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Bancassurance: Feasibility strategy of Banks with Indian Perspective

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Due to growing global insurance industry this concept gained currency and its search for new channels of distribution. Banks, with their geographical spread and penetration in terms of customer reach of all segments, have emerged as viable sources for the distribution of insurance products. Insurance companies are using the network of Banks to distribute their insurance products and this is termed as Bancassurance. Bancassurance is a win win situation as it increases the profits of Insurance companies by decreasing their distribution cost and of Banks by giving them one more range of products to sell. The present article discusses the future of Bankassurance in India.

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Introduction

Bancassurance is combination of words bank and insurance (in French) - connotes distribution of insurance products through banking channels. Bancassurance encompasses terms such as ‘Allfinanz’ (in German), ‘Integrated Financial Services’ and ‘Assurebanking’. Due to growing global insurance industry this concept gained currency and its search for new channels of distribution. Banks, with their geographical spread and penetration in terms of customer reach of all segments, have emerged as viable sources for the distribution of insurance products. On the other hand extreme competitive pressure on interest income worldwide has led banks to redraw their strategies and demand more from Bancassurance. The result is visible in increased number of tie ups, mergers or cross-shareholding between banks and insurance companies. It is being manifested in different forms all around the world.

Stages of bancassurance

The success of Bancassurance lies in understanding the life cycle of Bancassurance and integrating the product and distribution mix according to the stages of the life cycle. Most Bancassurance partnerships go through three stages:

- Early Stage
- Youth Stage
- MatureStage

Early stage is basically the passive mode of Bancassurance. This stage includes simple insurance products like term life, car insurance, home insurance and travel insurance.These are bundled with core banking products like credit cards or savings account and offered as a packaged product to the bank’s customers. Next stage is youth Stage. Bancassurance moves into the youth stage as the banks’ hunger for fee income grows. Insurance products are sold on a standalone basis rather being bundled. The emphasis is on higher income and therefore sales efforts and processes are beefed up. Examples of this stage are whole life, universal life and unit linked investment products being sold at this stage. Next comes the mature stage after the bank has gained enough experience and confidence in selling insurance products. There is a desire to consider risk taking options in this stage. In certain countries, regulators allow banks are taking underwriting risks so that they can issue their own policies. At other places, joint ventures or acquiring a stake in any insurance company or even setting up an insurance subsidiary is contemplated. United States, Saudi Arabia, India and Vietnam are among many countries where banks are allowed to do insurance manufacturing compared to strict insurance distribution in other countries, e.g. Canada.

Reasons for growing phenomena of Bancassurance

The opening up of the insurance industry to private sector participation in December 1999 has led to the entry of 20 new players, with 12 in the life insurance sector and eight in the non-life insurance sector. Almost without exception these companies are seeking to utilize multiple distribution channels such as traditional agency, bancassurance, brokers and direct marketing. Bancassurance is seen by many to be a significant or even the primary channel.

In other Asian markets we have seen bancassurance make significant headway in recent times. For example, bancassurance accounted for 24% of new life insurance sales by 'weighted' premium income in Singapore in 2002. This is a significant increase on the equivalent 2001 statistic of 15% and is as a result of growth in significant bank-centric bancassurance operations. In Hong Kong the figure for 2002 is expected to be at the 20%level for the same basic reasons.

- Life insurance premium represents 55% of the world insurance premium, and as the life insurance is basically a saving market. So it is one of the methods to increase deposits of banks.
- One of the most important reason of considering Bancassurance by Banks is increased return on assets (ROA). One of the best ways to increase ROA, assuming a constant asset base, is through fee income.
- In non-life insurance business banks are looking to provide additional flow of revenues from the same customers through the same channel of distribution and with the same people.
- Insurers operate through bancassurance can have better relationships with customers. Insurers found that direct relationships with customers gave them greater control of their business at a lower cost.
- By leveraging their strengths and finding ways to overcome their weaknesses, banks could change the face of insurance distribution. It also allows the face-to-face contact that is so important in the sale of personal insurance.
- The ratio of expenses to premiums, an important efficiency factor, it is noticed very well that expenses ratio in insurance activities through bancassurance is extremely low. This is because the bank and the insurance company is benefiting from the same distribution channels and people.
- It would include cross selling of banking, insurance, and brokerage products and services; the increased use of the Internet by consumers; and a melding of insurance and banking corporate cultures.

