CHAPTER-1

INTRODUCTION AND RESEARCH DESIGN
CHAPTER – 1

INTRODUCTION AND RESEARCH DESIGN.

1.1 INTRODUCTION:

The banking and insurance industries have developed rapidly in the changing and challenging economic environment all over the world. Due to merging of global financial markets, development of new technologies, universalization of banking industries and with the expansion of non-banking activities, the insurance industry has globally brought in new channels of distribution into existence.

This has given rise to a new form of business wherein two big financial institutions have come together and have integrated all their strength and efforts to generate new means of marketing for encouraging their products and services. When these two join together it gives birth to “BANCASSURANCE”.

Bancassurance is the allocation of insurance products through the huge network of banks whereby, banks act as a distribution channel for providing varieties of banking and investment products and services. In simple words we can say bancassurance tries to develop synergies between both - insurance companies and banks.

The distribution of insurance products through banks is helpful not only to the insurance and banking companies but also to the customers. The growth of bancassurance depends on how well banks and insurance companies are able to conquer the operational challenges that are frequently thrown at them.
The need of the hour for the bancassurance business is to gather together new ideas, new development / advancement / improvement / evolution and work culture.

It was initially a controversial issue in the some countries as many critics believed that this would give banking sector too good a control over financial services market. Therefore it was earlier restricted in many countries. But today, many countries have started accepting bancassurance in their market and have seen an incredible boom in this sector.

This research work focuses on how bancassurance is gaining world wide recognition, how has it appeared as an efficient tool for selling the insurance products by some primary insurance companies and banks and also on the benefits and significance of bancassurance in India.

The regulations leading bancassurance are also shown in this research work. SWOT analysis is also done so as to recognize the various opportunities and threats for bancassurance in India.

The present study has been carried out to know that how globalization, liberalization and cut throat competition have jointly brought the banking and the insurance sectors to facilitate each other and offer effective services to the customers.
1.2 HISTORY OF BANKING IN INDIA:

Banking plays an important role in the financial set-up of any country and its economy. With its large network of branches, huge deposits and advances, it has obtained a special place in the money market. With the ongoing changes in the banking sector, today it has got an immense importance as a subject of analysis and research.

Banking means “The accepting, for the purpose of lending or inviting, of deposits of money from public re-payable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise”\(^1\). Banking means any company which carries out the business of banking in India.

Banking in its simplest form is as old as authenticated history. In India reference about banking practices and guidelines exists in our scriptures and ancient text. It has its origin as early as in the Vedic period. It is believed that the development from money lending to banking must have taken place even before Manu, the great Hindu Jurist, who has dedicated a section of his work to deposits, advances, pledges and policies of loans and has also laid down rules relating to rates of interest. In the 4\(^{th}\) century B.C., Kautaliya’s ‘Arthashastra’ laid down 15 and 60 per cent as the maximum legal rates of interest per annum on secured and unsecured loans respectively, but permitted a maximum of 240 per cent, if risk was specifically heavy. \(^2\)

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\(^1\) Section 5 (b) of Banking Regulation Act 1949.
\(^2\) Indian Banking System-Development, performance and services by Satya Swaroop Debashish & Bishnupriya Mishra, pg-7
Hundis or indigenous bills of exchange came into use during the Medieval Era from 12th century when Muslims ruled India and it appears from the writing of a few Muslim historians, European travelers, State records and Ain-i-Akbari that both under the early Mogul rulers in India indigenous bankers played an important role in lending money, financing internal and foreign trade with cash or bills and giving financial assistance to the rulers during the period of stress. During the Mogul rule, the issue of various kinds of metallic money in different parts of the country gave bankers great opportunities for increasing business of money exchanging.³

Modern Banking in India is believed to be developed during the British Era. In the first half of 19th century, The British East India Company established three banks.

(1) The Bank of Bengal in 1809.

(2) The Bank of Bombay in 1840 and

(3) The Bank of Madras in 1843.

