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Analysis on the Merging Trends on the Influential Elements Responsible for the Development of the Banking and Insurance Industry in India

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Abstract*: India has had significant economic growth over the previous decade, which is a noteworthy economic achievement. The banking and insurance sectors are integral to the process of economic growth. These two sectors have undergone substantial changes due to changing public interests and demographics since their inception. The rapid evolution of technology and the dynamic nature of regulations have a profound influence on these industries. They adjusted their operational strategies in response to these revisions, and they made significant progress towards achieving their goal. The banking and insurance sector comprises both the public and private sectors. This article aims to highlight the distinguishing features of these two sectors, analyze current trends, identify challenges faced, and propose practical solutions for the advancement of these two sectors. Based on the poll, public sector banks are still lagging behind in terms of overcrowded service alternatives, reduced profitability, and a large number of non-performing assets (NPA). The insurance industry is also highlighting the sluggish pace of expansion and lack of trust in insurance products. Based on the analysis of secondary data, it is crucial to implement the proposed interventions at ground level in order to attain the targets set for 2022.*

Keywords: Banking and Insurance sector, Trends in Penetration, Financial Inclusion, Challenges, Growth

I. INTRODUCTION

Finance and risk management are the two primary factors that significantly influence a country's economic growth and overall stability. The progress of these two sectors has a direct impact on the advancement of business, trade, and the whole sector. The inaugural bank, known as the Bank of Hindustan, was established in the year 1786. Subsequently, the East India Company founded three financial institutions, namely the Bank of Bengal, the Bank of Bombay, and the Bank of Madras, in the years 1809, 1840, and 1843, correspondingly. The Allahabad Bank, established in 1865, holds the distinction of being the first bank created exclusively by Indian individuals. The Indian banking sector saw a substantial transformation, which may be divided into three distinct phases: The evolution of India's banking sector can be divided into three distinct phases. The premature phase witnessed the establishment of the formal banking sector in the country. In the mature phase, banks were regulated and various norms were introduced. The innovation phase saw liberalization, with the entry of domestic and international players, the establishment of fin-tech institutions, and government-led initiatives for financial inclusion.

India significantly trailed behind other countries in terms of the insurance business. General insurance products were the initial catalyst for the emergence of the insurance industry. Since their establishment in 1956, LIC and GIC have consistently been the top two corporations in this industry, starting with their foundation in 1973. Following the year 1999, the private sector was granted access as well due to the establishment of the LPG project. Consequently, the insurance industry grew more dynamic and started to fulfill consumer demands. In the fiscal year 2017-18, there were a total of 29 general insurance companies and 24 life insurance companies, with a market share of 13% and 14% respectively.

II. METHODOLOGY

This article aims to analyze the Indian Banking and Insurance sectors. The basis of this study is derived from secondary data. The information is collected from several sources, such as reports on the banking and insurance industries, data released by the IRDA and the RBI, relevant statistical studies for numerical data, and analysis of previously published research papers on these sectors.

1) The Indian banking and insurance business is characterized by well-structured sectors.

The banking and insurance systems in India are highly structured and well-coordinated. It highlights the significance of progress in every sector of the national economy. The banking sector in India comprises various types of financial institutions, including the Reserve Bank of India (RBI), commercial banks, co-operative banks, regional rural banks, development banks, specialised banks, and a government initiative known as MUDRA (Micro Units Development and Refinance Agency Bank). MUDRA specifically focuses on providing financing to new start-ups and considers factors such as trade, import-export, and agriculture for its operations. The criteria set by the IRD emphasize the importance of consumer involvement, effective use of technology, a well-established distribution network, and streamlined transactions in insurance plans.

