CHAPTER - III

REVIEW OF LITERATURE

This chapter presents a review of available literature relating to banking industry and distribution of insurance products. Globally, the banking industry is in an advanced stage of development in developed economies as against the initial stages in developing economies. Keeping with this trend, quite a few research studies and analysis have been done with respect to the banking industry globally. In India, after the liberalization of life insurance industry in 2000, we are witnessing significant changes in the products offered, services delivered and methods of distribution. Due to monopoly status of the life insurance industry between the years 1950 to 2000 coupled with the lack of product differentiation, there have been few elaborate studies in India on this subject. This review is aimed at capturing the essence of recent investigations undertaken in the banking industry both in India and globally.

3.1 STUDIES ON BANCASSURANCE AT GLOBAL LEVEL

Carow (2001a) and Johnston and Madura (2000) investigated the 1999 merger of Citicorp with Travelers, which signaled impending financial modernization, and found positive market value gains for the merged entity, life insurers, large banks, and brokerage firms.

Carow and Heron (2002) examined the capital market reaction to GLB and found that only insurance and investment companies were predicted to benefit from GLB. Carow (2001b) focused on how a reduction in the insurance industry’s
barriers to bank entry affected the market value of firms in the insurance and banking industry. His evidence suggested that insurance companies experienced a significant reduction in wealth due to the OCC and Supreme Court rulings while bank stock prices did not change significantly.

Malabika Deo (2005) in her article on “Bancassurance – A Win-Win Solution for Banks and Insurers” has stated that competition in bancassurance is going to be immense with big players in both the banking and the insurance sector eager to embrace this new concept. She has also opined that banks with more than 60,000 branches provide an ideal ground for easy access to the customers and for the foreign players.

Chen et al. (2008) have been of the opinion that most studies dealing with bancassurance have only been descriptive in nature, providing a broad insight into economic rationales, advantages and drawbacks for all the institutions involved. Only few authors have provided quantitative findings, focusing on the potential risk diversification benefits associated with bank expansion into the insurance industry.

Cummins and Xie (2008a) examined the efficiency, productivity and scale of economies in the US PC insurance industry over the period 1993-2006. They have found that the majority of firms below median size in the industry are operating with increasing returns to scale, and the majority of firms above median size are operating with decreasing returns to scale. However, a significant number of firms in each size docile have achieved constant returns to scale. Over the sample period, the industry experienced significant gains in total factor productivity, and there is an upward trend in scale and allocation efficiency.
However, cost efficiency and revenue efficiency did not improve significantly over the sample period. Regression analysis shows that efficiency and productivity gains have been distributed unevenly across the industry. More diversified firms, stock insurers, and insurance groups were more likely to achieve efficiency and productivity gains compared to less diversified firms, mutual’s, and unaffiliated single insurers. Higher technology expenditures increase the probability of achieving optimal scale for direct writing insurers but not for independent agency firms.

Cummins, Weiss, Xie and Zi (2010) have investigated the economies of scope in the US insurance industry over the period 1993–2006. They have tested the conglomerate hypothesis, which holds that firms can optimize by diversifying across businesses, versus the strategic focus hypothesis, which holds that firms optimize by focusing on core businesses. They have added that scope economies can originate from cost complementarities (including the sharing of inputs such as customer lists and managerial expertise), earnings diversification (which permits the firm to operate with higher leverage ratios), and revenue complementarities (“one-stop shopping” opportunities for consumers that reduce search costs). On the other hand, operating a conglomerate may increase management and coordination costs, exacerbate principal-agent conflicts, and create cross-subsidization among subsidiaries due to inefficient internal capital markets. The authors have tested also scope economies by estimating cost, revenue, and profit efficiency using data envelopment analysis (DEA), which measures efficiency by comparing each firm in an industry to a “best practice” efficient frontier formed by the most efficient firms in the industry. LH outputs are
measured using real invested assets, the real value of incurred benefits, and additions to reserves for individual life, individual annuities, group life, group annuities, and accident-health insurance. According to them, PC outputs include real invested assets and the present values of real losses incurred for short and long-tail personal and commercial lines. The same inputs are used for each category of insurers –administrative labor, agent labor, materials and business services, and financial equity capital, all measured in real dollars using the Consumer Price Index. The authors have presented the regress efficiency scores on control variables and an indicator for strategic focus. They have found that PC insurers realize cost scope economies, but these are more than offset by revenue scope diseconomies. LH insurers have realized both cost and revenue scope diseconomies. Hence, they concluded that strategic focus is superior to conglomeration in the insurance industry.

