CHAPTER – 2

REVIEW OF LITERATURE
Review of Literature

Bancassurance is a relatively new concept on the global stage. Unlike banks and insurers, which have been around in one form or another for centuries, bancassurance has only been around for a few decades. The general consensus amongst researchers is that bancassurance first reared its head in France in the late 1970’s, motivated by, amongst other things, changing consumer needs due to an inadequate pension scheme that existed at the time. Bancassurance has achieved its greatest success in the European markets where it is holding one third share of the European life and pension market. In certain countries such as Portugal, Spain and France, bancassurance possess the lion’s share of the life insurance business as well. Its prominence in certain areas around the world, or lack thereof, is largely due to the challenges that still face bancassurers. As with so many other concepts, it is argued over by many as to which country developed the idea of bancassurance.

Bancassurance, which is also known as Allfinanz (Germany), is the arrangement whereby the branches of a bank distribute insurance products developed by insurance companies to bank customers. Bancassurance in its simplest form is the distribution of insurance products through a bank’s network of branches. It tries to exploit the synergies between both banks and insurance companies. Bancassurance is beneficial to banks, insurance companies and customers. Banks get a commission income while distributing insurance
Review of Literature

policies; insurance companies view Bancassurance as a new channel for
distributing their policies and customers are getting both banking and insurance
services under one roof. Thus banks view Bancassurance as a new strategy for
earning income and insurance companies, a new channel for insurance
distribution. Bancassurance primary banks on the relationship the customer has
developed over a period of time with the bank. And pushing risk products
through banks is a cost-effective affair for an insurance company compared to
the agent route, while, for banks, considering the falling interest rates, fee based
income coming in at a minimum cost is more welcome.

The review of literature is presented in two heads:

2.1 Bancassurance - Global Studies

The corporate literature argues that motives such as growth in size may
underlie diversification strategies. Agency theorists argue that manager’s
rewards are often linked to growth in size. This may induce managers to seek
growth over profit-maximizing projects. The growth rationale is particularly
relevant in the context of bancassurance.

Stigler (1971) argued that the entry of banks in insurance operations
would enhance competition in the insurance market, reducing any existing
economic rents for insurers. However, whether a bank could earn an excess
return depends on the initial costs of the bank’s entry into insurance, the cost
advantages and disadvantages of banks relative to existing insurers/agencies/brokers and the synergies existing between banking and insurance.

Diamond (1984) emphasized the potential complementarily between the balance sheets of banks and life insurers. Insurers’ liabilities and assets was mainly long term, while banks predominantly carried medium-term assets financed by short-term liabilities. Pooling therefore resulted in risk reduction.

Fama (1985) argued that banks were unique compared to their firms due to their access to inside or private information about borrowing firms. Banks had access to checking account information that was useful in making short-term lending decisions.

In UK, a study showed that bancassurance had a substantial cost advantage over average UK life offices of similar profiles in 1998. TSB Life enjoyed a 30.2% cost advantage and Black Horse Life 22.2% (Diacon, 1990).

Herring and Santomero (1990) distinguished between two types of economies of consumption. On the production side, the main economy arises from cutting the cost of managing a client relationship. This was observed in terms of image, human resources and distribution channels.

In a survey of European bancassurance found that a major Dutch institution attributed its bancassurance success to the improved creditworthiness of the bank following the merger with an insurance company. This was due to
the fact that it’s rating, following the combination, improved, and resulting in cheaper borrowing in the capital markets. Others have emphasized the possibility for banks to benefit from low-leveraged insurance partner. The bancassurance phenomenon could be explained by life insurers’ growing share of the market for savings. Both factors may explain banks’ desire to compensate for depressed earnings by diversifying into a growing market; in particular if this growth was at the expense of their own traditional business. (Pitt, 1990).\textsuperscript{6}

Gumbel (1991)\textsuperscript{7} noted that both banks and insurers rely on the law of large numbers for the balance of their operations. Thus size is an inherent objective of both lines of business which may provide an explanation for growth strategies.

