Bancassurance - An emerging Scenario in Indian Insurance Sector

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ABSTRACT
The traditional distribution channels of insurance companies are costlier as the population of insurable over one billion in over country. Due to heavy competition among the insurers, they have to incur heavy distribution expenses. Insurance companies with their relatively limited infrastructure were able sell their products throughout the country by using the distribution channel of bank branches. Selling the insurance products through banks is called as bancassurance. The bancassurance is useful for the banks, the insurance companies and the customers.

Key Words: Bank, distribution, insurance,

I. INTRODUCTION
Insurance is a protection against a future loss. The insurance does not protect asset nor life. Insurance only tries to reduce the adverse consequences and loss to the insured. Banks are the key players in providing services like collection of deposits and lending loans, dealing trade finance, undertake money transfer, deal in bullion, etc. Distribution of insurance products is an extension of these activities.

The bancassurance is the distribution of insurance products through the banks distribution channels. It is a phenomenon were in insurance products are offered through the distribution channels of the banking services along with a complete range of banking and investment products and services.

The concept of bancassurance emerged in the 1980s in France. It has been a successful distribution channel in Europe. 70% of the total insurance contracts in France, Portugal and Spain, 45% in Belgium and 30% in Ireland are sold through bank branches. In Argentina, Brazil, Chile, Colombia and Mexico, bancassurance is popular. Big international banks have got into the business of insurance and pensions funds.

REVIEW OF LITERATURE:

Amitesh Chowdhury, (2004), brings the importance of Bancassurance. Bancassurance is an important tool in the hands of bankers, insurers and customers to maximize their benefits at a time. The SWOT analysis – STRENGTHS: India has a large untapped potential insurance markets for LIC and GIC, WEAKNESSES: lacking implementation of information technology. OPPORTUNITIES: merger and acquisition or setting up joint venture, THREATS: success of banc assurance requires change in approach.

Goswami, S., (2005), analyzed the marketing trends in banking and insurance sector. He says that the insurance service providers require consultancy in CRM revenue growth and speed for marketing. In order to retain customers constantly high service levels are required either through a conscious CRM type strategy, or through any other means.

Sridharan, G and Allimuthu, S., (2009), discussed the benefits of the Bancassurance for the bankers, insurance companies and customers. Due to heavy competition, the insurers incur heavy distribution expenses. Banking sector was a potential channel useful for the insurance companies for selling their products.

Nandita Mishra, (2012), listed out the issues and problems in Bancassurance in India. Lack of interest and motivation among the bank staff in promoting bancassurance products was the major issue. Transactional model and Relationship-based model are used to sell the bancassurance products. The success of bancassurance depends on the customer relationship of banks.

II. IMPORTANT OF THE STUDY:
Banking sector not only act as a mediator for the business people. They are also involved in the marketing of insurance products. It is important to know the

III. OBJECTIVES:

• To lists out the Bancassurance models.
• To state the benefits of Bancassurance
• To analyze the challenges and opportunities in Bancassurance

IV. THE INDIAN CONTEXT:

After first Narasimham Committee report, Indian banking system has gone through huge reforms like merchant banking, lease and term finance, capital market / equity market related activities, hire purchase, real estate and so on.

In India, no company is allowed to transact both insurance and banking business. They are kept separate. In
fact, even a company, registered as an insurer has to choose between life and non life business. It cannot do both. Therefore, the banks in India cannot have the advantages which are available in the European context.

There are joint ventures in India between banks and foreign insurers. State Bank of India, HDFC, ICICI and Vysya Bank are examples. The joint venture is an entirely independent unit of operation, with separate personnel and funds and subject to different regulations.

The only way in which bank can be associated with the insurance business in India is by becoming a corporate agent, for a remuneration. The bank can do so for particular life insurer and non life insurer. It can make suggestions on the basis of its intimate contacts with the customers. Since 2000, many banks and insurers have agreed to arrangements for mutual benefit.

