Bancassurance: Prospects, Strategies, Challenges And Mutual Benefits

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INTRODUCTION

In India, liberalization started in the year 1990 and in the insurance sector in particular, it started in 1999 with the setting up of the regulator in this field, namely Insurance Regulatory and Development authority (IRDA). Banks were permitted to undertake insurance business from the year 2002. With the initiation of the deregulation in the Indian insurance market, the monopoly of big public sector companies in life insurance as well as general (non-life insurance) market has been broken. The reforms in the insurance sector leading finally to the opening of the insurance sector for private participation have brought in its wake major changes not only in the design of the products available in the market but also the manner in which they are marketed. We have today a host of products coupled with a large number of intermediaries who market them. New private players have entered the market and with their innovative approaches and better use of distribution channels and technology, they are eating into the shares of established public sector companies in the Indian Insurance Market.

With the opening up of the insurance sector and with so many players entering the Indian insurance industry, it is required by the insurance companies to come up with innovative products, create more consumer awareness about their products and offer them at a competitive price. New entrants in the insurance sector had no difficulty in matching their products with the customers' needs and offering them at a price acceptable to the customer.

But, insurance not being an off the shelf product and one which requires personal counseling and persuasion, distribution posed a major challenge for the insurance companies. Further, insurable population of over 1 billion spread all over the country has made the traditional channels of the insurance companies costlier. Also due to heavy competition, insurers do not enjoy the flexibility of incurring heavy distribution expenses and passing them to the customer in the form of high prices.

With these developments and increased pressures in combating competition, companies are forced to come up with innovative techniques to market their products and services. At this juncture, banking sector with its far and wide reach, was thought of as a potential distribution channel, useful for the insurance companies. This union of the two sectors is what is known as Bancassurance.

Bancassurance offered a very attractive proposition to banks for generating additional fee based income against the backdrop of thinning spreads and severe competition; a series of tie-ups were announced immediately after the permission and are even continuing till date. Even many cooperative banks have announced tie-ups with insurance companies to distribute insurance products. For the insurance companies also, it was a winning proposition as it could now leverage the wide network of the banks immediately and the process of which on its own would have taken them several years. An added attraction was that banks in India have enjoyed the trust and confidence of the customers, even though they have not been very pleased with the service quality levels.

THE BIRTH OF BANCASSURANCE

Bancassurance began in the European Continent in second half of the 20th century, when banks sought to capture the manufacturing income from insurance products as well to supplement the commission income earned from their sales. By doing so, they sought to leverage their customer list and the related customer information that would enhance their ability to sell insurance products to their largely mid-market customers.

The emergence and spread of bancassurance has been one of the most significant developments in the retail financial services sector in India. Many banking institutions and insurance companies have found bancassurance to be an attractive and often profitable complement to their core businesses. While less than two per cent of total premiums are generated through this channel, there are expectations that bancassurance will grow to register a dominant share in the widening insurance market during this decade. World over, while both life and non-life

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companies seek to engage bank branches, non-life products have featured less prominently in bancassurance distribution. The major reason is the complementary nature of life insurance and banking products. Both are in the nature of savings accumulation, one short-term and the other long-term. The enormous trust that the banks command in the minds of public is an important reason why insurance companies seek to enter into wide ranging banking partnerships. The banks, in turn, find that the customers appreciate the provision of integrated financial services at the bank's branches which in turn builds better customer loyalty and retention levels. The insurance companies and the banks together find that their collaboration at providing a package of financial services not only benefits customers but also maximizes their profits.

Bancassurance as a business generating channel has been increasingly becoming important for the insurance companies, especially for the new private insurance companies started after the reforms in the industry. The industry players analyzed the various models in operation across the world, which provided them with a wide variety of options and went for a model that seemed appropriate to them. While it is as yet early to comment on the models the banks and insurance companies have decided to settle for, these players are increasingly going in for the Corporate Agency model. This model is attractive for the banks as it offers handsome returns (up to 35% in the first year of new business procured), involves very low start-up costs (investment in the time and licensing of employees) and the business risk is underwritten entirely by the insurance companies. Insurance products wrapped around the Bank's loan and deposit products have also been gaining in popularity due to their mass appeal and simple product design while the referral model tie-ups have not been that successful. A few banks like Allahabad Bank and Bank of India have even migrated from the referral model to the Corporate Agency model.

