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Bancassurance strategy in India: A win-win situation for all the participants

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Abstract
Bancassurance is the process of using customer relationship by a bank to sell life and non-life insurance products and it is emerging as a natural pathway for the effective development of insurance sector. This new channel of distribution can be described as a strategy adopted by banks/insurance companies aiming to operate the financial services market in a more or less integrated manner. Bank acts as a mediator between the insurance company and their customers. Bancassurance has grown differently in different countries and taken shape according to the demography, economy and legislative prescriptions in that country. If effectively used, the strategy can be a win-win situation in India for all the participants.

Keywords: Bancassurance, customer relationship, Indian banking sector, insurance products, win-win situation

Introduction
Bancassurance is on the rise, particularly in emerging markets. Worldwide insurers have been successfully leveraging bancassurance to gain a foothold in markets with low insurance penetration. Bancassurance, the provision of insurance services by banks, is an established and growing channel for insurance distribution, though its penetration varies across different markets. Europe has the highest bancassurance penetration rate. In contrast, penetration is lower in North America, partly reflecting regulatory restrictions. In Asia, however, bancassurance is gaining popularity, particularly in China, where restrictions have been eased. The research shows that social and cultural factors, as well as regulatory considerations and product complexity play a significant role in determining how successful bancassurance is in a particular market.

The outlook for bancassurance remains positive. While development in individual markets will continue to depend heavily on each country's regulator and business environment, bancassurers could profit from the tendency of governments to privatize health care and pension liabilities. In emerging markets, new entrants have successfully employed bancassurance to compete with incumbent companies, Given the current relatively low bancassurance penetration in emerging markets, bancassurance will likely see further significant development in the coming years.

In a country of more than 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. 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 the poverty line, the middle market segment is the second largest in the world after China. The insurance worldwide are eyeing this, why not we pre-empt 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 4,200 operating offices and LIC with 2,048 branch offices are almost already omnipresent, which is so essential for the development of any bancassurance project.

Bank's 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 homogenous 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 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.

Where legislation has allowed, bancassurance has mostly been a phenomenal success and although to gain pace, it is now taking off across Asia, especially now that banks are starting to become more diverse financial institutions, and the concept of universal banking is being accepted.

In India, the signs of initial success are already there despite the fact that it is a completely new phenomenon. The factors and principles of why it is a success elsewhere exists in India, and there is no doubt that banks are set to become a significant distributor of insurance related products and services in the years to come.

Bancassurance in India and Aboard

Bancassurance has grown in different countries at different pace and taken different forms, depending upon the demography, economic and legislation prescriptions in that country. Bancassurance has become a success story in Europe, representing over two-thirds of the premium income in life insurance, 60 percent in France, 50 percent in Belgium and Italy. As a matter of fact, it has its deep roots in European countries particularly in France, Spain, Belgium, Luxemburg and Italy where banks distribute more than 50 percent of the total life policies. However, in the USA, Germany, the UK and Canada, growth of bancassurance is limited.

In Asia, bancassurance is relatively new concept. However, it is expected to surge significantly in the ensuring years due to relaxations in existing stringent regulations. Among Asian countries, Malaysia and Taiwan with their market share of 25 percent and 35 percent respectively are front runners in bancassurance. In Indonesia, a bank can sell insurance products of two insurance companies. In Philippines, banks are permitted to own 100% of the insurance company and bank is allowed to lease part of its premises to an insurance company. In Argentina, sale of insurance products to bank customers is done through a separately formed undertaking entity. In Brazil, insurance products are distributed through all channels including banks except agents because of prohibitory regulations. In China, a foreign company can own 100 % of an approved insurance company but the former can operate only in two metropolitan cities. In Japan, the insurance companies have been authorised to set up banking subsidiaries and life and non-life insurance companies are authorised to sell each other’s products. In Singapore and South Korea, banks can act as brokers.

