Chapter III

Review of Literature
There is a large body of literature available that covers the entire gamut of insurance distribution including the bancassurance channel. The review of literature here covers analysis and findings from a few of the theoretical and empirical studies to show the present status of the insurance industry in general and the Bancassurance sector worldwide.

The chapter is divided as follows:

3.1 Life Insurance Market in different countries

- J. David Cummins & Bertrand Venard (2008): In the article, Insurance marketing dynamics – between global developments and local contingencies, the authors say that insurance markets have changed radically and deeply in the last 20 years. Deregulation, globalization of insurance institutions, intensified competition, electronic commerce, bancassurance, and the emergence of new risks are among the challenges faced by insurance markets. These developing trends pose both global and local challenges for insurance firms. Some common issues have determinant influences globally, with limited national or local constraints. Many insurance market segments have “local specificities,” even in the most developed countries, and various nations and regions have particular strengths and limitations. International insurance markets are diverse in terms of distribution of financial services products. The relative importance of distribution channels varies widely, even among relatively homogeneous countries, such as developed countries. Direct insurance marketing has become very important in some national markets, such as the United Kingdom but remains more limited in others, such as the United States or France. Bancassurance has achieved significant market penetration in some countries but not in others. The article analyzes the effect of globalization on international insurance markets. It highlights the global similarities of national insurance markets and the local
contingencies that create differences among markets. The article is based on the research done by the authors with an international team of insurance experts to write a book about international insurance markets (Cummins and Venard, 2007). World insurance markets are usually described using various key economic indicators: annual premiums, the relative importance of life and no life products, insurance concentration, and insurance density. Annual insurance premiums are a common indicator used to describe insurance markets. World insurance premiums represented US$ 3,723 billion in 2006 (Swiss Re, 2007). The United States, the largest insurance market worldwide, represented 31.4 percent of total world insurance premiums in 2006. The second largest market in terms of premium volume was Japan. The other main insurance markets are by decreasing size: the United Kingdom, France, Germany, Italy, South Korea, Canada, China, and Spain. The relative importance of life insurance in individual country insurance markets is driven by a number of factors including culture, tradition, per capita income, demographics, the tax treatment of life insurance and pension plans, and the degree of development of social insurance systems. Some insurance markets are characterized by high levels of insurance penetration. In particular, the United Kingdom has the world highest insurance penetration with annual premiums equal to 16.5 percent of GDP in 2006, just ahead of South Africa (16.0 percent) and Taiwan (14.5 percent). The world’s insurance markets have some important global similarities, such as deregulation, intensification of competition, generally rapid growth in insurance sales, the emergence of new distribution channels, and the convergence of insurance, banking, and other formerly separate segments of the financial services industry. There are also local differences among insurance markets across the world such as semantic heterogeneity of the insurance vocabulary, various economic contexts which affect the demand for insurance. Deregulatory efforts for the insurance market have been undertaken in various countries and attempts are being made at achieving more uniform insurance regulation through organizations such as the International Association of Insurance Supervisors. However, significant regulatory differences among
countries continue to exist. Countries also vary in their dominant insurance distribution channels.

• **Data Monitor (2006):** The global life insurance market grew by 5.6% in 2005 and reached $1,815.6 billion. In 2010, the market is forecast to have a value of $2,310.3 billion, an increase of 27.3% since 2005. Europe consisted of 37.1% of the market's gross written premiums. In the report by Data Monitor, Europe comprised of Belgium, the Czech Republic, Denmark, France, Germany, Hungary, Italy, the Netherlands, Norway, Poland, Russia, Spain, Sweden, and the United Kingdom. Asia-Pacific comprised of Australia, China, India, Japan, South Korea, Singapore and Taiwan. The Americas is considered to be of the United States, Canada, Mexico and Brazil. The global market comprised Asia-Pacific, Europe and the Americas. Despite slower value growth in 2003, the global life insurance market recovered well and continued to achieve steady growth. The global life insurance market wrote total gross premiums of $1,815.6 billion in 2005, this representing a compound annual growth rate (CAGR) of 3.9% for the five year period spanning 2001-2005. Europe accounted for 37.1% of the global life insurance market's gross written premiums. In comparison, Asia-Pacific wrote a further 31.6% of the global market's total gross premiums.

• **Yamori & Kobayashi (2004):** in the article 'does regulation benefit incumbent firms?' an investigation of Japanese market deregulation', the authors study the effect of Japanese insurance regulation. The effect of the Japan-US 1996 agreement on Japanese insurance market is studied. Using standard event study methodology, it was found that the 1996 agreement had a significantly negative wealth effect on incumbent insurance firms, although it did create some new opportunities for them. The results supported the hypothesis that up until that time, regulation benefited incumbent firms at the expense of their customers. Japan's Insurance Business Law of 1940 was revised in 1999 for the first time in 50 years in order to promote competition and enhance business efficiency through deregulation, preserve the soundness of insurance businesses and ensure fairness and equity in business operations. To promote competition, the new Insurance
Business Law effective in April 1996, allowed mutual market entry to life insurance and non-life insurance companies through their subsidiaries. To promote price and product competition, Japan's new law introduced a notification system for certain products and premium rates. Although financial regulations were usually introduced to protect consumers, incumbent firms may use the regulations to protect themselves from competition. Since previous studies showed that the effects of insurance regulation depended on the economic and political environments present at the time that they were implemented, the authors found it necessary to periodically evaluate those effects under different environments. Unfortunately, there were very few studies investigating the effects of insurance regulation in non-US countries. This paper fills that gap in the literature by examining Japanese regulation

