CHAPTER - 3

ORGANIZATIONAL PROFILE
CHAPTER - 3

ORGANIZATIONAL PROFILE

3.1 INTRODUCTION

There has been a rapid development in the insurance industry in India since the opening up of bancassurance sector in 2000. The vast size of our country consisting of various sets of people and the problem of connectivity in rural areas makes insurance selling a very difficult proposal in India.

Selling of insurance products requires strong channels of distribution and incredible manpower to reach out to such a huge customer base. Banks have great potential on the financial needs saving model to serve a huge customer base. They also have much lower distribution costs than insurance companies and thus are the fastest emerging distribution channels. Therefore, a lot of insurance companies and banks undergo a tie-up in which they allow banks to sell the insurance products to its customers.

Bancassurance is a system in which a bank has a corporate agency with one insurance company to sell its products. By selling insurance products, banks earn revenue apart from interest. It is called a fee-based income. This income is purely risk free for the bank since the bank simply plays the role of an agent for providing business to the insurance industry.¹

¹Flourishing Bancassurance business: An Indian perspective by S. Sarvanakumar, U. Punitha and S Sankar.
This distribution set-up will undergo a huge transformation as various insurance companies are now considering to bring insurance products into the lives of the common man by making them available at the most basic economic point i.e. the local bank branches through bancassurance.

Bancassurance is the process through which insurance products are sold to customers by their local banks. So, in this chapter we discuss on the following:

- Justifications for the banks to enter into bancassurance business
- Convergence strategies
- Framework regarding the RBI and IRDA norms set up for bancassurance
- Models of bancassurance
- Bancassurance products
- Distribution channels of bancassurance
- Benefits of bancassurance to banks, insurers and customers
- Tie-ups of bancassurance in India
- Issues to be kept in mind during tie-ups

3.2 JUSTIFICATIONS FOR BANKS TO ENTER INTO BANCASSURANCE BUSINESS:

With the increase in the number of middle class families in the country, RBI predicted the need of an effective method to make insurance policies reach people of all economic classes in every corner of the nation. Applying bancassurance in India is one such development
that took place towards this cause. The need for the development of bancassurance in India began for the following reasons:

1) To advance the channels through which insurance policies are sold or marketed so as to make them reach the hands of the common man.

2) To take advantage of their large banking network that is spread almost throughout the country for getting into insurance business.

3) To improve the services of insurance by building a competitive environment among the private insurance companies in the market.

4) By getting into the business of general insurance, banks are trying to provide an extra flow of revenues from the same customers through the same channel of distribution and with the same people.

5) Due to the high costs paid by the insurers for agent services there has been an increase in the alternative modes of distribution i.e. bancassurance. As these costs have become too much of a burden for many insurers as compared to the returns they generate.

6) Insurers operating through bancassurance have to maintain their relationships with customers. Direct relationships with customers gave insurers greater control of their business at a lower cost. Insurers who function through an agency hardly have any control on their relationship with their clients.

7) One of the most important reasons of banks getting into bancassurance is the increased return on assets (ROA). Insurance distribution will help the banks to increase its return on assets (ROA) by providing fee based income. Fee based selling helps the
banks to cover part of their operating expenses and also helps to increase the levels of staff productivity in banks.

8) Banks try to retain customer loyalty by offering them an added and more sophisticated range of products like by selling personal life insurance policies to customers at a nominal rate while opening a new account.

9) Banks can also take the benefit of large scale customer base. With the help of this the per-head cost will be reduced rather than advertising it through print, radio or television. Banks that make the most of these advantages are able to penetrate their customer base and markets as they have far-reaching experience in marketing to both existing as well as new customers. They also have an access to multiple communication channels, such as statement inserts, direct mail, ATMs, telemarketing, etc. Bank’s capability in using technology has resulted in upgradations in transaction processing and customer services.

10) Banks can help to find a way out to lessen overstaffing problems without taking measures for reducing staff.

11) The expense ratio in insurance activities through bancassurance is extremely low. This is because the banks and the insurance companies are getting the advantage from the same distribution channels and customers.

