CHAPTER – 1

BANCASSURANCE – A THEORETICAL BACKGROUND

1.1 Introduction

Insurance is an important integrated financial service affecting not only individuals and business but also having a considerable impact on the economic health of a nation. Under insurance, the insurer promises to compensate the insured for any loss of life or property on the happening of any future contingency, in return for a small payment known as premium. But as no one ever wants to talk of loss of any loved one or property etc. insurance is a service that is not usually bought but has to be SOLD.

In India, insurance as an organised commercial activity made its beginning in the year 1818 but a regulated and administered regime came up in 1912 with the enactment of Life insurance companies Act. The first major transition took place in 1956 with the nationalisation of the Life insurance business followed by nationalisation of the general insurance industry in the year 1971. A major step was taken up by the govt. in 1991 to deviate from a monopolistic regime and integrate the Indian economy with the global economy, which impacted the insurance sector in 1999 with the opening up of insurance sector.

The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the IRDA Act in 1999, India abandoned the public sector exclusivity in the insurance industry in favour of market-driven competition. This shift has brought about major changes to the industry. The beginning of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels as well as raising of supervisory standards. (Earnest and Young, 2010)
1.2 Insurance Distribution Channels

Kotler and Armstrong have defined distribution channels as “Sets of interdependent organizations involved in the process of making a product or service available for use or consumption, as well as providing a payment mechanism for the provider”.

Insurance distribution systems span the spectrum from the use of a professional employee sales force, to contracting with independent sales representatives, to direct response methods such as mail and telephone solicitation. The ongoing competitive and technological revolution in the financial services industries has resulted in greater segmentation of distribution by product market, and to greater use of multiple distribution methods by firms, including the establishment of marketing relationships and alliances with non-insurance concerns. (Regan and Tennyson, 1999).

Regan and Tennyson, (1999) have classified the product distribution channels in the insurance industry into five types: (1) mass marketing or direct selling; (2) employee sales representatives; (3) non-employee sales agents who sell for a single company; (4) non-employee agents who sell for more than one company; and (5) brokers.

Two distinct forms of distribution systems may be recognised viz. personal distribution systems and direct response systems. Personal distribution systems include channels like agencies, Bancassurance and work site marketing. Direct response distribution systems are methods whereby the client purchases the insurance directly. This segment, which utilizes various media such as the internet, telemarketing, direct mail, call centres etc., is just beginning to grow. (Manocha and Chitkara, 2012)

In India, during the last decade, distribution of insurance has witnessed a flurry of activities as: 1) Specification of minimum educational qualification for agents and intermediaries 2) Mandatory pre-license training and examination 3) Issue of License by IRDA 4) Elaborate regulation prescribing the code of conduct for all intermediaries 5) Issue of regulations allowing/regulating corporate agencies, brokers and referrals etc. thereby regulating and monitoring the entire framework to the interest of the consumer at large. Alongwith regulation of intermediaries, the categories of intermediaries for selling insurance products has also multiplied as competitors have to capture business
keeping in light the IRDA guidelines to ensure insurance reach and penetration in the country.

Traditionally, agents have been the sole distributors of life and non-life insurance and it continues to be followed as a prime channel by all insurance players till date. However, new developments in consumer behaviour, technology, deregulations etc. new distribution channels have been developed rapidly in the recent years. (Singh et al, 2011).

Multiple distribution networks create a range of opportunities for insurers to attract and serve customers in a differentiated way, keeping in mind the customer’s preferred combination of product, pricing, service and channel. It is a way to reach customers who could not be reached before, and to extract more value from existing customers. It is therefore a powerful lever to increase market and customer access, especially in mature insurance markets. (Earnest and Young, 2010)

The various distribution channels that operate on the Indian insurance scene can be classified as:

**Figure 1.1: Insurance Distribution Channels in India**

- Individual Agents
- Brokers
  - Corporate Agents
  - Bancassurance
  - Direct Marketing
Individual Agents: This is the most common route followed by all the insurance companies. These people do not take title of the goods and services and perform only limited functions. Their main function is to facilitate buying and selling for which they earn commission on premium gathered. Through this mode, personal contact and relationship is established with the consumer as they provide both pre-sale and post sales services. Also, they can help the insurance company by providing customer feedback on various products and services.

Brokers: Brokers are agents with a difference. Unlike the agent, a broker can sell policies of several life and non-life insurance companies at the same time. They are professionals, who assess the risk on behalf of the client and provide solutions to reduce those risks by virtue of different insurance products and also assist in administration and performance of such contracts, if need arises.

Corporate Agents: Corporate agents work like brokers but with the restriction that they deal with only one company at a time. They are basically Non-banking finance companies which cross sell insurance with other financial services and provide one-stop solutions to customers. They are more effective as they are expert professionals and enjoy trust of the consumer because of the guidance they offer and services they provide.

Bancassurance: Bancassurance in its simplest form is distribution of insurance products through a banks distribution channel. It is a medium for the cost-effective distribution of insurance and pension products by penetrating diverse markets. There is no clash of interest between banks and insurance companies as bank deposits are for current consumption and they only market insurance services to their customers.

Direct Marketing Channel: The direct marketing channel or the zero-level channel is whereby the company sells directly to the final consumer through its own employees. Companies set up separate department to solicit and administer insurance business. The main advantage of this method is the cost reduction as compare to the agency system.
**Internet:** Initially insurance was seen as a complex product and required an effective sales agent to convince the buyer about the product benefits. Nowadays, consumer is much more aware and all insurers have websites through which they provide information about products and services. Customers are already using Internet banking for conducting banking operations. Hence, insurance companies can take benefit of this new technology adage to expand their operations.

**Tele Marketing:** Telemarketing of insurance means that telephones are used by the customer care executives of banks and insurance companies to approach buyers and sell them insurance policies. It is coming up as a good option for the working class who have shortage of time and just want to avoid being caught in traffic jams to buy products and services.

**1.3 Bancassurance**

The banking and insurance industry have changed rapidly in the changing and challenging economic environment throughout the world. In the competitive and liberalized environment everyone is trying to do better than others and consequently survival of the fittest has come into effect. Insurance companies are also required to be competitive by way of cost cutting and serving customers in a better way. The time has come for the industry to gradually move from the traditional individual agents towards new distribution channels with a paradigm shift in creating awareness and not just selling products.

The strategy for using the established, entrenched distribution network for one product to market other new products has long existed in the consumer goods sector. The basic premises of this kind of cross selling is the fact that companies keep diversifying their product portfolio using established incumbent networks to promote and distribute new product lines. Banks too have in the recent past adopted this strategy. The answer to this is ‘Bancassurance’.

