Chapter VI

Suggestions, Summary and Conclusion
This chapter presents the interpretations of the findings that were presented in chapters IV and V. The chapter also provides suggestions, summary and conclusions of the study.

6.1 Discussion on Primary Objective I

- To study whether selling through banks is more effective for insurance companies than selling through other channels such as Agency and the Alternate Channel.

In order to support the above primary objective, the following secondary objective is taken into consideration.

- Identify the various mechanisms to examine whether Bancassurance increases both internal and external customer satisfaction.

The interpretations of the relevant findings for the above are given below.

When asked whether you would like to change the relationship to any other bank from your current insurance company partner, a significant percentage responded in the negative.

By providing support in areas such as internal employee motivation schemes and manpower allocation for sales, the insurance companies are making an effort to ensure that the effectiveness of the partnership continues to enhance. The respondents are aware of such initiatives at the front-line and middle management levels which is a positive sign.

When respondents in the customer category were asked regards their reason of purchasing the insurance policy from the bank. 51% of those who responded agreed that the purchase was need based. This goes to show that banks are making efforts to educate customers on the need for life assurance as a security tool and not just for investment purpose or tax-savings. Possibilities for agents to reach this level of maturity and to talk to customers on these lines may be rare.
A significant percentage of customers who had purchased the policies through the Bancassurance channel agreed that they would recommend the particular bank(s) for life assurance policy transactions to their friends / colleagues. This goes to show the level of external customer satisfaction through the bancassurance channel.

When asked on their opinion to change the relationship from the existing life insurance company to another life insurance company, 88% of the bank employees responded in the negative. This is a positive sign for the insurance companies who are in existing relationships with the respondent banks.

When bank employees were asked if they would recommend the policies of the current partner insurance companies to others for purchase, 90% responded in the positive. This is a sign that the banks who are selling the policies for insurance companies are satisfied with the type of policies designed and think it appropriate for the segment of customers that they may be marketing the policies to.

As given in the detailed analysis in Chapter 5 the below three Hypothesis also support to fulfill the above objectives.

**Hypothesis I** (There is no difference between purchasing through banks and through other channels of distribution) is rejected resulting into “There is a significant difference between purchasing through banks and through any other channel of distribution”.

**Hypothesis II** (There is no significant impact on the level of internal customer satisfaction from the Bancassurance tie-up with a particular bank) is rejected resulting into “There is a significant impact on the level of internal customer satisfaction from the Bancassurance tie-up with a particular bank.”

**Hypothesis III** (There is no significant impact on the level of internal customer satisfaction from the Bancassurance tie-up with a particular life assurance company) is
rej ected resulting into “There is a significant impact on the level of internal customer satisfaction from the Bancassurance tie-up with a particular life assurance company).

Through Factor Analysis and Varimax Rotation Method, various factors were found to be present in the current partnerships between the banks and insurance companies. In the opinion of insurance company employees, the factors that came to light were culture and code of conduct, commitments and service delivery and open communication and role clarity. For the similar area, in the opinion of bank employees, two factors were generated namely culture and commitment to work and place of origin & code of conduct.

6.2 Discussion on Primary Objective II

- To study the effect of the present Distribution Agreement model of Bancassurance practiced at India, and compare the benefits with the three basic models of Bancassurance namely Joint Venture, Strategic Alliances and the Financial Services Group (Investment Option) practiced in different countries namely Japan, Thailand, Europe and USA etc. and suggest suitable changes in the present model or a new model for the Indian insurer.

The secondary objective viz. “study the earning through Bancassurance for insurance companies and banks” is taken into consideration to support the above primary objective. The following two sets of information are considered to discuss the above areas.

As shown in the comparison of Bancassurance between Europe, Asia and India, the Indian distribution is primarily through the mode of Distribution Agreements where as for other countries in Asia it is in the form of joint-ventures and distribution alliances. In the European market, which is also the pioneer for Bancassurance globally, they have moved to the highly integrated models where the Banks and the Insurance companies work in tandem on all aspects starting from product design to policy and procedural changes. Banks are also known to enter into Insurance business of their own in this high
integration scenario. The market access regimes at India also do not permit establishment of subsidiaries and the establishment of branches which is a major drawback for the development of Bancassurance.

Based on the new business underwritten (table given below), the total business underwritten through banks was only 6.38% in comparison to that written through the agents which was at 85.6%. This shows that both private and public sector insurance companies were still dependent on the Agency channel of distribution as a primary business generator for the company. Bancassurance would have to have a significant level of development in order to become the prime business generator for insurance companies.