- **Needham (2004):** With the number of career life insurance agents on the decline, new research from Tower Group urges insurers to explore nontraditional distribution outlets as a means to mitigate potential future losses. These channels include banks and wire houses, where life insurance premium sales have traditionally been hard to define. Highlights of the research include – life insurance distribution remains concentrated with independent and “captive” agents, which means insurers with strong market share in these two areas will continue to drive life sales in the near term. However, with the number of career agents on the decline, insurers must begin to penetrate other distribution channels and reach new advisors to increase sales. To promote sales through other channels and grow this area of the business, insurers must concentrate on education, wholesaling and sales support – as well as address the increased operational complexities that accompany each new distributor added in their networks. Just as insurers must reach out through non-traditional channels, financial institutions looking to expand their product suite to meet customer demands for asset protection and retirement income should consider forging partnerships with insurers to offer insurance products such as life, income annuities and traditional property insurance.
• Damian Ward (2002): The author has examined the cost of direct and independent distribution in the UK life insurance sector over the period 1990-1997. Unlike the non-life sector the distribution of life insurance is complicated by the existence of investor protection policies. Which in the UK are believed to have increased the use of independent agents. Using a pooled data set of 44 companies between 1990 and 1997, this study shares differing findings. Cost benefits are found for firms focusing in one mode of distribution. From a modeling of the distribution decision this finding maybe attributed to firms choosing distribution systems which match the transactional problems associated with their product mix and/or mode of corporate governance. The determinants functions for costs do suggest cost difference between independent and direct modes of distribution albeit with some benefit to be had from focusing in each channel. There is also no difference in cost efficiency across the channels. The revenue and profit functions show some return to the use of independent distribution, but the efficiency measures do not. Through a modeling of the distribution decision, there is some evidence that the independent channel is associated with mutual and the selling of more complex products, all indicating support for the product quality hypothesis. There is evidence that the UK life insurance market in terms of cost, revenue and profits is more efficient than the US market. This may signify a higher level of competition in the UK market that has been characterized by a much higher degree of bancassurance in recent years.

3.2 Bancassurance in different countries globally

• Polly Painter-Eggers – LIMRA International (Fall 2008): The research done by the author in the United States concludes that the trends in banks sales of life insurance products are discouraging and financial institutions are at crossroads. The question is whether the problem is that of a reluctant consumer or that which is integral to the bank’s life programs. The research shows that many people would consider purchasing life insurance at banks. Though many banks have been
in the business of selling life insurance for years, many consumers are still not aware of it. Marketing of life insurance through banks is not something that can be done halfway. If financial institutions are going to reach consumers in a meaningful way, they need to build comprehensive strategies for consumer awareness, linked to programs that motivate and encourage their sales representatives to include life insurance as part of their total product portfolios.

- **Life Insurance International (2006):** The study examines the cultural divide between life insurers and banks and reveals that while the two industries are beginning to move closer to one another in terms of marketing effort, each has a long way to go. The most notable include the struggle to create incentive programmes that translate to the bank environment; the ability to integrate insurance sales at the bank branch level; issues of access to the bank's client base; and the extent of wholesaler support. The study's overall conclusion was that "the onus is on the insurer to go deeper into the bank management structure and ensure that the insurance process not only fits into the bank's daily routine, but also supports and enhances the incentives, rewards, contests and referral process already in place, particularly if multiple channels are going to be utilised to sell the product. The study used statistical gap analysis techniques to quantify the cultural issues banks and insurers must tackle if they are to achieve success in bancassurance. It was completed by 78 respondents - 48 from banks and 30 from life insurers - representing 55 percent of the top banks and insurers doing business today. Both banks and insurers agreed strongly on the factors that are important to selling life insurance products, and, in fact, banks and insurers described each factor as "more important". This overall average spread between bank and insurer scores for satisfaction in delivery was in every case lower for banks than for insurers and highlighted the unease among the bank channel. Bankers stated that they were least satisfied with current incentive programmes to entice bank employees, licensed platform bankers, financial consultants, commercial bankers, trust officers and wealth management advisers to sell or refer insurance. The report suggested that banks include the insurance sales goals in the bank goals
rather than separately from them, and provide incentives that reward overall sales with insurance rolled in to that total. The report stressed that a lack of senior management commitment makes it difficult for a carrier to spend money to create and support the technology and people needed to integrate insurance at a single banking institution. While great strides have been made in the ability of the carriers to support bank marketing and sales efforts, more creative thinking and dialogue is needed to capture the outstanding potential of life insurance still lying dormant within the banks' client base.

- **(L. Paige Fields, et al) (2005):** L. Paige Fields and colleagues have taken the wealth effects in bancassurance mergers between banking and insurance firms in the period of 1997 – 2002 into consideration. They have taken a sample of 136 bank-insurance mergers among U.S and non-U.S companies. They have found that unlike commercial bank mergers and most non-financial corporate mergers, positive wealth gains for common shareholders, for bidding firms as well as for targets are there. Also, higher bidder abnormal returns in bancassurance show that lower systematic risk is consistent with diversification benefits. Their results support the general hypothesis that there is something special and beneficial about banking and insurance combinations. Cross-sectional correlation and multiple regression analysis of available observations were used to prove that scope economies and (to a lesser extent) scale economies are important factors for bidder wealth gains.

