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RECENT TRENDS AND GROWTH IN ANCASSURANCE BUSINESS IN INDIA

KEY WORDS: Life Insurance, Bancassurance, Banks, Recent Trends, Growth, Models, Issues In Marketing.

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ABSTRACT

Bancassurance is concerned with the marketing of insurance products by banks to its customers. In this arrangement, insurance companies and banks undergo a tie-up, thereby allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate agency with one insurance company to sell its products. By selling insurance policies bank earns a revenue stream apart from interest. It is called as fee-based income. This income is purely risk free for the bank since the bank simply plays the role of an intermediary for sourcing business to the insurance company. In this way, this study has been initiated with the motive to assess recent trends, growth pattern of life insurance and bancassurance, models and issues in marketing of bancassurance products among the customers. This study widely used secondary data to formulate this seminal work. Finding showed that the coming together of different financial services has provided synergies in operations and development of new concepts. Insurance companies require immense distribution strength and tremendous manpower to reach out to such a huge customer base. Bancassurance is the process through which insurance products are sold to customers at their local banks.

1. INTRODUCTION

Bancassurance symbolises the convergence of banking and insurance. The term has its origins in France and involves distribution of insurance products through a bank's branch network. Bancassurance refers to the arrangement under which a bank sells an insurance company's products. Insurance companies, particularly new players and those not promoted by banks, typically pay a certain amount as commission to banks for using their infrastructure. Insurance act allows only those companies registered under the companies act to become corporate agents. This gives the new generation and old private sector banks a head start over Public sector banks, which are technically not eligible to sell risk products. Most new insurers have entered into memoranda of understanding with banks to use their branches as outlets for marketing standard products.

The life insurance industry in India has been progressing at a swift pace since opening up of the sector in 2000. The size of the country, a diverse set of people combined with problems of connectivity in rural areas makes insurance selling in India a very difficult proposition. Life insurance companies require enormous distribution of strength and tremendous manpower to reach out to such a huge customer base. This distribution has undergone a paradigm shift as various insurance companies are proposing to bring insurance products into the lives of the common man by making them available at the most basic financial point, the local bank branch, through Bancassurance. 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 means selling of insurance products by banks. In this agreement, insurance companies and banks go through a tie up and thus allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate tie up with one insurance company to sell its products. Bancassurance is the allocation of insurance products through the huge network of banks whereby, banks act as a distribution channel for providing varieties of banking and investment products and services. In simple words bancassurance tries to develop synergies between both - insurance companies and banks, that is interconnection among the bank, the insurer, and the customer. By selling insurance policies bank earns a revenue stream apart from interest. It is called as fee-based income. This income is purely risk free for the bank since the bank simply plays the role of an agent for sourcing business to the insurance company.

2. STATEMENT OF THE PROBLEM

Bancassurance is a long-standing dream of offering a seamless service of banking, life and non-life products. India, being the one of the most populous country in the world with a huge potential for insurance companies, has an envious chain of bank branches as the lifeline of its financial system. Banks with over 65,000 branches and 65% of household investments are the backbone of the Indian financial market. In India, there are 75 branches per million persons. Clearly, that's something insurance companies – both private and state-owned -would find nearly impossible to achieve on their own. As a channel for insurance, it gives insurance an unlimited exposure to Indian consumers. Banks have expertise on the financial needs, saving patterns and life stages of the customers they serve. Banks also have much lower distribution costs than insurance companies and thus are the fastest emerging distribution channel. For insurers, tying up with banks provides extensive geographical spread and countrywide customer access; it is the logical route for insurers to take. However, the evolution of Bancassurance as a concept and its practical implementation in various parts of the world, have thrown up a number of opportunities and challenges. Aspects such as the most suited model for a given country with its economic, social and cultural ramifications interacting on each other, legislative hurdles, and the mind set of persons involved in this activity, have dominated the study and literature on Bancassurance.

3. REVIEW OF LITERATURE

Bancassurance is the process of using a bank's customer relationships to sell life and non- life insurance products and it is emerging as a natural pathway for the effective development of insurance (Agrawal & Hajela, 2011). Gujral (2018) showed that due to merging of global financial markets, development of new technologies, universal process of banking industries and with the expansion of non banking activities, the insurance industry has globally brought in new channels of distribution into existence. This has given rise to a new form of business wherein two big financial institutions have come together and have integrated all their strength and efforts to generate new means of marketing for encouraging their products and services. Kumar (2017) showed that insurance industry was doubtful about the success of bancassurance in India, but soon the insurance industry realized the need of selling insurance policies through banks.

