INSURANCE AND BANKING

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Abstract :-

Economic reforms over the last one and a half decades have radically transformed the operational environment which increases the significance of insurance and banking system. Both of them provide fast promising financial services. It performs remarkable feats by insuring the insurable public and increases the savings and investment in metro cities, big towns and rural areas also. In this paper, an attempt has been made to throw light on basic concept of insurance and banking, contemporary issues related to insurance, link between insurance and banking.

1. Introduction :-

It is commonly acknowledged phenomenon that are countless risks in every sphere of life par property there are fire risks for shipment of goods there are perils of sea, for human life there are risks of death or disability. The risks are uncertain they may occur or not people facing common risks come together and make their small contributions to the common fund. Insurance is a form of protective coverage from risk that allows a person to be financially stable after an unexpected event. Insurance provides payment for large expenses that suddenly appear. Insurance is defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person insured against the risk on the other hand the banking system occupies an important place in a nation's economy. The word bank has been originated from the French word 'Banke'. The real meaning of bank is heap or maintain ant it indicates toward a joint found collected by many persons. According to banking regulation act, 1949 sec. 5(B) banking means the accepting of deposits of money from the public for the purpose of landing or investment. Which are repayable on demand or otherwise and are with drawable by cheque, draft order or otherwise. Insurance has been defined to be that in which a sum of money as a premium is paid by the insured in consideration of the insurer's bearing the risk of playing a large sum upon a given contigans. A banking institution is indispensable in a modern society. Bank is any organization engaged in all of the function of banking i.e. receiving, collecting , transferring, paying, landing, Investing, dealing, exchanging and servicing money and internationally.

2. HISTORICAL BACKGROUND:

Bank of Hindustan was set up in 1870; it was the earliest Indian Bank. Later, three presidency banks under Presidency Bank's act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras were set up, which laid foundation for modern banking in India. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India. Imperial bank carried out limited number of central banking functions prior to establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange. Reserve Bank of India Act was passed in 1934 & Reserve Bank of India (RBI) was constituted as an apex body without major government ownership. Banking Regulations Act was passed in 1949. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company , which was founded in 1906, and is still in business. The Government of India issued an Ordinance on 19 January 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalisation) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 January 1973.

3. Types of Insurance:-

1. Life insurance
2. General insurance

- **Life insurance in India** Life insurance in its existing form came to india from the united kingdom with the establishment of a british from oriental life insurance company in Calcutta in 1823. Later in 1928, the Indian insurance companies act was exacted to enable the govt. to collect statistical information about both life and non life insurance business including provident insurance societies.

- **GIC and its subsidiary:-**

In 1973 the business of 107 private general was taken over by the govt. and amalgamated and distributed among general insurance Corporation and its four subsidiaries vi2. New Indian Insurance, oriented insurance, National insurance and united Indian insurance. GIC is the holding company and today undertakes mainly Reinsurance business

✓ **Insurance Organization in India**

- LIC- Life Insurance Corporation -1956
- GIC- General State Insurance Corporation in – 1948
- DIC – Deposit Insurance Corporation – 1962

4. CONTEMPORARY ISSUES:-

1. **Increased pension coverage-** A few years back FICCI conducted a study on pension as a social security scheme. Indian demand for pension products world be very large. Building of retirement benefits in a structured manner remained confired to only the employed sector and the social security benefit in a small measure is available only to the destitute above 65 years of age. Pension benefits are available to employ in organized sectors like government and private. At present, there is no pension benefit for self employed and agricultural workers in the unorganized sector.
2. **Convergence of insurance and Banking Industry-** It was the evolution of banks entering in to the insurance sector and selling products across the counter that saw an increasing reach in to the rural areas. Insurance spread Across the country as banks offered to cross sell products. The concept of universal banking is now taking a shape in Indian financial sector & the very scope of insurance business will be widened.For example: SBI LIFE INSURANCE COMPANY ltd. And other banks with hair joint ventures have started making a dent in to rural business.
    - **Bank Assurance**: public sector banks in India can emerge as leading players in the distribution of insurance products across all parts of the country.

