

# Banking And Insurance:Contemporary Issues And Challenges

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**ABSTRACT-** Banking and insurance sectors are the most important over view point in our modern era. We know well collection of financial purpose already depend on financial institutions and taking risk view which is most important clue of corporate sectors, public sectors. A lot of scarcity knowledge of banking and insurance policy among public. So we can give the view to public working in different things as following as- The first thing that strikes about the collection of articles featured in the book is the wide time horizon over which the articles were penned. The book succeeds in providing a panoramic view of issues that have confronted the economy over the last two decades, a period that has been exciting for the Indian economy with the country moving from the throes of despair at the beginning of the decade of the 90s to a period of heady growth and further, to the present, when we are facing multiple challenges. The book deftly captures several major landmark events/developments in the banking sector with the perspective of the point of time when these articles were actually written. It is noteworthy that apart from India, Venugopal has also extensively covered the economic developments in China in his articles. Venugopal has made a strong pitch for economic cooperation between the two major Asian markets naming China as the market of the future and stating that India should Seek to get its due share of this market. It is actually attribute to the vision of the man, as he has intensively focused on two economies that have, since, seen a lot of economic prosperity and have become the cynosure of all in the global marketplace. As the Indian economy battles challenges on multiple fronts, Shri Venugopal's articles could provide valuable insights into these challenges and provide guidance for overcoming them. The Indian banking system and insurance sector has seen a complete transformation during the last two decades, in sync with the progress made by the real economy. As with the economy, the Indian banking system and insurance is opportunities and challenges before it. We need to make the right choices now in order to ensure the future of

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the banking system and insurance sector as the key pillar upon which the economic prosperity of the contemporary advance financial policy country rests. Banks and insurance are the lifeline of any economy and it is the collective responsibility of all of us to ensure that we have a strong, resilient and inclusive banking system and insurance sector geared up to face all domestic and global issue and challenges. In modern age, banking and insurance play a very significant role in socio-economic development of a nation in the form of programmes aiming at poverty alleviation, infrastructural development, health care and protection, entrepreneurial development, educational promotion, employment generation and women empowerment.

However, with the initiation of economic liberalization in 1991, coupled with globalization and privatization, the economic and business environment in India have changed significantly. As a result, the entire set-up has taken up a new turn, become competitive and has opened the doors for immense opportunities and intractable problems and challenges. The Indian banking and insurance industries have been losing their relative market share. Several issues have been waiting for effective and efficient solutions for maintaining their growth and prosperity. The present national seminar hopes to discuss the glaring issues facing the banking and insurance sectors in general and public sectors banks and insurance companies in particular.

**Keywords-**Banking, Insurance, Modern Era, Opportunities, Challenges, Impacts.

Banking and insurance sectors are the most important over view point in our modern era. We know well collection of financial purpose already depend on financial institutions and taking risk view which is most important clue of corporate sectors, public sectors. A lot of scarcity knowledge of banking and insurance policy among public. So we can give the view to public working in different things as following as- The first thing that strikes about the collection of articles featured in the book is the wide time horizon over which the articles were penned. The book succeeds in providing a panoramic view of issues that have confronted the economy over the last two decades, a period that has been exciting for the Indian economy with the country moving from the throes of despair at the beginning of the decade of the 90s to a period of heady growth and further, to the present, when we are facing multiple challenges. The book deftly captures several major landmark events/developments in the banking sector with the perspective of the point of time when these articles were actually written. It is noteworthy that apart from India, Venu

Gopal has also extensively covered the economic developments in China in his articles. Venugopal has made a strong pitch for economic cooperation between the two major Asian markets naming China as the market of the future and stating that India should seek to get its due share of this market. It is actually attributed to the vision of the man, as he has intensively focused on two economies that have, since, seen a lot of economic prosperity and have become the cynosure of all in the global market place. As the Indian economy battles challenges on multiple fronts, Shri Venugopal's articles could provide valuable insights into these challenges and provide guidance for overcoming them. The Indian banking system and insurance sector has seen a complete transformation during the last two decades, in sync with the progress made by the real economy. Almost every aspect of banking operation has seen significant change during this period as banks sought to reinvent themselves in an attempt to retain their preeminent position in the financial system. The period saw banks moving beyond brick and mortar branches to adopt innovative delivery channels including internet banking, ATMs, call centres, kiosks, Business Correspondents (BCs), etc. New products such as retail banking gained prominence. Banks have sought to grow, not just in terms of balance sheet size, but also in terms of greater penetration of banking services to the hitherto unbanked segments of the population. It is reasonable to say that banks have succeeded in rising up to the challenges posed by the unique needs of a transforming economy and have, in no small measure, contributed to the nation's economic progress during this period. 5. The growth of the banking system and its pivotal position in the country's financial architecture implies that the banks cater to a whole host of diverse stakeholders who have equally diverse expectations.

