

Bancassurance - A Panaromic Outlook

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Abstract

The prominence of insurance industry in India with a number of modifications in entry of foreign players and regulatory structure has created an advantageous situation. The manner in which the industry connects with its customer and progresses in its business has resulted in spurge in the insurance activity leading to an increased growth rate. Government's initiative of motivating the uninsured to take up insurance has continuously driven penetration in the nation and multiplication of insurance products. During the year 2016-17, the penetration of life Insurance and Non-life insurance was 2.72% and 0.77%, respectively. The penetration of insurance products can be increased only through effective distribution channels. As on date 70% of distribution is done through intermediaries such as agents, brokers and web aggregators. Bancassurance is one such medium to distribute insurance products through bank as an intermediary. The present paper attempts to give a picture of bancassurance in terms of various models of bancassurance, guidelines prescribed by RBI for each model and also the motivating factors for banks to enter into insurance business. Bancassurance has contributed nearly 50% of the distribution of life insurance products in the year 2016-17 and thus, it can be considered as an effective tool for distribution as it creates a win-win situation for both the sectors and can remain as a forerunner in improving the penetration of insurance industry in India with an optimistic future business outlook.

Keywords: Insurance, Bancassurance, RBI, IRDAI, Distribution Channel, Insurance Intermediaries

Introduction

Financial system around the world is changing as a result of the incorporation, integration and inter-relatedness of international financial markets, growth of innovative technologies, world-wide spread and divergence of banking and non-banking operations. The limits that kept different financial services isolated from each other have disappeared because of all these movements. The meeting up of various financial administrations has provided collaboration in activities and improvement of new ideas such as banks, insurance companies, mutual funds, and other institutions that are seeking new business opportunities try venturing into new domains by cross-selling financial products which lead to the creation of new intermediaries. (Vikrant Sehgal) On the other hand liberalization of Indian Economy during 1991 has resulted in the competitive environment in the insurance sector. Above all, rapid evolution in banking and insurance sector in a changing and challenging economic environment around the world gave rise to an emerging concept called Bancassurance. Thus, this paper reflects on the present situation of Bancassurance in India.

Bancassurance is a term created by the combination of two words - bank and insurance (in French) – which implies that insurance products are distributed through the banking channels and networks. It is a process where banking and insurance services are provided by the same legal entity. (Kumar, April 2014) It is a means for the cost-effective dispersion of insurance and pension products by entering into different markets.

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Bancassurance in India

According to Lynna, the global financial crisis has led to the popularity of bancassurance in Asian markets. (Lynna, May 2009) However in India, it took birth in the year 2000 that permitted Indian Banks to perform insurance business after the notification issued under Banking Regulation Act of 1949 by Government of India. It came into spotlight in October 2002 when the Insurance Regulation and Development Authority of India (IRDAI) issued a notice about the requirements of the Corporate Agency according to which banks can perform as an agent of one non-life insurer and one life-insurer.

The key factors that make insurance selling difficult in India is the country's size, a diverse group of people with different mindsets, attitude towards insurance and the struggle of connecting rural areas. Thus, immense distribution power and a huge workforce are required in order to get through a large customer base. The distribution had to go through a radical change to fetch the insurance products into the lives of the common people by making them accessible uttermost convenient and fundamental financial point, the local bank branch. (Swain) This has led to the importance and rapid growth of Bancassurance in India for the past decade.

There are several reasons why bancassurance holds a significant position in the Indian market. In the first place, a bank has a gigantic system all over the nation and is governed by the regulating authority RBI (Reserve

Bank of India) in case of banks and IRDAI (Insurance Regulatory and Development Authority of India) for insurance companies. Second reason is that banks usually adopt fee-based income for the representatives or employees who engage in the sale of insurance products. Third, banks are socially and culturally more worthy and conventional than insurance agencies. (Sinha, May 2005)

Bancassurance vs Traditional Insurance

The traditional distribution channels of insurance companies are more expensive and a time consuming process that involve a series of formalities which put the customers into an unenthusiastic situation and the strong competition between insurers result in incurring significant distribution costs. One of the major and significant reasons behind the success of bancassurance is the grouping of bank and insurance creating an advantageous situation that benefits both the entities in covering structures of both short and long-term liability/asset in the financial intermediation process grabbing better attention and holding retail customers and corporate clients. (Fields, Fraser, & Kolari, 2007) The banks have all the customer related information and when the same institution recommends the insurance products to the individual, the customer gets financial assistance as well as the data remains confidential. This is the primary feature of bancassurance differentiating from other channels who doesn't share a similar opportunity when the economy is heading to digitalization (Sreenish & Kumar, Mar 2017).

