COUNTDOWN TO CUTTING – EDGE OF BANKING AND INSURANCE BUSINESS IN INDIA

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INTRODUCTION

Public sector banks will soon be offering their customers a choice of insurance products from different companies as against products from a single company. Upgraded technology has opened up opportunities to make the banking process easy and assessable. The banks have to be innovative, especially as the GDP growth of the country has slipped to the lowest level of the decade, hovering below 5%. Banks are facing a challenging time because the deposit is not growing appreciably and non-performing assets (NPAs) are making banks suffer the most. It is not that banks are not performing well; the revenue of Indian banks has grown fourfold from USD 11.8 billion to 46.9 billion. On the other hand, the asset quality has decreased in the last couple of yours and bad debts have doubled since 2009. As of September 2013, bad debts comprised 4.2% of total advances. The asset of public sector banks is more stressed and it is 12.3% of total loans. The data for this article have been compiled from the annual reports of the sample companies along with the publishing literatures.

LITERATURE REVIEW

1. Inderjit Singh et.al.(2009) in their Book on “Insurance and Risk Management” analyze the different facets of the privatization of Indian Insurance Sector. The different approaches of managing risk based capital are discussed.
2. Chandra Sekhar, C.P. (2009) in his article on “Learning Nothing, Forgetting Everything” observes that the Government has been pushing ahead with privatization despite there being no evidence of the nationalized insurance industry failing to meet its obligation to insurers or

to the Government. The LIC has not only put at the Government's disposal large volumes of capital for investment but also addressed the problems of insurance for the poor.

3. Basavanthappa, C. and RajanalkarLaxman (2009) in their article on "Performance of Life Insurance Companies: A Comparative Study" show that the Private Insurance Companies have made their presence felt and over the years have achieved remarkable progress. There is a big opportunity to these companies in the Indian Life Insurance Sector. The companies have to bring out innovative products to suit the different requirements of the public. A healthy competition in the sector would be beneficial to both the players and also the public.
4. Krishna Swami, G. (2009) in his book "Principles and Practice of Life Insurance" explains clearly the history of insurance, advantages of insurance and the role of insurance in the economy and also in the society. The life insurance products, the concepts of premium, investment management and solvency margin are also discussed at length in the book.
5. Murthy, T.N. et.al.(2009) in their article on "Performance Evaluation of LIC: Ways of Winning Confidence" conclude that several changes have taken place since opening up of the insurance sector. After liberalization, insurance industry's outlook has been changed significantly. The number of private players and their innovative products are also made attractive for every social segment. The healthier competition has intensified to increase insurance density and penetration levels in order to fulfill customer needs.
6. SumninderKaurBawa and SubashChander (2009) in their article on "Prospects of Bancassurance in India" opine that the entire banking network caters to the needs of people in every economic segment and in widely diverse geographical regions. Thus, banks can change the face of insurance distribution. Hence, bancassurance can catalyst the growth of insurance in this huge untapped market.
7. Mishra, K.C. and Kumar, C.S.(2009) in their book on "Life Insurance Principles and Practice" explain the origin of insurance and its elementary aspects, principles of life insurance, life insurance products, policy conditions, underwriting, pricing, policy servicing and policy benefit payments in a more clear and analytical manner so that a layman can understand the same without any ambiguity.

OBJECTIVES OF THE STUDY

1. To study the overall business functioning of Bank and Insurance Companies operating in India.
2. To analyze the performance of major players in banking and insurance sectors with business frame works as a matter of sustainability through innovation.

INSURANCE SECTOR AND ITS DEVELOPMENT

The total market size of the insurance sector in India was US$ 66.4 billion in FY 13. It is projected to touch US$ 350–400 billion by 2020. Information technology (IT) services, the biggest spending segment of India's insurance industry at Rs 4,000 crore (US$ 666.78 million) in 2014, is expected to continue enjoying strong growth at 16 per cent. Category leaders are business process outsourcing (BPO) at 25 per cent and consulting at 21 per cent. India ranked 10 among 147 countries in the life insurance business in FY 13, with a share of 2.03 per cent. The life insurance premium market expanded at a CAGR of 16.6 per cent from US$ 11.5 billion to US$ 53.3 billion during FY 03–FY 13. The non-life insurance premium market also grew at a CAGR of 15.4 per cent, from US$ 3.1 billion in FY 03 to US$ 13.1 billion in FY 13. With 36 crore policies, India's life insurance sector is the world's largest. The life insurance industry in the country is forecasted to increase at a compound annual growth rate (CAGR) of 12–15 per cent in the next five years. The industry aims to hike penetration levels to five per cent by 2020, and has the potential to touch US$ 1 trillion over the next seven years. The cap on foreign direct investment (FDI) also looks likely to be increased from 26 per cent to 49 per cent.