Fagan (1991)\textsuperscript{8} emphasized the high gross margins available to distributors of life insurance products. Many bank managers appeared to believe that they could raise the efficiency of life insurers through the acquisition process. This was motivated by the widespread belief that synergies could occur through the combination, thereby cutting distribution costs. Thus, life insurance’s inherent profitability was not in itself viewed as the rationale for bancassurance but rather it was felt that banks’ declining profit margins can be boosted by expanding in an area where they can use their competitive advantages in terms of distribution.
In a survey of six large US financial conglomerates, Grant (1992)\(^9\) reported that five companies emphasized size benefits as a rationale for diversification. Size was mainly viewed conferring a competitive advantage for entry into new financial services. Grant conducted a thorough analysis of the motives for large financial services firms’ diversification in the United States. He conducted various interviews and reviewed the public statements of top management regarding their diversification strategies. He found that the exploitation of synergies was at the core of such strategies. However, he found that the only diversification moves that proved profitable were in insurance. In fact, when divisional profitability was examined, insurance divisions were more profitable in large diversified firms than their specialized counterparts. However, only six large diversified firms were examined against 10 ‘specialized’ counterparts. Moreover, there was no convincing evidence that this superior profitability stem-tied with the exploitation of synergies specifically.

Nicholson (1992)\(^{10}\) also emphasized the convergence of some insurance and banking services; in cases where the fundamental need of a customer is a mortgage, additional insurance coverage might be required. In such a case, customers are interested primarily in the mortgage transaction. The customer capture point refers to the understanding of this purchasing behavior.
Carey, Prowse, Rea and Udell (1993)\textsuperscript{11} proposed that a credit market hierarchy exists among private debt (inside bank loans), private placement (inside insurance company bonds) and the public debt market (outside debt). Market hierarchy among different types of financial institutions was grounded in the notion that there exists a connection between a financial institution’s monitoring ability and its liability structure (as imposed by regulation) and associated asset management. Legal barriers affected the sources of funds among different financial institutions logically led to asset specialization of institutions (e.g., long-term versus short-term lending) on the supply side of the credit market.

A comparison of the expense ratios of life insurers in France in 1991 showed that insurers relying on traditional agents had considerably higher expense ratios than banks’ in-house companies. The latter showed expenses ratios varying from 3.1\% to 9.1\% while traditional insurers had expense ratios ranging from 10.5\% to 23.7\%. The use of relational databases was seen as an effective way to cross-sell a range of services to bank customers at a low cost. Such practices, however, fall under the scrutiny of data protection regulations (Leach (1993)\textsuperscript{12})

Knauth and Wetzel (1993)\textsuperscript{13} argued that banks’ credit risk and insurers’ technical risk are non-current; therefore there was no interdependence between their risks.
In a comprehensive review of bancassurance, Hoschka (1994)\textsuperscript{14} underlined the growth potential of life insurance as a motive for bank diversification. He emphasized the different reactions of both industries to recent economies conditions. The potential risk diversification arising from the combination of two lines of business must be weighed against the danger of reducing customer diversification through cross-selling services to the same segment of customers.

Berger and Ofek (1994)\textsuperscript{15} found that diversified firms had values that were 13\% to 15\% below the sum of the imputed values of their segments, but this loss was mitigated in cases of more focused diversification within related industries. These results were consistent with Rumelt’s argument that diversification was more likely to be value enhancing when management skills and physical resources across firm segments could be applied in related markets.

Bergendahl (1995)\textsuperscript{16} has made one of the only attempts to estimate the profitability of bancassurance strategies by comparing the costs of setting up a bancassurance operation (including the development of computer systems allowing banks to take advantage of cross-selling opportunities, personnel training and marketing costs) with benefits such as sales margins and other indirect benefits (e.g. increasing customer loyalty).
Rose and Smith (1995)\textsuperscript{17} studied BHCs’ expansion into the limited number of insurance lines allowed during the period 1974 to 1990 and found banks experienced positive abnormal returns, especially after 1982.

