

Scenario of bancassurance in the Indian financial market: A study of the selected life insurance companies

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Abstract

Bancassurance has gained a lot of importance over the past few years, the reason being the opening up of insurance sector and the raised FDI (foreign direct investment) cap by the Government of India. Bancassurance has attracted banks, the simple reason being that the banks could cover banking as well as insurance function.

Bancassurance is a tie-up between a bank and an insurance company to sell insurance products. This provides an advantage to bank and to insurance companies who can earn fee-based income by selling risky products like insurance schemes and the insurance companies can increase their market penetration by accessing bank's customer database.

Nowadays, banks are adopting bancassurance model to increase their market share and cover a large number of customers by providing them banking as well as insurance products. Since there is an enormous potential for insurance in India, it is assumed that bancassurance model can play a key role in providing better services to customers. There is enormous potential for insurance in India and recent experience has shown massive growth pace. The paper will unleash various factors of low market penetration of insurance and growth avenues of bancassurance in India.

Keywords: Insurance, Bank, Bancassurance, FDI

Introduction

The integration of financial markets, introduction of new technologies, universalisation of bank operations and diversification in non-banking activities has brought significant changes in the working of the banking sector. The boundaries of the financial sector is slowly diminishing and concepts like bancassurance are taking form.

The term bancassurance first appeared in France in 1980's, to define 'the sale of insurance products through bank's distribution channels'. Bancassurance has grown at different places. It is most successful in Europe, especially in France from where it started, Italy, Belgium and Luxembourg.

Bank Insurance Model (BIM), also sometimes known as bancassurance refers to the selling of insurance policies through banks and banks earn revenue through this sale. Bancassurance is a compound word of French Banque (bank) and Assurance (insurance).

Bancassurance is a new buzzword in India. It found its origin in the year 2000 when the Government issued notification under Banking Regulation Act which allowed Indian Banks to do insurance distribution. It started picking up after Insurance Regulatory and Development Authority (IRDA) passed a notification in October 2002 on 'Corporate Agency' regulations ^[1].

After the regulation most of the public sector banks and private banks started adopting bancassurance models to cover customers under banking as well as insurance function. Presently, bancassurance accounts for a share of almost 25-30% of the premium income amongst the private players ^[2].

Statement of the Problem

India has a huge population of more than 200 million middle class income people which amounts to a large depositor base. It has around 80,000 network of branches spread across the country. It has the highest potential to achieve financial inclusion in Insurance sector through bancassurance. But the fact is there are large number of people who either do not have bank accounts or are not covered under insurance schemes.

Bancassurance model can be a greatest advantage to middle class population in India which are covered under banking or insurance. The research is an attempt to find out:

- a) Are bancassurance companies potential enough to cover large middle class base?
- b) What prospectus does bancassurance business have in India?
- c) In spite of such schemes, why banks are not successful in covering a large number of people?

Hence, to know the reason behind insurance companies not being successful in covering a large number of people under bancassurance scheme a study of five selected life insurance companies was done.

Objectives

- a) To study the various factors which will help the companies to come up with successful bancassurance schemes.
- b) To study the reasons behind the lack of awareness amongst people to buy insurance policies.
- c) To study the future avenues and prospects of bancassurance in India.

¹ http://www.indianmba.com/Occasional_Papers

² www.scribd.com/doc/26820212/Bancassurance-An-Indian-Perspective

Research Methodology

The study is an empirical and descriptive based study on the views and opinions of the employees of the insurance companies. Both Primary as well as Secondary data is used for conducting the research study:

A) Primary Source of information

It is the data which is collected for the first time. For the purpose of research, information shall be collected through interview and questionnaire from banking professionals as they will provide information about Bancassurance’s various schemes, their profitability, and basic perception of customers while purchasing a policy.