The success of individual banks and of the banking system as a whole depends on how well these stakeholder expectations are met. Some of the problems currently facing the banking industry bear their genesis to banks' inability to align their business operations with stakeholder expectations. In view of the considerable debate (and sometimes noise) generated by the ills plaguing the banking sector, I thought it appropriate to briefly flag some random thoughts on steps the Indian banking industry needs to take, in order to effectively meet the diverse stakeholder expectations and overcome the present challenges. Some of these thoughts also find resonance in the articles presented in Shri Venugopal's book.

**Issues-**Banks play the critical role of financial intermediation by performing the task of maturity and risk transformation, besides providing payment and settlement services. In order to effectively perform these functions, banks need to ensure that they maintain high levels of productivity and efficiency in their operations. Two kinds of efficiency are essential for banks: Allocation Efficiency: This requires banks to ensure that the precious societal resources are allotted to the most productive activities. Besides, while taking allocation decisions, the interests of the most vulnerable sections of the society should also be taken into account.

**Operational Efficiency:** Operational Efficiency requires banks to perform the financial intermediation function in a safe, secure and speedy manner while ensuring that the cost of performing the intermediation function is minimized. While profit margins are important for sustaining banking operations, the cost of operational inefficiencies of banks should not be passed on to customers by way of higher service charges and fees. 7. Indian banks need to improve both, allocational and operational efficiency, so that the financial intermediation function is effectively performed. This would include reengineering of all critical products and processes by leveraging on innovative technology-based solutions, while retaining a strong customer-centric focus. Financial Consumer Protection has emerged as a key area of supervisory focus globally. The global financial crisis has highlighted the vulnerability of the consumer class, which has been worst hit in the crisis. The key feature of the exploitation has been the discriminatory, non-transparent and illogical pricing which has affected the poor and vulnerable consumers most emphatically. The product innovations have not focused on customer requirements and have, instead, aimed at serving the interests of the service provider. The basic fact, that the well being of the consumer is essential for the sustainability and growth of the service provider, has been lost sight of. As part of its regulatory reform agenda, G 20 Finance Ministers and Central Bank Governors have also endorsed a set of High-level Principles on Financial Consumer Protection, underlining its overall importance for financial stability. The principles enjoin upon the supervisors and oversight bodies to ensure an equitable and fair treatment of consumers, disclosure and transparency in product and service offerings along with promotion of financial education and awareness amongst the consumers.

**Challenges-**In this context, I would like to highlight some important

aspects of consumer protection and risk management that banks need to imbibe in their business processes: Pricing of asset and liability products should be transparent and non-discriminatory. At a minimum, it must be ensured that poor do not subsidize the provision of banking services to the rich. The business operations of banks should be customer-centric in nature. This should be reflected in all aspects of banking operations including creation of customized products and services, pricing of services, delivery channels, etc. Banks should, inherently, be flexible in their operations so that they have the ability to meet the evolving stakeholder expectations. Banks should be able to appreciate the risk-return trade-off involved in various activities. The basic premise that greater return would invariably come from assumption of higher risk, needs to be appreciated and disseminated, both within the organization and to banks' customers. Banks need to develop the ability to discern good risk from bad so that they selectively take on only those risks that are in alignment with the bank's long term strategic vision. The culture of efficient risk management needs to be imbibed in the organization's ethos so that everyone from the top management to frontline managers in the field shares a common vision of risk management. A key related issue is the integrity of MIS in banks. Each bank claims to be oriented towards its customers. But, I have a simple poser. Are the banks aware of the number of customers they have? I am not referring to the number of accounts but the actual number of customers that the bank serves across all business verticals by offering different products. Moreover, most of the banks do not have a system of working out activity wise costs and returns. Unless banks know the return on each and every product, they cannot arrive at a truly risk based pricing. Another issue which is generating considerable concern and is likely to impact banks' ability to serve its stakeholders is the rising portfolio of non-performing assets (NPAs) and restructured loans. While the downturn in business environment globally and in India has contributed to this rise, we need to reflect on why our risk management practices during boom time were unable to anticipate future downturns and build up suitable safeguards while giving loans. I do believe that the rising impaired assets is a "governance" issue as banks have forgotten the art of saying 'no', except, may be, to small borrowers. Banks need to significantly improve their risk assessment capability and their ability to price risks, so that they take on only those risks that they understand

