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REVIEW ARTICLE

"ASSESSMENT OF NEW ECONOMIC REFORMS IN BANKING INDUSTRY"

"Assessment of New Economic Reforms in Banking Industry"

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Emerging markets and developing economies face one of the central issues namely strengthening of financial systems. This is due to the reason that sound financial systems serve as an important channel for the achievement of economic growth through the mobilization of financial savings, putting them to productive use and transferring various risks. Many countries adopted a series of financial sector liberalization measures in the late 1980s and early 1990s that included interest rate liberalization, entry deregulations, reduction of reserve requirements and removal of credit allocation. In many cases, the timing of financial sector liberalization coincided with that of capital account liberalization. Domestic banks were given access to cheap loans from abroad and allocated those resources to domestic production sectors. Since the Asian financial crisis of 1997-1999, the importance of balancing financial liberalization with adequate regulation and supervision prior to full capital account liberalization has been increasingly recognized. The crisis was preceded by massive, unhedged short –term capital inflows, which then aggravated double mismatches and undermined the soundness of the domestic financial sector. A maturity mismatch is generally inherent in the banking sector since commercial banks accept short-term deposits and convert them into relatively longer-term, often illiquid, assets. Nevertheless, massive, predominantly short-term capital inflows-largely in the form of inter-bank loans-shortened banks' liabilities thus expanding the maturity mismatch. This paper focuses on India's banking sector, which has been attracting increasing attention since 1991 when financial reform programme was launched. This paper throws light on some of the developments that have taken place in the Indian banking sector and challenges ahead for the banking sector as a result of process of banking reforms initiated in 1992.

Economic Reforms of the Banking Sector in India

Indian banking sector has undergone major changes and reforms during economic reforms. Though it was a part of overall economic reforms, it has changed the very functioning of Indian banks. This reform have not only influenced the productivity and efficiency of many of the Indian Banks, but has left everlasting footprints on the working of the banking sector in India.

India's gross domestic product (GDP) likely grew around 7.3% in the July-September quarter, up from 7% in the first quarter of FY16, but it remained below the country's potential, Moody's Analytics said on Friday. Though India's potential is around 9-10% GDP growth, it said closing the negative output gap is difficult as external headwinds are blowing stronger and the government has failed to deliver promised reforms.

"We believe GDP will grow at 7.6% this year and in 2016," it said. Key economic reforms including in land acquisition, a national goods and service tax, and revamped labour laws, would help the country deliver higher GDP growth, it said. The World Bank on Thursday retained growth forecast for India at 7.5% for this year citing a pick-up in investment due to higher capital expenditure by the Centre. India's GDP grew by 7.3% in FY15.

However, Moody's cautioned that getting the Rajya Sabha nod to some of the key reforms could get obstructed by an "obstructionist" opposition as recent controversial comments from ruling-Bharatiya Janata Party members won't help the government's cause. The ongoing state election in Bihar-one of India's largest and poorest states-could prove pivotal to (prime minister) Modi's leadership, it said. A win, would help the ruling party secure a majority in the Rajya Sabha. Unlike in the Lok Sabha, the GST bill is held up in the Rajya Sabha as the government does not have a majority in the upper house.

While global market sentiment has been down, Indian equities have also suffered from a loss in domestic sentiment. Bank balance sheets are still reeling from the economic slowdown in 2013. Profits slumped earlier in the year, and nonperforming loans hit a 14-

year high. Thus, banks have been reluctant to expand investment. This explains the little sign of an upward trend in credit growth this year.

There are also indications that investors have been less optimistic about India's economic prospects. Net financial flows into equity were around $16 billion in 2014. However, they are unlikely to reach those highs this year. The same can be said about financial flows into India's debt market. The RBI is consistently looking to improve India's banking and financial structures. "We believe a move towards full capital account liberalisation is inevitable in India. This will likely occur in the next two to four years. A freer capital account will give Indian companies greater access to overseas markets, lower borrowing costs, and facilitate credit growth—a key ingredient to increasing investment," it added.

Economic Reforms in India since 1991

The Indian Government has introduced many Economic Reforms in India since 1991. In 1990-91 India had to face grave economic problem. India was facing serious deficiency in her foreign trade balance and it was increasing. Since 1987-88 till 1990-91 it was increasing in such a rapid scale that by the end of 1990-91 the amount of this deficit balance became 10,644 crores of rupees.