The details of methodology are as

Sampling Method	Convenience sampling method
Instrument	Questionnaire, Interview
Population (Total Number of Insurance Companies)	53
Sample under study (Companies which have adopted bancassurance model)	5

B) Secondary Source of information

It is a published and unpublished data already collected by someone for some purpose. In the following project the secondary data will be collected through:

- i) Data will be collected from the annual reports of the bancassurance companies.
- ii) Companies websites
- iii) Published data on the internet

Samples under the Study

1. SBI Life Insurance Company
2. HDFC Standard Life Insurance Company
3. Canara HSBC Oriental Bank of Commerce Life Insurance Company
4. ICICI Prudential Life Insurance Company
5. PNB MetLife Insurance Company

Literature Review

Aug 31, 2016, Economic Times published that “Consolidation like in telecom may be the way forward for life insurers.” Many insurers are now facing an uncertain future due to a collapse in new insurance premium and the domination by a few of the most lucrative bancassurance channel to sell insurance. "Insurance is highly competitive and even after a decade-and-a-half, LIC continues to be dominant player with a market share of over 50 per cent," says Deepak Parekh, the long-time chairman of Housing Development Finance Corporation (HDFC). "You need a strong balance sheet to be in the business. It is a tough business to keep putting money year after year."

August 17, 2016, Mumbai, Business Standard published that, “Exide Life inks bancassurance tie-up with SVC Coop Bank.” Exide Life Insurance has entered into a bancassurance agreement with SVC Co-operative Bank, under which the private insurer will cater to over eight lakh customers of the bank. Under the arrangement, Exide Life Insurance will get access to 193 SVC bank branches, which cater to over eight lakh customers, a release issued here said.

29th July, 2016, The New Indian Express published that, “LIC, Axis Bank ink pact in largest bancassurance deal”. Life Insurance Corporation of India (LIC) has signed an agreement with private sector lender Axis Bank making it its bancassurance partner wherein the bank will distribute LIC’s products to its customers. This is one of the biggest tie-ups announced after financial sector regulators liberalised norms governing the sale of insurance products by banks, called Bancassurance, under which lenders were allowed to sell products of multiple insurance companies.

May 13, 2016, Chennai, The Times of India published that, “SBI Life displaces ICICI, HDFC to become top private life insurer in 2016” In a game-changer of sorts, some private life insurers lost out, while others like SBI Life Insurance and Bajaj Allianz Life Insurance gained in market share as of March 2016. SBI Life shot ahead of ICICI Prudential Life and HDFC Standard Life to become the top private life insurance company with 5.1% market share.

March 25, 2016, MUMBAI, THE HINDU published that, “40 banks interested in selling insurance, says regulator” The Reserve Bank of India (RBI) allowed banks to sell insurance products of multiple insurance companies, but did not make it mandatory. This norm, which will come into effect from April 1, will allow one bank to sell three separate products for life, general and health insurance. Over 40 banks, including the ones that have insurance products, have shown interest in selling products of multiple insurance companies,” said Nilesh Sathe, member, life, Insurance Regulatory Development Authority of India (IRDAI), on the side-lines of an event organised by the National Bank for Agriculture and Rural Development (NABARD).

Mar 9, 2016, 06:17 PM IST, CHENNAI, by Rachel Chitra, TIMES OF INDIA reported that, “Life insurance scores over ULIPs: Study”, According to a survey conducted by FICCI and Canara HSBC Oriental Bank of Commerce Life Insurance Company revealed that only one-fifth of people go for ULIPs over traditional policies as majority (64%) of Indians are still risk averse and prefer traditional insurance covers over ULIPs (19 agents may enter into new tie-ups in FY17 with IRDAI nudge”, IRDAI has asked banks, corporate agents to have board-approved policy on open architecture. Corporate agents, including banks, may announce tie-ups with at least one more insurer %).

February 18, 2016 Last Updated at 17:20 IST, MUMBAI by M Saraswathy, The INDIAN EXPRESS published that “Corporate insurance company in the next fiscal, the new arrangement will come into effect from April 1, 2016. According to the new rules for licensing of corporates agents announced in September, banks can tie-up with up to three life, non-life and standalone insurers each, instead of only one insurance company earlier. However, this has not been made mandatory.