12) Banks entry in distribution of insurance products helps them to expand their profit margin and simultaneously the customer base for the insurance companies rapidly. This helps to popularize insurance as an important financial protection product.
3.3 CONVERGENCE STRATEGIES FOR BANCASSURANCE:

Banks face many challenges for greater success in insurance and investment markets. So, to plan an effective and profitable convergence strategy, banks may undertake the following steps:

1) Banks may first complete a self diagnosis and then choose the target segments. Banks need to start with a thorough understanding of their existing customers, markets and a good judgment of what role the product will play across the organization. This can be done by collecting data on each possible segment. Then they can select the target segments which will help to decide the key purchasing criteria and developing a segmentation strategy.

2) Consumers tend to be very dissatisfied with the insurance buying experience as according to them products are difficult to understand and pricing of the insurance policies are confusing. As a result they distrust insurance agents because they want to pay a fair price. So banks should understand this customer need and capture this opportunity by building an efficient insurance and investment capability. By providing innovative products at low cost, banks can build an expertise in developing a competitive capability.

3) By developing innovative products and services, banks can target the market, focusing on simplifying both products and purchase process for insurance and investment. Consumers tend to view the market through needs-based lens. Hence, they would invest only when the need for the product ensures that they would have enough money to support their children’s education or their own
retirement, for example guaranteed tuition savings product or life insurance products.

4) Banks need to determine how they can control or leverage their own systems and distribution channels to improve the economies of different products while adapting their sales to the regulatory and licensing requirements.

5) Banks may well determine an appropriate branding strategy. Many customers view their banks as a trustworthy and comfortable place to initiate most of their financial transactional needs. Therefore, banks should ally with an already known brand or insurance expertise to serve these customers.

6) After a bank has decided on a segment, they can select the strategy to deliver the valued proposition. In determining its delivery approach, a bank can choose between the roles of an integrator or navigator. Banks that implement this strategy can successfully generate retail profits from non-traditional or insurance products.

3.4 REGULATIONS FOR BANCASSURANCE IN INDIA:

The best way of entering into bancassurance depends on the strengths and weaknesses of the organization and on the availability of an appropriate partner if the organization decides to involve a partner. In India, the model of partnership depends upon the regulations of the RBI and IRDA, the insurance regulator.

1. RBI Norms for banks entering into Insurance sector
2. IRDA Norms for Insurance companies tying up with Banks
3.4.1 RBI NORMS FOR BANKS:

Government of India issued following notification dated August 3, 2000, specifying ‘Insurance’ as a permissible form of business that could be undertaken by banks under Section 6(1) (o) of The Banking Regulation Act, 1949; RBI issued the guidelines on Insurance business for banks.

1) Any scheduled commercial bank would be permitted to undertake insurance business as agent of insurance companies on fee basis without any risk participation.

2) Banks which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation subject to safeguards. The maximum equity contribution a bank can hold in the Joint Venture Company will normally be 50% of the paid up capital of the insurance company.

The eligibility criteria for joint venture participant are as under:

i. The net worth of the bank should not be less than Rs. 500 crore.

ii. The Capital to Risk Weighted Assets Ratio (CRAR) of the bank should not be less than 10 per cent.

iii. The level of non-performing assets should be reasonable.

iv. The bank should have net profit for the last three consecutive years.

v. The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory

3) In cases where a foreign partner contributes 26% of the equity with the approval of Insurance Regulatory and Development
Authority/Foreign Investment Promotion Board, more than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk, only those banks which satisfy the criteria given in paragraph 2 above, would be eligible.

4) A subsidiary of a bank or of another bank will not normally be allowed to join the insurance company on risk participation basis.

5) Banks which are not eligible for joint venture participant as above, can make investments upto 10% of the net worth of the bank or Rs. 50 crore, whichever is lower, in the insurance company for providing infrastructure and services support. Such participation shall be treated as an investment and should be without any contingent liability for the bank.

The eligibility criteria for these banks will be as under:

i. The Capital to Risk Weighted Assets Ratio (CRAR) of the bank should not be less than 10 per cent.

ii. The level of non-performing assets should be reasonable.

iii. The bank should have net profit for the last three consecutive years.

6) All banks entering into insurance business will be required to obtain prior approval of the Reserve Bank. The Reserve Bank will give permission to banks on case to case basis keeping in view all relevant factors including the position in regard to the level of non-performing assets of the applicant bank so as to ensure that non-performing assets do not pose any future threat to the bank in its present or the proposed line of activity, i.e. insurance business. It
should be ensured that risks involved in insurance business do not get transferred to the bank. There should be arms length relationship between the bank and the insurance outfit.