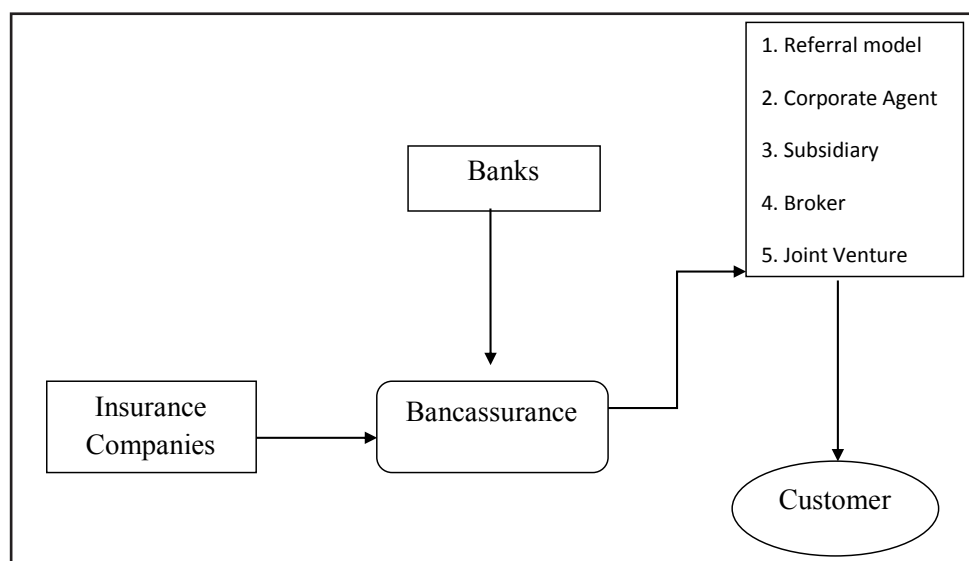


Fig. 1: Showing the Model of Bancassurance

Need for Bancassurance in India

Despite the fact that, there are different means for selling insurance products, the country covering a rural population with a percentage of 66.46 (according to the World Bank Collection of Development Indicators), requires a one of a kind channel which capacitate insurance company to reach out to every single person with the help of a local bank branch and this a point where bancassurance comes into picture.

For a decade, Insurance Business was totally dominated by public sector organizations that resulted in a lethargic growth and uneven development in the insurance activity due to the absence of competition. Thus, the eagerness and zeal for finding new distribution channels and insistent marketing approaches were thoroughly missing and to a degree it was not felt important. Nevertheless, gradually, Insurance sector was exposed to a swift progression, in terms of business as well as entry of new competitors that eventually led to inevitable and extreme rivalry. Insurance Companies has tremendous potential in India’s rural market that is as yet undiscovered. Yet there is a difficulty of setting up their own systems in each area involving enormous cost for these companies and as a result, bancassurance comes to the rescue. (Karunagaran, 2007) And due to this upsurge in distribution channels, the necessity for bancassurance

has arisen in India and is becoming a feasible solution for the massive sale of insurance products and thus ubiquitous agents are no longer the only means for the distribution of insurance products.

Further, India is one among the most densely populated countries in the world with great potential for insurance companies and has an enviable string of bank branches as an aid and support for its financial system. Banks with more than 65,000 Branches and 65% of home investments form the mainstay of the Indian financial market (Sethi) where bancassurance contribution can play a vital role.

