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"BANCASSURANCE – A THEORETICAL STUDY"

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ABSTRACT

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. The business of banking around the globe is changing due to integration of global 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. 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 bancassurance is the process through which insurance products are sold to customers at their local banks.

KEYWORDS: Bancassurance, Insurance products, universalization,Global markets, Technologies.

1.Introduction

Bancassurance is the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products, an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client commonly through bank branches. Bancassurance concept originated in France and soon became a success story even in other countries of Europe. In India a number of insurers have already tied up with banks and some banks have already flagged off bancassurance through select products. Banks are now major distributions channel for insurers, and insurance sales is a significant source of profits for banks. The banks can often sell insurance at better prices (i.e., higher premiums) than many other channels, and they have low costs as they use the infrastructure (branches and systems) that they use for banking.Bancassurance primarily rests on the relationship with the customer has developed over a period of time with the bank. And pushing risk products through banks is a much more cost-effective affair for an insurance company compared to the agent route.While, for banks, considering the falling interest rates, fee based income coming in at a minimum cost is more than welcome. In bancassurance, the sale of life insurance and pensions products through a bank, has proved to be an effective distribution channel in a number of countries. 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 to 30% of the premium income amongst the private playersin India.

2.Distribution channels in bancassurance

Traditionally, insurance products have been promoted and sold principally through agency systems in most countries. With new development in consumers' behaviors, evolution of technology and deregulation, new distribution channels have been developed successfully and rapidly in recent years. Bancassurers make use of various distribution channels and they are as follows:

(a) Career agents
(b) Special advisers
(c) Salaried agents
(d) Bank employees/platform banking
(e) Corporate agencies and brokerage firms
(f) Direct response
(g) Internet
(h) E-brokerage
(i) Outside lead generation techniques

2.1 Status of Bancassurance in India

Reserve Bank of India (RBI) has recognized "bancassurance" wherein banks are allowed to provide physical infrastructure within their select branch premises to insurance companies for selling their insurance products to the banks' customers with adequate disclosure and transparency, and in turn earn referral fees on the basis of premium collected. This would utilize the resources in the banking sector in a more profitable manner.Bancassurance can be important source of revenue for banks. With the increased competition and squeezing of interest rates spreads profit likely to be under pressure. Fee based income can be increased through hawking of risk products like insurance. Both banks and insurance companies are looking at each other to generate new sources of income using 18 crores customer accounts. The Indian middle-class segment is the second largest in the world after china. Banks have got a wide retail network, which can be exclusively used by these insurance companies to sell their products. In India 27public sector banks account for approximately 92% of the total network. Among other things,

the network involves 33,000 rural branches and 14,000 semi- urban branches where insurance penetration is largely untapped. There is enormous potential for insurance in India and recent experience has shown massive growth pace. Combinations of the socio-economic factors are likely to make the insurance business the biggest and the fastest growing segment of the financial services industry in India. However, before taking the plunge in to this new field, banks as insurers need to work hard on chalking out strategies to sell risk products especially in an emerging competitive market. However, future is bright for bancassurance. Banks in India have all the right ingredients to make Bancassurance a success story. They have large branch network, huge customer base, enjoy customer confidence and have experience in selling non-banking products. If properly implemented, India could take leadership position in bancassurance all over the world. Government of India Notification dated August 3, 2000, specified 'Insurance' as a permissible form of business that could be undertaken by banks under Section 6(1) (o) of the Banking Regulation Act, 1949. Then onwards, banks are allowed to enter the insurance business as per the guidelines and after obtaining prior approval of Reserve Bank of India.

3.RECENT TRENDS OF BANCASSURANCE IN INDIA

A number of banks in India have begun to act as corporate agents to one or the other insurance company; it is a common sight that banks canvassing and marketing the insurance products across the counters. The present Insurance Regulatory body's regulation, however, restricts bankers to act as a corporate agent on behalf of only one life and general insurance company. In the case of ICICI Prudential Life Insurance Company, within two years of its operations, it could reach more than 25 major cities in India and as much as 20 per cent of the life insurance sales are through the bancassurance channel. In the case of ICICI bank, SBI and HDFC bank insurance companies are subscribers of their respective holding companies. ICICI bank sells its insurance products practically at all its major branches, besides it has bancassurance partnership arrangements with 19 other banks as also as many as 200 corporate tie-up arrangements. Thus, among the private insurance companies, ICICI Prudential seems to exploit the bancassurance potential to the maximum. ICICI stated that Bank of India has steadily grown the life insurance segment of its business since its inception. ICICI prudential had also reported to have entered into similar tie-ups with a number of Regional Rural Banks, to reap the potential of rural and semi-urban. In fact, it is a step in the right direction to tap the vast potential of rural and semi-urban market. It will not be surprising if other insurance companies to follow this direction. Aviva Insurance had reported that it has tie-ups with as many as 22 banking companies, which includes private, public sector and foreign banks to market its products. Similarly, Birla Sun Life Insurance Company reported to have tie-up arrangements with 10 leading banks in the country.