The following are some of the major investments and developments in the Indian insurance sector:

1. ING Vysya Life Insurance recently changed its name to Exide Life Insurance. For FY 2013– 14, the company doubled its profits to Rs 53 crore (US$ 8.83 million) on the back of renewal premium and better efficiency and product mix.
2. HDFC Life has launched a participating children's plan which has money back options. The plan named 'HDFC Life Youngstar Udaan' enables parents to use the key formative

years of their children to plan for their secure future. The plan caters to critical milestones such as the child's education, marriage, establishment of business, etc.

3. Star Health and Allied Insurance Co Ltd on has launched a modified diabetes insurance policy by the name Star Diabetes Safe. The policy covers regular hospitalisation expenses, regardless of the number of years the individual has been living with the condition, as per Mr V Jagannathan, Chairman and Managing Director, Star Health.
4. About three of every four insurance policies sold by 2020 would be in some way influenced by digital channels during the pre-purchase, purchase or renewal stages, as per a new report by Boston Consulting Group (BCG) and Google India. This report, Digital@Insurance-20X By 2020, forecasts that insurance sales from online channels will grow 20 times from present-day sales by 2020, and overall internet influenced sales will touch Rs 300,000–400,000 crore (US$ 50.02–66.70 billion).
5. Investment corpus in India's pension sector is projected to cross US$ 1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013, as per a joint report by CII–EY on Pensions Business in India.
6. Insurance companies in the country will spend about Rs 12,100 (US$ 2.01 billion) crore on IT products and services in 2014, a 12 per cent increase over 2013, according to Gartner Inc. The forecast includes spending by insurers on internal IT (including personnel), software, hardware, external IT services and telecommunications. The Rs 1200-crore (US$ 200.16 million) software segment is predicted to be the fastest external segment, with overall growth of 18 per cent in 2014.
7. Insurance companies in India launched awareness initiatives on April 19, 2014 on the occasion of Insurance Awareness Day. Insurance Regulatory and Development Authority (IRDA) had earmarked April 19 as Insurance Day, as the sector regulator was formed on that day. IRDA plans to partner with organisations through its Bima Bemisaal (brand name for the organisation's insurance awareness campaign) campaign to drive home the significance of insurance among the populace.

BANKING SECTOR AND ITS DEVELOPMENT

Banks becoming more hi-tech seems to be uppermost in most bankers' minds. Probably there would be a lot of machines connected through wires. The role of human beings in banking would be restricted to maintaining surveillance and monitoring things being in proper order or not. It is witnessed a sea-change in the approach of bank in his three decade long banking career. Now there is neck-and-neck competition between banks to increase the number of customers. Banks offering doorstep services have become common these days, which was unthinkable a couple of decades ago. The entire approach has become customer-centric. Apart from services, banks offer innovative products to win customers.