Bancassurance, known as “ALFINANZ” and most popular in Europe is the simplest way of distribution of insurance products through a bank distribution channel. It is basically selling insurance products and services by leveraging the best customer base of a bank and fulfill the banking and insurance needs of the customers at the same time (Chowdhury, 2004)
According to the European School of thought, “Bancassurance is the amalgamation of the assurance and banking business within a financial environment”

According to the Indian School of thought, it means selling insurance through bank staff, at bank counters, fully exploiting the synergies between banking and insurance, so as to develop and distribute cost effective banking products.

The Life Insurance Marketing and research Association’s insurance dictionary defines Bancassurance as “the provision of life insurance services by banks and building societies.”

The Association of British Insurers defines Bancassurance as “insurance companies that are subsidiaries to banks and building societies and whose primary market is the customer base of the bank or building society.”

Another definition of Bancassurance is “the involvement of banks and building societies in the manufacturing, marketing or distribution of insurance products”

According to IRDA, ‘Bancassurance’ refers to banks acting as corporate agents for insurers to distribute insurance products.

It takes various forms depending upon the demography, economic and legislative environment of the country. While the demographic climate determines the kind of insurance products, the economic climate will determine the trend in terms of turnover, market share etc., and legislative climate will decide the periphery within which Bancassurance has to operate.

1.3.1 Reasons for Entering Into Bancassurance

The motives behind entering into Bancassurance also vary. For banks it is a means of product diversification and a source of additional fee income while the insurance companies see Bancassurance as a tool for increasing their market penetration and premium turnover. Mayne and Taylor (2002), Raju(2009) and Krishnamurthy(2001) etc. have all discussed in length the different reasons for banks and insurance companies to align and sell products. These reasons have been clubbed and summarized as under:
Wide network of branches: Banks can prove to be a vital distribution channel due to their existing wide network of branches all over. This enables the insurance companies to reach out to each and every individual in the country who needs insurance.

Competition: Intense market competition between banks has led to substantial decrease in interest margins of the traditional banking products. Hence, commission and fees from selling insurance products will supplement the bank’s earnings.

Customer database: Customer database with the banks i.e. information on the basic profile of the customer, his financial networth, spending habits, investment patterns and requirements etc. can prove to be a goldmine for the insurance company. Such information channelised in the right manner can help work out marketing strategies and arrive at result-oriented decisions targeting prospects.

Corporate Clients: Banks can utilize their existing clientele, which includes corporate as well as retail clients to market insurance products. Depending on the relationship with its clients it would become easier to influence the insurance purchase decisions of its clients. Customers too, having banked with a particular bank for a long period repose a sense of trust and faith in the bank.

Rural penetration: The existing wide network of banks in rural areas can be utilized for selling insurance products. Having been accustomed to the customers' choices, banks are in a better position to understand the needs of the customers and sell tailor made policies.

New Products: In collaboration with the banks, insurance companies can develop new financial products to satisfy diverse consumer needs.

Personalized Service: Since banks have direct contacts with customers, the service area can be tackled easily. Customers, other than their day-to-day financial requirements can also get assistance for premium payment, surrender, transfer of policies and many more.

In the absence of financial planners in India, traditionally the bank managers act as investment advisors to their customers. Due to the proximity, he is in a position to provide solutions based on detailed profile of his customers.

Cross-selling products: Banks in their normal course of functions lend finance in the form of loans for cars, or for buying a house to clients. They can combine insurance
products and sell as a package. In the current scenario banks can cross sell their products along with the insurance products.

**Fee based service:** Insurance products can be sold as a fee based service. In an age where banks are trying to venture into selling mutual funds and other financial products besides stock Broking etc., selling insurance products could also give an additional boost to the banks income. Also, this income is purely risk free for banks since the bank simply plays the role of an intermediary for sourcing business to insurance companies.

1.3.2 How Do the Participants Benefit From the Success of This Model?

Why Bancassurance has shown such strong growth in certain markets can be seen as the effect of individual interests feeding into a partnership, and eventually benefiting all parties. It must be to the advantage of each stakeholder in the model (bank, insurance company, consumer and legislator) for the Bancassurance model to develop successfully. Without these advantages, it is obvious that no collaboration would be possible. Hence, the advantages of Bancassurance are discussed from the view-point of all the parties concerned- viz. banks, insurers, consumers and legislators.

**Advantages for the insurance company:**

Alongwith increasing its customer base through the banks clients, the insurance company is able to reduce its reliance on traditional agents; can develop new financial products and can also obtain financial support from the banks when required (Corneliu, n.d) Further, this alliance also helps in creating brand equity alongwith cutting down on the cost of acquisition of insurance policies (Ramesha, n.d), Neelamegam and Veni, 2009). These advantages have been discussed in detail as under:

1. Through this new distribution network, the insurance company significantly extends its customer base and enjoys access to customers who were previously difficult to reach. This is obviously a fundamental advantage; it is itself enough to convince an insurance company to ally itself with a bank as an insurance company can establish its market presence rapidly.

2. The insurance company has the opportunity to vary its distribution methods, in order to avoid excessive dependence on a single network of the traditional agents.
3. The insurance company often benefits from the trustworthy image and reliability that people are more likely to attribute to banks;

4. The insurance company also benefits from the reduction in distribution costs relative to the costs inherent in traditional sales representatives, since the sales network is generally the same for banking products and insurance products. This means that products can be sold more cheaply to the consumers.

5. An insurance company can establish itself more quickly in a new market, using a local bank’s existing network thereby creating brand equity for itself.

6. Insurance companies can obtain additional capital from banks to improve their solvency and expand business.

**Advantages for the bank:**

Besides becoming a “one stop shop” for financial needs of the consumers, banks can increase customer retention, reduce risk based capital requirement and secure additional and more stable stream of income (Corneliu, n.d.). The extra income from Bancassurance tie-ups can increase profits and productivity of banks, help in hedging credit risks and also create a much needed sales culture in the banks (Ramesha, n.d) Even the FICCI survey of 2010 has found that Bancassurance is the most profitable non-interest income business opportunity for the banks (Fig1.2)
These advantages for banks have been summarized as under:

1. The bank becomes a sort of “supermarket”, a “one-stop shop” for financial services, where all customers’ needs – whether financial or insurance-related – can be met. The broadening of its product range makes the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty as services can be tailored according to the requirements of the customers.

2. Bancassurance is a way of creating a new revenue flow and diversification of business activities of the bank. The commission and fee income from the insurance companies is an additional, secure and more stable stream of income for the banks.

