CHAPTER – 1
INTRODUCTION
The business of banking around the globe is changing due to integration of global financial markets, development of new technologies, universalization of banking operations and diversification in non-banking activities. Due to all these movements, the boundaries that have kept various financial services separate from each other have vanished. The coming together of different financial services have provided synergies in operations and development of new concepts. One of these is Bancassurance.

Bancassurance is a term which first appeared in French after 1980, to define the sale of insurance products through bank branches. The ‘Bancassurance’ catchword has been a topic of interest for analysts of the financial services industry in recent years. The financial liberation and financial innovations have drawn the worlds of banking and insurance closer together, desegmenting the financial industry and spurring competition (Knight, 2000). Therefore, bancassurance has increasingly become an accepted norm rather than exception for the banks dealing in insurance products.

As deregulation of the financial services industry intensified, Asian countries such as China, India, Japan, Singapore etc have allowed bancassurance to be practiced. Similarly, in a number of European countries, one can note a significant portion of life insurance business is handled by banks. The emergence of bancassurance contributed to overall efficiency, increase in
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economies of scale and increase in productivity of both banks and insurance companies in some parts of the European countries.

Since banks are dealing with millions of customers, they can easily know about their saving and spending pattern and can reach insurance buyers. Distribution of insurance through banks is growing fast in Europe where banks sell more than half the total life insurance policies. Malaysia and Singapore have shown how bancassurance can build volume and value for insurance companies. In India, regulators have allowed banks to cross sell insurance products to bank customers. Banks with network of 65000 branches serving more than 300 million retail banking customers may now be technically ready to offer life and non-life insurance products. The total insurance density in India is 53.2% (2012) and total insurance penetration is 3.96% \(^2\), which is quite low compared to other countries. Banks could be a pivotal medium to lift the abysmally low level of insurance penetration in the country.

A common argument in the field of bancassurance has been that banking and insurance have differences but also conceptual similarities that help to explain the bancassurance phenomenon. Although banking and insurance have often been differentiated, both activities have a common feature, which is that they are part of the financial services industry. Some authors have tried to show that similarities between the two businesses go beyond this obvious feature and
that the demarcation line between the two activities is less obvious than is commonly thought.

An important distinction between banking and insurance that has been made in the literature is that banking is generally more short-term oriented than insurance.

Delporte (1991) argued that the separation line between the two activities springs from their nature: banks take short and medium term-savings while insurers take long-term savings and insure possessions.

Lewis (1990) emphasized the intermediation function of banks, to which lenders of funds delegate their monitoring of borrowers’ attributes. This function is based on information gathering and processing.

Gumbel (1990) summarizes the affinities that banking and insurance follows. Both operate with reserves, rely on the law of large numbers, use economies of scale and have expertise in administration and money management. They create liquidity and assume a risk-spreading function through reinsurance or refinancing.

In general, banking and insurance have more in common than their separation might suggest. The traditional view is that banks handle funds and insurers take risk. However, funds management and risk-bearing are clearly features of both activities. Banking and insurance rely on the pooling of
resources to protect financial security (banking) or protect against adverse events (insurance). Therefore, bancassurance appears as a natural outlet for both businesses to diversify.

1.1 Bancassurance – Definitions

Many definitions have been attached to bancassurance since it has become an area of interest. The following attempts have been made to clarify what is bancassurance is.

Hoschka (1994)\(^6\) defines bancassurance as banks entering into the insurance sector by offering insurance products to their retail customers.

Chatillon (1993)\(^7\) defines bancassurance as a business strategy – mostly initiated by banks that aims at associating banking and insurance activities within the same group, with a view to offer these services to common customers who, today, are mainly personal customers.

Leale Green and Bloom Field (1994)\(^8\) argued that the definition of bancassurance differs from one institution to another as well as from one country to another. He states that bancassurance is the provision of a complete range of financial services, primarily to the individual, through the union of traditional banking, insurance and investments.