Mobile & the Future

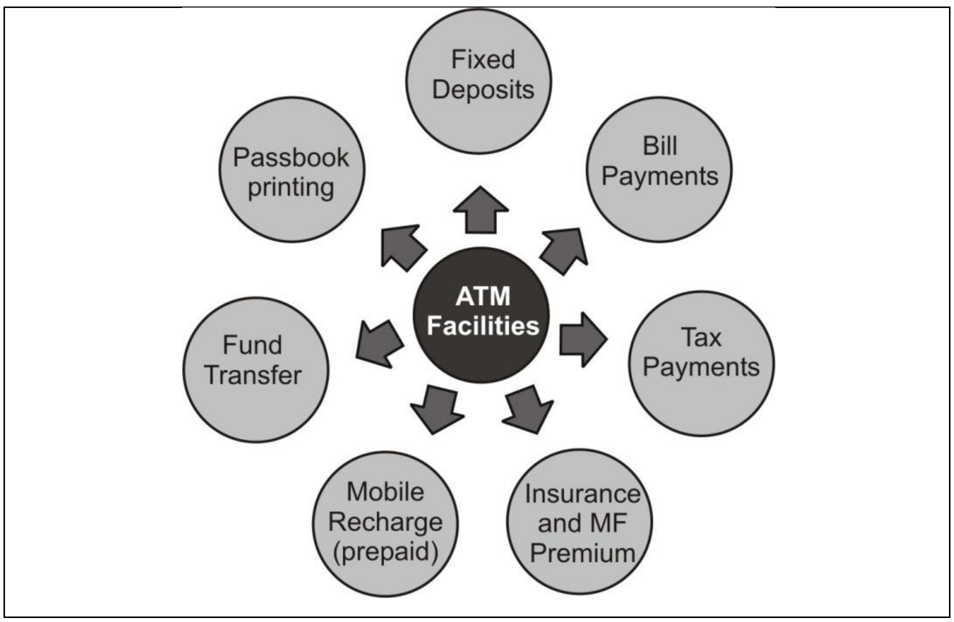
Days are not far when people will pay their daily requirements foods through mobile fund transfers. Almost every banker has agreed that in future all banking activities will be done online, especially through mobile devices. Raghuram Rajan, Governor, Reserve Bank of India (RBI), has averred that there was substantial potential for mobile based payments and that a Technical Committee would be set up to examine the options. In recent years, mobile banking has been reflecting a growing trend. In two years, between 2010-11 and 2012-13, the number of users has gone up nearly four times. Mobile telephony in India has a huge potential with 873.4 million mobile connections as on June 30, 2013, of which about 350 million are in rural areas. The number of subscribers who access the internet by wireless phones has grown to about 143 million. With sizeable proportion of households (41.3%) not having a bank account, and large unbanked sections of population residing in the villages (as per Census 2011, only 54.4% of rural households had access to banking services), mobile banking offers a huge opportunity for banking industry to leverage upon the mobile density in the country.

Year	No. of Users (Million)	Volume (Million)	Value (Billion Rs.)
2010-11	5.96	6.85	6.14
2011-12	12.96 (117.45%)	25.56 (273.139%)	18.21 (196.58%)
2012-13	22.51 (73.69%)	53.30 (108.53%)	59.90 (228.94%)

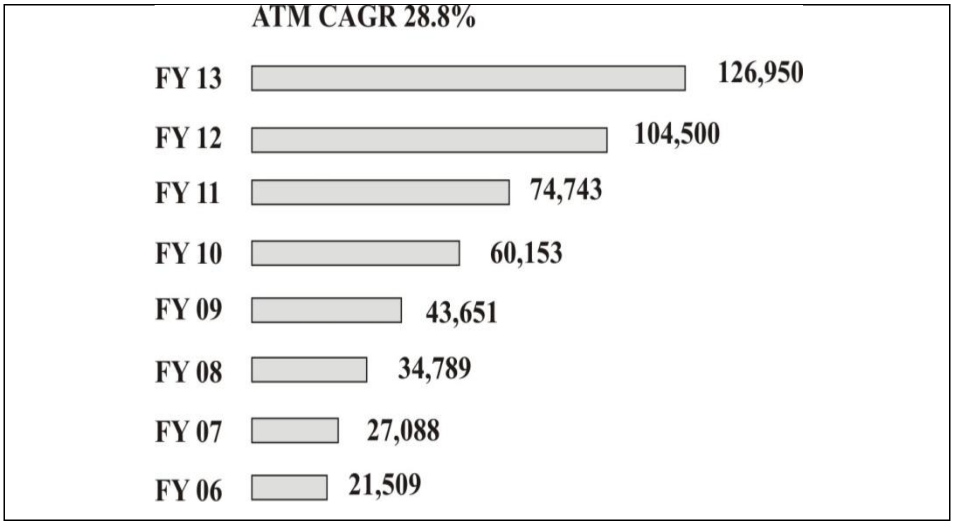
But there are some issues of concern such as mobile number registration, M-PIN generation process, security concern as a factor affecting on-boarding of customers, education of banking staff to handle mobile banking and education of customers to properly use such services and facilities. However, if banking technology can be improved, immense success can be achieved in terms of financial inclusion with mobile phones stepping in place of bank branches in far flung areas.

