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BANCASSURANCE - GROWTH GUARANTEED IN INDIA

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ABSTRACT

The life insurance industry in India is and has been growing at a rapid rate since opening up of the sector in 2000. The size of the country, an assorted set of people pooled with problems of connectivity in rural areas, makes insurance selling in India a very difficult task. Life insurance companies require vast circulation strength and incredible human resource to come out to such a huge customer base. This delivery will undergo a sea transformation as various insurance companies are trying to bring insurance products into the lives of the common man by making them available at the most critical financial point, the local bank branch, through Bancassurance. Simply put, bancassurance is the method through which insurance products are sold to customers at their local banks.

Keywords: Bancassurance, Insurance, Banks, India, Financial sector, Sales, Banking channels, Financial services.

1. INTRODUCTION

―Bancassurance‖ – is a combination of two words bank and insurance (in French) – describes delivery of insurance products through banking channels. Bancassurance encompasses terms such as `Allfinanz' (in German), `Integrated Financial Services' and `Assurebanking'. Banks, with their geographical extend and infiltration in terms of customer reach of all segments, have evolved as feasible sources for the delivery of insurance products. The ever-present agent is no more the only distribution channel nowadays for insurance products. The object behind bancassurance also differs. For banks, it is a means of product diversification and a source of additional income. Insurance companies perceive bancassurance as a device for rising their market penetration and premium turnover. The customer sees bancassurance as a roll-over prize in terms of reduced price, high quality product and delivery at doorsteps. Actually, everyone can be a conqueror here. Will it work in India? That can only be answered in the outlook; the early action does show that many banks seem to believe that bancassurance will be a big success at this point. Some foreign and Indian banks – Stanchart Grindlays, ABN-Amro, Citibank, HSBC, Bank of Baroda (BoB) and State Bank of India (SBI) -- are hopeful to replicate the French sensation of this insurance-cum-banking model. In India, as elsewhere, banks are considering margins demur sharply in their core lending business. Consequently, banks are looking at erstwhile avenues, including the sale of insurance products, to supplement their income. The sale of insurance products can make banks very momentous commissions (particularly for regular premium products). In addition, one of the main strategic gains from implementing bancassurance fruitfully is the growth of a sales culture within the bank.

This can be used by the bank to promote conventional banking products and other financial services as well.

Bancassurance is not clearly trade insurance but also changing the mindset of a bank. In addition to performing as distributors, several banks have documented the potential of insurance in India and have taken equity stakes in insurance companies. However, the evolution of bancassurance as an idea and its realistic performance in various parts of the world, have thrown up a number of opportunities and challenges.

Currently there is more and more exchange of wedding rings between banks and Insurance Company for better business prospect in future. With the enormous benefits for banks like increase in revenue, return on asset, customer retention, better reputation etc., the bancassurance is going to be a big revolution in the banking industry.

2. LITERATURE REVIEW

Bancassurance is a blend of two words *'Banc'* and _assurance' representing that both banking and insurance products and service are provided by one general corporate entity or by banking company with collaboration with any exacting Insurance company. In concrete terms bancassurance, which is also known as Allfinanz **-** describes a wrap up of financial services that can fulfill together banking and insurance needs at the same time.

It is the provision of insurance (assurance) products by a bank. The usage of the word chosen up as banks and insurance company's combination and banks sought to provide insurance, especially in markets that have been liberalized newly. In its simplest form, Bancassurance is the distribution of insurance products through the Bank's distribution network. It is a phenomenon in which insurance products are presented through the distribution channels of the banking services all along with a complete range of banking and investment products and services. Bancassurance tries to take advantage of synergies between both the insurance companies and banks.

Bancassurance is a relatively new concept in the worldwide stage. Unlike banks and insurers which have been around in one form or another for centuries, bancassurance has only been around for an only some decades. The concept of bancassurance was emerged in the western world when banks started to get involved in promotion of insurance business. From a purely chronological perspective, many regard Barclay's Life, set up in 1965 in the UK as an insurance subsidiary of the eponymous bank, as the pioneer of bancassurance. But the term bancassurance came into life in France after 1980 to define the sale of insurance through an mediator bank.