3. It reduces risk based capital requirement of the banks for earning the same level of revenues.

4. The distribution costs can be seen as marginal since, in most cases, it is the bank’s existing employees who sell the insurance products. Amongst other
things, the one-stop shop model optimizes the use of the network and increases the profitability of the existing branch network.

5. Also, since insurance products tend to be tied up with banking products especially loans and mortgages, there is hedging of credit risk of the banks to some extent.

**Figure 1.3 Advantages of Bancassurance to the key parties**

![Advantages of Bancassurance](image)

*(Source: Munich Re Survey)*

**Advantages for the consumer:**

1. As mentioned among the advantages for the bank, the consumer enjoys greater access to all financial services from a bank that offers both banking and insurance products;

2. Since the distribution costs are lower than in a traditional distribution network, the consumer can usually get cheaper insurance products than through traditional channels. In addition, premium payment methods are simplified, since premiums are collected directly from bank accounts;
3. The special relationship between the customer and the bank means that there is a better match between what the customer needs and the solutions provided by the bank.

In a nutshell, we could say that customers' benefit from the opportunity to get simple, often inexpensive insurance products with a premium payment system adapted to their needs (usually monthly installments) and with easy access, since the branch network is usually denser than the network of insurance outlets.

**Advantages for the legislator:**

The role of the oversight authorities or of the government itself is to make laws to ensure that the risks taken by their country’s financial institutions are actively managed and controlled in such a way as to maintain sound national finances. However, events may occur that are outside the control of individual and national managers, which may impact upon the whole financial system. These risks go under the name of “systemic risk”.

For financial institutions, Bancassurance can be a means of limiting such systemic risk because it diversifies the bank’s sources of revenue, making its business more stable and thereby safer for its customers too.

On the other hand, certain authorities think that deregulating financial systems to excess can increase a country’s systemic risk. This is why, in many countries, banks are still unable to exercise activities outside their core business, in order to avoid additional sources of risk. In addition, certain governments have decided to liberalize the financial system, but progressively, for a more controlled process of deregulation. In other words, supervisory authorities may see Bancassurance as an advantage or, on the contrary, as a potential risk to a country’s financial stability.

**1.3.3 Bancassurance Distribution Models**

There are numerous models that can be adopted for Bancassurance, many of which are dependent on the structure, geographic spread and working practices of insurance companies and banks. It also depends on the nature of the relationship between the bank and insurer - whether it is an equity sharing company structure or a profit sharing deal or purely a distribution arrangement.
In India, sales are already underway through insurance staff located in bank branches and also through bank staff directly. The results from both models have been very encouraging showing that there is no single universal model and what is of supreme importance is the quality of performance. Kumar(2001), Karunagaran(2006) and Teunissen(2008) etc. have all described three basic distribution models: the Integrative, Specialist and Financial Planning model.

In the **Integrative Model** (also known as Generalist Model) products are distributed through existing bank channels, or branch bankers themselves sell insurance products to customers. This requires bank staff to have a thorough knowledge of all the insurance products on offer. The sale of AVIVA Life insurance through its banking associates like ABN Amro, American Express, and PNB etc. is an illustration of the Integrative model of Bancassurance.

In the **Specialist Model**, product experts who are generally employees or representatives of the insurance company itself, distribute the products. Bankers utilise their database to identify prospects who are then contacted by the insurance professional. This may require less training but higher compensation to support the referral process.

The **Financial Planning Model** offers every customer a full financial planning package that attends to his or her entire financial concerns. This process is considered beneficial for the customer, the bank and the insurer and is generally considered an extremely useful way to reach a large number of customers.

**Strategic Alliance:** Under a strategic alliance, there is a tie-up between a bank and an insurance company. The bank only markets the products of the insurance company. Except for marketing the products, no other insurance functions are carried out by the bank. ICICI Prudential entered into a strategic tie up with Shamrao Vithal Cooperative bank in Feb 2004, for the distribution of its life insurance policies.

**Full Integration:** This arrangement entails a full integration of banking and insurance services. The bank sells the insurance products under its brand, acting as a provider of financial solutions matching customer needs. Bank controls sales and insurer service levels including approach to claims. Under such an arrangement the bank has an additional core activity almost similar to that of an insurance company.
The alliances of SBI Life and ICICI Prudential primarily fall in this category, where the customer data base of SBI and ICICI gives the leads for the insurance companies to work upon.

The success of the above mentioned models primarily depends upon the synergies they are able to create in their tie ups – the entire onus of which goes to the decisive factors which played a role in choosing a particular bank or corporation to enter into alliance. As is explained by the following diagram, the model that is selected also decides what level of synergy the firms would be able to create and the % growth in business they can foresee.

**Figure 1.4: How do the models rate on the growth and synergy matrix.**

![Bancassurance Distribution Models Diagram](Source: SCOR)

Ultimately, a successful Bancassurance sales model is one that adds value to the overall customer experience and exploits the responsibility skills of the partners, thereby ensuring the longevity of the partnership.

**1.3.4 Bancassurance Products**
A range of products have been developed for Bank customers within the Bancassurance umbrella. While these products would cater to specific needs of customers, the complexity involved in their respective selling process would also differ, and so would the appropriate sales process. A few broad examples of suitable products are given below:

- **Credit Protection**: These are simple protection products that directly relate to traditional bank products and are sold with primary products such as mortgages, credit cards, auto loans and personal loans. These products are cheaply priced and guarantee repayment of the debt; should the insured event occur. Being simple products, the sales process involves minimal complexity, and is typically sold en-masse bundled with the primary bank product. A high take up rate is critical for success to avoid the insurer being selected against, leading to underwriting of sub-standard risk.

- **Off the shelf products**: Being specially packaged savings and protection plans targeted at specific needs of customer segments, these products are parameterized and require little consultation in the sales process, e.g., tax hedge plan. These products can be effectively sold through the direct mail route and also across the teller counters of the Bank.

- **Group products**: These products are packaged for specific savings and protection needs of certain groups, e.g., corporate employees. Being parameterized, these pose little complexity in the sales process, and can be sold effectively on the direct mail platform.

- **Unit linked products**: These products primarily aim to satisfy the investment needs of the client and are a logical extension of other investment products sold by the bank. They involve a need based selling exercise, and the sales process follows a more complex and consultative approach. These products are best sold through trained financial planners who are able to identify a complex set of needs and offer a suitable solution to the customer.

- **Universal protection plans**: These products address the risk protection needs of customers and aim to adequately provide for the family of the insured, should the insured event occur. These products are also based on the individual
financial needs of the client, and are best sold through trained financial planners in a consultative setting.

