Mounting Role of Banc Assurance in India

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Abstract

A sound and effective banking system is needed for a healthy economy. One of the most important segments that support the economy is the insurance sector. Globalization, liberalization, measures taken for the economic growth, technological developments, changing life style in the society, political and legal factors has a major role in increasing the risk of our daily life. In these circumstances we individuals are forced to learn how to live our life with risk. Insurance plays an incredible role in one's personal, financial, industrial and commercial life. The wave of financial deregulation and the changes in customer demands paved the way for the emergence of financial conglomerates which resulted in "Bancassurance". The present study is conducted to know the various banc assurance models, to analyze the benefits gained by the banks, insurers and customers and to know the role of banks in the policies and growth of life insurance business.

Keywords: Bancassurance, Banks, Insurance, Customers.

Preamble

Insurance plays an incredible role in one's personal, financial, industrial and commercial life. The insurance industry is one of the financial service segments which support the development of the economy. Due to the liberalization, technological advancements and diversification in non- banking activities; the boundaries that have kept various financial services separate from each other have vanished. The wave of financial deregulation and the changes in customer demands paved the way for the emergence of financial conglomerates which resulted in "Bancassurance".

Bancassurance is the selling of insurance products through bank distribution channel. It was originated in France in 1980 and later in Spain and Italy. Bancassurance is also known as "allfinanz" that describes a package of financial services that can full fill both banking and insurance needs at the same time(Barbara Casu, et al, Introduction to Banking, 2006).The history of banc assurance trace back to the early 70's; which was a water shed event in the history of insurance when ACM (Assurances du Crédit Mutuel) (life and general insurance) were officially authorized to start operations. They promoted the idea of insuring there customers as a form of protection against loans.

The new hybrid form of financial intermediation has an uneven presence across the world. Bank-insurance has been set up successfully in France, Spain, Portugal, Italy, and in the Benelux Region. The various global bank-insurance structures differ depending on the legal, geographic, cultural, operational, demographic, and tax-related features of the region(s) examined (Staikouras, 2006)[8].

Today, customer satisfaction is the motto of every organization. Bank provides various services to the customers. Both pre and after sales services are important in service based industry as their business mainly depends on the satisfaction of the customers.

1. Objectives of the study

1.1 To study the banc assurance models.
1.2 To analyze the benefits of banc assurance business to banks, customers and insurance companies.
1.3 To measure the role of banks in the policies and premium growth of life insurance business**.**

2. Literature Review

Compared to the vast amount of descriptive work that has been published in the field of banc assurance, there is only a limited amount of empirical studies conducted on the development, growth and effects of banc assurance. The following aims at highlighting the major quantitative findings of certain researchers that have performed research about banc assurance and customers.

Karunagaran, A. (2006)[1] in his article "A feasible strategy for Banks in India, pointed out that, the key factor for the success of banc assurance in most of the countries is the favorable legal system in the respective country, supported by the availability of strong banking infrastructure coupled with the banking culture. The system of 'relationship banking' stated to have contributed amply in building up of banc assurance.

He also pointed out that the best practice for banc assurance is flexible banking system which gives priority to the needs and requirements of the customers. The strong relation between the bank and customer the higher prospects for banc assurance. The author mentioned that the reputations of the banks play a key role in popularizing the concept of banc assurance.

B. K. Tiwary (2011)[2]study on consumer perception and satisfaction of banking products and services; in the banking sector it is necessary to increased adoption of technology to better meet customer requirements, improve efficiencies, reduce costs and ensure customer delight and it was the private sector and foreign banks which established the technological revolution in Indian banking and considering the fact that in the new economy, mind share leads to market share and mind share is influenced not only by the promotions and advertisements but more importantly on favorable customer perception which in turn is based on satisfaction with regard to products, services and interaction.

J. Hari Narayanan, IRDA Chairman (2012)[4]in an interview given to Hindu Business line, he coined that insurance companies will have to tie up with different banks in different geographical zones which will help to exploit the untapped synergies.