Analysis and Interpretation

1. Bancassurance model used by the companies: The insurance company and the banks uses various bancassurance model to enter into the new business. The various types of model used by them are as follows:
 - a. Corporate Agent Model: In the following Model, there is a tie-up between a bank and an insurance company. The bank only markets the products of the insurance company.
 - b. Referral Model: Under this model, bank will give office

- space to the insurance company in its branches. The insurance staff will sit in the bank branch and sell its products to bank customers.
- c. Broker Model: Under this model, bank sells policy of multiple insurance companies under one roof. Bank earns commission according to sales-agreement with individual company.
- d. Joint Venture Model: This model entails a full integration of banking and insurance services. The bank under its brand sell the insurance products as per the customer requirements.

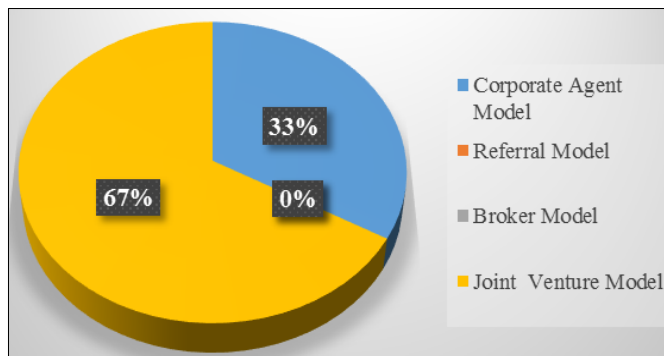


Fig 1: Bancassurance Model adopted by the Life Insurance Companies

Thus, out of the following samples 33% insurance companies use the Corporate Agent Model, 0% uses the Referral Model and the Broker Model and 67% use the Joint Venture Model.

2. Most popular bancassurance scheme/plan: Every company introduce a product or a range of products which are the most feasible and helps to provide the insurance company a competitive edge over other companies. The following point will name the popular scheme of the selected insurance companies.

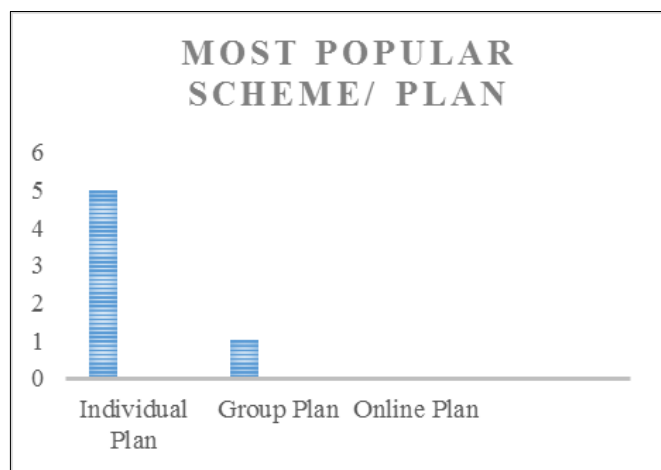


Fig 2: Most popular bancassurance scheme/plan.

Hence, Individual Plans of all the companies are very popular whereas group plans and online plans of all the companies are not much popular.

3. Most Preferable Income Class of population to have the bancassurance schemes: Every company adopt the various strategies to increase their market share by segmenting the market and then focusing on the most promising segment

which will help the company to expand its business. This point will provide information about the most preferable Income class on which the insurance company focuses the most.