In the year 2004, IRDA introduced an additional channel of distribution in way long traditional distribution model of insurance industry called Bancassurance.

Bancassurance has grown at different places and taken shapes and forms in different countries depending upon demography, economic and legislative prescriptions in that country.

In India bancassurance is a new concept. In our country banking and insurance sectors are regulated by two different entries. They are:
- Banking is fully governed by RBI
- Insurance sector is by IRDA

Bancassurance being the combination of two sectors comes under the purview of both the regulators

V. VARIOUS MODELS FOR BANCASSURANCE:

Various models are used by banks for bancassurance:-
- **Strategic Alliance Model:** Under this model, there is a tie-up between a bank and an insurance company. The banks only market the products of the insurance company. Except for marketing the products, no other insurance functions are carried out by the bank.

- **Full Integration Model:** This model entails a full integration of banking and insurance services. The bank sells the insurance products under its brand acting as a provider for financial solutions matching customer needs. Bank controls sales and insurer service levels including approach to claims. Under such an arrangement the bank has an additional core activity almost similar to that of an insurance company.

- **Mixed Models:** Under this model, the marketing is done by the insurer’s staff and the bank is responsible for generating leads only. In other words, the database of the bank is sold to the insurance company. The approach requires very little technical investment.

### TABLE – I

**Bancassurance Arrangement of the Indian Life Insurance Companies:**

<table>
<thead>
<tr>
<th>Insurance Companies</th>
<th>Bancassurance Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allianz Bajaj</td>
<td>Standard Chartered Bank</td>
</tr>
<tr>
<td>Birla Sun Life</td>
<td>Citibank</td>
</tr>
<tr>
<td>Dabur Cgu</td>
<td>Canara Bank, Lakshmi Vilas Balkan ABN Amro Bank And American Express Bank</td>
</tr>
<tr>
<td>HDFC Standard Life</td>
<td>Union Bank/Indian Bank</td>
</tr>
<tr>
<td>ICICI Prudential Life</td>
<td>ICICI Bank</td>
</tr>
<tr>
<td>ING Vysya Life</td>
<td>Vysya Bank</td>
</tr>
<tr>
<td>LIC</td>
<td>Corporation Bank, Oriental Bank Of Commerce, Indian Overseas Bank</td>
</tr>
<tr>
<td>Met Life</td>
<td>J&amp;K Bank</td>
</tr>
<tr>
<td>SBI Cardiff Life Insurance</td>
<td>SBI</td>
</tr>
<tr>
<td>Tata AIG Life Insurance</td>
<td>Citibank</td>
</tr>
</tbody>
</table>

**Source:** Website

### TABLE – II

**Bancassurance arrangement of the Indian Non-life Insurance Companies:**

<table>
<thead>
<tr>
<th>Insurance Companies</th>
<th>Bancassurance Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bajaj Allianz</td>
<td>Karur vysya Bank, Punjab &amp; sind Bank</td>
</tr>
<tr>
<td>Royal Sundaram Allianz</td>
<td>Citi Bank, Standard chartered Bank</td>
</tr>
<tr>
<td>ICICI Lombard</td>
<td>ICICI Bank, Centurion Bank, ABN amro</td>
</tr>
<tr>
<td>United India Insurance co.</td>
<td>Andhra Bank, Indian Overseas Bank, syndicate Bank</td>
</tr>
<tr>
<td>National Insurance co.</td>
<td>Allahabad Bank, Bank of India, vijaya Bank</td>
</tr>
<tr>
<td>The New India Assurance co.</td>
<td>Catholic Syrian Bank, Union Bank of India, Central Bank of India</td>
</tr>
<tr>
<td>Reliance General Insurance</td>
<td>Development Credit Bank, UCO Bank</td>
</tr>
</tbody>
</table>

**Source:** Website
VI. THE LEGAL REQUIREMENTS:
The legal requirements to act as corporate agent are as follows:
- Any scheduled commercial bank or its subsidiary can become a corporate agent.
- To float a joint venture, the bank must have, according to RBI regulations:
  - Net worth of at least Rs. 500 crores.
  - Reasonably low Non-Performing Assets. Net profit for the last three years.
  - Record of satisfactory performance by its subsidiaries, if any, should be.
  - Capital to Risk Weighted Ratio of not less than 10%.
  - A share in the insurance company’s capital not exceeding 50%. Exceptions may be considered by the RBI.
- Limited the share of Capital of foreign partner, if any, to 26%.

