
Chapter: 4

SERVICE INDUSTRY - AN OVERVIEW

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4.1. Introduction

Every economy consists of three sectors. They are primary sector (extraction such as mining, agriculture and fishing), secondary sector (manufacturing) and the tertiary sector (service sector). Economies tend to follow a developmental progression that takes them from a heavy reliance on primary, toward the development of manufacturing and finally toward a more service based structure. Historically, manufacturing tended to be more open to international trade and competition than services. As a result, there has been a tendency for the first economies to industrialize to come under competitive attack by those seeking to industrialize later. The resultant shrinkage of manufacturing in the leading economies might explain their growing reliance on the service sector. However, currently and prospectively, with dramatic cost reduction and speed and reliability improvements in the transportation of people and the communication of information, the service sector is one of the most intensive international competition. The service sector is the most common workplace in India.

The service sector consists of the soft parts of the economy such as insurance, government, tourism, banking, retail, education, and social services.. In soft-sector employment, people use time to deploy knowledge assets, collaboration assets, and process-engagement to create productivity, effectiveness, performance improvement potential and sustainability. Service industry involves the provision of services to businesses as well as final consumers. Services may involve transport, distribution and sale of goods from producer to a consumer as may happen in wholesaling and retailing, or may involve the provision of a service, such as in pest control or entertainment. Goods may be transformed in the process of providing a service, as happens in the restaurant industry or in equipment repair. However, the focus is on people interacting with people and serving the customer rather than transforming physical goods.

4.2. Service sector in India

Service Sector in India today accounts for more than half of India's GDP. According to data for the financial year 2006-2007, the share of services contributes to 55.1 per cent of the GDP, where as industry, and agriculture in shares 26.4 per cent, and 18.5 per cent respectively. This shows the importance of service industry to the Indian economy and as service sector now accounts for more than half the GDP marks a watershed in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy.

There was marked acceleration in the growth of services sector in the nineties. While the share of services in India's GDP increased by 21 per cent points in the 50 years between 1950 and 2000, nearly 40 per cent of that increase was concentrated in the nineties. While almost all service sectors participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector. In the current economic scenario it looks that the boom in the services sector is here to stay as India is fast emerging as global services hub.

Indian service industry covers a wide gamut of activities like trading, banking & finance, infotainment, real estate, transportation, security, management and technical consultancy among several others. The major sectors that combine together to constitute service industry in India are listed below.

- Information Technology
- Trade
- Education
- Financial services
- Media
- Hospitality, accommodation and food services
- Entertainment, culture and recreation
- Transportation and warehousing
- Storage

- Communication
- Healthcare & social assistance
- Tourism
- Public utilities
- Real estate and leasing
- Public administration and defence
- Business support services
- Professional, scientific and technical services

4.3 Indian financial services industry - an overview

Financial services refer to services provided by the finance industry and it encompasses a broad range of organisations that deal with the management of money. It is an umbrella category that encompasses a variety of services, including banks, insurance companies, asset management companies, credit card companies, consumer finance companies, stock brokerages, investment funds and government sponsored enterprises. India has one of the most developed financial services markets in the developing world. Top companies from the United Kingdom and the United States among others are already active in India's financial markets. Some of the big names are: Merrill Lynch, Oppenheimer, J.P. Morgan, Morgan Stanley, Grindlays, Standard Chartered, Hong Kong and Shanghai Banking Corporation among others. Local financial Institutions such as the Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), Industrial Finance Corporation of India, Unit Trust of India and the Shipping Credit and Investment Corporation of India have raised billions through the most sophisticated financial instruments including Deep Discount Bonds. The two segments that constitute the major part of the Indian financial services industry are Banking and Life Insurance.

4.3.1 Indian banking industry

Indian banks have played a significant role in the development of Indian economy by inculcating the habit of saving among Indians and by lending finance to Indian industry. India has a well-developed banking system. Most of the banks in India were founded by Indian entrepreneurs and visionaries in the pre-independence era to provide financial assistance to

traders, agriculturists and budding Indian industrialists. Indian banks can be broadly classified into nationalized banks or public sector banks, private banks and foreign banks.