Due to legal separation of banking and insurance underwriting, the majority of bank credit was financed by short-term floating-rate deposits, while life insurance companies obtained funds from long-term fixed-rate insurance contracts. From the demand (or firm) side of the credit market, theoretical work on the maturity of debt structure had proposed a connection between information problems and firms’ debt maturity choices (Barclay and Smith (1995)).\textsuperscript{18}

The most successful products were those that were sensitive to the differing characteristics between insurance and banking products and meet the majority of the consumers’ needs (Griffin, 1996).\textsuperscript{19}

Few studies had examined the benefits/costs of banking and insurance mergers. Most studies conducted simulated mergers and generally find that bancassurance tends to lower earnings volatility, stock return variance and failure risk. A study by Boyd and Graham (1998)\textsuperscript{20} simulated mergers between U.S bank holding companies and various kinds of non banking financial services firms. They found that banking-insurance combinations tended to reduce risk but banking-securities or real estate combinations were risk increasing.
A U.K. study by Genetay and Molyneux (1998) simulated mergers among banks (as well as building societies) and mutual and proprietary life insurance companies in the period 1988-1992. Mixed evidence on risk was obtained, with significantly lower probabilities of failure but insignificant changes in return on assets volatility for bank/insurance company combinations. Genetay and Molyneux provided an excellent overview of bancassurance in Europe and document its historical roots dating back to the 1800s.

Daniel (1995) differentiate three periods of bancassurance development:

1. Prior to 1980, 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 (for example) 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 (known as whole-life insurance) in the United Kingdom.

Another trend that favors bancassurance was the erosion of the specialized insurance agents as a distribution channel for insurance products.
Direct marketing via phone and news media were supplanting expensive commissioned agents. There was evidence of retailer’s relationships with insurance distributors. Banks had been using their large branch networks and close relationships with customers to cheaply distribute basic insurance products (Todd and Murray, 1998). Internet has also offered a means by which any of these different distribution channels could be used to further exploit their position in the pan-Europe insurance market.

Another leading factor was the cost savings benefits that arise as a result of bancassurance operations. One particular study found that European bancassurers have eliminated 30% - 50% of the typical insurers distributional and administration costs (The Boston Consulting Group (BCG), 1999).

Wade and Fall (2000) advised that traditional products that could be offered by other insurers should be avoided by bancassurers, since they would be facing a competitive disadvantage due to their poor brand recognition in the insurance services industry.

The products should be such that they are easy to understand from both the consumers and the salespersons perspective, while at the same time meeting the basic needs of the consumer. It was important to keep things simple for the banking salesperson since the distribution on insurance products requires a more active sales approach than they would necessarily be used to with normal banking products. The sales staff should also be coached to understand that it is
more important to focus on ‘value’ rather than ‘volume’ (Hubbard Spring, 2001).26

One of the major hurdles to the success of a bancassurance operation was the cultural difference that exists between the insurance company and the bank. This specifically relates to the employees that have been used to different working environments and procedures, and how they manage to work as a team within the new organization. Differences that cause conflict include insurance company employees receiving commissions based on their sales, whereas banking staff do not, and how each type of employee would go about their business. One way to overcome such differences was to ensure that there was an effective remuneration package in place that rewards performance, while another was to make use of external recruitments (Hubbard Spring, 2001).27

Estrella (2001)28 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. The authors found that insurance activities generally 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.

Carow (2001)29 conducted an event study to determine the market value effect on banks and insurers of rulings that allowed banks to enter the annuity
and insurance business. He found that insurers in general lost value as a result of these events; banks neither lost nor gained value.

It was argued that restrictive regulations were detrimental to the growth of bancassurance within the country and that due to the lack of experience the correct model for the U.K was still to be found (Hubbard Spring, 2001)\textsuperscript{30}.

According to Tassin (2002)\textsuperscript{31}, the bancassurers came out with a competitive advantage but equally important was their modern and less costly software that was backed by their banking systems.

Bancassurers generally possess a competitive advantage over their competition since they were able to carry out intra-group transaction (at times without correct risk evaluations), as well as to optimize requirements of solvency margin according to each type of financial operation within the group (Bonnet and Arnal, 2002)\textsuperscript{32}.

