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A STUDY ON PERFORMANCE ANALYSIS OF BANKING & INSURANCE COMPANIES IN CAPITAL MARKET: POST DEMONETIZATION AND GST

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Abstract—*Capital Market is the one of the best destination for trading equity and debt for those people who is looking for long term investment. Since this research helps in giving the measurement and performance of banking and insurance company in capital market (BSE) after the implementation of Demonetization and GST bill in India. The objective of the study is to know the performance of banking and insurance industry and how market is rolling out due to this two-historic assignment taken by India. The methodology for this study and information has been extracted from the secondary source. The capital market (Sensex) has been seen lot of tremendous changes in the trades of shares and turnover of the both banking and insurance company. The performance has been analyzed by using selective company where best bank and insurance company of 2017 years as per (embibe.com). The capital market is as important as countries GDP, and other factor which contribute the growth of the Indian Economy. Since the market runs purely on demand and supply of the company share. After the implementation of the GST and Demonetization the countries capital market has pegged more ups and down, due to opposition of several people and industries couldn't channelize the money. This makes an opportunity to take up this topic for further research and helps to know the impact.*

Keywords—*Capital Market, Demonetization, GDP, GST Bill, Sensex*

INTRODUCTION

Capital market is the one of the essential organ of the Indian Economy. Capital market has helped in rollout Indian economy since from past so many decades. The challenges which the capital market facing has leads to shakedown in the Indian economy due to several factors, which include the great economic recession in the major country, which ultimately has leads to change in the Indian economy. Capital market consists of primary market and secondary market, the sub-category of the capital market. Primary market and secondary market are one of the base and pillar for any corporate, individual, government and other financial institutions, where money are being pulled in the economy and mobilized in the various avenues of investments.

Capital market deals with the long-term funds, i.e. Debt and Equity Funds. It is concerned with the industrial security market, government securities market, and long term loan market (a Ph.D thesis on role of foreign institutional investor in Indian stock market). Capital market has crossed more than 1 Trillion Dollars in both debt and equity.

Since Demonetization (8 Nov, 2016-30 Dec, 2016) and GST are two multi facets of Indian Economy, where all Indian are known what was its consequences and challenges which a common public has been faced and derived from it. GST reforms is one of the most significant reform took place in the Indian taxation history. Demonetization was taken first in 1946 and 1978, since 2016 was the third time where India has seen the demonetization. The main reason for implementing these reforms is that somewhere it is trying to be a transparent and clearer about the accountability and systematic process to be done among us.

Baking companies have its own history from pre-independence to post-independence. Banking industry is one of the core sectors of Indian economy, many public, private, rural and agriculture banks have put efforts for the growth and development of the India's GDP and various allied sector.

OBJECTIVES OF THE STUDY

- To study on Performance of Banking and Insurance industry growth and impact after demonetization and GST.
- To study on how capital market has been change after demonetization and GST.
- To know the pros and cons of demonetization and GST on Banking and Insurance Industry.

STATEMENT OF PROBLEM

Since GST and Demonetization are consider as one of the biggest reforms in Indian Paradigm, since GST is the common tax for all indirect tax, since Indian was discussing from so many years back to implement GST finally the arrival happen on 1st July, 2017. The Demonetization has changed the face of the Indian Currency system and has tried to curb out the black money from the economy. The discussion is on impact of GST and Demonetization on capital market, since capital market has drowned down due to implement of these forces, the circulation has slightly affected as they were many industries have affected due to low circulation of the money in the market.

SIGNIFICANCE OF THE STUDY

This study will come up with the result in the actual impact on the capital market, and also will come to know that whether capital market has moved up or down due to this GST and Demonetization, since the capital is the largest market, where most of the company trade in debt and equity market. The insurance and banking industries are the backbone of any large industries as well as medium scale industries. The study will show clear picture about the insurance and banking industries impact especially in capital market.

METHODOLOGY OF DATA COLLECTION

Methodology each work to be completed by following steps or methods continuously and effectively in order to get the preparation of the research. In order to pursue the effectively the data, the information has been collected from secondary source like, journal, web-based information, companies report etc.

Sources of Data Collection

The data is completely purely collected from the secondary source, since it is a conceptual paper the data is analyzed and collected from various website and journal.

Limitation of the Study

The study is only limited to banking and insurance industry, since there were other industries also affected due to the demonetization and GST, the study is conducted only post demonetization and GST, since there is scope to increase to other sector and market variant.