A broader definition is given by **IRDA in the IRDA (Licensing of Bancassurance Entities) Regulations, 2012.** As per this regulation,
bancassurance means any insurance business conducted through the channel of the any institution including Non-Banking Finance Companies licensed under Banking Regulations Act, 1949.

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

Alan Leach in his book, European Bancassurance – Problems and Prospects for 2000, describes bancassurance as the involvement of banks, savings banks and building societies in the manufacturing, marketing or distribution of insurance products.

The above definitions have tried to come up with a comprehensive definition of the term ‘bancassurance’. Bancassurance can be defined as the marketing and distribution of insurance products through the branches of banks.

1.2 Potential of Bancassurance in Indian Economy

As far as Indian economy is concerned, the bancassurance was unknown before the passage of IRDA Act, 1999 (Agarwal, 2004). Bancassurance still is in nascent stage in India and expected to make brisk walk in near future, (Sinha, 2005). Initially, insurance industry was doubtful about the success of bancassurance in India, but soon the insurance industry realized the need of selling insurance policies through banks. Consequently, eleven life and non life
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insurance companies had entered into tie-up with twenty one banks. In India, bancassurance accounted 22 per cent of the sale of private insurers (Gupta, 2006) 11

In simple words, it is aptly put that bancassurance has promised to combine insurance companies’ competitive edge in the “production” of insurance products with banks’ edge in their distribution, through their vast retail networks.

In the post reforms, the financial sector has more number of players of both domestic and foreign nature and the dividing line between the banks and non-banking financial institutions activities had considerably thinned down. Overlapping in one another’s functions/areas has become more common than exception. The direct upshot of these developments led to intensive competition in the banking sector which in turn had a strong bearing on the banks’ net interest margin (spread). In fact the emerging scenario is likely to bring down the banks’ spread even thinner. Therefore, banks were compelled to be constantly on the lookout for a stable alternate source of earnings in the form of nontraditional and fee based sources of incomes.

1.2.1 Strong Indian Banking Network

Banks are the key pillars of the Indian financial system. Public have immense faith in banks (Revathy, 2007) 12. India has more than 200 million middle class population, coupled with huge banking network with largest
depositors base, that indicates the big scope for bancassurance (Neelamegam and Veni 2008). Public sector banks, especially regional rural banks and micro credit institutions with their wide reach can help to fulfill the basic objective of deep insurance penetration in India. In addition, banks may increase the utilization of resources, which would otherwise be idle.

1.2.2 Indian Insurance Sector

From operational point of view, the infrastructure of banks can also be used to deliver the insurance products and vice versa, that will help to harness the unspoiled customer services (Okeahalam, 2008). After the establishment of IRDA (in 2000) and liberalization, the monopoly of the public sector insurers has broken up, that brought a stiff competition among the public and private insurers. Consequently, continuous improvements in efficiency and productivity have become first condition for insurers for their long term survival. Focusing on the critical success factors during the competition (product innovation, service quality and quality of distribution) insurers need to expand their markets rather than to compete on the same customer base (Rao, 2008). Here, bancassurance can be witness of a vibrant future.

1.2.3 Untapped Indian Rural Market

Insurance is a system that enables a family or a business to transfer the losses over to insurer at the fixed cost in the form of a contract. Revathy (2007) explains various strong reasons for the success of bancassurance in
India. First, rural and semi-urban areas are till date unmarked from the insurance service. (Karunagaran, 2006)\textsuperscript{17} supports the same by concluding that majority of population still remain outside the reach of insurance, especially in rural and semi-urban areas, that clearly indicates the potential for tapping the insurance market by widening the distribution channels and bancassurance could possibly prove more relevant in this situation. Asian Insurance post (2008) mentioned that the skilled and trained manpower is critical for the insurance industry. Revathy (2007) again supports that in India abundant of skilled professional in banks and insurers that can carry a successful bancassurance venture. Economic Survey (2008-09) clearly explains the IRDA provisions for the rural and social sector obligations that all private life insurers up to the 10\textsuperscript{th} financial year from their operations are required to expand their rural coverage that is 7 per cent of the total written direct policies from 1\textsuperscript{st} financial year and to 20 per cent coverage in the 10\textsuperscript{th} financial year.

