# THE FINANCIAL BUZZ WORD – BANCASSURANCE

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## *Abstract*

*Banks are engaged in their core business of accepting deposits and lending loans, their activities are regulated and restricted by RBI. Bank's core activities are also not so profitable; hence, their bottom-line is shrinking. Thus, they have to think of other activities and sources of income.*

*Bancassurance is the buzzword in the current financial service market, where the banks are forming joint ventures with insurance companies, to encash the wide customer database and the everlasting trust. The insurance companies get sufficient business and premiums through the collaboration, enhancing their presence and market share. On the other hand, the banks are earning handsome commission income. Today, banks are having more than 50% other income in their balance sheet, by selling insurance, mutual funds, pension plans and unit-linked products. Bancassurance has gained so much momentum that almost all the banks have joined hands with one or the other life and non-life insurance company. Some banks have even adopted organic growth mode by starting their own insurance business like SBI life.*

*Insurance is a service industry; it is there to serve the changing needs of the customers. Insurance is a matter of solicitation and needs a push strategy by the seller to convince the customers. The bank customers are not fully aware of their insurance cover requirements. To make both ends meet and for the mutual co-existence, bancassurance is the answer, to provide tailor-made and customized products for the mutual benefits of customers, insurer and the bank. It has also created a huge wave of recruitment not only for management professionals but also at every level.*


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## INTRODUCTION

The Bank Insurance Model (BIM), also sometimes known as Bancassurance, is the term used to describe the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products. Bancassurance, the provision of insurance services by banks, is an established and growing channel for insurance distribution, though its penetration varies across different markets. Bancassurance segment in India is growing consistently and is competing with the traditional sale of insurance by agents.

In August 2010, bancassurance accounted for 41% of the premium collected by private players, up from 17% in 2006-07. With more and more PSU Banks entering the fray and setting up their own life insurance companies and a few along with JV partners, one can look forward to seeing bancassurance business being fully tapped and the business level from this segment rising.

There are two distinct models, in which bancassurance operates in India:

1. The integrated bancassurance practiced by the life insurance companies sponsored by the major banks,
2. The referral bancassurance model practiced by most of the life insurance players.

In the integrated bancassurance model, the cost of operations is significantly lower than any other distribution channel, barring the online direct selling channel, because bank employees themselves sell the life insurance product to the bank's customers. Thus, commission payable on the sale is paid only to the bank that in turn internally incentivise the authorised employees that sell life insurance products.

In the referral bancassurance model practiced generally across the industry, the bank provides its customers base for being tapped by the insurance agents who may be "tied agents" or "independent financial advisors"(IFA). In this model, two sets of commission (payable to the bank) and agent's commission (payable to the agent) are incurred. This makes the referral model of bancassurance very expensive.

There is a little doubt that bancassurance in India, given the reach of branches of banks, will play a greater role as the insurance sector develops. However, to achieve this, it would need regulatory support for various financial services. As the awareness of banks to leverage on their branch network and customer preferences increases, the opportunity to garner a greater share of the customer's wallet through diversified insurance products will not be missed by the banking sector. Indian life insurance industry which is growing at a CAGR of an around 25% is expected to be a big boon to this segment which could be a major contributor in Asian bancassurance markets in the coming years.

Generally, four basic models have emerged as the basis of establishing bancassurance business:

**1. Distribution agreement**

- Bank agrees to leverage its branch network & strong customer relationships to sell insurance for a distribution fee.
- It can work as a simple referral service or as a full-fledged agency.
- In referral, bank refers customer to an insurer for meeting his insurance needs.
- In agency model, bank acts as corporate agent & sells insurance.
- Distribution agreement model is a sound, conservative option for new entrant insurer.
- Doesn't require high upfront investment to set infrastructure support, training requirements support

**2. Joint Venture**

- Most prevalent in Asia.
- Bank becomes an equity partner of an insurance company.
- It becomes a distributor and insurer both. Assumes risks & responsibilities of insurer.
- Facilitates better use of customer data available with bank.
- Separate business unit is established.

**Advantages**

- Optimal model for global insurers because

- Establishing JV with large local bank provides instant distribution capabilities.
- Significantly less expensive & risky than trying to start & grow a new business.
- For local bank, JV provides an opportunity to render better services & products.
- Raises productivity of branch net and lead to skill & technology transfer.

