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Bancassurance: Emerging prospects and issues in India

Dr. Rakesh Kumar

Assistant Professor, Post Graduate Govt College, Sector-11, Chandigarh, Punjab, India

Abstract

Globally the business of banking is changing due to Development of new technologies. Global financial markets, banking operations worldwide and diversification of activities. Bancassurance plays a major role in worldwide insurance and dominates several major European markets The business model tends to impact all aspects of the bancassurance activity including the company structure, sales and marketing, product design, and sales remuneration by selling of insurance products by banks, Bancassurance has tended to see a gradual evolution in the products offered from protection business closely related to the banks lending activity to general savings business and finally to a wider range of protection products. This paper aims to review the Bancassurance potential in India, its model, benefits to Customers, Banks and Insurer and Challenges and emerging trends in India and some other related issues.

Keywords: Bancassurance, Banking, Insurance

1. Introduction

Bancassurance is the distribution of insurance product through bank distribution channels. According to IRDA" Bancassurance" refers to banks acting as corporate agents for insurers to distribute insurance products. Life Insurance marketing and Reasearch Association's insurance dictionary defines Bancassurance as 'the provision of life insurance services by banking and building societies" The presence of several banking groups as promoters of insurance companies is of great significance to this model. With a network of over 80,000 branches, spread across the length and breadth of the country, banks are having the necessary potential to make bancassurance the most efficient way to achieve financial inclusion in insurance sector also.

The IRDA regulations, keeping in mind the objective of increasing penetration ratio, made it mandatory for the insurance companies to generate certain portion of their business from the rural areas and the segments of the economy which were earlier left untouched. And the existing direct agency force which was the sole selling insurance intermediary, could not assure the required returns. The Indian companies also found tying up with banks as the convenient route to reach out to the vast population and meet the IRDA guidelines. Thus, the insurance companies used the wide network of bank branches, the existing infrastructure facilities, the huge client base of the banks etc to create a synergy of results benefiting both – the bankers and the insurance companies in different forms.

The bank customers with higher average premium percapita provide quicker means to grow for insurers. The complementary nature of insurance products towards the bank advances (e.g. credit life) provides synergies in operations to the entire financial sector. The ease of access to bank customers reduces servicing costs, contributes to lower lapsation of insurance policies and hence lower costs to the economy. Banks see value in insurance business due to complementarity of products, fee income derived from the distribution of insurance and ease of recovery of advances in case of death of the borrower or destruction of properties. Several banks being promoters of the insurance companies also gain when valuation of those companies goes up due to synergies derived from bancassurance.

2. Bancassurance across the globe

Bancassurance has grown at different places and taken shapes and forms in different countries depending upon demography, economic and legislative prescriptions in that country. Taking tip from the stories of Bancassurance success in other countries like France where the concept emerged in the 1980s. It has been a successful distribution channel in Europe, around 70% of the total insurance in France, Portugal and Spain, 45% in Belgium are sold through bank branches. In other countries like Argentina, Brazil, Chile, Mexico, Bancassurance is popular (Ramaabaanu. R and Elakkiya., 2014) [10].

2.1 Potential of Bancassurance in India economy

As far as Indian economy is concerned, the Bancassurance was unknown before the passage of IRDA Act, 1999, (Agarwal, 2004) [1]. Bancassurance stll is in nascent stage in India and expected to make brisk walk in near future, (The Insurance Times, 2003, Sinha, 2005) [13] but implementation of this new concept is one of the most challenging tasks (Maji and Dey, 2007) [6]. At very first, insurance industry was doubtful about the success of bancassurance in India, but soon the insurance industry realized the need of selling insurance policies through banks. Consequently, eleven life and non-life insurance companies had entered into tie-up with twenty one banks, (Pandey, 2004) [9]. In India, bancassurance accounted 22 per cent of the sale of private insurers (Gupta, 2006) [8]. Banks are the key pillars of the Indian financial system.

Public have immense faith in banks. Well-functioning banks may increase the confidence of customers in other financial institutions and life insurers are the obvious example (Beck and Webb, 2003) [3]. India has more than 200 million middle class population, coupled with huge banking network with largest depositors base, that indicates the big scope for bancassurance (Neelamegam and Veni 2008) [8].

The prospects of bancassurance in India are really bright because of following reasons:

1. Indian economy is growing.
2. Increasing PPP (purchasing power parity).
3. Huge inflow of FDI.
4. Expansion of middle income class Indians.5. Huge banking infrastructure across urban, semi urban & rural India.

3. Prevalent bancassurance models

Various models are used by banks for bancassurance:

1. Distribution Agreement: - Insurer able to leverage the bank's infrastructure; source of fee income for banks b) Bank and insurer may have a fragmented view of the customers. c) Low level of integration. d) Reluctance of bank staff to sell insurance; insurer has little control over distribution
2. Strategic Alliance: - Insurer able to leverage the bank's infrastructure; source of fee income for banks. b) Integration in product development and channel management c) Sharing of customer database. d) Reluctance of bank staff to sell insurance; insurer has little control over distribution.
3. Joint Venture: - Joint decision making; bank participation in product and distribution design. b) High system integration, infrastructure utilization; low-cost model. c) Insurer loses control on distribution. d) Bank may be able to realize higher profitability as an insurance distributor rather than a producer
4. Financial Services Group: - Full integration of system; low-cost model. b) Potential for fully integrated products and developing a one-stop shop for financial services.