At the same time the foreign exchange stock was also decreasing. In 1990 and 1991 the government of India had to take huge amount of loan from the IMF as compensatory financial facility. Even by mortgaging 46 tons of gold it had taken short term foreign loan from the Bank of England.

At the same time, India was also suffering from inflation, the rate of which was 12% by 1991. The reasons of that inflation were the increase in the procurement price of the agricultural products for distribution, the increase in the amount of monetized deficit in the budget, increase of import cost and decrease in the rate of currency exchange and Administered price like. Thus she was facing trade deficit as well as Fiscal Deficit.

To get relief from such a grave problem the government of India had only two ways before it

1. To take foreign debt and to create favourable conditions within the country for increasing the flow of foreign exchange and also to increase the volume of export.

2. The other was to establish fiscal discipline within the country and to make structural adjustment for the purpose.

Hence the government of India had to introduce a package of reforms which included:

1. To liberalize the industrial policy of the government and to invite foreign investment by privatization of industries and abolishing the license system as a part of that liberalization.

2. To make the import-export policy of the country more liberal and so that the export of Indian goods may become more easy and the necessary raw materials and instruments for both industrial development and production of exportable commodities may be imported and also to facilitate free trade by reducing the import duty.

3. To decrease the value of money in terms of dollar

4. To take huge amount of foreign debt from the IMF and the world Bank for rejuvenating the economic condition of the country and to introduce the structural adjustment in the economic condition of the country as a pre-condition of that debt,

5. To reform the banking system and the tax structure of the country and

6. To establish market economy by withdrawing and restricting government interference on investment.

The Economic liberalization has helped India to grow at faster pace. India is now considered one of the major economies of Asia. The Foreign investments in India have increased over the years. Many multinational companies have set-up their offices in India. The per-capita GDP of India have increased, which is a sign of growth and development.

It is evident from the reforms introduced in the Indian economy that from a planned economy it has moved towards a free-market economy. Though we still have mixed economy with both the public and private sectors coexisting but the role of private sector which is governed by market forces has been greatly increased and that of the public sector greatly diluted. So we now have a mixed economy with greater orientation towards a free market and private sector.

Rise in Foreign Exchange Reserves and Growth in Exports

It may be said in favour of economic reforms that today we face no longer any foreign exchange crisis which prompted the initiation of these reforms. Foreign exchange resources which had gone too low in 1991 have substantially increased in the post-reforms period. Foreign exchange resources rose to 100 billion US dollars in Dec. 2003 and further to about 145 billion US dollars in March 2006 and on end-March, 2008, the foreign exchange reserves stood at 310 billion US dollars.

During 2008-09 there was capital outflow from India due to global financial crisis and as a result foreign exchange reserves fell to US $ 252 billion in March-end 2009. However, during 2009-10 there was reversal of capital flows and as a result foreign exchange reserves rose to US $ 270 billion on end-March 2010 and to US $ 300 billion in end-March 2011. Foreign exchange reserves were $ 275 billion in September, 2013.

New economic reforms, especially trade liberalisation, removal of excessive control over private sector and devaluation of rupee in July 1991 (and later floating of rupee) had a beneficial effect on growth of Indian exports. The growth rate of merchandise exports picked up during 1991-97 when on an average growth rate of 11, 7 per cent per annum was registered. However, during the Ninth Plan period (1997-2002) rate of growth of exports fell to 6 per cent per annum due to global recession during this period.

After 2002, growth rate of exports substantially increased and during 2003-04 to 2007-08 growth rate of 25.4 per cent per annum in exports was achieved. Thus reforms in the external sector have yielded good results in growth of exports and invisibles (i.e., services and private transfers). However, growth of imports also increased due to liberalisation of trade through reduction of tariffs and elimination of quota restrictions.

Even with the growth of imports balance of payments on current account improved; deficit in current account which was 3.1% of GDP in 1990-91 fell to 1.4% in 1997-98 and to 0.5 in 2000-01. For these years (2001-02, 2002-03 and 2003-04, there was surplus in balance of payments, that is, there was net investment abroad by the Indians. With 2004-05 onwards there has been again deficit on current balance of payments which was 1.2%, 1.1% and 1.5% of GDP in 2005-06, 2006-07 and 2007-08 respectively which was quite small. This represents net inflow of capital and is a good thing.