BANCASSURANCE MODELS

Globally we have 4 kinds of bancassurance business models:

- Distribution alliance between the insurance company and the bank.
- JV between the two.
- Merger between bank and insurer.
- Bank builds or buys own insurance products.

Most of the bancassurance operations in India fall into the first model, which in a way is quite a prudent decision. The Indian bancassurance scene as of now looks as promising as perilous, being a vast, unexplored and uncharted expanse. As banks are quite risk averse, it is but natural for them to withhold from making any long term commitment, which would be quite costly if the bancassurance business runs into trouble. In terms of the present regulatory framework, one bank can tie-up with only one life and one non-life insurer, while insurers have the choice to tie-up with any number of banks. We also have examples of joint ventures between the bank and insurer such as SBI Life and ICICI Prudential. Three important issues that are critical to making bancassurance a success are: business model suitability, functional compatibility and attitudinal flexibility.

Banks becoming a corporate agent need to designate a senior executive to be the nodal point with responsibility to account for adherence to the terms of the insurance regulation. From a regulatory perspective, we would prefer that insurance companies go in for a more formal corporate agency model rather than the referral model.

Bancassurance will help cut overlapping costs and try to gain economies of scale and scope and thereby, driving down unit costs in the fashion of the vertically integrated 20th century corporation. With a low-cost structure, the banks can leverage on a cost-effective bundle of business financial services, including cash management, lending, capital markets, risk management, retirement savings, and all types of commercial and personal lines of insurance.

Bancassurance has the potential to be an effective distribution channel in India, especially because of extensive network, built over the years. Insurance companies have to take advantage of the customers' long-term trust and relationships with banks. The association is a mutually profitable one, where the bank can widen its range of products on offer to customers and earn more, while the insurance company gains by getting constant visibility at the bank branches, and also the security of receiving premium payments on time.

In the long run, competition and consolidation takes place where banks own insurance companies or insurance companies own the banks. It is a synergy of both the services. The most relevant example of an integration of financial services is the merger between Citibank and Travelers' Insurance into the 'Citigroup', which handles an extensive range of financial services, from simple banking to insurance and securities.

The motives behind Bancassurance also vary. For banks it is a means of product diversification and a source of additional fee income. Insurance companies see Bancassurance as a tool for increasing their market penetration and premium turnover. The customer sees Bancassurance as a bonanza in terms of reduced price, high quality product and delivery at doorsteps. Actually, everybody is a winner here. Bancassurance includes the advantages carried by both sectors. On the one hand, the bank provides its distribution network of branches and agencies as a place where insurance products are offered, on the other hand it solves its problem of effectivity within its primary distribution network.

Bancassurance primarily banks on the relationship the customer has developed over a period of time with the bank. And pushing risk products through banks is a cost-effective affair for an insurance company compared to the agent route, while, for banks, considering the falling interest rates, fee based income coming in at a minimum cost is more than welcome.

Bancassurance, in its early stages in India, has brought about a host of cultural, HR and operational challenges along with it. The success of the players concerned would lie in how they are able to overcome the same. For the banks, it is the challenge of making their employees cover new ground by first undergoing mandatory hours of training, clearing a written test, getting themselves licensed and selling a new stream of products aggressively, in addition to their regular banking products. For the insurance companies, it is the challenge of facilitating this fledging distribution channel to the fullest possible extent by designing appropriate products, a very conducive operational environment especially for the medical and financial underwriting process and designing effective training programs. Banks also have the vital task of managing long-term insurance contracts by servicing it continuously till its logical conclusion thus resulting in a perennial revenue stream. Also it needs to better the customized services offered by an individual agent, to make an impact as a superior alternative channel of distribution. Banks are well-positioned to leverage the improvements in technology to improve their service quality.