**3. Merger & acquisition**

- Either a bank acquires/merges with insurer or vice-versa.
- Merged entity transacts both B & I business.
- Industry experts' view on M & A.

**4. Organic start-up**

- Seeks to develop in-house expertise in bancassurance.

**Advantage**

- The entity has complete control over the process and there are fewer cultural differences to address.

**Disadvantage**

- It requires heavy investments in people, for training skills, in technology and in marketing.

There are various factors, which may force a bank to adopt/select any particular model of bancassurance. These factors are:

- Government regulations
- Degree of control
- Risk versus reward
- Access to capital
- Competitive advantages

The benefits of Bancassurance are:

- Greater fee income

- Customer retention
- Improved customer service
- Improved efficiency level ofbanks
- Opportunity to leverage existing assets
- Emergence of a quality sales culture
- Reduced staff turn over
- Profitable, both for bank & insurer
- Boon for public sector banks to tap vast untapped rural market.

## INDIA AS A BANCASSURANCE MARKET

Banks are engaged in their core business of accepting deposits and lending loans and their activities are regulated and restricted by RBI. Bank's other core activities are not so profitable; hence, their bottom line is shrinking. Banks issue different instruments like demand drafts and banker's cheques but the cost of servicing such activities is very high, hence, their profits are shrinking in the core business. Thus, they have to think of other activities and sources of income

Bancassurance has tremendous growth and acceptance across nations. As a distribution model, it has taken off very well in European countries such as France and UK and South-East Asian countries like China, South Korea, Hong Kong and Malaysia etc. The reasons for bancassurance to develop, as an important distribution channel in India has been the reach and customer base of banks, in both urban and rural areas. The persistency rate in bancassurance need to be closely monitored since the transfer policy of banks staff could adversely influence it. Thus, insurance selling needs to be move from an individual employee's effort to a declared policy for the entire branch. The penetration of Life insurance as a whole is abysmally low at 4.1 % of GDP in India. While bancassurance currently accounts for one fourth of the total new premium collected, going by the number of branches that sell life insurance products, is yet to attain critical mass. Out of the over 70000 branches of commercial and cooperative banks, less than 20% are engaged in selling life insurance products. This leaves a huge untapped distribution base of banks branches, which can be mobilised to sell life insurance products. This step alone could increase the penetration level of life insurance significantly.

India's population is termed as a great opportunity for life insurance and the latest estimates size up the uninsured population to be in excess of 40 Crores. There are around 20 Crore bank accounts. According to research industry and media reports, India is the sixth most densely banked nation in the world. Banks with their huge customer base and strong customer loyalty are a readymade platform to acquire new business on a more cost effective and sustainable basis. Prompt, personalised services (through relationship managers) can lead to satisfied customers and operational efficiency too can be optimised e.g. standing instructions to the bank by the customer (ECS Transfer) for renewal premium payment. This is the true significance of potential of bancassurance in India. India is emerging as one of the largest bancassurance markets in the world, with varying types of banca models in place with mixed success.

Although, there is great potential for bancassurance in India, the market is still at a nascent stage. Currently, bancassurance accounts for a share of around 25% of the premium income amongst the life insurers in India compared to 40-50% in developed markets. According to McKinsey Report (September 2007) – India Life Insurance 2012: Fortunes favours the Bold, given the high penetration of banking products, bancassurance could be the single most important channel for the insurers to rapidly acquire new customers. According to the report, cross-sell rates in India banking are significantly lower in comparison to developed

***Preference of the Salaried Persons for Banking Services (IN PERCENTAGE)***

| SERVICES | Public Sector Banks | Private Sector Banks | Public or Private Banks | Not using the Services |
|---|---|---|---|---|
| **Insurance** | 60 | 20 | 20 | - |
| **Mutual Funds** | 20 | 50 | 10 | 20 |
| **Bonds and Securities** | 40 | 30 | - | 30 |
| **Demat Accounts** | 30 | 40 | - | 30 |
| **Demand Deposits** | 40 | 60 | - | - |
| **Fixed deposits** | 20 | 70 | - | 10 |
| **Credit cards** | 10 | 90 | - | - |
| **ATMs** | 20 | 50 | 30 | - |
| **Phone Banking** | 10 | 50 | 20 | 20 |
| **Home Loans** | 50 | 20 | - | 30 |
| **Personal Loans** | 60 | 20 | - | 20 |

markets. In Spain, Italy and France, between 12 and 24% of a bank's customers have bought insurance through a bank. In contrast, in India, this number estimated to be less than 0.5% for most public sector banks, 1 to 2 per cent for most private sector banks, and 2 to 4 % for most foreign banks. One of the main reasons for its not picking up faster may be that fully tailored products are still not available.