4. Benefits of Bancassurance

4.1 Benefits to Banks

1. Productivity of the employees increases.
2. Customer retetion level can be acheived by improving customer satisfaction level by providing customers both the services. It also creates a strong relationship
3. Increase in return on assets by building fee income through the sale of insurance products.
4. Banks can be aware about the financial conditions of customers to sell insurance products
5. Banks can cross sell insurance products e.g. Term insurance products with loans.
6. Clear competitive advantage in the rural areas.
7. 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.
8. All banks are looking for fee based incomes. Insurance commissions provide an excellent avenue for such income.
9. Banks are in better position to offer complete integrated financial solutions.

4.2 Benefits to Insurers

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. The customers of the banks are similar to the customers of insurance, whether life or general. So, an easy acccess to client

Banks constitute readily available, competent, trusted, educated distribution channel for the insurer.

New insurers, the association with the banks helps them penetrate the markets much faster, good credibility. 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 the frequency of contact is more and 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 baking. Loans are given by banks on security and credit of persons and of assets. Insurance ensures that the security is not lost, a large reservoir or potential customers for insurers. This opens a wide network of branches for the distribution of products, Insurers can exploit the banks' wide network Customer database like customers' financial standing, spending habits, investment and purchase capability can be used to customize products and sell accordingly

4.3 Benefits to customers

Benefits to the customers are as follows. The benefita are categories into three parts:-

From the customer 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. Enhanced convenience on the part of the insured. Easy access for claims, Cost of effective use in premises, A small capital outlay in turn means a high return on equity. It offers area of profitability to banks with neglilible capital outlay. Opportunities for sophisticated product offerings with diversify profitability areas, Realizing the need for insurance

Banks aims to increase percentage of non-interest fee income.

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 banker point of view

- Bankers attract customers and non-customers as they have a good experience in marketing. 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 By selling the insurance product by their own channel the banker can increase their income

5. Bancassurance Challenges

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

6. Demerits of Bancassurance

1. 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.
2. Conflict of interest between the other products of bank and insurance policies (like money back policy) can arise.
3. Better approach and services provided by banks to customer is a hope rather than a fact. Thus many banks are said to have a poor 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.
4. The amount of business acquired through the bank depends entirely on the personal skills of the specified persons and the corporate insurance executives.

7. Recent trends of Bancassurance

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 favorable arrangement for the development of bancassurance business. Banks are offering space in their own premises to accommodate the insurance staff for selling the insurance products or giving access to their client's database. Insurance companies can use this opportunity to increase their sale.

Nowdays banks are campaigning and marketing the insurance products across the globe. Number of banks in India act as corporate agents to insurance company.

8. Other Issues

- The difference in working style and culture of the banks and insurance sector needs greater appreciation
- Insurance products have become increasingly complex over a period of time, due to improvisation over the existing products as well as due to constant innovation of new products
- With the financial reforms and technological revolution embracing the financial system, there has been a great deal of flexibility in the mind set of people to accept change
- Bancassurance is fully integrated with that of the banking institution, it is suitable only for larger banks, however, it has other allied issues such as putting in place 'proper risk management techniques' relating to the insurance business, and the like
- The banks also fear that at some point the insurance partner may end up cross-selling banking products to their policy holders
- The change from manufacturing to pure distribution of insurance requires banks to pull together the incentives of different suppliers with their own products in a more improved way.

9. Discussion

Bancassurance means selling insurance product through banks. Banks and insurance company come up in a partnership where in the bank sells the tied insurance company's insurance products to its clients. Bancassurance arrangement benefits both the firms. On the one hand, the bank earns fee amount (non-interest income) from the insurance company apart from the interest income whereas on the other hand, the insurance firm increases its market reach and customers. The bank acts as an intermediary, helping insurance firm reach its target customer in order to increase its market share.

Amitesh Chowdhury, (2004) [2]. Bancassurance is an important tool in the hands of bankers, insurers and customers to maximize their benefits at a time. The SWOT analysis – Strenths: 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 bancassurance requires change in approach order to retain customers constantly high service levels are required, Sridharan. G and Allimuthu. S., (2009) [12], 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) [7], 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. (Ramaabaanu. R and Elakkiya., 2014) [10] discussed the emerging scenario and in Indian Insurance market. 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. The bancassurance is useful for the banks, the insurance companies and the customers.

10. Conclusion

Bancassurance primarily rests on the relationship 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,

It is concluded that Indian economy where the insurance sector is facing tough competition with wide banking sector that has a strong accessto rural and semi urban areas, public sector banks, following by private sector banks. The success of bancassurance greatly on banks ensuring excellent customers relationship. With new emerging challenges Bancassurers need to opted an innovative multiple channel approach to beat the competitive market

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