MODELS OF BANCASSURANCE

Being the regulatory authority of Insurance Sector, Insurance Regulatory and Development Authority of India (IRDAI) perceived the importance and need for banks to expand and transform their activities in order to increase insurance penetration with the help of the entire bank branch network that allowed banks to enter into insurance sector. Banks are advised to start an insurance business by setting up a subsidiary / joint venture or act as an insurance agency / insurance broker, either at department level or through a subsidiary. Further, IRDAI also issues guidelines based on the dynamic business environment that describe various ways in which banks in India can participate in the insurance business.

Table 1: Showing the Three Important Models of Bancassurance and the Respective Guidelines Issued by RBI

<i>Business Model</i>	<i>Description</i>	<i>Rbi Guidelines</i>
REFERRAL MODEL	<ul style="list-style-type: none"> This model is an agreement, wherein the bank have access over the clients’ data base that works for a ‘referral fee’ or commission for every business lead that was passed on. Banks offer office space in its branches to the insurance company for the sale of insurance products wherein the insurance staff work in the office space provided and vend its products to bank customers. While the Bank staff does not take part in distribution of insurance products and faces no risk. 	<ul style="list-style-type: none"> The bank intending to enter into referral arrangement, other than conforming to IRDA guidelines, ought to likewise get into an agreement with the insurance company for utilization of its premises and existing infrastructure of the bank. The period of agreement should not exceed three years at the first instance and upon the satisfaction of the bank with the service; it can be replaced by another agreement after the initial period.
CORPORATE AGENCY	<ul style="list-style-type: none"> In this model, Banks ties up with one life, one non-life and one health insurance Company. Bank offer policies of only one insurance company where customer is deprived of ‘choice’, regardless of whether other insurance agencies stay putting forth better choices Banks are not accountable to customer 	<ul style="list-style-type: none"> RBI must publish guidelines for appointment of agents including NBFCs, Regional and National Banks. All Agents are required to submit security deposit with a minimum Rs.5 lakh which can be raised depending on volume of transaction and the number of customers. Well-trained staff should be employed by the agents to explicate the benefits and risk involved in different policies The staff should not engage in misselling/ fake-promises to reach the sales target.

Business Model	Description	Rbi Guidelines
JOINT VENTURE	<ul style="list-style-type: none"> • large insurance companies that have strong channel and product experience partners with well-developed banks having large customer database • This is regarded as significant distribution model of bancassurance. • An agreement is made between Insurance company and Bank to share the profits by having cross holdings between them. 	<p>The eligibility criteria for banks to participate under joint venture model are as follows:</p> <ul style="list-style-type: none"> • Banks should have a minimum Net worth of Rs.500 core. • Bank should have minimum CRAR 10 per cent; • The portion of non-performing assets should be fair and sensible • The banks must have net profit in the last three consecutive years • A bank can hold maximum equity of 50 per cent of the paid-up capital of the insurance company in the joint venture

(www.rbi.org.in)

Source – www.rbi.org.in- Publications

Working of Bancassurance

According to IRDAI, there are certain regulations that has to be followed by an applicant to act as a bancassurance agent

- A candidate who wishes to obtain a license to act as a bancassurance agent must apply to the authority for an amount of 500 rupees.
- The license thus granted is valid for a period of 3 years and the same can be extended by 3 years
- No bancassurance agent can work in more than one life insurance Company, one non-life insurance company and an independent health insurance company in any of the states, in addition to one specialized insurance company.
- The minimum qualification to be possessed by a specified person isto be a graduate or a pass in equivalent examination in any recognized University / Institution.
- The specified person shall have passed the pre-recruitment examination in life or general insurance business, or both, conducted by the Insurance Institute of India, Mumbai, or any other duly recognized Institution.
- A fee of Rs.2500 is payable to the Authority for renewal or issue of license
- A Bancassurance Agent shall be paid a commission of not exceeding 85% of the limit according to the Insurance Act, 1938.
- Bancassurance Agent shall furnish half-yearly un-audited statements along with a declaration con-

firming the accomplishment of the obligation of the Specified Person in every single branch before 15th November of each year to the Authority

- Chief Bancassurance Executive or a specified person shall not hold similar position with another corporate agent or Bancassurance agent.