- **Dr. Vasant Godse (2005):** In the article "Bancassurance – convenience of convergence the author discusses the changing scenario for both banks and insurance companies in the form of Bancassurance entry. The changing scenario is discussed on areas such as deregulation, liberalization, globalization, market integration, financial crises, government response, size and efficiency, information and communication technologies, consumer issues etc. the implications of the change are discussed. Convergence in the international context is the diminishing of seemingly arbitrary distinctions that historically have
separated different types of financial products and services as well as providers of these once discrete products and services. Convergence is the blurring of conventional boundaries separating the traditional providers of once-discrete financial services. Convergence can be intra segment as well as inter segment, intra segment convergence occurs when convergence takes place within the same segment, as when a bank merges with another bank or an insurance company with another insurance company. Examples of such convergence include UBS / Swiss Bank (Europe), Royal Bank of Canada / Bank of Montreal. Cross-geography convergence refers to those happening across the geographical boundaries. Examples include ING / Equitable of Iowa, Merrill Lynch / Yamaichi, and Munich Re / America Re. The US was considered as one of the most fragmented markets for financial services due to different regulations for banking, securities and insurance. Passage of the Gramm-Leach-Bliley Act in November 1999 reduced the former regulatory barriers for introducing the concept of holding company owning banks, securities dealers and insurance companies. In Canada, convergence occurred exhaustively prior to US. UK’s experience is similar to Canada. Bancassurance is well established in Europe as a continent. There are variances in the convergence models in Europe. Convergence has not been predominant in Asia due to reasons such as less threat from disintermediation, lagged development of financial markets and impact of East Asian financial crisis.

- **Lewis (1990), Levy-Lang (1990) and Voutilainen (2004):** have observed that banking and insurance as businesses have more similarities than differences, which favour their joint production. Both types of firms are financial intermediaries that pool savings (or reserves) of individuals and subsequently channel these funds to capital expenditures. Laws of large numbers, economies of scale, liquidity creation and risk management are common to both institutions.

- **Isabella Falautano and Emanuele Marsiglia (2003):** In the article ‘Integrated distribution of insurance and financial services and value creation: challenges ahead’ the authors say, value creation mechanisms are key elements of financial
and insurance services, both in the interests of shareholders and, in broader terms, of all stakeholders. Insurance and financial services are going through a phase of deep change. The integration between banking and insurance services and their integrated distribution, after the big push given by convergence, are facing a critical stage. The article outlines the main trends and future scenarios with regard to: the integration models between banking and insurance services, ranging from co-operation and "alliance" agreements to integrated groups; the article compares the integrated distribution of banking and insurance services with the aim of offering a full range of products within various organizational models from bancassurance to assure banking; and the "new distribution" type of bancassurance, comparing national models and distribution scenarios. In the last part, by assessing future trends in the competitive environment of the insurance industry it is explained why bancassurance, far from going into decline, will face up to tougher competition and a clear-cut divide between winners and losers. "Integrated distribution" will continue to affect, the various actors in traditionally separate businesses, by following many models and experiences. In a dynamic reading of the insurance sector, "new distributors" have gradually been added to the traditional agency networks. These new distributors can be defined as "first or second generation". Bank branches (including the post office channel) and financial service promoters are "first generation new distributors". The "second generation new distributors" include direct sales channels (call centres, internet) and absolute beginners such as supermarket chains (Tesco in the United Kingdom and Carrefour in France), automobile companies (Volvo has created its own insurance company offering integrated services to clients buying its cars) and the big credit-card groups (Amex) (Charter-Kastler, 2001).

- **Venky Nagar, Madhav Rajan (2003):** in the article, 'future profits arise from both tangible and intangible assets of firms', the authors view intangibles such as customer relationships as a multidimensional process, the measurement of which requires a collection of financial and non-financial measures. The authors employ a cross-sectional database on retail banks to demonstrate empirically how
managers can use a set of customer relationship measures to identify cause-and-effect interrelationships among various customer relationship activities and identify activities that must be bundled to maximize performance. Finally, the article demonstrates the subtle ways in which broader environmental features such as strategy modulate the forward-looking nature of non-financial measures. The relevant finding indicates that a significant interaction occurs for the cross-sell measure (coefficient =0.22, p-value <0.05) and this is the only significant interaction. That is, the future ROA improvement, innovative banks are likely to achieve by selling one more product is 0.22 higher than that for non innovative banks. Given the sample ROA mean of 1.88 this different ROA improvement is of great economic significance. The finding is consistent with prior literature that suggests that cross-selling more products is more critical for innovative banks that emphasize the sales of new products and offerings as their strategy (McCoy et al. 1994, McGeehan 2000).

- **Mintel International Group Ltd (2003):** has attempted to study whether the New High Street Banking Model is working. The report aims to identify the motivations that have driven banks and insurance companies to follow bancassurance strategies. Much of the research focuses on the impact that retail banks have had on the distribution of life and pension products. Mintel has examined the capabilities and advantages that banks can leverage in the manufacture, supply and distribution of these products. The report also identifies the key challenges and obstacles that they have faced in attracting new and transfer business from more traditional channels and providers. The key focus is the Europe and U.K markets.

- **Estrella (2001):** employed an option-pricing approach with 1989-1998 market equity data to evaluate failure probabilities for various simulated combinations of bank holding companies, life insurance, property and casualty insurance, securities and non financial firms. It was found that insurance activities reduced failure risk when combined with banks, which was due to the high diversification
of insurance companies themselves, rather than to a low correlation between stock returns of insurance firms and banks.

- **Kerstin Berberich, Dipl. – Kfm, Dr.iur. The Cologne Re company (2000):** The article says that the future success of Bancassurance will be affected by multiple factors including: the probability to train bank personnel to actively sell the product and effective claims handling. In this context, outsourcing of unprofitable standard business is one possible strategy. There are some banks that try to push their retail clients to try different types of direct banking e.g. online banking. On the one hand, using alternative media for customers is more profitable for the bank and can be regarded as an additional service for those preferring alternative distribution channels. On the other hand, banks will lose one of their most important strategic advantages if they are not able to maintain their relationship to the customers who use these alternative distribution channels. There is the potential for bancassurance in central Europe and Asia. If this concept is introduced and past experience is used to create a competitive advantage, bancassurance promises to be very successful in these markets.