ATMs & Future

It is opined that while there is a lot of talk about people using ATMSs, regular cash delivering ATMs are going to be obsolete in the coming year. They will be replaced by cash receiving machines, or rather, all purpose fund transfer machines that will enable a person to do cash deposit, pay tax, give premium for insurance and mutual fund, etc. In a nutshell, they will do almost everything on behalf of banks. Again, these will be unmanned.



It is an interesting point that even illiterate people are numerate. So those who cannot read and write properly can operate ATMs and do transactions. For them, it is more difficult to go to a bank, fill up a form that is usually in English, and then withdraw money. By contrast, for ATM, on just needs to insert the card, type the pin and the amount one needs and the work is done. For an illiterate person, it is easier to memorize buttons and steps to de transactions. For instance, the Union Bank has come up with ATMs with a host of services and it is called SampUrna ATM. It is a one-stop shop for many banking services.



DATA WAREHOUSING AND DATA ANALYTICS CAN BE THE GAME CHANGER

Proper information is the key to making better decisions; a data bank is required with the all relevant information about the client. There is significant, unknown and untapped potential to get closer to customers through analytics. The right product to right customers at the right time can help to improve the income and profit of the bank. This helps to improve sales and allows the marketing team to analyze the requirement of customers. For instance, persons from economically backward and rural regions are in need of a no-frills account without any service charges while rich persons from cities require high quality and prompt services. Not only banks, the insurance regulator IRDA, has also set up an analytics unit to get information on the requirement of sales.

UNIQUE IDENTIFICATION FOR FINANCIAL INCLUSION AND MICRO LOANS

Despite talks on innovation, on the basic issues of lending to critical sectors and of speeding up financial inclusion, Indian banks have been found wanting. It is also an important fact to criticize banks for not extending financial assistance to the micro, small and medium enterprises (MSME) sector and asked lenders to consider the working dynamics of this sector while extending credit. Whatever financial inclusion has taken place has mostly been limited to the opening up of accounts. The banking correspondence model has not proved to be successful. Half of rural India is still unbanked. A number of agricultural officers are being trained by banks and many dedicated MSME branches have opened, but these are not enough to meet the requirement. The research firm KPMG suggested dealing with this through unique identification scheme undertaken by the banks. Though KYC (know your customer) and unique identification and aadhar linkages have been introduced at the individual banking level, the data have to be shared among all banks so that one bank can immediately know the banking status from UID number.

Innovation can be done keeping in mind the requirement, time, place and person for whom it is being done. It is an important fact to mention that in the early days, rural bank branches kept buckets full of water. Customers who came directly coming from working in farms used to wash their hands before giving thumb impressions. But now this is not required as farmers have been UID linked with their photos, finger-prints and signatures recorded. Apart from these, many of the customers are now literate.

Borrower Loan Not Repaid (Fig in Rs. Crore)

1.	Kingfisher Airlines	2,673
2.	Winsome Diamond & Jewellery Co. Ltd.	2,660
3.	Electrotherm India Limited	2,211
4.	Zoom Developers Private Limited	1,810
5.	Sterling Bio Tech Limited	1,732
6.	S. Kumars Nationwide Limited	1,692
7.	Surya Vinayak Industries Ltd.	1,446
8.	Corporate Ispat Alloys Limited	1,360
9.	Forever Precious Jewellery & Diamonds	1,254
10.	Sterling Oil Resources Ltd.	1,197
11.	Varun Industries Limited	1,129
12.	Orchid Chemicals & Pharmaceutical Ltd.	938

13.	Kemrock Industries & Exports Ltd.	929
14.	Murli Industries & Exports Limited	884
15.	National Agricultural Co-operative	862
16.	STCL Limited	860
17.	Surya Pharma Pvt. Ltd.	726
18.	Zylog Systems (India) Limited	715
19.	Pixion Media Pvt. Limited	712
20.	Deccan Chronicle Holdings Limited	700

Source: AIBEA (http://alphaideas.in/wp-content/uploades/2014/05/Press-Release.pdf)

Common platform for battle against NPAs

It is often alleged that the credit appraisal process is not up to the mark. That is why many assets have turned bad. Entrepreneurs have argued that banks appear very conventional during credit appraisal. Whatever the reason may be, the major challenge of the banking business is growing NPAs. The new central government has also asked banks to be ready with top defaulters list and take action against them. Though the RBI and the MOEF have not officially published and such list despite repetitive requests from several parts of society, the All India Bankers Employee Association (AIBEA), a non-governmental association, has released a top defaulters list. As per the list, the bad loans of the top 406 accounts of public sector banks (PBSs) amount to Rs. 70,300 crore. It is seen that one company is often an NPA of many banks. So all the banks, at least, the PSU banks, need to come together to create a common platform to address defaulters and recover public money.