7) Holding of equity by a promoter bank in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulation laid down by the Insurance Regulatory and Development Authority (IRDA)/Central Government. This will include compliance with Section 6AA of Insurance Act as amended by the IRDA Act 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time.

8) Latest audited balance sheet will be considered for reckoning the eligibility criteria.

9) Banks which make investments under paragraph 5 of the above guidelines, and later qualify for risk participation in insurance business (as per paragraph 2 of the guidelines) will be eligible to apply to the Reserve Bank for permission to undertake insurance business on risk participation basis.²

3.4.2 IRDA NORMS FOR INSURANCE COMPANIES:

Insurance Regulatory and Development Authority has given certain guidelines for the bancassurance which are as follows:

1) Banks should have a minimum paid up capital of Rs.100 Crores.

2) Each bank that sells insurance must have a Chief Insurance Executive to handle all the insurance matters and activities.

3) There is a restriction for international companies to the minority equity holdings up to 26%.

4) All the people involved in selling the insurance should undergo mandatory training at an institute determined or authorized by IRDA and should have passed the examination conducted by the authority.

5) Commercial banks, including co-operative banks and Regional Rural Banks may become co-operate agents for one insurance company.

6) Banks can act as a corporate agent for any one of life or non life insurers. But, cannot become insurance brokers for many life or non life insurers. IRDA has also notified regulations relating to registration of insurers, their assets and liabilities, conduct of business, licensing of insurance agents etc.³

3.5 MODELS OF BANCASSURANCE:

Models of bancassurance as based on mainly two classifications which are a under:

1) Structural classification.

2) Product based classification.

3) Bank referrals.

3.5.1 STRUCTURAL CLASSIFICATION:

Structural classification can be done as under:

3.5.1.1 REFERRAL MODEL

Banks which are planning not to consider risk can take up ‘referral model’. The actual transaction with the clients in referral model is done by the staff of the insurance company either at the premises of the bank or elsewhere. Referral model is an agreement, wherein the bank, while controlling the clients data base, does business through the agents/sales staff of the 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 started implementing this strategy. This model would be appropriate for almost all types of banks including the Regional Rural Banks (RBBs) /Co-operative Banks and even Co-operative Societies both in rural and urban areas.

3.5.1.2 CORPORATE AGENCY

Corporate agency is another form of non-risk participatory distribution channel, wherein the bank staff is trained to appraise and sell the products to the customers. Here the bank as an institution operates as corporate agent for the insurance products for a fee/commission. This seems to be more practical and is suitable for most of the banks in India. Here, the rate of commission would be comparatively higher than the referral arrangement. There are also practical difficulties in the form of professional knowledge about the insurance products. Besides, struggle from the staff to handle totally new service/product could not be ruled out. However, this could be overcome by thorough training to selected staff along with proper
incentives in the banks for the selling of simple insurance products in the initial stage. This model is best suited for majority of banks including some major urban cooperative banks because it neither involves sharing of risk nor does it require huge investment in the form of infrastructure and yet can be a good source of income.

3.5.1.3 INSURANCE AS FULLY INTEGRATED FINANCIAL SERVICE/JOINT VENTURES

Apart from the above two, the fully integrated financial service occupies complete and complex relationship between the insurer and the bank. Here, the bank functions as fully universal in its operation and selling of insurance products are just one more function within. The banks will have a separate counter within, to sell the insurance products as an internal part with the rest of its activities. Thus the banks can wholly be an owner to the insurance subsidiary.

ICICI bank and HDFC banks in private sector and State Bank of India in the public sector have already gone ahead with this type of bancassurance model and have obtained a large share in the insurance market within a short period.

3.5.2 PRODUCT BASED CLASSIFICATION:

Product based classification of the bancassurance model is as under:

3.5.2.1 STAND-ALONE INSURANCE PRODUCTS

Under stand-alone insurance products, marketing of the insurance products is done either through referral arrangement or corporate
agency without mixing the insurance products with any of the bank’s own products/services. Insurance is sold as an additional item in the list of products offered to the bank’s customer. However, the products of banks and insurance will have their individual brands too, e.g., Karur Vysya Bank Ltd selling of life insurance products of Birla Sun Life Insurance or general insurance products of Bajaj Allianz General Insurance Company does act as an additional attraction.

