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An insight and analysis of banking sector performance and insurance during the covid-19 crisis with specific reference to recent trends, challenges and growth measures

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Abstract: The insurance industry in India has experienced rapid growth during the past several years. Although a number of changes have been put in place to boost the sector's growth, there is still a long way to go since its percentage of the world's insurance market is still dismally low. In this essay, we examine the Indian insurance industry and chart its development and expansion. We also point out the sector's main difficulties. The Corona Virus, also known as Covid-19, has contributed to some disruption of global economic activity, including in India. Economic activities are generally regulated by the banking and insurance industries. The majority of economic activity in India is supported by diverse small, medium, and large monetary institutions. Banks faced credit risk from business and retail clients as the economy experienced a standstill during the shutdown. Business continuity was made possible by information technology and digitalized payment methods, which helped with a smooth transfer. During and following the pandemic, insurance has become a more popular product. Prior to the healthcare crisis, just 10% of Indians purchased health insurance; today, 71 percent or more of Indians believe that health insurance is a crucial tool in the fight against unexpected pandemics like Covid-19. Understanding how such catastrophes would affect the banking and insurance sectors at this point will help with proper revival measures that will ensure the needed economic support for businesses and the nation as a whole. The purpose of this conceptual paper is to study, analyze, and discuss the revival tactics used in the banking and insurance industries. The negative effects of the crisis were mitigated by measures of liquidity support, borrower aid, and monetary easing, but this was not always the case for all institutions or under all conditions.

Keywords: Banking sector performance,Business continuity, digitalized payment, insurance industries

Introduction:

India experienced the severity of the Covid-19 pandemic along with other nations around the world, which led to an imbalance in the regular operation of all sectors of our economy. Initial measures taken to control the spread of the virus by the Indian Government, such as imposing a complete lockdown except for the essential services, cast a shadow on the economy and caused financial crisis for small-time vendors, business establishments, and organizations. This was/is a serious issue. From the second quarter of 2020, economies around the world experienced sharp declines, while India's GDP was at 23.9 percent, an all-time low and a "historic technical recession," according to the RBI (Mukhopadhyay, 2021). Banks were under extreme pressure to provide financial services and guarantee there is no funding shortage nationwide. It was a difficult responsibility for banks to ensure the flow of money in the economy to meet people's basic needs (Limbare, Nitesh, 2014). Innovative thinking and technology-enabled services were required to reach individuals at their doorsteps or fingertips (Ashish and Devang, 2020). On the other hand, slower economic growth was accumulating "Non-Performing Assets." Lockdown regulations caused operational and service delivery problems. Several approaches have been proposed to address all of these issues. During plan execution, a number of difficulties were found. The only way out of the current issues is the revival of banking tactics. Because the healthcare crisis threatened people's lives, health insurance became increasingly popular. During the nation's health care crisis, insurance service providers have been crucial in demonstrating their mission-driven, robust, and adaptive approach. Health insurance suddenly became mandatory, which opened up more business prospects. It was definitely a topic that needed to be carefully considered for sustainability to map out these opportunities with potential risk and claim liability. Governments implemented mitigation techniques based on social exclusion, national quarantines, and the closure of non-essential companies to slow the spread of the new COVID-19. The corporate sector had a significant shock as a result of the economy's slowdown and the resulting income shortage, which forced them to scrabble for cash to fund operating expenses. With the help of much-needed funding, the financial sector, and banks in particular, are anticipated to play a significant role in absorbing the shock (Acharya & Steffen, 2020; Borio, 2020).4 In response to these unprecedented conditions,

central banks and governments implemented a wide range of policy interventions. While some policies sought to lessen the sudden tightening of financial conditions in the short term, others aimed to support the flow of credit to businesses, either through direct intervention in credit markets (such as government-sponsored credit lines and liability guarantees) or by loosening bank regulations on the use of capital buffers. Despite the fact that credit institutions are being asked to play a crucial countercyclical role in order to help the real sector, these activities also have a number of repercussions for the banking sector's long-term sustainability. For instance, lenders may see a decline in asset quality as they use up their current buffers, endangering the stability of the systems. The overall impact of these policy changes on the banking industry is largely unknown because it is anticipated that the crisis will persist long after the lockdowns are removed and economies begin to recover.India's insurance market has been expanding quickly, and relative to other countries, overall insurance premiums are rising quickly. The Indian insurance industry has grown at a compound annual growth rate (CAGR) of 16.5% over the last 17 years or so. Even when compared to other nations, the insurance penetration and density for FY 2017–18 were low at 3.69 percent and USD 73, respectively (IRDAI, 2019). These poor penetration and density statistics highlight the significant insurance gap and uninsured character of broad swaths of India's population. The household budget is subject to severe restrictions, adverse selection, moral hazard, and affordability concerns are among the explanations given for such low penetration rates.