- **Risk Insights (General & Cologne Re) (2000):** The article discusses the History of US bank/ insurance regulations. The regulations within the banking system for insurance were changed when the S900 became the Gramm-Bliley Act and was signed into law by president Clinton. It repealed provisions of the Glass-Steagall Act and amended the Bank Holding Company Act, removing many restrictions between banks and insurance companies. The comparison between the European Bancassurance Model and the US Methodology is done based on category and through sales approach. The present state of Insurance and Bank regulations in the USA states that both banks and US insurance companies are faced with shrinking markets and diminishing net interest margins. Non-bank financial institutions are capturing traditional bank business with a variety of investment alternatives and products. To be successful in the Bancassurance business, both banks and insurance companies have to do
more than reduce expenses, consolidate activities, and expand traditional business. They must increase fee based activities and must be creative in their approach to traditional venues and make better use of technology. Since the 1996 revised US Bancassurance Model appeared, ten lessons are learnt by insurance companies and banks on how to be profitable in this market. They should start simple, avoid selling too many term products, banks should have a specific insurance marketing plan, there should be increased identity with the sales process and banks should be willing to accept that insurance sales takes time. In the future, the bank customer will be turned into an insurance customer whose financial needs will be assessed by a new breed of financial consultants. The only way to effectively train bancassurance personnel to perform in this financial model is to first surmount the cultural differences inherent to both banks and insurance companies. Regardless of strong regulatory overhaul in the making, simplicity, speed and service still remain the keys to sound US Bancassurance in the 2000s.

- **Marianne Heymowski The Cologne Re, Germany Risk Insights (May 2000):** The issue concludes that when developing Bancassurance products, one of the principal objectives is to ensure that the bank’s existing portfolio of products is not merely enlarged but complemented by the addition of insurance products. These products must also be structured in a way that allows the bank’s staff to actively and efficiently sell them. Achieving these objectives often requires an innovative approach that differs from the product development process traditionally used by insurance companies. Bancassurance is a relatively new distribution channel for the banking industry. In a number of countries, it has been operational since sometime. In other markets such as the USA, it is in its “childhood years”.

- **Genetay and Molyneux (1998):** provide an overview of Bancassurance in Europe and document its historical roots dating back to the 1800s. Three periods of Bancassurance development are discussed (1) prior to 1980s banks sold closely
related insurance products, such as consumer credit, home property and currency theft insurance; (2) after 1980 banks expanded into savings insurance products, including endowment contracts in France that paid a lump sum at a future point in time; and (3) in the 1990s banks made major progress in traditional insurance activities, with various annuity investment contracts and combined savings and insurance contracts (whole life insurance) in the United Kingdom.

- **Saunders and Walter (1994):** performed simulated mergers tests on U.S banks and found that risk reduction was largest among banks expanding into insurance rather than into securities activities.

- **Gillligan and Smirlock (1983):** In the study "an empirical study of joint production and scale economies in commercial banking", the authors utilise the translog cost function to test the proposition that the bank production function is characterized by jointness. The cross-section analysis for the years 1973 through 1978 indicates that bank production is, in fact, characterized by jointness. The second part of the analysis by the authors examines scale economies for the banking firm while allowing for jointness in production. The estimates indicate that scale economies characterize bank production at only small bank sizes and that the cost structure of large banks is characterized by diseconomies of scale. The paper accesses the degree to which bank costs are characterized by jointness in production and to evaluate the scale properties of the multi product banking firm. The authors draw the following conclusions from the analysis. First, the structure of bank costs is characterized by jointness, so that the cost of producing one output depends on the level of other outputs. Second, the evidence suggests that bank production is not Cobb-Douglas in nature and that cost studies that have imposed this assumption may contain spurious results. Third, conclusion that there are economies of scale in banking may be inaccurate. The results suggest that scale economies characterize only small banks and that bank costs are U-shaped with large banks experiencing diseconomies of scale. The authors conclude that jointness must be accounted for if product-specific scale economies
are to be determined and should also be considered in evaluating regulatory policy.

- Allen and Rai (1996): studied large banks in 15 countries and found that universal banking countries were more efficient than non-universal banking countries, which favoured the existence of scope economies in financial services.

3.3 Basic distribution models for Bancassurance

- Satyaswaroop Pradhan (2003): According to Satyaswaroop Pradhan, growth of the bancassurance sector is one of the most significant progress areas in the financial services sector over the past years. Globally, there are four kinds of bancassurance business models namely distribution alliance between the insurance company and the bank, Joint venture between the two, Merger between bank and insurer and bank builds or buys own insurance products. Majority of the bancassurance operations fall into the first model. As per the present regulatory framework at India, one bank can tie-up with only one life and one non-life insurer, while insurers have the choice to tie-up with any number of banks.

- Isabella Falautano and Emanuele Marsiglia (2003): The authors say that bancassurance is essentially a method for distributing insurance products through bank branches. But it is also a global movement that is gradually breaking down the traditional barriers between the various financial products and services. Bancassurance presents specific problems of corporate governance, since it requires cooperation between banks and insurance companies. One of its strong points is the high degree of product standardization and simplicity, meaning that personnel without much insurance knowledge, such as bank clerks, can sell it. From a strict insurance viewpoint, bancassurance represents one of the new insurance distribution channels/vehicles, alongside the traditional agency network, direct channels and financial service promoters. Bancassurance is a “first generation new distributor”. The organizational integration models can be
broken down into typologies and literature has proposed, inter alia, the following scale of "integration levels": commercial agreement between a bank and an insurer; strategic alliance, with an insurance product distribution agreement, between an insurer and a bank, strengthened by an exchange of minority shareholdings; joint venture between banks and insurance companies; captive structure, through the acquisition of a majority stake by a bank or insurance company; captive structure through the establishment of a company. The models range from the loosest entry adopted during the initial stages of bancassurance to authentic synergies between bank and insurer, involving the acquisition of the entire insurance production and distribution cycle. The type of bancassurance integration adopted has been influenced by different regulatory systems and various formulas for separating the risks implicit in banking and insurance. A progressive deregulation was launched in some European countries, starting Models and penetration continue to vary considerably from country to country.). In Europe, the sale of life insurance from bank branches has had positive results. Bancassurance has existed in France for over 20 years. Bancassurance has accounted for a large share of life-insurance business since 1994 with a penetration of over 50 per cent (of premium collection), steadily growing to 66 per cent in 2001, after which it started to slowdown. Unlike other European countries, non-life predominates over life insurance in Germany and distribution is mainly through the agency channel. Bancassurance has rapidly taken root in Italy, as it has in Portugal and Spain, and now represents two-thirds of the new products sold every year (including post office branches). In terms of distribution, multi-channel strategies have ensued from agreements with banks (bancassurance) and with the promoters' network, from the evolution of the agency structure (assurbanking) and the development of direct channels (call centres or the internet). In terms of products, some groups are further diversifying, through cross-selling.

