SYNERGIES OF BANCASSURANCE: A CRITICAL REVIEW

N. Santosh Ranganath

Mr. Santosh Ranganath *(nsranganath@yahoo.com) is a Faculty Member, Dept. of Commerce and Management Studies, at Dr. B.R. Ambedkar University, Srikakulam, Andhra Pradesh*

We are witnessing a wide range of structural changes in the distribution of insurance in the world's most important markets-US, Europe, UK and Asia. These changes are primarily driven by three factors. First, the changing profile of customers, who are becoming more financially independent and better control over thereby is demanding more valuable services. Second, opening up of new markets provides opportunities for geographical expansion to insurers, though in accordance with the local preferences. Third the cost factor of the insurers: considering that the distribution cost is highest among all the operating costs, insurers are on a continuous lookout for providing improved services at low costs. It is here that concept such as selling insurance through banks - comes into picture.

These factors are leading the distribution trends in the global insurance industry to offer multiple distribution channels to customers. The major distribution channels available across the world are

- Direct selling
- Corporate agents i.e. pushing the insurance product through the directors or partners of a company
- Group selling
- Worksite marketing
- Brokers and cooperative societies

To this list can be added the number of alternate delivery channels

- Bancassurance
- Selling through employees or authorized officials of a corporate
- Call centers
- Marketing through mailers etc.

The Life Insurance Corporation of India (LIC) has been dependent on its distribution channel of 13,44,856 (as on 31.03.2009) agents. But the corporation's retention rates have been low, mainly because of poor quality agents. While it remains obvious that agents will continue to be the mainstay in insurance distribution for some time in India, there is also strong indication that this sales model is slowly changing. There three basic reasons for this:

- Sustaining huge sales force is a costly affair especially when low cost electronic distribution channels are available.
- Alternate delivery channels are not burdened by the monetary and geographic limitations of maintaining a physical presence.
- Alternate channels also help to cut back costs and enhance customer service thereby giving the company a competitive edge.

With these developments and increased pressure 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 - An Introduction

Bancassurance is the distribution of insurance products through the bank's distribution channel. It is a phenomenon wherein insurance products are offered through the distribution channels of the banking services along with a complete range of banking and investment products and services. To put it simply, Bancassurance tries to exploit synergies between both the insurance companies and banks.

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 the bancassurance as a bonanza in terms of reduced price, high quality product and delivery at doorsteps. Actually, everybody is a winner here. Thus, bancassurance if taken in right spirit and implemented properly can be win-win situation for the all participants viz., banks, insurers and the customer.

Benefits for banks to enter insurance

There are several reasons why banks should seriously consider Bancassurance, the most important of which is increased return on assets (ROA). One of the best ways to increase ROA, assuming a constant asset base, is through fee income. Banks that build fee income can cover more of their operating expenses, and one way to build fee income is through the sale of insurance products. Banks that effectively cross-sell financial product can leverage their distribution and processing capabilities for profitable operating expense ratios.

By leveraging their strengths and finding ways to overcome their weaknesses, banks could change the face of insurance distribution. Sale of personal line insurance products through banks meets an important set of consumer needs. Most large retail banks engender a great deal of trust in broad segments of consumers, which they can leverage in selling them personal line insurance products. In addition, a banks branch network allows the face-to-face contact that is so important in the sale of personal insurance.

Another advantage banks have over traditional insurance distributors is the lower cost per sales lead made possible by their sizable, loyal customer base. 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 communication channels such as statement inserts, direct mail, ATM's, telemarketing etc. Bank's proficiency in using technology has resulted in improvements in transaction processing and customer services.

By successfully mining their customer database, leveraging their reputation and distribution systems (branch, phone and mail) to make appointments and utilizing 'sales techniques' and products tailored to the middle market, European banks have more than doubled the conversion rates of insurance leads into sales and have increased sales productivity to a ratio which is more than enough to make Bancassurance a highly profitable proposition.

Benefits to insurers

Insurers have much to gain from marketing through banks. Personnel lines carriers have found it difficult to grow using traditional agency systems because price competition has driven down margins and increased the compensation demands of successful agents. Over the last decade, life agents have sold fewer and larger policies to a more upscale client base. Middle-income consumers, who comprise the bulk of bank customers, get little attention from most life agents. By capitalizing on bank relationships, insurers will recapture much of this under served market.