Chang et.al (2011) revealed that bank products and insurance products are complementary, so the bancassurance channel can satisfy customers' preferences for one-stop shopping. Mazhar and Ansari (2013) expressed that there is a correlation between life insurance consumption and number of bank branches. Gopalakrishna (2013) examined that human life value- based selling and appropriate after sales service are the need of the hour. Mujumdar (2015) stated that Indians heavily depend on agents for purchase, servicing and claim settlement. Purohit (2016) revealed that to meet the heterogeneity of the insurance market, there is a need for different distribution channels.

4. OBJECTIVES OF THE STUDY

This study makes an attempt in this direction with the following objectives.

1. To examine the recent trends in bancassurance business in India.
2. To investigate the growth of bancassurance business in India.
3. To analyze the different bancassurance verticals followed by Indian banks.
4. To know the issues regarding marketing of insurance products through bancassurance mode.

5. METHODOLOGY

This study endeavoured to measure the recent trends and growth in bancassurance business in India. This study aimed collect data pertaining to the growth of bancassurance products sales in India. This study utilized secondary data which is collected from IRDA website. This study intends to collect and present theoretical information on recent trends in bancassurance, growth, bancassurance models and issues in marketing of bancassurance products among the bank customers.

6. RESULTS AND DISCUSSION

6.1. Recent Trends of Bancassurance in India

Bancassurance is quiet embryonic in South Asia and this is still in infancy in India and it is too early to assess the exact position. However, a quick survey revealed that a large number of banks cutting across public and private and including foreign banks have made use of the bancassurance channel in one form or the other in India. Banks by and large are resorting to either 'referral models' or 'corporate agency' to begin with. Banks even offer space in their own premises to accommodate the insurance staff for selling the insurance products or giving access to their client's database for the use of the insurance companies. As number of banks in India have begun to act as 'corporate agents' to one or the other insurance company, it is a common sight that banks canvassing and marketing the insurance products across the counters. The present insurance regulation, however, restricts bankers to act as a corporate agent on behalf of only one life and general insurance company. In fact, it is a step in the right direction to tap the vast potential of rural and semi-urban market. It will not be surprising if other insurance companies to follow this direction. Aviva Insurance had reported that it has tie-ups with as many as 22 banking companies, which includes private, public sector and foreign banks to market its products. Similarly, Birla Sun Life Insurance Company reported to have tie-up arrangements with 10 leading banks in the country.

A distinct feature of the recent trend in tie-up arrangements was that a number of cooperative banks have roped in with bancassurance arrangement. This has added advantage for insurer as well as the cooperative banks, such as the banks can increase the non-fund based income without the risk participation and for the insurers the vast rural and semi-urban market could be tapped without its own presence. Bancassurance alone has contributed richly to as much as 45 per cent of the premium income in individual life segment of Birla Sun Life Insurance. Incidentally even the public sector major Life Insurance Corporation reported to have tie-up with 34 banks in the country, it is likely that this could be the largest number of banks selling single insurance company's products. Ironically, Life Insurance Corporation also has the distinction of being the oldest and the largest presence of its own in the country. SBI Life Insurance for instance, is uniquely placed as a pioneer to usher bancassurance into India. The company has been extensively utilizing the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans, personal loans and credit cards. SBI has distinct advantage of having access to over 100 million accounts and which provides it a vibrant and largest customer base to build insurance selling across every region and economic strata in the country. Interestingly, in respect of new life insurance business bancassurance business channel is even greater than the size of direct business by the insurers at 2.17 per cent. Even in respect of LIC around 2.25 per cent of the new business is through bancassurance. Considering the large base, even this constitutes quite sizeable to begin within the case of LIC. This speaks for itself the rate at which the bancassurance becoming an important channel of distribution of insurance products in India. It is significant to note that the public sector giant LIC which has branches all over India, too moving towards making use of bancassurance channel.

6.2. Growth Pattern of Life Insurance

The entry of private life insurance companies added fuel in the life insurance sector. It promoted life insurance in every nook and corner of the society. Moreover, the emergence of bancassurance developed the life insurance to next level. The growth pattern of life insurance companies in India is presented in table -1.

