A STUDY ON BANCASSURANCE

K. Pushpalatha*

G. Aruna Kumari

C. Y. Naga Jyothi

ABSTRACT:

Bancassurance has been in existence for almost a decade now in India. LIC of India the largest PSU insurance giant has tied up with many public sector banks for distribution of its products through their branch network. The private sector insurance companies have big hopes on bancassurance channel as it is the least cost alternate distribution channel for them. The number of policies and the first premium income from bancassurance is growing very fast in the last five years making it an opportunity for both insurers and banks. Most of the banks have entered the business recently after witnessing the success of their counterparts. Some banks are setting up exclusive distribution centers for insurance products. At present, banks cannot sell policies of more than one insurer but IRDA proposes to change this and allow banks to sell policies of multiple insurers. This may push up business volumes and compensate for the cut in commissions.

KEYWORDS: *BANKS, BANCASSURANCE MODELS, BENEFITS TO CUSTOMERS, INSURRANCE, TIEUPS.*

* Assistant Professors, Department of Management Studies, Rajeev Gandhi Memorial College of Engineering and Technology, Nandyal, A.P, India

INTRODUCTION:

The banking and insurance industry have changed rapidly in the changing and challenging economic environment throughout the world. In the competitive and liberalized environment everyone is trying to do better than others and consequently survival of the fittest has come into effect. Bancassurance with a bank network blends insurance products. It is fast emerging as a key channel of distribution in the global insurance industry. Bancassurance takes various forms in various countries. What form it would take in a country depends on factors such as demography, economic environment and legislative climate. The demographic profile of a country helps to decide the kind of products bancassurance will distribute. The economic situation will determine the trend in terms of turnover and market share. The legislative climate will decide the boundaries within which bancassurance has to operate.

DEFINITION:

Bancassurance means in its simplest form, it is distribution of insurance products through a bank's distribution channel. Also known as Alfinanz, bancassurance can be defined as a package of financial services that can fulfill both banking and insurance needs at the same time. But what exactly bancassurance means. “The design, production, distribution and maintenance of traditional building society, insurance and investment products and services, and the provision of other banking services, to a common base of existing and potential customers, thus enabling a financial services group to satisfy all the evolving borrowing, investment and protection needs of those customers”.

Bancassurance /assurbanking means “a strategy adopted by banks or insurance companies aiming to operate in the financial market in a more or less integrated manner”

INTERNATIONAL SENCE:

'Bancassurance' is a term, which first appeared in France after 1980 to define the sale of insurance products through banks. In France, banks were facing a mature and highly competitive market, and their subsequent entry into insurance provided them with a new source of profit, which served to diversify their banking activity and optimize their choice of products. In 2000, bancassurance accounted for 35 percent of life insurance premium, 60 percent of savings premium, 7 percent of property insurance and 69 percent of new premium income in individual savings.

There are differences between the European and Asian market in terms of regulation, product range & distribution channels. Since April 2001, Japanese banks sell insurance products directly & can own an insurance subsidiary. Insurance products are sold by the branch staff. The bank segments its customer base to identify possible clients. Commissions are paid directly to the bank which may independently develop an incentive. Compensation arrangement for sales people. In Korea banks must have distribution agreements with at least 3 companies was implemented to avoid having traditional insurance companies becomes bankrupt. All the partners must receive less than 50% of the new business generated by the bank. Each bank branch can have a maximum of two bank staff dedicated to insurance.

There are differences between the European and Asian market in terms of regulation, product range & distribution channels. for example in Japan, Banks usually have non exclusive distribution agreements with several companies, where as in Korea large banks are required by the regulator to have distribution agreements with at least three insurance companies. In case of china and India, although their insurance markets are relatively young, bancassurance already make its mark.