(www.irdai.gov.in)

Source: IRDAI – Exposure draft (licensing of bancassurance agents)

Present Situation of Insurance Market in India

In the Indian market, the insurance sector holds a significant position that contributes to the country's economic as well as financial development in India. Altogether, there are 53 insurance companies serving both life insurance and general insurance products to the customers nationwide. The life insurance and the general insurance sector pointed out a solid growth rate of 22.5% with a premium of Rs.1.38 trillion from April 2015 to March 2016 and 12% having a premium income of Rs.105.25 billion from April 2016 to March 2017 respectively. The life insurance sector considered to be the largest in the world which offers around 360 million policies. However, in the next 5 years it is projected to cross CAGR of 12% to 15%. Nevertheless, it is estimated that the Indian insurance market will fourfold in size for the next 10 years and the life insurance sector is likely to gather further US \$160 billion subsequently leading to ample of opportunities as well as challenges in the Indian Insurance Market. As of now, the general insurance business in the Indian market

represents Rs.70000 Core and above premiums yearly and it is developing at a constructive rate of 17% consistently over the years. Indian insurance market represents less than 1.5% of the world's total insurance premium

regardless of being the second highly populated country in the world. (Dhawan, 2017) Thus, there is a strong hope to be idealistic and remain positive about banc assurance performance in India.

An Analysis on the Performance of Bancassurance in the Insurance Sector

Table 2: Showing the Contribution of Corporate Agents towards Distribution of Insurance Products from 2012-17

		2012-13		2013-14		2014-15		2015-16		2016-17	
		Corporate agents (Banks)	Others	Corporate Agents (Banks)	Others	Corporate Agents (Banks)	Others	Corporate Agents (Banks)	Others	Corporate Agents (Banks)	Others
Individual Business	Private	43.08	6.04	43.62	4.00	47.37	3.35	51.70	3.00	53.50	3.01
	LIC	3.16	0.15	2.77	0.10	2.60	0.12	2.18	0.14	2.39	1.00
	Total	16.18	2.07	15.62	1.33	20.84	1.44	23.82	1.39	23.48	1.30
Group	Private	19.88	3.45	17.22	4.26	10.36	5.10	8.79	4.71	9.67	1.73
	LIC	0.02	0.01	0.05	0.00	0.03	0.00	0.00	0.07	0.01	0.01
	Total	4.63	0.81	3.05	0.74	2.22	1.08	1.69	0.96	1.85	0.33

Bancassurance is the life of selling insurance products and services through banks. Table 2 reveals the rising importance of Bancassurance as a channel for sale of insurance products. Here, the corporate agents are the banks who provide the products for the sake of insurance. The corporate agents provide the high products as the years pass on in the Individual & Group business.

It represents the growth of the individual and group of business from the year 2012-2017. With regard to an individual business in the year 2012-2013 the major contribution of insurance premium under the private was through corporate agents comparing to others and the same continued in the following years till 2016-2017. When comparison was made to identify the major premium contribution within corporate agents and others under private and LIC from group business, the result is same as the above as the major contributors are through corporate agents. Hence, from the above table it is clear that the performance of corporate agents are better when compared to others either through private or LIC with regard to Individual Business or Group Business.

The offer of Bancassurance in new business sales has expanded relentlessly over the last five years for life insurance business. Life insurance industry shows a

growth after the entry of private players in the Life Insurance. The Private life insurers generate a relatively higher proportion of their business through banks when compared to public sectors. The corporate agents (banks) provide various types of banking services, which attracts the clients. The public has more belief on banks such that Bancassurance brings a positive impact for life insurance.