The main type of union between the two was a joint venture, since the banks placed an emphasis on maintaining the knowledge of the insurer. Twenty years later, researchers argue that bancassurance was still in its infancy within U.K, currently accounting for 15% of new insurance premiums issued (Benoist, 2002)\textsuperscript{33}.

Spain had one of the most developed markets in bancassurance. Current penetration of bancassurers was over 75% of life insurance business and an
ever-increasing proportion of the non-life business. In Spain, the evolution of
the bancassurance market was fostered by the phenomenal growth within the
insurance services industry [life insurance alone has seen 30% growth per
annum over the past 15 years (Durand, 2002)]

A study by the Morgan Consulting Group in 2003 supported this
argument by saying that ‘structural changes and evolving customer attitudes and
needs were causing traditional (insurance) distribution channels to lose market
share’. Though this was unquestionably a predominant reason behind the
increased popularity of bancassurance, it was not the only one. Apart from
pensions, governments have also been making severe cutbacks in healthcare,
disability and sickness benefits, paving the way for those companies that also
offer non-life insurance products, such as bancassurers.

Boot (2003) has observed four possible sources of scale and scope
economies that point to revenue (output) and cost (input) synergies. These
include:

1. Information technology related economies that result in revenue
synergies through increasing the cross-selling potential of banks. For
example, life insurance and home contents insurance products sold in
unison with a mortgage. A couple of cost synergies also result. Which
include a more efficient utilization of databases; and improvements in
the distributional network resulting in scale economies (larger
distributional networks can be managed that in turn facilitate the management of a larger organization) and scope economies (greater array of products can be offered through the same distributional network)

2. Reputation and marketing/brand name related benefits. By associating their name and hence reputation with new products (such as insurance products) banks could fix the costs of marketing and branding. At the same time, they could obtain revenue synergies from the associated cross-selling potential and the acceptance of new distributional channels such as the internet.

3. Financial innovation related economies. Larger companies could make use of their wider scope and larger scale in order to better recoup the fixed costs of financial innovations while still maintaining a competitive advantage. Revenue synergies are brought about through superior innovations that could be offered as a result of broader information set, since banks and insurers would be able to leverage each other’s product skills. For example, insurers might be able to benefit from the derivative innovations and securitization skills that come from bank. Finally, there would be a better rent extraction due to a bigger network

4. Benefits from diversification. This could facilitate an internal capital market where cash flow generating businesses could help fund other
activities. Benefits regarding the proliferation of off-balance sheet banking could also be made since these activities would impact on the bank’s credit rating. Diversification might lead to an improved rating for the organization. Other benefits would include improved asset management and more effective use of equity capital. The mismatch between bank assets (long term) and liabilities (short term) might be the reverse from that of an insurer (long term obligations).

Researchers such as Morgan (2003) argued that the more heavily integrated the bancassurance operation was into the branch banking activity, the lower the marginal costs of transacting bancassurance would be.

Banks can place more emphasis on targeting the young and uninsured consumers that currently have no brand loyalty to a particular insurer, as a middle aged person might have. Simple scripted questionnaires as well as the use of computers for needs analysis would also be beneficial in targeting the appropriate consumer (Nigh and Saunders, 2003).

Chiang Ku Fan and Yu Hsuan Lee (2010) in their study ‘Key Factors Influencing Bancassurance Success -Mainland China Evidence’ found that factors such as creation of integrated groups falling into quadrant (I) are perceived as more important, but performed poorly in bancassurance. The managerial implication is that management has to put greater efforts into improving performance in these factors. Factors such as short time of product
innovation, small subsidiary set-up cost, service quality, and sales promotion in quadrant (II) are rated as important with high level of performance, and the managers have to maintain the performance level in these factors to sustain the resultant competitive advantages. Factors such as provide lower premium insurance to bank distribution and marketing partnership locating at the quadrant (IV) are perceived as less critical to success, although the bancassurance performed well in these factors. This indicates a problem of over-investment in these less critical factors and a reduction in investment is encouraged. In order to improve the performance of bancassurance, administrator should have some of efforts originally invested in the factors of lower administration cost per insurance contract, internal development, provide lower premium insurance to bank distribution, and marketing partnership moved to factors such as creation of integrated groups and joint ventures. On the other hand, the administrator should not expand resources in the factors of short time of product innovation, small subsidiary set-up cost, service quality, and sales promotion.