2) The prevalence of the public sector

Public sector Banks and institutions are government-owned enterprises. India has a total of 27 Public Sector Banks (PSBs), with only LIC providing life insurance services. Additionally, there are six other PSBs that offer non-life insurance. Despite the existence of private institutions, many people prefer these institutions. The primary determinant of the public sector's dominance is the framework established by the public and regulatory authorities. The Insurance (Amendment) Act of 2015 raised the ownership limit from 29% to 49%, while maintaining the primary role in the public sector. Furthermore, based on the data, the private sector's contribution to both life and non-life activities has consistently remained at a mere 13% and 14% respectively, from the inception till now.

3) Ideal legal framework

The Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority (IRDA), established in 1935 and 1999 respectively, have complete authority over the banking and insurance industries in India. Featuring an impeccable structure capable of reaching every Indian individual who is attentive to the welfare of the people. The Reserve Bank of India (RBI) controls the quantity of currency circulating in the economy by implementing quarterly monetary policies. The mission statement of the IRDA emphasizes the need for the insurance sector to achieve rapid and orderly expansion while maintaining appropriate self-regulation.

4) Abundant job prospects

India Traditionally, the banking and insurance sectors have been the most sought-after employment routes. According to the McKinsey study on Banking, the Indian banking sector has the capacity to contribute 7.7% of the country's GDP and create more than 2 million employment opportunities. Based on the Government's data from 2012-2013, there are 18.27 lakh (11.54 lakh in the life insurance sector and 6.73 lakh in the non-life insurance sector) employed individuals in India. These jobs have played a crucial role in supporting India's economic cycle.

5) Key contributors to the Indian economy from the service sector

McKinsey reports that banking has the capacity to contribute 7.7% of GDP, which is a highly favorable sign for the Indian economy. In 2014-15, the insurance penetration in India indicates that the premiums collected by Indian insurers accounted for 3.30% of the country's GDP.

6) India's established and developing industries

Despite being relatively new industries, both sectors have experienced significant growth and have reached a level of maturity. The overarching framework and optimal governing entity are vigorously and assertively striving to achieve this goal.

Current developments in the Banking and Insurance industry

1) Employing innovation as a central focus to sustain and enhance competitive differentiation

Capgemini states that existing financial institutions face a challenge from growing Fintech companies. To address this, it is necessary to provide innovative services in a proactive manner. The main reason for this is the changing consumer expectations and demographics.

2) Revise the operational procedures

Real Time Gross Settlement (RTGS), electronic fund transfers, electronic clearing services, Automated Teller Machines (ATMs) with point-of-sale (POS) terminals, and mobile banking are among the recent developments that have transformed the operations of banks. Insurance businesses employ similar strategies as banks, utilizing online payment systems, telephone and online advisory services, and collaborating with banks to facilitate multi-distribution, product innovation, and claim administration.

3) Customer engagement, corporate growth, and economic inclusivity

India's metropolitan areas have a well-established banking system, but there is a need for more focus on rural areas. This is because a significant portion of the population in these areas either has limited access to banking services or no access at all. Therefore, there is a want for more financial literacy in these regions. Indian banks are prioritizing this objective with the aid of the government to enhance corporate expansion and ensure financial inclusion for all. Based on a 2013 study by the parliament, India's insurance penetration rate of 3.9% was below the worldwide average of 6.3%. The Indian Insurance sector and the government are collaborating effectively to target and cater to the uninsured population, hence ensuring a prosperous economic venture.

Obstacles in the Banking and Insurance Industry Financial industry

The Hindu Indian Banking Sector reports that gross non-performing assets (NPA) currently stand at 11.2%, which is the highest level observed in the past 12 years. It is expected that this figure would continue to rise. Providing loans to individuals with poor credit, a lack of enthusiasm in conducting inquiries, particularly by Public Sector Banks (PSBs), corruption, and various other problems. The primary drivers of the increasing Non-Performing Assets (NPAs) in India are interconnected with other economic challenges such as unemployment and natural calamities.

The primary challenge presently is to provide inexpensive financial services to the low-income segment of society and the approximately 69% of Indians residing in distant rural areas. Dr. C. Rangrajan's 2008 study on financial inclusion reveals that over 73% of farmers lack access to banks or the banking system.

