Bancassurance: A New Way of Insurance Marketing

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ABSTRACT

Bancassurance is a technique of selling insurance products through banks. Traditionally, Insurance products were sold only by insurance agents but time is demanding for innovative distribution channel so that more customers can access the insurance products in more economical ways. The concept of bancassurance, first introduced in Europe, is now being practiced by banks in most of the countries. It is an important collaborative technique, linking together the banking and insurance sectors, which are the two important wheels of the cart of financial system of a country. Through Bancassurance banks can increase their profits with existing resources and insurance companies can reach larger customer base. In the last financial year, India has experienced a substantial growth in the life insurance business. The new business premium growth rate for this financial year over the previous financial year is 36%. This growth is primarily due to bancassurance but the expected level of growth can not be touched unless some new marketing strategies are adopted by banks.

This paper analyses Bancassurance as an important technique of marketing of insurance products. It will discuss the benefits of Bancassurance for insurance and banking companies. In this paper SWOT analysis of Bancassurance has been done to help in assessing the attractiveness and risk involved in Bancassurance. This paper would have been incomplete without the proper review of current scenario of Bancassurance. Through this paper an attempt has been made to identify the problems in implementing the Bancassurance and some measures have been suggested for smooth implementation of Bancassurance.A special emphasis has been given to convertibility of banking and insurance products, which might be very beneficial for the customers. The heart of the paper lies in providing innovative suggestions for improving the Bancassurance so that its advantages can be accrued by all the parties concerned viz. the banks, insurance companies and the people of the country.

Introduction

With the liberalization of the insurance sector and competition tougher than ever before, companies are increasingly trying to come out with better innovations to stay that one-step ahead. Currently, insurance agents are still the main vehicles through which insurance products are sold. But in a huge country like India, one can never be too sure about the levels of penetration of a product. It therefore makes sense to look at well-balanced, alternative channels of distribution, one of which is Bancassurance., Bancassurance is the technique of selling insurance

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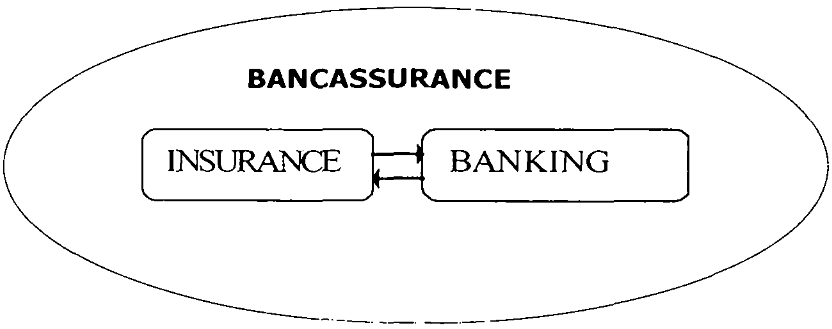
products through banking network. Through Bancassurance banks can earn good additional revenue and insurance companies can have more accessibility to their customers.

Another factor leading in this direction is liberalization of insurance sector and entry of private companies in this field. Nationalized insurers are already well established and have an extensive reach and presence. New players may find it expensive and time consuming to bring up a distribution network to such standards. Yet, if they want to make the most of India's large population base and reach out to a worthwhile number of customers, making use of other distribution avenues becomes a must. Utilization of large banking network of banks in India is one such ready to use channel. Selling through banks will help in bringing down the costs of distribution and thus benefit the customers.

The diagram below depicts the link between banking and insurance sectors established through Bancassurance-



INTERCONNECTION OF INSURANCE AND BANKING SECTOR

Bancassurance is beneficial for both the banking companies and insurance companies. 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 easy availability. Actually, everybody is a winner here.

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 products 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 bank's 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 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.

Benefits to insurers:

Insurers have much to gain from marketing through banks. Personal-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.

Table-1 depicts the mutual benefits; Banks and Insurance companies can draw from each other:

Benefits To Banking Companies	Benefits To Insurance Companies
• Potential source of additional income; • Diversified financial activities • Getting large customer base; • Increased growth with existing resources; • Positive influence on banking services.	• More accessibility to far-off areas; • Benefits of technically competent human resources; • Utilization of banks' knowledge about customer's financial status; • Use of banks' trustworthiness; • Growth of Insurance sector.

Bancassurance in India

In India the bancassurance model is still in its nascent stages, but the tremendous growth and acceptability in the last three years reflects green pasture in future. The deregulation of the insurance sector in India has resulted in a phase where innovative distribution channels are being explored. In this phase, bancassurance has simply outshined other alternate channels of distribution with a share of almost 25-30% of the premium income amongst the private players.

Revenue collected by banks	Rs. Crores	Percentage
Bank deposits	107403	39
Cooperative Banks	6920	2
NBFC's	8304	3
Shares & Debentures	3599	1
Mutual Funds	4983	2
Government bonds/small savings	36263	13
Insurance	35432	13
PF/Retirement funds	57300	21
Currency	16609	6

BANCASSURANCE – A SWOT ANALYSIS

Bancassurance in its simplest form is the distribution of insurance products through a bank's distribution channels. In concrete terms Bancassurance, which is also known as Allfinanz - describes a package of financial services that can fulfill both banking and insurance needs at the same time.

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.

However implementation of such technique involves certain risks for the insurers and resistance from bank's work culture. Hence a systematic SWOT analysis is essential to assess the attractiveness and risks of Bancassurance.

STRENGTHS:

In a country of 1 Billion people, 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 1998-99 was just 91.73 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 on 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 2048 branch 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 (LAN) is not in place even in the headquarters of these institutions, when the need today is of Wide Area Network (WAN) and Vast Area Network (VAN). Internet connection is not available even to the managers of operating offices.