2.2 Bancassurance – Indian Studies

Sethi (2003)\textsuperscript{39} is of the opinion that it is not only the requirement of the insurance companies to align with banks to sell their products and increase premium generation. On the other hand, it is a requirement with banks too as it provides a means of product diversification and is a source of additional fee
income. Augmenting of revenues seems to be a major attraction for banks to sell insurance products in view of the sharp decline in margins in their core lending business.

According to Rayala et al (2004)\(^{40}\), the success of Bancassurance depends on how the social and cultural needs of the target population are understood.

Brahman R. (2004)\(^{41}\) 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 social and cultural factors, together with regulatory considerations and product complexity determine the success of bancassurance in a particular market.

Study and comparison of Bancassurance as an insurance intermediary for private and public sector life and non life insurance companies have shown interesting results over a period of time. Life insurance companies like AVIVA and SBI Life have 70% and 53% of their business coming from the Bancassurance channel respectively, while ICICI Prudential gets 30% of its business through the Bancassurance mode and the age old player LIC gets only 0.49% of its business through this channel (Prasad and Saxena, 2004)\(^{42}\).
Sanjay Gupta (2004)\textsuperscript{43} found that bank burden will come closer to zero level in all bank groups due to growth in fee income by sale of insurance products to customers. Thus growth in fee income will be exponential in times to come.

Rachana Parihar (2004)\textsuperscript{44} argued that there is a huge pool of skilled professionals whether it is a bank or insurance company, who may be easily relocated for any bancassurance venture. By leveraging their strengths and finding ways to overcome their weakness, banks could change the face of insurance distribution.

Mekala Mary (2004)\textsuperscript{45} is of the opinion that there are two factors in India, which are favourable for the success of bancassurance. First is that, the regulatory framework is supportive of the channel. The second is the vast number of branches established over the years through public policy.

Rakesh Agarwal (2004)\textsuperscript{46} argued that the bancassurer should move cautiously and first fully establish sound IT systems for servicing of policy holders and see that existing customers are served properly, otherwise the whole concept of bancassurance would fail.

S Krishnamurthy, S V Mony, Nani Jhaveri, Sandeep Bakhshi, Ramesh Bhat and M R Dixit (2005)\textsuperscript{47}, in the paper titled, “Insurance Industry in India: Structure, Performance and Future Challenges”, clearly explained the status and
growth of Indian Insurance Industry after liberalization and also presents future challenges and opportunities linked with the Insurance. Insurance is the backbone of country’s risk management system and influence growth of an economy in several ways. Penetration of Insurance largely depends on 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.

Rama Devi (2006)\(^48\) found that factors critical to the success of bancassurance include senior management commitment to bancassurance as a core strategy; a well trained generalist sales force tightly integrated with the branches; simplified products which appeals to customers and a proper incentive structure for both branch managers and sales people.

In India, the advent of Bancassurance was necessitated by the poor penetration ratio of the insurance companies and the declining income of the banks (Karunagaran, 2006)\(^49\). Also, the large reach and customer base of banks in both urban and rural areas in India, the persistency rate in Bancassurance due to the continuous contact with the client is better than in other channels.
Kumar (2006)\textsuperscript{50}, “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 banc assurance in India. He identified cultural differences between banks and insurance companies could pose a major challenge to the growth of banc assurance. Large customer base and people trust on bank is the main opportunity for the banks as a distribution channel for insurance companies.

Meena Sharma (2007)\textsuperscript{51} opined that the untapped potential in the insurance sector has certain implications for the banking industry. The overlaps between banking and insurance businesses imply that on one hand, the two can be competitors and hence, substitutes for each other and on the other hand, they can also complement each other. On account of their geographical reach and access to customers, banks could be used as channels for distributing insurance products.