### 3.5.2.2 BLEND OF INSURANCE WITH BANK PRODUCTS

This strategy intends to blend insurance products with the bank product as a ‘value addition’ while encouraging its own products. Thus, banks could sell the insurance products without any extra efforts. Sometimes, giving insurance cover at a nominal premium or without specific premium proves to be an attractive deal for banks to sell an individual product. For example credit card, housing loans, education loans, etc. Many banks in India, are determined in marketing credit and debit card business, whereas the cardholders get the ‘insurance cover’ for a nominal fee or (completely included in the annual fee) free from simple charges/ premium. Similarly the home loans / vehicle loans, etc., have also been designed with the insurance cover as an added incentive.

### 3.5.3 BANK REFERRALS

Under bank referral method, banks do not issue the policies; they only give the database to the insurance companies. These companies issue the policies and pay the commission to the banks. In this method all the three parties involved i.e. banks, insurance companies and customers are benefited. Banks get commission, the insurance
companies get records of the customers and the customers get the benefits.

3.6 **BANCASSURANCE PRODUCTS:**

This section analyses the guiding principles for the growth and expansion of bancassurance products and also describes how these products are prepared. Banks decision to sell a particular type of insurance product is directly related to the methods of distribution which it plans to put into practice.

Apart from the traditional insurance products, bancassurers have also developed special products in order to fulfill certain needs of banking transactions and also to improve certain products so as to make them more noticeable and helpful to the customer. These products can be divided into three categories:

1) Finance and repayment products.
2) Depositor’s products.
3) Simple standardized package products.

3.6.1 **FINANCE AND REPAYMENT PRODUCTS**

The concept of this group of products is quite simple. In the case of early death or permanent disability of the borrower, the outstanding loan or credit amount from the financial institution may not be recoverable. This will happen where

1. The financial position of the surviving family means that outstanding amounts may not be easily recoverable, or
2. When the repossession of the item purchased by the loan amount might not be saleable, or
3. When any resale amount is not sufficient for the repayment of the loan.

Here, along with the financial loss, the lender also runs the risk of damaging its reputation in front of the customers because it will acquire the reputation of repossessing items on the unfortunate death of its clients and the harassment of the unfortunate spouse and family. The borrower on the other hand has similar concerns. He does not wish to leave an outstanding loan to be repaid by his family after his death. He is also concerned about his possible inability to repay the loan or credit amount if he becomes permanently disabled. This category of products is known as finance and repayment product. Some of the best known products in this category that can satisfy both parties are:

3.6.1.1 CREDIT INSURANCE

Credit insurance can be offered in cases where a loan is granted to the customer, which serves as an additional security for the bank. It also provides financial protection to the customer’s property in case of his death prior to the repayment of the loan. This normally involves a decreasing term life cover with an initial sum insured which is equal to the amount of the loan. For example, if the amount of loan taken is 10 lakhs, then the policy will have an initial sum assured of Rs 10 lakhs. The sum insured would decrease in line with the repayment of the loan amount. Upon the death of the insured person the amount payable would be equal to the outstanding loan amount, with or without the accrued interest at that time. If the outstanding loan amount decreases on a predetermined basis, then it is possible to calculate the appropriate premium at the date on which the loan was granted.
In cases where the loan amount fluctuates according to the needs of the borrower or due to fluctuations in interest rates, a monthly premium based on the outstanding loan amount is a more reasonable solution. In the case where a single premium is charged the premium amount is often added to the loan amount. Almost all loans covered under credit insurance schemes are of short repayment duration, i.e. up to 5 years.

Permanent total disability benefit may be offered jointly with the decreasing term insurance because the capacity of the borrower to repay the loan may depend on his income. In some cases temporary total disability benefit is also offered which can be paid in installments.

In some cases, it is also possible for a bank to pay the premiums, which are very low. Banks can use this as a marketing tool in order to attract new customers and sell its products more easily. This marketing tool will offer free protection in the case of death or permanent total disability. Credit insurance is suitable for arrangements such as mortgage loans, business loans, personal loans and hire purchase arrangements. This cover can also be issued as a group policy covering all customers. The master policy remains with the bank and a certificate of insurance is given to each customer.

