Bancassurance: Convergence of Banking and Insurance – A Saga

Sweta Leena Hota

SAI International College of Commerce, Bhubaneswar

Abstract : Bancassurane is the result of the blend of two terms, bank and insurance where insurance products are sold through banks. Now a days over 40% of insurance business is being done through Bancassurance channel where by banks earn a revenue stream call fee based income which is a risk free income and insurance companies sell their products to a large segment through their banking partner. This paper tries to understand the concept of Bancassurance and its development in India with particular highlight on the benefits earned from this model.

Keywords: Bancassurance, Life Insurance, Banks, Models of distribution

I. INTRODUCTION

The world has moved from narrow banking to broad and need based banking. Customer Satisfaction has become the key to modern day successful banking. The modern day customer looks at one step solution for all his financial needs. Separation of banking and other financial roles has become outmoded now. Post Gramm-Leach-Bliley (GLB) Act, 1999 scenario has indicated the increased preference for banks to deal with other non-banking financial products. Financial liberalisation and financial novelty have desegmented financial industry. Banks have now entered the untrodden path of insurance through Bancassurance.

Bancassurance means selling insurance product through banks.

Bancassurance is an amalgamation of two words, banks and insurance. Banks and insurance company came up in a partnership wherein the banks sell the tied insurance company's insurance products to its clients. It represents the distribution of insurance products through banking channels. (Bancassurance was developed in France in 1980s and then it spread to Continental Europe, Asia and India in particular. With the recommendation of First Narasimham Committee for financial reforms, the financial landscape was reshaped.) Banks scenario over the years has changed because of assimilation of global financial markets, universialisation of banking operations, diversification of banks into non-banking activities and innovation in technology. These factors have demolished the confines existing between various financial services leading to development of new concepts like Bancassurance. Bancassurance can be defined as a partnership between banks and insurance companies, wherein insurance products are sold by banks. According to IRDA, banks act as corporate agents or brokers for insurers to distribute insurance products which include life and non-life insurance products.

Bancassurance is a system where a bank has a corporate agency with one or more insurance companies to sell its insurance products to the bank's own customers. By selling insurance policies banks earn revenue apart from its fund based income, called fee based income or non-interest income and it is risk free income as the bank plays the role of an intermediary in Bancassurance. The bank's customers get their choice of insurance products from their banks itself, the banks earn a revenue and for the insurance companies, its one new customer for them.

II. REVIEW OF LITERATURE

Goran Bergandahi(1995) has said that the expansion of Bancassurance relied on three perquisites cross selling through existing branch network, sale of insurance products to customer of the bank ,products produced by a subsidiary to the bank. The author verified these assumptions in many of the banks in Europe. The author also found that, where customers per branch are sufficiently large and if cross-selling ratio is acceptable, in that particular branch, with investment appraisal assistance Bancassurance came out successful.

Swiss Re (2002) in its study on Asia has pointed out that Bancassurance penetration is expected to tangibly increase in Asia over next 5 years and this has been greatly proved by 2010.

Vineet Agarwal (2004) has observed that the key issues faced by the banking sector today are intense competition along with falling interest margin in banks creates an urgent need for developing sophisticated financial products and innovations. Insurance has come as an ideal option for the banks. It fulfils the major requirements for a successful insurance business viz., asset management and investment skills, distribution and capital adequacy. The author made a note in his study that French banks, those pre-dominantly choose to start Bancassurance market shares.

Knight (2006) has said that Bancassurance promises to combine insurance companies competitive edge in the production of insurance products with banks edge in their distribution through their vast retail networks.

Rao (2006) has mentioned that Bancassurance is a new delivery channel which is revolutionising the process of selling insurance products with the wide banking network especially in rural areas.

Popli and Rao (2009) has opined that after opening up of the Insurance sector, new opportunities have emerged for insurance and banking sectors in India. In such a scenario Bancassurance is a very successful phenomenon for insurance distribution.

Sreedharan G and Allimuthu S.(2009) have discussed the benefits of Bancassurance for the bankers, insurance companies and customers.

Nandita Mishra (2012) has listed out the issues and problem of Bancassurance in India. Lack of interest and motivation among the bank staff in promoting Bancassurance products was the major issue. Transactional model and Relationship-model are used to sell the Bancassurance products.

III. OBJECTIVES

1. To examine Bancassurance in India
2. To evaluate the benefits of Bancassurance

IV. METHODOLOGY

The present study is exploratory in nature and is purely based on secondary data. The data has been collected form secondary sources such as journals, text books, magazines, RBI and IRDA Reports, etc.

V. BANCASSURANCE IN INDIA

The Indian insurance industry is majorly driven by higher disposable incomes of the people, the demographical variety in the country, government efforts, and launch of new products, lesser complexities and entry of foreign players. This sector is not only increasing India's economic growth figures, but has proved as an important financial segment.