In India, ever since espousing of financial reforms subsequent the recommendations of First Narasimhan Committee, the current financial landscape has been reshaped. Banks, in particular, pace into several new areas and offer innovative products, *viz.*, merchant banking, lease and term finance, capital market / equity market related activities, hire purchase, real estate finance and so on. Thus, contemporary banks have become far further diversified than ever before. Therefore, their entering into insurance business is only a natural result and is fully justified too, as _insurance' is another financial service required and required by the bank's customers.

Bancassurance as a thought first began in India, when the insurance industry opened up to private participation in December 1999. With the liberalization and deregulation of the insurance industry, bancassurance evolved in India around 2002 and competition is now tougher than ever before where one and all is trying to come out with better innovations to stay that one-step ahead. Both banks and insurance companies are looking at each other to generate new sources of income using 18 crore customer accounts. India has a population of 1,054 million out of which only 77.7 million Indians have a life insurance policy as per the survey conducted by Federation of Indian Chamber and Commerce of Industry (FICCI). The Indian insurance market accounts only for 0.59% of $2,627 bn global insurance market. According to Swiss-Re report, life insurance premium is expected to increase from $188 bn in 2003 to $450 bn by 2014 and non-life premium from $123 bn to $250 bn over the same period. The study also revealed that India and China are the fastest growing markets for insurance business. Almost 300 million people in the country can afford to buy life insurance. So, there is a huge chunk of population yet to be tapped. In India, 27 public 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. In India, the concept of bancassurance is relatively new.

Table-1. Per Capita Premium in Select Countries

Region/Country	Per Capita Premium(in $)
USA	3,266
Europeaa(Average)	919
Switzerland	4,343
UK	3,394 155
GulfaCountriesaa(Average)	302
UAE	220
Bahrain	259
Kuwait	77
Oman	47
Saudi Arabia	

Source: Sigma Report, Swiss Re

The Indian middle-class segment is the second largest in the world after China. It is estimated that through bancassurance banks and insurance can collectively receive a fee-based income of Rs. 13,500 cr and Rs. 22,000 cr, over the next five years. Many banks and financial institutions have set up joint ventures with foreign insurance companies like SBI Life (with Cardiff of France), MetLife India (MetLife and J&K Bank amongst others) ICICI Prudential (with ICICI), HDFC Standard Life (with HDFC), etc. The companies like Aviva, MetLife, Birla Sun Life, SBI Life, etc., have taken bancassurance as an important channel for distribution. SBI Life Insurance Company is a predominant player in bancassurance. The company aimed at acquiring 75% of the total business through bancassurance and the balance through the other channels by 2007. Allianz Group is a business entity engaged in worldwide insurance business embracing more than 70 countries of five continents to serve 60 million customers through its international subsidiary network.

Banks have got a wide retail network proving to be a vital distribution channel of insurance products. To ensure that only financially sound banks enter into this stream, the IRDA has laid down certain prerequisites. To operate as a distribution channel, banks must possess a net worth of at least Rs. 500 cr and a capital adequacy ratio of a minimum 10%. The increasing number of tie-ups between banks and insurance companies is confirming the growing importance of this distribution channel. In the financial year 2003-04, the bancassurance channel contributed 70% towards the total sales of Aviva India. It also contributed 6% of non-life premiums and 13% in life in 2006. There is huge market potential in India when compared to the global benchmark.

The winds of liberalization have brought the essential competition and better pricing into the industry with the help of financial engineering techniques and models, significant advances in information technology and consumer demands. As a result, banks began exploiting junction of the financial industry and financial liberalization. Banking institutions and insurance companies have found bancassurance as a striking and profitable complement to their on hand activities in India.