3.6.1.2 OVERDRAFT INSURANCE

Usually banks offer overdraft facilities to their customers. This is an automatic credit upto a pre-agreed amount. For salaried customers, this amount is usually two or three times their monthly salary. This facility has no repayment term provided the salary is deposited in the bank and the credit always stays within the pre-agreed amount. In the case where
the customer who was using the credit facility dies, this amount has to be repaid by the successors of the deceased. This practice usually creates problems for both i.e. the successor and the bank. Overdraft insurance can be offered in two different ways:

1) The cover is equal to the credit facility used and a monthly premium is paid according to this amount. In the case where the customer dies and this credit facility has been used, the outstanding amount due will be repaid to the bank by the insurance company. In deciding whether to offer this option, the insurer must consider that the risk of people with poor health can sharply increase the amount of credit taken soon before their death.

2) The cover equals the maximum pre-agreed credit facility. In case of death the outstanding amount due will be repaid by the insurance company. If there is an excess between cover and the outstanding amount due this amount will be paid to the heirs of the customer. Premiums in this case can be paid on a monthly or annual basis. In overdraft insurance the premium is usually adjusted every year according to the age of the customer. A maximum age for this benefit usually exists. The premium can be paid by the customer or by the bank as an offer to its customers. This type of product is suitable for arrangements such as overdraft facilities, credit cards and unstructured debts.
3.6.1.3 CAPITAL REPAYMENT

A repayment scheme through an insurance policy is possible for the loans offered for mortgage, educational, personal or business reasons. The customer is granted the loan and he pays to the bank only the loan interest. He also takes out an endowment that has a cover equal to the loan amount and with a duration equal to the repayment period of the loan. The premium is selected so that the maturity payout is very likely to be able to cover the full loan amount. The policy is always assigned to the bank and serves as a repayment tool whether the customer survives or not. These products have proved largely attractive to customers in countries where life insurance products enjoy favorable tax treatment, or where interest rates charged by lenders on loans repaid by insurance policy proceeds are lower than for capital repayment loans.

Due to the high investment element of these products, the premiums for such products are much higher than those of the credit and overdraft insurance as mentioned above.

3.6.2 DEPOSITOR’S PRODUCTS:

The second category of these special products consists of different types of depositor’s products which are as follows:

3.6.2.1 DEPOSITOR’S INSURANCE

This benefit is designed to attract the public to deposit money with a particular bank. It can be offered in all deposit accounts but usually a minimum deposit amount is required. The level of cover is usually determined by factors such as price and underwriting. Here, in
this type of product the level of the insurance premium rate is changing every year. Another scheme that bank offers is the accidental death cover. Here, reasonable limits are set regarding maximum age and maximum amounts. The premium in this case is usually paid by the bank but it can also be paid by the depositor with a proper marketing approach. The amount of cover is usually a multiple of the cash balance in the deposit account. In the case of death of the depositor, this cash balance is increased accordingly.

3.6.2.2 OBJECTIVE ACHIEVEMENT INSURANCE/BANKING SAVING PLANS

This policy can be offered for special deposit accounts where systematic deposits are required to reach a predetermined amount at maturity for a special objective. However, if the depositor dies or suffers total permanent disability, the difference between his objective amount and the cash balance of the account will be paid to the depositor or the depositor’s estate in addition to the cash balance. This can be offered by a decreasing term insurance only or in combination with permanent total disability benefit.

In cases where the deposit amounts are not predetermined, it is advisable to offer coverage that is a multiple of the average cash balance amount during the preceding 6 or 12 months, so that problems of anti-selection can be reduced. So, with this type of depositors’ insurance, this product can offer attractive profit margins where, reasonable limits are set regarding maximum age and maximum amounts of coverage.
3.6.2.3 PURE INVESTMENT PRODUCTS

These products have no “insurance” elements, i.e. no risk. They have traditionally been the domain of banks, but in some countries they enjoy favorable tax treatment if they are offered by an insurance company.

3.6.3 SIMPLE STANDARDIZED PACKAGE PRODUCTS

These products are usually the group policies which combine covers and which also provide less cost if the customers are bought individually. These products are usually sold over the counter by bank employees, so they need to be uncomplicated. An example would be household insurance together with waiver of premium on death cover.