Manoj Kumar (2012)[5] portrays in the Journal; Insurance professional, that banc assurance has evolved as a very powerful tool in the hands of insurers, bankers and wealth management institutions. Insurers see it as a tool to increase penetration and market share and bankers use it to augment their fee income and to smoothen the volatility of interest income. For wealth management entities, it works as a wrapper to the core investment product and makes it more attractive. Bancassurance is here to stay and shall continue to evolve over period of time.

Profits from Bancassurance (2012)[6](BIA, Volume 3, Insurance Brief, June 2012) A seminar organized by the Bahrain Association of Banks and the Bahrain Insurance Association, conveys Bancassurance, selling of insurance products by banks helps to proceed an income other than the normal way of sales such as loans, credit cards, deposits, etc. It also helps the bank to retain its customers especially with competition in the market, since it provides multiple services at one place enhances customer satisfaction.

S. Saravan Kumar et al (2012)[7], Flourishing Bancassurance Business an Indian Perspective, portrays that the success of banc assurance greatly hinges on banks ensuring excellent customers relationship therefore banks need to strive towards that direction.

3. Bancassurance in India

The development of banc assurance is one of the most significant changes in the financial services sector over the past few years. Bancassurance is relatively a new concept to India, which was originated in the year 2000; when the government issued a notification under the Banking Regulation Act which allowed Indian Banks to do insurance distribution. Insurance is a permissible form of business as per the Banking Regulation Act 1949, sec 6(1) (0). It means any Insurance business conducted through the channel of the Institution including Non-Banking Finance Companies licensed under Banking Regulations Act, 1949 to accept deposit from public (IRDA (Licensing of Bancassurance Entities) Regulations, 2012).The banks can sell there on insurance products or can go for a tie- up with some insurance companies and can sell the insurance products to their customers for a commission. According to the reports of, Swiss Re Senior Economist Oliver Futterknecht, banc assurance, which was virtually non-existent before 2000, has taken hold in many countries, including key markets China and India. "In India, banc assurance premiums made up 22% of new business premiums for private sector players in 2010.

Bancassurance in India has a plenty of role to expand through more than 70,000 bank branches The Narasimham Committee and the Khan Committee Reports facilitated the universalization of banking operations. The public and private sector banks, which are the back bone of the Indian banking system, have moved away from the classical model of deposit acceptance and credit disbursal through their branch networks and have begun to offer a wide range of products and services to their customers. The banc assurance encompasses a variety of structure and business models. David. K.Kirui[1], the Head of Life Reassurance Division at East Africa Reinsurance Co. Limited, mentioned in his article Bancassurance a perspective that "there is no standard model of entering into banc assurance which is "best" for every insurer and any bank hence there is need for a proper strategic business plan before a decision to adopt a particular model is taken.

3.1 Status of Bancassurance In India

The tie-ups between the insurance companies and banks are doing reasonably well in India, through different types of Bancassurance models. One of the drivers for the growth in insurance sector is the contribution of the private sector of the banking industry. The private life insurers have been instrumental in building strong relationships with established banks for Bancassurance. As per the IRDA report of the committee on Bancassurance 2011, shows the major contribution to the strength and spread of the banking industry is from private insurers as they contributed 90% of new business premium of INR 6822 crore during 2007-08 and 8865% of INR 7306 crore in 2008-09. This is to be viewed against total share of 27% New Business premium of private insurers in a total New Business premium of INR 6711 crore in 2007-08 and 28.15% of INR 56885 crore in 2008-09.

According to Insurance regulatory and development authority (IRDA) data, the banc assurance accounts for 30% of the new business premium as per 2013.India is much below the global average of 6.5 per cent (of GDP) in insurance spread at 3.96 percent (Indian Express January 2014).

3.2 Regulations of Bancassurance in India

Bancassurance being the combination of banking and insurance sector, it is regulated by two different entities; The Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority- India (IRDAI). Insurance Regulatory and Development Authority (IRDA) passed a notification in October 2002 on "Corporate Agency "regulations". As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer. Bank provides all financial needs under one roof as "One stop shopping."