Most insurers that have tried to penetrate middle-income markets through alternative channels such as direct mail have not done well. Clearly, a change in approach is necessary. As with any initiative, success requires a clear understanding of what must be done, how it will be done and by whom. The place to begin is to segment the strengths that the bank and insurer bring to the business opportunity.

Bancassurance in India

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.

Bancassurance in India is a very new concept, but is fast gaining ground. In India, the banking and insurance sectors are regulated by two different entities (banking by RBI and insurance by IRDA) and bancassurance being the combinations of two sectors comes under the purview of both the regulators. Each of the regulators has given out detailed guidelines for banks getting into insurance sector. Highlights of the guidelines are reproduced below:

RBI guidelines for banks entering into insurance sector provides three options for banks. They are:

- Joint ventures will be allowed for financially strong banks wishing to undertake insurance business with risk participation;
- For banks which are not eligible for this joint-venture option, an investment option of up to 10% of the net worth of the bank or Rs.50 crores, whichever is lower, is available;
- Finally, any commercial bank will be allowed to undertake insurance business as agent of insurance companies. This will be on a fee basis with no-risk participation.

The Insurance Regulatory and Development Authority (IRDA) guidelines for the bancassurance are:

- Each bank that sells insurance must have a chief insurance executive to handle all the insurance activities.
- All the people involved in selling should under-go mandatory training at an institute accredited by IRDA and pass the examination conducted by the authority.
- Commercial banks, including cooperative banks and regional banks, may become corporate agents for one insurance company.
- Banks cannot become insurance brokers.

Some of the Bancassurance tie-ups in India are:

Insurance Company	**Bank**
Birla Sun life Insurance Company Pvt. Ltd.	Corporation Bank, Citi Bank, IDBI Bank, Karur Vysya Bank, Development Credit bank, Deutsche Bank and Catholic Syrian Bank
Dabur CGU Life Insurance Company Pvt. Ltd.	Canara Bank, Lakshmi Vilas Bank, American Express Bank and ABN AMRO Bank
HDFC Standard Life Insurance Co. Ltd.	HDFC Bank, Indian Bank and Union Bank of India.
ICICI Prudential Life Insurance Co. Ltd.	ICICI Bank, Bank of Rajasthan, Indian Bank, Bank of Baroda, Karnataka Bank and Federal Bank.
Life insurance corporation of India	Corporation Bank, Allahabad Bank, Indian Overseas Bank, Vijaya Bank, Oriental Bank of Commerce
Met Life Indian Insurance Co. Ltd	Karnataka Bank, Dhanalakshmi Bank and J&K Bank
SBI Life Insurance Company Ltd.	State Bank of India and its associated banks and United Bank of India
Bajaj Allianz General Insurance Co. Ltd.	Karnataka Bank, Saraswat Bank, United Bank of India and Karur Vysya Bank
National Insurance co. Ltd.	City Union Bank, Bank of India and Bharat Overseas Bank
Max New York Life Insurance Co, Ltd.	Life Cell International Pvt. Ltd, Vishweswar Sahakari Bank Ltd, City Co-operative Bank ltd and Yes Bank
United India Insurance Co. Ltd.	South Indian Bank, State Bank of Travancore, Dhanalaxmi Bank, Bank of Maharashtra, Bank of Rajasthan and Andhra Bank.
Tata AIG Life Insurance Co. Ltd	DBS Bank, South Indian Bank, Allahabad Bank, Citi Bank and United Bank of India.
Aviva Life Insurance Co. India Ltd.	DBS Bank, The Bank of Rajasthan, ABN Amro Bank, The Laxmi Vilas Bank Ltd, Apex Bank, Punjab & Sind Bank and IndusInd Bank

Source: www.bimaonline.com

Bancassurance in India - A SWOT Analysis:

Bancassurance as a means of distribution of insurance products is already in force. Banks are selling Personal Accident and Baggage Insurance directly to their Credit Card members as a value addition to their products. Banks also participate in the distribution of mortgage linked insurance products like fire, motor or cattle insurance to their customers.

Banks can straightaway leverage their existing capabilities in terms of database and face to face contact to market insurance products to generate some income for themselves, which hitherto was not thought of.

Huge capital investment will be required to create infrastructure particularly in IT and telecommunications, a call center will have to be created, top professionals of both industries will have to be hired, an R&D cell will need to be created to generate new ideas and products. It is therefore essential to have a SWOT analysis done in the context of bancassurance experiment in India.