Elango, Ma, and Pope (2008) have investigated the relationship between product diversification and firm performance in the US PC insurance industry using data for 1994-2002. The extent of product diversification shares a complex and nonlinear relationship with firm the performance. The findings suggest that the performance benefits associated with product diversification are contingent upon an insurer’s degree of geographic diversification.

Liebenberg and Sommer (2008) have developed and tested a model that explains insurers’ performance as a function of line-of-business diversification and other variables using a sample of property-liability insurers over the period 1995-2004. The results have indicated that undiversified insurers consistently outperform diversified insurers. In terms of accounting performance, the
diversification penalty is at least 1 percent of return on assets or 2 percent of return on equity. Using a market-based performance measure (Tobin’s Q) the authors have found that the market applies a significant discount to diversified insurers. The existence of a diversification penalty (and diversification discount) provides strong support for the strategic focus hypothesis. The authors also have found that insurance groups underperform unaffiliated insurers and that stock insurers outperform mutuals.

Ma and Elango (2008) have investigated the relationship between property-liability insurers’ international operations and their risk-adjusted returns using cross-section and time-series data for the years 1992 through 2000. The findings indicate that the relationship between international operations and performance is contingent upon the degree of product diversification. Insurance companies with focused operations in terms of product lines achieve higher risk-adjusted performance as they increase their exposures to international markets. However, insurers who are highly diversified across product lines face declining returns with greater exposure to international markets.

Eling and Luhnen (2010) have conducted an efficiency comparison of 6,462 insurers from 36 countries. They have found a steady technical and cost efficiency growth in international insurance markets from 2002 to 2006, with large differences across countries. Denmark and Japan have the highest average efficiency, whereas the Philippines have the least efficiency. Regarding organizational form, the results are not consistent with the expense preference hypothesis, which claims that mutual’s should be less efficient than stocks due to
the higher agency costs. Only minor variations are found when comparing different frontier efficiency methodologies (data envelopment analysis and stochastic frontier analysis).

Xie (2010) has found that the likelihood of an IPO significantly increases with size and premium growth. IPO firms experience no post-issue underperformance in efficiency, operating profitability, or stock returns; they register improvement in allocate and cost efficiency; and they reduce financial leverage and reinsurance usage. Moreover, IPO firms are active in follow-on SEO issues and acquisition activities. The findings are mostly consistent with the theory that firms go public for easier access to capital and to ease capital constraints.

D’Arcy and Gorvett (2004) have used a Dynamic Financial Analysis (DFA) model, which utilizes Monte Carlo simulation, to determine optimal growth rates of a PC insurer. New business for PC insurers generates high loss ratios that gradually decline as a book of business which goes through successive renewal cycles. Although the experience on new business is initially unprofitable, the renewal book of business eventually becomes profitable over time. Within this context, insurers need to manage their exposure to growth in order to maximize long term profitability.

Cummins and Weiss (1993) have investigated the efficiency of PC insurers by estimating stochastic cost frontiers for three size-stratified samples of property-liability insurers over the period 1980–1988. A trans log cost function and input share equations are estimated using maximum likelihood techniques. The results show that large insurers operate in a narrow range around an average efficiency level of about 90 percent relative to their cost frontier. Efficiency levels for
medium and small insurers are about 80 and 88 percent in relation to their respective frontiers. Wider variations in efficiency are present for these two groups in comparison with large insurers. Large insurers slightly over-produce loss settlement services, while small and medium-size insurers under-produce this output. The small and intermediate size groups are characterized by economies of scale, suggesting the potential for cost reductions from consolidations in the industry.