4. Objective –I Bancassurance Models

Bancassurance at times known as Bank Insurance Model (BIM) varies country by country based on their social and economic environment. Even it is known by different models but the concept is same all over the world which lies on three pillars; the banks, customers and insurance companies. Bancassurance model prevalent in India are:

4.1 Distribution Agreement

The banks make an agreement with a third party insurer for a commission and a profit share for marketing the insurance products to their retail and commercial banking customers**.** In this type of arrangement bank and insurer may have a patchy view of the customers. And also the bank staff may reluctant to sell insurance products; insurer has little control over distribution.

4.2 Strategic Alliance

Under a strategic alliance, there is a tie-up between a bank and an insurance company. The bank only markets the products of the insurance company. Except for marketing the products, no other insurance functions are carried out by the bank.

4.3 Joint Venture

Joint venture is an agreement between banks and the insurance companies. Generally these agreements are for equal ownership (50% owned by insurers and 50% by banks). Banks take the responsibility of distribution and the insurance company takes the responsibilities of controlling and managing the risks for the proportionate share of revenue as well as profit or loss.

4.4Referral Model

It is done by the employees of the insurance companies for a commission or for a referral fees by using the client data base from the banks. The business can be done either in the bank or elsewhere. There by the bank is free from risk.

4.4.1Corporate Agency Model

Under this model, the bank ties up with one life insurer, one non-life insurer and one health insurer. There by the bank is not liable to any customer. Most of the banks in India are following this model which provides a higher rate of commission than others.

4.4.2Broker Model

As per the IRDA (Licensing of Banks as Insurance Brokers) Regulations 2013, banks are allowed to sell policies of multiple insurance companies. This would be a big change from the current system; by utilizing the wide branch network it leads to an increase in penetration. Unlike a corporate agent; an insurance broker is liable to the consumer. The broking model is an open-ended model.

5. Reasons For Banks Entering In To Bancassurance

5.1 Intense Competition

Intense competition between banks, against a background of shrinking interest margins, has led to an increase in the administrative and marketing costs and limited the profit margins of the traditional banking products. New products could substantially enhance the profitability and increase productivity.

5.2 Financial benefits

Financial benefits to a bank performance can flow in a number of ways;

- 5.2.1 Increased income generated, in the form of commissions and/or Profits from the business (depending upon the relationship).
- 5.2.2 Reduction of the effect of the bank fixed costs, as they are now also spread over the life insurance relationship.
- 5.2.3 Opportunity to increase the productivity of staff, as they now have the chance to offer a wider range of services to clients.

5.3 Customer Preferences

Customer preferences regarding investments are changing. Life insurance is supported by favorable tax treatment for example to encourage private provision for protection or retirement plan. This also helps the Customer details available with the banks to promote the products among their potential customers than compared with other distributors.

6 Objective – II Benefits of Bancassurance.

6.1 To the Banks

Banks mainly acts as a means of product diversification and additional fee income; for insurance company it acts as a tool for increasing their market penetration and premium turnover and for customer it acts as a bonanza in terms of reduced price, high quality products and delivery to doorsteps. By acting as a one stop shop for all financial services, they can improve overall customer satisfaction resulting in higher customer retention levels. Hence it is a gain for all the parties involved in the business. Banks enjoy by the branded products awareness among their customers without additional cost.

6.2 To the Customers

6.2.1Easy to access

Customers have frequent contact with their bank, for their traditional banking services. Regarding banc assurance it will be an easy stop for them.

6.2.2 Simplicity

Insurance products sold through the banks are simple to understand even for the common customers. Their rates are also comparably affordable to the customers.

6.2.3 Wide range of products

Bancassurance provides not only savings products but also loan protection products and personal protection products. Therefore the customers are able to be satisfied with one stop service.