- **Glenn Morgan (1994):** The article examines the development of 'bancassurance' operations in the UK. It argues that there is a continuum in terms of the
integration of banking and insurance. In the UK case, full bancassurance remains
the prerogative mainly of the retail banks; the majority of building societies
remain as 'tied agencies' which do not allow the full strategic integration which is
at the core of bancassurance. However, there are strong indications that the larger
societies see these problems and intend to move to full bancassurance, a process
that may be assisted by the entry of European insurers as partners in this process.
'Putting bancassurance into operation' is a complex process as insurance selling
continues to be seen as a distinctive skill needing to be differentiated from
traditional deposit-taking functions. The paper reviews three cases which differ
markedly in terms of how they seek to balance the conflicting pressures of
integration and differentiation. In the final section, it emphasizes the need to
create integration as fundamental to the customer's experience of bancassurance.
The last decade has seen many changes in the organisation of the financial
services industry in both Europe and the UK. An important aspect of this process
of change has been the closer integration of banks and insurance companies. In
France, the resulting institutional linkages are referred to as 'bancassurance'; in
Germany the term used is 'Allfinanz'. In the UK, the emergence of the phrase
'financial services' reflects the breakdown of old barriers between banking and
insurance and their replacement by integrated institutions offering a range of
services [Salomon Bros., 1990]. Whilst the term 'bancassurance' is now
commonly used, its meaning is less often clearly specified. At its most developed,
bancassurance refers to a financial institution with a branch network which in
addition to its money transmission and lending services also sells its own
insurance and investment products to its branch customers. It is therefore
characterised by a holding company structure in which an insurance company and
a deposit-taking institution co-exist. The customer base on the deposit-taker
becomes the target of the insurance company arm sales, marketing and product
development. Moving away from this full-fledged model, there is the model of the
institution which is predominantly deposit-taking but which sells the product of
one particular insurer through its branch network. In this context, the insurer is a
legally separate entity but there is a stable contractual tie between the deposit-
taking institution and the insurer, in strategic terms, both organisations keep their options open. The legal contract can be renegotiated; both sides continue to pursue their own independent strategies outside this contract even though integration may be close at an operational level, where the insurer sets up a special administrative unit to deal with business from the branch institution, for example. Third, there is the situation where the deposit-taker sells insurance and investment products but has neither its own insurance company nor a legally contractual tie to a particular insurer. In this instance, sales of insurance and investment may be very important to the deposit-taker but no attempt has been made to 'backward-integrate' into the insurance area. Finally, at the opposite end of bancassurance is the situation where a deposit-taker has no insurance business at all or a very insignificant proportion.

3.4 Bancassurance in Asia

• Gupta (2006): Gupta studied that in the Asian markets, bancassurance has a limited share of the total sales primarily due to the near monopoly of the life agents in Japan, which is the largest life market. But there is a shift in stance with markets like South Korea and the Philippines where bancassurance was previously prohibited, taking a more accommodating stance towards this channel. Bancassurance is expected to contribute almost 16% of the life premium in the Asian market in 2006 primarily due to the growth expected in China and India. In the financial year 2005, India has experienced a substantial growth in the life insurance business. The new business premium growth rate for the financial year 2004–2005 over the previous financial year is 36 %. This growth is primarily due to the aggressiveness of the private life insurance sector, which grew by 129%. One of the drivers for this substantial growth is the contribution of the banking industry and the relationship that private insurers have been able to develop with the banks for bancassurance.
Swiss Re Sigma (2002): Bancassurance developments in Asia, shifting into higher gear. The report covers 12 Asian markets of China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. The report suggests that though Bancassurance is more suitable for life insurance products for good reasons, it is also relevant to Asia's non-life insurance markets. Banks are drawn to Bancassurance to secure an additional source of income and to leverage their customer bases. Insurers can benefit from broadening their customer bases and reducing distribution costs. Consumers reap the major benefits from lower premium rates and better services. While there are undisputed benefits, potential pitfalls still remain. Banks usually have stronger brands and thus a bigger reputation risk. Insurers will face channel conflicts, but this is not a reason to back away from using alternative distribution channels. Bancassurance can be carried out under various organizational structures. Optimal results come from choosing the right model taking into consideration specific conditions of each market. The pace at which Bancassurance has developed in Asia differs from market to market. Agents are the major point of contact with customers in the life insurance sector. Agents account for 91% of non-life and 96% of life insurance premiums in Asia. There are varying restrictions on how Bancassurance can be carried out in Asia. Most bancassurance deals in Asia involve only distribution agreements. Joint-ventures are popular in places where foreign insurers can enter the market only with a domestic partner. Most bancassurers focus on using bank networks as the main distribution channel. New comers are exploring bancassurance as a way to counter incumbents' existing agency networks. Bancassurance is expected to bolster Asia's life and non-life insurance premiums by 5.5% and 1.5% respectively by 2006 and account for 13% and 6% of life and non-life insurance distribution.
3.5 Distribution through Bancassurance in India