After the recommendations of the Malhotra Committee Report, in 1999, the Government constituted the Insurance Regulatory and Development Authority (IRDA) 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 from insurance companies. Today there are about 28 non-life insurance companies 24 life insurance companies and in the country. With opening up of the economy, the insurance companies perceive the immensely potential Indian market and are running to establish multiple distribution channels such as agency, brokers, Bancassurance and direct marketing. Bancassurance is coming up as one of the strongest distribution channels of insurance products.

Banks have become major distribution channels for insurance companies. The insurance companies take the advantage of banks as distributors at a low cost. There are more than 80,000 banks out of which 65% of the branches are located in rural and semi urban areas and the rest 35% in urban and metropolitan areas. Apart from commercial banks, India also has a large network of rural cooperative and urban cooperative banks which acts as an impetus for Bancassurance.

In India banking and insurance sectors are regulated by two different apex bodies, Reserve Bank of India for banks and Insurance Regulatory and Development Authority (IRDA) for insurance sector. As Bancassurance is the amalgamation of the two sectors, it comes under the purview of both the regulators. Each of them has elaborate and distinctive rules, restrictions and guidelines.

RBI has the following conditions:

Any scheduled commercial bank can undertake insurance business as agent of insurance companies on fee basis, without any risk participation and the subsidiaries of banks will also be allowed to undertake distribution of insurance products on agency basis. The eligibility criteria for joint venture participant are as under:*

1. The bank’s owned funds shall not be less than Rs.500 crore.
2. The NPA should not be more than 1% of the total advances.
3. The bank should have registered net profits for 3 continuous years
4. The performance of subsidiaries should be satisfactory.
5. The net worth of the bank shall not be less than 30% of aggregate risk weighted assets on balance sheet and risk adjusted value of off balance sheet items.

*source www.rbi.org.in

Distribution Models:

1. Distribution agreements: Banks act as tied agents and sell the insurance products of one insurer extensively on standalone basis or together with other bank products.

2. Strategic Alliance: In this case, Banks are involved in product development, providing services and channel management in insurance business.

3. Joint Venture: Here large banks with powerful customer database partner with large insurance companies with strong and good products and channel experience. This is done in order to develop a powerful distribution model.

4. Financial Service Group: Under this, an insurance company can either build or buy a bank or a bank can build or buy an insurance company.

5. Bank Referral: Here the banks instead of issuing policies to the customers, they furnish the database to

the insurance company partners. The insurance companies convince, sell and issue the policies to the customers and pay commission to banks for referral. Bancassurers have not only targeted the mass market but have also carefully begun to segment the market which has resulted in the tailor-made or rather perfect products for each segment.

Some bancassurers focus exclusively on distribution. In some markets face to face contact is preferred which proves to be a favourable understanding for the development of Bancassurance business. Initially banks opted for either referral models or corporate agency. Banks are giving space in their own premises to the insurance staff of their partner insurance company for selling the insurance products or giving access to their client's database. Insurance companies can use this opportunity to increase their sale.

Table 1: Region wise life and non-life insurance premium

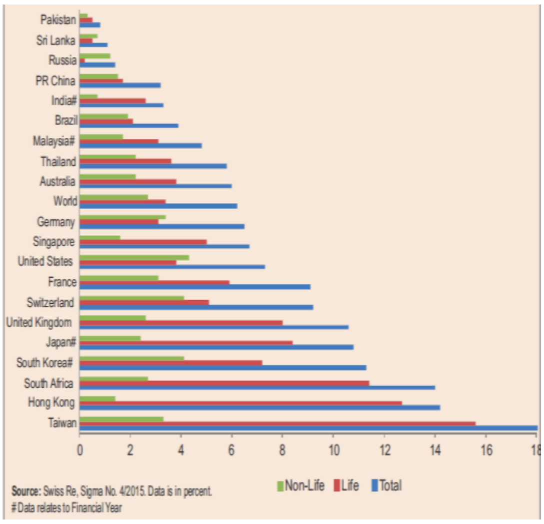
(Premium In USD Billions)

Region/Country	Life	Non-Life	Total
Advanced economies	2232.524	1706.79	3939.31
	(56.67)	(43.33)	(100.00)
Emerging markets	422.03	416.91	838.94
	(50.30)	(49.70)	(100.00)
Asia	892.32	425.25	1317.57
	(67.72)	(32.28)	(100.00)
India	55.30	14.59	69.89
	(79.12)	(20.88)	(100.00)
World	**2654.55**	**2123.70**	**4778.25**
	(55.55)	**(44.45)**	**(100.00)**

Source: Swiss Re, Sigma 4/2015.
Figures in brackets indicate share of the segment in per cent.