Bancassurance alone has contributed richly to as much as 45 per cent of the premium income in individual life segment of Birla Sun Life Insurance. Incidentally even the public sector major Life Insurance Corporation reported to have tie-up with 34 banks in the country, it is likely that this could be the largest number of banks selling single insurance companies products. Ironically, Life Insurance Corporation also has the distinction of being the oldest and the largest presence of its own in the country. SBI Life Insurance for instance, is uniquely placed as a pioneer to usher bancassurance into India. The company has been extensively utilizing the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans, personal loans and credit cards. SBI has distinct advantage of having access to over 100 million accounts and which provides it a vibrant and largest customer base to build insurance selling across every region and economic strata in the country. In 2004, the company reported to have become the first company amongst private insurance players to cover 30 lakhs lives. Interestingly, in respect of new life insurance business bancassurance business channel is even greater than the size of direct business by the insurers at 2.17 per cent. Even in respect of LIC around 1.25 per cent of the new business is through bancassurance. Considering the large base, even this constitutes quite sizeable to begin within the case of LIC. This speaks for itself the rate at which the bancassurance becoming an important channel of distribution of insurance products in India. It is significant to note that the public sector giant LIC which has branches all over India, too moving towards making use of bancassurance channel.

4.ASWOT ANALYSIS

Strength

- There is vast untapped potential available, particularly for life insurance products.
- 900 million lives waiting to be given a life cover.
- About 200 million households waiting to be approached for a householder's insurance policies.
- Millions of people of India can be tapped for overseas mediclaim and travel insurance policies.

- Insurance companies worldwide are looking now to the middle market segment, which is the second largest in the world after China.
- India has a huge pool of skilled professionals. So, there is great scope for any bancassurance venture.
- There is also great scope for R&D to create new products with a minimal in the beginning as LIC and GIC both have already a good range of personal line products.

Weaknesses

- Due to late entry, the IT culture is unfortunately missing completely in all of the future collaborations, i.e. banks, GIC and LIC.
- Internet connection is not available even to the managers of operating offices.
- Inflationary pressures and the tax net today overburden the middle class population.
- Products are not tailor-made to the requirements of the customer.

Opportunities

- Bank's database is enormous.
- There is already an atmosphere created in the country for liberalization of insurance industry.
- RBI or IRA should have no hesitation in allowing the merger of the two.

Threads

- Success of a bancassurance venture requires change in approach, thinking and work culture on the part of everybody involved.
- There is a definite threat of resistance to any change that bancassurance may set in due to the traditional way of working style.
- Another possible threat may come from non-response from the target customers.
- The investors in the capital may turn their face off in case the rate of return on capital falls short of the existing rate of return on capital. Since banks and insurance companies have major portion of their income coming from the investments, the return from bancassurance must at least match those returns.

- There will be fierce competition in the market if the unholy alliances are allowed to take place. This may lower the prices and the bancassurance venture may never break-even.

5. BENEFITS OF BANCASSURANCE TO BANKS AND INSURANCE COMPANIES

a) The insurance company hopes to attract further business, from both existing and new policyholders, because of the fact that it can offer a wider range of services than before, i.e. it can give its customers access to banking as well as to insurance services. It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank.

b) The economics of the Bancassurance operation may allow the insurer to offer products which are not feasible through the insurer's existing channels. For example, sales costs incurred under existing channels may force premium rates for a product to be uncompetitive, so the product is not sold. The costs via the Bancassurance channel may be low enough to make it feasible.

c) The insurance company can offer to carry out the administration activities of the bancassurer's business, if for example the bancassurer is a separate company. Combining the bancassurer's business with the other business of the insurer can produce economies of scale International Journal of Research and Development - in administration costs (including capital expenditure). This in turn allows the insurer to improve profitability and to price future products with narrower margins, which helps to make the insurer's products more competitive.

d) For both bank and insurer there is a great opportunity to learn and to make improvements in their own operation. Each gets exposure to the other's distinctive management styles, its objectives and measures and the pressures which it can exert and which it feels. The benefit comes when either company can implement changes as a result of the learning process.

e) The realization that insurance is a necessary consumer need. Banks can use their large base of existing customers to sell insurance products Bank aims to increase percentage of non-interest fee income.

6. BENEFITS OF BANCASSURANCE TO CUSTOMERS

a) It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank.

b) The people who are unaware of and/or are not in reach of insurance policies can be benefitted through widely distributed banking networks and better marketing channels of banks.

c) Increase in number of providers means increase in competition and hence people can expect better premium rates and better services from bancassurance as compared to traditional insurance companies.

7. DEMERITS OF BANCASSURANCE

a) Data management of an individual customer's identity and contact details may result in the insurance company utilizing the details to market their products, thus compromising on data security.

b) There is a possibility of conflict of interest between the other products of bank and insurance policies (like money back policy). This could confuse the customer regarding where he has to invest.

c) Better approach and services provided by banks to customer is a hope rather than a fact. This is because many banks in India are known for their bad customer service and this fact turns worse when they are responsible to sell insurance products. Work nature to market insurance products require submissive attitude, which is a point that has to be worked on by many banks in India.

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