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Banking, Insurance And Economic Growth: Evidence From India (Recent Trends, Challenges And Feasible Growth Measures)

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ABSTRACT
This article examines the relationship between the development of the life insurance market, banking and economic growth within the context of various "conditional factors" that possibly have the potential to influence such relationships. The insurance industry plays a very crucial role in an economy by fostering intermediation and by its mechanism of risk bearing. As such it could be argued that the insurance industry fosters economic growth. Insurance as a component of the financial structure can be a vital element in the growth of economic activities as well as can enable an increase in the economy's size, employment, managed assets, etc. In light of this expected role played by insurance, the current study looked at how the development of insurance in an economy fosters its growth as well as factors contributing to the evolution of India's insurance market. For this purpose, we studied insurance development indicators, that is, insurance density and penetration and investigated their link with GDP growth. Later, we checked the role of demographic factors such as age dependency ratio, urban population growth, life expectancy, and adult literate population in explaining insurance density and penetration. It also brought out the importance of insurance development in economic growth, with scope of further research on similar lines by considering the role of insurance and its broader investigations. India's rapid rate of economic growth over the past decade has been one of the more significant developments in the global economy. This growth has its roots in the introduction of economic liberalisation in the early 1990s, which has allowed India to exploit its economic potential and raise the population's standard of living. Banking and Insurance sector has a very vital role in this process. From inception till today these two sectors have gone through drastic changes with changing demographics and priorities of country people. Banking and Insurance sector comprises of public and private sector, having own set of issues, this paper tries to highlight features of these two sector, recent trends, challenges faced today and tries to suggest some feasible measures for growth of these two sectors in Indian context.

***Keywords**:* Insurance Density, Economic Growth, Life insurance market, Public sector Banks, Insurance, Financial Inclusion.

INTRODUCTION

Finance and management of risk are considered the two most important factors for countries economic growth and overall stability. The growth of these two sectors is associated with the growth of industry, trade and commerce. In fact history of these two sectors can be traced 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 exclusively by Indians is Allahabad Bank in 1865. Indian Banking sector witnessed a dramatic transformation; it can be seen with the help of three phases, Pre-matured phase - introduced formal banking sector to India, Mature phase – regulating the banks introduced in first phase and introduction of various acts, main role of RBI these are the main features of this phase, Innovation phase – liberalization, introduction of private as well as foreign players, Fin-tech institutions, initiatives taken by Government for financial inclusion, these are some characteristics of this phase. Talking about Insurance sector, India lagged behind from other countries, the inception of insurance sector was with general insurance products. The two vital players in this sector are LIC (inception 1956) and GIC (inception 1973). With the LPG policy, doors for private sector were opened in and after 1999. This brought competitiveness in Insurance sector and started coping up with the requirements of people. Today there are 48 general insurance companies and 44 life insurance companies with 15% life insurance and 17% non-life insurance market share of private insurance in 2016-17.

FORMS OF INSURANCE

From the practical point of view the insurance can be classified into two broad categories such as Life Insurance and Non- Life Insurance.

LIFE INSURANCE Life insurance is a contract whereby the insurer in consideration of the premium paid either in lump sum or in periodical installments undertakes to pay an annuity or certain sum of money, either on the death of the insured or on the expiry of a certain number of years, whichever is earlier.

NON – LIFE INSURANCE Other than Life Insurance, everything will come under Non – Life Insurance. This type of insurance is for only one year.

OBJECTIVES

The specific objectives of the paper are:

1) To study the present Banking and Insurance sector scenario.

2) To study the key features of Indian Banking and Insurance sector.

3) To study recent trends in Indian Banking and Insurance sector.

4) To study challenges faced by these sectors.

5) To suggest feasible measures for improvement of these two sectors.

RESEARCH METHODOLOGY

This paper tries to look into 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.

KEY FEATURES OF INDIAN BANKING AND INSURANCE SECTOR

1) Well structured sectors Indian Banking and Insurance system is very well structured one; it focuses on need of each part of country contributing to growth 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 upliftment. In same way as per the instruction of IRDA Insurance policies are mainly focusing on consumer interest, use of technology, perfect distribution network facilitating easy transactions. Indian Banking and Insurance system is very well structured one; it focuses on need of each part of country contributing to growth 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 upliftment. In same way as per the instruction of IRDA Insurance policies are mainly focusing on consumer interest, use of technology, perfect distribution network facilitating easy transactions.