In France 70 per cent of new business premiums come through this distribution channel, 69 per cent in Portugal, 63 per cent in Spain and so on. Projections by insurance giant Aviva peg the distribution share of banc assurance at 33 per cent by 2010, making it the single largest distribution channel. In Asia, the share of this network is small but growing rapidly. In China for instance, this accounts for more than 20 per cent of the urban market in insurance in 2003. Spain, like France is among the most developed markets in bancassurance. In 2002, bancassurance represented over 65 percent of life insurance premium income. Portugal has the highest penetration in bancassurance with 82 percent of market share. In Italy share of bancassurance in the business increased from 8 percent in 1992 to 50 percent in 2002, representing over 60 percent of new life insurance business, including more than 70 percent of saving products. Spain, like France is among the most developed markets in bancassurance. In 2002, bancassurance represented over 65 percent of life insurance premium income.

In 1999, it was $8 in India, $4800 in Japan, $1000 for Republic of Korea, $887 for Singapore, $823 for Hong Kong and $144 for Malaysia. Insurance premium as a percentage of GDP was 11 percent for Japan, 17 percent for South Africa, 13 percent for Korea, 16 percent for UK and 9.4 percent for France, and only around 2.3 percent in India in 2000, which is very low in comparison to other countries. (In India it was 3.6 percent in 2002-03, 2.88 percent in 2003-04 and 3.17 percent in 2004-05.)

INDIAN SENCE:

In India, the concept of bancassurance has been recognized with its inclusion in the broader ambit of universal banking. The RBI guidelines for banks' entry into insurance business, issued on August 9, 2000, provide for banks (a) entering into insurance business with risk participation and (b) carrying out insurance as a fee-based activity like insurance agents. Earlier, the Government of India had also issued a Notification specifying 'Insurance' as a permissible form of business that could be undertaken by banks under Section 6(l) (o) of the Banking Regulation Act, 1949.

ELIGBILITY OF THE BANKS FOR APPLYING FOR PERMISSION TO ENTER INSURANCEBUSINESS:

1) Banks fulfilling the following eligibility criteria (as on 31st March, 2000) will be allowed to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards:

- Minimum net worth Rs.500 crores
- Minimum CRAR 10%
- Reasonable level of NPAs
- Continuous net profit for the last three years
- Satisfactory past performance of the subsidiaries, if any.
- Such a bank may be allowed to contribute up to 50 percent of the paid-up capital of the joint venture.

In select cases and on the condition of divestment of excess investment within a prescribed period, higher equity participation may be allowed.

2) Foreign equity will be restricted to 26 percent of the total paid-up capital of the Insurance Company. If this condition is fulfilled, more than one bank in private or public sector fulfilling the eligibility criteria may be allowed to participate.

3) Banks which are not eligible to participate as joint venture partners, can make investments up to 10% of the net worth of the bank or Rs. 50 crore, whichever is lower, in the insurance

company for providing infrastructure and services support. Such participation will be treated as an investment and should be without any contingent liability for the bank.
4) Any scheduled commercial bank or subsidiary of a bank can take up insurance agency business, on fee-basis, without risk participation.

SOME OF THE FEW IMPORTANT TIE UPS IN INDIA:

(1) LIC: The insurance company LIC of India have tie up with the following bank for Bancassurance. They are: -

(A) Corporation Bank

(B) Indian Overseas Bank

(C) Centurion Bank

(D) Sahara District Central Co-operative bank

(E) Janta Urban Co-operative bank

(F) Yeotmal Mahila Sahakari Bank

(G) Vijaya Bank &

(H) Oriental Bank of Commerce

(I) DENA Bank

(j)Allahabad Bank

(2)ICICI Prudential Life Insurance company: The ICICI Prudential has tied up with the following bank for Bancassurance. They are: -

(A) Lord Krishna Bank

(B) ICICI Bank

(C) Bank of India

(D) South Indian Bank

(E)Punjab and Maharashtra Co-operative Bank

(3)HDFC Standard Life Insurance Company: The HDFC Standard Life Insurance Company has tie up with the following bank for Bancassurance. They are: -

(A)Union Bank of India

(B)HDFC Bank

(C) Indian Bank

(D) Bank of Baroda

(4)**SBI Life Insurance Company:** The SBI life Insurance Co Ltd is starting & Running its Insurance business with the help of S.B.I.

