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Bancassurance: Tapping of Insurance into Banking Pursuit

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Abstract- The Indian banking customer now a day are getting more sophisticated in his financial needs and lays greater emphasis on convenience and a single provider for all financial products. Banks providing multiple services at one place to the customers' means enhanced customer satisfaction. It is therefore imperative for the Indian banks to include insurance in the product offering, for customer retention. With Insurance Regulatory and Development Authority's approval a number of public and private sector banks in India have tied up with insurance companies for selling insurance products. Public sector banks, co-operative, newly established private and foreign banks offer various types of insurance products to their customers. The customers look for any particular bank which provides integrated financial solutions with stable returns, total perfection and enlightened service. Banks which places highest priority on customer service and satisfaction has a competitive edge over its competitors.

This paper which examines the bancassurance business of India banks suggests that with the increasing usage of information technology and enhanced customer sophistication, bancassurance is expected to play an important role in future growth of life insurance.

Index Terms- Bancassurance, Insurance, State bank of India

I. Introduction

In this competitive and liberalised environment everyone is trying to do better than others and consequently survival of the fittest has come into effect. Financial service industries is of no exception to this, has given rise to new form of business wherein two big financial institutions have come together and integrated all their strengths and efforts and created new means of marketing and promoting their products and services. On one hand, it is the banking sector which is highly competitive and on the other hand the insurance sector which has a lot of potential for growth. The combination of these two sectors results in an innovative concept of "BANCASSURANCE".

The term bancassurance is a combination of two words 'banc' and 'assurance' which refers to banks selling insurance products. Bancassurance as a term first appeared in France in 1980, to define the sale of insurance products through banks' distribution channels. It is the arrangement whereby branches of a bank distribute insurance products by an insurance company owned wholly or partially by the bank, or the branches distribute products developed by other insurance companies with which the banks have entered into selling arrangement.

II. BANCASSURANCE: TAPPING OF INSURANCE IN TO BANKING PURSUIT

The business of banking in India has undergone a sea change due to the integration of the global financial market, development of new technologies, universalisation of banking operation, and diversification of non banking activities. The Narasimham Committee and the Khan Committee Reports have also facilitated this transformation in the banks to become universal service providers. The public sector banks, which are the mainstay of the Indian banking system have moved away from the classical model of deposit acceptance and credit disbursal through their branch networks and have begun to offer a wide range of products and services to their customers.

Banks, world over have realised that offering value added services facilitate to meet client expectation. With the entry of new generation private sector and foreign banks with advanced base of automation and multiple channels, customers have become more discerning in the products and services offered to them. This makes it imperative that public sector banks provide wide variety and best possible products and services to ensure customer satisfaction. To address the challenge of retention of customers, banks have started to switch over to customer- centric business models. Banks seek to retain loyal customers by offering them a vastly expanded and more sophisticated range of products. When these products are offered to the customer from the same bank branch, it automatically makes the branch a one stop financial provider or a super market of financial services to its customers. This is the phenomenon of 'Universal Banking' that builds on the principle of leveraging existing networks to broaden its portfolio offerings. This diversification of banking services has been driven by a number of factors, all of which have threatened bank profitability.

As far as the present scenario is concerned the public sector banks are unfortunately burdened with excessive non performing assets and massive manpower. Furthermore, after the deregulation of interest rates on deposits and advances, there is a very thin margin available to these banks. The cut throat competition among the banks has also resulted in southward movement of profitability. The net interest margin of the public sector banks considerably declines through the years. As it could be seen from Table1.1 that the spread ratio has reasonably came down cutting across the total banking system.