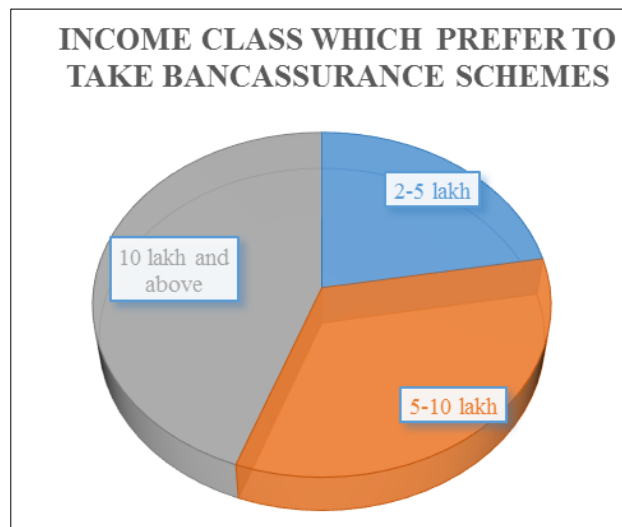


Fig 3: Most Preferable Income Class of population to have the bancassurance schemes.

Therefore, as per the information provided by the respondents it can be interpreted that the income class which earn above 10 lakhs prefer the most to have insurance policies.

4. Most preferable age group of population to provide bancassurance schemes: The company segment the market on the basis of income, age group, occupation, city and many more. The age of customer is a very important factor while taking an insurance policy. Hence, the company segment the market on the basis of age. The following point will provide the information about the most preferable age group on which the insurance company focuses the most.

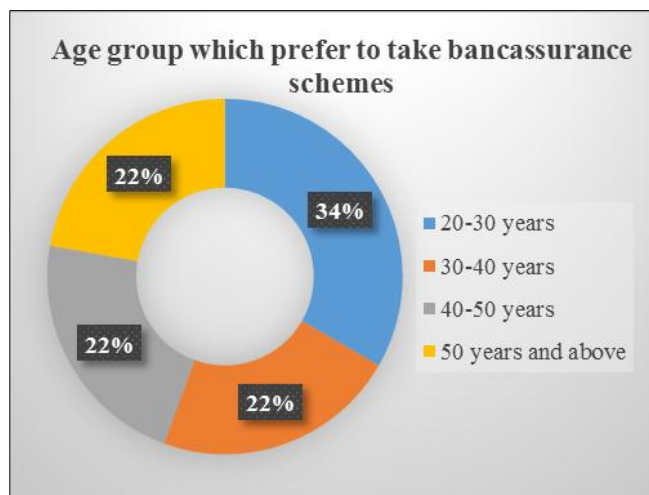


Fig 4: Most preferable age group of population to provide bancassurance schemes.

Hence, the age group of 20- 30 years mostly prefer to take the insurance policies as they want to secure themselves at an early age and enjoy the benefits of the plans later through various schemes like Saving & Investment Plans. The age group of 30-

40 years, 40- 50 years and 50 above also prefer to take the insurance policies as their age is increasing the various risks like health risks will also increase.

5. Measures taken to increase market penetration for bancassurance scheme: The basic motive of doing business is to earn profit and to increase the profit the market share of the company should expand. Various measures are taken by the companies for market penetration of their bancassurance schemes/policies.

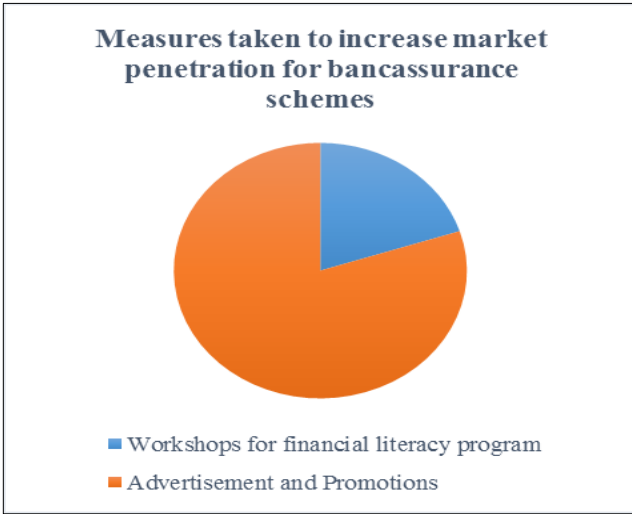


Fig 5: Measures taken to increase market penetration for a bancassurance scheme

Hence, it can be interpreted that mostly the companies take advertisement & promotion measures to increase market penetration for their bancassurance schemes.