In the course of time, these banks also known as ‘Presidency Banks’ were pooled into a new bank called ‘The Imperial Bank of India.’ Later it was taken over by the State Bank of India in 1955. Allahabad Bank was the first wholly owned Indian bank. The Reserve Bank of India was established in 1935 pursued by other banks like Punjab National Bank, Bank of India, Canara Bank and Indian Bank.

With the expansion of the Indian banking sector, new norms have been introduced, in order to stay ahead in the rat race. Banks are now

getting into net banking, securities, customer finance, housing finance, treasury market, merchant banking etc. They are trying to provide every kind of service in order to please their customers.

Healthy competition has brought in more operational expertise in the banking sector with the entry of private and foreign banks. Banks are also trying to cope up and adjust with time and are trying to become one-stop financial supermarkets. With the opening of value added and customized products, the market focus is shifting from mass banking products to class banking.

The Reserve Bank of India (RBI) is the apex body for the matters relating to the Indian banking system. It is the ‘Central Bank’ and is the supporter to all other banks of India.

The following are the functions of Reserve Bank of India (RBI).

1. Currency issuing authority.
2. Banker to the Government.
3. Banker to other banks.
4. Framing of Monetary Policy.
5. Exchange Control.
6. Custodian to Foreign Exchange and Gold Reserves.
7. Developmental activities.
8. Research and Development in the banking sector.
1.3 **TYPES OF BANKS:**

Following is the classification of banks:-

**1.3.1 CENTRAL BANK.**

The Reserve Bank of India is the Central Bank which is completely owned by the Government. It is administered by a central board which is headed by a Governor, appointed by the Central Government. It provides guidelines for the functioning of all banks working within the country.

**1.3.2 PUBLIC SECTOR BANKS.**

The Public Banking sector is divided into:-

2. 23 nationalized banks.
3. Regional rural banks mainly sponsored by public sector banks.

**1.3.3 PRIVATE SECTOR BANKS.**

The Private Banking sector is divided into:-

1. Old Generation private banks.
3. Foreign banks operating in India.
4. Scheduled Co-operative banks.
5. Non-scheduled banks.
1.3.4 **CO-OPERATIVE SECTOR.**

The Co-operative sector is very much useful for rural people. The Co-operative Banking sector is divided into:

1. State Co-operative Banks.
2. Central Co-operative Banks.
3. Primary Agriculture Credit Societies.
4. Land Development Banks.
5. Urban Co-operative Banks.

1.3.5 **DEVELOPMENT BANKS/FINANCIAL INSTITUTIONS.**

1. Industrial Finance Corporation of India. (IFCI)
2. Industrial Development Bank of India. (IDBI)
3. Industrial Credit & Investment Corporation of India. (ICICI)
4. Industrial Investment Bank of India. (IIBI)
5. Shipping Credit & Investment Company of India Ltd. (SCICI)
6. National Bank for Agriculture & Rural Development. (NABARD)
7. Export-Import Bank of India. (Exim)
9. Small Industries Development Bank of India. (SIDBI)
1.4 HISTORY OF INSURANCE IN INDIA:

Insurance is an establishment, which eradicates risk and which replaces certainty for uncertainty. Insurance is a contract between insurer (insurance company) and the insured (whose life or assets are covered) under which the insurer agrees to reimburse the insured for the loss arising from the risk insured against. The term insurance can be defined in both financial and legal terms.

In financial sense, “Insurance is a social device in which group of individuals (insured) transfers risk to another party (insurer) in order to combine loss experience, which permits statistical prediction of losses and provides for payment of losses from funds contributed (premium) by all members who transferred risk.”

In legal sense, “A contract of insurance is a contract by which one party in consideration of the price paid to him proportionate to the risk, provides security of the other party that he shall not suffer loss, damage or prejudice by the happening of certain specified events.”

Insurance in India has a deep-rooted history. The insurance sector in India has come in a full circle from being an open competitive market to nationalization and back to a liberalized market again. The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. It was however a British company.