Toivanen (1997) has studied economies of scale and scope in Finnish non-life insurance. The production process is separated into cost and portfolio management functions. In his view, Firms expand their branch network to either gain market power or informational advantages. He has added that there are diseconomies of scale at firm level and economies of scale at branch level, and economies of scope in production. According to him large firms in the non-life insurance industry pay a substantial premium to gain market power via branch networks. The retained premiums-curve of portfolio management is U-shaped and has a positive function of the number of branches.

Heyman and Rowland (2006) have pointed out that the investment officers of publicly held PC companies wrestle with the question of how best to contribute to shareholder value. One approach is to manage the investments independent of the insurance operations, as if they were a closed-end investment company that happens to be funded by insurance underwriting. Another approach is to invest funds primarily to defend the firm’s liabilities and thus support the insurance operations of a company whose principal value derives from its insurance activities. The authors emphasize the second approach. They argue that the
investment policy of the most insurance companies should have two primary objectives: (1) immunizing insurance reserves with a fixed-income portfolio and (2) earning “abnormal returns” on surplus in “a responsible and disciplined” way. The latter goal means adhering to an asset allocation approach that takes into account the risk-reward tradeoffs presented by a broad variety of investment types as well as the accounting treatment of investment income. The authors further argue that net investment income (“NII”) is the best benchmark of performance and that the active management and portfolio approaches that aim to produce a growing, but relatively stable NII would maximize market value.

Pottier (2007) has examined the determinants of private debt holdings in the life insurance industry. The results suggest that larger insurers, insurers with higher financial quality, mutual insurers, publicly traded insurers, insurers facing stringent regulation, and insurers with greater cash holdings are more prevalent lenders in the private debt market.

Liebenberg, Carson, and Hoyt (2009) has examined life insurance policy loan demand in terms of four hypotheses that have been put forth in the literature. In contrast to previous studies that examined aggregate data, the authors use detailed data from the Survey of Consumer Finances that allow an alternative and in some cases more direct examination of policy loan demand based on individual household circumstances. Unlike prior studies, the authors find a significantly positive relation between loan demand and recent household expense or income shocks. By observing actual life insurance holdings and policy loan data for families, the authors provide evidence in support of the policy loan emergency
fund hypothesis. The findings are particularly relevant for insurers since the results provide evidence of an increase in policy loan disintermediation following either expense or income shocks at the household level conditions that are particularly prevalent during recessionary times due to unemployment or reduced work hours. Such a finding is fundamental for insurers as they account for the effects of economic conditions in their estimates of policy loan demand. The results also suggest that credit scores may be useful predictors of loan demand, and thus insurers may be able to improve their estimates of future policy loan demand by using credit scores or other credit information.

Chen, Yao, and Yu (2007) have found that active equity mutual funds managed by insurance companies under perform peer funds by over 1 percent per year. The lower returns of insurance funds are not due to less risky investments instead insurance funds have lower risk-adjusted returns, and their fund flows are less sensitive to performance when they perform poorly. Across insurance funds, those with heavy advertising, directly established by insurers, using parent firms’ brand names, or whose managers simultaneously manage substantial non-mutual-fund assets, are more likely to underperform. The authors have concluded that insurers’ efforts to cross-sell mutual funds aggravate agency problems that erode fund performance.

Boubakri, Dionne, and Triki (2008) have examined the long run performance of M&A transactions in the property-liability insurance industry. Specifically, they have investigated whether such transactions create value for the bidders’ shareholders, and assess how corporate governance mechanisms, internal and external, affect such performance. The results show that M&A create value in
the long run as buy and hold abnormal returns are positive and significant after 3 years. While tender offers appear to be more profitable than mergers, the evidence does not support the conjecture that domestic transactions create more value compared to cross-border transactions. Furthermore, positive returns are significantly higher for frequent acquirers and in countries where investor protection is weaker. Internal corporate governance mechanisms, such as board independence, and CEO share ownership, are also significant determinants of the long run positive performance of bidders.

Cummins, Tennyson, and Weiss (1999) have examined the relationship between mergers and acquisitions, efficiency, and scale economies in the US life insurance industry. The authors estimate cost and revenue efficiency over the period 1988-1995 using data envelopment analysis (DEA). The Malmquist methodology is used to measure changes in efficiency over time. The authors have found that acquired firms achieve greater efficiency gains than firms that have not been involved in mergers or acquisitions. Firms operating with non-decreasing returns to scale (NDRS) and financially vulnerable firms are more likely to be acquisition targets. Overall, mergers and acquisitions in the life insurance industry have had a beneficial effect on efficiency.