*Source: IRDA Annual Report 2014-15

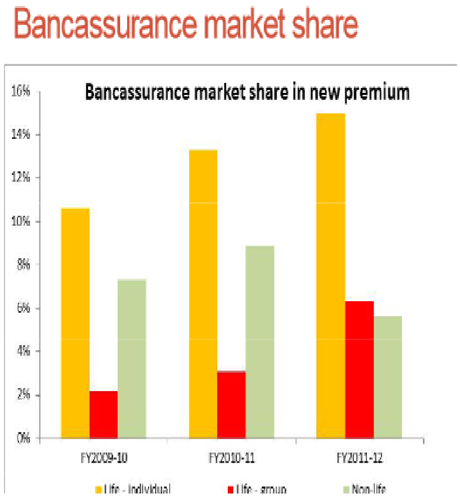
Table 2: Insurance Penetration in select countries in 2014



*Source: IRDA Annual Report 2014-15

The above tables show that internationally share of life insurance business total premium was 55.55%. But in India the share of life insurance premium is at 79.12% where as nonlife insurance premium is at 20.88%. India has been ranked as 11th among 88 countries in life insurance business according to Swiss Re.

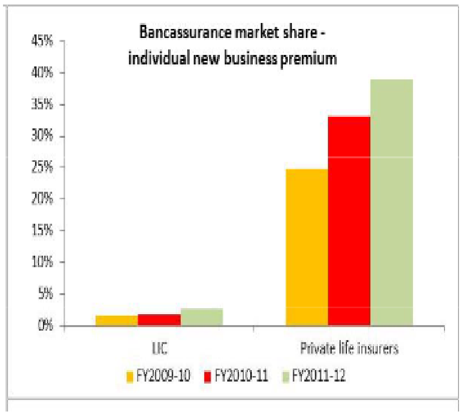
Table 3: Bancassurance market share in India*



*Source: IRDA Annual Report

Bancassurance share in new business has increased steadily in Life Insurance over the last few years as shown in Table 3.

Table 4: Bancassurance Market share*



*Source: IRDA Annual Report

Table 4 depicts that private life insurance companies have focussed more on Bancassurance and hence have generated a higher proportion of their business when compared to public sector.

Financial Year 2014-15 saw an increase in Bancassurance business in total new business category which stood at 20.84% when compared to 15.62% of 2013-14. Bancassurance channel has contributed to total group business in Life Insurance sector at 10.36% in 2014-15.

Bancassurance is emerging as a growing channel of partnership for insurance companies. There has been consistent growth over the years in total new business category for life insurance. Even the health insurance sector is growing with contribution from Bancassurance channel at 7% of the total business in Financial Year 2014-15.

VI. BENEFITS OF BANCASSURANCE

Bancassurance has brought with itself a new age insurance service through banking channel and has made the boundaries between financial services vanish. Bancassurance has various advantages for banks and insurance companies.

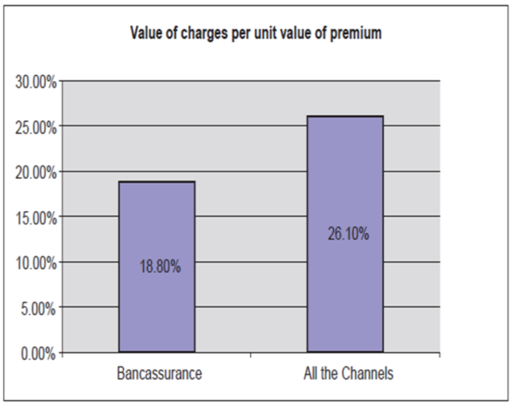
Benefits to Banks:

- The cut throat competition has put pressure on banks to look for alternate avenues for income generation and Bancassurance gives banks the opportunity to earn fee income.
- Retention of customers has become a major problem for banks and bancassurance helps in retaining customer by providing financial services at their door step as multiple services at one place satisfies customers.
- Bancassurance helps banks to increase their returns on assets (ROA). This is possible when banks cross sell financial products to existing customers and leverage their distribution and processing capabilities to achieve profitable operating expense ratio.
- Banks have a sizeable customer base and can effectively use their manpower to cross sell insurance products without any extra expenditure on sales.
- Banks through their multiple communication channels like direct mails, ATMs, telemarketing, etc, can market the insurance products to both existing and new customers also.
- As Bancassurance is a personalised medium of selling insurance products, it has helped to penetrate the untapped middle income group.