Table – 1: Growth of Life Insurance

Particulars	2007-08	2011-12	2015-16	2017-18
No of insurance companies	16	23	24	24
Total industry premium (Rs. in billions)	1,561	2,916	3,281	4,181
Penetration in GDP (%)	4.1%	4.2%	2.6%	2.8%
Insurance density	33.2	55.7	44.0	48.7
Average individual policy	13,325	17,176	21,403	29,398
No of individual agents (Lakhs)	19.93	26.39	20.68	20.88
No of bancassurance channels	28	31	38	45
Average claim settlement ratio (%)	89.06	91.23	92.57	95.48

Source: IRDA Annual Report

Table-1 reveals that the number of life insurance companies increased from 16 in 2007-08 to 24 in 2017-18. The total industry premium is Rs.1,561 billions in 2007-08, which is increased to Rs.4,181 in 2017-18. Insurance penetration is gradually decreasing from 4.1% in 2007-08 to 2.8% in 2017-18. Insurance density ranges from 33.2 to 48.7 during the past one decade. Average individual policy stood at 13,325 in 2007-08, which is increased to 29,398 in 2017-18. The number of individual agent's strength is 19.93 lakhs in 2007-08; the same has been increased to 20.88 in 2017-18. The number of bancassurance channels in increased from 28 in 2007-08 to 45 in 2017-18. Similarly, the average claim settlement ratio is increased to from 89.06% in 2007-08 to 95.48% in 2017-18.

6.3. Growth of Bancassurance

It is obvious that the Indian insurance sector experienced substantial growth in terms of annual new premium collected and growth of policies. Due to many factors, still insurance sector is not able to tap the full potential of the market. Customarily, insurance sector dependent on individual advisors. Now due to the opening up of insurance sector to private, IRDA allowed corporate agents and many other intermediaries. In this way banks acts as a corporate agent and sold life insurance policies, its results are provided in table-2.

Table – 2: New Business Premium in Bancassurnace

S. No	Year	Individual Agent	Bancassurance
1.	2010-11	78.95	13.30
2.	2011-12	78.69	14.96
3.	2012-13	77.53	16.18
4.	2013-14	78.48	15.62
5.	2014-15	71.42	20.84
6.	2015-16	74.13	22.36
7.	2016-17	73.68	21.22
8.	2017-18	74.64	21.35

Source: IRDA Annual Report

Table-2 reveals that individual new business premium collection through individual agents was 77% to 78% from the year 2010-11 till 2013-14. But in the year individual premium collected through individual agents drastically fall down to 71.42%. It again increased to 74.64% during 2017-18. In bancassurance channel, except for 2013-14, premium collected is gradually increasing over the years. The volume of new business premium is 13.30% in 2010-11, which is increased to 21.35% in 2017-18.

6.4. Bancassurance Models in India

At present in India, the entire bancassurance business models can be classified into two types, that based on structural classification and product based classification. This can be explained in detail below.

1. On the basis of Structural Classification

a) Referral Model

At the outset banks anticipating not to take risk could adopt 'referral model' wherein they merely part with their client data base for business lead for commission. The actual transaction with the prospective client in referral model is done by the employees of the insurance company either at the premise of the bank or elsewhere. Referral model is nothing but a simple arrangement, wherein the bank, while controlling access to the client's data base, parts with only the business leads to the agents or sales staff of insurance company for a referral fee or commission for every business lead that was passed on. In fact a number of banks in India have already resorted to this strategy to begin with. This model would be suitable for almost all types of banks including the Regional Rural Banks, cooperative banks and even cooperative societies both in rural and urban.

b) Corporate Agency

The further arrangement of non-risk participatory distribution channel is that of corporate agency, wherein the bank employee are especially a staff and branch manager, trained to appraise and sell the products to the customers. Here the bank as an institution acts as corporate agent for the insurance products for a fee or commission. This seems to be more viable and appropriate for most of the mid-sized banks in India as also the rate of commission would be relatively higher than the referral arrangement. This, however, is prone to reputation risk of the marketing bank. This model is best suited for majority of banks including some major urban cooperative banks because neither there is sharing of risk nor does it require huge investment in the form of infrastructure and yet could be a good source of income. This model of bancassurance worked well in the United States, because consumers generally prefer to purchase policies through broker banks that offer a wide range of products from competing insurers.

c) Fully Integrated Financial Service

Apart from the above two, the fully integrated financial service involves much more comprehensive and intricate relationship between insurer and bank, where the bank functions as fully universal in its operation and selling of insurance products is just one more function within. Banks are equipped with a counter within to sell the insurance products as an internal part of its activities. This includes banks having a wholly owned insurance subsidiary with or without foreign participation. The great advantage of this strategy being that the bank could make use of its full potential to reap the benefit of synergy and therefore the economies of scope. This may be suitable to relatively larger banks with sound financials and has better infrastructure. Internationally, the fully integrated bancassurance have demonstrated superior performance.