Control over Inflation:

The annual rate of inflation as measured by the change in wholesale price index (WPI) which was brought down from about 17 per cent in August 1991 to 4.5 per cent in 1997-98, again went up to year-on-year basis to 7.1 per cent in 2000-01. But it came down to 3.6 per cent in 2001-02, 3.4 per cent in 2002-03 and went up to 5.5 per cent in 2003-04 and 6.5 per cent in 2004-05. Average annual inflation rate (based on WPI, 1993-94 = (100) was estimated at 4.4 per cent in 2005-06 and around 5.4 percent in 2006-07.

Thus, inflation was brought under control. It may however be noted that for controlling inflation, credit must be given to prudent monetary policy produced by the Reserve Bank of India. Even after economic reforms with exception of few years fiscal deficit has been quite large which generated inflationary pressures in the Indian economy. Tight monetary policy of the RBI succeeded in neutralizing to a great extent the possible inflationary impact of the large fiscal deficit.

However, inflationary pressures were built up during 2006-07 and 2007-08 though with the adoption of proper monetary measures by RBI and reduction in fiscal deficit by the Government, they were kept under check. But from March 2008, inflation rate as measured by WPI flared up and year-on-year inflation rate crossed 9 per cent in June 2008 and continued unabated and crossed 11 per cent in August 2008 and reached a peak level of 12.6 per cent in mid-Sept. 2008.

However, from the second half of2009-10 inflation rate again started rising and became a matter of concern. The financial year 2010-11 started with a double digit headline inflation of 11.0 per cent in April 2010. After remaining in double digits from April to July 2010, inflation started falling for the whole financial year 2010-11, WPI inflation was measured at around 9 per cent which was quite a high level. In spite of good monsoon in 2010-11 and high agricultural growth rate of 6.6 per cent in this year, food inflation jumped to double-digit level and stood at 13.6 per cent in Dec. 2010.

During FY 2011-12 also both WPI inflation and food inflation continued at an elevated level and was around 7.3 per cent. However, inflation as measured by consumer price index (CPI) remained at a high level of 9.8% per cent Y-O-Y basis in March 2013. Food inflation rose to 18 per cent Y-O-Y basis in August 2013 despite 70 million tonnes of stocks of food-grains with government. Nearly double digit inflation rates in terms of consumer price index (CPI) and a very high rate of food inflation is a matter of serious concern as it erodes the real income of the common man. It hits the poor man badly.

Acceleration of Economic Growth:

It may be noted that growth rate of industry where major reforms were undertaken, was estimated to be higher at 7.6 per cent per annum in the five year period during 1992-93 – 1996-97 (omitting the year 1991-92) as compared to 6.6 per cent achieved in the pre-reform decade 1980-81 -1990-91. The growth rate of 6.7 per cent per annum in GDP achieved during the period 1992- 93 to 1996-97 was also higher as compared to the eighties.

However, during the Ninth Plan period (1997-2002), the growth rate of industry declined to 4.6 which are far less than the industrial growth in the pre-reform period. The overall growth rate in GDP during the five year period of Ninth Plan, 1997-98- 2001-02 was 5.5 per cent which was also less than that of pre-reform period. The lower industrial growth during 1997 to 2002 resulted from global recession and also sluggish domestic demand conditions which arose due to decline in public sector investment and lower growth rate of agriculture. However, during the Tenth Plan period (2002-07) annual growth rate of industry rose to 8.6 per cent and of GDP to 7.8 per cent. In the four year period 2003- 04 to 2007-08, average annual growth rate of GDP has been over 9 per cent. Due to global financial crisis, growth rate in 2008-09 fell to 6.7% but it again went up to 8.6 per cent in 2009-10 and 9.3 per cent in 2010-11.

In fact, in the four years (2005-06, 2006-07, 2007-08 and 2010-11) annual average growth rate in GDP exceeded 9 per cent and the acceleration in growth rate is the big achievement of economic reforms. With this higher GDP growth India has become the second highest growth rate country in the world, next only to China.