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4 Innovations in Banking and Insurance.-By Om Prakash Agrawal, Pg- 1.
The first Indian insurance company, The Bombay Mutual life Assurance society started its operation in 1871. In 1956, the Indian insurance industry was made up of 154 domestic insurers, 16 foreign life insurers and 75 provident funds. The Insurance Act, 1938 was the first legislation leading all forms of insurance to provide strict state control over insurance business. In 1956 all life insurance companies were nationalized, the story of non-life insurance in India is no different. In 1907 the first Indian general insurer, the Indian Mercantile insurance company started operations. The New India Assurance Ltd. was incorporated in 1919. In 1972, the non life insurance business in the country was nationalized and the GIC (General insurance Corporation of India) was formed with four subsidiaries: the national insurance, oriental insurance, united India Insurance and the New India Assurance Company Ltd. Since then Insurance in India had a defensive wall built around it, to keep it a local players market.5 Today there are 24 General Insurance companies including Export Credit Guarantee Insurance Companies (ECGC) and Agriculture Insurance Company of India and 23 Life insurance companies operating in the country. But today also the insurance companies are trying to capture Indian markets as not many people are aware of it.

The insurance sector is growing at a speed rate of 15-20% and together with banking services; insurance services add about 7% to the country’s GDP. A well – developed insurance sector is a boon for economic development as it provides long term fund for infrastructure

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development at the same time strengthening the risk taking ability of the country.  

1.5 TYPES OF INSURANCE:

Insurance has two broad categories (1) Life insurance and (2) General insurance or non life insurance.

1.5.1 LIFE INSURANCE

Life Insurance Corporation was formed in September 1956. In case of life insurance business, a long term policy is issued for a number of years or for the entire life. A life policy covers risk of death due to natural causes or otherwise. In life insurance, a level of premium is generally payable throughout the policy period, even though the risk of death will be increasing with the advancing age of the life assured. The type of policy will be determined by his age at the time of implementing the policy and amount of premium. The premium may be paid by single payment or annually, half yearly, quarterly or monthly.

1.5.2 GENERAL INSURANCE:

General Insurance business was nationalized in 1972. The existing general insurance products can be grouped as:-

1. Fire Insurance.
4. Health Insurance.

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5. Personal Accident.
7. Rural Insurance.
8. Miscellaneous Insurance.

1.6 FUNCTIONS OF INSURANCE.

The following are the functions of insurance:

1.6.1 PRIMARY FUNCTIONS OF INSURANCE

1. Providing protection
2. Collective risk bearing
3. Evaluating risk
4. Providing certainty

1.6.2 SECONDARY FUNCTIONS OF INSURANCE

1. Prevent losses
2. Covering larger risks with small capital
3. Helps in the development of larger industries

1.6.3 OTHER FUNCTIONS OF INSURANCE

1. Saving and investment tool
3. Risk free trade
1.7 MEANING AND ORIGIN OF BANCASURANCE:

The growing global insurance industry has brought new channels of distribution into existence, leading to a new concept. Nowadays banks have started increasing their business to securities and insurance and other sectors by adding new range of products. Bancassurance, one such concept, has gained recognition in the recent years.

Bancassurance means selling of insurance products by banks. In this agreement, insurance companies and banks go through a tie-up and thus allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate tie-up with one insurance company to sell its products. Bancassurance is the allocation of insurance products through the huge network of banks whereby, banks act as a distribution channel for providing varieties of banking and investment products and services. In simple words we can say bancassurance tries to develop synergies between both - insurance companies and banks.

(1) The bank (2) The insurer and (3) the customer.

By selling insurance policies bank earns a revenue stream apart from interest. It is called as fee-based income. This income is purely risk free for the bank since the bank simply plays the role of an agent for sourcing business to the insurance company.
1.8 **DEFINATION OF BANCASSURANCE:**


2. The Life Insurance Marketing and Research Association’s (LIMRA’S) insurance dictionary defines bancassurance as “The provision of life insurance services by banks and building societies.

3. According to Insurance Regulatory and Development Authority (IRDA), “Bancassurance refers to banks acting as corporate agents for insurers to distribute insurance products”.