BANKING AND INSURANCE INDUSTRY GROWTH AND IMPACT AFTER GST AND DEMONETIZATION

1. Effect of Demonetization on insurance and banking sector:

The Insurance and Banking Sector

Just like all the industrial sectors in India, the finance sectors of India will be affected by the government's demonetization schemes. The effect, however, will be more short term and targeted deeply towards the privately driven insurance funds. Similar to all the other sectors, this scheme has several painful short-term effects, however, can prove to be sincerely beneficial in the long term.

The major insurance sector in India is covered by the government agencies such as the

Life Insurance Corporation of India (LIC),

Oriental Insurance Co. Ltd,

New India Assurance Co. Ltd, etc.

These insurance companies have already started taking steps towards making lives easier for the general public who seem to be distraught by the demonetization schemes. LIC for example, extended its grace period for the customers to pay their premiums of several policies without any penal fee for a period of 20 days after the scheme was introduced. This allowed people to have some time in order to withdraw any necessary amount from the bank ATMs.

The private insurance sector which mainly deals in cash is hit hard by the demonetization drive as it is not ready to except the premiums in terms of online banking or credit in terms of bank transfers. This will basically ensure that people are lured more towards the national government operated insurance companies which can still freely operate by means of internet banking.

Hence, the insurance and banking sector of India will be forced to be converted into a digital market where the promise of cash deliverance is reduced. This will ensure a major increase in the internet banking sector of India.

Impact of GST on Insurance Premium:

It will be evident from the table given below that health insurance and term insurance policies would be the two most affected categories once the GST becomes operational. The service tax charged on the premium paid may climb to 18% from the present 15%.

Type of policy	*After GST implementation*	*Current rate*
Pure risk insurance/term insurance	18%	15%
ULIPs	18%	15%
Annuity: single premium	1.8%	1.5%
Motor insurance	18%	15%
Endowment policies (1st year)	4.5%	3.75%
Endowment policies (2nd year onwards)	2.25%	1.88%
Health insurance	18%	15%

One may argue that rise in service tax is largely proportionate across categories. So, why only these two categories will be affected? The basic reason is that both health and term insurances pay back only when something happens to the subscriber or the insured. More specifically, under term insurance plans, the insurer is liable to pay only when the insured passes away with the policy still operational. The insurer's liability is zero if the insured person outlives the plan. The premium which the subscriber has paid, is also not paid back, unless the policy has some unique feature which permits it.

Likewise, under a health insurance plan, no direct benefits are offered to the subscriber unless he/she falls sick and is hospitalised. The insurer, of course, will add a no claims bonus (NCB) to the cover, but to claim it, the subscriber is required to have a medical condition. The inherent nature of both health and term insurance plans make them price sensitive i.e. people usually buy schemes that cost less. A greater incidence of service tax is likely to trigger price wars between insurers because buyers would now become even more price conscience. A similar eventuality holds good for motor insurance too.

According to media reports, the life insurance industry in India has been shrinking for some time now. The growth rate fell to 2.6% in 2016 from 4.6% in 2009. Fears abound the industry that the rates may further go southwards once the GST is implemented.

The Life Insurance Council, the apex industry body of insurance companies, has already written to the finance ministry, urging that GST be charged only on premium collected by the insurer, for their life insurance services, without factoring in the investment portion, where the companies act solely in the fiduciary capacity.

BUSINESS PERFORMANCE AND IPO'S IN CAPITAL MARKET

The demonetisation announced in November 2016 helped the life insurance industry as people preferred to channelize their cash into financial savings and insurance policies. The life insurance industry's new business annualised premium equivalent (APE) grew by around 19% in FY2016-17 with APE from individual business growing by 21% for the same period. This growth momentum continues during FY2017-18, wherein the financial year-to-date APE from individual business grew by around 26% up to the end of November 2017 over the same period last year.

Thanks to the growth momentum and rising stock markets, this year also saw two life insurance companies—SBI Life and HDFC Life—tapping the equity market through initial public offering (IPO) for a proportion of their shares. Following this, we now have three life insurance companies directly listed on the Indian stock markets. Each of these listings was over-subscribed, indicating the perceived long-term prospects for the industry in general, and these companies in particular.

REGULATORY DEVELOPMENTS

The Insurance Regulatory and Development Authority of India (IRDA) issued a number of regulations and guidelines during the year to enhance its regulatory and developmental role in the sector.