One major challenge faced by the Indian banking sector is the need to effectively utilize suitable technology to deliver exceptional services and uphold efficiency according to established standards. The primary obstacles faced by those who have adopted such technologies encompass issues such as low digital literacy, inadequate infrastructure, varying technological requirements of users, adherence to technical regulatory frameworks, and system upgrades.

With the progression of technology, the characteristics of transactions underwent a transformation. With the rise of internet usage surpassing computer usage, social media and mobile devices have become more vulnerable to cyber threats. Online transactions have become less reliable due to data breaches and a decline in customer information security. Despite our efforts to enhance banking accessibility, the task is becoming increasingly challenging, resulting in persistent queues at bank branches for transactions.

Insurance industry

1) The non-life insurance market is abysmal. Life insurance business accounts for 78.5% of the total insurance sector, but only generates 21.5% of the premiums received. India's overall insurance penetration has remained very stable throughout the years, increasing from 1.5% in 1990 to 2.88% in 2003, then to 3.30% in 2014–15, and further to 3.49% in 2018.

2) A disparity persists between the anticipated and actual performance of insurance industry participants, leading to a rise in client dissatisfaction.

3) Determining the optimal price strategy for a product, including premiums, costs, and potential claims, can be a challenging task. When determining optimal pricing, it is important to take into account two crucial factors: the sustainability of the business in the long run and the profitability in relation to the company's shareholders' investment.

4) Sudden regulatory changes are adversely affecting the product segment. In order to sustain the impact of regulatory reforms, the sector must undergo substantial adaptation.

The key concerns that must be considered are the agents' incapacity to access remote regions, their requirement for professional growth, and the virtual hazards faced by agents. The insurance sector remains greatly concerned about distribution channels.

The Indian Banking and Insurance sector is experiencing a rapid increase in growth factors.

1) The primary and crucial factor for growth is activating the demand stimulator. Technology and household savings are the primary concerns that require particular focus in the context of banking market dynamics. Consumer behavior, demographic factors, and the insurance committee's choice of agency for enhancing insurance knowledge can significantly contribute to the growth of the Indian insurance market.
2) Public sector banks incur significantly higher operational expenses compared to private banks. An investigation is necessary.
3) It is imperative to develop stringent criteria for customer defaults.
4) The inclusion of international players poses a threat to Indian players. Hence, it is imperative to recognize competence.
5) Indians continue to exhibit the most unfavorable sentiments towards the insurance industry, and the distribution techniques are structured in a way that necessitates purchasing rather than selling goods.
6) The insurance industry allocates a higher budget for distribution, as agents are required to visit to consumers in order to convince them that affiliating with SHGs, cooperative Banks, RRBs, and other organizations will result in reduced distribution expenses.
7) Inflation, per capita income, and other economic variables have a considerable impact on the insurance sector. Therefore, it is crucial for the government and participants in the insurance sector to collaborate in order to address the issue of growth.
8) The insurance industry will experience advantages such as a wide range of insurance offerings, reduced insurance costs, temporary agreements, and increased trust in insurance agents.

III. CONCLUSION

This article provides a critical examination of the Indian banking and insurance sectors, focusing on their current trends, characteristics, challenges, and potential remedies. Upon inquiry, it was found that our public sector banks persistently lag behind in various aspects, such as overcrowded service delivery, time lost from company operations resulting in reduced profitability, and increasing non-performing assets (NPAs). The insurance industry is also seeing sluggish growth, measured purely in terms of points, and customer trust in insurance products remains relatively low. This scenario requires investigation. Both sectors are making technological advancements, which is beneficial in terms of cost reduction and facilitating efficient transactions. However, the limited internet and service accessibility for only 35% of the population results in a high demand for in-person transactions at banks and insurance offices. According to the research, although these two industries are crucial for the Indian economy, their contributions to the GDP are very small. In order to facilitate the realization of India's Vision 2022, it is imperative to execute activities at the grassroots level.

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