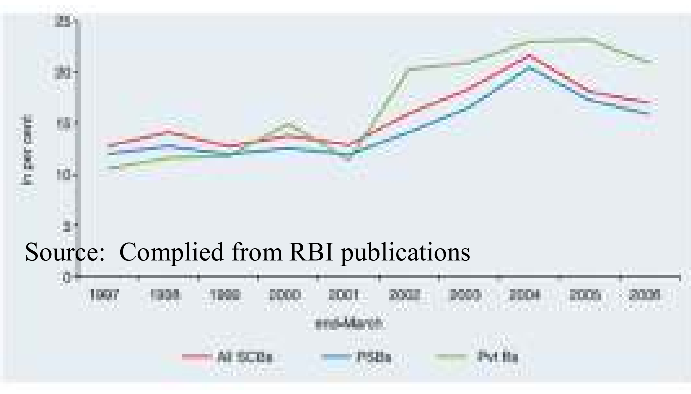
TABLE 2.1: Interest Spread for Bank Groups in India
(Net interest margin as per cent to total assets)

Year / Bank group	1990-91	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Public sector banks	3.2	3.0	2.9	2.8	2.6	2.1	2.1
Private sector banks	4.0	2.2	2.3	2.4	2.2	2.4	2.7
Foreign banks	3.9	3.6	3.3	3.8	3.8	3.8	3.9
Total banking system	3.3	2.9	2.8	2.8	2.6	2.3	2.4

Source: Complied from RBI publications.

The spread ratio of public sector banks decelerated from 3.2 per cent at end of March 1991 to 2.1 per cent at end of March 2009. Therefore, the public sector banks were compelled to be constantly on the look out for a stable alternate source of earnings in the form of non traditional and fee based sources of income. New and innovative products like merchant banking, lease and term finance, capital market/equity market related activities ,hire purchase, real estate and the like ,come in handy for the banks to substantially enhance their profitability and staff productivity. This is reflected in the sharp proportion of non-interest income to total income of public sector banks in recent years as depicted in Chart 1.1.

CHART 2.1
Non- Interest Income of Public Sector Banks to its Total Assets



Source: Complied from RBI publications

The Reserve Bank of India, being the regulatory authority of the banking system has recognised the need for banks to diversify their activities at the right time permitted them to enter into insurance sector as well. Banks with their brand image and existing customer relationship offer a natural market for selling insurance products. Insurance is an ideal option as banks feel that they can fulfill the three major requirements for a successful insurance business viz., asset management and investment skills, distribution and capital adequacy. A bank, which is able to market insurance products has a competitive edge over its competitors and furthermore can impart complete financial planning service to its customers under one roof. To sum up, for banks, insurance offers opportunities like sophisticated product offerings, greater life cycle management, diversification and growth of revenue base from existing relationships, diversifying risk by tapping another area of profitability, and the realisation that insurance is a necessary customer need. Therefore, public sector banks entering into insurance business is only a natural corollary and is fully justified too as ‘insurance’ is another financial product bestowed to the bank customer.

III. INSURANCE MARKET IN INDIA

Insurance industry in India for a fairly longer period relied heavily on traditional agency distribution network. As the insurance sector had been completely monopolised by the public sector organisations for decades, there was slow and rugged growth in the insurance business due to lack of competitive pressure. The Government of India, in 1994 appointed a Committee under the Chairmanship of R. N. Malhotra, former Governor of RBI to study the need for private participation in the insurance industry. The committee reported that only 22 per cent of the Indian population was insured. Based on the committee report, the Government of India took necessary initiatives to improve the operational efficiency of insurance companies and insurance penetration as well. The year 1999 brought a remarkable change in the Indian insurance sector, as a result of major structural changes like ending of Government monopoly and passing of the Insurance Regulatory and Development Authority (IRDA) bill, relaxing all entry restrictions for private and foreign players to enter into the market. Innovative products, smart marketing and aggressive distribution have enabled fledging private insurance companies to sign up Indian customers faster than any one expected.

The Insurance industry in India experienced substantial growth in terms of numbers, life insurance premium, and the number of policies after the opening up of the industry to the private sector. Today, there are totally 44 registered players penetrated into insurance business with 22 in life and 21 in general insurance businesses and one national re-insurer[5]. Table 1.2 shows the penetration of insurance companies in life and non-life in the Indian insurance market.