Public Sector Banks (Nationalised Banks)

Banking System in India is dominated by nationalised banks. The nationalisation of banks in India took place in 1969. The major objective behind nationalisation was to spread banking infrastructure in rural areas and make available cheap finance to Indian farmers. Fourteen banks were nationalised in 1969. Before 1969, State Bank of India (SBI) was the only public sector bank in India. SBI was nationalised in 1955 under the SBI Act of 1955. The second phase of nationalisation of Indian banks took place in the year 1980. Seven more banks were nationalised with deposits over 200 crores. List of Public Sector Banks in India is as follows

Table 4.1 List of Public Sector Banks in India

| | |
|-------------------------------|------------------------------------|
| 1. Allahabad Bank | 15. State Bank of Bikaner & Jaipur |
| 2. Andhra Bank | 16. State Bank of Hyderabad |
| 3. Bank of Baroda | 17. State Bank of India (SBI) |
| 4. Bank of India | 18. State Bank of Indore |
| 5. Bank of Maharashtra | 19. State Bank of Mysore |
| 6. Canara Bank | 20. State Bank of Patiala |
| 7. Central Bank of India | 21. State Bank of Saurashtra |
| 8. Corporation Bank | 22. State Bank of Travancore |
| 9. Dena Bank | 23. Syndicate Bank |
| 10. Indian Bank | 24. UCO Bank |
| 11. Indian Overseas Bank | 25. Union Bank of India |
| 12. Oriental Bank of Commerce | 26. United Bank of India |
| 13. Punjab and Sind Bank | 27. Vijaya Bank |
| 14. Punjab National Bank | |

(Source: RBI)

Private Banks in India

All the banks in India were earlier private banks. But after nationalisation of banks in 1969 public sector banks came to occupy dominant role in the banking structure. Private sector banking in India received a fillip in 1994 when Reserve Bank of India encouraged setting up of private banks as part of its policy of liberalisation of the Indian Banking Industry. Private Banks have played a major role in the development of Indian banking industry. They have made banking more efficient and customer friendly. In the process they have jolted public sector banks out of complacency and forced them to become more competitive. Major Private Banks in India are listed below

Table 4.2: List of Private Banks in India

| | |
|-----------------------------|---|
| 1. Bank of Rajasthan | 11. ING Vysya Bank |
| 2. Bharat Overseas Bank | 12. Jammu & Kashmir Bank |
| 3. Catholic Syrian Bank | 13. Karnataka Bank |
| 4. Centurion Bank of Punjab | 14. Karur Vysya Bank |
| 5. Dhanalakshmi Bank | 15. Kotak Mahindra Bank |
| 6. Federal Bank | 16. SBI Commercial and International Bank |
| 7. HDFC Bank | 17. South Indian Bank |
| 8. ICICI Bank | 18. United Western Bank |
| 9. IDBI Bank | 19. UTI Bank |
| 10. IndusInd Bank | 20. YES Bank |

(Source: RBI)

Foreign Banks in India

Foreign banks have brought latest technology and latest banking practices in India. They have helped Indian Banking system to be more competitive and efficient. Government has come up with a road map for expansion of foreign banks in India. The road map has two phases. During the first phase between March 2005 and March 2009, foreign banks may establish a presence by way of setting up a wholly owned subsidiary (WOS) or conversion of existing branches into a WOS. The second phase will

commence in April 2009 after a review of the experience gained after due consultation with all the stake holders in the banking sector. The review would examine issues concerning extension of national treatment to WOS, dilution of stake and permitting mergers/acquisitions of any private sector banks in India by a foreign bank. Major foreign banks in India are as listed below.