- **Bijal Mehta & Falguni Pandya (2008):** The authors study the Operational and regulatory concerns for Bancassurance at India. Bancassurance in its simplest form is the distribution of insurance products through a bank’s distribution channels. There are multiple models of Bancassurance practiced around the globe. The efficiency of any model is defined by the extent to which it optimally leverages the strengths of the partners across the activity chain. Bancassurance is practiced at India since 2002. The success of Bancassurance is determined by an effective integration of the bank and the insurance company. However, areas such as common mind-set of personnel, training, after sales service and support pose a hindrance to the above. Effective integration of the two sectors, cultural issues in distribution, dual regulation, optimal risk, channel conflict, product differentiation etc. Now, in addition to acting as distributors, banks have recognized the potential of bancassurance in India and are going to take equity stake in insurance companies in the near future. Similar trend has been observed in UK and elsewhere where Banks started off as distributors of insurance but then moved on to the fully owned insurance subsidiaries. It will drastically change the present equation of Bancassurance in India. The paper attempts to study the regulatory framework that guides the Bancassurance channel at India and highlight key areas of concern that lead to operational and regulatory issues against smooth functioning of the bank and insurance company partnership. The paper tries to highlight necessary changes in the current regulations which if implemented would further strengthen the Bancassurance as a distribution channel of life insurance products in the Indian market.

- **Fulbag Singh and Sonia Chawla (2007):** The paper reviews the major developments in the Indian insurance industry, issues and concerns with regards to the regulatory framework in India. The paper also suggests certain steps to make the industry more vibrant and competitive for all the participants of the industry.
The role of the regulatory framework is that regulations define the requirements of an insurer, provide consumer protection through the supervision of insurers to safeguard their solvency and thus shield the customer from buying insurance from an unsuitable company. More specifically, basic objectives of the insurance regulations are to protect customers from misleading sellers (by regulating the delivery channel, e.g. through standards for agents / licensing agents and brokers) and unfair claims practices; to protect the financial viability of insurers by requiring standards for qualifications; solvency, performance, risk limitation, disclosure, reserves, reporting, auditors and investment restrictions; to define general features of insurance of insurance such as provision for insurance, the types of products and the different types of insurance (eg. Short and long term, national or cross border operations; life insurance and general insurance); to define duties and responsibilities eg. Persons permitted to engage in insurance activities, ownership (management, domicile, holdings and foreign investors); the regulatory agency responsible for insurance regulations and compliance; sanctions and penalties for non-compliance or omission and finally to define the conditions for entry and exit of players in the market.

The insurance industry occupies a prominent place in the Indian economy. Insurance regulation formally began in India with the passing of the LIC Act of 1912 and the PF Act of 1912. The insurance act of 1938 was introduced as the first comprehensive legislation. It provided strict state control over insurance business. To improve the function of life insurance business in India, the Government of India has appointed various committees/commissions/groups which have been formed periodically, both before and after privatization to look after the changes in the Indian insurance industry, and to suggest future modes of operation for overall development. The Malhotra committee submitted its report in 1994. Immediately, after the publication of the Malhotra Committee Report, the Mukherjee committee was set up to make concrete plans for the requirements of the newly formed insurance companies. The Insurance Regulatory Development Authority (IRDA) came in existence through the IRDA ACT 1999 with the aim to provide for the establishment of an authority, to protect the interests of the policyholder and to promote the development and regulation of the insurance sector.
holders, to regulate, promote and ensure orderly growth of the insurance industry and to amend the Insurance Act 1938, the LIC Act 1956 and the General Insurance Business Nationalization Act 1972. Since inception the IRDA has strictly stuck to its schedule of framing rules and regulations for the development of the insurance industry. One major issue is that there should be a single financial regulator or multiple regulators, particularly when it is clear that the participants of the markets are the same entities. A single regulator will be more effective in allocating resources.

- **Rajesh C. Jampala and Bh Venkateswara Rao (2007):** In their article on "Distribution channels of LIC – are they effective?", the authors conclude that the liberalized environment since the opening up of the insurance industry had witnessed a quantum increase in the intermediation process and a number of intermediaries or distribution channels have emerged. Despite the emergence of new distribution channels such as corporate agents, brokers and referrals, the LIC could not make sufficient business from these channels. Further it is noticed that among the new distribution channels, the contribution of corporate agents and brokers is low while that of the contribution of referrals and direct business is nil. Unless the LIC uses the new distribution channels effectively and efficiently, it cannot succeed in the highly competitive insurance business. In short, the LIC has to reformulate its marketing policy. It has to maintain harmonious relations with the corporate agents and brokers. It has to also offer competitive commissions to the intermediaries.

- **DataMonitor (November 2007):** The Indian life insurance market grew by 65.3% in 2006 to reach a value of $32.5 billion. In 2011, the Indian life insurance market is forecast to have a value of $76.1 billion, an increase of 133.8% since 2006. India accounts for 5.6% of the Asia-Pacific life insurance market's value. LIC is the leading player, generating 81.7% of the market's value. The Indian life insurance market generated total revenues of $32.5 billion in 2006, this representing a compound annual growth rate (CAGR) of 27.5% for the period.
India’s regional share of the life insurance market is growing. The regional share that India holds increased from 2.4% in 2002 to 5.6% in 2006. The Indian life insurance market grew by 65.3% in 2006 to reach a value of $32.5 billion. The compound annual growth rate of the market in the period 2002-2006 was 27.5%. India accounts for 5.6% of the Asia-Pacific life insurance market's value. The market is characterized by low entry barriers and high exit barriers. The former encourage new entrants, although success is not guaranteed. In particular, accessing distribution channels, whether bancassurance, independent agent, or Internet, is non-trivial, but vital to success. The market is concentrated, and factors such as high exit barriers boost rivalry. Paths to market entry include the establishment of an entirely new company, or geographic expansion by a company already operating in another country. It is only recently, with the passing of the Insurance Regulatory and Development Authority (IRDA) Act in 1999, that the market was opened to foreign companies. Regulation (by the IRDA) is stringent, and imposes capital requirements of $24 million minimum for new entrants. Repeat business is difficult to attain in this market, since consumers will typically replace their life insurance policies at infrequent intervals only. This means that finding new custom is vital, and access to distribution networks is a key criterion for successful market entry.