(5) **Birla Sun life Insurance Co. Ltd**: The Birla Sun life Insurance Company has a tie-up with the following bank for bancssurance:-

(a) Bank of Rajasthan

(b) Andhra Bank

(c) Bank of Muscat

(d) Development Credit Bank

(e) Dutch Bank &

(f) Catholic Syrian Bank

(g) IDBI Bank

(h) citi Bank

(6)TATA AIG Life Insurance: The TATA AIG life Insurance Company has a tie-up with the following bank for bancassurance:-

(a)DBS Bank of Singapore

(b)Orissa State of Co-operative Bank

(c) Sangli Bank ltd

(7)Bajaj Allianz Life Insurance Company: The Bajaj Allianz life Insurance Company has a tie-up with the following bank for bancassurance:-

(a) Syndicate bank

(b) Standard charted bank

(c) Parwanoo co-operative bank

(d) Integral urban co-operative bank

(e) Ajit sahakari bank ltd

(f)manjeri urban co-operative ltd

(g)Hubli urban co-operative ltd

(h)Jankalyan Sahakari Bank

(8) Aviva Life Insurance Company: The AIVA LIFE Insurance Company has a tie-up with the following bank for bancssurance:-

(a)Canara Bank

(b)Lakshmi Vilas Bank

(c)American Express and ABN AMRO Bank

(d)Centurion Bank

(9)Kotak Mahindra Life Insurance Company: The kotak Mahindra life Insurance Company has a tie-up with the following bank for bancssurance:-

(a)Kotak Mahindra Bank

(b)Dena Bank

(10)Met Life Insurance Company: The met life Insurance Company has a tie-up with the following bank for bancssurance:-

(a)Karnataka Bank

(b)Dhanalakshmi Bank and J&K Bank

(c)UTI Bank

(d)Barclays Bank

BANCASSURANCE MODELS:

Globally we have 3 kinds of bancassurance business models:

STRATEGIC ALLIANCE: Under a strategic alliance, there is a tie-up between a bank and an insurance company. The bank only markets the products of the insurance company. Except for marketing the products, no other insurance functions are carried out by the bank.

FULL INTEGRATION: This arrangement entails a full integration of banking and insurance services. The bank sells the insurance products under its brand acting as a provider of 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 approach, 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.

IMPLEMENTATION OF BANCASSURANCE-KEY CHALLENGE TO INDIA:

The following points can take into consideration for proper implementation of Bancassurance:

1. There should be involvement of top management in banks.
2. The banks should motivate and develop the skills of staffs at the operating level
3.If there is any possible conflicts of interest between banker and insurer. That has to be resolved.
4. Banks have to set up a consistent Distribution procedure with manual manual systems in banks.
5. Service level agreements between banker and insurer should be established.
6. High Capital investment in Information and Technology and Telecommunication.
7. Study about low income groups, middle and upper class of the society and their eagerness to adopt insurance policies and provide favorable policies to people.
8. Establishment of Research and Development Cell for adaptive task.

BENEFITS OF BANCASSURANCE:

BENEFITS TO BANKS:

1. Distribution of insurance products is more penetrative due to a wide network of bank branches.
2. Bank officials are able to comprehend the financial needs of clients in a more professional manner.
3. Choosing of target segments is easier because of the existing customer base of banks.
4. The productivity of bank staff is enhanced by offering a wide range of services to the clients
5. Bancassurance plans can be marketed through a different branding strategy
6. Banks can develop innovative products and services customized to include banking characteristics

Suitable strategy can be selected to deliver more value to the customer

7. Secure an additional and more stable stream of income through diversification into insurance and reduce their reliance on interest spreads as a major source of income
8. Leverage on their extensive customer bases

9. Sell a whole range of financial services to clients and increase customer retention

10. Reduce risk-based capital requirement to the same level of revenue

Works towards the provision of integrated financial services tailored to the life cycle of customers

