A STUDY ON BANCASSURANCE IN INDIA

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Abstract
The introduction of Bancassurance has broadened the scope of retail banking. As per IRDA, the major driver of Bancassurance has been the private sector companies both in the bank as well as in the insurance gamut. Cooperative banks and regional rural banks are seen by private insurance companies as a cost-effective vehicle for insurers to tap into rural communities and fulfill their rural sector obligations. There is an immense scope for Bancassurance in India. The management of the new Indian operations is conscious of the need to grow quickly to reduce painful start-up expense overruns. Banks with their huge networks and large customer bases give insurers an opportunity to do this efficiently. Regulations requiring certain proportions of sales to the rural and social sectors give an added impetus to the drive for bancassurance. Selling through traditional methods to these sectors can be inefficient and expensive. Tying up with a bank with an appropriate Customer base can give an insurer relatively cheap access to such sectors. This is still an issue for insurers despite the recent widening of the definition of the rural sector (so that it now accords with the census definition). In India, as elsewhere, banks are seeing margins decline sharply in their core lending business. Consequently, banks are looking at other avenues, including the sale of insurance products, to augment their income. The sale of insurance products can earn banks very significant commissions (particularly for regular premium products).

Keywords: Bancassurance, Insurance Penetration, Indian Financial Market, Insurance Density.
Introduction

Bancassurance - a term coined by combining the two words bank and insurance (in French) - connotes distribution of insurance products through banking channels. Bancassurance encompasses terms such as ‘Allfinanz’ (in German), ‘Integrated Financial Services’ and ‘Assure banking’. This concept gained currency in the growing global insurance industry and its search for new channels of distribution. Banks, with their geographical spread and penetration in terms of customer reach of all segments, have emerged as viable sources for the distribution of insurance products and everyone wants to jump onto the bandwagon for a piece of the action cake. The insurance industry has finally woken up from its long slumber to an altogether new awakening. It is the rise of a new dawn that has brought with it opportunities galore. From innumerable insurers, to affordable and quality covers for the consumer, from increase in distribution channels to incorporating information technology measures, from net selling to bringing about increased transparency - it’s all there. The ubiquitous agent is no more the only distribution channel today for insurance products. Increase in distribution channels has among others also seen the concept of Bancassurance taking roots in India, and it is emerging to be a viable solution to mass selling of insurance products.

Bancassurance is a long-standing dream of offering a seamless service of banking, life & non-life products. India, being the one of the most populous country in the world with a huge potential for insurance companies, has an envious chain of bank branches as the lifeline of its financial system. Banks with over 65,000 branches & 65% of household investments are the backbone of the Indian financial market. In India, there are 75 branches per million inhabitants. Clearly, that’s something insurance companies - both private and state-owned - would find nearly impossible to achieve on their own. Considering it as a channel for insurance gives insurance an unlimited exposure to Indian consumers. Banks have expertise on the financial needs, saving patterns and life stages of the customers they serve. Banks also have much lower distribution costs than insurance companies and thus are the fastest emerging distribution channel. For insurers, tying up with banks provides extensive geographical spread and countrywide customer access; it is the logical route for insurers to take.

The business of banking around the globe is changing due to integration of global financial markets, development of new technologies, universalization of banking operations and diversification in non-banking activities. Due to all these movements, the boundaries that have kept various financial services separate from each other have vanished. The coming together of different financial services has provided synergies in operations and development of new concepts. One of these is bancassurance.

Bancassurance simply means selling of insurance products by banks. In this arrangement, insurance companies and banks undergo a tie-up, thereby allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate agency with one insurance company to sell its products. By selling insurance policies bank earns a revenue stream
apart from interest. It is called as fee-based income. This income is purely risk free for the bank since the bank simply plays the role of an intermediary for sourcing business to the insurance company.

Bancassurance has grown at different places and taken shapes and forms in different countries depending upon demography, economic and legislative prescriptions in that country. It is most successful in Europe, especially in France, from where it started, Italy, Belgium and Luxembourg. The concept of bancassurance is relatively new in the USA. As mentioned above bancassurance growth differs due to various reasons in different countries. The Glass-Steagall Act of 1933 prevented the banks of the USA from entering into alliance with different financial services providers, thereby putting a barrier on bancassurance. As a result of this life insurance was primarily sold through individual agents, who focused on wealthier individuals, leading to a majority of the American middle class households being under-insured. With the US Government repealing the Act in 1999, the concept of bancassurance started gaining grounds in the USA also. Coming to Asia, it has been estimated that bancassurance would contribute almost 16% of the life premium in the Asian markets in the year 2006 primarily due to the growth expected in India and China.