6. Region of the country with the highest penetration in respect of bancassurance business: India is a country with great diversities so some regions have high penetration of insurance whereas some must be having low penetration of insurance. All the selected insurance companies are performing their business all over the country. The regions are divided into north, south, east, west and north-east.

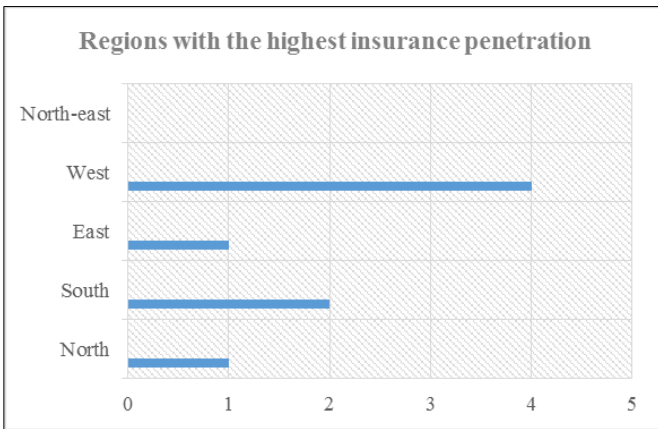


Fig 6: Region of the country with the highest penetration in respect of bancassurance business.

Thus, it can be interpreted that the western region of the country has the highest penetration of bancassurance schemes whereas north-east region has the lowest penetration of bancassurance schemes.

7. Situation of bancassurance schemes in the rural India: India is a developing country with large size of population living in the rural areas. Life insurance is bought lesser in India by rural population. The following point will put a light on the situation of bancassurance schemes in rural India.

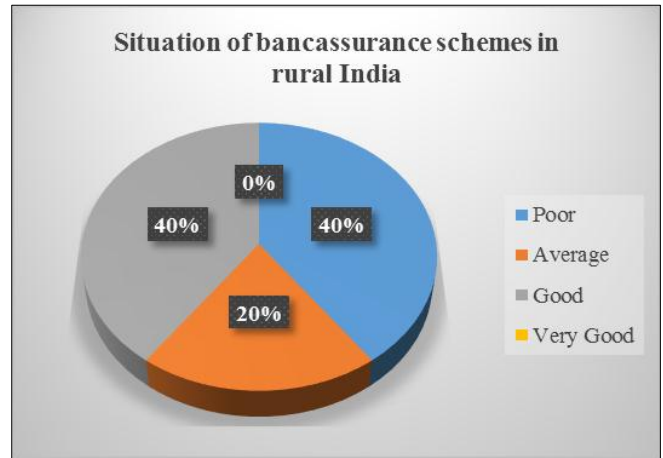


Fig 7: Situation of bancassurance schemes in the rural India.

Hence, it can be interpreted that situation of bancassurance schemes in rural India is poor for some companies whereas it is good for some other companies.

8. Strata of population being focused the most to sell insurance policies: The following point will provide the information about which strata of population i.e. class of population being focused the most to sell insurance policies which are upper class, middle class or lower class.

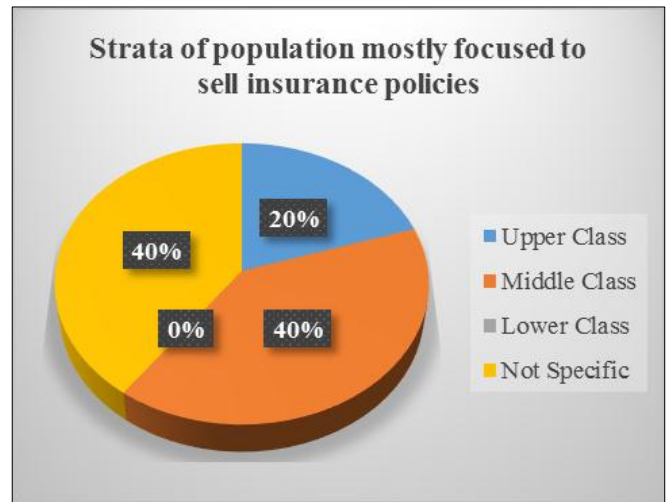


Fig 8: Strata of population being focused the most to sell insurance policies by the respective companies.