Table 4.3 List of Foreign banks in India

| |
|-----------------------------------|
| 1. ABN-AMRO Bank |
| 2. Abu Dhabi Commercial Bank Ltd. |
| 3. American Express Bank Ltd |
| 4. BNP Paribas |
| 5. Citibank |
| 6. DBS Bank Ltd |
| 7. Deutsche Bank |
| 8. HSBC Ltd |
| 9. Standard Chartered Bank |

(Source: RBI)

4.3.2 Indian Life Insurance - An Overview

Life Insurance in its modern form came to India from England in the year 1818. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. An Ordinance was issued on 19th January 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies-245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA opened up the market in August 2000 with the invitation for application for registrations. The Authority has the power to frame regulations under Section 114A of the

Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

India is the fifth largest life insurance market in the emerging insurance economies globally and the segment is growing at a healthy 32-34 per cent annually. The insurance industry's sales rose the fastest in two years since April 2007. The country's 22 life insurance companies saw 29.5 per cent rise in premium collected through sale of new policies to US\$ 758 million in April 2009, as against US\$ 585 million in the corresponding period last year. In case of LIC, which recorded 69.33 per cent growth in first-year premium during April 2009, a bulk of the growth came from the group single premium segment and individual single premium rose to US\$ 89.8 million from US\$ 77 million in the corresponding period of last year. According to a report by research firm RNCOS—'Booming Insurance Market in India (2008–2011)'—the total life insurance premium in India is projected to grow to US\$ 259.72 billion by 2010–11. Life Insurance Corporation (LIC) is bullish on growth and is targeting business in excess of US\$ 59.14 billion by 2011–12.

Table 4.4 Important milestones in the Indian life insurance industry

| | |
|------|---|
| 1818 | Oriental Life Insurance Company, the first life insurance company on Indian soil started functioning. |
| 1870 | Bombay Mutual Life Assurance Society, the first Indian life insurance company started its business. |
| 1912 | The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business. |
| 1928 | The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses. |
| 1938 | Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public. |
| 1956 | 245 Indian and foreign insurers and provident societies are taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India. |

| | | |
|--|---|---|
| Until 1.4.2000 | Life Insurance industry comprised mainly Life Insurance Corporation of India. | |
| 7 new entrants In the financial year 2000- '01 | Date of Reg. | Name of the Company. |
| | 23.10.2000 | HDFC Standard Life Insurance Company Ltd. |
| | 15.11.2000 | Max New York Life Insurance Co. Ltd. |
| | 24.11.2000 | ICICI Prudential Life Insurance Company Ltd. |
| | 10.01.2001 | Kotak Mahindra Old Mutual Life Insurance Ltd |
| | 31.01.2001 | Birla Sun Life Insurance Company Ltd. |
| | 12.02.2001 | Tata AIG Life Insurance Company Ltd. |
| | 30.03.2001 | SBI Life Insurance Company Ltd. |
| 2001-'02 | 02.08.2001 | ING Vysya Life Insurance Company Private Ltd. |
| | 03.08.2001 | Bajaj Allianz Life Insurance Company Limited. |
| | 06.08.2001 | Metlife India Insurance Company Pvt. Ltd. |
| | 03.01.2002 | Reliance life Insurance Company Pvt. Ltd. (ANP Sanmar LICPL.) |
| 2002-'03 | 14.05.2002 | Aviva Life Insurance Co. India Pvt. Ltd. |
| 2003-'04 | 06.02.2004 | Sahara India Insurance Company Ltd. |
| 2005-'06 | 17.11.2005 | Shriram Life Insurance Company Ltd. |
| 2005-'07 | 22.08.2006 | Bharti AXA Life Insurance Company Ltd. |
| 2007-'08 | 04.09.2007 | Future General India Life Insurance Company Limited |
| | 19.12.2007 | IDBI Fortis Life Insurance Company Ltd. |
| 2008-'09 | 08.05.2008 | Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd. |
| | 27.06.2008 | Aegon Religare Life Insurance Company Ltd. |
| | 27.06.2008 | DLF Pramerica Life Insurance Company Ltd. |
| | 27.06.2008 | Star Union Dai-ichi Life Insurance Co. Ltd. |
| | | |