FEE BASED INCOME

For banks, bancassurance would mean a major gain. Since interest rates and profits have been falling on and off, take of credit has been low. All banks have been able to sustain them but not profit much. Enter bancassurance and fee based income through hawking of risk products would be guaranteed. To put it simply, Bancassurance, tries to exploit synergies between both the insurance companies and banks. Bancassurance if taken in right spirit and implemented properly can be win-win situation for the all the participants' viz., banks, insurers and the customer.

ADVANTAGES TO BANKS

- By increasing the fee based income, productivity of the employee's increases. It can be measured by calculating business per employee and profit per employee.
- By providing customers with both the services under one roof, they can improve overall customer satisfaction resulting in higher customer retention levels.
- Increase in return on assets by building fee income through the sale of insurance products.
- Can leverage on face-to-face contacts and awareness about the financial conditions of customers to sell insurance products.
- Banks can cross sell insurance products e.g.: Term insurance products with loans.
- Banks can read the customers' expectation which will help them in coming out with innovative and competitive products.
- Banks enjoy high credibility (as trustworthy caretakers of money) with the public.

ADVANTAGES TO INSURERS

- 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.
- Customer database like customers' financial standing, spending habits, investment and purchase capability can be used to customize products and sell accordingly.
- 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.

- Insurer's need not spend much on promotion of their product. As the competition increases, they should come out with innovative products.

ADVANTAGES TO CONSUMERS

- Comprehensive financial advisory services under one roof. i.e., insurance services along with other financial services such as banking, mutual funds, personal loans etc.
- Enhanced convenience on the part of the insured.
- Ensures safety and confidence as banks are corporate entities when compared to individual agents.
- Easy accesses for claims as customers are in regular go with the banks.

Some of the Bancassurance tie-ups in India are:

Existing Tie-ups Between Insurance Companies and Banks (2007)	
Life Insurance	
Insurance Company	**Banks**
LIC	Andhra Bank, Dena Bank, Corporation Bank, Indian Overseas Bank, Allahabad Bank, Vijaya Bank, Central Bank of India.
Ing Vysya Life Insurance	Ing Vysya Bank
Met Life	Axis Bank, Dhanalakshmi Bank, J&K Bank, Karnataka Bank.
HDFC Standard Life	Union Bank of India, Indian Bank, HDFC Bank, Bank of Baroda, Saraswat Bank.
ICICI Prudential	Federal Bank, ICICI Bank, Bank of India, Lord Krishna Bank, South Indian Bank, Many other Cooperative Banks.
Birla Sun Life	Citi Bank, IDBI Bank, Catholic Syrian Bank, Development Credit Bank.
AVIVA	ABN Amro, American Bank, Canara Bank, Lakshmi Vilas Bank, Centurion Bank of Punjab, Punjab and Sind Bank and 24 others includes Cooperative Banks.
Bajaj Allianz	Standard Chartered Bank, Syndicate Bank.
SBI Life	SBI, BNP Paribas
Tata AIG Life Insurance Co.	HSBC Bank, United Bank of India.

Existing Relationships Between Insurance Companies and Banks (2007)	
General Insurance	
Insurance Company	**Banks**
Bajaj Allianz	Karur Vysya Bank, Punjab & Sind Bank, IDBI Bank, Yes Bank, Karnataka Bank, J&K Bank, UTI Bank, HDFC Bank, Deutsche Bank, United Bank of India.
Royal Sundaram Alliance	Citi Bank, Standard Chartered Bank.
ICICI Lombard	ICICI Bank, Centurion Bank, ABN Amro.
United India Insurance Co.	Andhra Bank, Indian Overseas Bank, Syndicate Bank.
The New India Assurance Co.	Catholic Syrian Bank, Union Bank of India, Central Bank of India.
Tata AIG General Insurance Co.	HSBC
Reliance General Insurance	Development Credit Bank, UCO Bank.
National Insurance Co.	Allahabad Bank, Bank of India, Vijaya Bank.