Bancassurance seems to have made the greatest brunt in France. Almost 100% of the banks in France are selling insurance products. It is claimed that the 55% to 60% of the life insurance business in France had come through banks. In Portugal and Spain it was over 70%. In U.K it is about 30%. In Argentina, Brazil, Chile, Colombia and Mexico also the bancassurance is becoming popular. Hardly 20% of the United States banks are selling insurance products as only recently the Glass stea gell act was repealed which has prohibited the banks from entering into the financial services. In Asia: Singapore, Taiwan and Hong Kong have surged ahead in Bancassurance then that with India and China taking cautious step forward towards it. In Middle East, only Saudi Arabia has made some delicate attempts that even failed to really take off or make any change in the system.

2.1. Research Objectives

- To explore the potential of Bancassurance in India
- To find the motivation of banks in helping the insurance companies in selling their product
- To be aware about the process by which banks attach insurance products with their products

3. FINDINGS AND RESULTS

3.1. Reasons for Growing Trend of Bancassurance

The beginning of the insurance industry to private sector participation in December 1999 has led to the entry of 20 new players, with 12 in the life insurance sector and eight in the non-life insurance sector. Almost without exclusion these companies are seeking to utilize multiple distribution ways such as traditional agency, bancassurance, brokers and direct marketing. Bancassurance is seen by many to be a significant or even the chief channel (the latter being the case for at least SBI Life).

In other Asian markets there has seen bancassurance make significant development in recent times. For example, bancassurance accounted for 24% of new life insurance sales by weighted premium income in Singapore in 2002. This is a significant boost on the corresponding 2001 statistic of 15% and is as a result of expansion in significant bank-centric bancassurance operations.

In Hong Kong the figure for 2002 is expected to be at the 20% level for the same basic reasons. Life insurance premium represents 55% of the world insurance premium, and as the life insurance is essentially a saving market. So it is one of the methods to amplify deposits of banks. In non-life insurance business banks are looking to provide additional flow of revenues from the same customers through the same channel of distribution and with the same people.

Insurers have been turning in ever-greater numbers to alternative modes of distribution because of the high costs they are paying for agent services. These costs became too much of a encumber for many insurers compared to the returns they generated. Insurers operate through bancassurance own and control relationships with customers. Insurers found that shortest relationships with customers gave them greater control of their business at a minor cost. Insurers who operate through the agency relationship are barely having any control on their relationship with their customers.

The ratio of charge to premiums, an important efficiency factor, it is noticed very well that expenses ratio in insurance activities through bancassurance is tremendously low. This is because the bank and the insurance company is benefiting from the same delivery channels and people. It is believed that the prospects for increased consolidation between banking and insurance is more expected dominated and derived by the marketing innovations that are likely to follow from financial service transformation. Such innovations would include cross selling of banking, insurance, and brokerage products and services; the increased use of the Internet by consumers; and a melding of insurance and banking business cultures.

One of the most important reasons of bearing in mind Bancassurance by Banks is increased return on assets (ROA). One of the best ways to increase ROA, assuming a stable asset base, is through fee income. Banks that build fee income can cover more of their operating expenses, and one way to build fee income is through the sale of insurance products. Banks those effectively cross-sell financial commodities can leverage their distribution and processing capabilities for profitable functioning expense ratios.

By leveraging their strengths and finding ways to conquer their weaknesses, banks could alter the face of insurance distribution. Sale of personal life insurance goods through banks meets an important set of buyer needs. Most large retail banks provoke a great deal of trust in broad segments of consumers, which they can leverage in selling them personal life insurance products.
In addition, a bank‘s branch system allows the face-to-face contact that is so vital in the sale of personal insurance.

Another benefit banks have over traditional insurance distributors is the lower cost per sales lead made possible by their sizable, loyal customer base. Banks also enjoy important brand awareness within their geographic regions, again providing for a lower per-lead cost when advertising in the course of print, radio and/or television. Banks that make the most of this reward are able to penetrate their customer base and markets for above-average market share.