Coming to India, bancassurance is a new buzzword in India. It originated in India in the year 2000 when the Government issued notification under Banking Regulation Act which allowed Indian Banks to do insurance distribution. It started picking up after Insurance Regulatory and Development Authority (IRDA) passed a notification in October 2002 on ‘Corporate Agency’ regulations. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer. Currently bancassurance accounts for a share of almost 25-30% of the premium income amongst the private players in India.

Bancassurance provides various advantages to banks, insurers and the customers. For the banks, income from bancassurance is the only non interest based income. Interest is market driven and fluctuating and quite narrowing these days. Banks do not get great margins because of the competition this is why more and more banks are getting into bancassurance so as to improve their incomes. Increased competition also makes it difficult for banks to retain their customers. Bancassurance comes as a help in this direction also. Providing multiple services at one place to the customers means enhanced customer satisfaction. For example, through bancassurance a Customer gets home loans along with insurance at one single place as a combined product. Another important advantage that bancassurance brings about in banks is development of sales culture in their employees.

As for the insurance company the advantage that bancassurance provides is evident. The insurance company gets improved geographical reach without additional costs. In India around 67,000 branches are there for PSU banks alone. If all 67,000 branches sell the insurance products one can see the reach. This is one method of penetrating the market. There is also another method
called ’Bank Referral’. Here the banks do not issue the policies; they only give the database to the insurance companies. The companies issue the policies and pay the commission to them. That is called referral basis.

India’s rural market has huge potential that is still untapped by the insurance companies. Setting up their own networks entails such a huge cost, that no company would be interested in doing so. Bancassurance again comes as an answer. It helps the insurance companies to tap the market at a much lower cost. As for the customer the competitive nature of the Indian market ensures that the reduction in costs would result in benefits in terms of lower premium rates being passed on to him. The penetration level of life insurance in the Indian market is abysmally low at 2.3% of GDP with only 8% of the total population currently insured. With almost half of the population likely to be in the ‘wage earner’ bracket by 2010, there is every reason to be optimistic that bancassurance in India will play a long inning.

The life insurance industry in India has been progressing at a rapid pace since opening up of the sector in 2000. The size of the country, a diverse set of people combined with problems of connectivity in rural areas, makes insurance selling in India a very difficult proposition. Life insurance companies require immense distribution strength and tremendous manpower to reach out to such a huge customer base. This distribution will undergo a sea change as various insurance companies are proposing to bring insurance products into the lives of the common man by making them available at the most basic financial point, the local bank branch, through Bancassurance.

Simply put, bancassurance is the process through which insurance products are sold to customers at their local banks. With banking network of 65,000 branches serving more than 300 million retail banking customers, insurance can be available at affordable prices to people even in remote corners of the country. The relationship is symbiotic; but there are challenges. The most common challenges to success are poor manpower management, lack of a sales culture within the bank, no involvement by the branch manager, insufficient product promotions, failure to integrate marketing plans, marginal database expertise, poor sales channel linkages, inadequate incentives, resistance to change, negative attitudes toward insurance and unwieldy marketing strategy. Even insurers and banks that seem ideally suited for a bancassurance partnership can run into problems during implementation. Before targeting the market, it is essential to do a SWOT analysis. One more important obstacle in development of bancassurance in India has been a set of regulatory barriers. Some of these have recently been cleared with the passage of the Insurance (Amendment) Act, 2002. Looking at the west where sales through the banking network have been a roaring success, the Indian banking sector has far to go. But one thing stands obvious. If insurance in India is to succeed, it can only be through the Bancassurance channel.

**Banks enter into Insurance**

There are several reasons why banks should seriously consider Bancassurance, the most important of which is increased *return on assets* (ROA).
1. Deregulation of banking industry has given each banking an opportunity to differentiate its products and service and promote its strength and remove its weakness.
2. Technology has enabled the banks to design the innovative products that need to be promoted and marketed.
3. Growing Competition has induced the banks to create niche for itself by giving importance and highlighting the areas of their expertise and excellence.
4. Growth of market segments which provide opportunities for the banks that need to be marketed. For example, banks are offering various financial services in addition to the normal banking services to attract the customers.
5. Banks are expecting to increase its fee based income, overall productivity, customer satisfaction and loyalty by leveraging the branch network, the brand image and clientele base.

Bancassurance Business Models
I Structural Classification

Referral Model
Banks intending not to take risk could adopt ‘referral model’ wherein they merely part with their client data base for business lead of commission. Referral model is nothing but a simple arrangement, wherein the bank, while controlling access to the clients data base, parts with only the business leads to the agents/ sales staff of insurance company for a ‘referral fee’ or commission for every business lead that was passed on This model would be suitable for almost all types of banks including the RRBs /cooperative banks and even cooperative societies both in rural and urban.

