other similar services, so transactions and other related activities still cause a rush at banks and insurance offices. The study claims that although though these two sectors are the two main drivers of the Indian economy, their combined GDP contributions are fairly small. Implementing the ground-level efforts described in the article's latter portion will assist India attain its Vision 2022.

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