The literature on bancassurance does not change if bancassurance refers to selling of life insurance products or non-life insurance products.

1.9 **ORIGIN OF BANCASSURANCE:**

The concept of bancassurance was started in France in 1980’s and spread across different parts of Continental Europe, USA, and also in Asia, particularly in India. Banks started the process of selling life insurance decades ago and customers found the concept appealing. In Germany, bancassurance was called “ALLFIANZ” and it got well recognized in Europe also. In USA the practice was started in late 90’s. It is also on the rise in Canada, Mexico and Australia.

Government of India, during its notification dated 3rd August 2000, has accepted insurance as an acceptable form of banking under the Banking Regulations Act 1949. The Reserve Bank of India too has approved bancassurance by allowing banks to offer physical infrastructure to insurance companies within the premises of some
selected branches and allowing them to sell their insurance products to the bank’s customers. These banks in exchange earn referral fees based on the premium collected.

1.10 **BANCASSURANCE – GLOBAL SCENERIO:**

Bancassurance has developed at an unusual speed and has taken different shapes and forms in different countries depending on demography, economic and legislations in that country. During the last two decades, bancassurance has been well established in various countries, especially in Europe.

Bancassurance has seen an incredible recognition and growth globally. The Life insurance market in the UK is largely in the hands of the brokers. With the help of bancassurance, their market share had increased tremendously. Sales agents also play a significant role on a market which is wholly regulated by the Financial Services & Markets Act (FSMA), which also lays down very severe marketing conditions for them. In Germany, even though their market share has declined, the market still remains to be under the control of general sales agents.

Bancassurance has seen a huge development in Europe but not in USA and Canada. In the US, there were obstacles till lately and banks were not allowed to do insurance business and visa-versa. But it was recently legalized in countries such as United States when Glass – Steagall Act was abolished after passing of the Gramm – Leach Bliley Act 1999. In several countries in Latin America, banks have been benefited from recent reforms like financial deregulations and also by selling insurance products across the counter. In China, banks are restricted to
playing role of tide agent to insurance companies, which can still offer a good platform for bancassurance to develop.

In Hong Kong, when Swiss bank introduced bancassurance, the life insurance sales went up by 240%. Japan has to more efforts to develop bancassurance in its country. In Philippines, banks are permitted to own 100% of the insurance company. Bancassurance is yet to develop in Singapore. Moreover, there is a huge market potential for bancassurance yet to be explored in India and many other countries when compared to the global market scenario.

1.11 **BANCASSURANCE - INDIAN SCENERIO:**

In India the current financial setting has been redesigned ever since the supporting of financial reforms and by following the propositions given by the Narsimhan committee-I (1991) and Narsimhan committee-II (1998). Banks have diversified into several new areas and are now offering innovative products like merchant banking, lease and term finance, capital market/equity market related activities, hire purchase, real estate finance etc. Thus banks have now broadened their horizons more than ever before. Therefore, their entering into insurance business is only a natural consequence and is justified too as ‘insurance’ is another financial service which is now required and favored by the bank’s customers.

Bancassurance is the new buzzword in India. It originated in the year 2000, when the Government issued notification under Banking Regulation Act which allowed Indian Banks to do insurance distribution.
It started getting more recognition after Insurance Regulatory and Development Authority (IRDA) passed a notification in October 2002 of ‘Corporate Agency’ regulations. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer.

Bancassurance offers many advantages to banks, insurers and the customers. For the banks, income from Bancassurance is the only non interest based income. These days interest is fluctuating and is reasonably reducing as influenced by the market forces. So banks are not getting enough margins because of the competition in the market. Therefore more and more banks are getting into bancassurance so as to improve their incomes. Increased competition also makes it difficult for banks to keep a hold on to their customers. Bancassurance comes as a help in this direction also. Providing multiple services at one place to the customers means improving customer satisfaction. For example, through bancassurance a customer gets home loan along with insurance at one single place as a combined product. Another important advantage that bancassurance brings about in banks is the development of sales culture in their employees.\(^7\) As for the insurance companies the advantages that bancassurance provides is quite evident. The insurance company gets better geographical reach without additional costs. In India around 67,000 branches are there for Public Sector Banks alone. If all 67,000 branches sell the insurance products one can see the reach.\(^8\)