6.2.4 Security

The solvency of the insurer selected by the bank and the legal guarantee of the institutional intermediary are both reassuring factors for end-user customers

7 Objective – III -To measure the role of banks in the policies and premium growth of life insurance business.

Table 7.1: the Contribution of Bancassurance to premium income in Life Insurance Sector

Year	**2005 - 2006**	**2006-2007**	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**	**2012-2013**
Total Premium Income (INR in crores)	105875.76	156065.30	201351.41	221785.50	26450.37	291638.60	287072.10	287202.00
Banks (in percent)	6.38	5.57	7.97	9.69	10.6	13.3	14.96	16.18
Total Contribution of Bancassurance in Premium Income (INR in crores)	6754.8735	8692.8372	16047.71	21491.01	2803.74	38787.93	42945.99	46469.28

(Source: Various Issues of IRDA Annual Report)

Table 7.1 depicts the total premium income on life insurance and banc assurance. The data were collected from various IRDA annual reports. The data shows that there is an increase in the premium income contributed by the bank. There was a decline in the banking contribution in 2006- 2007 but since then it was increased .From 6.38% in 2005 -2006 to 16.18% in 2012 – 2013.

Table 7.2: The Business Performance of Bancassurance under Life sector for Individual Business

Financial Year	**Individual Category**			
	Banks			
	No: of Policies/No: of lives covered	**Percentage to the total business**	**Premium (Rs in Crores)**	**Percentage to the total business acquired through ths channel**
2006-2007	1426919	3.14	3363.17	5.57
2007-2008	1693610	3.33	6329.22	7.97
2008-2009	1896457	3.73	6737.38	9.69
2009-2010	2084543	3.92	8688.68	10.60
2010-2011	1936562	4.03	11062.63	13.30
2011-2012	2180018	4.94	9692.90	14.96
2012-2013	2452767	5.55%	10072.96	16.18

(Source: Handbook of Indian Insurance Statistics 2011-2012)

Table 7.2 depicts the individual business performance of life insurance. There is a tremendous growth in the number of policies sold and premium collected from 2006-2007 (5.57 percent) to 2012-2013 (16.18 percent).
The table clearly shows the growing importance of banc assurance for the sale of life policies.

Table 7.3: The Business Performance of Bancassurance under Life sector for Group Business

Financial Year	Group Category				
	Banks				
	No. of Schemes	Percentage to the total business	No. of Lives Covered	Premium Income (Rs in crores)	Percentage to the total business acquired through this channel
2006-2007	275	1.19	1479025	326.98	2.33
2007-2008	765	3.08	1767953	492.69	3.46
2008-2009	1358	5.48	2246435	569.19	3.28
2009-2010	444	1.55	1181334	599.57	2.15
2010-2011	1834	5.99	4651600	1328.61	3.08
2011-2012	936	2.97	2618616	3117.71	6.35
2012-2013	515	1.64	2698080	2081.28	4.63

(Source: Handbook of Indian Insurance Statistics 2011-2012)

Table 7.3 depicts the group business performance of life insurance. There was a growth in the number of policies sold during 2006 to 2009(1.19 to 5.48 percent). After that it slipped in the year 2009 -2010 to 1.55 percent with regard to the schemes and premium income to 2.25 percent over the previous financial year.

Table 7.4: Growth of Bancassurance in India

Year	Bancassurance Business Proportion	Agency Business Proportion
2006 -2007	23	66
2007 -2008	19	60
2008 -2009	21	55
2009 – 2010	25	51
2010 -2011	33	47
2011 -2012	39	44
2012- 2013	43	43

Source: IRDA various issues

It can be observed from the above mentioned table that for the year 2007 to 2008 the proportion of bancassurance was declined and after that up to 2013 it shows a tremendous growth where as for the agency business it shows a decline from 2006 to 2013.

7.5 Insurance Penetration and Density in India

The two indicators which measure the development level of insurance industry in an economy are the insurance density and Insurance penetration. Insurance penetration is defined as the ratio of total premium collected to the total Gross Domestic Product (GDP) of an economy and is usually expressed in the percentage form. The insurance density is defined as the ratio of total premium to the total population in the country and is expressed in currency units.