Cummins and Xie (2008b) have analyzed the productivity and efficiency effects of mergers and acquisitions (M&A) in the US property-liability insurance industry during the period 1994–2003 using data envelopment analysis (DEA) and Malmquist productivity indices. The authors seek to determine whether M&A are value-enhancing, value-neutral, or value-reducing. The analysis examines
efficiency and productivity change for acquirers, acquisition targets, and non-M&A firms. They have also examined the firm characteristics associated with becoming an acquirer or target through profit analysis. The results provide evidence that M&A in property-liability insurance were value-enhancing. Acquiring firms achieved more revenue efficiency gains than non-acquiring firms, and target firms experienced greater cost and allocate efficiency growth than non-targets. Factors other than efficiency enhancement are important factors in property-liability insurer M&A. Financially vulnerable insurers are significantly more likely to become acquisition targets, consistent with corporate control theory. M&A are also motivated to achieve diversification. However, there is no evidence that scale economies played an important role in the insurance M&A wave.

Mamun, Hassan, and Maroney (2005a) and Neale and Peterson (2005) suggested that the main winners from GLB were property-liability insurers followed by life insurers, and larger insurance companies benefited more from GLB than others. The results of wealth effects on the banking industry are mixed.

Akhigbe and Whyte (2001) have also found positive valuation effects of GLB on the banking industry.

Hendershott, Lee and Tompkins (2002), on the other hand, did not find significant wealth effect of GLB on banks.

Cummins, Tennyson, and Weiss (1999) examined the relationship between diversifying M&A, efficiency, and scale economies in the U.S. life insurance
industry over 1988-1995. They found that diversifying M&A within the life insurance industry had a beneficial effect on efficiency.

Berger, Cummins, Weiss, and Zi (2000) investigated economies of scope in the U.S. insurance industry by studying diversified and specialist insurers for the period 1988-1992 and found cost scope economies and revenue scope diseconomies, as a result of providing life insurance and property-liability insurance jointly.

Berger, Hancock, and Humphrey (1993) showed that joint production was more efficient for banks in limited branching and statewide branching regulatory environments, and specialization was more efficient for others in unit banking regulatory environments.

Berger (2000) suggested that integration across financial service industries increased the potential for efficiency gains and that integration also may bring greater revenue efficiency gains than cost efficiency gains with most of the gains coming from the benefits of risk diversification.

Malkonen (2004) has conducted a study on financial conglomerations driven by cost-efficiency gains and suggested that conglomerations trigger competition in the credit market and increases profits in insurance. His model showed that cost efficiency gains were fully passed to consumers and aggregate risk in the financial markets was reduced, suggesting lower capital requirements for financial conglomerates.
Lang and Welzel (1998) found scope economies for small German banks.

Allen and Rai (1996) found very small scope economies of universal banking in the EU.

Vander Vennet (2002) showed limited evidence of scope economies of banking in the EU and no consistent evidence of expansion path sub additive.

Goran bergandahl (1995) in an article titled "The Profitability of Bancassurance for European banks" assumed that the expansion of bancassurance relied on three perquisites (i) cross selling through existing branch network(ii) sale of insurance products to customer of the bank and (iii) products produced by a subsidiary to the bank. The author verified these assumptions in many of the banks in Europe. The author has also found that, where customers per branch are sufficiently large and if cross-selling ratio is acceptable and in that particular branch, with investment appraisal assistance bancassurance has become successfull.

Fraser and Kolari (2004) in the paper titled “What's Different about Bancassurance? Evidence of Wealth Gains to Banks and Insurance Companies” -a study on wealth effects in bancassurance mergers between banking and insurance firms in the period 1997-2002 found that bancassurance mergers were positive wealth creating events. On the other hand, they did not find any statistically significant change in total or systematic risks before and after bancassurance mergers. According to the authors, economic motives are the driving forces behind bancassurance mergers. However, the study suggested bancassurance model as not only legal, but also economically viable organizational form for financial service firms.
John Cooper (2013) is his "Success in Bancassurance", The Global Insurance Consumer survey conducted among 24000 customers around the world depicts that customers seek value, convenience and want to buy from banks they trust.