India’s rural market has huge potential that is still unexploited by the insurance companies. Setting up their own market would involve enormous costs that no company would be interested in doing so. So,


bancassurance here helps the insurance companies to hit the market at a much lower cost. As for the customer, the competitive nature of the Indian market ensures that the decrease in cost would result in benefits in terms of lower premium rates provided to them. It is expected that through bancassurance banks and insurance companies can collectively receive a fee-based income between Rs.13, 500 Cr. and Rs. 22,000 Cr. over the next five years. In India, with some insurers such as SBI Life already selling almost 40% new business through bancassurance channel, and thus following the success story of the European nations; while others like ICICI-Prudential Life, HDFC-Standard Life, Kotak Life Insurance, Aviva Life Insurance and ING-Vysya Life Insurance contributing about 25% from bancassurance channel.  

Many banks and financial institutions have started joint ventures with foreign insurance companies like SBI Life with Cardiff of France. MetLife India with MetLife and J & K bank, ICICI Prudential with ICICI bank, HDFC Standard Life with HDFC bank etc. The companies like Aviva, MetLife, Birla Sun Life, SBI Life etc. have developed bancassurance as an important channel of distribution. SBI Life Insurance Co. is the biggest player in bancassurance. In 2007, the company intended to acquire 75% of the total business through bancassurance and the balance through other channels. Allianz Group is the business entity which is fully engaged in world wide insurance business taking on more than 70 countries of 5 continents to serve 60 millions customers through its international subsidiary network.

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For banks, retail networking is proving to be a very important distribution channel of insurance products. IRDA has laid down certain fundamentals to ensure that only financially sound banks enter into this stream. To operate as a distribution channel, banks must possess a net worth of at least 500 Cr. and a capital adequacy ratio of minimum 10%. The increasing numbers of tie-ups between banks and insurance companies is proving the growing importance of this distribution channel. In the financial year 2003-04 the bancassurance channel has contributed 70% towards the total sales of Aviva India. It also contributed 6% of non-life premium and 13% in life in 2006.\textsuperscript{10} Hence, there is a huge market potential in India when compared to Global standards.

Financial engineering techniques and models, significant progress in information technology and customer demands has brought the necessary competition and better pricing into the banking as well as insurance industry. Thus, due to the success of banking and insurance companies, they have found bancassurance as an eye-catching and profitable balance to their existing activities in India and also consider bancassurance will play a long inning in India.

\textsuperscript{10} Source: www.irdaindia.org
1.12 RELEVANCE OF BANCASSURANCE IN THE INDIAN FINANCIAL SECTOR:

1. Banks over the world have now become conscious that offering value added services such as insurance helps to meet client’s expectations. Competition in the area of Personal Financial Service is getting influential in India and banks can also maintain customer’s loyalty by offering them a complete and exclusive range of products. Therefore, insurance distribution may help the banks to increase the fee based earning to a great extend.

2. Fee based marketing may help the banks to cover up most of their operating expenses and also to improve the levels of staff efficiency in the banks. This may also help to bring higher motivational levels in the banking sector in India.

3. In India the concept of bancassurance is rising speedily both through commission based agents and joint ventures between banks and insurance companies. Due to the vast network of Indian banks, it can easily reach out to the general public.

4. Banks can put in their efforts in trying to capture the small commission customers that insurance agents tend to avoid. Bank’s entry in insurance distribution can help to widen bancassurance more rapidly. This may help to popularize insurance as an important financial protection product.

5. Bancassurance helps to lower the distribution cost of the insurers. Purchasing cost of insurance through banks is low. Selling insurance to existing banking customers in the market is cheaper than selling it to a group of unknown customers.
6. Banks have a huge retail customer base. The share of individuals as a category in bank accounts is gradually increasing. Rural and semi-urban bank accounts constitute close to 60% in terms of number of accounts, indicating the number of probable lives that could be covered by insurance with the association of banks.