3. **Alternate Channels of Distribution** : Multiple distribution channels help insures reach out to different sectors of society , eith trade unions or post offices being focal points of sale. New channels of distribution and marketing have seen the emergence of customization of insurance covers tailored out to meet the various needs of specific groups. The distribution channel play important role in increasing the quantum of insurance business.
4. **Intermediaries & distribution channel:** In the light of one of the important contemporary issues of insurance sector, the modern set up of intermediaries & distribution channel now comprises the following:
   - **Direct Response**: include telephone, off the page, mail and tv etc.
   - **High Street** : include banks branches, finance houses, retail stores etc
   - **Electronic**: includes internet, interactive tv etc.
   - **Agency:** includes issues, conduct, cruality, demand for exclusivity, cost etc.
   - **Financial advisior**: includes independent financial advisor, stock and securities brokers.
5. **Uniform Tax Concessions**: At present, tax rebate is granted on repayment of loans taken from lic for the purchase and construction of residential houses under section 88 of the income tax act. The private life insurers have also demanded a level playing field with the life insurance corporation ofindia on the above tax concessions. Many companies of the private sector such as prudential icici life, hdfc standard life, sbi life, om kotak life, tata air, birla sun life, bajaj allianj life have already started life insurance business in a big way. They are now reffering to the budget statement of finance minister for insuring "level playing field for private companies. Tax concessions on uniform basis in the insurance sector
6. **Cost and Competitiveness:**

   Life Insurance Corporation's Monopoly has been broken with new players entering the life insurance sector. It is facing a challenge from private sectors players who may cut on the business of L.I.C for the customers who now want to have life covers for which there are many providers. Different companies rules of their administration cost of life covers also differs.

7. **Exposure Norms for Public and Private Sector:** The regulator has also barred life Insurance Companies from entering in to reinsurance treaty arrangements with its promoter company or any other associate or group companies without prior approval. It also said that the efforts of each company while making the reinsurance programme should be to maximize retention of premium earned with in the country.

5. Impact of Insurance:

The growth of insurance worldwide and its influence on the govt. action provides a clear indication of the relevance and importance of this sector in the Indian Economy with the opening up of the insurance sector, policy holders and investors will be exposed to a wide range of products. In a liberalized market, the country can gather investment for infrastructure growth. Competition can bring a healthy insurance industry more competitors are going to attract the consumer by the service that is being offered and do the customer will become the ultimate focal point. Insurance act 1938 prescribes fairly rigid guidelines for investment of insurance funds at present. As much as 75% of the investment has to be in govt. owned & other securities. If this inflanibility continous the insurance companies will have very little to earn more on their investment.LIC has concentrated more on individual assurance over the period. LIC infact is using software packages developed its house in all their 2048 branches .It has also networked their city branches of Mumbai, delhi, banglore ,Chennai. The policy holder can tender premium anywhere and thus distances are eliminated. Foreign companies will use superior software like appease that will give them an edge over the inhouse LIC software. The competition will ensure a decrease in price levels. Banks will start to be one of the new channels in this market. The structure changes resulting from liberalization will cause fundamental changes. In the market behavior within the insurance industry. In future companies may compete over prices, products, underwriting criteria, innovative sales methods and financial standing. The liberalization of insurance prices will impact the transparency of the market. Insurance companies globally are actually investment companies. In India, they could give mutual funds a run for their money. It may be possible to look at insurance as a serious investment option. Finally insurance companies can take a leaf out of the customer durable companies and offer their equivalent exchange schemes. In this era of competition, no one insurance company can sulk at this success and maintaining the performance will be a tough task.

6. Link between Insurance and banking:

A bank is an organization that provides banking services like bank accounts, credit cards, loans etc. to the customers whereas an insurance company provides insurance. The main difference between a bank & insurance company is the fact that it is not a bank. It provides insurance services like bank accounts, credit cards to the customers. Banking is a dependable and constant institution where for the most part, consumers know what they are getting. Insurance on the other hand is based on a number of subjective variables that makes it a different experience for each separate individual. Industry and banking are interlinked as federal depart insurance corporation a govt. agency insures deposit accounts no. depositor has lost money from insured funds. Insurance companies globally are actually investment companies.

7. Conclusion:-

We can say that insurance & banking act as a catalyst in the financial world. Insurance play a vital role in helping growth of individual and economy. Both help us to face challenges in future both provide protection from risk /losses and promote capital formation. People do not get benefits from these due to provide a comprehensive coverage in a systematic manner.

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