M. Rajkumari (2007)\textsuperscript{52} in the paper titled “A Study on Customers' Preference towards Insurance Services and Bancassurance” 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 purchase of insurance products and also their knowledge on the banc assurance formats available through
banks. He also gave suggestions to improve customer awareness on bancassurance and performance of banks in selling insurance policies.

Similarly, a study conducted in 2007 finds that for SBI 67%, for AVIVA Life insurance 65%, 40% for Birla Sun life, 19% for ICICI Prudential and only 1% of the new premium generation for these companies comes from the bancassurance channel (Parimalarani, 2007).

Vissapragada Srinivas (2009) is of the opinion that one of the important reasons for considering bancassurance by banks is the increased return on assets. Banks with insurance fee income can cover more operating expenses.

Sales through bancassurance channel is growing at a slow pace for LIC but by leaps and bounds for private players while brokers and referrals enjoy a meager % in both the public and private sector (Aggarwal and Upadhyay 2009).

Anshuja Tiwari and Babitha Yadav (2012) in their study ‘Customer survey & perception towards bancassurance with reference to Life Insurance Industry’ found that that agents (44%) and banks (32%) are the two widely used distribution channel by life Insurance companies. Many customers are not familiar with the types of policies sold by the banks. A large no. of respondents (63%) is not aware of the concept of bancassurance. Hence there is a need to
spread awareness about bancassurance among the general public. Trust & safety is the main reason for which most of the respondents (41%) are buying life policy through banks. People have more faith on bank in comparison to other modes of distribution channel.

Hymavathi Kumari. T (2012)\textsuperscript{57} in her study ‘Customer attitude towards Bancassurance – An Indian perspective’ observed that More than 80 percent of the customers have trust in their banks. This is a good indication for the future of the Bancassurance business in India. Customers have more trust on bankers than insurance agents. There are a lot of opportunities available in the Indian market to the banks to cross sell insurance products. Identification of target customer market increases the banks’ performance to cross-sell the insurance products through their branch network, by designing a clear and effective marketing strategy aimed at increasing awareness and customer’s willingness to choose banks as insurance providers.

Rachna Agrawal and Anubhuti Hajela (2012)\textsuperscript{58} in their study ‘Bancassurance -A Challenging Convergence in Indian Prospective’ observed that the expectations of the customers are not met on all the parameters by the banks that provide the bancassurance services. Most of the customers are not satisfied with trustworthiness, convenience, product knowledge, attention by the bank employees and access. Bank employees are usually over-burdened by their load itself and they are not much interested to participate in selling and
promoting insurance products. The financial benefits do not come directly to the employees’ pocket. Therefore interest is automatically lost. There is also lack of awareness which can be dealt with proper advertising.

Pooja Chatley (2012)'s study ‘Life Insurance Growth In India: The Bancassurance Route’ found that the insurance penetration ratio in the country has started improving thereby ensuring that the benefit of insurance reaches down to the grass-root level of the nation and more and more people come under the cover of the insurance umbrella. The growth in the life insurance industry has been spurred by vibrant distribution channels coupled with product innovation. Innovation has come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups with banks and other financial services. Thus, Bancassurance as an alternate distribution channel has contributed to the growth of insurance business by leveraging the benefits to customers, bankers and insurance. But the future depends on how well the banks and insurance companies are able to overcome the operational challenges that are being constantly thrown at them.

Sarvanakumar.S (2012)'s study ‘Flourishing Bancassurance Business: An Indian Perspective’ observed that the success of bancassurance greatly hinges on banks ensuring excellent customers relationship; therefore banks need to strive towards that direction. 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. 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. Supervisory concerns as pointed out earlier could best be tackled by way of closer and systematized coordination between the respective supervisory authorities. There needs to be a clear cut identification of activities between banking and insurance at the institution’s level as also at the level of regulators. Adequate training coupled with sufficient incentive system could avert the banks” staff resistance if any. In sum, bancassurance strategy would be a win-win situation for all the parties involved - the customer, the insurance companies and the banks.