- **Strengths:**

In a country of 1 Billion people, the sky is the limit for personal lines insurance products. There is a vast untapped potential waiting to be mined particularly for life insurance products. There are more than 900 Million lives waiting to be given a life cover (total number of individual life policies sold in 2008-09 was just 212.6 Million).

There are about 200 Million households waiting to be approached for a householder's insurance policy. Millions of people traveling in and out of India can be tapped for Overseas Mediclaim and Travel Insurance policies. After discounting the population below poverty line the middle market segment is the second largest in the world after China. The insurance companies worldwide are eyeing this, why not we preempt this move by doing it ourselves?

Our other strength lies in a huge pool of skilled professionals whether it is banks or insurance companies who may be easily relocated for any bancassurance venture. LIC and GIC both have a good range of personal line products already lined up; therefore R&D efforts to create new products will be minimal in the beginning. Additionally, GIC with 4200 operating offices and LIC with 109 Divisional Offices, 2,048 Branch Offices and 800 Satellite Offices are almost already omnipresent, which is so essential for the development of any bancassurance project.

- **Weaknesses:**

The IT culture is unfortunately missing completely in all of the future collaborators i.e. banks, GIC & LIC. A late awakening seems to have dawned upon but it is a case of too late and too little. Elementary IT requirement like networking is not in place even in the headquarters of these institutions, when the need today is of Wide Area Network and Vast Area Networks. Internet connection is not available even to the managers of operating offices.

The middle class population that we are eyeing at are today overburdened, first by inflationary pressures on their pockets and then by the net. Where is the money left to think of insurance? Fortunately, LIC schemes get IT exemptions but personal line products from GIC (medi-claim already has this benefit) like householder, travel, etc. also need to be given tax exemption to further the cause of insurance and to increase domestic revenue for the country.

Another drawback is the inflexibility of the products it can not tailor made to the requirements of the customer. For a bancassurance venture to succeed it is extremely essential to have in-built flexibility so as to make the product attractive to the customer.

- **Opportunities**

Banks' database is enormous even though the goodwill may not be the same as in case of their European counterparts. This database has to be dissected variously and various homogeneous groups are to be churned out in order to position the bancassurance products. With a good IT infrastructure, this can really do wonders.

Other developing economies like Malaysia, Thailand and Singapore have already taken a leap in this direction and they are not doing badly. There is already an atmosphere created in the country for liberalization and there appears to be a political consensus also on the subject. Therefore, RBI or IRA should have no hesitation in allowing the marriage of the two to take place. This can take the form of a merger or acquisition or setting up a subsidiary by either party or just the working collaboration between and insurance companies.

- **Threats:**

Success of a bancassurance venture requires change in approach, thinking and work culture on the part of everybody involved. Our work force at every level are so well entrenched in their classical way of working that there is a definite threat of resistance to any change that bancassurance may set in. Any relocation to a new company or subsidiary or change from one work to different kind of work will be resented with vehemence.

Another possible threat may come from non-response from the target customers. This happened in USA in 1980s after the enactment of Garn-St Germaine Act. A rush of joint ventures took place between banks and insurance companies and all these failed due to the non-response from the target customers. US banks have now again turned their attention to insurance mainly life insurance.

The investors in the capital may turn their face off in case the rate of return on capital falls short of the existing rate of return on capital. Since banks and insurance companies have major portion of their income coming from the investments, the return from bancassurance must at least match those returns. Also if the unholy alliances are allowed to take will be fierce competition in the resulting in lower prices and the bancassurance venture may never break-even.

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.

3) Even though the banks are in personal contact with their clients, a high degree of proactive 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 tot 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 customer's needs, defined sales process for introducing insurance services, simple yet complete product offering , 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.

Finally:

The creation of Bancassurance operations has a material impact on the financial services industry at large. Banks, Insurance Companies and traditional fund management houses are converging towards a model of global retail financial institution offering a wide array of products. It leads to the creation of 'one-stop shop' where a customer can apply for mortgages, pensions, savings and insurance products.

Discovery comes from looking at the same thing as everyone else but also seeing something different. Banks desire to increase fee income has them looking at insurance. Insurance carriers and Banks can become part of the vision through strategic partnerships. Now is the time to position your company for the new millennium of insurance product distribution.

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