This higher growth rate has been driven mostly by higher domestic investment which in 2007-08 was estimated to be 37.7 per cent of GDP. This higher investment has been substantially financed by domestic saving which was estimated a/36 .4% of GDP in 2007-08. In bringing about this higher growth, privatisation and liberalisation of the Indian economy which were undertaken under the economic reforms started in 1991 have played an important role.

With these reforms India became one of the fastest growing economies of the world. However, it may note that as a result of world financial crisis (2008-09) which started due to defaults in sub-prime housing loans in the US and spread to all other countries also hit the Indian economy. This adversely hit our exports and also investment in the Indian economy. Therefore, growth rate in GDP fell to 6.7 per cent in 2008-09 but it again went up to 8.6 per cent in 2009-10 and 9.3% in 2010-11.

It is worth noting that services sector in India, like that in most developed countries, is the dominant sector in determining economic growth. The compound annual growth of the services sector was on an average 9 per cent for the period 2004, – 05 to 2011-12 and far exceeded the GDP growth of the industrial and agricultural sectors. I n 2011 -12 and 2012-13 in tune with the general slowdown in the Indian economy, the growth rate of the sendees sector also declined.

The slowdown in growth rate of the services sector in 2011-12 and 2012-13 from the double digit growth of the previous six years contributed significantly to the slowdown in the overall growth of the Indian economy. While some slowdown in growth of services sector can be attributed to the lower growth in agricultural and industrial activities, given the backward and forward linkages with the services, lower demand from the rest of the world has also played a part.

The government decided to go in for a special unemployment survey in 2011-12. According to this latest data India's employment rate has declined to 38.6% of population in 2011-12 of labour force from 39.2% in 2009-10. In 2004-05 the employment rate was 42% of population. As a result of this unemployment rate on usual status basis rose to 2.7% in 2011- 12 from 2.5% in 2009-10.

The number of unemployed on usual principal and subsidiary status basis rose to 10.8 million in January 2012 from 9.8 million in January 2010. The special unemployment survey data 2011-12 reveals that only 2.7 million new jobs were created in the five years between 2004-05 and 2009-10 – sharply lower than the 60 million jobs created in the previous five years.

However, according to unemployment survey 2011-12, 14 million new jobs were added in the two years between 2009-10 and 2011-12, nearly five times the jobs added in the previous five years. This is perhaps due to starting of special employment scheme known as MGNREG scheme started in 2009 and also because of higher agricultural growth of 6.6 per cent in 2010-11 and 3.6 per cent in 2011-12.

Volatility in Exchange Rate and Economic Stability:

Another adverse consequence of liberalisation and globalisation is the creation of volatility in foreign exchange rate of rupee which has adversely affected the Indian economy. Under the policy of globalisation of economic reforms we allowed free movements of capital flows into and out of India and switched over to the market determined exchange rate and made the rupee convertible.

From 2003-04 onwards there were large capital inflows into the Indian economy, mainly through portfolio investment by FIIs which caused appreciation of Indian rupee whose value rose from above Rs. 46 to a dollar in 2002-03 and to Rs. 44.27 at the end of March 2006 and further to Rs. 39.4 to a US dollar in mid-Nov. 2007. This appreciation of rupee adversely affected our exports. Besides, large inflows of dollars got converted into rupees which caused rapid increase in money supply generating inflationary pressures in the Indian economy. Further large capital inflows, especially portfolio investment by FIIs in the Indian stock market, artificially caused high rise in price of shares of Indian companies.

In 2008-09 the opposite happened when due to liquidity crunch in the banking system in the US caused by sub-prime housing loans by American banks and mortgage failures, FIIs started selling shares of the Indian companies held by them and making net capital outflows from India. This led to depreciation of Indian rupee. The value of rupee which was about Rs.40 to a US dollar in January 2008 depreciated to a low of Rs.50 per US $ in the second week of November 2008 but again appreciated to Rs.45 per US $ in 2009-10 (average of the year). India is at present under flexible exchange rate system under which exchange rate is determined by demand and supply forees. India has experienced high volatility in capital flows which have been the dominant factor in inducing volatility in the exchange rate of the rupee against the US dollar.

The exchange rate appreciated when there were large capital inflows and depreciated when there were capital outflows. Given the stated policy of the Reserve Bank to prevent excessive volatility in exchange rate, it has intervened in the foreign exchange market to buy or sell dollars as the case may be to prevent excessive appreciation or depreciation in exchange rate.