Although India's insurance penetration and density in the life and non-life insurance sectors are low compared to sophisticated nations, they have recently shown a gradual but consistent growth trend. The nationalization of the life and non-life insurance sectors, the creation of the Insurance Regulatory and Development Authority (IRDA), the opening of the market to private and foreign players, and the raising of the foreign investment ceiling to 49% have all had a significant impact on the industry in recent years. The industry has changed from being a monopolistic state enterprise to a free market.59 insurance companies currently make up India's insurance industry, of which 24 are engaged in the life insurance industry and 35 are non-life insurers (including re-insurers) (IRDAI, website). With a sizeable proportion of 74.7%, the life insurance industry dominates the Indian insurance market. The remaining 25.3% is made up of non-life insurance (IRDAI, 2018). India's insurance industry has expanded at a compound annual growth rate (CAGR) of 16.5% during the course of the last 17 years or so. However, the penetration and density of the Indian insurance market are pitifully low, which is a reflection of the industry's underdeveloped state. Even after implementing a number of reform initiatives, the Indian insurance sector still has a long way to go in comparison to the insurance industries in industrialized nations, accounting for just 2% of the global insurance market in 2017.The modern financial landscape in India has changed since financial reforms were embraced in accordance with the First Narasimham Committee's recommendations. Particularly banks expand into a number of new markets and provide cutting-edge products, including merchant banking, lease and term financing, capital market and equity market-related activities, hire buy, real estate financing, and so forth. As a result, banks today are much more diversified than before. Since "insurance" is yet another financial product that bank clients need, their entry into the insurance market is only a logical corollary and perfectly warranted.

Key features of Indian Banking and Insurance Sector:

- Sectors that are well-structured: The Indian banking and insurance system is particularly well-structured; it focuses on the needs of each region of the nation while promoting economic progress. Starting with the RBI, which is the highest authority, followed by commercial banks, co-operative banks, regional rural banks, development banks, specialized banks, and most recently, the government initiative MUDRA, or For new start-ups, the Micro Units Development and Refinance Agency Bank considers all factors, including commercial, trade, import-export, and agricultural upliftment. Similar to how the IRDA has instructed, insurance policies place a strong emphasis on customer interest, technological utilization, and a flawless distribution system that makes transactions simple.
- Public sector institutions and banks that have a government-owned majority share are considered to be dominant. 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. Individuals favor these over private entities, institutions. The primary reason for the public sector's dominance is the public and regulatory framework. The Insurance (Amendment) Act of 2015 increased the percentage of ownership from 29% to 49%, but the public sector continues to play a major role. Additionally, data indicates that the private sector has only contributed 13% and 14% of the total share of life and non-life insurance, respectively, over the course of history.
- Perfect regulatory framework: The banking and insurance industries in India are flawlessly controlled by the RBI and IRDA, which were created in the years 1935 and 1999, respectively, with an emphasis on protecting the interests of the local populace. With quarterly monetary policies, RBI is able to either draw money from or pump it into the market, maintaining economic stability. While the IRDA's mission statement makes it plain that the insurance industry should grow quickly and orderly and have the best possible self-regulation.

- Numerous work opportunities: In India, the banking and insurance industries have consistently been the top employment options. 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 government data from 2012–2013, life and non-life insurance provided employment to 18.27 lakh (11.54 lakh Life and 6.73 lakh Non-Life) Indians, helping to maintain India's economic cycle.
- Great contributors to the Indian economy's service sector include: McKinsey estimates that banking could account for 7.7% of GDP, which would be a very positive development for the Indian economy. According to Insurance Penetration of India, premiums collected by Indian insurers accounted for 3.30% of the GDP in 2014–15. Young and mature sectors in India: These two sectors have the potential to appeal to every Indian, yet they are both still developing. The broad structure and ideal governing body are ardently and forcefully attempting to achieve this.