Other bank strengths are their marketing and dealing out capabilities. Banks have extensive familiarity in marketing to both existing customers (for retention and cross selling) and noncustomers (for acquisition and awareness). They also have access to numerous communications channels, such as statement inserts, direct mail, ATMs, telemarketing, etc. Banks‘ proficiency in using technology has resulted in improvements in deal processing and customer service. By productively mining their customer databases, leveraging their status and ‘distribution systems (branch, phone, and mail) to make appointments, and utilizing ‘sales techniques, and products tailored to the middle market, European banks have more than doubled the conversion rates of insurance leads into sales and have increased sales productivity to a ratio which is more than sufficient to make bancassurance a highly profitable plan.

Insurers have a lot to gain from marketing through banks. Personal-lines carriers have establish it difficult to grow using conventional agency systems because price competition has determined down margins and increased the compensation demands of successful agents. Over the last decade, life agents have sold less and larger policies to a more upscale client base. Middle-income consumers, who comprise the mass of bank customers, get little notice from most life agents. By capitalizing on bank relationships, insurers will recall much of this underserved market.

Most insurers that have tried to penetrate middle-income markets through substitute channels such as direct mail have not ended well. Clearly, a change in approach is essential. As with any proposal, success requires a clear thoughtful of what must be done, how it will be done and by whom. The place to begin is to segment the strengths that the bank and insurer bring to the business chance.

3.2. Why Banks Enter into Bancassurance

The main reasons why banks have decided to enter the insurance industry area are the following:

- **Strong competition** between banks, against a background of flinch interest margins, has led to an add to in the administrative and marketing costs and restricted the profit margins of the conventional banking products. New products could significantly improve the profitability and enlarge productivity.
- **Financial benefits** to a bank performance can flow in a number of ways, as in brief outlined below:
  - **Increased revenue generated**, in the shape of commissions and/or profits from the trade (depending upon the relationship)
  - **Reduction** of the consequence of the bank fixed costs, as they are now also extending over the life insurance relationship.
  - **Opportunity** to boost the efficiency of staff, as they now have the chance to offer a wider array of services to clients
- **Client preferences** concerning investments are shifting. For medium-term and longterm investments there is a trend away from deposits and toward insurance products and mutual funds where the return is usually higher than the return on traditional deposit accounts. This shift in investment preferences has led to a reduction in the share of personal savings held as deposits, traditionally the core element of profitability for a bank which manages client‘s money. Banks have

sought to offset some of the losses by entering life insurance business. Life insurance is also often supported by favorable tax dealing to encourage private condition for protection or retirement planning. This preferential treatment makes insurance products more attractive to customers and banks see an opportunity for profitable sales of such products.

- Analysis of existing information on the client financial and social state can be of great help in discovering customer wants and promoting or manufacturing new products or services. Banks think that the quality of their client information gives them and lead in distributing products profitably, compared with other distributors (e.g. insurance companies).
- The realization that combined bank and insurance products can be superior for the customer as they provide more complete solutions than usual standalone banking or insurance products.
- Banks are experiencing the amplified mobility of their customers, who to a great degree tend to have accounts with more than one bank. Therefore there is a burly need for customer loyalty to an organization to be improved.
- **Client relationship management** has become a chief strategy. To build and preserve client relationships, banks and insurers are forming partnerships to give their customers with a wide range of variety of bank and insurance products from one supply.
- It is believed that as the number of products that a customer purchases from an organization increases the chance of losing that specific customer to a competitor decreases.