A biggest depreciation of rupee vs US dollar occurred in the month of June to August 2013 when rupee which was around Rs. 56 to a US dollar in the beginning of June 2013, fell to around 60 to a US dollar in the third and fourth week of June 2013 that is, about 7 per cent depreciation in a single month.

This sharp depreciation of Indian rupee was triggered by the announcement by Mr. Bermanke, the Governor of Federal Reserve of the US that it will taper the quantitative easing from the fourth quarter of the year 2013 as the US economy had been revived. This spread a panic in the world capital and foreign exchange markets as under the quantitative easing policy capital outflows were taking place from the US to the emerging economies.

Under the quantitative easing policy the Federal Reserve was buying bonds of $ 85 billion every month and thus pumping money in the US economy to revive it. In the second week of June 2013, the Governor of the Reserve Bank announced that it will reduce the purchases of bonds from $ 85 billion to $ 65 billion per month as the US economy had revived. This caused reversal of capital flows from the Indian economy.

In less than a month over $ 57 billion was withdrawn from the Indian debt and stock markets. This resulted in crash in Indian stock market and led to the increase in demand for US dollars resulting in the rapid depreciation of the Indian rupee. This sharp depreciation of rupee has serious consequences for the Indian economy. Not only will it make our imports costlier and fuel another round of inflation, it will also restrain the RBI from pushing through interest rate cuts urgently needed for kick-starting investment and boosting economic growth.

It follows from above that globalisation with liberalisation of capital flows and market determined exchange rate and convertibility of rupee has caused a lot of volatility in exchange rate and is therefore not without risks and dangers. Therefore, one should proceed with caution in liberalizing capital flows and capital convertibility of the rupee.

Thus the recent global financial crisis (2007-09) has demonstrated that markets are not self- correcting, do not allocate resources efficiently and serve public interest well. The financial crisis that emanated from the US had the roots in massive allocation of resources to housing. When the prices of houses fell sharply, households defaulted in making payments of loan instalments. As a result, millions of families who could not afford them were forced out of their homes. Thus this was great failures of market which led to the financial crisis in the US and spread to other countries of the world.

Since the integration of Indian economy with the world economy as the result of economic reforms aimed at liberalisation of trade and capital flows, the global financial crisis spilled over into the Indian economy as well. The Indian stock market crashed causing crores of losses to the investors. This greatly affected investors' confidence. The shares of banks had been affected most and as a result the capital outflows by FIIs from India not only affected share prices but also caused liquidity problem for the banks and the corporate firms as FIIs converted rupees into dollars which they sent back to meet the liquidity requirements of their present companies.

Rise in saving

Bank nationalisation saw a huge expansion in branches into the hinterland. The expansion of the branch network, in turn, caused money kept under the mattress to be swept into the banking system. Cash under the mattress may be savings for an individual but these do not translate into "saving" for the economy. "Saving," in economic terms, is whatever is available for lending or investment, that is, savings that come into the financial system.

Bank nationalisation caused the saving rate to go up from 12 per cent of GDP in 1968-69 to 20 per cent in 1979-80. The rise in saving facilitated a commensurate rise in the investment rate from 13 per cent to 21 per cent. The increase in the investment rate set the stage for the growth rate of the economy to shift from the much-derided "Hindu" rate of 3.5 per cent up to the 1970s to 5.5 per cent in the 1980s. It was the first shift in trajectory in India's economic growth in the post-Independence period.

Financial inclusion benefited not just the economy but also the public sector banks (PSB) despite initial setbacks. Investments in branches and the servicing of millions of small accounts pushed up operational costs in nationalised banks. Combined with bad loans, the investment resulted in the net worth of public sector banks turning negative by the early 1990s. However, the infusion of capital by government was modest by international standards less than 2 per cent of GDP, compared to anywhere between 5-60 per cent elsewhere.