In 2020, COVID-19, a virus with a diameter of 0.12 microns, spread a cloud over the world economy. The virus had caused more than 128 million illnesses and more than 2.8 million fatalities globally by the end of March 2021. The year 2021 has started off with both optimism and anxiety as many regions of the world are preparing to shut down and prepare for fresh waves of viruses and quickly transmissible mutations. The simultaneous approval of numerous vaccinations has sparked vaccination campaigns all around the world, albeit at varying rates. By March 31, 2021, about 600 million vaccination doses had already been given, despite the fact that vaccine manufacturers are struggling to make vaccines that can keep up with mutations. In any case, 2020 will be remembered as the "Great Lockdown" year in human history 1, with output losses much exceeding those experienced during the 2008–2009 global financial crises (GFC). Around 8.5% of global commerce shrank, with services trade contracting at a faster rate than product trade.The unprecedented policy responses that, despite not being coordinated, turned out to be synchronized in 2020 will also be remembered. Around the world, a slew of conventional and unconventional measures were implemented, with monetary authorities slashing policy rates to zero and below in real terms — and even to zero in nominal terms in some countries — while carrying out extensive asset purchase programs, payment deferral schemes, offering public guarantees, opening up emergency funding options, and providing a surplus of liquidity to financial markets. The fiscal authorities' stimulus program, which totaled US$ 16 trillion, was also unprecedented in its scope and magnitude (15.3 per cent of the GDP). US$ 10 trillion of the whole sum represented increased spending or lost revenue, while US$ 6 trillion was liquidity support in theguarantees, loans, asset/debt purchases, and equity investments are some examples. Resulting from this policy retaliation, financial conditions were greatly eased andinjected stability into the financial system, containing growth's potential downside risks.

Literature Review:

By giving all the assistance needed in this difficult time, banking and financial services have played a significant role in aiding the general population, important institutions, business establishments, etc. Because bank employees all around the country volunteered to help the country, the economy's cash flow was not significantly impacted at this time. Small private banks' lack of liquidity forced them to cut back on lending, which put small businesses and vendors that depend on banks to revive their businesses at risk of having weak finances and low liquidity. Additionally, in this scenario, the corporations risk loan default. Impact of Covid-19 has depicted an unfavorable climate for the banking sector (Singh; Bodla, 2020). With a surge in non-performing assets (NPAs), the unprecedented economic crisis poses a hazard. To find the defaulters, commercial banks would need to completely restructure their operations. To help problematic borrowers and hasten the recovery of the economy, a rigorous monitoring system for loan provision is required (Rao, 2020). Due to COVID-19, the country has temporarily been able to stabilize cash inflows; nonetheless, banks in India will have to withstand trillion-dollar credit and revenue losses for the remainder of this fiscal year and for many years to come. According to a research finding, issues for banks may arrive in two stages. The banks would have significant credit losses during the first phase of the current fiscal year 2021. The second phase would begin in the midst of a slow global recovery, and banks would be faced with a significant difficulty due to continuous operations that might last into 2024 (Lal, 2021, McKinsey & Co.)

Recent Trends in Banking and Insurance Sectors:

Putting an emphasis on innovation to maintain and improve competitive differentiation: According to Capgemini, new Fintech firms are posing a threat to established financial institutions. As a result, proactive strategy is necessary to develop novel solutions in order to keep up with them. This is primarily due to shifting consumer expectations and demography.Changes in transaction methods: Real Time Gross Settlement, electronic fund transfers, electronic clearing services, ATM point-of-sale terminals, and mobile banking are just a few of the new methods that have altered banking procedures. The use of online payment, telephone and

online advising services, cross-processes with banks, and other similar technologies by insurance companies today has led to increased distribution, product innovation, claim handling, etc.