ECONOMIC SLOWDOWN PUTS COMMERCIAL BANKS ON THE BACK FOOT

Two news items in national dailies last June revealed the plight of India’s financial sector. The first related to the growing non-performing assets (NPA) of Indian banks that have been exerting huge pressure on their margins while the second related to black money stashed in foreign banks. By loosening the confidentiality clause in its banking system, Switzerland reportedly agreed to make a list of Indians who held accounts in various Swiss banks in the names of trusts or other entities and to share it with New Delhi. According to Switzerland’s central banking authority, the amount of deposits by Indians in Swiss banks in 2013 was estimated at Rs. 14,000 crore. It would involve a lot of litigation to unearth this fund, but Switzerland's willingness to part with the list should be a morale booster for both the government and the country's financial sector.

Bank home, the government has asked banks to initiate all possible actions against the top 50 defaulters to recover the dues. The enormity of the problem can be seen in the huge dues of the big companies. Some time back, the All India Bank Employees Union released a list of 406 loan defaulters who together owe over Rs.70, 000 crore or more than a third of Rs.2 lakh crore NPA of the banks. When and how the recovery of dues will actually bear fruit is anybody's guess, but the start of the process is definitely good news for India's financial sector, especially for the banks. Rising NPA has put constant pressure on banks' profitability.

The Indian banking sector has over the years displaced a high level of resilience in the face of rising inflation, rupee depreciation and fiscal uncertainty in the US and Europe. India's commercial banks are facing challenges from many sources – economic slowdown is probably the biggest of them, which is not only impacting their business growth but is also increasing dues from the corporate sector. Among the factors which may be responsible for low GDP growth, some are an over-cautious monetary policy that could not deliver on lowering the inflation rate but contributed to increase in the borrowing costs, government's pending decisions on few strategic policies, high current account deficit and oil prices. The sharp depreciation and uncertainty of the rupee in recent times has further aggravated the problems of the Indian economy.

Slower economy leads to deteriorating asset quality, which is already causing stress to the banking sector. The RBI had earlier estimated that the gross NPA ratio of banks may rise to 4.4% by March 2014 as compared to 3.42% in 2012-13 and 2.94% in the previous year. In an uncertain environment, banks are extremely concerned with liquidity risk as well as concentration and correlation risks. They have to develop tools to calculate economic capital that will integrate credit and market risks. Currency volatility is also giving bankers sleepless nights. From tapping new segments in the SME sector to funding cross-country aspirations as Indian corporates to global, Indian banks are pursuing multiple strategies of growth in an uncertain environment. The public sector banks (PSBs) an uncertain environment. The public sector banks (PSBs) are much ahead of the private sector banks in their overseas presence, constituting over 90% of 171 overseas branches of Indian banks as on March 31, 2013. The RBI has now directed banks to disclose sector-wise advances from the financial year 2014-15 onwards. To enhance transparency, the RBI in March 2010 had said that banks should disclose sector-wise NPAs, movement of NPAs, overseas assets and revenue, and other special purpose vehicles sponsored by banks.

It has been taking active steps for the early detection of NPAs in the system so that banks can prepare their mode of actions in advance. The RBI is also seeking to enhance transparency within banks to push for more prudent leading. The central bank has asked banks to classify accounts based on the number of days their interest payments are pending known as Special Mention Accounts (SMA). And if the action cannot weed out the problem of rising NPAs, it will warn the concerned banks of such development in advance. But how are our doing amid these constraints? A recent reach report by ICRA on the performance of 26 public sector banks (PSBs) and 16 private sector banks for the quarter and financial year ended March 31, 2014 gives a rather gloomy picture. The 42 banks collectively account for more than 90% of the total credit portfolio and deposits of all commercial banks in India as of March 2014. According to this study, Indian banks' credit growth was muted at 14.7% during 2013-14 and PSBs' profitability saw a significant decline in 2013-14. Credit growth for the PSBs dropped from 15.3% in 2012-13 to 14% in 2013-14m while that for private sector banks increased from 16.6% to 17.8% with overall growth declined from 15.6% to 14.7%.