7. Overstaffing problems can be solved without opting for drastic measures of reducing the staff.

1.13 TYPES OF BANCASSURANCE:

Bancassurance is classified in two types:

i. With risk participation.

ii. Without risk participation.

1.13.1 WITH RISK PARTICIPATION:

In this type of bancassurance, insurance business is done through a subsidiary of the bank, which may be entirely held by the bank or it may have a certain share in it. This type of bancassurance confirms higher income for the bank, but here the risk is also higher as the claim has to be tolerated by the bank on its own. The Reserve Bank of India has prescribed some regulatory guidelines to be followed by the concerned banks to access a subsidiary for performing bancassurance activities:

1) Capital Adequacy Ratio to be at least 10%
2) Net worth at least Rs. 500 cr.
3) Profit generating in the past three consecutive years
4) Non – performing Assets at reasonable level.
1.13.2 WITHOUT RISK PARTICIPATION:

Here the bank acts as an agent of the insurance company. The bank earns a fee income for mobilizing insurance business. Banks earn insignificant incomes and the claims borne by the bank are passed onto the insurance company. They are of three types: (1) Referral arrangements. (2) Deposit linked/Advance linked insurance products. (3) Corporate agency of insurance products.

1.13.2.1 REFERRAL ARRANGEMENTS.

Banks have a very insignificant role in this type of bancassurance, therefore the returns are also very less. The employees of the insurance companies take assistance from the bankers for selling their products to the bank customers. The bank offers the insurance company premises in exchange for commission on business.

1.13.2.2 DEPOSIT LINKED/ADVANCED LINKED INSURANCE PRODUCTS

These products are directly linked to the bank’s deposit or credit products. Customers gain by getting value addition in the banking products while for the banks this proves to be helpful in organizing low cost deposits or making their loans secure.

1.13.2.3 CORPORATE AGENCY OF INSURANCE PRODUCTS

In this model, the bank may become a corporate agent of one life and one general insurance company as per IRDA guidelines. Then certain selected employees are provided with insurance training as specified by
IRDA and after meeting the requirements of IRDA exams they become capable of being insurance agents for selling insurance products

1.14 UTILITIES OF BANCASSURANCE:

1. Utilities of bancassurance for Banks.

   1) As a source of fee based income.
   2) Product diversification.
   3) Building close relations with the customers.

2. Utilities of bancassurance for Insurance Companies.

   1) Stiff Competition.
   2) High cost of agents.
   3) Rural penetration.
   4) Multi-channel distribution.
   5) Targeting middle income customers.

1.14.1 UTILITIES OF BANCASSURANCE FOR BANKS:

1.14.1.1 AS A SOURCE OF FEE INCOME

   Bank’s traditional source of fee income have been the fixed charges which are imposed on loans and advances, credit cards, merchant fee on point of sale transactions for debit and credit cards, letter of credits and other operations. This kind of income flow has been reasonably steady and its growth has been fairly predictable.

   However, decrease in the interest rate, growing competition and increased mobility of customers have forced bankers to find other
options to balance out the declining profit margins, hence bancassurance has come in as a practical option for them. Fee income from the distribution of insurance products has opened up new prospects for the banks. Fee based income from bancassurance help the banks to cover up most of their operating expenses.

1.14.1.2 PRODUCT DIVERSIFICATION

Banks have a huge opportunity under bancassurance business to indulge in product diversification and sell wide range of products like life insurance, medical insurance, car insurance, home and contents insurance, endowment policies, annuities, education plans, depositor’s insurance credit shield and travel insurance. However, recently innovations have taken place in the insurance sector to suit and satisfy the growing needs of various customers.