Hence, it can be interpreted that the SBI Life Insurance Company and Canara HSBC Oriental Bank of Commerce Life Insurance Company focus on all the class of population whereas PNB Metlife Insurance Company & HDFC Standard Life Insurance Company focuses the most on middle class of population. Therefore the insurance companies mostly focuses on middle class or on all class of population.

9. Factors affecting the decision of a customer to buy an insurance policy: While buying an insurance product

customers undertake various factors to decide whether to buy or not to buy the policy. The following factors affect the insurance companies too.

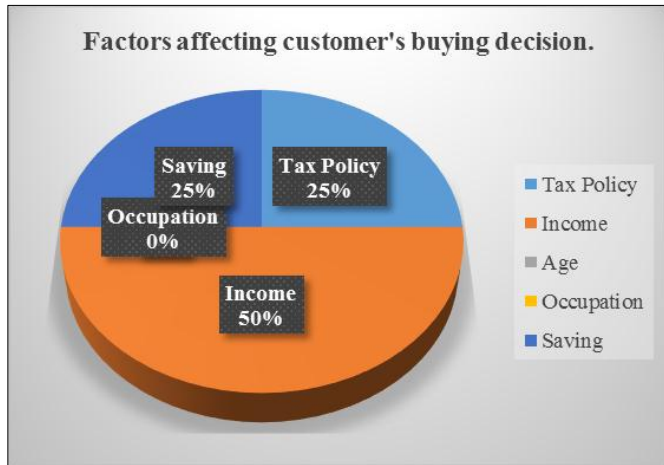


Fig 9: Factors affecting the decision of a customer to buy an insurance policy.

Hence, through the responses by the respondents it can be interpreted that the Income of an individual is the factor which highly affect the buying decision of a customer along with it are factors like saving to secure the life ahead and tax policy are the other which affect the buying decision whereas factors like age and occupation merely affect the buying decisions.

10. On the recommendation of whom, the customers purchase the insurance policy the most: A person buy an

insurance policy after consulting his agent, family and friends or through a promotion by insurance companies or by getting influenced by other customers.

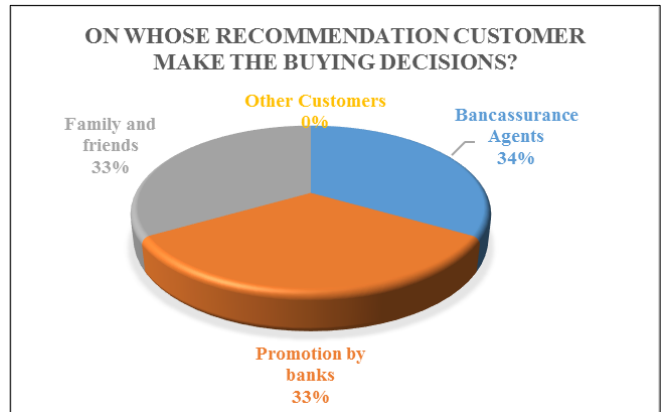


Fig 10: On whose recommendation the customer make the buying decision.

Hence, it is analysed that the customers are mostly influenced by the recommendations of bancassurance agents and then by the family & friends and promotions made by insurance companies.

11. Factors which affect a customer decision to choose a particular policy: Factors like return, risk coverage, liquidity and flexibility of a policy affect the decision of the customer to buy an insurance policy.