Bancassurance in India has started picking up after the Insurance Regulatory Development Authority (IRDA’s) notification on Corporate Agency regulations in October, 2002 which allowed banks to act as an agent of only one life and one non-life insured.

Banks are likely to be allowed to form subsidiaries to hold their stake in insurance joint ventures. However, under section 92(2) of the Banking Regulation Act, the investment by a bank in a subsidiary company should not exceed 10 percent of the bank’s paid-up capital and reserves. This would constrain a bank’s ability to expand the capital of its insurance venture.

Models of Bancassurance

There is no single model of bancassurance in the world. Different counties practice different models. Broadly speaking, there are four major models, viz.

1. Distribution Alliance,
2. Joint Venture between bank and insurer,
3. Merger of bank with insurer or vice-versa and
4. Build or buy own insurance operation.

In India, distribution alliance model exists. Bank’s in India are offering their services as distribution channels for insurance products through their branch network. Only 5 banks have gone for second model. Example of third model can be found in merger between Citibank and Travellers Financial Services (U.S.), Credit Suisse with Winterthur and Lioyas Bank with TSB U. K. Credit AgriCole’s Predica (Franc) falls in the category of fourth model.

Utility of Bancassurance

Bancassurance has come to be recognized as potent instrument of improving profitability and enhancing competitiveness of both banks and insurance companies. Because of their complementary strengths, banks and insurance companies gain synergistic advantages. For banks, bancassurance is a means of product diversification and additional sources of fee income. For instance, commercial banks in India can use their networks of over 65,000 branches to cross sell various types of insurance products, meet shareholder’s concern of bank’s shrinking bottom lines, improve their profit margin and shareholder value by earning substantial fee income and leverage their brand equity. Indian commercial banks are looking at tie ups with insurance companies to boost their fee-based income by over 70 percent during the next five years. For insurance companies, bancassurance is a tool for deepening their market penetration without any additional cost, providing greater opportunity of introducing new hybrid products and assuring economies of scale in administrative cost. Insurance companies in India are banking heavily on bancassurance and are planning to explore tremendous potentials of burgeoning network of banks spread across the country.

The synergistic advantages to both banks and insurance companies ostensibly add value to the customers who stand to gain by way of getting better quality financial products under one roof at reduced price and that too at their doorsteps.

However, insurers and bank are facing some obstacles in reaping fuller benefits of bancassurance. These obstacles are poor human resource management and unsatisfactory sales culture, absence of involvement of the branch manager, insufficient product promotions, lack of marketing plans of banks and insurance companies, channel conflicts, marginal database expertise, inadequate incentives, negative mind frame of employees, etc. Thus, utility of bancassurance and its future prospects depends on how effectively banks and insurance companies attend to above problems.

The Road Ahead

In simple words, it is aptly put that bancassurance has promised to combine insurance companies’ competitive edge in the “production” of insurance products with banks’ edge in their distribution, through their vast retail networks.

The prospects of bancassurance in India are really bright because of the following reasons:

- Increasing PPP (Purchasing Power Parity),
- Huge Inflow of FDI,
- Expansion of middle income class Indians,
- Huge Banking infrastructure across urban, semi urban & rural India and
- BASEL Norm – II (2009).

India had 88 Scheduled Commercial Banks (SCBs) – 28 Public Sector Banks (that is with the government of India holding a stake), 29 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges and 31 Foreign Banks. Altogether, they (banks) have a combined wide network of branches and reach in urban, semi-urban & rural area of the nation. The bank offices in India and number of people served by each bank office is a testimony of huge Indian banking infrastructure which is among the best banking network in the world.

Bancassurance, if taken in the right spirit and implemented properly, can be a win-win situation for the all participants, viz. banks, insurers and the customer.