In these new conditions, the long-run benefits of financial inclusion began to kick in. Inclusion not only increases deposits, it brings in low-cost deposits through savings and current accounts. For PSBs, the high proportion of low-cost deposits in total deposits turned out to be a source of competitive advantage. Their financial performance improved through the 1990s and the noughties and even after the financial crisis of 2007 until the problems in the infrastructure sector came to the fore. Judged over some three decades, bank nationalisation proved a winner with financial inclusion being a key driver of success. JDY has the potential to have a similar impact. It could see the household saving rate go up and boost the overall saving rate. And it could impart a shot in the arm to PSBs which have been losing market share to new private sector banks. Financial inclusion entails upfront costs but begins to pay off once a certain scale has been reached.

Direct benefit transfer

Critics of the scheme contend that merely scaling-up will not help the banks or the economy. They say that many of the new accounts created by inclusion initiatives in recent years have low balances or remain inoperative. They overlook a crucial change in the situation: large amounts are poised to flow into bank accounts, thanks to the direct benefit transfer scheme (DBT) rolled out in January 2013.

Payment of subsidies is scheduled for the first phase of financial inclusion, that is August 2014-August 2015. Once this happens, PSBs will have substantial "float" funds (on which they pay zero interest) in the accounts they have opened. These are equivalent to low-cost deposits and should compensate for high operational costs. Over time, banks should have in place the infrastructure and the processes to make loans to the new account holders. Small loans have been freed from interest rate regulation and we know from the experience of micro-finance institutions that they can be hugely lucrative. Then, there is the fee income from selling insurance products. Putting all these together, in the long-run, JDY could replicate the effect that nationalisation had on the financial performance of PSBs.

The add-ons

There are details that need to be worked out. Every account under the scheme comes with a RuPay debit card and Rs.5,000 overdraft facility in the first phase. In the second phase, a Rs.1 lakh accident insurance facility and a Rs.30,000 life insurance facility will be added. How exactly the premia on the insurance facilities will be paid for has not been spelt out. Some reports indicate that the premia will come out of charges levied on RuPay card transactions. The Rs.5,000 overdraft facility has given rise to concerns about another loan "mela." This would amount to Rs.37,500 crore for 7.5 crore account holders. These concerns are overblown. Banks will provide the overdraft facility only after watching the account holder's record for six months. There is an incentive for repayment, which is that the account holder can avail of the facility as often as he likes. It should be possible to contain losses at an acceptable level.

Public sector bank-centric

Two aspects of JDY are worth highlighting. First, it is "big bang" reform alright but not quite what advocates of reforms have been urging. Mr. Modi has sensed the need for a game-changer at a time of flagging economic growth. However, he has chosen to rely on his own instincts in judging what that game-changer might be. Mr. Modi's preference for an initiative that combines inclusiveness with the potential to boost growth could turn out to be spot on.

Second, the government has decided that financial inclusion is best pursued through PSBs. This is rather different from the view implied by the decision of the Reserve Bank of India (RBI) to use new institutions, such as payment banks and small banks, to push inclusion. The RBI seemed to have concluded that not much could be expected of PSBs. If JDY works out as planned, one wonders whether there will much space left for payment banks. Why would a customer go to a payment bank that only provides deposit and payment services when he has access to a full-scope bank?

The government's reliance on PSBs makes sense — and not just because there is an enormous infrastructure that can be readily tapped. Where regulation is weak and contracts ill-developed, it is best to use public institutions to attain larger objectives, instead of relying on regulation or public-private partnerships. It is easier for the government to enforce its writ through institutions that it directly controls. The reassuring message in JDY is that in pursuing its economic objectives, the government wants to accord an important role to the public sector even while relying on market mechanisms.

With the potential to become the fifth largest banking industry in the world by 2020 and third largest by 2025 according to KPMG-CII report, India's banking and financial sector is expanding rapidly. The Indian Banking industry is currently worth Rs. 81 trillion (US $ 1.31 trillion) and banks are now utilizing the latest technologies like internet and mobile devices to carry out transactions and communicate with the masses. The Indian banking sector consists of 26 public sector banks, 20 private sector banks and 43 foreign banks along with 61 regional rural banks (RRBs) and more than 90,000 credit cooperatives.