Unlike in foreign countries, the banks in India are required to maintain separate staff for doing insurance business. These persons will be exclusively dealing with insurance business. The overhead expenses will therefore, remain high until the business increases adequately.

The banks will be entitled to receive commission on the insurance business only if it is licensed to act as an agent and the specified person, who procured the business, is an employee of the bank.

VII. BENEFITS TO THE INSURER:
The main benefits to the insurer are as follows:
- The market for insurance is very heterogeneous, with customers of widely varying profiles and needs. Therefore, they have to use multiple channels for distribution, to match the different segments. As an additional channel, the banks have a good match with certain segments of the market.
- It gets the advantage of the existing infrastructure of the bank. In India, the public banks have 66000 branches of which more than 33000 are in the rural areas and 14000 in the semi urban areas. The LIC, the biggest life insurer in the country, had, after nearly 46 years of existence, less than 2500 branches all over the country including the metro cities. The four general insurance companies also had a similar number of branches.
- Access is easily available to a huge client base. The customers of the banks are similar to the customers of insurance, whether life or general. Banks have 18 crores accounts, a large reservoir or potential customers for insurers.
- Banks constitute readily available, competent, trusted, educated distribution channel for the insurer.
- Particularly for new insurers, the association with the banks helps them penetrate the markets much faster and also to give themselves some credibility. They can get some leverage from the banks brand image.
- Banks can leverage their contacts with commercial clients for developing personal lines of insurance, which is relatively neglected, particularly in non life business.
- Premium can be paid by debit to the account with the bank.
- Employees bound by the discipline of the banks are easier to monitor and to control than independent agents.
- There is a relationship of loyalty and trust between the bank and its customers, which can become a valuable base for selling insurance. Banks have much more intimate contacts with their customers than insurers, because
  (i) the frequency of contact is more and
  (ii) they meet under more pleasant circumstances.
- Customers tend to have more trust in banks than in insurers, with whom their contacts are comparatively much less.
- There is a complimentary between insurance and banking. Loans are given by banks on security and credit of persons and of assets. Insurance ensures that the security is not lost.

VIII. BENEFITS TO THE BANK:
The benefits to the banks are as follows:
- Banks are under pressure because of falling interest rates and increasing cost of administration. Competition from global players is not making it easy. All banks are looking for fee based incomes. Insurance commissions provide an excellent avenue for such income. In India, the fee is only through the commission received on the business placed with the insurer.
- Banks can help to develop insurance products, which are relevant to its business, particularly in the areas of international trade, with risk on account of political upheavals, exchange fluctuations, etc.
- There is no risk in the business. The bank cannot lose. The only risk is if the chosen insurer gets into trouble or is poor in service. The customer is likely to blame the bank for the problem. This is however a remote risk.

The other benefits include:
- Better customer retention and stronger relationships.
- Clear competitive advantage in the rural areas.
Possibility that the insurer's accounts as well as the accounts from the claimants will remain with the bank.

Insurance products can augment the value of the banking products and services.

Banks are in better position to offer complete integrated financial solutions.

IX. ADVANTAGES TO THE CUSTOMERS:

From the banks point of view:
- By selling the insurance product by their own channel the banker can increase their income.
- Banks have face to face contact with their customers. They can directly ask them to take policy and the banks need not go anywhere for customers.
- The bankers have extensive experience in marketing. They can easily attract customers and non customers because they also bank on banks.
- Banks are using different value added services like telebanking, direct mail and so on. These facilities can also be used for bancassurance purpose with customers and non customers.