According to the findings of the ASSOCHAM, 60% of salaried employees prefer state owned banking mechanism for insurance purposes as they feel that such institutions are more reliable, secure and are trustworthy. While 20% prefer private banks for the same purpose and remaining 20% have shown their indifference to either of the two.

## BANCASSURANCE RACE

In a win-win situation for both banks and insurers, bancassurance in India is moving on a fast track. Some of the Bancassurance players, which are commanding the markets, are SBI Bank and Syndicate Bank.

SBI Bank, the promoter of SBI Life, a prominent bancassurance player in the country has taken over ICICI Prudential to become the largest private insurer by gaining first year premium of Rs. 784 Crore in the first two months of the current fiscal. SBI follows the integrated bancassurance model described earlier. As pioneers in bancassurance distribution, SBI today have one of the robust and wide spread bancassurance networks of bank branches selling life insurance products through its own employees. Their USP is the flagship brand of State Bank of India. Using the network of the State Bank Group, SBI life has successfully been able to reach the remotest part of the country in a cost effective manner, particularly since the bank's staff – Certified Insurance Facilitators (CIFs) – who deal with the banking needs of the customers, also sell the life insurance products. Through bancassurance SBI Life have been selling products that are simple to understand. This makes insurance product easy to sell and to buy. The products labeled as 'Group Products' can be sold by any employee in the bank while the 'Individual Products' requires an authorized and trained employee (CIF) to sell. Group term plans, simple savings-cum-protection products with low or no underwriting are sold by the bank staff. More complex, market linked products such as ULIPs are sold by bank staff, who gave undergone specialized training in selling these products.

Similarly, Syndicate Bank has currently tied up with Bajaj Allianz Life Insurance Co. Ltd... The company's way of working with bank is that they have appointed one RM to deal with banks in selling their insurance products. Bank pushes products according to their under-standing of customer needs. Bank is not forced by Bajaj to push certain Products. Currently, the bank is earning a lot from their bancassurance distribution business.

## EMERGING TRENDS

Though bancassurance has traditionally targeted the mass market, bancassurers have begun to finely segment the market, which has resulted in tailor-made products for each segment. The quest for additional growth and the desire to market to specific client segments has in turn led some bancassurers to shift away from using a standardised, single channel sales approach to adopting a multiple channel distribution strategy. Some bancassurers are also beginning to focus exclusively on distribution.

In some markets, face-to-face contact is preferred, which tends to favour bancassurance development. Nevertheless, banks are starting to embrace direct marketing and Internet banking as tools to distribute insurance products. New and emerging channels are becoming increasingly competitive, due to the tangible cost benefits embedded in product pricing or through the appeal of convenience and innovation.

Finally, the marketing of more complex products has also gained ground in some countries, alongside a more dedicated focus on niche client segments and the distribution of non-life products. The drive for product diversification arises as bancassurers realise that over-reliance on certain products may lead to undue volatility in business income. Nevertheless, bancassurers have shown a willingness to expand their product range to include products beyond those related to bank products.

Bancassurance business has also created a huge wave of recruitment not only for management professionals but also at every level, including underwriting, claim settlements and claim-servicing.

## STRATEGIC CHALLENGES BEFORE BANCASSURANCE

Banks planning to enter or existing in Bancassurance business may face certain hurdles:

- High initial capital requirement, thus strain on capital adequacy
- Additional risk to banks
- Competition
- Multiple regulators
- Heavy reliance on partner
- Use of distribution techniques
- Classes of insurance
- Training needs
- Precise knowledge of Insurance sector

These developments are expected to challenge traditional bancassurers in the following ways:

1. The shift away from manufacturing to pure distribution requires banks to better align the incentives of different suppliers with their own.
2. Increasing sales of non-life products, to the extent those risks are retained by the banks, require sophisticated products and risk management.
3. The sale of non-life products should be weighted against the higher cost of servicing those policies.
4. Banks will have to be prepared for possible disruptions tc client relations arising from more frequent non-life insurance claims.

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