2. Product-based Classification

a) Stand-Alone Plans

In this case bancassurance involves marketing of the insurance products through either referral arrangement or corporate agency without mixing the insurance products with any of the banks' own products. Insurance is sold as one more item in the menu of products offered to the bank's customer, however, the products of banks and insurance will have their respective brands too, e.g., Karur Vysya Bank Ltd selling of life insurance products of Birla Sun Insurance or non-life insurance products of Bajaj Allianz General Insurance Company.

b) Blended with Bank Products

With the financial integration both within the country and globally, insurance is increasingly being viewed not just as a standalone product but as an important item on a menu of financial products that helps consumers to blend and create a portfolio of financial assets, manage their financial risks and plan for their financial security and well being. This strategy aims at blending of insurance products as a value addition while promoting its own products. Thus, banks could sell the insurance products without any additional efforts. In most times, giving insurance cover at a nominal premium or sometimes without explicit premium does act as an added attraction to sell the bank's own products, for example credit card, housing loans, education loans, and so on.

6.5. Issues in Bancassurance

The difference in working style and culture of the banks and insurance sector needs greater appreciation. Insurance is a business of solicitation unlike a typical banking service; it requires great drive to market the insurance products. It should, however, be recognized that bancassurance is not simply about selling insurance but about changing the mindset of a bank. Moreover, in India since the majority of the banking sector is in public sector and which has been widely disparaged for the lethargic attitude and poor quality of customer service, it needs to refurbish the blemished image. Else, the bancassurance would be difficult to succeed in these banks. There are also glitches in the system of bancassurance strategy in the form of conflict of interests, as some of the products offered by the banks, viz., term deposits and other products which are mainly aimed at long term savings and/or investments can be very similar to that of the insurance products. Banks could as well feel apprehension about the possibility of substitution effect between its own products and insurance products and more so, as a number of insurance products in India come with an added attraction of tax incentives.

As there is a great deal of difference in the approaches of selling of insurance products and the usual banking services thorough understanding of the insurance products by the bank staff coupled with extra devotion of time on each customer explaining in detail of each product's intricacies is a prerequisite. Moreover, insurance products have become increasingly complex over a period of time, due to improvisation over the existing products as well as due to constant innovation of new products, emanating from the excessive competition adding to even more difficulties in comprehension of the products and marketing by the bank staff. These can result in resistance to change and leading to problems relating to industrial relations. Unlike, the banking service, there is no guarantee for insurance products that all efforts that a bank staff spends in explaining to a customer would clinch the deal due to the very nature of the insurance products. This frustration of the bank staff has the danger of spill over effect even on their regular banking business. Bankers in India are extremely naďve in insurance products as there were no occasions in the past for the bankers to deal in insurance products; therefore they require strong motivation of both monetary and non monetary incentives. With the financial reforms and technological revolution embracing the financial system, there has been a great deal of flexibility in the mind set of people to accept change. The banking sector to embark on bancassurance as any form of resistance from the bank employees could be tackled by devising an appropriate incentive system commensurate with intensive training to the frontline bank employees.

7. CONCLUSION

The success of bancassurance able to maintain banks and customers relationship; therefore banks need to strive towards that direction. 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. Regulators could explore the possibility of allowing banks having tie-up arrangements with more than one insurance company, giving wider choice for the customers. In addition to acting as distributors, banks have recognized the potential of bancassurance in India and will take equity stakes in insurance companies, in the long run. Bancassurance would turn out to be a norm rather than an exception in future in India. Supervisory concerns as pointed out earlier could best be tackled by way of closer and systematized coordination between the respective supervisory authorities. There needs to be a clear cut identification of activities between banking and insurance at the institution's level as also at the level of regulators. Adequate training coupled with sufficient incentive system could avert the banks' staff resistance if any. In sum, bancassurance strategy would be a win-win situation for all the parties involved that is, the customer, the insurance companies and the banks.

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