- **Karunagaran (2006):** the concluding remarks by the author in the paper ‘Bancassurance: a feasible strategy for banks in India’ say that the success of bancassurance greatly hinges on banks ensuring excellent customers relationship, therefore banks need to strive towards that direction. As pointed out by Low (2004), the changing mindset is cascading through the banking sector in India and this would be a right time for banks to resorting to bancassurance, especially in the context of proactive policy environment of regulatory authorities and the Government. The fact that the banking operations in India, unlike in other developed countries, are still branch oriented and manually operated vis-à-vis highly mechanized and automated banking channels, viz., internet banking, ATMs, etc. are all the more conducive for flourishing of bancassurance.
Regulators could explore the possibility of allowing banks having tie-up arrangements with more than one insurance company, giving wider choice for the customers. In addition to acting as distributors, banks have recognized the potential of bancassurance in India and will take equity stakes in insurance companies, in the long run. This is somewhat similar a trend observed in the United Kingdom and elsewhere where banks started off as distributors of insurance but then moved on to the fully owned insurance subsidiaries. Going by the present pace, bancassurance would turn out to be a norm rather than an exception in future in India.

- **N.Jeyaseelan (2006):** From Micro Credit to Micro Bancassurance. The study findings suggest that the poor face various risks and remain vulnerable as most of them have no access to formal risk transfer arrangements. Risk perception by the poor also differs according to their habitat, livelihood, buffer assets and awareness. The poor prioritize risks of life, accident, health, livestock and crop loss risks as the most important risks in their life time. Integrated provision of savings, loan and insurance services to the poor by the banks will offer a higher financial security to the poor households. It will reduce their vulnerability and encourage them to invest more in income earning assets and take additional risk. As banks have a larger network of branches and SHGs within their fold, they can sell the micro insurance products, service them and can earn additional income, which can improve the bottom line of the banks.

- **DataMonitor (November 2006):** The Indian life insurance market grew by 13.5% in 2005 to reach a value of $20.2 billion. In 2010, the market is forecast to have a value of $33 billion, an increase of 63.2% since 2005. India accounts for 3.5% of the Asia-Pacific life insurance market's value. While the market for life insurance in India is still small, its growth in value has been strong during the past five years.
• **Tapan Sinha (2005):** In this paper, the author examines the Indian insurance industry. The paper starts by examining the details of the regulatory regime that existed before independence. It highlights the importance of the rural sector – where the majority of the Indians still live. It shows how the recent privatization is playing out in the market. Based on recent economic estimates, the paper provides projections of segments of the market for 2025. The paper says, India is among the important emerging insurance markets in the world. Life insurance will grow very rapidly over the next decades in India. The major drivers include sound economic fundamentals, a rising middle-income class, an improving regulatory framework and rising risk awareness. Despite the restriction of 26% on foreign ownership, large foreign insurers have entered the Indian market. State owned insurance companies still have dominant market positions. But, this would probably change over the next decade. In the life sector, new private insurers are bringing in new products to the market. They also have used innovative distribution channels to reach a broader range of the population. There is huge in the largely undeveloped private pension market. The rural sector has potential for both life and general insurance. To realize this potential, designing suitable products is important. Insurers will need to pay special attention to the characteristics of the rural labor force, like the prevalence of irregular income streams and preference for simple products.

• **Dr. Karunakar Patra (2005):** The author observes in the paper that, FDI is widely seen as one of the most positive forces in recent economic globalization with the supposed potential to transform productive structures in developing countries and bring about economic convergence across the different regions of the world. In a developing country like India, FDI is one of the prime concern areas and looked forward as a capital inflow and foreign currency source. The study examines the impact of FDI in the insurance sectors at India. This article critically studies the situation of insurance industry prior to the proposed amendments based upon the KPN committee. The entry of foreign partners has resulted in the sector attracting FDI of US 543 million. The private companies
have created a niche for themselves. India’s restrictive rules on foreign investment in insurance continue to create problems for businesses. Taking into account the changing socio-economic demographics, rate of GDP growth, changing consumer behavior and occurrences of natural calamities at regular intervals, the Indian Life Insurance market is expected to reach the value of around Rs.1,683 Billion in the year 2009. If the Indian economy has to grow at 9% pa for the next five years till 2012, then India has to attract huge amount of FDIs annually.

- **Tapen Sinha(2005):** Bancassurance in India – who is tying the knot and why.
  The author examines the factors behind Bancassurance at India by examining the developments and performing quantitative tests. Bancassurance commonly means selling insurance products under the same roof of a bank. In India, there are a number of reasons why bancassurance could play a natural role in the insurance market. Based on the information provided in the article, the author developed the following hypotheses.

  *Hypothesis 1:* For banks, if the business per employee is low, it is likely to be attracted to improve productivity by adding bancassurance in their portfolios.

  *Hypothesis 2:* For insurance companies, non-performing assets of a bank will act as a brake on the bank/insurance company tie-up for insurance distribution.

  *Hypothesis 3:* If a bank profitable (by the standard of banking industry), it could be less likely to get away from core business. On the other hand, a more profitable bank might be willing to gamble some of its profits to a new line of business.