1.3 Significance of the Study

Bancassurance, which basically involves banks acting as corporate agents for insurers to distribute insurance products, has evolved as a strong distribution channel in many countries. Following the deregulation of the Indian insurance industry and amendment of the insurance law, Indian banks have been looking towards bancassurance as a logical step in the expansion of their business and have planned to venture into this lucrative segment which has
hitherto been dominated by few public sector companies. Similarly, new insurers have also viewed banks as an ideal mechanism to gain distribution power. Banks get a fee income as commission when they distribute policies. Insurance companies find banks as an effective channel for distributing their policies. Customers get both banking and insurance services under one roof. Thus, bancassurance attempts to integrate banking with insurance with the objective of promoting cross marketing in operations and synergy in financial dealings. The idea is to reduce distribution cost and create a single channel for policy distribution and premium collection through bank accounts. This would enhance banking business through active accounts and increase policy business through easy distribution. For the customers, the benefit is that products get integrated with bank accounts which promote ease in operation. However, such a distribution model creates challenges in terms of primary interest and supportive interest. The opportunities and challenges in Kerala are thus examined. The study also examines the potential for insurance-banking linkage in terms of customers and bankers perspective

1.4 Scope of the Study

The study is intended to analyze the opportunities and challenges of bancassurance in Kerala. It also identifies the factors that motivate the customers to avail insurance policies from banks and also problems faced by them. The scope of the study is limited to banks which distribute insurance
policies in Kerala. The study covers only those customers who avail insurance policies from banks. The study covers the variables such as opportunities, challenges, level of awareness, motivating factors to avail insurance and problems faced.

### 1.5 Statement of the Problem

The Indian insurance sector has undergone a big change in the last decade, ever since the sector was opened up for private players. Traditionally, insurance products are sold only through individual agents. With the opening up of public sector, competition has become more intense and new channels are developed for insurance distribution. Insurance companies require immense distribution strength and tremendous manpower to reach out to such a huge customer base. This distribution will undergo a sea change as various insurance companies are proposing to bring insurance products into the lives of the common man by making them available at the most basic financial point, the local bank branch, through bancassurance. Simply put, bancassurance is the process through which insurance products are sold to customers at their local banks. The relationship is symbiotic; but there are challenges. These challenges may put bancassurance partnership into problems during its implementation. The mutual benefits flow to banking and insurance sectors and how far the customers benefit from this concept is worth examining. Hence it is a
problematic issue to study challenges and opportunities of bancassurance so as
to protect the interests of various parties involved.

1.6 Objectives of the Study

The purpose of the present study is to analyze the opportunities and
challenges of Bancassurance in Kerala. The specific objectives of the study in
this regard are the following:

1. To identify the factors that motivate customers to avail insurance products
   from banks

2. To assess the level of awareness of the customers about the features of
   bancassurance products

3. To identify the various problems encountered by bancassurance customers

4. To analyze the perception of bank managers about the opportunities of
   bancassurance in Kerala.

5. To study the factors which influence the attitude of bank managers
   towards bancassurance

6. To identify the various intrinsic and extrinsic challenges encountered by
   the bank managers

7. To compare the features of bancassurance products of banks with LIC
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1.7 Hypotheses of the Study

Keeping in view of the above objectives of the study, it is proposed to formulate certain hypotheses and test them by making use of the relevant data. The following are the hypotheses formulated for the study:

1. There is no significant difference in the perception level of bank managers of public sector banks, old private sector banks and new generation banks with respect to the opportunities of bancassurance in Kerala.