Table 7.5.1: Insurance Penetration and Density in India

Year	Penetration (in Percentage)	Density (US $)
2001-2002	2.15	9.1
2002-2003	2.59	11.7
2003-2004	2.26	12.9
2004-2005	2.53	15.7
2005-2006	2.53	18.3
2006-2007	4.1	33.2
2007-2008	4	40.4
2008-2009	4	41.2
2009-2010	4.6	47.7
2010-2011	4.4	55.7
2011-2012	3.4	49
2012-2013	3.17	42.7
2013-2014	3.1	41.0
2014-2015	2.6	44.0

(Source: Compiled from IRDAI various issues)

Table 7.5.1 shows that the insurance density over 2006-2007 to 2010 -2011reported an increase 33.2 percent to 55.7 and since then it slipped to 42.7(US $).The insurance penetration which was steadily increased till 2009-2010 reported a fall since then to 3.17 percent.

Table 7.5.2: Comparison of Insurance Penetration with other Asian Countries

Asian Countries	2013**			2014**		
	Life Insurance	Non-Life Insurance	Total	Life Insurance	Non-Life Insurance	Total
Hong Kong	11.7	1.5	13.2	12.7	1.4	14.1
India #	**3.1**	**0.8**	**3.9**	**2.6**	**0.7**	**3.3**
Japan #	8.8	2.3	11.1	8.4	2.4	10.8
Malaysia#	3.2	1.7	4.9	3.1	1.7	4.8
Pakistan	0.5	0.3	0.8	0.5	0.3	0.8
PR China	1.6	1.4	3.0	1.7	1.5	3.2
Singapore	4.4	1.6	6	5.0	1.6	6.6
South Korea#	7.5	4.4	11.9	7.2	4.1	11.3
Sri Lanka	0.5	0.7	1.2	0.5	0.7	1.2
Taiwan	14.5	3.1	17.6	15.6	3.3	18.9
Thailand	3.8	1.7	5.5	3.6	2.2	5.8
World	**3.5**	**2.8**	**6.3**	**3.4**	**2.7**	**6.1**

(Source: Compiled from IRDA of India Annual Report 2014-2015)

** Calendar Year # Data relates to the financial year 2013-2014,& 2014 -2015.

From the table 7.5.2 it is observed that comparing the insurance penetration of India with other Asian countries with regard to the data of financial 2013 -14 and 2014 – 2015 for the life insurance sector in both the years except India, Japan , Malaysia and South Korea for all the other countries it shows a potential growth.

Table 7.5.3: Comparison of Insurance Density with other Asian Countries

Asian Countries	**2013****			**2014****		
	Life Insurance	**Non-Life Insurance**	**Total**	**Life Insurance**	**Non-Life Insurance**	**Total**
Hong Kong	4445	557	5002	5647	575	6222
India #	**41**	**1**	**42**	**44**	**11**	**55**
Japan #	3346	861	4207	2926	852	3778
Malaysia#	341	176	517	3382	186	3568
Pakistan	6	3	9	7	4	11
PR China	110	91	201	127	109	236
Singapore	2388	863	3251	2840	929	3769
South Korea#	1816	1079	2895	2014	1149	3163
Sri Lanka	16	21	37	17	23	40
Taiwan	3204	682	3886	3371	701	4072
Thailand	214	96	310	198	125	323
World	366	285	651	368	294	662

(Source: Compiled from IRDA of India Annual Report 2014-2015)

** Calendar Year# Data relates to the financial year 2013-2014, b& 2014 -2015.

From the table 7.5.3it's clear that India's insurance density compared with the year 2013 in 2014 it shows a remarkable growth from 42 to 55.

8. Conclusion

Bancassurance provides risk free income to the economy by exploiting the huge untapped market potential. It comes as one of the solutions in managing the competition and nourishing the competitive advantage. It is recommended that the banks should give more awareness among the normal customers regarding the banc assurance service offered by them which will helps in proving more employment opportunities and supporting in the growth of economy. The study reveals that banc assurance has a bright future as it benefits to the customers, banks and the insurance companies in one or the other way.

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