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Current Trends, Issues and Growth Factors of Banking and Insurance Industry in India

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Abstract: *India's rapid economic growth during the past ten years has been a notable economic development. The banking and insurance industries play a significant part in the growth process. Since their creation, these two industries have seen significant transformations as a result of shifting public interests and demographics. Regulations that were changing and technology that was developing quickly had a significant impact on these sectors. They altered their methods of operation as a result of these modifications, and they made strides toward implementing their plan. Both the public and private sectors make up the banking and insurance industry. This paper attempts to emphasise the characteristics of these two industries, recent trends, problems encountered, and provides some workable solutions for the development of these two industries. According to the survey, public sector banks are still falling behind when it comes to overloaded service options, decreased profitability, and mountains of NPA. The insurance industry is also emphasising the slow rate of growth and low level of confidence in insurance products. According to the analysis based on secondary data, it is necessary to implement the recommended ground level interventions in order to achieve the 2022 goals.*

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

I. INTRODUCTION

The two most important characteristics for a country's economic growth and general stability are finance and risk management. The development of these two sectors directly affects the development of business, trade, and industry. The first bank, the Bank of Hindustan, was founded in 1786. Later, the East India Company established three banks, the Bank of Bengal, the Bank of Bombay, and the Bank of Madras, in the years 1809, 1840, and 1843, respectively. The Allahabad Bank was the first bank founded solely by Indians in 1865. The Indian banking industry underwent a significant shift, which may be broken down into three phases: Premature phase: establishment of India's formal banking sector; Mature phase: regulation of banks and introduction of various norms; Innovation phase: liberalisation; introduction of domestic and international players; establishment of fin-tech institutions; government-led initiatives for financial inclusion.

India lagged other nations by a wide margin when it came to the insurance market. General insurance products were the first to give rise to the insurance industry. Since its founding in 1956, LIC and GIC have been the two leading companies in this industry (inception 1973). After 1999, doors for the private sector were also opened with the implementation of the LPG programme. As a result, the insurance industry became more active and began to meet consumer needs. With a market share of 13% for life insurance and 14% for non-life insurance in 2017–18, there are currently 29 general insurance companies and 24 life insurance companies.

1.1 Objectives

The following are the paper's specific goals:

1. To examine the current state of the banking and insurance industries.
2. To research the main attributes of the Indian banking and insurance industries.
3. To research current developments in the Indian insurance and banking industries.
4. To research the difficulties these industries face.
5. To propose workable solutions for these two areas' improvement.

II. RESEARCH TECHNIQUES

This essay attempts to examine the Indian banking and insurance industries. This study's foundation is secondary data. The material is gathered from a variety of sources, including reports on the banking and insurance industries, information issued by the IRDA and the RBI, pertinent statistical studies for numbers, and examination of previously published research papers on these industries.

1) Well-structured sectors are a key characteristic of the Indian banking and insurance sector.

The banking and insurance systems in India are quite highly organised. It places emphasis on how important it is for every sector of the nation's economy to advance. Beginning with the RBI, an overarching organisation, 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, takes into account all aspects, including improvements to trade, import-export, and agriculture. IRD guidelines state that insurance plans place a strong emphasis on customer engagement, technological utilisation, a perfect distribution network, and simple transactions.

2). The public sector's dominance

Government sector Banks and institutions are businesses where the government owns the majority of the stock. There are a total of 27 PSBs in India, but LIC is the only one that offers life insurance, and there are six other PSBs that offer non-life insurance. Despite private institutions, many favour these ones. The dominant factor in the public sector's dominance is the public and regulatory framework. The Insurance (Amendment) Act of 2015 increased ownership from 29% to 49% while keeping the main role in the public sector. Second, according to data, the private sector only contributed 13% and 14% of both life and non-life activities from the beginning to the present.

3) Optimal legal environment

The RBI and IRDA, which were created in 1935 and 1999, respectively, govern the Indian banking and insurance industries entirely. With a flawless framework that can reach every Indian who pays attention to the general public's interests. RBI regulates the amount of money in the economy through quarterly monetary policy. While the IRDA's mission statement makes clear the insurance industry's rapid and orderly growth and optimal self-regulation.

4) Vast employment opportunities

India The most popular career paths have historically been in the banking and insurance industries. The Indian banking sector has the potential to account for 7.7% of GDP and provide over 2 million job opportunities, according to the McKinsey report on Banking. According to 2012–2013 Government data, 18.27 lakh (11.54 lakh Life and 6.73 lakh Non-Life) Indians have jobs thanks to life and non-life insurance, which has helped to sustain India's economic cycle.

5) Significant service sector contributors to the Indian economy

According to McKinsey, banking has the potential to account for 7.7% of GDP, which is a tremendously positive indicator for the Indian economy. Insurance penetration of India estimates that premiums collected by Indian insurers were 3.30% of GDP in 2014–15.

6) India's mature and emerging sectors

Although both sectors are young and have a lot of potential, they have grown enough to get there. The broad structure and ideal regulating body are fervently and forcefully working toward this objective.