Evolution and growth of the insurance sector in the Indian context:

Even though the industry has been opened to private and foreign competitors, and private sector insurers are rapidly expanding their presence, public sector insurers still control the majority of the Indian insurance market. The insurance industry in India has seen a paradigm shift in the past few years, going from being an exclusive state monopoly and a constrained market to a competitive and open one. India's insurance industry has experienced impressive expansion. During 2017, the overall insurance premiums in India climbed quickly at a rate of 10.1% compared to the global average increase rate of 1.5% (IRDAI, 2018).With its huge market share, life insurance continues to rule. Due to the introduction of novel products like unit-linked insurance plans in the life insurance industry and new distribution channels like bancassurance, the product mix of the sector has altered. NBFCs and online distribution are expanding the sector's reach (IBEF, 2019). The Life Insurance Corporation (LIC) is the only public sector organization among the 24 life insurers currently active in the Indian market. The non-life insurance market is expanding thanks to the motor, health, and crop insurance divisions. Six public sector insurers are among the 35 non-life insurers. In addition to these, General Insurance Corporation of India is the only national reinsurance company (GIC Re). Individual and corporate agents, brokers, surveyors, and third-party administrators handling health insurance claims are additional participants in the Indian insurance industry.

History and evolution of India Insurance Sector:

In India, the insurance industry first emerged in the 19th century. Only a few British insurance businesses existed at the period, and they were concentrated in India's main towns (Gupta, Anand, and Rana, 2016).The Indian Insurance Companies Act, passed in 1928, gave the government the ability to compile statistics on life and non-life insurance transactions made in India by domestic and international insurers, including provident insurance societies. The Insurance Act of 1938 was the first comprehensive law that combined and updated earlier laws in order to protect the insurance public's interests by including provisions for effective oversight over insurers' operations (Hasan, 2015). Foreign insurers dominated the industry before independence. Following 1956, the state-owned LIC primarily provided insurance products that served as tax-saving measures (Gupta, Anand, and Rana, 2016).

Nationalisation:

Nationalization was the first significant development in the post-independence era. With the issuing of an ordinance by the Government of India on September 1st, 1956, 245 entities (154 Indian insurers, 16 non-Indian insurers, and 75 provident societies) were combined to form the Life Insurance Corporation of India, a government-owned autonomous body (Chandrapal, 2019). This choice was made in light of the growing number of insurance providers, intense competition, and claims of unethical business methods. The General Insurance Business (Nationalisation) Act, 1972 thereafter went on to nationalize the general insurance industry as well (GIBNA). The General Insurance Corporation (GIC) was subsequently established as a private business in accordance with the Companies Act of 1956 (GIC, 2017). A total of 107 insurance companies 63 domestic and 44 foreign were combined into four businesses that became wholly owned subsidiaries of GIC.

Privatisation and Liberalisation:

A powerful committee led by the former governor of the Reserve Bank of India (RBI), R. N. Malhotra, was established by the government in 1993 with the mission of reform-recommending structural analysis of the Indian insurance sector. Two very important recommendations were made by the committee: first, allowing both domestic and foreign private companies to operate in the sector, as well as allowing foreign insurers to enter the market by floating Indian companies (preferably a joint venture with Indian partners). Second, it suggested establishing an independent organization called the Insurance Regulatory and Development Authority (IRDA) to oversee the insurance industry.The Malhotra Committee's recommendations led to the formation of the IRDA as a statutory body in 2000 and as an autonomous body in 1999. With the implementation of the IRDA Act, 1999, the monopoly granted to the Life Insurance Corporation in 1956 and the General Insurance Corporation in 1972 was revoked. The industry was opened to private and foreign players in August2000, and foreign firms were permitted to own 26% of the market (IRDAI, 2007a). The IRDA's main goals include fostering competition to increase customer satisfaction through greater consumer choice and lower premiums while preserving the market's financial stability (Hasan, 2015). In August 2000, IRDA invited applications for registration, thereby opening the market.

Further liberalisation initiatives:

Over the past few decades, there has been a persistent global trend toward deregulation, increased competition accompanied by a sharp increase in insurance sales, the emergence of new distribution channels, and the fusion of previously distinct financial services sectors such as insurance, banking, and securities dealing and underwriting (Nayak and Mishra, 2014). The Government of India has announced a number of initiatives to internationalize and expand the insurance sector in the last few years in an effort to keep up with the rest of the world. With the passage of the Insurance Laws (Amendment) Bill in 2015, the insurance industry underwent further liberalization. The General Insurance Business (Nationalisation) Act, 1972, and the Insurance Regulatory and Development Authority (IRDA) Act, 1999 all underwent significant reform as a result of the bill's passage.