Comparing bancassurance in Europe, Asia and India

	Europe	Asia	India
Regulation	Liberalized	Ranging from liberalized to forbidden.	Supportive
Market growth	Mature markets but pension reforms can spur growth in the life insurance sector.	High growth potential.	High growth
Bancassurance model	Highly integrated models	Mostly distribution alliances and joint Ventures.	Distributive
Major drivers	Tax concessions for life. Insurance premium paid. squeeze on bank margins.	Squeeze on bank margins. Insurers' growing cost pressure and desire to expand distribution capability. Financial deregulation. Foreign companies use bancassurance to enter Asian market.	Tax free status on maturity. Small tax relief on premium. Narrowing bank margin.
Products	Mainly life insurance products to maximize tax benefits. Mostly single premium.	Mainly life insurance products linked to bank services and increasingly, products geared towards managed savings.	Mainly non-unitized Regular premium
Distribution	Multi-bank branches	Mainly bank branches	Bank branches
Major players	Domestic banks and insurers	Foreign companies are playing an important role.	Banks and Insurance Companies

ISSUES TO BE TACKLED

Given the roles and diverse skills brought by the banks and insurers to a Bancassurance tie up, it is expected that road to a successful alliance would not be an easy task. Some of the issues that are to be addressed are:

1. The tie-ups need to develop innovative products and services rather than depend on the traditional methods. The kinds of products the banks would be allowed to sell are another major issue. For instance, a complex unit-linked life insurance product is better sold through brokers or agents, while a standard term product or simple products like auto insurance, home loan and accident insurance cover can be handled by bank branches.
2. There needs to be clarity on the operational activities of the bancassurance i.e., who will do the branding, will the insurance company prefer to place a person at the bank branch, or will the bank branch train and put up one of its own people, remuneration of these people etc.
3. Even though the banks are in personal contact with their clients, a high degree of pro-active marketing and skill is required to sell the insurance products. This can be addressed through proper training.
4. There are hazards of direct competition to conventional banking products. Bank personnel may become resistant to sell insurance products since they might think they would become redundant if savings were diverted from banks to their insurance subsidiaries.

FACTORS THAT APPEAR TO BE CRITICAL FOR THE SUCCESS OF BANCASSURANCE ARE:

1. Strategies consistent with the bank's vision, knowledge of target customers' needs, defined sales process for introducing insurance services, simple yet complete product offerings, strong service delivery mechanism, quality administration, synchronized planning across all business lines and subsidiaries, complete integration of insurance with other bank products and services, extensive and high-quality training, sales management tracking system for reporting on agents' time and results of bank referrals and relevant and flexible database systems.
2. Another point is the handling of customers. With customer awareness levels increasing, they are demanding greater convenience in financial services.
3. The emergence of remote distribution channels, such as PC-banking and Internet-banking, would hamper the distribution of insurance products through banks.
4. The emergence of newer distribution channels seeking a market share in the network.

FUTURE OF BANCASSURANCE

Selling insurance policies through banks is turning out to be an unreliable model for insurance companies. Analysts say some insurance companies may soon lose a large chunk of their business from bancassurance. This is because banks are setting up their own insurance ventures on one hand and changing insurance partners, lured by the hefty premium offered by a competing insurer, on the other. Under insurance regulation, each bank can tie up with only one insurer but the insurer can have tie-ups with more than one bank. With more insurance companies starting operations, competition has intensified and there is a huge premium on securing an arrangement with a bank.

The public-sector banks that are setting up their own insurance ventures include Bank of Baroda, Union Bank of India, Bank of India, Canara Bank, Oriental Bank of Commerce, Andhra Bank, IDBI and Allahabad Bank. Life Insurance Corporation of India is set to lose its tie-up with Andhra Bank (its highest contributing bancassurance partner) and Oriental Bank of Commerce, once their joint ventures come through. Bank of Rajasthan has seen three different insurance partners. It first tied up with Birla Sun Life, and then moved to LIC before switching to Aviva Life.