It is important to note that while the level of complexity in the selling process differs across products and needs of customers, product simplicity is critical for success. Products should cover all identifiable customer needs, yet should be simple to understand and easy to evaluate.

**1.3.5 Ensuring Success with Bancassurance**

Many companies have failed while trying to implement a Bancassurance strategy, and few have succeeded. Although the reasons for failure vary greatly, there are a few critical success factors that contribute to a long standing and profitable partnership.

*First,* it is essential for both parties to understand that Bancassurance is a long-term alliance requiring significant upfront investments before returns are realized. A sophisticated Bancassurance model may take years to perfect before payback of the initial investment. Especially in markets like India where Bancassurance is in its infancy, partnering the development of Bancassurance models and strategies with a long-term view is pivotal for success.

*Second,* partners need to have a common business vision and direction towards future objectives. Very often, partners have different expectations from the alliance, which leads to early fallout in case the objectives are not met. It is therefore critical for partners to develop a common business plan with clearly laid out business goals and milestones. Top management commitment to the alliance is critical to ensure staff buy-in downwards.

*Third,* there should not be wide disparity in the core values of partners that may lead to a conflict of interest in the course of business. For example, market share orientation through price competitiveness and bottom-line focus with no price-cutting could be divergent strategic alignments that may cause conflict and jeopardize the partnership.

*Fourth,* it is vital to integrate harmoniously the often dramatically different bank and insurance cultures. Banks generally have a service oriented culture as against
insurance companies that have an aggressive need based selling philosophy. Staff resistance to a new product from an external provider, remuneration disparity across bank and insurance staff, transition to a sales oriented philosophy and presence of insurance staff in bank premises and processes are a few challenges that such partnerships have to face to be successful. It is therefore imperative that bank and insurance staff interaction, training and education are continuous and ongoing priorities. Further, incentive programs and other motivational measures can be used to ensure staff’s focus on insurance sales.

Fifth, partners must carefully select a sales model suited to the existing organizational structure and culture of the Bank and insurer. Further, roles within the model should be clearly defined to ensure process effectiveness. Often, the absence of role clarity and cultural conflict undermine the effectiveness of the sales model and lead to the failure of the venture. Partners must also implement an insurance sales organization superimposed on the existing structures of the Bank and insurer, which defines roles, responsibilities and reporting relationships of all people involved in insurance provision.

Sixth, partners must counter channel conflict that arises out of the Bank’s customer base being exposed to an external entity. Confidential customer information must be protected within the Bancassurance channel, and should not even be available to other channels used by the insurance company. An effective lead and customer ownership mechanism (e.g., Customer Relationship Management Package) could minimize overlap between Bancassurance and other channels used by the insurance company. It is also essential to ensure that insurance products do not cannibalize other bank products. This can be countered by offering suitable insurance products positioned towards satisfying needs that are not met by other bank products. A thorough understanding of products and a focus on needs based selling would go a long way in solving this problem.

Last, process and service compatibility across the partners is critical. Bank customers expect a certain level of service and a look-and-feel of service that they have been used to in their interactions with the Bank. The Insurer must gear up its service infrastructure and effectively integrate its processes and systems with the Bank to deliver a similar customer experience. In a Bancassurance venture, quality customer
service is even more important because the bank refers its customers to the insurer, and the bank’s relationship with the customer can be damaged by poor service from the insurer. Clearly laid down processes, service level agreements and customer recognition measures ensure high standards of service delivery and blur the wall between bank and insurance service platforms. Clearly, customer satisfaction is the key to customer retention, competitive differentiation, favorable word-of-mouth and additional insurance business.

1.4 Bancassurance In India

The Insurance industry was opened up in the year 2000 but it was in the year 2002 that Banks in India were permitted to do insurance business for the first time. As it offered a very attractive proposition to the banks for generating additional fee based income against the backdrop of thinning spreads and severe competition, a series of tie ups were announced immediately after the permission and are even continuing till date. Even many cooperative banks announced tie ups with insurance companies to distribute insurance products. For the insurance companies also it was a winning proposition as it could now leverage the wide network of the banks immediately. An added attraction was that banks in India have enjoyed the trust and confidence of the customers, even though they have not been very pleased with the service quality levels.

Bancassurance as a business generating channel has been increasingly becoming important for the insurance companies, especially for the new private players which started functioning after the reforms in the industry. The early Bancassurance distribution arrangements in India were taking off under two categories: (a) distribution alliances by way of referral arrangements and corporate agency relationships, and (b) joint venture agreements. Pure distribution arrangements provide both banks and insurance companies with additional sales potential with minimum of investment. The referral form of distribution is a loose agreement, an opportunistic approach, whereby the bank effectively controlling access to the client base passes on business leads to career agents of the insurance company with which it has tied up. The insurance company assigns career agents to sit in the premises of specific bank branches, and for every lead passed on, the bank gets a referral fee commission (with some banks also permitting the staff to receive ‘incentives’ from the insurer concerned).
The other form of Bancassurance distribution through the joint venture platform is currently practiced by a few banks, with State Bank of India leading the pack as the promoter of SBI Life Insurance Co. Ltd. A joint venture structure offers more synergy potential than pure distribution agreement. The main advantage is the scope for significant know-how transfer to take place between the parties. International evidence suggests that fully integrated Bancassurance partnerships demonstrate superior performance, as the insurance company orients itself towards the bank, and the bank plays a crucial role in managing the interface with customers.

In India, the Bancassurance model is still in its nascent stages, but the tremendous growth and acceptability in the last years reflects green pastures in future. The deregulation of the insurance sector in India has resulted in a phase where innovative distribution channels are being explored. In this phase, Bancassurance has simply outshined other alternate channels of distribution with a share of almost 25-30% of the premium income amongst the private players.

The Bancassurance model being followed up in the country is primarily the corporate agency model. This model is attractive for the banks as it offers handsome returns (up to 35% in the first year of new business procured) involves very low startup costs and the business risk is underwritten entirely by the insurance company. Insurance products wrapped around the Bank’s loan and deposit products have also been gaining in popularity due to their mass appeal and simple product design while the referral model tie ups have not been that successful.

The banking and Insurance sectors being regulated by two different entities i.e. RBI and IRDA respectively, both of them have issued detailed guidelines for banks entering the insurance sector. The broad policy guidelines are summarized hereunder:

**RBI Guidelines:**

The Reserve bank of India, which is an apex bank of the country has laid down the following guidelines for a bank willing to enter into alliance with an insurance company to sell insurance products:

1. Banks having a net worth of not less than Rs. 500 Crores and a CRAR of not less than 10%, having a reasonable level of Non-Performing Assets can enter
into joint ventures with insurance companies with risk participation, provided further that they have a net profit for the last three continuous years.