From the insurer point of view:
- The insurance company can increase their business through the banking distribution channels as the banks have many customers
- By cutting cost insurers can serve better to customers in terms of lower premium rate and better risk coverage through diversification.

From the customers point of view:
- Product innovation and distribution activities are directed towards the satisfaction of the needs of the customer. Bancassurance model assists customers in terms of reduction price, diversified product quality in time and at their doorstep services by banks.
- Pressure on banks profit margins. Bancassurance can offer another area of profitability to banks with little or no capital outlay. A small capital outlay in turn means a high return on equity.
- A desire to provide one-stop customer service. Today, convenience is a major issue in managing a person’s day to day activities. A bank, which is able to market insurance products, has a competitive edge over its competitors. It can provide complete financial planning services to its customers under one cost.
- Opportunities for sophisticated product offerings.
- Opportunities for greater customer lifecycle management.
- Diversify and grow revenue base from existing relationships.
- Diversify risks by tapping another area of profitability.

The realization that insurance is a necessary consumer need. Banks can use their large base of existing customers to sell insurance products.

Banks aims to increase percentage of non interest fee income.

Cost of effective use in premises.

X. THE PROBLEMS IN SELLING INSURANCE:

The problems involved in selling insurance are as follows:

- Any bank getting into the business of selling insurance cannot afford to have a casual approach to it. The staff, if deputed from within the existing bank staff, will have to be specially trained in the intricacies of insurance and the art of salesmanship. These skills will be required at levels different from the requirements in banking operations. They will have to be persons who have an external orientation.

- The amount of business acquired through the bank depends entirely on the personal skills of the specified persons and the corporate insurance executives. An effective and successful specified person might perhaps find it more remunerative to branch off as an insurance agent on his own, instead of being tied to the bank. The options available to the bank to prevent this may lie in developing attractive compensations packages. The relevant issues will be the restrictions imposed by the insurance act as well as the relative pressures within the unions of the bank employees.

- The commitment of the senior management is crucial to the success of the persons deputed for the insurance work. The priorities for the managers may depend on the criteria by which they will be appraised at the end of the year. The progress in insurance is not an important criterion; the support to the insurance activities may be reduced. They would see mainstream banking activities as more important for their own future growth. The appraisal and reward systems of the bank have to appropriately aligned.

XI. EMERGING TRENDS:

Though bancassurance has traditionally targeted the mass market, bancassurers have begun to finely segment the market. The quest for the additional growth and the desire to market to specific client segments has in turn led some bancassurers to shift away from using a standardized, single channels sales approach to adopting a multiple channel distribution strategy. New and emerging channels are becoming increasingly competitive, due to the tangible cost benefits embedded in product pricing or through the
appeal of convenience and innovation. Bancassurers have shown a willingness to establish their product range to include products beyond those related to bank products.

XII. STRATEGIC CHALLENGES:
These developments are expected to challenge the traditional bancassurers in the following ways:
- The shift away from manufacturing to pure distribution requires banks to better align the incentives of different suppliers with their own.
- Increasing sales of non-life products, to the extend those risks are retained by the banks, require sophisticated products and risk management.
- The sale of non-life products should be weighed against the higher cost of servicing those policies.
- Banks will have to be prepared for possible disruptions to client relations arising from more frequent non-life insurance claims.

XIII. OPPORTUNITIES:
Banks database is enormous. This database has to be dissected variously and various homogeneous groups are to be churned out in order to position the bancassurance products. There is an atmosphere created in the country of liberalization and there appears to be a political consensus also on the subject.

CONCLUSION:
The success of bancassurance would mostly depend on how well insurers and banks understand each other's business. 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 provides various advantages to banks, insurers and the customers.

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