3.6.4 OTHER PRODUCTS

The objective of development of any product is to offer a wide range of products so as to enable the sales people to select the most suitable plan for each customer’s specific needs. A further range of products and riders which the bancassurers wants to offer to clients could include:

3.6.4.1 PRODUCTS

1. Whole life products
2. Endowment products
3. Unit-linked products
4. Term insurance products
5. Accident and sickness products
6. Hospitalization products
7. Pension products

3.6.4.2 RIDERS

These are the additional benefits attached to the main basic policy which are as follows:

1. Family income benefit
2. Waiver-of-premium benefit
3. Permanent total disability benefit
4. Income replacement benefit

In deciding whether to offer these products further the bancassurers would need to consider whether these can be effectively sold by the employees and agents which are involved in the bancassurer’s sales operation.⁴

3.7 DISTRIBUTION CHANNELS IN BANCASSURANCE:

Distribution is an important factor in bancassurance which is strongly associated with the regulatory issues of the country. Over the years, regulatory obstacles between banking and insurance have lessened and have created an increasingly friendly climate for bancassurance. The passage of Gramm-Leach Bliley Act of 1999 in US and IRDA Bill in India in 2000 has encouraged the growth of bancassurance by allowing the use of multiple distribution channels by banks and insurance companies. Nowadays, many banks and insurers including large and traditional companies that would not have considered about such an approach about a decade ago are now looking

---

with great interest at constructing new revenues through bancassurance.

Today, insurance products have been supported and sold mainly through agency systems in most of the countries. With new developments in consumer’s behaviors, evolution of technology and deregulation, new distribution channels have been developed successfully in the recent years. The type of distribution channels that a company uses affects the design and pricing of its products, as well as the way in which the products are promoted and perceived in the market place. Recently Bancassurers have been making use of various distribution channels which are as under:

1. Career agents
2. Special advisers
3. Salaried agents
4. Bank employees/Platform banking
5. Corporate agencies and brokerage firm
6. Direct response
7. Worksite marketing
8. Internet
9. E-brokerage
10. Outside lead generating techniques

The main characteristics of each of these channels are as under:

3.7.1 Career Agents

Career Agents are full-time commissioned sales employees holding an agency contract. They are usually considered to be independent
contractors. Therefore an insurance company can implement control only over those activities of the agent which are specified in the contract. Moreover, career agents with suitable training, supervision and motivation can be highly fruitful but cost effective. Many bancassurers, however avoid this channel, believing that agents might oversell, out of their interest in quantity and not quality. Such problems with career agents usually arise, not due to the nature of this channel, but rather due to the use of improperly designed remuneration and incentive packages.

3.7.2 SPECIAL ADVISERS

They are highly trained employees generally belonging to the insurance partner, who distribute insurance products to the bank’s corporate clients. Banks puts forward complex insurance requirements to these advisors. The Clients mostly include wealthy population who require personalized and high quality service. Mostly they are paid on salary basis and they receive incentive compensation based on their sales.

3.7.3 SALARIED AGENTS

They have the same characteristics as career agents. The only difference is that they are paid on a salary basis and they receive incentive compensation based on their sales. Salaried Agents are an advantage for the bancassurers because they are directly under their control and supervision. Unlike career agents, salaried agents share the mission and objectives of the bancassurers.
3.7.4 BANK EMPLOYEES/PLATFORM BANKING

Bank employees/platform bankers are those bank employees who spot the leads in the banks and kindly advise the customers to walk over and speak with the appropriate representative within the bank.

The platform banker may be a teller or a personal loan assistant. The limitation on the success of bank employees in generating insurance business is that they have a limited target market, i.e. those customers who actually visit the branch during the opening hours.

3.7.5 CORPORATE AGENCIES AND BROKERAGE FIRMS

There are a number of banks who collaborate with independent agencies or brokerage firms while some other banks have set up corporate agencies. Here the arrangements are made to hire professionals for solving complex insurance matters and through these arrangements the customers get good quality of services.

3.7.6 DIRECT RESPONSE

In this channel, no sales person visits the customer to make a sale and here no face-to-face contact takes place between the consumer and the seller. The consumer purchases products directly from the bancassurers by responding to the company's advertisement, mailing or telephone offers. This channel can be used for simple packaged products which can be easily understood by the consumer without any explanation.
3.7.7 **INTERNET**

Internet banking is already well-known as a successful and profitable tool for conducting banking operations. Internet provides large and effective source of information for selling of financial products. Bancassurers can feel confident that internet banking will also prove to be a qualified medium for cross selling of insurance savings and protection products.

The functions requiring user input like check ordering, calculations, credit and account applications should be immediately added with links to the insurer. Such an arrangement can also provide an effective medium for insurance sales, service and leads.