First and foremost, IRDA issued its regulations on commission to distributors. Issued in December 2016, these regulations are aimed at streamlining the commission payable to the distributors of insurance policies. Recognising the need to promote the sale of 'protection' business, these regulations allow an increased level of commission payable on such policies. While the increased commission limits are aimed at promoting the sale of protection products, we need to wait and see if the distributors find it attractive to sell the low ticket-size protection products, albeit at a higher commission rate instead of continuing the focus on the sale of high ticket-size investment-oriented products with lower level of commission rates. The regulations also recognise the need for additional compensation to non-agent intermediaries for the sales support provided by them and allow payment for the same on top of the base commission, subject to a certain limit. The IRDA also issued regulations on insurance web aggregators. As online distribution of life insurance policies continues to develop, it is important to regulate the activities of web aggregators. These new regulations help to regulate key aspects, including registration, corporate governance issues, functions performed, remuneration received, and others.

To enable private equity (PE) firms to promote or invest in insurance companies, the IRDA has issued guidelines on investment by PE firms into the insurance companies. These guidelines specify the 'fit and proper' criteria and the limits that may apply on such investments. These guidelines may help attract further PE capital to the insurance industry. The regulator also issued revised regulations that would enhance the framework to protect policyholders' interest. It needs insurers to have a Board-approved policy on policyholder protection and mandates certain minimum information to be provided in a point of sale prospectus and in a life insurance policy. It also details claims procedures and policyholder grievance redressal procedures that insurers have to follow. In order to provide a further avenue for dispute resolution, IRDA issued separate rules governing the insurance ombudsman. The year also saw the regulator taking over the administration of Sahara Life, the first private sector company to be taken over this way. However, the proposed sale of Sahara Life to ICICI Prudential has been challenged by the promoter of Sahara Life and the matter is currently subjudice. During 2017, several global reinsurance companies were licensed to open branches in India. This is likely to streamline their operations in India, as well as allow the regulator to exercise its supervisory role on their activities.

The Goods and Services Tax (GST) was implemented, which increased the earlier service tax rate of 15% to a new GST rate of 18% for life insurers. So, policyholders have to now pay more as premium on several policies, especially 'protection' policies. The discussions around the new direct tax code (DTC) initiatives resurfaced this year. But we will have to wait and see what the final proposals on DTC are before analysing its potential impact on life insurance.

IMPACT OF GST ON BANKING AND FINANCIAL SECTOR OF INDIA

The term 'financial services' has not been specifically defined by the GST law. However, to understand the implications of this tax on the financial services sector, we need to consider the supply of goods and services that involve the extension of credit support. These services include but are not limited to:

– Loans

– Lease

– Hire purchase

– Conditional sales

– Securitisation or assignment of receivables

– Acquisition or sale of shares and securities

The compliance towards GST can take some effort in the above fields because of the nature of operations conducted by banks and NBFCs concerning credit products, lease transactions, hire purchase, actionable claims and other funds and non-funds-based services.

The GST rate on banking services and services provided by the NBFCs has been raised from 15% to 18% with the execution of this reform from July 01, 2017 onwards. The GST impact on financial services may further be classified into the following sub-sections:

1. Network of branches to be registered separately

Before the implementation of GST, a bank or NBFC with operations spread across India could discharge its compliance on service tax through one 'centralized' registration. After GST regulation, these institutions will be required to get a separate tax registration for each of the states they work in.

As a destination-based tax, GST has a multi-stage collection system. In such a mechanism, the tax is collected at each stage and the credit of tax that was paid at the last stage is available as a set off at the subsequent stage of the transaction. This transfers the tax incidence to different entities more evenly, and helps the industry through improved cash flows and better **working capital** management.

2. Leveraged and de-leveraged Input Tax Credit

Earlier, banks and NBFCs had been majorly opting for the reversal of 50% of the Central Value Added Tax (CENVAT) credit that they avail against the inputs and input services, while the CENVAT credit on the capital goods was given without any reversal conditions. Under GST, the 50% of the CENVAT credit that was availed for inputs, input services and capital goods has been reversed. This leaves banks and NBFCs with a decreased credit of 50% on capital goods, and in turn raises the cost of capital.

However, this can be counterbalanced by the advantages posed by operating one's business in the new taxation scenario. A unified domestic market can help with more opportunities for expansion and reduced production costs enhancing one's profitability.

3. Evaluation and adjudication

The impact of GST on banking services and NBFCs will also be felt in terms of evaluation procedures. Service tax was assessed by the particular regulators in the state where a branch is registered. In addition, every registered branch of the concerned bank or NBFC had to validate its position for the chargeability in the respective state and provide a reason for utilizing the input tax credit in various states.