Performance of banking sector post covid-19:

The RBI has instructed banks to waive some of the principal and interest that applies to borrowers, and they have further relaxed the rules by designating these waivers as non-performing or restructured assets. This has been done to offer relief and financial support to help borrowers overcome the difficulties (EY, 2020). Such borrowers experiencing short-term and long-term financial difficulties will need to be given priority, tracked, and monitored by banks. Banks will undoubtedly encounter difficulties when estimating the collaterals and taking them into account for such provisions due to the pandemic's continuing effects. To maintain a strong risk management function and recovery practices, banks would be required to follow up with each borrower to determine their capacity to repay.

NPA's:

By providing the option to stop loan repayment for a period of six months, or until December 31, the Reserve Bank of India has carried out rescue operations for banks as well as borrowers (March-August). To accommodate the needs of lending operations, it has reduced the repo rate as much as possible and offered special credit. The loan moratorium has protected the banks from an increase in band loans. According to the RBI's most recent report, "data on gross non-performing assets (GNPA) of banks are yet to reflect the stress," which means that the sums advanced as loans for some borrowers who are unable to repay but are also protected by the moratorium need to be considered bad loans. Additionally, the Indian Supreme Court has directed banks to refrain from designating defaulters as non-performing assets (NPAs) for the time being (Mulye, 2021).

Performance of Insurance sector post covid-19:

Health insurance is the most sought-after good among the working class in the nation due to rising medical costs for procedures in private medical facilities and the protracted phase of the healthcare crisis. By collecting more premiums than motor insurance, health insurance as a product overtook it as the most lucrative market. Due to the lockdown's impact on vehicle sales, which resulted in insurance premiums dropping 13.3% year over year, health insurance rose to the top spot. The Insurance Regulatory and Development Authority of India (IRDAI) has mandated the Corona Kavach Policy, which pays hospitalization costs if the insured is diagnosed with COVID-19. The motor insurance industry is still working very hard to achieve pre-pandemic positions. In the past, "group policies" or MNCs and other large organizations that would cover their employees were what drove the prominence of health insurance premiums. Following the pandemic, the number of people purchasing policies increased noticeably, with the premium for individual policies rising by 34% in the second and third quarters of 2020.

Scope and challenges for revival:

According to the RBI's Financial Stability Report, the gross non-performing asset (GNPA) ratio of banks may further rise from 7.5% in September 2020 to 13.5% in September 2021 as a reference point, but if there is instability in the macroeconomic environment, the ratio may rise as high as 14.8%. By giving banks the chance to reevaluate the borrower's credit worthiness after the moratorium period is over, the RBI can help banks even more in protecting them from bad loans. Banks can concentrate on enhancing and developing reliable online banking and e-wallet payment services to help their customers feel more confident about the security of their transactions. To encourage and gain greater popularity among users, the fees associated with such transactions can be reduced. In the event that premiums are not paid or the renewal of the policies is delayed, the insurance service providers may extend the time period. The BFSI industry would need to have a diligent monitoring process in place to spot and disclose significant occurrences like borrower bankruptcies or the impact on lending operations of liquidity or business issues in specific industries like real estate, Small and Micro Enterprises (SME), etc. The current financial crisis will have an effect on the capital markets, and numerous businesses, banks, and financial service providers will deal with customers who are currently experiencing financial

difficulties that will further affect their credit rating and loan repayment. If covenants are broken, these loans would be categorized as non-performing assets.

Conclusion:

The Indian banking and insurance industries have undoubtedly been affected by COVID-19. Following a significant setback, institutions that use the recession to refine their business models are likely to benefit more from the opportunity to recover with vigor for stabilizing the institutions by taking thoughtful actions to ensure relief for customers and employees. The road ahead will not be easy, but financial services and insurance players will come out of this crisis as stronger, more self-assured, and socially responsible institutions if they adopt a vigilant and workable short-, medium-, and long-term action plan. After investigation, it was discovered that our public sector banks continue to lag behind in a number of areas, including overburdened service delivery, lost time from business operations leading to lower profitability, and rising NPAs. The insurance industry is also growing very slowly—in terms of points only—and consumer confidence in insurance products is still very 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 main drivers of the Indian economy, these two sectors' GDP contributions are very small, according to the paper. To support India's Vision 2020, ground level measures must be implemented.

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