  *Hypothesis 4:* For insurance companies, the larger the network of bank branches (for banks with national presence), the more the likelihood of a bank/insurance company tie-up for insurance distribution.

For hypothesis 1, the author has taken the variable “business per employee” as the measure for business activities of a bank. For hypothesis 2, the independent variable “net non-performing assets/net advances” is taken to measure non-performing assets of the bank. For hypothesis 3, the “return on assets” ("ROA") is taken as the independent variable. For hypothesis 4, the volume of business as the
size variable is taken. The results showed that the variable "business per employee" is negatively correlated with bancassurance variable at a significance level of 5%. This confirms Hypothesis 1. Asset performance is also negatively correlated with the non-performing assets. However, the association is weaker (only significant at 10%). The authors find support for Hypothesis 2. Hypothesis 3 did not have any support. Hypothesis 4 is also marginally supported (at 10%). The authors also investigated a range of sub-variables. For example, if branches in different geographical areas make a difference. The only variable that shows marginal significance is the number of branches in the semi-urban areas. The study concluded that there are natural synergies between banks and insurance companies.

- (Krishnamurthy, et al) (2005): The authors say that the success of firms in this growing sector will have major contributors to it with effective distribution being at the center stage. There can be two basic models that operate viz., corporate agency model and referral model. Bancassurance offers ready manpower, customer database and relationship banking of the bank to its customers, making insurance a value-addition and in a way beneficial to both partners. He concludes saying that banks are potential partners in distributing insurance products through bancassurance.

- Dr. Subodh Kumar and Ms. Vijay Laxmi Semalty (2005): in the SBI Monthly Review, the author discusses on the convergence of banking and insurance business as a global phenomenon. The process of convergence depends on the regulatory framework of the country for both the industries – banking and insurance. After its inception, the business environment persisting in the economy affects the convergence process. Further, the merger and acquisition like happenings depend on ownership patterns existing in the businesses. The demographic features, income size and consumption patterns are other elements, which have an effect on business policy and market strategies on big entities like banks and insurers. The convergence of banking and insurance services can occur in two broad ways – bancassurance and assure banking. The bancassurance has
started in the Indian market. Bancassurance takes place through many models. In
the Indian context, the referral model has been rejected in the industry. Studies
in the filed indicate that it does not suit the Indian market. The corporate agency
model is getting popularity among bankers and insurers. In additions to the
without risk models, some risk associated models will also be opted certainly in
the time to come. The SBI Life is an example of risk-based models. Some
mergers and acquisitions will certainly occur among banking and insurance
companies. In the time to come, a line may be opened for assure banking too.

- M.B.N. Rao (2005): In his article on Bancassurance in India: challenges and
opportunities, the author has done a detailed SWOT analysis on the Indian
Bancassurance sector. According to him, with the vast network of bank branches
across the length and breadth of the country, the scope for growth of
Bancassurance is beyond imagination. Bancassurance has seen significant growth
across the globe in the past few decades. In the last 3-5 years, this concept has
gained momentum in India. This arises from the fact that banks, especially those
in the public are one of the most trusted institutions in the country. Issuance of
Government notification under Banking Regulation Act (1949) for banks to
undertake distribution business of insurance products paved the way for
Bancassurance in India. The IRDA notification on Corporate Agency regulations
in October 2002 allowed banks to act as a corporate agent, of one life insurance
Company and one non-life insurance company. The pace of growth of
Bancassurance and its manifestations in different countries, depends on the
demography and economic and social fabric of a particular country. The real
challenge for the Indian players lies in improving the quality of distribution
through bank branches and leveraging it effectively to increase the sale of their
own products. Bancassurance as a channel offers optimum opportunity for the
insurers to focus on the target audience group as they are in a position to offer
products based on the life cycle requirements of the customers. The opportunities
made available to the banks are customer satisfaction, customer retention,
increased shareholder value, increase in return on assets with the availability of
risk free income in case of corporate agency model, introducing sales culture among the bank staff, marketing credit insurance products to reduce banks' risk of default due to untimely death of customer. The opportunities to insurance companies are lower cost of customer acquisition, better after sales service from bank branches, quicker reach to untapped markets, introduction of new hybrid products, economies of scale. For the customer there are benefits such as all financial products under one roof. The challenges faced by Bancassurance to the banks are cultural issues in distribution, conflict of interest between dual regulators (RBI and IRDA), product differentiation, cannibalization of deposits image and reputation risk, operational risk, channel conflict, incentive and remuneration package, customer service and technology issues. Opportunities are plenty. Challenges can be converted into further opportunities and as the percentage of uninsured and insurable population is quite substantial, the scope of insurance business is very vast.

- **Watson Wyatt India (2002):** The article by Graham Morris discusses on how the seeds are sown for Bancassurance at India. The article concludes that where legislation had allowed, Bancassurance has mostly been a phenomenal success and although slow to gain pace, it is taking off across Asia, with the starting of banks diversification as financial institutions and the increased acceptance of the universal banking concept. In India, the signs of initial success are already there despite the fact that it is a completely new phenomenon. The factors and principles of why it is a success elsewhere exists in India, and banks are set to become a significant distributor of insurance related products and services in the years to come.

- **Manoj Kumar (2000):** In his article in the compilation on Bancassurance at India by the National Institute of Bank Management (NIBM), the author says that the creation of Bancassurance operations has a material impact on the financial services industry at large. Banks, insurance companies and traditional funds management houses are converging towards a model of global retail financial
institution offering a wide array of products. It leads to the creation of ‘one stop-shop’ where a customer can apply for mortgages, pensions and savings and insurance products. Discovery comes from looking at the same thing as everyone else but seeing something different. Banks’ desire to increase fee income has them looking at insurance. Insurance carriers and banks can become part of the vision through strategic partnerships.
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