The GST assessment will involve more than one assessing authority, and each of them may have a different judgement for the same underlying issue. Although such contradictions can prolong the decision-making process for the financial institutions, the adverse effects of evaluation by one authority can be offset through decisions made by another assessor.

IMPACT OF GST ON BANKING SECTOR – GENERAL SERVICES

Banks in India have been levying service tax on most transactions enabled by their systems. These include but are not limited to digital fund transfers, issuance of ATM cards and cheque books, and ATM withdrawals beyond a specific limit. With GST on financial services, these services will be taxed at the rate of 18% instead of the 15% service tax rate that was being charged earlier. For example, if you withdraw money from an ATM other than your bank's ATM after exceeding the "free transaction limit", you are typically charged Rs.20 plus a service tax, which comes to around Rs 23. With the imposition of GST, this amount will go up to Rs.23.60.

However, deeper analysis reveals that such an increase in cost should not be considered a negative GST impact on financial services sector. In the long run, banks will be able to transfer the advantage of input tax credit – enabled under GST – to the customers. Furthermore, services like fixed deposits (FDs) and other bank account deposits that were outside the circle of service tax will continue to remain outside the GST ambit.

A major advantage of GST on financial services and other sectors is that it is a transparent tax and has reduced the number of indirect taxes. It integrates different taxes and ensures that the tax burden is fairly divided between different entities involved in the system. In addition, GST is essentially technology based. The advanced software systems used in its calculation and filing works will reduce the chances of manual errors and will lead to better decision making.

Capital Float too experiences the effect of GST on banking and NBFCs. We find ourselves in the 18% tax bracket, and we maintain our statutory lending policies including low-interest rates and quick disbursement of funds. Taking into account the GST impact on financial services sector, Capital Float will continue to provide the best credit solutions to its clients, customized to adapt to the changes brought by **GST on SMEs in various sectors**.

HOW GST WILL IMPACT THE CAPITAL MARKET AND PERFORMANCE OF CAPITAL MARKET POST GST SCENARIO

1. Firstly, there will be a greater preference for long investing over a short term investing and this will apply to equities and mutual funds.
2. Secondly, there will be a preference for equity as an asset class over the other class of assets.
3. GST may be seeing the rise of the passive investment as a distinct assets strategy.

1. Firstly there will be a greater preference for long investing over a short term investing and this will apply to equities and mutual funds

The equity market is made up of the short-term traders and long-term investors with both having a distinct role to play. While short term traders help in narrowing the spreads in the market and creating liquidity, it is the job of long term investors to help discover value. With GST being effective from July 01st, the effective rate of service tax at 15% stands modified to 18%. Till June 30th, equity investors were paying service tax at the rate of 15% (14% service tax + 0.5% Swachh Bharat Cess + 0.5% Krishi Kalian Cess). Effective 01st July, this activity will attract 18% GST. Assuming that you pay 1% in the cash market as round brokerage, GST impact will be higher by 3 basis points. While this may not make a big difference for long term investors, it will definitely change the economics for short term traders. Even in the case of mutual funds, the Total Expense Ratio (TER) of an equity fund is estimated to go up by 5-6 basis points as a result of GST.

2. Secondly there will be a preference for equity as an asset class over the other class of assets

Over the last 3 years, we have seen tremendous fund flows into equity mutual funds through the SIP route underlying the rising interest in equities. With other assets classes giving tepid returns, investors are increasingly looking to equity to generate alpha. So, what will change after GST? We have to see that GST is not just about rates but two additional factors. For example, the global experience has been seen that GDP of countries implementing GST tend to see an accretion of up to 3% in their overall GDP. On a GDP base of $2.5 trillion, that is likely to create an income effect of nearly $75 billion in the next couple of years. We can conservatively apply the market cap/ GDP ratio and calculate how much of a wealth effect this will have.

3. GST may be seeing the rise of the passive investment as a distinct assets strategy

That is a tough call, but not entirely off the mark. Passive investing is all about indexing your portfolio performance to an index like in the case of an index funds and equity ETFs. The additional 5-6 bps cost created by GST will make a further case for these passive funds. The shift may not happen immediately when alpha opportunities are still available aplenty.