Benefits to Insurance Companies:

- Insurance Company through banking network can reach to more customers
- Varieties of products offered by insurance companies reduce the risk and increase the opportunities to tap more customers
- The insurance company reaps benefits from the trustworthy image and reliability that customers have with their banks.
- An insurance company can establish itself more quickly in a new market by using a local bank's existing network.
- Insurance company can leverage on bank customer relationship. This leads to a higher "hit rate" and therefore lower acquisition cost.
- Overall cost of insurance company comes down. The value of charger per unit value of premium also is much less in Bancassurance when compared to other channels.

Table 5: Value of charger per unit value of Premium



*Source: IRDA Report

- The untapped rural market can be tapped through Bancassurance by the insurance companies as banks have a huge rural presence.
- Insurance companies can use the highly skilled professional bankers to their benefit and sell insurance products.

VII. CONCLUSION

Low (2004) has rightly pointed out that, the changing mindset is cascading through the banking sector in India and this would be a right time for banks to resort to Bancassurance, especially in the context of proactive policy environment of regulatory authorities and the Government. The success of Bancassurance relies on customer relationship management of the bank and on IT services of banks. So far Bancassurance in India has been a win-win model for all, because insurance companies are able to sell more and reach a wider database. Banks with the same infrastructure and no additional resources are able to earn fee base income. And customers are able to get all financial services at one stop. Yet the credibility of this model will come into question if there is mis-selling and it will impact the bank-customer relationship which has developed over the years. So there is definitely a need for caution to be exercised by the bankers. Yet, Bancassurance model is the only way by which insurance companies can reach the untapped rural market benefiting bankers, insurance company and customers and India has a huge potential for growth of Bancassurance.

REFERENCES:

[1] Aggarwal, Vineet. (2004). Bancassurance: Concepts, Framework and Implementations. The Journal of Insurance Institute of India, July- Dec 2004, 34 – 51.

[2] Barathi, C. and Balaji,C.D.(2011). Innovative strategies to catalyse growth of Indian Life insurance sector – an analytical review. Indian Journal of Commerce and Management studies, Vol –II, 136-145.

[3] Barua, Abheek.(2004). Bancassurance – New Concept catching up fast in India. The Chartered Accountant, June 2004, 1348 – 1351.

[4] Chaudhary, Amitesh. (2004). Bancassurance – The Most Challenging Insurance Distribution Channel with special reference to SBI. Management Accountant, April 2004

[5] Gupta, Mukul.(2006). Bancassurance : Taking the Lead- online edition of Hindu Business Line

[6] Krishnamurthy, R.(2003). Bringing Bancassurance to India – Blue prints for Success. IRDA Journal, Aug, 20 -23

[7] Lalit K pani and Sukhmaya Swain(2013) – Bancassurance and Indian Banks. IJRDMR, Vol-II, Issue 1,2013

[8] Malpani, Sudarshan. (2003). Many roads to Bancassurance. IRDA Journal, Aug, 24 -25

[9] Morris Graham, "Bancassurance in India – the seeds are sown‟ – www. WATSONWYATT.com

[10] Neelamegam, R. and Veni, K. Pushpa. (2009) .Bancassurance - An Emerging Trend in Indian service Sector, Indian Journal of Marketing, October, 50-54

[11] Parakala, V.S. Naga Raja Rao. (2004). Alternative channels of Insurance Distribution in India., SAJMMR Volume 2, Issue 7 (July, 2012) ISSN 2249-877X South Asian Academic Research Journals http://www.saarj.com - 143

[12] Parihar, Rachna. (2003). Bancassurance: Challenges and Opportunities in INDIA. Bancassurance: Trends and Opportunities; ICFAI Press.

[13] Singhvi, Neha and Bhatt, Prachi , "Distribution Channels in Life Insurance"; Bimaquest, Vol III, issue I , Jan 2008

[14] The WATSON WYATT Bancassurance benchmarking study – India 2006. A comparative study of Bancassurance performance practices in India.

[15] IRDA Annual Report 2013-14

[16] IRDA Annual Report 2014-15

Websites

[1] www.article.economictimes.indiatimes.com/2011-07-20/news/29795056-1-insurance-companies-life-insurance-council-bancassurance.

[2] www.business-standard.com/article/finance/banks-to-have-multiple-structure-options-to-tie-up-with-insurer-v30605006591

[3] www.lifemint.com/home-page/xekvenvp8is3wpim920wfk/banks-opoose-irda norms -on-retailing -policies.html

[4] www.business-standard.com/article/finance/irda-give-options-for-bancassurance tie-ups 112101000696.html www.sooperarticles.com/business-articles/career-development-articles/bancassurance-india-emerging concept-880425.html

[5] www.indiainfoline.com

[6] www.thehindubusinessline.com/banking/zonewise-tie-up-by-insurers-banks-will-be-messy-rajiv-takru/article4895439.ece

[7] www.technavio.com/report/global-bancassurance-market-2015-2019

[8] www.rbi.org.in