2. There is no significant difference between the various intrinsic factors and extrinsic factors causing challenges to bank officials.

3. There is no association between the level of awareness of the customers and the features of bancassurance products in Kerala.

4. There is no association between level of satisfaction of customers about bancassurance service in the public sector banks, old private sector banks and new generation banks.

5. There is no significant relationship among the factors that motivates customers to avail bancassurance products from public sector, old private sector and new generation banks in Kerala.

6. There is no significant difference among the customers of public sector banks, old private sector banks and new generation banks on the mean
yearly premium paid and the sum assured towards the bancassurance products

7. There is no significant difference in the features of bancassurance products of banks with LIC

1.8 Methodology of the Study

1.8.1 Method Adopted

The purpose of the present investigation is to study the opportunities and challenges of Bancassurance in Kerala. The present study attempts to find the various opportunities and challenges of bancassurance through the opinion of customers and officials of banks who are implementing various schemes in the field of Bancassurance. As such, the present study has been designed as a descriptive study and survey method was adopted as the appropriate means for gathering the data essential for the study.

Primary data were collected from customers and bank officials of Public Sector Banks, Old Private Sector Banks and New Generation Private Sector Banks through structured questionnaire. The questionnaire was constructed after consulting the experts in the field of Bancassurance. Based on their suggestion, some items were deleted and some items were modified. The investigator personally administered the structured questionnaire for customers and officials of banks. The personal visits were extremely useful in making personal observation and assessment of the views of beneficiaries and officials. The
responses of the users were, by and large, encouraging. They responded freely in highlighting the various exertions they face in the field of Bancassurance in Kerala.

Besides primary data, secondary data are also used. The secondary data are collected from various publications of the SLBC, published and unpublished reports, documents, articles, working papers, dissertations and from the relevant websites.

1.8.2 Sample Selected for the Study

In the present study, the population of bankers constitutes the entire Public Sector Banks, Old Private Sector Banks and New Generation Private Sector Banks in Kerala. For collecting primary data from bank managers, Public Sector Banks, Old Private Sector Banks and New Generation Private Sector Banks were considered separately. Kerala state is divided into 3 regions, South, Central and North. South region includes 4 districts Thriruvanathapuram, Kollam, Alapuzha and Pathanamthitta. Central region includes 4 districts Kottayam, Idukki, Ernakulam and Thrissur. North region includes 6 districts Palakkad, Malappuram, Kozhikode, Wayanad, Kannur and Kasarcode.

In the field of banking sector, the role played by the bank officials is inevitable. In a rough estimate extracted from the SLBC, Thiruvananthapuram, the number of bank managers in the State of Kerala was estimated to be 15,868. Based on the population size, the researcher has made an attempt to collect data
from the population by considering a confidence interval of 12% and confidence level of 95%, to the extent that out of 3114 bank managers of Old Private Sector Banks, a sample size of 187 were collected. Similarly, out of 622 New Generation Private Sector Bank managers, total sample size worked out to be 150. Likewise, out of 12132 Public Sector Bank managers, the sample size fixed was 197. When region wise comparison is concerned, out of 6126 bank managers of southern region, a sample size of 176 was collected. Similarly, out of 5995 bank managers at central region, total sample size worked out to be 184. Likewise, out of 3747 bank managers at northern region, the sample size fixed was 174. Accordingly, in the present study, 201 managers, 176 Assistant managers, 97 Senior Manager and 60 Chief Managers were selected from banks, who directly or indirectly deal with bancassurance products of the banks. Thus, for the present research work, the total sample size was 534 bank officials based on Systematic Sampling Method. The details are given in Table No 1.1