TABLE.3.3: Penetration of Insurance Companies

Insurer / Year		1999-00	2000-01	2001-02	2003-04	2004-05	2006-07	2007-08	2008-09
Public	Life	1	-	-	-	-	-	-	-
	Non life	4	-	-	1	-	-	-	-
Private	Life	-	10	2	1	1	1	2	4
	Non life	-	6	3	-	-	1	3	3
Total	Life	1	11	13	14	15	16	18	22
	Non life	4	10	13	14	14	15	18	21

Source: Complied from annual reports of IRDA

The number of insurance companies in India accelerated from 1 in life insurance to 22 in the year 2008-09. General insurance business has also showed an upward direction from four to 21 at the end of December 2008-09. This had eventually resulted in the tremendous increase in the number of policies issued by the public and private sector insurance companies which is depicted in the Table 1.3.

Table 3.2: Number of Policies issued by Insurance Companies (in Life)

Insurer / *Year*	LIC	Private Sector
2002-03	24545580 (96.75)	825094 (3.25)
2003-04	26968069 (9.87)	1658847 (101.05)
2004-05	23978123 (-11.09)	2233075 (34.62)
2005-06	31590707(31.75)	3871410(73.37)
2006-07	38229292(21.01)	7922274(104.64)
2007-08	37612599 (-1.61)	13261558 (67.40)
2008-09	35912667 (-4.52)	15010710(13.19)

(Note: Figures in parentheses indicate the growth over the previous year)
Source: Complied from annual reports of IRDA

The number of lives insured by these companies has increased from 25370674 to 50874157 at the end of December 2007-08. With aggressive marketing strategies, wide variety of products and by identifying multiple channels of distribution, the private sector companies are experiencing remarkable growth in the industry. The total number of policies issued by LIC has fallen steadily from 2003-04, compared to the previous year, whereas the number of policies from private insurance companies has more or less doubled during these years. The decreasing number of policies issued by LIC and increased number by private sector shows the growth and potentiality of private companies in the insurance market.

In spite of the significant growth of the insurance companies and policies, as regarding the present size of the insurance market in India, it is stated that India accounts a very low percentage to the global market. Though insurance market in India is over 30.00 billion US Dollars and growing at healthy 25 per cent rate per annum, the per capital penetration is still way below the mark.

In terms of insurance penetration ratio, a key indicator of the spread of insurance coverage and insurance culture, India compares poorly by international standards. The penetration ratio of India was less than 3 per cent in 2001 and improved to 4.6 per cent by the year 2007 as against UK and Taiwan at 15.70 per cent and world penetration ratio of 7.50 per cent.

TABLE 3.4: Insurance Penetration in India

[As ratio (in per cent) of premium (in US Dollars) to GDP (in US Dollars]

Year / *Insurance segment*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
Life	2.59	2.26	2.53	2.53	4.10	4.00	4.00
Non-life	0.67	0.62	0.64	0.61	0.60	0.60	0.6
Total	3.26	2.88	3.17	3.14	4.80	4.70	4.6

Source: Complied from reports of Swiss Re

With largest number of life insurance policies in force in the world, insurance happens to be a mega opportunity in India. With about 200 million middle class households, India shows a better potential for insurance industry. Simple products designed according to the needs and wants of the people may be the answer for better penetration of insurance products in India. Apparently, the challenge is not on the product but the closer observation reveals that the challenge is on the distribution and services. With the increased pressure in combating competition, companies are forced to come up with innovative techniques to market their products and services to stand apart and ahead in the market. It therefore makes sense to look at well balanced, alternate channels of distribution like corporate agents, brokers, bancassurance and the like. Another factor leading for the multiple channel distribution and marketing is that nationalised insurers are already well- established and have an extensive reach and presence while the new players find it difficult, expensive and time consuming to bring up a distribution network to such standard. The use of multiple distribution avenues becomes a must for the private insurance companies to tap the India's population base and to reach out the worthwhile number of customers.