1.14.1.3 BUILDING CLOSE RELATIONS WITH THE CUSTOMERS

Increased competition creates complication for banks to keep hold of their customers. By providing multiple services at one place to the customers the banks can improve customer satisfaction. For example, through bancassurance a customer can get home loans along with insurance as a combined product at one single place. This further facilitates the banks to have a personal contact with their customers.
1.14.2. UTILITIES OF BANCASURANCE FOR INSURANCE COMPANIES:

1.14.2.1 STIFF COMPETITION

At present there are 23 life insurance companies and 24 general insurance companies in India. Liberalization of the economy has made it easier for the private insurance companies to enter into the battle field. Even the oldest public insurance companies have started facing tough competition which resulted in a burning need to defeat their opponents. Hence, in order to fight back and to stay a step ahead, it was necessary for them to develop a new strategy in the form of bancassurance.

1.14.2.2 HIGH COST OF AGENTS

Services provided by the agents of the insurance companies proved to be very expensive for the insurers as compared to the returns they earned from the business. The call for a cost effective distribution channel gave rise to bancassurance as a profitable channel for distribution of the insurance products at nominal cost.

1.14.2.3 RURAL PENETRATION

So far insurance industry has not been of great success in rural areas. There are many people who are still ignorant about insurance being a normal means to insure ones life. The branch network of banks can help to make the rural people aware about insurance which would also provide a wide scope of business for the insurers and this gap can easily be filled in with the help of bancassurance.
1.14.2.4 MULTI CHANNEL DISTRIBUTION

Nowadays the insurance companies are trying to develop innovative ways to sell the insurance products by using various distribution channels. Insurance products can be sold through agents, brokers, subsidiaries etc. In order to make the most out of India’s large population base and reach out to a larger number of valuable customers there was a need to discover bancassurance as a distribution model.

1.14.2.5 TARGETING MIDDLE INCOME CUSTOMERS

Earlier many people were unaware about insurance. The agents preferred to sell insurance policies only to a superior client base. The middle income group of people got very less attention from the agents. Insurance companies can make the most of bank’s large network to recapture the market by targeting middle class customers. So in order to utilize bank’s database, there was a need felt for bancassurance.

1.15 SCOPE OF THE STUDY:

The present study is about the impact of bancassurance on banking and insurance industry in India and the selection of samples will be made from amongst the banks having one of the products as insurance.

Many banks and financial institutions have set up joint ventures with insurance companies. Following banks are randomly selected.

1. Andhra Bank
2. Canara Bank
3. Corporation Bank
4. Housing Development Finance Corporation (HDFC Bank)
5. Industrial Credit and Investment Corporation of India (ICICI Bank)
6. Industrial Development Bank of India (IDBI Bank)
7. Oriental Bank of Commerce (OBC)
8. State Bank of India (SBI)

Thus, the scope of this study is limited to the following parameters.

I. Emergence of bancassurance in India.
II. Evolution and historical developments.
III. Relevance of bancassurance in Indian financial sector.
IV. Utilities and advantages of bancassurance to banks, insurance companies and customers.
V. Regulatory norms (RBI and IRDA).
VI. Models of bancassurance.
VII. Distribution channels of bancassurance and
VIII. SWOT analysis.

In order to understand how far bancassurance has captured a position in the hearts of people in India, survey analysis has also been done.
1.16 STATEMENT OF PROBLEM:

The Insurance sector in India has undergone a sea change since the sector was opened up for private players in 2000. The entry of private players in the insurance market resulted in severe competition between the working of public sector and private sector insurance companies in order to capture the market. Intense competition gave rise to innovative products and new channels of distribution for the marketing of insurance products.

India has a huge population and in order to reach out to such a huge customer base, insurance companies can make the most of the bank’s large network. This gave rise to bancassurance. Bancassurance is a process whereby insurance products are sold to the customers at their local bank branch. This relationship is convincing yet highly challenging.

The most common challenges to success of bancassurance are poor manpower management, lack of a sales culture within the bank, lesser involvement by the branch manager, insufficient product promotions, failure to integrate marketing plans, marginal database expertise, poor sales channel linkages, inadequate incentives, resistance to change, negative attitudes toward insurance and intensive marketing strategy. Even insurers and banks that seem perfectly suited for a bancassurance partnership can run into problems during implementation.