- Banks also enjoy significant brand awareness within their geographic regions, again providing for a lower per-lead cost when advertising through print, radio and/or television.

- Banks that make the most of these advantages are able to penetrate their customer base and markets for above-average market share

- Other bank strengths are their marketing and processing capabilities. Banks have extensive experience in marketing to both existing customers (for retention and cross selling) and non-customers (for acquisition and awareness). They also have access to multiple communications channels, such as statement inserts, direct mail, ATMs, telemarketing, etc. Banks' proficiency in using technology has resulted in improvements in transaction processing and customer service

Working of Bancassurance and its Scope

Bancassurance—How It Works

The typical Bancassurance sales model is not complex . A customer finds he or she is going to a bank for a solution to a problem, commonly the need for finance to help with a purchase or a development. The bank's customer adviser is face to face with the consumer. The customer's request is for a loan or other form of financial review. It is an obvious and convenient thing for the bank's customer adviser to be able to offer a range of insurance products to assist with the loan transaction or otherwise enhance the consumer's financial position.

The distinctive advantage here is that the customer in many cases does not know or realize how much an insurance product is going to improve his or her situation. In the typical non-Bancassurance sales model, the stimulus to look at an insurance product as a solution comes from a mixed range of drivers—the need to have a motor certificate to drive a car, the encouragement to buy travel insurance from a travel agent or an airline, the at-point-of-sale transaction in a shop to buy Warranty and Breakdown insurance with a physical product such as a car or electronic goods. Most consumers have only a very limited grasp of what insurance can do, and they often feel it as a kind of taxation, especially with Motor insurance. The situation in which the consumer is talking with the bank's customer adviser about a financial need is a powerful moment of sales opportunity. From the bank's viewpoint, the insurance sale is only one of four main lines of sales possibilities , so the client meeting has multiple possibilities for sales. This undoubtedly makes the Bancassurance attractive because the marginal costs of making the insurance sale are far lower than would be the case for the pure insurance adviser.

Thus we can define Bancassurance as the process of using a bank's branches, sales network, and customer relationships to develop sales of insurance products. It should be noted that Bancassurance is not simply a sales technique. It is a development channel.

Scope of Bancassurance

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Bancassurance has had important success in some economies and really quite limited success in other economies. It will be worth reviewing where it has worked well, and contrasting that with countries where it has not worked well. The concept of Bancassurance was evolved in Europe. Europe leads the world in bancassurance market penetration of bank assurance in new life business in Europe which ranges between 30% in United Kingdom to nearly 70% in France. However hardly 20% of all United states banks were selling insurance against 70% to 90% in many western European countries In Spain, Belgium, Germany and France mre than 50% of all life primums is generated by Bancassurance. In Asia, Singapore, Taiwan and Hong Cong have surged ahead in bancassurance than that is India and Chaina taking tentative steps towards it. In middle east only Saudi Arabia has some feeble attempts that even failed to really take off or make some changes in the system.

Motive behind bancassurance also vary. For banks it is a mean of product diversification and mean of additional income while for insurance companies taking it as a tool for increasing their market penetration and premium turnover.