Of the various distribution channels, bancassurance offers the insurance companies a basket full of benefits. Bancassurance as a distribution channel facilitates insurance companies in developing networks and customer database faster than any other channel. Insurers can find bancassurance as a profitable venture due to lower customer acquisition cost, quicker reach to untapped market, introduction of new hybrid products, and economies of scale in administrative cost. Bancassurance is gaining more and more popularity and expected to become a major channel of sale of insurance product in the country as well. The tremendous increase in the new business premium underwritten by insurance companies through banks as showed in Table 1.5 has made bancassurance even more attractive and as a profitable venture.

TABLE 3.5: Share of New Business Premium underwritten through Banks in Life (in per cent)

Year / Insurer	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*
Private sector	10.57	15.42	16.87	16.58	18.20	19.19
LIC	0.11	0.87	1.25	1.24	1.15	1.56

Source: complied from annual reports of IRDA

As it can be observed from the Table 1.5 the share of new business premium underwritten by private life insurance companies through bancassurance business accelerated from 10.57 per cent to 19.19 per cent which is almost doubled. Still, there is enormous scope for bancassurance business to play a significant role in the Indian insurance industry. The success of bancassurance has been limited to life insurance mostly, primarily because of the matching of banking products with the personal financial needs of individuals and families. By realising the potentiality of bancassurance many banks including the State Bank of India have taken equity stakes in the insurance companies.

IV. BANCASSURANCE- WHAT IS IN STORE FOR CUSTOMERS?

Today, convenience is a major issue in managing a person's day to day activities. Customers prefer to have a consolidation and delivery of all financial services at his doorstep. He lays greater emphasis on convenience and single provider for his financial needs. Towards that end, bancassurance offers the customer by providing comprehensive financial advisory services under one roof, (i.e. insurance services along with other financial services such as banking, personal loans, mutual funds, and the like). It relieves him from the painstaking efforts of searching for separate persons for each and every service or product. Through bancassurance, the customer can enjoy the benefits of choosing multiple products at one place. Along with the traditional whole life insurance, the customer also has the choice of term, group, child, endowment and pension products along with riders. Further more, the customer can utilise the distribution channels of banks to pay his insurance premiums which in turn reduces the number of policy lapse. The customer also has the satisfaction of the brand strength of the bank, his existing relationship and trust on the banks. In addition, the products sold through bancassurance can give better value and offer cheaper premiums due to lower distribution costs. So, bancassurance for the customer is a bonanza in terms of reduced premium charges, a high quality product and delivery at doorstep.

V. CONCLUSION

With largest number of life insurance policies in force in the world, insurance happens to be a mega opportunity in India. With about 200 million middle class households, India shows a better potential for insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. Last estimate suggests that out of 30.00 billion, only 9 per cent of the Indian population is covered under various insurance schemes, which mean both rural as well as urban areas, are not fully covered. In such a situation, Bancassurance as a distribution channel facilitates insurance companies in developing networks and customer database faster than any other channel. Insurers can find bancassurance as a profitable venture due to lower customer acquisition cost, quicker reach to untapped market, introduction of new hybrid products, and economies of scale in administrative cost. The bancassurance channel has already contributed around 20 to 25 percent of the new business amongst the private sector life insurance companies and it is expected to increase further. Bancassurance has the potential to be an effective distribution channel in India due to its extensive network of 80,369 bank branches comprising 31,796 rural branches, 19,119 semi-urban branches and 15,612 urban and 13,842 metropolitan branches[2] which offers the bank a huge opportunity to sell insurance products. Finally, the combination of bank and insurance will result in win-win-win situation for its stake holder's viz., banks, insurers and customers, the ultimate winner.

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