2.1 New Developments in the Banking and Insurance Industries

1) Using innovation as a focal point to maintain and improve competitive distinction

According to Capgemini, emerging Fintech companies pose a threat to established financial institutions, and in order to deal with them, novel services must be developed aggressively. This is primarily due to shifting consumer expectations and demography.

2) Modify your business practises

Real Time Gross Settlement, electronic cash transfers, electronic clearing services, ATMs with point-of-sale terminals, and mobile banking are just a few of the new innovations that have altered the way that banks operate. Similar to how banks currently use online payment, telephone and online advisory services, and cross-processes with banks, insurance companies do the same, leading to multi-distribution, product innovation, claim management, etc.

3) Customer involvement, business expansion, and financial inclusion

India's banking system is well-established in urban areas, but rural areas need more attention, as a large section of the population is underbanked or unbanked, necessitating financial literacy. Indian banks are concentrating on it with the assistance of the government in order to boost company growth and include everyone in the financial system. According to a 2013 report from the parliament, India's insurance penetration rate of 3.9% was lower than the global average of 6.3%. The Indian Insurance industry and the government are once again working well to reach this uninsured target demographic in order to have a successful business.

2.2 Challenges Facing the Banking and Insurance Sector Banking Sector

1. According to the Hindu Indian Banking Sector, gross non-performing assets (NPA) are at 11.2%, the highest level in the past 12 years, and are anticipated to continue to climb. lending to persons with bad credit, a lack of zeal in investigations, especially by PSBs, corruption, and other issues Rising NPAs in India are primarily caused by other economic problems like unemployment and natural disasters.
2. The delivery of financial services to the low-income section of society and the nearly 69% of Indians who live in remote rural areas at an affordable cost is now the key problem. According to Dr. C. Rangrajan's 2008 research on financial inclusion, more than 73% of farmers do not currently have access to banks or the banking system.
3. A significant problem for the Indian banking industry is to use the appropriate technology at the appropriate time to provide excellent services and maintain efficiency with standards. The key challenges for those who have implemented such technologies include computer illiteracy, infrastructure problems, consumers' diverse technological needs, complying with technical regulatory frameworks, and upgrading.
4. As technology advanced, the nature of transactions changed. As internet use surpassed computer use, social media and mobile devices faced increased cyber danger. Online transactions are less trusted as a result of data breaches and decreased client information security. Therefore, even though we are working to make banking accessible, it is getting harder and there is still a line at the banks for transactions.

2.3 Insurance Industry

1. The non-life insurance market is terrible. 78.5% of life insurance business generates 21.5% of the premiums received in the insurance sector. India's total insurance penetration has changed very little throughout the years, going from 1.5% in 1990 to 2.88% in 2003 to 3.30% in 2014–15 and 3.49% in 2018.
2. There is still a discrepancy between insurance industry participants' expected and actual performance, which is increasing customer resentment.
3. Selecting the appropriate pricing for a product, premium, cost, and claims at a later time is a difficult issue. The two key factors one might consider for ideal pricing are long-term viability and return on equity.
4. The product segment is being negatively impacted by sudden regulatory changes. To maintain the effects of regulatory reforms, industry must undergo significant adjustment.
5. Agents' inability to penetrate remote areas, their need for professional development, and virtual dangers to agents are the primary issues that need to be taken into consideration. Distribution channels continue to be a major concern for the insurance sector.

2.4 Possible Improvements to the Indian Banking and Insurance Industries

1. The first and most important step is to turn on the demand stimulator. Technology and household savings are the major issues that need special attention when it comes to banking market dynamics. Consumer behaviour, demography, and the selection of an agency by the insurance committee to raise insurance knowledge can all be very helpful in advancing the Indian insurance market.
2. Public sector banks have substantially greater operating costs than private banks. It has to be investigated.
3. Strict guidelines must be established for customer defaults.
4. The presence of foreign players endangering Indian players. Therefore, competence must be acknowledged.

5. Indians still have the worst attitudes toward the insurance industry, and the methods of distribution are set up such that goods must be purchased rather than sold.
6. The insurance industry spends more on distribution; agents must travel to customers to persuade them that joining up with SHGs, cooperative Banks, RRBs, and other organisations will save distribution costs.
7. The insurance sector is significantly impacted by elements like inflation, per capita income, and other economic variables; therefore, the government and insurance industry participants must work together to address the growth issue.
8. The insurance business will also benefit from a variety of insurance products, lower premiums, short-term contracts, and agent confidence.

III. CONCLUSION

In this essay, the Indian banking and insurance industries are examined critically along with their current trends, characteristics, problems, and solutions. After investigation, it was discovered that our public sector banks continue to trail behind in a number of areas, including overcrowded service delivery, lost time from business operations leading to poorer profitability, and rising NPAs. The insurance industry is likewise growing extremely slowly—in terms of points only—and consumer confidence in insurance goods is still quite low. This situation needs to be looked into. Both industries are advancing technologically, which is positive in terms of reducing costs and facilitating quick transactions, but the fact that only 35% of people have access to the internet and similar services means that transactions and other related activities still generate a rush at banks and insurance offices. Despite being the two key drivers of the Indian economy, these two sectors' GDP contributions are quite little, according to the paper. To help India achieve its Vision 2022, ground level initiatives must be implemented as outlined in the latter section of this article.

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