Shivani Gupta, Ajay Jain and Anubha (2012), in their study ‘Bancassurance –A New Feasible Strategy in Banking & Insurance Sector Moving Fast in India’ observed that the success of bancassurance greatly
hinges on banks ensuring excellent customers relationship, therefore banks need to strive towards that direction 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. Supervisory concerns as pointed out earlier could best be tackled by way of closer and systematized coordination between the respective supervisory authorities. There needs to be a clear cut identification of activities between banking and insurance at the institution’s level as also at the level of regulators.
Nandita Mishra (2012) in her study ‘Bancassurance: Problems and Challenges in India’ found that the major problems by bancassurance are Lack of interest and motivation amongst bank staff in promoting bancassurance, Lack of updates on product knowledge, product training and product awareness, No mentioning of bancassurance at contact point counters, the rates of premium for bancassurance are not competitive, No sharing of commission as incentives to bankers, Absence of new product, better technology and diversified insurance etc. 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. The relationship between insurer and insured and bank and its client are different, the former involves taking decisions for long term parting of money, in such cases counseling is necessary, here too the bancassurance can be of reassuring for the customer.

Abhiruchi A (2013) found that there is a favourable impact of bancassurance on the financial performance of banks and banks have also contributed to the overall performance of the insurance companies. The figures
of Net profit, Total income, CAR, EPS and ROA revealed that bancassurance has paved the way for banks to grow.

Nidhi Grover (2013)\textsuperscript{64} found that the duration of customer’s relationship with the bank positively and significantly affects the extent of awareness regarding bancassurance. The frequent dealings of the bank employees with customers also enhance the awareness level.

Joji Rajan (2013)\textsuperscript{65} found that the various reasons for taking bancassurance policies based on the variables are savings, retirement, income, and tax benefit. Bancassurance customers are satisfied with the services provided by banks.

Palanisamy Balamani (2013)\textsuperscript{66} observed that banks have been attracted to insurance field in view of scope for generating non-interest income while for the insurers, it is of increasing the low insurance penetration levels in the country by leveraging the extensive distribution reach of Indian banks.

Lalit Pani (2013)\textsuperscript{67} observed all banks have not developed the necessary IT infrastructure to make bancassurance best. The channel will work best only when all regional rural banks, cooperative banks and public sector banks develop the requisite IT structure to monitor premium renewals, premium lapses and policies taken.
Chari (2014)\textsuperscript{68} found that the unhelpful attitude and inadequate knowledge of the agent is driving business to banks in more cases. Majority of the respondents are not satisfied with the ambience and infrastructure of the bank. Proximity of the branch is the influencing decision in majority (67\%) of the cases. The credibility of the bank could be a winning point for the banks to sell insurance.

Rupali Satsangi (2014)\textsuperscript{69} observed that the perceived benefits of bancassurance are improved profit, effective utilisation of resources, asset securitization by selling insurance products, huge pool of professionals, exploiting the huge base of customers, value addition to services, fee based income etc.

Tripti (2014)\textsuperscript{70} found that private sector banks would excel in bancassurance because of their powerful selling policies. 21\% respondents opined that they prefer to buy insurance from banks because of the brand name and their trust on banks. Out of the total 30 bank employees surveyed, 73\% of employees are involved in the activity of bancassurance. 36\% employees have been given formal training for cross-selling of bancassurance products. 82\% employees opined that their work is enriched by the activity of bancassurance.
2.3 Research Gap

Literature reviews reveal that bancassurance has not resulted in the synergy anticipated. Banks and insurance companies had several things in common, in terms of products and services, which makes it better sold under one channel. However, banks did not show keen interest in promoting their insurance partner and so the insurance companies as well. It is in this context that an attempt was made to identify opportunities and challenges. The foreseen opportunity of getting integrated and cross marketed was examined from the bank’s perspective and customer’s perspective. The challenge of anchoring on the basis of mutual benefits and the extent to which benefit can be repeated is also covered in the study. Being a wider and mass oriented channel, banks were identified as the leaders in the bancassurance relationship.
Review of Literature

References


27. ibid., p.5