Before targeting the market, it is essential to do a SWOT analysis. Regulatory norms set up by RBI and IRDA also proved to be an obstacle in development of bancassurance in India. Some of these have recently
been cleared with the passage of the Insurance (Amendment) Act, 2002. The Indian banking sector has a long way to go when its success through the bancassurance business is compared to that of the western countries.

**1.17 OBJECTIVES OF THE STUDY:**

In view of the above introductory remarks, the following have been laid down as the specific objectives of the study.

1. To examine the recent trends and the present scenario of bancassurance business in India.
2. To study the marketing and distribution channels of insurance products.
3. To know the issues regarding the marketing of insurance products through bancassurance and make meaningful suggestions for improvements.
4. To analyze the impact of bancassurance on banks, insurers, customers, employees, government policy and regulations and also to general public.
5. To review and compare the financial position of banks dealing in insurance.
6. To analyze the financial impact of bancassurance product on performance of the banks.
1.18 STATEMENT OF HYPOTHESIS:

In order to test the above objectives the following hypothesis are formulated.

1. \(H_0\): Majority of the people are not aware of bancassurance as a product.

1.1 \(H_1\): People are aware about bancassurance as a product of the banks.

2. \(H_0\): Customers do not purchase insurance policy from the banks.

2.1 \(H_1\): Customers purchase insurance policy from the banks.

3. \(H_0\): There is no significant income from bancassurance product to the banks.

3.1 \(H_1\): Income from bancassurance product is significant to the banks.
1.19 DATA ANALYSIS:

The present study is about the impact of bancassurance in the banking and insurance industry. On the basis of review and objectives of this study, analysis is done. The data collected is tabulated, classified, and converted into charts, maps, graphs. The data is also presented in the form of pie diagram and multiple bar diagram etc.

Survey analysis has also been done so as to know the popularity and growth perspective of bancassurance.

1.20 CHAPTERIZATION:

The study is divided into following chapters:

CHAPTER – 1

INTRODUCTION AND RESEARCH DESIGN.

This chapter highlights the research methodology and design of the study. It contains:

- Introduction of bancassurance.
- History of Banking and Insurance in India.
- Bancassurance - Indian scenario and Global scenario.
- Types of bancassurance.
- Relevance of bancassurance in Indian financial sector.
- Utilities of bancassurance.
- Scope of study.
- Statement of problem.
- Research design and objectives of study.
CHAPTER – 2

REVIEW OF LITERATURE.

This chapter is designed to identify the related research so as to set the current research, is within a conceptual and theoretical context which includes an overview, evolution historical developments of bancassurance. While reviewing, care has been taken to tap all possible sources such as books, journals, magazines, newspaper items, doctoral thesis and dissertation souvenirs of conferences/ seminars/workshops and websites.

CHAPTER – 3

ORGANIZATIONAL PROFILE.

This chapter contains the growth and framework of bancassurance of the selected banks as samples. It includes:

- Justifications for banks to enter into bancassurance business.
- Convergence strategies.
- Frameworks regarding the RBI and IRDA norms set up for bancassurance.
- Model of bancassurance.
- Bancassurance products.
- Distribution channels in bancassurance.
- Benefits of bancassurance to banks, insurance companies and to customers.
- Tie-ups of bancassurance in India.
- Issues to be kept in mind while tie-ups.
CHAPTER- 4

DATA ANALYSIS AND INTERPRETATION.

The collected data is analyzed and interpreted by applying various statistical tools and techniques. It includes:

- Various Trends of Bancassurance.
- Challenges.
- SWOT analysis.
- Survey analysis.

CHAPTER – 5

CONCLUSIONS AND SUGGESTIONS

This chapter gives summary of the entire findings which involves the conclusions and suggestions based on data analysis and interpretation on the impact of bancassurance product on banking and insurance business in India.

At the end of the thesis, bibliography, webliography and appendix would also be there.