Benefits of bancassurance to banks and insurance companies

The insurance company hopes to attract further business, from both existing and new policyholders, because of the fact that it can offer a wider range of services than before, i.e. it can give its customers access to banking as well as to insurance services. It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank. The economics of the Bancassurance operation may allow the insurer to offer products which are not feasible through the insurer's existing channels. For example, sales costs incurred under existing channels may force premium rates for a product to be incompetitive, so the product is not sold. The costs via the Bancassurance channel may be low enough to make it feasible. The insurance company can offer to carry out the administration activities of the bancassurer's business, if for example the bancassurer is a separate company. Combining the bancassurer's business with the other business of the insurer can produce economies of scale in administration costs (including capital expenditure). This in turn allows the insurer to improve profitability and to price future products with narrower margins, which helps to make the insurer's products more competitive. For both bank and insurer there is a great opportunity to learn and to make improvements in their own operation. Each gets exposure to the other's distinctive management styles, its objectives and measures and the pressures which it can exert and which it feels. The benefit comes when either company can implement changes as a result of the learning process .

It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank.Also Increase in number of providers means increase in competition and hence people can expect better premium rates and better services from bancassurance as compared to traditional insurance companies. The people who are unaware of and/or are not in reach of insurance policies can be benefitted through widely distributed banking networks and better marketing channels of banks

Implications in Bancassurance

The road for bancassurance has lad down which shows the motivation as bancassurance gives two ways benefits, to banks as well as to insurance companies too. But some of the implication are becoming hurdule to take it a good pace. The are Delivery of post-sales service—this is both an opportunity and a risk for the bank .Similarly Gaining of efficiencies in the administration—the bank may be able to use existing staff to deliver the insurance servicing in addition to their existing tasks .Another implication is Increasing customer loyalty and lifetime value—again this is a risk as well as an opportunity for the bank because a poorly executed insurance product can damage the brand, while a well-delivered insurance experience can enhance it. Also Capital advantages through diversification .of risk—this needs careful analysis and generally is beyond the scope of this paper and arbitrage opportunities, which may enable a bank to hold an advantage over its competitors. One of the demerits of bancassurance is 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. Also there is a possibility of conflict of interest between the other products of bank and insurance policies (like money back policy). This could confuse the customer regarding where he has to invest. c) Better approach and services provided by banks to customer is a hope rather than a fact. This is because many banks in India are known for their bad 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.

Status of bancassurance in india

As per IRDA, the major driver of Bancassurance has been the private sector companies both in the bank as well as in the insurance gamut. Cooperative banks and regional rural banks are seen by private insurance companies as a cost-effective vehicle for insurers to tap into rural communities and fulfill their rural sector obligations.

- Certain Facts from IRDA Annual Report of 2010-11
  a) Among the various corporate channels, the share of banks in total new business (Life Insurance) underwritten increased from 10.60 per cent in 2009-10 to 13.30 per cent in 2010-11.
  b) During the year 2010-11, bancassurance contributed 11.51 per cent of the total group business of the private insurers. The same was 8.67 per cent during the previous financial year. This fact is for group insurance policies.

- According to World Economic Forums' Financial Development Report 2012, India tops all the countries in terms of life insurance density. It is followed by China, Japan, US & UK.

- Banks have been allowed to sell insurance products of more than one company. The caveat that has been attached to this model is that banks have to necessarily have their brokering arms. It was announced by theFinance Minister in Oct.'12. This will not only allow more options to the customer but also ensure less mis-selling by banks. c) Banks' database is strong and very large. If properly dissected, it can lead to generation of huge amounts of leads for being targetted for life and non-life insurance products.

Conclusion

The success of bancassurance greatly hinges on banks ensuring excellent customers relationship, therefore banks need to strive towards that direction. As pointed out by Low (2004), the changing mindset is cascading through the banking sector in India and this would be a right time for banks to resorting to Bancassurance, especially in the context of proactive policy environment of regulatory authorities and the Government. The fact that the banking operations in India, unlike in other developed countries, are still branch oriented and manually
operated vis-à-vis highly mechanized and automated banking channels, viz., internet banking, ATMs, etc. are all the more conducive for flourishing of bancassurance. Regulators could explore the possibility of allowing banks having tie-up arrangements with more than one insurance company, giving wider choice for the customer

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