2. In case the banks, are not eligible to enter into JVs under (I) above then the banks have an option of investing up to 10% of their net worth or Rs. 50 crores, whichever is lower, in an insurance company.

3. Banks can also undertake insurance business as agents of insurance companies on a fee basis with no-risk participation.

**IRDA (Licensing of Corporate Agents) Regulations, 2002**

The IRDA has further provided the following guidelines for the banks and insurance companies who wish to rely on the Bancassurance mode of insurance sales:

1. Any bank selling insurance is to have a Chief Insurance Executive (who shall be a whole time employee of the bank) to handle all the insurance activities.

2. The bank personnel engaged in insurance business are required to undergo mandatory training at the institute accredited by IRDA and pass the examination conducted by the authority.

3. Commercial banks, including cooperative banks and regional rural banks may become corporate agents for one insurance company.

4. Banks are not allowed to become insurance brokers.

5. Every bank shall be guided by code of conduct specified in section 9 of IRDA (Licensing of Corporate Agents) regulations 2002

In India, the local regulations are encouraging the development and promotion of this channel. Also, banking in India is mainly done in the “brick and mortar model,” which means that most of the customers still walk into the bank branches. This enables the bank staff to have a personal contact with their customers, which is very essential for the insurance selling. Some of the Bancassurance settings that have evolved in the Indian context are an example of a multi-bank set up in order to have the maximum customer reach.

**Table 1.1 Bancassurance tie ups in India**
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<th>Insurance Company</th>
<th>Bank</th>
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<tr>
<td>Birla Sun Life Insurance</td>
<td>Bank of Rajasthan, Andhra Bank, Bank of Muscat, Deutsche Bank and Catholic Syrian Bank</td>
</tr>
<tr>
<td>AVIVA India Ltd.</td>
<td>Canara Bank, PNB, American Express, ABN Amro, Lakshmi Vilas Ban and 11 other cooperative banks.</td>
</tr>
<tr>
<td>HDFC Standard Life Insurance</td>
<td>Union Bank of India, HDFC Bank</td>
</tr>
<tr>
<td>ICICI Prudential</td>
<td>ICICI Bank, Lord Krishna bank, Bank of India, Citibank, Allahabad bank, Federal Bank, South Indian Bank and Punjab and Maharashtra Cooperative bank</td>
</tr>
<tr>
<td>Met Life India Insurance Company</td>
<td>Karnataka Bank, J&amp;K bank, Dhanalakshmi Bank.</td>
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<tr>
<td>SBI Life Insurance Company</td>
<td>State Bank of India</td>
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<tr>
<td>Tata AIG</td>
<td>HSBC, Citibank, IDBI Bank, Union Bank of India</td>
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<td>ING Vyasya</td>
<td>Vyasya Bank, Bharat Overseas Bank</td>
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<td>Standard Chartered Bank, Syndicate Bank</td>
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The huge untapped insurance market in India has opened new vistas for Bancassurance. The market will witness new and innovative products pouring in from
all sides. The integration of the banking and insurance sectors would put the customer database maintained by the banks to more productive and dynamic uses in the sense that it would enable insurance companies to come up with more customized and tailor made products for the customers.

There has been a mixed response to the bank tie ups for the insurance companies – the differences generating primarily from the nature of the tie ups and the models used. In some of the cases like ICICI, SBI, AVIVA, HDFC Standard Life Insurance etc the results have shown an increasing acceptance for this mode and fruitful results for the insurance companies. Companies like MET life have not been able to create synergies in their tie ups and hence have decreasing trends.

As of now, the various Insurance companies in India have widespread variations as far as business through Bancassurance is concerned. But still, sales through Bancassurance are significant and gaining market share.

The customer and the banking and insurance companies are all going to gain in this new scenario. The customer will gain in the sense that a plethora of insurance products are likely to come his way at very competitive prices. The banking and Insurance segment is going to gain as almost half the population is going to be a wage earner by 2020. Bancassurance will definitely go a long way in playing a long inning and helping the insurance sector touch new heights.

However, there is also a word of caution in that early success is relatively easy to achieve by going after so called “low hanging fruit” or products and customers which are easy to sell and sell to. However, untold damage can be caused in the longer run by turning the bank into a rabid sale animal exhibiting the types of negative sales behaviour that is more often exhibited by insurance company agency forces, and therefore potentially driving customers away in the longer run. Learning from the experiences in other countries around the world about some of the dangers and pitfalls can therefore be crucial to long term success.

If a comparison in the Bancassurance practices across the world is made (Refer Table 2.3) we will see that the world over, what derives people to buy insurance is the tax concessions factor and the nature of regulations to which these firms are subject is also almost the same, but there is a marked difference in the type of insurance policies
people are ready to invest in. In Europe, people prefer a single premium policy whereas in India the insurance consumer prefers to shell out small buck’s very year. Moreover, the foreign companies that have entered the Asian as well as the Indian market bring with them the skills, experience and know how as to how the Bancassurance model can be made effective. These will provide the necessary impetus to make Bancassurance a viable proposition in the Indian market.

Table 1.2 – Comparing Bancassurance in Europe, Asia and India

<table>
<thead>
<tr>
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<th>Europe</th>
<th>Asia</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regulation</strong></td>
<td>Liberalized</td>
<td>Ranging from Liberalized to forbidden</td>
<td>Supportive</td>
</tr>
<tr>
<td><strong>Market Growth</strong></td>
<td>Mature markets but pension reforms can spur growth in the life insurance sector</td>
<td>High Growth Potential</td>
<td>High Growth</td>
</tr>
<tr>
<td><strong>Bancassurance Model</strong></td>
<td>Highly Integrated model</td>
<td>Distribution Alliances and Joint Ventures</td>
<td>Distributive</td>
</tr>
<tr>
<td><strong>Major Drivers</strong></td>
<td>Tax Concessions, Squeeze on bank margins</td>
<td>Squeeze on bank margins, Growing costs for insurers, desire to expand Financial deregulation</td>
<td>Tax free status on maturity. Small tax relief on premiums and narrowing bank margins</td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td>Single Premium products to max tax benefit</td>
<td>Products geared towards savings</td>
<td>Mainly non-unitized Regular premium products.</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td>Multi – bank branches</td>
<td>Mainly Bank Branches</td>
<td>Bank Branches</td>
</tr>
<tr>
<td><strong>Major Players</strong></td>
<td>Domestic banks and insurers</td>
<td>Foreign Co’s</td>
<td>Foreign Co’s in association with Indian Counterparts</td>
</tr>
<tr>
<td><strong>Sophistication</strong></td>
<td>High</td>
<td>Varied</td>
<td>Low</td>
</tr>
</tbody>
</table>
1.5 Introduction to the Selected Insurance Companies

AVIVA India

AVIVA India, which is a joint venture between Dabur and Aviva, has pioneered the concept of Bancassurance in India. With a stake of 74% with Dabur and 26% with Aviva PLC, it has a capital base of Rs 2004 crores and is one of the first companies to introduce contemporary Unit–Linked products.