Corporate Agency
The other form of non-sick participatory distribution channel is that of ‘Corporate Agency’, wherein the bank staff as an institution acts as corporate agent for the insurance product for a fee/commission. This model of bancassurance worked well in the US, because consumers generally prefer to purchase policies through broker banks that offer a wide range of products from competing insurers.

Insurance as Fully Integrated Financial Service/ Joint ventures
Apart from the above two, the fully integrated financial service involves much more comprehensive and intricate relationship between insurer and bank, where the bank functions as fully universal in its operation and selling of insurance products is just one more function within. This includes banks having wholly owned insurance subsidiaries with or without foreign participation.

I Product Based Classification
Stand-alone Insurance Products
In this case bancassurance involves marketing of the insurance products through either referral arrangement or corporate agency without mixing the insurance products with any of the banks’ own products/ services. Insurance is sold as one more item in the menu of products offered to the bank’s customer, however, the products of banks and insurance will have their respective brands too.
Blend of Insurance with Bank Products

This method aims at blending of insurance products as a ‘value addition’ while promoting the bank’s own products. Thus, banks could sell the insurance products without any additional efforts. In most times, giving insurance cover at a nominal premium/fee or sometimes without explicit premium does act as an added attraction to sell the bank’s own products, e.g., credit card, housing loans, education loans, etc.

Strengths

In a country like India of one billion people where sky is the limit there is a vast untapped potential waiting for life insurance products. Our other strength lies in a huge pool of skilled professionals whether it is banks or insurance companies who may be easily relocated for any bancassurance venture.

1. Banks have the credibility established with their constituents because of a variety of services and schemes provided by them.
2. Banks also enjoy a wide network of branches, even in the remotest areas that can facilitate taking up the task on a large and massive scale, simultaneously.
3. Banks are very well aware with the psychology of the customers because of their interaction with the customers on regular basis.
4. People rely more upon LIC and GIC for taking insurance. If the products of LIC and GIC are provided through bancassurance it would be an added advantage to the insurance companies.
5. With the help of banks trained staff, its brand name and the confidence and reliability of people on the banks, the selling of insurance products can be done in a more proper way.
6. Other than all these things there is a huge potential for insurance sector, as the population of India is high and a large part of it has remained untapped till now. So this can create an added advantage for both banks and insurers.

Weaknesses

1. The IT culture is unfortunately missing completely in all of the future collaborations. The internet connections are also not properly provided to the staff.
2. To undertake the distribution of the insurance products, the bank employees have to undergo certain minimum period of training, followed by a test and then get them licensed.
3. There is lack of personalized services because the traditional insurance agent is considered a member of the family and hence is able to render a personalized service during and after the sales process. However that may not be the case in regards to a bank employee.

Opportunities

1. There is a vast untapped potential waiting to be mined particularly for life insurance products. There are more than 900 million lives waiting to be given a life cover.
2. There are many people in many areas that are still unaware about the insurance and its various products and are waiting that somebody should come and give them the information about it.
3. In urban and metro areas, where the customers are willing to get many services like lockers and safe deposit systems and other products and services from banks, there is a good opportunity to market many property related general insurance policies like fire insurance, burglary insurance and medi-claim insurance etc.
4. Banks' database is enormous even though the goodwill may not be the same. This database has to be dissected and various homogeneous groups are to be churned out in order to position the Bancassurance products. With a good IT infrastructure, this can really do wonders.

5. Banks in their normal course of functions lend finance in the form of loans for cars, or for buying a house to clients etc. They can take advantage of this by cross-selling the insurance products and combine it as a package.

**Threats**

1. Success of a Bancassurance venture requires change in approach, thinking and work culture on the part of everybody involved. The work force at every level are so well entrenched in their classical way of working that there is a definite threat of resistance to any change that Bancassurance may set in.

2. Another possible threat may come from non-response from the targeted customers.

3. Insurance in India is perceived more as a saving option than providing risk cover.

4. There would be a problem of “Reputational Contagion” i.e. loss of market confidence towards one in a venture leading to loss of confidence on the other because of identical brand recognition, similar management and consolidated financial reporting etc.

5. The most common obstacles to success of Bancassurance are poor manpower management,

**Conclusion**

The success of bancassurance greatly hinges on banks ensuring excellent customers relationship, therefore banks need to strive towards that direction. As pointed out by Low (2004), the changing mindset is cascading through the banking sector in India and this would be a right time for banks to resorting to bancassurance, especially in the context of proactive policy environment of regulatory authorities and the Government. The fact that the banking operations in India, unlike in other developed countries, are still branch oriented and manually operated vis-à-vis highly mechanized and automated banking channels, viz., internet banking, ATMs, etc. are all the more conducive for flourishing of bancassurance.

**References**