PERFORMANCE OF SELECTED BANKING INDUSTRY AND INSURANCE INDUSTRY IN CAPITAL MARKET (BSE) AFTER GST AND DEMONETIZATION:

INDIA'S TOP 5 LARGEST BANK OF 2017

1. STATE BANK OF INDIA (SBI BANK)

Year	*Open Price*	*High Price*	*Low Price*	*Close Price*	*No. of Shares*	*No. of Trades*	*Total Turnover (Rs.)*
2016	225	288.5	148.3	249.75	637503241	4847806	1.37184E+11
2017	252.75	351.5	241.1	309.5	400759881	2548461	1.16103E+11
2018	310	334.8	283.1	296.4	59156177	324843	18057920580

2. HOUSING DEVELOPMENT FINANCE CORPORATION (HDFC BANK)

Year	Open Price	High Price	Low Price	Close Price	No. of Shares	No. of Trades	Total Turnover (Rs.)
2016	1266.9	1463.25	1012	1262.45	40188454	858204	49389477025
2017	1275	1804.5	1197.55	1710.4	51671981	620358	82445029001
2018	1712	1982	1681.95	1773.2	15612059	102110	29140232529

3. ICICI BANK

Year	Open Price	High Price	Low Price	Close Price	No. of Shares	No. of Trades	Total Turnover (Rs.)
2016	261	298.2	180.8	255.3	377208305	2796917	91485344486
2017	255.7	332.3	248.3	314	370420782	1794663	1.07593E+11
2018	312	365.65	307.75	326.75	49899194	216132	17221321573

4. PUNJAB NATIONAL BANK

Year	Open Price	High Price	Low Price	Close Price	No. of Shares	No. of Trades	Total Turnover (Rs.)
2016	116.25	164.3	69.4	115.6	366815630	1912370	40739552125
2017	116.5	231.6	113.3	171.5	307480881	1489868	51161048147
2018	172.5	197.6	151	156.8	42453182	200923	7387118399

5. AXIS BANK

Year	Open Price	High Price	Low Price	Close Price	No. of Shares	No. of Trades	Total Turnover (Rs.)
2016	450	638	366.65	450	209870914	2653122	99108655633
2017	451	566	424.6	562.4	156666716	1366994	79234014127
2018	562.4	627.5	534.5	557.5	13817691	125763	8048185144

INDIA'S TOP 5 INSURANCE COMPANIES OF 2017

1. LIFE INSURANCE CORPORATION

2. SBI LIFE INSURANCE:

Year	Open Price	High Price	Low Price	Close Price	No. of Shares	No. of Trades	Total Turnover (Rs.)
2017	733.3	738	628.5	693.6	9316789	319727	6541499178
2018	698	732	655.55	708.35	2147547	70082	1503550961

3. RELIANCE LIFE ASSET MANAGEMENT COMPANY:

Year	Open Price	High Price	Low Price	Close Price	No. of Shares	No. of Trades	Total Turnover (Rs.)
2017	294	302.35	237.25	299	11152342	225041	3151853210
2018	302.9	334.45	252.4	278.15	2991184	37528	884135389

4. BIRLA CORPORATION LTD (Inclusive of Birla Sun Life Insurance)

Year	Open Price	High Price	Low Price	Close Price	No.of Shares	No. of Trades	Total Turnover (Rs.)
2016	447	806.75	322	629.9	5149117	102970	3010862534
2017	634.95	1228.75	633.5	1150.05	2265050	67410	2111186667
2018	1170	1290	975	1002.35	74934	8153	86049531

5. ICICI PRUDENTIAL LIFE INSURANCE LTD

Year	Open Price	High Price	Low Price	Close Price	No. of Shares	No. of Trades	Total Turnover (Rs.)
2016	329	333.9	273.65	302.15	29597635	624178	9234739461
2017	302.5	507.9	302.15	383.55	33774780	959186	13344403713
2018	384.1	448.4	372.75	415.95	4843131	84605	2032299190

CONCLUSION

At the end we can conclude that both the sector banking and insurance has gain enormous attraction as well as some defectiveness due to low investment during the introduction of GST and Demonetization era. Since capital market has gained as per my finding because people tried for long term investment, so equity market is the best attractiveness and destination for any investor those who are looking for debt and equity. Most of the other sector like real estate and FMCG such industries might have affected since many industries has faced the challenges to console their investment. Capital market of Bombay stock exchange has resulted the performance of selected banking and insurance industries. As we can see in the table performance of banking and insurance industries since the data has been extracted from 2016 to 2018 (current month). In this 2 years lot of ups and down has been gone in the stock price of the company as well as the turnover of the company has fluctuated. We can conclude at the last that really the performance has seen good in the capital market both for insurance and banking industries.

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