The middle class population that we are eyeing at is today overburdened, first by inflationary pressures on their pockets and then by the tax net. Where is the money left to think of insurance? Fortunately, LIC schemes get IT exemptions but personal line products from GIC (Mediclaim 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 i.e. it cannot be 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 doing well in this context. 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 IRDA should have no hesitation in allowing the marriage of the two to take place. This can take the form of merger or acquisition or setting up a joint venture or creating a subsidiary by either party or just the working collaboration between banks and insurance companies.

With increasing disposable incomes in India, people are looking for avenues of investments and also getting attracted to the means of saving income taxes. This has created the investment-oriented culture in India for both insurance and banking 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 a 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 (since late 1990s) 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 place there will be fierce competition in the market resulting in lower prices and the Bancassurance venture may never break-even.

Table 2 summarizes the SWOT analysis findings-

Strengths	Weaknesses
• Vast untapped potential • Good range of personal line insurance products • Availability of huge skilled resources in Banks • Large infrastructure of Banks	• Inflationary pressures • Networking problems • Tax exemption on few schemes • Inflexibility of insurance products • Bank staff's incomplete knowledge about insurance products • Less Focus of bank's employees on insurance products

Opportunities	Threats
• Enormous database of Banks • Infrastructural advantages • Favourable policies of IRDA and RBI • FDI in insurance and Banking sector Increased disposable incomes	• Resistance to change • Less response from target customers • Low rate of return • Comparison between insurance and banking products Growth of other investment alternatives like mutual funds, shares, debentures etc.

SUGGESTIVE INNOVATIVE POLICIES FOR SMOOTH FUNCTIONING OF BANCASSURANCE

Following policies, if applied can be conducive for Bancassurance to run smoothly and efficiently:

1. Convertibility of insurance products into banking products-

The Bancassurance can be more acceptable and effective if convertibility is allowed to occur. For example if any customer has taken an insurance policy of 20 years but after 7 Years, he is unable to pay the premium further; the banks should give him option of converting the paid amount into fixed deposits and other schemes.

2. Development of innovative products and services-

Banks and insurers need to develop innovative products and services. CIBC in Canada relieves the customer of having to report and resolve auto claims. The bank assumes responsibility for the process, even phoning the police for the customer at the time of the accident. Another example is provided by Banco Bilbao Vizcaya of Spain who offers a life term policy with simple premium payments and a clear contract that is designed to be sold, issued and signed at the point of sale within 15 minutes.

3. *Using each other's strengths*

Each player should contribute towards something in which he excels; banks in mass distribution and insurance companies in risk management. After stabilization, the roles may be expanded in opposite directions. We should take a leaf from the experienced players and develop Bancassurance only gradually. As happened in France, Italy, Germany and Canada - banks were allowed first only to distribute the insurance products for a fee. This itself amounted to substantial income for banks since they were not carrying the risks and product development was also left to insurance companies.

4. Increasing customer awareness

The customer awareness about the insurance products is poor especially in rural areas.75% of India's population lives in villages and most of the villages don't even have banking facility. Banks must open their branches in villages and appoint employees and agents to create awareness in villagers about insurance products so that the appropriate benefits can be created for the-

Insurance companies;
Banks;
Customers.

5. Training programmes for bank employees

Proper training should be provided to bank employees so that insurance scheme's benefits can be conveyed to all the customers. Periodical tests should be conducted to check the knowledge level of employees about current and new insurance schemes. To motivate them incentives can also be offered on the insurance products sold.

6. Removal of networking problems

The various branches of banks are not connected to each other because of poor networking systems. This problem can be overcome with the proper arrangement and accessibility of LAN, MAN and WAN, especially in the villages and small towns.

7. Government Efforts

Government policies must be in favour of general public and should take into consideration their investment needs. Therefore sound investment schemes with tax benefits must be the focus of the policy. RBI and IRDA should together work on the following aspects so that more and more people can take the benefit of insurance policies:

- Tax exemptions to More GIC policies;
- Special benefits to villages & towns.

OBSTACLES AND SUCCESS FACTORS –A PRACTICAL REVIEW

Even insurers and banks that seem ideally suited for a Bancassurance partnership can run into troubles during implementation.

The most common obstacles to success are poor manpower management, lack of a sales culture within the bank, no involvement by the branch manager, insufficient product promotions, failure to integrate poor manpower management, lack of a sales culture within the bank, no involvement by the branch manager, insufficient product promotions, failure to integrate marketing plans, marginal database expertise, poor sales channel linkages, inadequate incentives, resistance to change, negative attitudes toward insurance and unwieldy marketing strategy.

Conversely, Bancassurance ventures that succeed tend to have certain things in common. Factors that appear to be critical to success include 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.

CONCLUSION

Bancassurance can be a sure-fire way to reach a wider customer base, provided it is made use of sensibly. In India there is an extensive bank network established over the years. Insurance companies will have to take advantage of the customers' long-standing trust and relationships with banks. This is a mutually beneficial situation as banks can expand their range of products on offer to customers and earn more, while the insurance company profits from the exposure at the bank branches, and the security of receiving timely payments. The products that are likely to sell well through Bancassurance are commoditised term and annuity products. Also, those products that combine insurance and banking needs help to create demand - such as loan cover, term assurance and simple products that can be sold over-the-counter at banks. Another advantage is that banks, with their network in rural areas, help to fulfill rural and social obligations stipulated by the Insurance Regulatory and Development Authority (IRDA).

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. Thus, as a whole Bancassuance can be viewed as a milestone in the path of convergence of financial sector in India.

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