3.7.8 **E-BROKERAGE**

Banks can facilitate e-brokerage and sell insurance products from multiple insurers. The changed legislative environment across the world will help bancassurance to progress in this direction. This medium can make use of benefits like scale of operation, strong brands, easy distribution and excellent synergy with the internet facilities.

3.7.9 **OUTSIDE LEAD GENERATING TECHNIQUE**

One last method for developing bancassurance involves outside lead generating techniques, such as seminars, direct mail and statement inserts. Today great opportunities are lying ahead for bancassurance partners and its success or failure mainly depends on how the process of bancassurance is developed and handled inside each financial institution.
3.8 BENEFITS OF BANCASSURANCE TO BANKS, INSURANCE COMPANIES AND CUSTOMERS:

Bancassurance as a medium makes use of a variety of distribution channels like salaried agents, bank employees, and brokerage firms. Bancassurance is beneficial to the customer in its natural and traditional way. It provides a variety of products and services at one place, where a customer can apply for mortgages, pensions, savings and insurance products. The customer gains from both sides i.e. banks and insurance companies as costs get reduced. So, bancassurance proves to be top prize for the customers as they get a high quality product, at a lower price, delivered at their doorsteps.

Following are the benefits of bancassurance to banks, insurance companies and customers:

3.8.1 FROM THE BANKS POINT OF VIEW

Banks enjoy the following advantages:

1. Banks has a strong brand name which can help to make a loyal customer base.

2. It increases the return on assets (ROA) by creating fee income through the sale of insurance products. This helps the bank to cover most of their operating expenses and also helps to raise the efficiency levels of staff.

3. The productivity of the employees increases due to bancassurance.
4. Banks have extensive experience in marketing to both existing customers and non-customers. They can easily attract more customers by making use of various technologies such as e-banking, statement inserts, direct mail, ATMS, telemarketing etc.

5. By providing customers with both the services i.e. banking and insurance under one roof, they can improve overall customer satisfaction resulting in higher customer retention levels.

6. Bancassurance can facilitate banks to collect non-fund income which can increase the interest income and also profitability of the banks.

7. Banks can influence on face-to-face contacts and their knowledge about the financial conditions of customers to sell insurance products.

8. Banks can cross sell insurance products. The concept of cross-selling also gives the advantage which will help them to improve the efficiency of the banks like, more interactions with the clients, will lead to more overall sales. E.g.: Term insurance products with loans.

3.8.2 FROM THE INSURER’S POINT OF VIEW

The benefits to the insurers are equally convincing. Insurance Companies enjoy the following advantages.

1. It has a capacity access to bank’s huge customer base which would create a positive motivational influence on the insurance
companies. The insurance company can increase their business by taking advantage of the banking distribution channels.

2. It can establish market presence rapidly without the need to build up a network of agents.

3. Helps to reduce their dependence on traditional agents by making use of the different channels owned by banks.

4. It can build up innovative financial products more competently by collaborating with their bank partners

5. Customer database like customer's financial position, spending habits, investment and purchase ability can be used to tailor the products and sell them consequently.

6. Customers have more faith in banks and would willingly take the advice of a banker whom they have been visiting in the past, rather than trusting a new insurance agent. As ICICI Prudential Life CEO and Managing Director Shikha Sharma have said “Maximum contribution from alternative distribution channels comes from the bancassurance route followed by corporate agents and then direct marketing."

7. It can obtain extra capital from banks to improve their solvency and expand business.

8. By reducing their expenses, insurance companies can serve better to customers by providing them with lower premium rates and better risk coverage through product diversification.

9. Insurers can take advantage of the bank’s wide network of branches for the distribution of products. The access of bank’s branches into the rural areas can be utilized to sell products in those areas also.
Thus, teaming up with a strong bank can help the insurance companies to fund their new business and also to develop and improve public confidence in the customers.

3.8.3 FROM THE CUSTOMER’S POINT OF VIEW

Customers can get following benefits from bancassurance:

1. It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank
2. The people who are unaware of and who are not in reach of insurance policies can take the advantage of the widely distributed networks and better marketing channels of banks.
3. Innovative and better product ranges can be tailored according to the needs of the customers, which otherwise would not have been possible if banks and insurers worked independently.
4. Bancassurance model assists customers in terms of reduced price, diversified products, quality products, in time and doorstep service.
5. Any new insurance product put on the market through bancassurance channel would be accepted well by the customers.
6. Easy access for claims as banks is a regular visiting place for customers.
7. Due to the increase in competition, customers can expect improved premium rates and better-quality services from bancassurance as compared to traditional insurance companies.
3.9 TIE-UPS OF BANCASSURANCE IN INDIA:

Insurance regulatory and Development Authority (IRDA) are now considering the idea of permitting banks to have multiple tie-ups with insurance companies. If these changes take place, an individual will have more options to choose.