Aviva is spread across nearly 3000 towns and cities in India owing to its wide distribution network of 140 branches and strong Bancassurance partnerships with Royal Bank of Scotland (earlier known as ABN AMRO), Punjab and Sind Bank, IndusInd bank and more than 30 cooperative banks and regional rural banks.

Aviva, which is an independent insurer with banks, relies on a three pronged approach to Bancassurance. For reaching out to customers all over India, it relies on Punjab and Sind Bank, which has 50 % branches in rural and semi-urban areas; and IndusInd Bank, which have almost 2000 branches spread throughout the country. Earlier it had tied up with Punjab National Bank and Canara Bank for the same. To meet up to the requirements of the high-networth customers, Aviva has entered into alliance with multinational banks and agencies like Royal Bank of Scotland and DBS, Singapore. To meet the requirements of rural banking and reach down to the farmers and artisans, Aviva has joined hands with Rajasthan Gramin Bank, Vidarbha Kshetriya Gramin Bank, Sutlej Gramin Bank etc. This AVIVA has found partners that are not only India’s most reputed banks but also share its vision of providing world class financial solutions to its customers.

These alliances that AVIVA enters into are based on strategic decisions based upon distribution depth and distribution reach so that the footprints can be made into areas which were otherwise out of reach.
Also, the company primarily follows the Integrated Model and the Introducer model relationships with the selected commercial and co-operative banks. In the Integrated model, which it follows with Punjab and Sind Bank and IndusInd Bank, the banks act as corporate agents for AVIVA wherein AVIVA plays the role of the product and service provider and the client is handled by the bank staff who have been adequately trained in the matter and have been issued licenses by IRDA.

On the other hand, in the Introducer model that the company follows with ABN AMRO, the bank staff only acts as an introducer and the specialized and trained AVIVA advisors deployed in the bank’s branches have the responsibility of converting the prospect into a customer. This helps in gaining access to a large number of leads. Also, to reach out to its customers more forcefully, AVIVA lays adequate importance on product differentiation also.

The above noted philosophy of AVIVA has helped it grow on a fast pace as almost 65% of their business is generated through Bancassurance. Keeping in view their
fast pace and the market scenario, the people at the helm of affairs at AVIVA feel that they would definitely emerge as winners as the future is going to be of strong alignments with bank cross investments and exclusivity.

**SBI Life**

SBI Life insurance, an alliance of SBI and BNP Paribas Cardif is an example of a joint venture set up in Bancassurance. Although SBI is the largest Public Sector bank in the country but in case of Insurance it is considered a private player. Being the first Life insurance player to achieve a sale of 30 lakh life policies in 2004, SBI Life insurance in its earlier years relied on references of customers having accounts with State bank of India, (100 million of accounts); thus trying to reap the benefits of the vast spread and deep root penetration of the bank’s branches even to the remotest of areas. Under this scheme, agents of SBI Life were deployed at the various branches and they tries to convert every prospect customer to a Life insurance policy holder and giving some extra benefits – just because they were existing customers of the bank.

But over a period of time, SBI Life, wanting to spread its wings all the more has developed a unique multi-distribution model encompassing vibrant Bancassurance, Retail agency, institutional alliance and corporate solutions distribution channels. It extensively leverages the state Bank group relationship as a platform for cross selling insurance products along with its numerous banking product packages such as housing loans and personal loans.

Within a short span of its existence, the company has emerged as the top private insurer in terms of number of lives insured and new business premium generation; has globally topped the prestigious Million Dollar round Table 2010 for having the maximum number of MDRT members and has recorded a robust net profit of Rs 276 crores.

With a productive force of 80,000 insurance advisors offering door to door insurance solutions to customers, the company expects to carve a niche in the Indian insurance market through extensive product innovation and aims to provide the highest standards of customer service through a technological interface. To facilitate this, call centers have been installed and help lines put up so that the customers may have access
to their accounts through Internet or through SBI branches. Latest in the list is an innovative customer care initiative – SMS “SOLVE” for prompt grievance redressal.

The company has all plans to capture the growing and untapped Indian insurance market with its new innovative schemes and a customer friendly approach, so that it can soon become not only a leading Private sector Life insurance company but also the largest Life Insurance Company in the country.

**LIC of India**

Life Insurance Corporation of India, founded in 1956, is the largest state owned insurance group in India and is the frontrunner in the industry in terms of market share and no of policies issued.

Since inception, it has spearheaded the financial and infrastructural development of the nation and has been growing from strength to strength in terms of customer base, agency network, branch office network etc. It got a new face in 2000 after the insurance sector was opened up to the private participants and it was not before 2001 that LIC started using alternate channels i.e. Bancassurance, brokers and corporate agents for distribution of its products.

Today, standing tall with an astounding strength of 13,37,064 individual agents; 242 corporate agents; 79 referral agents; 98 brokers and 42 banks for soliciting insurance business from the public, the company gathered Rs 52,732.09 crores as individual new business premium in the year 2010-2011. This has been made possible through the spread and reach to newer market segments by harnessing the large customer base of its bank partners, corporate agents and brokers. Keeping in tune, the company envisions cultivating and nurturing the alternate channels as vibrant cost effective and sustainable mode of product distribution and being a significant contributor to the corporation.

In a competitive market, there is a greater need to provide insurance products that meet the needs of the customers. LIC therefore offers a wide variety of products which fulfils the requirements of all segments of the society. During the last few years, many new innovative products have been added to its basket and some older ones have been deleted from the list in order to ensure that it is able to reach upto its objective of
reaching out all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

**ICICI Prudential Life Insurance Ltd.**

ICICI Prudential life entered the insurance market in 2000, armed with knowledge derived from two specialist financial sector companies in banking and Insurance – ICICI Bank and Prudential Plc. The company entered the insurance industry with the aspiration of being the dominant player in the insurance and pension category on the back of providing world – class service to customers and being sensitive towards their requirements.

ICICI Prudential’s capital stands at Rs 4,780 crores with ICICI Bank and Prudential Plc holding 74 % and 26% stake respectively and the company has maintained its dominant position amongst private life insurers in the country, with a wide range of flexible products that meet the needs of the Indian customer at every step in life. It is the only private life insurer in India to receive iAAA credit rating for their claims paying ability. It has also received the “Life Insurance Company of the year” award; “Award for excellence in cost management” etc.