Blanchard and Galloway, (1994) in the service management literature, discuss that customer satisfaction is the outcome of a customer’s perception of the value received in a transaction or relationship.

Anderson and Narus, (1990) have measured trust as a feature with a great influence on the degree of satisfaction at the level of the relationship between producers and consumers through distribution channels. The author has noticed from the above mentioned studies that bancassurance provides a creamy layer income to the bank with the existing customers. Like all other business entities, customers are the back bone and they seek better relationship, convenience, and value added services and above all they need to get things from the banks they trust.

White (1990) traces the development of bancassurance in the US and other markets. One of the reasons for slow development of bancassurance has been attributed to the multistate structure and the legal environment in the US. The entry of financial institutions, particularly banks, into the insurance business marked a significant change in the financial services industry. Bank entry into the insurance business as agent and or underwriter is an accomplished fact in Australia, Britain, Denmark, France, Germany, Ireland, the Netherlands, Spain and other European countries.
Cummins, et al (1998) have examined the relationship among mergers and acquisitions, efficiency, and scale economies in the US life insurance industry. The authors have estimated cost and revenue efficiency over the period 1988-1995 using data envelopment analysis (DEA). According to the findings, acquired firms achieve greater efficiency gains than firms that have not been involved in mergers or acquisitions. Firms operating with non-decreasing returns to scale and financially vulnerable firms are more likely to be acquisition targets. Overall, mergers and acquisitions in the life insurance industry have had a beneficial effect on efficiency.

The research done by Organisation for Economic Co-operation and Development (OECD) Secretariat (2001), dwells in detail on the benefits of life insurance for an individual and for the economy as a whole. The authors also list down the forces, which drive the development of life insurance industry in the OECD countries. The authors have analyzed the impact of key macro indicators like economic growth and regulatory environment in the growth of life insurance industry in an economy. The difficulties to be surmounted by the life insurance industry according to them are inflation, customer awareness, underdeveloped financial markets and lack of actuarial data.

In their research, Hong and Jose (2004) have analyzed the data of life insurance holdings by age, sex, and marital status to infer how individuals value consumption in different demographic stages. One of the key features displayed in the figures, used by the authors, is that the face value of life insurance is greater for males than for females for all ages and marital status. The ratio of face values for
males relative to face values of females is 2.7. Married men and women are more likely to own life insurance than single men and women. Authors used these profiles to learn about how preferences depend on family structure. The findings also indicate that individuals are very caring for their dependents.

Chevalier, Launay and Mainguy (2005), have shown that the fantastic success of bancassurance in certain southern European countries is increasing by the year, with bancassurance premium income in France up more than 10% in 2004. The same is true with Spain and Portugal, where it is the dominant distribution channel and is becoming a strategic factor for life insurance operators. Authors have described the key success factors in bancassurance like regulatory environment, training and also the different models in which bancassurance can be launched. Case studies on successful bancassurance models and practices provide information on factors behind the success.

Gardner and Grace (1993) have estimated hybrid trans log cost functions for 561 life insurers using data for the period 1985-1990. The resulting residuals are used to determine the relative efficiency of insurers in the sample and are tested to see if they are related to so-called X-efficiencies because of internal and external monitoring, or to other factors related to rent-seeking. Results show a large degree of persistent inefficiency which seems to exist among sample firms, the inefficiencies relate to some internal or external monitoring, and rent seeking may be occurring.
3.2 STUDIES ON BANCASSURANCE IN INDIA

Vineet Agarwal (2004) in the article entitled “Bancassurance: Concept, Framework and Implementation” has observed the key issues faced by the banking sector today. Intense competition along with falling interest margin in banks creates an urgent need for developing sophisticated financial products and innovations. Insurance has come as an ideal option for the banks. It fulfills the major requirements for a successful insurance business viz., asset management and investment skills, distribution and capital adequacy. The author has also made a note in his study that French banks, those pre-dominantly choose to start–up their own operations, achieved the greatest bancassurance market shares.