Motivational Factors for Banks to Enter into Bancassurance

There are number of considerable reasons for banks to enter into the Insurance sector for distribution of insurance products through bancassurance as they hold a comparative advantage with that of other companies in the production and dissemination of financial products and services. Life Insurance contracts own a quality of retaining and maintaining the long-term relationship of current customers related with the bank by forming a long-term agreement between the insurer and the bank, where this loyalty of customers might be of grand incentive to the bank in strategically pitching into the insurance sector. Moreover, insurance companies may likewise draw in customers of different banks that create an opportunity for distributing bank to market their bank products to build a huge customer base. Adding on, regular banking

products' demand may be constrained in expansion resulting in a downturn of activities wherefore a bank with multi-products might be less defenseless when compared to the banks dealing with limited products stands as a motivation to sell insurance products. But, there is already significant number of these customers holding insurance policies of different insurance agencies which turn out to be a challenging task for banks to distribute insurance products. Thus, middle-aged and young customers are targeted who have not yet taken any life insurance policy as well as all type of customers who have entered into non-life insurance contract since these are generally for a period of one year in order to stay away from such a situation (Bergandahi, 1995).

On the other hand, the fundamental purpose for bancassurance in India has been the way that banks and insurance both have a tendency of losing nothing. Thus, insurance products marketing and procuring an extra pay is a gift for the banks. Through deployment of excess staff engaged in selling of insurance products as well as to tackle the current customer base, the make banks in achieving win-win strategy. Increased margins in profits like commission, fees etc., scrutinization of assets through selling of insurance products, massive pool of experts and professionals that contribute to the development of employment, complete and effective utilization of resources likewise creating a value addition to their services motivates the banks to swim into different insurance activities (Satsangi, 2014).

Table 3: Showing Bancassurance Contribution to the Proportion of Total Income of Banks

YEAR	SBI (in percentage)	ICICI (in percentage)	HDFC (in percentage)
2012-13	34	37.6	39
2013-14	38	44.9	43
2014-15	41	54.6	44
2015-16	54	59.2	47
2016-17	53.03	56.9	52

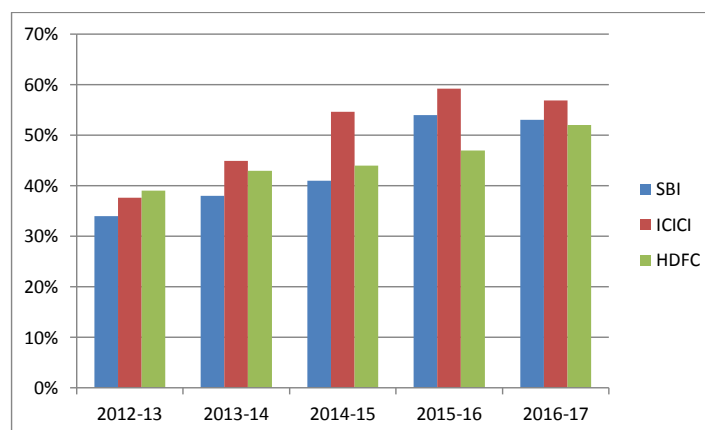


Fig. 2: Showing Graphical Representation of Bancassurance Contribution for the Past 5 Years

Table 3 clearly indicates that comparing to SBI & HDFC – ICICI are the major Bancassurance contributors to the proportion of total income of Banks from the year 2012-2013 to 2016-2017. In the year 2012-2013 ICICI was the least one to contribute to the proportion of total income of banks comparing to SBI and HDFC but later in the

following years there was a drastic change by ICICI in the contribution to the proportion of total income of Banks by leading the other two banks. This indicates that Bancassurance plays a vital role in the Banking Sector as well to generate greater revenue that contributes to the performance and growth of banks.

Conclusion

Bancassurance is expected to grow at a faster rate in the future. However, more profits can be projected in banks that have a large customer base and a limited number of branches. Thus, it is imperative to offer standard products at low costs. When these conditions are met, bancassurance will turn out to be highly competitive in life and non-life insurance. It is essential for this model to assure that banks remain completely dedicated in the promotion and distribution of insurance products. Banks as well as Insurance sector should contribute to this dedication and commitment for bancassurance to achieve its sales target. (Grover & Bhall, 2013) According to the annual report of IRDA 2016-2017, though the stake of life insurance business reached a growth of 77.95% the stake of non-life insurance business met with a growth rate of 22.05%. As a result, it is better for insurance and banking industries to concentrate on distribution of non-life insurance products through effective distribution channel and therefore bancassurance can play a major role in increasing the penetration level. Thus, it is worth being optimistic about the position of Bancassurance in India.

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