ICICI Prudential Life today has a well –rounded, multi-channel distribution strategy. This enables the company to reach out and be accessible to customers in a form and manner of their preference – Bancassurance, direct marketing, corporate distributors, and advisors as well as over the internet. The endeavour is to reach out to and be accessible to customers across different geographies and socio-economic strata.

At the end of the financial year 2011, the geographical footprint of the company across the country was established through more than 50 Bancassurance tie-ups, an agency force of over 175,000 advisors, 1,400 owned branches and approximately 5,000 product & solutions distribution touch points. With this breadth and depth of distribution network, the company has contributed towards enhancing financial literacy and inclusion.

The Bancassurance strategy is to tie-up with the National and Regional banks that have significant distribution strength and a loyal base of customers. It seeks partners that have values similar to its own, a customer – centric approach and the desire to expand the range of financial services they offer.
In the coming years, ICICI still wishes to further stretch its wings by opening more branches, deepening and widening the relationship with partner organisations, develop new products and attract still new customer segments.

**ICICI Lombard**

ICICI Lombard General Insurance Co Ltd, the largest private sector general Insurance company in India, is a joint venture between India’s second largest Bank – ICICI and FairFax Financial Holdings Ltd; a Canada based diversified financial services company.

With a network of 315 branches and an employee base of 4264 people, the company sold over 56 lakh policies and generated a gross premium of over 4734.89 crores in the year 2010-2011.

Ranked as ‘most preferred Brand” in the General Insurance category , ICICI Lombard has been assigned iAAA rating by ICRA, has been conferred the “Skoch Financial inclusions Award-2011” and the “Golden Peacock Innovation Award” for its Rashtriya Swasthya Bima Yojna.

The company allows instant policy issuance and renewal through its website for all retail insurance products and also provides multiple payment options to ensure customer convenience. It has developed a web-based system to meet all pre and post-policy transactional needs of its customers.

**New India Assurance Company**

Incorporated in July 1919 and Nationalised in 1973 with the merger of Indian companies, New India Assurance is a leading global insurer group. With operations spread across 23 countries across the globe and a wide network of 1068 offices spread across the country, it is the largest non-life insurer in Afro-Asia excluding Japan.

The first Indian Non-life company to cross Rs 8225.51 crores gross premium, it offers global Re-insurance facilities and is a pioneer in offering satellite insurance. Alongwith, it has been the first company to handle Hull Insurance, to start Aviation Insurance, to introduce Engineering Insurance and to introduce the concept of model office training.
Ranked at No 1 in satisfying auto insurance customers, it has tied up with leading public sector banks such as SBI, Central Bank of India, Corporation bank and United West Bank to increase its distribution network.

Being the forerunner in the field and committed to customer needs, this conglomerate assures to provide financial security to individuals, trade, commerce and all other segments of the society by offering insurance products and services of high quality at affordable costs.

**Oriental Insurance Co. Ltd.**

The Oriental Insurance Company Ltd was incorporated at Bombay on 12th September 1947. The Company was a wholly owned subsidiary of the Oriental Government Security Life Assurance Company Ltd and was formed to carry out General Insurance business. The Company was a subsidiary of Life Insurance Corporation of India from 1956 to 1973 (till the General Insurance Business was nationalized in the country). In 2003 all shares of our company held by the General Insurance Corporation of India has been transferred to Central Government.

The Company is a pioneer in laying down systems for smooth and orderly conduct of the business. The strength of the company lies in its highly trained and motivated work force that covers various disciplines and has vast expertise. Oriental specializes in devising special covers for large projects like power plants, petrochemical, steel and chemical plants. The company has developed various types of insurance covers to cater to the needs of both the urban and rural population of India. The Company has a highly technically qualified and competent team of professionals to render the best customer service.

Oriental with its head Office at New Delhi has 30 Regional Offices and nearly 900+ operating Offices in various cities of the country. The Company has overseas operations in Nepal, Kuwait and Dubai. The Company has a total strength of around 15,000+ employees. From less than a lakh at inception, the Gross Premium went up to Rs.58 crores in 1973 and during 2010-11 the figure stood at a mammoth Rs. 5569.88 crores.

**Bajaj Allianz**
Bajaj Allianz General insurance company limited is a joint venture between Bajaj Finserv Ltd and Allianz S.E; which is one of the largest global composite insurers. The company has a capital base of Rs 110 crores in which 74% belongs to Bajaj Finserv Ltd and 26% with Allianz. This partnership successfully combines Bajaj Finserv’s in-depth understanding of the local market and extensive distribution network with the global experience and technical expertise of the Allianz group.

1.6 Consumer Buying Behaviour for Insurance

Consumer behaviour is the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. It focuses on how individual consumers and families or households make decisions to spend their available resources on consumption related items- what they buy, why they buy, when they buy it, where they buy it, how often they buy it, how they evaluate it after purchase, the impact of such evaluation on future purchase and how they dispose it. (Schiffman et al, 2010).

In case of insurance, the buying behaviour is a complex process – primarily because it is a product that is less demanded and has to be pushed on to the consumer. The answers to the consumption related deliberations for insurance are provided as under:

**What they buy** – life insurance, health insurance, motor vehicle insurance, theft insurance, household insurance etc.

**Why they buy** – risk coverage, savings, tax benefits, investments, old age benefits etc.

**When they buy** – the answer to this is quite a tricky one. Motor vehicle insurance is bought almost every year as a regulatory requirement. Life insurance and health insurance were generally purchased as a tax saving measure but the increasing awareness of the benefits has resulted in people purchasing insurance policies for even their minor children. For other forms of insurance, it is usually purchased whenever the need arises.

**Where they buy** – for years the answer to this was – a known insurance agent. But since the last decade the multiplicity of insurance channels that have sprung up – corporate agents, banks, internet, brokers etc. has made the answer tough. For the
consumer; the choice of the insurance distribution channel is driven by the relative attractiveness of the intermediary’s particular advantage on the parameter of advising i.e. giving suggestions for matching customer preference with existing standard products; vs. customizing i.e. tailoring products to meet customer needs (Bloos and Schellenberger, ). Further, while comparing whether independent agents provide better services to their consumers than sole representatives of direct writers, it has been concluded that it is not necessary that independent agents will always provide better services to their clients (Etgar, 1976)

**How often they buy it** - The general insurance policies – auto insurance, health insurance, household insurance, theft insurance etc. are bought almost every year as the duration of these contracts is only for one year. As compared to this, life insurance contracts are long-term contracts and hence repetitive purchase is very rare. The actual utility of the product is realized only on the expiry of the time period or happening of the contingency.