Amitesh Chowdhury, (2004), has brought out the importance of bancassurance. According to him bancassurance is an important tool in the hands of bankers, insurers and customers to maximize their benefits at a time. He present forSWOT analysis, the strength according to them is that India has a large untapped potential insurance markets for LIC and GIC, the weaknesses is lacking implementation of information technology, opportunities are merger and acquisition or setting up of joint venture and the threats he presents that the success of bancassurance requires change in approach.

Vijaya Kumar, A. (2004) in his article on “Globalization of Indian Insurance Sector – Issues and Challenges” argues that the opening up of the insurance sector fosters competition, innovation and productive variations. However, in this context, one has to consider various issues like demand for
pension plan, separateness of banking from insurance sector, role of information technology, possible use of postal network for selling insurance products and above all the role of the regulator.

J.D.Power and Associates (2008) a customer satisfaction study conducted by J.D.Power and Associates reveal that routine service interaction between customer and their insurer has a considerable impact on overall satisfaction.

Tapen Sinha's (2005) study entitled, “Bancassurance in India: Who is Tying the Knot and Why” focused on why banks and insurance companies get into bancassurance in the emerging markets. Economics of scale and scope make this alliance attractive for both the parties. The author has also examined the reasons behind bancassurance by examining the developments and by conducting different quantitative tests. The author in his study has found that there are natural synergies between banks and insurance companies. With the test results, the author has concluded bancassurance as one of the viable proposition for banks.

Anuja Banerjee (2009) in her article studied the concept of Bancassurance and its role in Insurance Industry. According to her, bancassurance is selling insurance products by banks through their distribution channels which has become one of the major Para-banking activates of banks. If marketing of insurance products by banks is done efficiently and ethically, it ensures a win-win situation for all parties concerned, the bank, the insurance company as well as the customer. There is a large potential for future development of Bancassurance in India and many Insurers are finding it as an attractive and profitable form of the distribution channel for the distribution of their products.
Goswami, S., (2005), has analyzed the marketing trends in banking and insurance sector. He opines that the insurance service providers require consultancy in CRM revenue growth and speed for marketing. In order to retain customers constantly high service levels are required either through a conscious CRM type strategy, or through any other means.


Raj Kumar (2008) in his thesis on “Bank Assurance in India: Challenges, Opportunities and Future Prospects” feels that the banking sector with its far and wider reach to the customers is a potential distribution channel useful for the insurance companies. It is a very attractive proposition to banks also for generating additional fee-based income. He has also shown that if bancassurance is taken up in the right direction, it will be a win-win situation to all the stakeholders, i.e., insurers, customers and banks.

Andhra Business Bureau (April 2010) has written an article titled, “Bancassurance to touch 40 percent of premium income by 2012”. Based on Towers Watson India Bancassurance Benchmarking survey 2009-10, it is expected that bancassurance would generate 40 per cent of private insurer’s premium income by 2012, Bright prospects for bank distribution in India, because of the impressive branch banking architecture that reaches every part of the country and touches every economic segment of the population.
Sreesha C.H., Dr. M.A. Joseph, through the “Indian Journal of Finance” Financial Performance of Banks in Bancassurance: A Study with Special Reference to State Bank of India, studied the impact of selling insurance products using banks as a channel. With the help of the study the researcher found that bancassurance is one of the vital medium to improve performance of banks.

Sreesha, Ch. and Joseph, M.A. (2010) in their article on “Bancassurance: A Case of SBI Life Insurance” have expressed that the only matter of concern is how to adjust the existence of insurance players to the changing scenario of increased competition which is expected to further increase due to the entry of big players both from the banking and insurance sectors to capture the huge untapped market. They have also mentioned that as on date no insurance player has moved away from bancassurance and the future seems to be bright.

Sridharan, G. and Allimuthu, S. (2009) in their article on “Bancassurance: Prospects, Strategies, Challenges and Mutual Benefits” have asserted that the Insurance Carriers and Banks in India managed to share the same vision as other Financial Conglomerates forming strategic partnerships known in all markets as bancassurance ventures. Bancassurance, the emerging distribution channel for the insurers, will have a large impact on the Indian financial services industry.