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Europe</th>
<th>Asia (General)</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Growth</td>
<td>Liberalized</td>
<td>Ranging from liberalized to forbidden</td>
<td>Supportive</td>
</tr>
<tr>
<td>Bancassurance channel</td>
<td>Highly integrated models</td>
<td>Mostly distribution alliances and joint ventures</td>
<td>Distributive models</td>
</tr>
<tr>
<td>Major drivers</td>
<td>Tax concessions for life insurance premiums paid, squeeze on bank margins</td>
<td>Squeeze on bank margins, insurers growing cost pressure and desire to expand distribution capability, financial deregulation, foreign companies use to enter Asian market</td>
<td>Tax free status on maturity, small tax relief on premium, narrowing bank margins.</td>
</tr>
<tr>
<td>Products</td>
<td>Mainly life insurance products to maximize tax benefits, mostly single premium</td>
<td>Mainly life insurance products linked to bank services and increasingly products geared towards managed savings</td>
<td>Mainly non unitized regular premium</td>
</tr>
<tr>
<td>Distribution</td>
<td>Multi bank branches</td>
<td>Mainly bank branches</td>
<td>Bank branches</td>
</tr>
<tr>
<td>Major players</td>
<td>Domestic banks and insurers</td>
<td>Foreign companies are playing an important role</td>
<td></td>
</tr>
<tr>
<td>Sophistication</td>
<td>High</td>
<td>Varied</td>
<td>Low</td>
</tr>
</tbody>
</table>

Adapted from presentation by Swiss Re CEO Summit and another presentation by Krishnamurthy

<table>
<thead>
<tr>
<th></th>
<th>Individual agents</th>
<th>Corporate agents</th>
<th>Brokers</th>
<th>Referral</th>
<th>Direct business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Banks</td>
<td>Others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private sector</td>
<td>59.71</td>
<td>16.87</td>
<td>8.92</td>
<td>0.83</td>
<td>7.06</td>
</tr>
<tr>
<td>LIC</td>
<td>98.37</td>
<td>1.25</td>
<td>0.32</td>
<td>0.06</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>85.67</td>
<td>6.38</td>
<td>3.15</td>
<td>0.31</td>
<td>2.32</td>
</tr>
</tbody>
</table>


6.3 The following are certain important secondary observations based on the study:

The global life insurance market grew by 5.6% in 2005 to reach a value of $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 accounts for 37.1% of the market’s gross written premiums. The global market comprises Asia-Pacific, Europe and the Americas. Europe accounts 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. (Swiss Re) With the number of career life insurance agents on the decline, insurers have begun to explore nontraditional distribution outlets as a means to mitigate potential future losses. The cultural divide between life insurers and banks 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.

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 with markets like South Korea and the Philippines where bancassurance was previously prohibited, taking a more accommodating stance towards this channel. One of the drivers for the substantial growth of the life insurance industry at India 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)
Based on the secondary data and knowledge generation and the primary findings through the survey, it is hoped that the following suggestions shall have important policy implications:

6.4 Suggestions at the operational level

While the agency channel still dominates in the selling of life assurance policies to customers, customers who have purchased policies from banks also are more satisfied with the latter form in terms of service received. This trend must continue at a larger scale in the entire population and not just for the sample alone.

a. While external customers shall not necessarily shift to any other bank for purchase of life insurance products, there is virtually no difference in the post purchase service received through the normal agency channel or through any bank. Banks may therefore need to work on the service offered to differentiate themselves.

b. In the current set of respondents, neither the bank respondents nor the insurance company respondents wish to change their relation from the current partnerships. This is a positive sign and shows that individuals at the operational level are satisfied with the current tie-ups. The question still remains on what it would take to ‘delight’ the external as well as internal customer rather than the mere satisfaction.

c. The quality of the bank customer data needs to be consistently maintained and updated in order to support the sales and customer service staff to reach the right customers at the right point in time.

d. There should be a proper, complete and continuous integration at the branch level of the insurance companies as well as the banks in order to avoid repetition and re-use of information whether it is that of customers or policies.

e. Reorientation of the staff toward being more customer friendly is necessary for the success of Bancassurance.

f. For the knowledge and product information awareness, the insurance company as well as banking sector should work together to impart training to its bank staff on various products, services and claim settlement procedures. They can also
undergo systematic research and can update it regularly. They can use the knowledge pool from both banking and insurance sector.

g. 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.

6.5 Suggestions at the strategy level:

h. While there may be commitment from the front line and middle management staff, a clear cut vision and mission for Bancassurance is a must on both the sides of the insurance companies and the banks at the senior management level also.

i. Both banks and insurance companies need to keep up consistent efforts to maintain their brand images positively as this is an important area of consideration by both banks and insurance companies looking to forge partnerships with another from the industry. This is especially true for some of the government entities whose images are poor by local and international standards.

j. Brand synergy, reach of the bank across the country, reputation in the market and needs and requirements of customers are important factors that need to be kept in mind when deciding on an insurance company and bank partnership.