THREATS AND CHALLENGES TO BANCASSURANCE

Consumers demanding greater choices were the biggest challenge for bancassurance. Uptil now, banks were able to restrict the choices available to consumers and to influence them in purchasing the products on offer by the bancassurance synergy. The opening up of the market will make this difficult to continue. Bancassurance will face the threats of having to compete with intermediaries able to offer more specialized advice by skilled and well educated staff. Bancassurance ventures will have to respond fast.

ALTERNATIVE CHANNELS

Insurance companies are now looking at alternative channels such as brokerages and retail chains to bridge the gap. Although bancassurance accounts for just 2 per cent of LIC's new business premium, it is bracing up for the challenge. It has hired 800 people for referral tie-ups with several brokerages and regional rural banks. LIC is in talks with several retail chains for selling insurance to market insurance products.

For Aviva India, bancassurance was the capital-friendly way of making inroads into the Indian market in a short span of time. In 2002, as much as 70 per cent of the company's business came from bancassurance. This has now dropped to 50 per cent. Aviva, which has a tie-up with Canara Bank, recently infused Rs. 250 crore capital- primarily to strengthen the agency channel. Aviva India has plans to double agency force to 66,000 in 2008 and increase branch network to 222 branches.

For banks, this may not have any major impact, apart from reorienting staff to the products offered by the new companies. While the new companies will have their staff, the bank staff would continue to sell the insurance products as well, as they have the requisite experience.

CONCLUSION

Discovery comes from looking at the same thing as everybody else but seeing something different. The banks' desire to increase their profit margins shifted their attention to insurance. Soon, insurance carriers and banks in India managed to share the same vision as other financial conglomerates, by forming strategic partnerships known in all markets as bancassurance ventures.

With huge untapped market, insurance sector is likely to witness a lot of activity - be it product innovation or distribution channel mix. Bancassurance, the emerging distribution channel for the insurers, will have a large impact on Indian financial services industry. Traditional methods of distributing financial services would be challenged and innovative, customized products would emerge.

Banks will bring in customer database, leverage their name recognition and reputation at both local and regional levels, make use of the personal contact with their clients, which a new entrant cannot, as they are new to the industry. In customer point of view, a plethora of products would be available to him. More customized products would come into existence and that too all within hands reach. Finally, success of the bancassurance would mostly depend on how well insurers and banks understand each other's businesses and seize the opportunities presented, weeding out differences that are likely to crop up.

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cap on FIIs investment in debt substantially to be increased and that would, in general, ease the inward low of foreign capital. It will enable the currency to strengthen and make it eventually easier to raise overseas finance for ongoing expansion in creation of fixed assets in manufacturing and infrastructure. g) Surveillance mechanism needs to be reoriented in connection with checking inflow of tainted money into the economy, issuance of PNs to unregulated entities, strict adherence to KYC norms, and disciplinary regime for foreign investors and so on.

However, FIIs are not to be blamed for the present market volatility as evidenced from the following empirical analysis:

PERCENTAGE OF SHARE HOLDING IN SAMPLE COMPANIES during June 2003-June 2008: A Breadth Analysis. (Total Sample 100 companies).

Category of shareholding	Increase in No of companies	Decrease in No of companies	Breadth (*Advances less Declines*) (+/-)	Divested in major companies	Share holdings in companies (Nos)			
					June 2008		June 2003	
					< 25pc	>25pc	<25pc	> 25pc
Individual Holding	11	89	-78	All most all NIFTY constituents to book profit	90	10	76	24
Promoters Holding	34	66	-32	All fundamentally weak companies (selective basis) to book profit.	4	96	5	95
FIIs Holding	92	08	+84	Hindal Co (.34pc), Infosys (6.43), Ranbaxy Lab(7.02), Pantaloon Retail (3.45) Arvind (3.75), etc.	86	14	98	2
FI& Insurance Holding	31	69	-38	Selective basis to book profit	1	99	95	5

Source: *CMIE (prowess database) & BSE website: published in The Economic Times: FIIs raise stake in India Inc as individual investors cash out, September 22, 2008.*

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