11. Cess funds that are otherwise kept with life insurers who sometimes benefits from tax advantages.

BENEFITS TO INSURANCE COMPANY:

1. Tap into the huge customer base of banks
2. Reduce their reliance on traditional agents by making use of the various channels owned by banks
3. Share services with banks
4. Develop new financial products more efficiently in collaboration with their bank partners
5. Establish market presence rapidly without the need to build up a network of agents
6. Obtain additional capital of banks to improve their solvency and expand business
7. Insurers can exploit the banks' wide network of branches for distribution of products. The penetration of banks' branches into the rural areas can be utilized to sell products in those areas.
8. Customer database like customers' financial standing, spending habits, investment and purchase capability can be used to customize products and sell accordingly.
9. Since banks have already established relationship with customers, conversion ratio of leads to sales is likely to be high. Further, service aspect can also be tackled easily.

BENEFITS TO CONSUMERS:

1. Unlike with banks and insurers, where benefits of bancassurance will have to be weighed against business risk, the positive impacts on consumers are unequivocal.
2. Part of the lowering of distribution costs will be passed on to clients in the form of lower premium rates.
3. In addition, it is likely that new products will be developed to better suit client needs, which otherwise may not be available if banks and insurers worked independently. Examples are overdraft insurance, depositors' insurance and other insurance covers sold in conjunction with existing bank services.

4. The convenience offered by bancassurance should also increase customer satisfaction, for instance, when it is possible to pay premium as well as to withdraw and repay cash loans backed by life insurance policies through bank's ATM s.

5. Just as important, is more than often a strategic step of financial service providers to shift from being product-oriented and to focus on distribution and customer relations.

6. Comprehensive financial advisory services undergone roof, i.e., insurance services along with other financial services such as banking, mutual funds, personal loans and so forth. Enhanced convenience on the part of the insured. Easy access for claims.

REASONS FOR BANKS TO ENTER INTO BANCASSURANCE:

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

- Increasing the deposits of banks
- Another important reason is Return On Assets (ROA)
- Intense competition between banks, against a background of shrinking interest margins, has led to an increase in the administrative and marketing costs and limited the profit margins of the traditional banking products. New products could substantially enhance the profitability and increase productivity.

Financial benefits to a bank performance can flow in a number of ways, as briefly outlined below:

- Increased income generated, in the form of commissions and/or profits from the business
- Reduction of the effect of the bank fixed costs, as they are now also spread over the life insurance relationship
- Opportunity to increase the productivity of staff, as they now have the chance to offer a wider range of services to clients
- Customer preferences regarding investments are changing. For medium-term and long-term 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 clients money. Banks have sought to offset some of the losses by entering life insurance business. Life insurance is also frequently supported by favorable tax treatment to encourage private provision 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. Same customers through the same channel of distribution and with the same people

Banks are getting the additional flow of revenues from the

- Analysis of available information on the customer financial and social situation can be of great help in discovering customer needs and promoting or manufacturing new products or services. Banks believe that the quality of their client information gives them an advantage in distributing products profitably, compared with other distributors (e.g. insurance companies).
- The realization that joint bank and insurance products can be better for the customer as they provide more complete solutions than traditional standalone banking or insurance products.
- Banks are experiencing the increased mobility of their customers, who to a great extent tend to have accounts with more than one bank. Therefore there is a strong need for customer loyalty to an organization to be enhanced.

REFERENCES:

1. Source: Swiss Re, Sigma **No. 7/200**2, “Bancassurance developments in Asia-shifting into a higher gear “, p. 10
2. Banking_systemsurvey Indianbusiness.nic.in
3. www.genevaassociation.org/pdf
4. www.bexi.com/papers/bancassurance.pdf
5. www.Insuranceinstituteofindia.pdf
6. www.insureegypt.com.pdf
7. www.actuaries.org/burdon
8. www.einsuranceprofessionals.com