**How they evaluate it after purchase** – The outcomes of life insurance purchase are often delayed and thus do not allow immediate post-purchase valuation. As the future benefits of the “product” are difficult to foresee and take a long time to prove its effects, evaluation becomes tough. (Crosby and Stephens, 1987).

Insurance being a contingent contract, the evaluation of it can be done only when the loss has occurred and claim arisen. If the claim is adequately and timely settled between the insurer and the insured, it is a good bet but if the company delays the claim or does not give the claim to the satisfaction of the insured consumer, it come out as a wasteful expenditure that was incurred by him.

**How they dispose it** - Incase of general insurance policies, the policy term being just for a year, the disposing off of the policy is not actually possible. The consumer has the choice to shift to another service provider rather than continuing with the existing one. But incase of life insurance, the consumer has the option to stop paying his premium during the term of the policy and cancel the policy while incase of ULIP’s he can just surrender the policy to the insurer after a fixed lock-in period has expired.

**1.6.1: Factor Affecting Purchase Decisions for Insurance**
Purchase decision of the consumer is a function of an attitude towards a particular behaviour. It is influenced by factors like expected benefit from the product alongwith other situational factors. Incase of insurance, which is an intangible service the purchase decision of the customer is influenced by the following factors:

**Service quality:** This factor includes hassle free settlements, efficient grievance handling, employees responsible towards customers, security of investment etc.

**Ease of procedures:** It includes aspects like ease in formalities while applying for a policy, agents or brokers etc. give full information about the policies, ease in payment of premiums, easy settlement of claims and efficient grievance handling

**Company image:** The company image in terms of financial capability, awards and certifications, efficient services, trust and confidence in dealings etc. influence the buying behaviour of the consumer.

**Company-client relationship:** This factor includes aspects like fully understanding the requirement of the consumer regarding insurance, reminders about premium installments, advising on future policy requirements, emphasis on building long-term relationship with the customers helps build rapport with the consumers and influences his future buying behaviour.

**Previous experience with provider:** When making a repetitive insurance purchase either for self or a family member, an individual’s past experience with the insurance provider is a crucial factor especially that relating to claim settlement

**Social influence:** Influence of friends and family in insurance purchase cannot be ignored. It forms a basis of information sharing, advice and decision making as to the insurance provider to be chosen, the type of policy to be purchased, the duration of the policy, benefit coverage and the like. Hence, maintaining satisfied consumers is crucial for the insurance service provider’s inorder to build long-term customer relationship and future sales referrals.

1.6.2: Factors Affecting Consumer Satisfaction

Parsuraman et al (1985) while dealing with the nature of service quality and customer satisfaction have listed the following factors that affect customer satisfaction and can be used to measure customer satisfaction:
**Reliability:** A company’s ability to perform the promised service dependably and accurately

**Assurance:** The knowledge, competence and courtesy of employees and their ability to convey trust and confidence

**Tangibles:** Physical facilities, equipment and appearances that impress the customer.

**Empathy:** The level of caring. Individualized attention, access, communication and understanding that the customer perceives.

**Responsiveness:** The willingness displayed to help clients and provide prompt service.

In case of insurance industry, a consumer cannot assess the quality of services provided by the competing insurance providers in advance, but only after information and advice have been consumed. Suneja and Sharma (2009) have found that brand of the insurance company, customer care and redressal, easy settlement of claims, accessibility of offices, convenient office operating hours, easy mode of disposing premiums, customization of insurance products, easy procedural formalities are the factors that influence customer satisfaction.

Further, Siddiqui and Sharma (2010) have discussed that the customers perception for service quality in the life insurance industry is affected by - adequate no. of branches, trained and well-informed agents, accessible location of the branch, staff dependable in handling customer’s problems, efficient staff, easy access to information, provision of flexible payment schedule, courteous agents, availability of flexible product solutions, prompt and efficient grievance handling mechanism, simple and less time consuming procedures for purchasing a policy, clarity in explaining policy terms and conditions, easy online transactions, proactive information sharing through emails and sms, understanding intimately specific needs of the customer.

Thus, an insurance company’s ability to attract and retain new customers is a function of not only what it offers but also how it serves how it serves its existing customers. (Jha, 2000). Ray and Ali (2008) have found that people like to receive quarterly statements, reminders for premium payments, update about new products and switching of funds etc.
Gone are the days when consumer was less ware of the world around and would easily rely on agent’s words or some reference for the purchase of insurance policies. The consumer of today is more learned, tech-savvy, information seeker and has been influenced by changing life styles, cultural influences etc. His demands and aspirations have changed and so have his perceptions about services. He wants more ease in transactions, everything to be available at the click of the mouse and efficiency and promptness in all the dealings.

1.7 Summary

The Indian insurance industry has seen a paradigm shift in competition, nature of doing business, the type of policies sold and how they are sold, in the last decade. Not only have new private companies emerged on the scene, but the number of intermediaries through which the insurer reaches the insured have also grown voluminously and operate in a more regulated environment. One of these intermediaries that insurance companies have chosen to expand their business base has been banks – because of their existing branch width and huge customer base.

Bancassurance in its various forms has fast developed on the Indian insurance scene. Taking different strategic strides, insurance companies in the public as well as private sectors have been aligning with nationalized and private banks, rural banks and co-operative societies to reach down to the consumers at all levels. Also, the nature of products to be sold through this medium has been customized to meet the specific requirements of the consumers. The banks are tying up insurance service alongwith their existing range of products to appeal to the consumers.

Since, insurance comes under the preview of IRDA and banks are under the RBI, dual control of both the nodal authorities was mandated and hence regulations governing Bancassurance were provided by both. But with passage of time, the IRDA review committee has suggested ways and means to centralize this dual control and bring out necessary changes in regulations inorder to make Bancassurance a strong contributor to business generation in the insurance industry.

The results have been quite rewarding as almost 35-40 percent of the total insurance business in the country has started coming through this route. It is more of the private sector insurance players which have taken maximum advantage of this channel,
although the public sector stalwarts have also joined the league and have shifted from the agency mode to the other new distribution channels.

In the entire new framework that has been set-up, it is the consumer who is at the receiving end. His choice for insurance service providers and distributors is dependent on factors like trust, assurance, empathy, responsiveness, client handling behaviour and the like. The consumer today is much more aware, informative and calculative than his predecessors and hence the onus lies on the insurance service providers as to how they can not only attract customers but also retain them in the long run to ensure business growth.
REFERENCES


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