3.3. What is in Bancassurance that Make it More Suited to Life Insurance Products?

Conventionally, much fewer non-life insurance products are circulated through bancassurance than life insurance products. There are several reasons for this:

✓ the key reason may be the parallel nature of life insurance and banking products: bank employees are already well-known with financial products and quickly adapt to selling insurancebased savings or pension products;

✓ On the other hand, the non-life market necessitates special management and selling skills, which are not necessarily prevalent in bancassurance. In addition, such competencies need significant investment in education and motivation, and therefore additional costs;

✓ Life insurance products are usually long-term products, which want customers to have complete poise in the institution that invests their funds. And we now know that, in many countries, banks have a healthier image and are added trusted than insurance companies;

✓ Bank advisers can utilize their familiarity of their customers‘ finances to target their advice in the direction of specific needs. This is a chief advantage in life insurance and less vital in personal injury insurance;

✓ Several professionals also pass on to the claims management aspect of personal injury insurance, which could have an unenthusiastic impact on brand image. This would seem to explain why for a long time bancassurance operators hesitated to present these types of product.

3.4. Pros of Bancassurance

Everyone is a conqueror in bancassurance. For banks it largely acts as a means of product diversification and extra fee income; for insurance company it acts as an instrument for growing their market penetration and premium turnover and for customer it acts as a prize in terms of reduced price, high quality products and delivery to doorsteps. Hence it is a win-win result for everyone who concerned.

3.4.1. Gain to Bankers

- ❖ In a condition of stable asset base the bank can increases Return on Assets (ROA) by rising their income, by selling insurance products through their hold channel. It can cover effective expenses and make operating expenses profitable by leveraging their distribution and processing capabilities
- ❖ Can influence on face-to-face contacts and attentiveness about the financial conditions of customers to sell insurance products.
- ❖ By performing as a one stop shop for all financial services, they can get better overall customer satisfaction ensuing in advanced customer retention levels
- ❖ Banks take pleasure in significant brand consciousness within their geographical region providing for a lesser per lead cost when advertising through print, radio and television. The advantage of a bank over usual distributors is the lower cost per sales lead made promising by their sizeable loyal customer base. ❖ Can set up sales oriented culture among the employees

3.4.2. Gain to Customers

- ❖ Complete financial advisory services under one crown. i.e., insurance services along with extra financial services such as banking, mutual funds, personal loans etc.
- ❖ Better handiness on the part of the insured
- ❖ Easy right of entry for claims, as banks is a usual go.
- ❖ Innovative and better product variety

3.4.3. Gain to Insurers

- ❖ Insurers can make use of the banks' wide network of branches for distribution of products. The infiltration of banks' branches into the rural areas can be utilized to sell products in those regions.
- ❖ Customer record like customers' financial standing, expenditure habits, investment and procure capability can be used to customize products and sell accordingly.

❖ Since banks have already recognized relationship with customers, translation ratio of leads to sales is likely to be tall. Further service portion can also be tackled with no trouble.

3.5. Critical Factors for the Success of Bancassurance are

- Strategies dependable with the bank's vision, knowledge of target customers' needs, defined sales process for introducing insurance services, simple yet complete product offerings, well-built service delivery method, quality administration, synchronized preparation across all business lines and subsidiaries, complete integration of insurance with other bank products and services
- Another dot is the treatment of customers. With customer awareness levels increasing, they are demanding greater ease in financial services.
- The surfacing of out-of-the-way distribution channels, such as PC-banking and Internetbanking, would hamper the distribution of insurance products through banks.
- The coming out of newer distribution channels in quest of a market share in the network.

4. CONCLUSION

Where structure has approved, bancassurance has mostly been an extraordinary success and, even though sluggish to gain pace, is now taking off across Asia, especially now that banks are opening to become more diverse financial institutions, and the concept of universal banking is being time-honoured.

The commotion of bancassurance very much turning point on banks ensuring excellent customers relationship; therefore, banks call for to strive towards that direction. Regulators could discover the possibility of allowing banks having tie-up arrangements with more than one insurance company, giving wider picking for the customers. In addition to acting as distributors, banks have recognized the likely of bancassurance in India and will take equity stakes in insurance companies, in the long run. Going by the current pace, bancassurance would turn out to be a model rather than an exception in future in India. Satisfactory training joined with sufficient motivation system could avert the banks' staff resistance if any. In sum, bancassurance strategy would be a _win-win situation' for all the parties concerned - the customer, the insurance companies and the banks.

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