Different countries all over the world have adopted bancassurance after seeing its enormous success in Europe. But the results have not been the same, the world over. Comparing the bancassurance developments the world over, it was concluded that social and cultural factors together with regulatory considerations and product market complexity determine the success of bancassurance in a particular market (Brahman *et al*., 2004) [3]. There are differences in bancassurance developments across the countries because of the differences in legislative and regulatory standards; difference in role of banks in the financial system and the segregations between the multiple distribution channels that exist in many countries (Benoist, 2002) [2].

The factors and principles why it is a success elsewhere exist in India too. The prospects of bancassurance in India are really bright because of increased purchasing power parity, expansion of middle income class Indians and the huge banking infrastructure across urban, semi-urban and rural India (Neelamegam and Veni, 2009) [5].

Bancassurance, which has gained momentum in the last few years on the Indian scene, has a bag of full of opportunities and challenges in the times to come (Parihar, 2003). Some authors predict that it will flourish and come out as a strong channel of insurance selling while others are of the opinion that the times ahead will be turbulent and hence, banks and insurance companies need to redesign their products and strategies while selling insurance through this route.

Bancassurance, in India will see only a limited success in the Indian sub-continent as the banks may not be able to translate this into a business opportunity because of strong conflict of interest with the core banking business (Singh and Hajeebhoy, 2006). The apprehension about the possibility of substitution effect between its own products and insurance products especially when most of the insurance products in India come with an added attraction of tax incentive may hamper the growth of bancassurance (Sarvankumar *et al*., 2012) [8].

Although banks offer a very lucrative option for the insurance companies to integrate but still the issues is faced with a multiplicity of challenge in the form of creating a legal environment, resolving conflict between band and insurer, establishing credible service level agreements between the bank and insurer etc. (Krishnamurthy, 2011). The most common challenges to success are poor manpower management, lack of sales culture within the bank, no involovement by the branch manager, insufficient product promotions, failure to integrate marketing plans; marginal database expertise; poor sales channel linkages; inadequate incentives and unwieldy marketing strategy (Sarvankumar *et al*., 2012) [8].

The principal reasons for low utilization of potential of bancassurance are monopolistic relations, low level of training, lack of operational coordination, unequal relationship, short duration of tie-ups, lack of specially designed products, non-utilisation of technological platform and poor servicing standards prevailing in the bancassurance channel (Mishra, 2012) [4].

The dual control of RBI and IRDA in the case of bancassurance is another matter which brings doubts over its future success. The RBI would be dislodged from its supervisory and regulatory control over the banks (Venkitaramanan, 2011). Problems are also arising because banks and insurance companies are finding it difficult to leverage customer satisfaction because of certain problems with products, process and people (Venugopal, 2010) [10]. Also, the bank officials do not have any relation with the customer after the policy is issued. After the sale is over, it is the insurer who is responsible for all the claim settlement and enquiries (Rajkumari, 2007) [6].

Banks need to think differently and analyse customers' requirements and put a demand on the partner insurance companies to reciprocate by manufacturing products in tandem with bank's requirements
(Shah and Salim, 2011) [9]. On the part of the insurers, they need to develop a distribution mix based on reach, customer servicing, trust and reliability, operational discipline etc. and should design and divide its products according to segments; in order to be successful in the long run (Singhvi and Bhatt, 2008) [10].

However, there are others who feel that there is a lot of rosy picture as to the benefits that the banks, insurance companies and the customers would be able to draw from the concept of bancassurance and its future in India as it has the potential to be an effective distribution channel in India, especially because of the extensive network of bank branches, built over the years something that insurance companies would find nearly impossible to achieve on their own. (Rao, 2004) [7].

Conclusion

The success of bancassurance greatly hinges on banks ensuring excellent customer relationship; therefore, banks need to strive towards that direction. 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. Going by the present pace, bancassurance would turn out to be a norm rather than an exception in future in India. Adequate training coupled with sufficient incentive strategy could avert the banks' staff resistance, if any. In sum, bancassurance strategy would be a 'win-win situation' for all the parties involved viz. the customer, the insurance companies and the bank.

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