Rajagopalan Krishnamurthy (2010) in his article “Reaching New Frontiers – India Bancassurance” reviews the key findings of the India Bancassurance Benchmarking Survey, 2010, a Research Study from Towers Watson. The survey reflects the views of a cross section of insurers and bank intermediaries. Some findings of the Survey are that the average tenure of tieup with private or foreign
banks tended to be longer than the tie-up with the public sector banks. In mature markets, bank distribution agreements have run for an average period of 5 years. About 50 per cent of the life insurers complain that the excessive demands from the banks for commission and other payouts is the top issue faced.

Brahman R. (2004) et al. in their article “Bancassurance in India- Issues and Challenges” opined bancassurance as an established and growing channel for insurance distribution though its penetration varies across different markets. The study found that Europe has the highest penetration rate in contrast to the lower penetration in North America. According to the authors, social and cultural factors, together with regulatory considerations and product complexity determine the success of bancassurance in a particular market.

Abheek Barua (2004), in the paper titled, “Bancassurance New concept catching up fast in India” explained that in India the concept of bancassurance appears to be gaining ground quite rapidly both through commission based arrangements and joint ventures between banks and insurance companies.

Sridharan. G and Allimuthu. S., (2009), have discussed the benefits of the Bancassurance for the bankers, insurance companies and customers. Due to heavy competition, the insurers incur heavy distribution expenses. Banking sector has been a potential channel useful for the insurance companies for selling their products.

S. Saravan Kumar et al (2012), in their study have shown that the success of bancassurance greatly hinges on banks ensuring excellent customer relationship and hence banks need to strive towards that direction.
Deepika Upadhyaya, (2011) has concluded in her study that ‘although the satisfaction levels are on the higher side, yet there remains a lot to be done by the management of the retail life Insurance companies to maximize the customer satisfaction and improve the quality of service. The satisfaction of the customer with the services of Life Insurance Companies is linked with the performance of the service.

Jay Narayan in IRDA Journal October 2008, Volume VI, No. 10, published an article emphasizing the role of Intermediaries which have a key role to play in the success of Insurance business. Selling of life Insurance products largely depends on the skill and efficiency of the distributor. The role of agent is very vital as compared to other forms of marketing channels like brokers, corporate agents and bancassurance, etc. Bancassurance has emerged as a new form of distribution channel where banks perform the role of intermediary and sell policies directly to the customers.

Kumar (2006), through “Bancassurance-Opportunities and Challenges in India”, (First Edition, Hyderabad ICFAI publication) has clearly mentioned in his book that how bancassurance will be beneficial for banks, insurers and customers and also present challenges and opportunities of bancassurance in India. He identified cultural differences between banks and insurance companies which could pose a major challenge to the growth of bancassurance. Large customer base and the trust of people on bank are the main opportunities for the banks as a distribution channel for insurance companies.
M. Rajkumari (2007) in the paper titled “A Study on Customers' Preference towards Insurance Services and Bancassurance” has examined the awareness, satisfaction and preferences of customers towards various Insurance services and bancassurance. The study has been undertaken by the researcher in order to identify the customer's attitude towards the purchase of insurance products and also their knowledge on the bancassurance formats available through banks. He also gave suggestions to improve customer awareness on bancassurance and the performance of banks in selling insurance policies.

Nandita Mishra, (2012), listed out the issues and problems in Bancassurance in India. Lack of interest and motivation among the bank staff in promoting bancassurance products was the major issue. Transactional model and Relationship-based model are used to sell the bancassurance products. The success of bancassurance depends on the customer relationship of banks.

Pandey. N (2008) in his Dissertation report titled, “Bancassurance as a strategic management tool” has explained the present status of bancassurance and how it is gaining world-wide acceptance and why in an Indian Insurance Industry, it is seen as a strategic management tool.