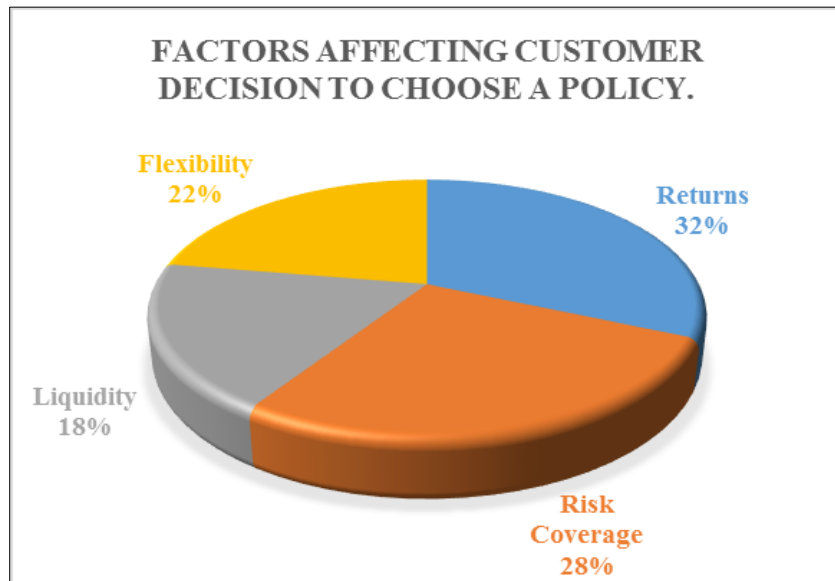


Fig 11: Factors which affect a customer decision to choose a particular policy.

Hence, it can be interpreted that the return on the policy like saving & investment policy, ULIP plans is the most adverse factor which affect the buying decision of the customer followed by it is risk coverage provided by the policy then the flexibility and liquidity provided by the policy.

12. Factors which create more obstacles for customers to opt for insurance schemes: There are various factors which affect the buying decision of a customer, some factors affect positively whereas some factors affect negatively. The negative factors create obstacles and hesitation within an individual to buy a product.