Aggregate profit after tax (PAT) of the PSBs declined 27% to Rs. 370 billion last year from Rs. 507 billion in 2012-13. The PSBs net profitability (PAT/ATA) declined to 0.50% in relation to average total assets (ATA) in 2013-14 against 0.78% in 2012-13 and their return on net worth dropped to 9.1% last year compared to 14.2% in the previous year. As for muted credit growth, the persistently high interest rates have been the primary reason for low demand of bank funds by corporate India. As revealed by a recent CII Survey on Sources of Finance, corporate sector, over the recent years has increasingly relied upon internal accruals for their fund requirements and large corporate houses have also taken recourse to external commercial borrowings to take advantage of lower interest rate overseas. Due to demand constraints and a persistent decline in industrial production, Indian companies have largely restrained themselves from expanding capacities or from implementing new projects.

ICRA report finds that the deceleration in profitability of Indian commercial banks has led to higher NPA generation during the period. Gross NPA percentage of both public and private sector banks increased from 3.3% in 2012-13 to 3.9% in 2013-14. The increase in gross NPA percentage was due to higher fresh NPA generation rate 3.5-3.6% for PSBs in 2013-14 against 3.1% in 2012-13. PSBs gross NPAs increased from 3.6% as on March 2013 to 4.4% as on March 2014. The private sector banks, however, were able to hold on to good asset quality as reflected in their gross NPAs of 1.8% at the end of the last fiscal compared to 1.9% as on December 2013.

The better performance by the private sector banks compared to their public sector counterparts probably makes the case for issuing more new bank licenses to the private sector. The RBI has recently issued approvals for two new private bank licenses recently and has made to believe that more such approvals may be issued in the future. If rising NPAs is affecting the health of the banks, the biggest challenge for them must be to maintain the requisite capital adequacy ratio. Under the Basel III guidelines, as determined by the RBI, Indian commercial banks need to maintain a minimum common equity ratio of 8% and total capital ratio of 11.5%.

According to the RBI, broad estimates suggest that for full implementation of Basel III, public sector banks would require common equity to the tune of the estimated Rs. 1.4–1.5 trillion on top of internal accruals, in addition to Rs. 2.65–2.75 trillion in the form of non-equity capital. The government, which is the dominant equity holder of PSBs, would have to infuse a huge Rs.90,000 crore over the next five years in order to retain its shareholding (estimated at 58%). Considering the current strain in government finances, that may put considerable pressure on the government's fiscal consolidation plan. In the interim Budget presented last February, the previous government had proposed to earmark Rs.11,200 crore towards equity infusion in public sector banks, which have been facing severe asset quality pressure as bad loans continue to mount. But the financial services secretary G.S. Sandhu recently ruled out higher fund allocation in the forthcoming budget to recapitalize state-owned banks. "Not in this budget. If there is any urgent requirement, the government is always there," he said. For record, according to the estimates put out by the RBI, public sector banks will need as much as Rs. 40,000–50,000 crore of capital infusion by the government to be able to return to full profitability as also to meet loan growth targets.

CONCLUSION

The insurance sector's future looks bright, on the back of India's favourable demographic, greater awareness, supportive regulatory environment, policies that improve customer-centric products, and practices that help businesses grow. India's insurable population is projected to touch 75 crore in 2020, with life expectancy reaching 74 years. Life insurance will continue to supplement household financial savings, and is projected to be 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009–10. Often Indian bank customers, especially borrowers, feel that the country's banking system is not innovative enough to match international standards. Indian banks have come a long way from what they had been during the 1980s when typewriters were the only machines in bank branches and deposits and loans were the only products to offer. With help of current technology and product portfolio, the banking growth has reached a saturation level. To remove to the next level, innovation is highly required. However, while experimenting with new things the risk factors or the security part has to be addressed properly. India is the third worst country to be hit by online banking malware. By addressing the problem areas and leveraging technology with personalized services, the banking sector can stand on the expectations of becoming the fifth largest banking sector globally by 2020 and the third largest by 2025.

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