6.6 Suggestions at the regulatory level

k. In the absence of a unified regulator or a single regulator, there may be possibilities of regulatory arbitrage. Therefore, a single regulator for both banks and insurance companies needs to be formed, particularly in the context of Bancassurance.
6.7 Industry Implications of the study

Given below are some implications of the study for banks and insurance companies.

For Banks

Ever since the emergence of private life insurance in India, and the reducing rate scenario the banks have been under pressure to increase focus on third party products. Amongst the third party products, life assurance has been the high on priority for majority of the banks.

The private and multinational banks were among the first to take advantage of this changing times for their benefit. What has come to light through this study is that a lot of banks have taken this route to gain experience and eventually launch their own insurance companies. Some on the other hand have changed from one principal for better commission earnings and further penetrating their own customer base.

The trend which was so far observed was that many products were sold on either relationship or product commission or banking obligations as the main pitch for pushing the products. However this trend shall further completely change into customer need based selling and further eventually grow into genuine product bundling eg. reducing term policy along with home/long term loans or endowment policy along with a reoccurring account or long term fixed deposits. The regulations need to be in favor of the Bancassurance model for the above expected practices to materialize.

For Insurance Companies

Entering into a partnership with a bank is one way to reach a large customer database, gain market acceptability & reliability and save on establishment/ infrastructure costs. Almost every private insurer today either through retail base or wholesale group policy has entered its base in banks. Insurers have spent as much as 50% of base commissions on overrides, contest for the bank employees and other co branding activities to enhance
With the "Cap on Charges Circular" of IRDA and the proposed effects of Swaroop committer reports, the insurers again are reworking the arrangements with the banks and are looking into the more customer / product based pitching to enhance their relationship. Further on with more and more banks both private & public deciding to start their own insurance companies there is a clear focus drive from insurers to focus on small banks and product bundling. This is evident from the study also as several insurance companies have tied up with local cooperative banks to reach far off corners of the country.

with the changing scenario, however, the insurers will have to really become more and more cost effective and productive failing which they shall not be able to offer competitive rates of commissions and equally competitive rates of products to stay in business in the emerging multiple insurers or "open architecture" market scenario.

With stricter rules from IRDA and RBI, the regime of high commission to banks will become obsolete and the best service, product innovation and a thorough understanding of the market will win Bancassurance space for the insurers.

In the coming times, it will be imperative for both partners to focus on customer service and enhanced fund management for the customers to win the space for Bancassurance as a distribution channel for insurance products.

6.8 Directions for future research
This research has found some interesting developments which gives the following directions for future study:

- While majority of the customers are satisfied with their purchase of the policies through the banking channel, the agency channel still dominates the market today. A study can be conducted on the occurrence of the phenomenon. The possible reasons can be identified through quantifiable measures.
• Distribution agreement model through corporate agent mode dominates the Bancassurance market today and most of the referral arrangements are getting converted to corporate agency for the want of long term benefits and also to adhere to regulatory frameworks. Yet, there is less commitment than what should be there from employees, which can be corrected through proper knowledge enhancement and job descriptions changes over a period of time.

• At the strategy level, senior management individuals can be interviewed on their view on the future of the Bancassurance channel and the alternative routes that they may consider if the Bancassurance channel does not succeed as desired and planned.

• Through statistical study and data it has been proven a number of times that alternative channels such as Bancassurance have grown from a side option to a major contributory channel for distribution of Insurance products at India. Study can be conducted on how this channel can be made a fore runner for companies as there is a definite possibility of a higher gain of sophistication for the industry as a whole, if this materializes into action.

6.9 Conclusion

There are natural synergies between banks and insurance companies. In India, with the deliberate expansion policies of banks in remote areas, a large number of bank branches reach even the remote areas. Banks have the “Trusted Brand” advantage. Regulatory changes made by the Reserve Bank of India and the Insurance Regulatory and Development Authority have been favorable to bancassurance development. Restrictions on foreign share ownership limit the choice of bancassurance. Many foreign insurers would like to see the bank branches as their main distribution channel. This can only be done if there is smooth flow of information between the customer database of the banks and their insurance partners.

Globalization has brought a significant change in the distribution methods of life assurance products. There is convergence of interest, innovation and a future outlook for life assurance products. India is moving towards realizing the importance of life
assurance as not just an investment tool but also as a security measure for future. Both public and private sector companies at India have geared up towards grabbing this opportunity to penetrate the life assurance market. While efforts are on the rise for alternate distribution channels for the same, the agency model still dominates the market and may continue to do so. Insurance companies and banks involved in the Bancassurance channel must further increase their focus on Bancassurance as a distribution channel if they wish to take advantage of the possible synergies between the two participants. Customer requirements, market reputation, brand synergy between the participating companies and reach of the bank are areas that the bancassurance partnership must continuously work on for success.