### Table No 1.1

<table>
<thead>
<tr>
<th>Bank Category</th>
<th>South</th>
<th>Central</th>
<th>North</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Private Banks</td>
<td>62</td>
<td>64</td>
<td>61</td>
<td>187</td>
</tr>
<tr>
<td>New Generation Private Banks</td>
<td>48</td>
<td>54</td>
<td>48</td>
<td>150</td>
</tr>
<tr>
<td>Public Sector Banks</td>
<td>66</td>
<td>66</td>
<td>65</td>
<td>197</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>176</strong></td>
<td><strong>184</strong></td>
<td><strong>174</strong></td>
<td><strong>534</strong></td>
</tr>
</tbody>
</table>

**Source: Sample Design**
As there were no separate authentic records of bancassurance customers of the bank from any other official sources, adequate samples were collected by the researcher based on Purposive Sampling Method. In this context, it is to be noted that the population of bancassurance customers include all customers of the banks who have active interest in the bancassurance products. Here, the strategy of the researcher was to collect maximum sample as possible. As such, it is clear that out of 400 bancassurance customers of the bank selected as sample, 279 are male and 121 are female. Similarly, from the southern region of Kerala State, 155 respondents were identified, from the central part there are 220 respondents and from the Northern region only 25 respondents were considered for the present study.

It is also noted that there are 151 bancassurance customers who belong to Public Sector Bank. Similarly, 93 bancassurance customers are selected from Old Private Sector Bank and from the New Generation Private Sector Bank, bancassurance customer constitute 156 numbers, on the rationale that a fairly larger sample will automatically reflect the very peculiar features of the population.

1.8.3 Tool for Data Collection

The following are the tools used for data collection:

1. Questionnaire to bank managers.

2. Questionnaire to bancassurance customers.
1.8.4 Period of Reference

A seven year period from 2006-07 to 2012-13 has been selected for the present study. However, data pertaining to preceding years were also been incorporated in the appropriate places wherever found necessary to make the study more precise and perfect as possible.

1.8.5 Statistical Techniques Used

The following are the statistical techniques employed for the present study:

1. Computation of percentages to analyze the views and opinions of the respondents under study.

2. Computation of mean values to analyze

3. Chi-square test to analyze the association of attributes among the sample under study.

4. Karl Pearson’s product moment coefficient of correlation to find out whether there is any significant relationship in the opinion of the sample.

6. Factor Analysis to examine the core factors which leads to define the problem rationally.

7. Multiple Regression and Logistic Regression to predict the future of bancassurance products in Kerala.
8. Analysis of Variance (ANOVA) to find out whether there is any significant difference among the bancassurance customers and officials under study.

The statistical analysis was done with the help of computer using SPSS (Version 17.0)

1.9 Limitations of the Study

The following are the limitations of the study:

1. The opportunities and challenges of bancassurance are analyzed based on the opinion given by bank managers and customers, which may be relevant at a point of time. Due care is given to remove the bias.

2. The present study is conducted by surveying bank managers and customers only. The insurance companies, which are also a part of bancassurance business, are not surveyed.

3. Secondary data relating to only seven years, from 2006-07 to 2012-13 are taken for analysis.

1.10 Scheme of Presentation

The thesis is presented in six chapters.

Chapter One: The introduction chapter deals with the concept of bancassurance, significance of the study, statement of the problem, objectives of the study, hypotheses of the study, methodology, limitations and scheme of presentation.
Chapter Two: The second chapter deals with the review of literature. Literature regarding earlier studies about bancassurance is presented in two heads, i.e., Global Studies and Indian Studies.

Chapter Three: The third chapter gives a theoretical overview about bancassurance. Historical evolution of bancassurance, bancassurance across the globe and bancassurance in India are separately given.

Chapter Four: The fourth chapter analyses the data collected from customers regarding their perception about bancassurance and the problems encountered by them.

Chapter Five: The fifth chapter analyses the data collected from bank managers regarding the opportunities and challenges of bancassurance.

Chapter Six: The summary of findings, conclusions and suggestions are provided in the last chapter.
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References


2. IRDA Hand Book on Indian Issuance Statistics, 2012-13, pp. 6-7