As per the present norms, a bank cannot have more than one tie-up with an insurance company each in life and non-life segment. Tables 3.9.1 and 3.9.2 shows that one insurance company has tied up with many banks in order to increase their revenues, but a bank is not allowed to tie-up with more than one insurance company. Existing tie-ups between insurance companies and banks for life insurance and general insurance products are as follows:

3.9.1 TIE-UP OF BANKS WITH LIFE INSURANCE COMPANIES:

<table>
<thead>
<tr>
<th>LIFE INSURANCE COMPANY</th>
<th>BANKING PARTNER</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC</td>
<td>Standard Union Bank of India, Indian Bank, HDFC Bank, Bank of Baroda, Saraswat Bank</td>
</tr>
<tr>
<td>LIFE INSURANCE COMPANY</td>
<td>BANKING PARTNER</td>
</tr>
<tr>
<td>----------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Birla Sunlife</td>
<td>Citibank, Deutsche Bank, IDBI Bank, Development Credit Bank, Bank of Rajasthan, Bank Muscat, Catholic Syrian Bank Ltd, Andhra Bank, Karur Vysya Bank Ltd</td>
</tr>
<tr>
<td>Tata AIG</td>
<td>HSBC, Citibank, IDBI Bank, Union Bank of India</td>
</tr>
<tr>
<td>SBI Life</td>
<td>SBI, BNP Paribas</td>
</tr>
<tr>
<td>ING Vysya Life Insurance</td>
<td>Vysya Bank, Bharat Overseas Bank</td>
</tr>
<tr>
<td>Allianz bajaj</td>
<td>Standard Chartered Bank, Syndicate Bank</td>
</tr>
<tr>
<td>Metlife</td>
<td>Dhanalakshmi Bank, J&amp;K Bank, Karnataka Bank, UTI Bank</td>
</tr>
<tr>
<td>Aviva</td>
<td>ABN Amro, American Express, Canara Bank, Lakshmi Vilas Bank</td>
</tr>
</tbody>
</table>
3.9.2 **TIE-UP OF BANKS WITH GENERAL INSURANCE COMPANIES:**

<table>
<thead>
<tr>
<th>GENERAL INSURANCE COMPANY</th>
<th>BANKING PARTNER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata AIG</td>
<td>HSBC, IDBI, Union Bank of India.</td>
</tr>
<tr>
<td>ICICI Lombard</td>
<td>ICICI Bank, Centurion Bank.</td>
</tr>
<tr>
<td>Reliance General Insurance</td>
<td>Development Credit Bank, UCO Bank.</td>
</tr>
<tr>
<td>United India Insurance Ltd.</td>
<td>Punjab National Bank; Andhra Bank, Dhanalakshmi Bank, Indian Bank, South India Bank, Federal Bank, Syndicate Bank.</td>
</tr>
<tr>
<td>The Oriental Insurance Company Ltd.</td>
<td>Department of Posts, Oriental Bank of Commerce, State Bank of Saurashtra</td>
</tr>
</tbody>
</table>

* Information updated from newspaper sources and websites of the respective banks and insurance companies.
3.10 **ISSUES TO BE KEPT IN MIND WHILE TIE-UP:**

The followings are certain issues that we have to keep in mind while tie-up with bank for Bancassurance purpose:

1. The tie-up needs to develop innovative products and services rather than depending upon the traditional tracks. The kind of products that the banks would be allowed to sell is another major issue. For example: - a complex unit-linked life insurance product is better sold through brokers & agents, while a standard term product or simple products like auto Insurance, home loan, and accident insurance can be handled by bank branches.

2. There is need to clarify on the operational activities of bancassurance that:
   - Who will do the branding?
   - Will the insurance company prefer to place a person at the branch of the bank? or
   - Will the branch train and keep its own people?
   - Who will pay remuneration of above mentioned people, bank or insurance company or both in some ratio?

3. Even though the banks are in personal contact with its client, a high degree of active marketing skill is required to sell the insurance products. These can be possible through proper training only.