2) Dominance of Public sector Public sector Banks and institutions are institutions where a majority stake is held by a 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 prefer these institutions over private institutions. Public as well as regulatory framework is the main cause for dominance of public sector. Insurance (amendment) Act, 2015 changed percentage of ownership from 29% to 49% still public sector is in main role second thing is that data says that private sector contributed only 13% and 14% share in life and non-life from inception till today.

3) Perfect regulatory framework With a perfect structure that can reach up to every single Indian

Indian Banking and Insurance industry is perfectly regulated by RBI and IRDA established in year 1935 and 1999 respectively; focusing on securing the interest of country people. With quarterly monetary policies RBI manages to either suck or pump money from/into market and keep economy stable. While mission statement of IRDA clearly indicates speedy and orderly growth of insurance sector and optimum self-regulation.

4) Huge employment avenues India Banking and Insurance sector has been always the most preferred avenues of employment. According to the McKinsey report on Banking, Indian banking sector has the potential to account 7.7% GDP with avenues of job over 2 million. In the same way as per 2015-16 Government data, life and non-life insurance has given employment to 28.27 lakhs (15.54 lakh Life and 10.73 lakh non-life) Indian population contributing to run economic cycle of India uninterruptedly.

5) Great contributors to Indian economy in service sector 81 According to Insurance penetration of India i.e. premium collected by Indian insurers is 3.30% of GDP in 2015- 16, while McKinsey says Banking has potential to account 7.7% of GDP and this is really a healthy sign for Indian economy. 6) Matured and young sectors of India Both sectors are young as it has huge potential to capture single Indian; still these sectors are matured one to attain this goal. The Broad structure and perfect regulating body trying with force and enthusiasm to attain 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 causing threat to traditional financial institutions, in order to cope up with them proactive approach 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. In same way 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 inclusion, business growth and customer engagement Urban India is good with Banking system but there has to emphasis more focus on rural Banking hence there is sizable portion of the population that is un banked or say under banked, needs financial awareness, 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 2013 insurance penetration in India at 3.9% was below the world average 6.3%. in order to have good business Indian Insurance sector along with Government again working effectively to capture this un insured targeted population, involving many new ways of doing business.

CHALLENGES BEFORE BANKING AND INSURANCE SECTOR BANKING SECTOR

1) Huge NPA's are great issue to be taken care of, according to Hindu Indian Banking sector gross NPA at 7.6%, highest in past 12 years and expected to rise further to 8.5% by 2017. Lending to those that are not capable of revival, no due-diligence mostly by PSB's, corruption and such other economical issues like unemployment, natural calamities are main causes of rising NPA's in India.

2) Near about 69% of Indian population resides in remote rural area and delivering financial services to them at affordable cost of such disadvantaged and low-income segment of society is currently the main challenge. According to 2008 report on Financial Inclusion by Dr. C. Rangrajan, over 73% of farmers currently do not have access to Banks and Banking system. Branches declining due to various reasons of scheduled Banks from 20922 in 2000 to 20678 in 2009.

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 advancement 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 achieve banking convenience its becoming impossible and still we are experiencing rush at banks for transaction.

INSURANCE SECTOR

1) Non-life insurance sector is very weak, 21.5% insurance business in terms of premium collected in comparison of 78.5% of life insurance business. Total insurance penetration in India showing very slow changes as it was 1.5% in 1990, 2.88% in 2003 and 3.30% in 2016-15. 83

2) There is still difference between expected performance and actual performance by insurance players resulting into greater customer dissatisfaction.

3) Deciding right price of product, premium, cost and claims at future date is very challenging 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 inability to penetrate rural area, virtual threats to agents are main points must be looked into.

FEASIBLE MEASURES FOR IMPROVEMENT OF BANKING AND INSURANCE SECTOR IN INDIA

1) Triggering demand drivers is the primary and vital measure, for Banking Market dynamics, Technology and Household savings are the main triggering factors that need special attention. Consumer behaviour, 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 needs 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. 84 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 analysed 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 2020 of India.

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