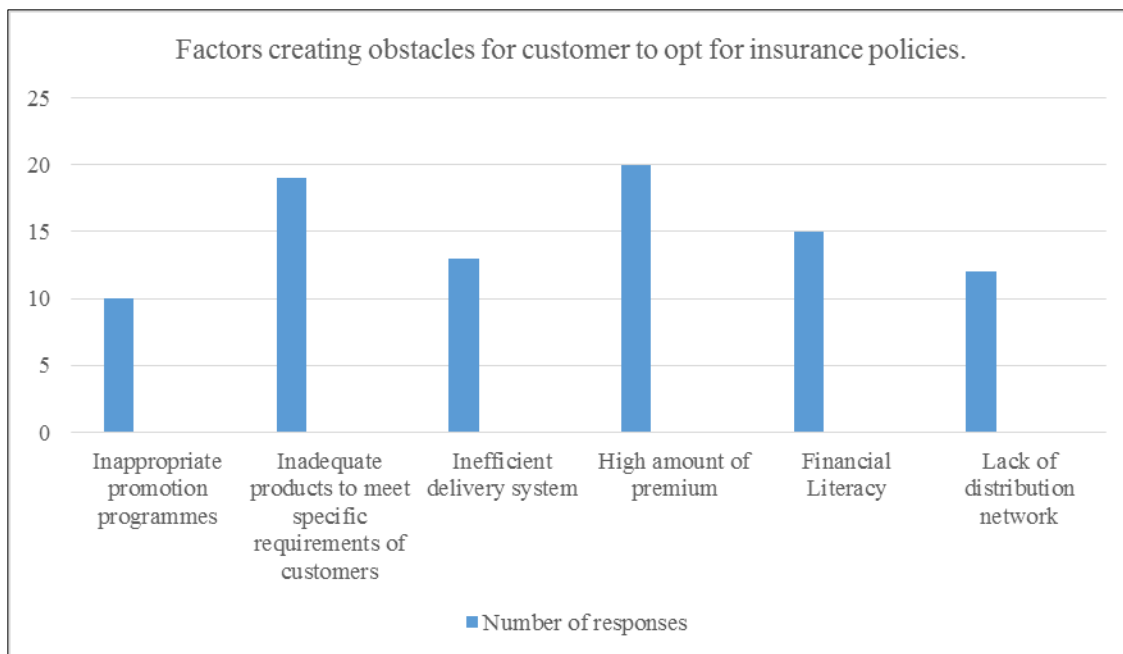


Fig 12: Factors which create more obstacles for customers to opt for insurance schemes.

Hence, it can be interpreted that the high amount of premium is the main factor due to which the customers do not buy the insurance policies. The next adverse factor is inadequate products to meet specific requirements of customers then the lack of financial literacy is the factor due to which people are not aware about the insurance policies as a product to buy. The various other factors like lack of appropriate distribution network in all the regions of the country and inappropriate promotion programmes are also the hurdles which create a gap between the insurance companies and the customers.

Suggestions

The suggestions are given on the basis of the findings from the study which are as follows:

1. Government should promote bancassurance through cross-selling of banking services and insurance products which bring economies of scale, synergies and higher revenues.
2. In order to make bancassurance a success in India:
 - a) The number of branches should be more.
 - b) The number of Insurance products should be simple and more.
 - c) Labour law should be feasible.
 - d) Life Insurance Company should be strong enough to attract the customers.
3. Life Insurance Company should seriously plan and think on the lines of building confidence among its customer base and have a transaction directly with the customer eliminating the brokers.
4. Bancassurance should be promoted as “One-stop shop”.
5. There should be right selection of customer segments by the insurance company.
6. They should also adopt the event- trigger approach like birth, admission to a university, wedding, new job, purchase of house, business set-up, retirement, grandchildren and many more events.
7. In order to implement bancassurance scheme the company should properly plan segmentation of its customer group

which will help them grab the potential customer in real sense and in a right way.

8. To increase market penetration of insurance in rural areas the insurance companies should organize workshops on financial literacy to make rural people aware about financial products and their benefits.
9. The people in general have the misconception that insurance is like an additional financial burden on them, this misconception should be cleared from the mind of people and insurance should be displayed as an alternative to investment or saving.
10. The measures should be taken by government to increase penetration of insurance in North-east region of the country.

Conclusion

Bancassurance is a term which is around 16 years old in India. The bancassurance is spreading its root all over India from north to south and east to west but the pace of growth is less as comparison to other countries like South Africa, South Korea, Japan and many more.

The bancassurance is a model for banks and insurance companies which provide them higher number of advantages. The model lowers the burden of both the banks and insurance companies. If the government use the model efficiently it can prove to be an effective model for financial inclusion. Various steps are already taken by the Honourable Prime Minister Mr. Narendra Modi like Jan Dhan Yojana or Pradhan Mantri Jeevan Jyoti Bima Yojana or Pradhan Mantri Surasksha Bima Yojana.

The insurance sector of India is a potential market which has ample scope for growth. There is a wide scope for the bancassurance by providing innovative schemes or products with low rate of premium, higher risk coverage etc.

The north-east region of the country has low insurance penetration that should be focused more as the literacy rate of that region is higher than various northern and central region of the country. According to a census 2011, many states of the

region has literacy rate of more than 75% like Manipur have literacy rate of 79.8%, Meghalaya have 75.5%, Nagaland have 80.1%, Sikkim have 82.2%, Tripura have 87.8%.

The insurance companies should provide tailored schemes as per the needs and demands of the customers. And the insurance products should be projected as investment and saving schemes because people have the picture of insurance products as a financial burden on them due to regular payment of premiums. Hence, bancassurance has great prospects and future avenues to grow in the Indian market as indicated by the increasing amount of premiums and increasing growth rate of the life insurance sector.

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