Factors promoting growth of Banking and Financial Services

The Banking Laws (Amendment) Bill that was passed by the Parliament in 2012 allowed the Reserve Bank of India (RBI) to make final guidelines on issuing new bank licenses. Moreover, the role of the Indian Government in expanding the banking sector is noteworthy. It is expected that the new guidelines issued by RBI will curb practices of impish borrowers and streamline the loan system in the country. In the coming time, India could see a rise in the number of banks in the country, a shift in the style of operation, which could also evolve by incorporating modern technology in the industry. According to a report by Zinnov, a Globalization and Market Expansion firm, 'IT adoption in BSFI sector in India', the Information Technology Industry spend in BFSI vertical is expected to reach USD 3.5 billion by Financial Year 2014. The study also highlighted 'the growing maturity of Indian BFSI organizations in IT adoption, as technology is seen as a driver of business value. Technology firms have great potential to explore in the BFSI sector, which contributes to eight per cent of India's Gross Domestic Product.'

Life Insurance

The Indian life insurance industry is estimated to grow at a compounded annual growth rate (CAGR) of 14.1 per cent, and reach US$ 111.9 billion in 2015 from US$ 66.5 billion in 2011, according to a report by BRIC data. This would make India the third-largest market for life insurance in the world by 2015. India's present position is at number 12, among top global markets for life insurance. Number of policies sold is expected to increase to 85.21 million in 2015 from 53.23 million in 2010. The 2014-15 Union Budget should exempt life insurance products from taxation to provide investors an incentive to buy a policy. The insurance industry can gain leverage from India's burgeoning population only by providing a special tax window for life insurance policies.

Health Insurance

In the non-life insurance industry, health insurance is the second largest segment in India; with players in both the public and private sectors playing an active role. The industry is concentrated around 4 major public sector companies namely, New India Assurance, United India Insurance, National Insurance and Oriental Insurance. The Indian health insurance industry has seen major growth in the past 6 years. The Indian health insurance industry is expected to grow at a CAGR of 37.2% from FY'2011 - FY'2016; with surging medical costs, rising population and increased awareness among consumers in the country.

Recruitment Trends in BSFI Industry

The Banking and Financial Services Industry is expected to recruit about 8.4 million people as per the growth rate each year. BSFI workforce requirement between 2008 and 2022 is expected to be about 4.2 million and sector may create up to 20 lakh new jobs in the next 5-10 years.

Advantaged by issuance of new licences and efforts being made by the RBI and the Government to expand financial services into rural areas, the hiring trend may further get a boost from the public sector banks. Since most banking workforce is scheduled to retire in the times to come, they would be in dire need of fresh talent. According Randstad India, global HR service provider in India, the banking sector will generate 7-10 lakh jobs in the coming decade and the sector would be the among top job creators in 2014. According to 'Human Resource and Skill Requirements in the Banking, Financial Services & Insurance Sector (2022) report, apart from the on-rolls employment there is significant contractual employment across all the above segments through various financial positions such as Direct Selling Agents (DSA's), Insurance agents, Mutual Fund Advisors, etc.

CONCLUSIONS

The major challenge faced by the Indian Banking and Financial sector is that the level of financial exclusion in India is alarming and there is an urgent need to find a plausible solution to the same. The IBA–BCG survey of banks revealed that the level of confidence in finding profitable solutions for financial inclusion is not very high. Financial inclusion has solely been the responsibility of public banks up until now, but by using inclusive growth as one of the criteria for new licences (new banks have to open 25 per cent of their branches in rural areas); the RBI will have made the new private sector banks responsible as well. Currently, public sector banks have more branches than any other bank group in the rural and semi-urban areas.

The banking and insurance industry is challenged by competitive pressures, changes in customer loyalty, stringent regulatory environment and entry of new players, all of which are pressuring the organizations to adopt new business models, streamline operations and improve processes.

An IBA-FICCI-BCG report suggests that India's gross domestic product (GDP) growth will make the Indian banking industry the third largest in the world by 2025. According to the report, the domestic banking industry is set for an exponential growth in coming years with its assets size poised to touch USD 28,500 billion by the turn of the 2025. With the deposits growing at a CAGR of 21.2 per cent (in terms of INR) in the period FY 06–13, there has been evident growth in the overall industry. This growth can be attributed to banks shifting focus to client servicing. Public as well as private sector banks are underlining the importance of technology infrastructure, in order to improve customer experience and gain a competitive edge. Utilizing the popularity of internet and mobile banking, banks are increasingly adopting an integrated approach for asset–liability match, credit and derivatives risk management.

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