and can effectively manage. I believe that this need is all the more pronounced in the case of public sector banks, which, at times, end up with assets that have been edited by private sector/ foreign banks on account of inherent weaknesses. The ability to manage NPAs is important in order to preserve the strength of bank balance sheets and to retain the appetite to take on good risks. An attitude of complete risk aversion would not be appropriate as banks are in the business of taking risks, but with adequate safeguards. I note that NPAs are a recurrent theme in Venugopal's articles and hope that they do provide insights into how banks can manage this problem. Another issue that I would like to bring up before you is the element of discrimination practiced by the banks in restructuring of loans. Analysis of available data indicates that the larger borrowers have invariably received the benefit of restructuring of loans, while the restructuring in case of SME/ agriculture loans has remained abysmally low. I believe that with timely intervention and support from the banks, this sector would have definitely shown much lower levels of impaired assets than it presently does. Despite several steps having been taken by the Government and the Reserve Bank of India, the extent of exclusion in the Indian financial system continues to be unacceptably high. The unbanked masses constitute a unique but important stakeholder group for banks, even though they may not be bank customers. Meeting the expectations of this group through financial inclusion efforts presents a huge business opportunity for banks.

While there is no "one-size-fits-all" approach to financial inclusion, it is important that banks recognize three important prerequisites for maximizing the benefits of financial inclusion efforts. These are: Holistic approach to provision of financial services, not just credit or deposit alone Meeting the needs of small firms - Focusing on segments of population excluded by gender or geographical Remoteness. Banks need to focus on leveraging technology to create new business models and delivery channels that are customized to the needs of the targeted population. Technology has the potential to act as a force multiplier in our financial inclusion efforts, provided it is implemented in a planned manner. There is, however, an increasing realization that mere reliance on technology-enabled non-face to face channels alone would not be sufficient to meet our goal of creating an inclusive financial system. There is a need for opening more brick and mortar outlets as delivery points, both as a control mechanism for BCs and to gain the trust

and acceptability of the masses. Our assessment of the progress in financial inclusion since the introduction of Board approved Financial Inclusion Plans is that while there has been considerable progress in the number of accounts opened, the actual number of transactions per account or per BC continues to be extremely low. This reduces the viability of the financial inclusion efforts and would, ultimately, results in concerned stakeholders losing interest in the exercise. The low transaction levels indicate inadequacies on both the demand and supply sides such as deficiencies in BC operations, no distribution of smart cards, lack of awareness on the part of the account holders, etc. Banks need to identify the causes for the low transaction rates and urgently address them. In order to be successful, sustainable and scalable, financial inclusion should necessarily be commercially viable for everybody including the bank, the BC and the technology provider. However, the pricing should not result in exploitation of the customers. It is, indeed, very gratifying to note that besides including financial inclusion prominently in his articles, Shri Venugopal, is also working for the financial inclusion of primitive tribes of the Nilgiri district. I am also very pleased to note that he is a great friend and protector of nature, especially the Nilgiris and has been staunchly espousing the cause of the environment throughout his career. We need more such dedicated persons with a genuine passion for inclusive and sustainable growth.

**Conclusion**-As with the economy, the Indian banking system and insurance is opportunities and challenges before it. We need to make the right choices now in order to ensure the future of the banking system and insurance sector as the key pillar upon which the economic prosperity of the contemporary advance financial policy country rests. Banks and insurance are the lifeline of any economy and it is the collective responsibility of all of us to ensure that we have a strong, resilient and inclusive banking system and insurance sector geared up to face all domestic and global issue and challenges. In modern age, banking and insurance play a very significant role in socio-economic development of a nation in the form of programmes aiming at poverty alleviation, infrastructural development, health care and protection, entrepreneurial development, educational promotion, employment generation and women empowerment. However, with the initiation of economic liberalization in 1991, coupled with globalization and privatization, the economic and business environment in India have changed significantly. As a result, the entire set-up has taken up a new turn, become competitive and has opened the doors for immense

opportunities and intractable problems and challenges. The Indian banking and insurance industries have been losing their relative market share.

Several issues have been waiting for effective and efficient solutions for maintaining their growth and prosperity. The present national seminar hopes to discuss the glaring issues facing the banking and insurance sectors in general and public sector banks and insurance companies in particular.

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