S Krishnamurthy, S V Mony, Nani Jhaveri, Sandeep Bakhshi, Ramesh Bhat and M R Dixit (2005), in the paper titled, “Insurance Industry in India: Structure, Performance and Future Challenges”, has clearly explained the status and growth of Indian Insurance Industry after liberalization. Besides, they present future challenges and opportunities linked with the Insurance. Insurance is the backbone of country’s risk management system and it influences the growth of an economy.
in several ways. Penetration of Insurance largely depends on the availability of Insurance products, insurance awareness and quality of services. The future growth of this sector will depend on how effectively the insurers are meeting the expectations of their customers and able to change the perceptions of the Indian consumers and make them aware of the insurable risks. The paper has also drawn attention on emerging structure, role of bancassurance, agents and customer services in the success of life insurance business.

Rao (1996) through his study has aimed at an understanding the evolution and development of life insurance business in India over a period of three and half decades. The study focuses on the growth of business by life insurance Corporation of India, which is the monopoly public sector life insurance company. It has been observed that in spite of the commendable growth and performance of life insurance business, a vast potential still exists. Key macroeconomic indicators like population coverage and per capita premium are still very low in India as compared to other developed countries.

Kundu (2002), has assessed different aspects of life insurance business like distribution channel, regulatory reforms, product innovation and investments. With the entry of new players in India, new distribution channels like Bancassurance and direct marketing will see increasing contribution to the industry. Rural sector is a perfect case for mass marketing and the new private life insurance companies cannot afford to ignore this market segment. Competition will surely cause the market to grow beyond current rates and offer varied choices to customers through the introduction of products, services and pricing options.
Agarwal (2002), through his study has talked about the deregulation in India which has resulted in increased number of players in the life insurance market. The competition in the industry has brought changes in business, like experimentation with newer distribution channels and adoption of technology in distribution. It is important that insurers need to develop appropriate infrastructure for the distribution of products, especially in the rural areas. Infrastructure should also be built in terms of reach to the customers and the use of sophisticated technology like CRM (Customer Relation Management) will fetch good results in future.

The history of life insurance industry, starting from the pre independence era, has been described in detail by Sinha (2002). In addition to listing down the grounds for nationalization of life insurance in India in 1956, the reasons for liberalization of the industry under the current economic reforms have also been spelt out. Insurance industry holds a huge potential in India. It is contended that 312 million middle class consumers in India have enough financial resources to purchase insurance products like pension, health care, accident benefit, life, property and auto insurance. Only 2.5 per cent of this insurable population, however, has insurance coverage in any form. The potential premium income is estimated at around US $80 billion. This will place India as the sixth largest market in the world. Over the next couple of decades Indian insurance industry, which is in a critical stage of development, is likely to witness high growth primarily due to two reasons, i.e. financial deregulation and growth in per capita GDP. Financial deregulation always speeds up the development of the insurance sector. Growth in per capita GDP also helps the insurance business to grow.
Thomas (2005), analyses in detail the Indian financial system and the need for the reforms in the early 1990s and the reforms initiated in financial markets, capital market and banking systems. The two visible outcomes are, an increase in the number of insurance companies and products available to the Indian public. Instead of public sector monopolies, over a dozen insurance companies now compete for customer business in India. In 2004, there was a flow of Rs.60, 000 crore of premium income going into the insurance industry. Of this, as much as Rs.6, 000 crore, or roughly 10%, went back to sales agents. This shows an enormous burden of sales costs, which detract from the usefulness of these products for customers.

SumninderKaurBawa and SubashChander (2009) in their article on “Prospects of Bancassurance in India” opine that the entire banking network caters to the needs of people in every economic segment and in widely diverse geographical regions. Thus, banks can change the face of insurance distribution. Hence, bancassurance can catalyst the growth of insurance in this huge untapped market.

3.3 RESEARCH GAP

Indian commercial bank has been offering a range of banking and financial services and gradually they are on the verge of becoming universal brands. With this universal banking concept, commercial banks are focusing on product innovation and have opted for diversification into allied areas of banking business – which paves the appearance and development of Bancassurance.
The researcher has reviewed the earlier studies conducted in the field of banking and insurance and find a dearth of studies in this area. Only a limited number of studies have been conducted in this field during the past decades. Studies in various aspects of banking and insurance sector are very much scanty and studies on bancassurance are not much conducted.

Therefore the present research which focuses on “Efficiency and Preference analysis on Bancassurance of banks in Kanyakumari District” is an attempt to fill the gap in bancassurance research and their experience is essential to improve the efficiency of bancassurance.