CHAPTER 6
BANCASSURANCE: MARKETING OF INSURANCE PRODUCT THROUGH BANK

6.1 Introduction
6.2 Models of Bancassurance
6.3 Utilities of Bancassurance
6.4 Norms and guidelines for banks and insurance companies
6.5 Benefits of Bancassurance
6.6 Distribution channels
6.7 Key driver of Bancassurance
6.8 State bank of India and Bancassurance
6.9 Trends and challenges
6.10 Bancassurance in India - A SWOT analysis
6.11 Problems in Bancassurance
6.12 Future of Bancassurance
6.1 INTRODUCTION

The Banking and Insurance industries have changed rapidly in the changing and challenging economic environment throughout the world. In this competitive and liberalized environment, everyone is trying to do better than others do and consequently survival of the fittest has come into effect.

This has given rise to a new form of business wherein two big financial institutions have come together and have integrated all their strength and efforts and have created a new means of marketing and promoting their products and services. On one hand, it is the Banking sector, which is very competitive and on the other hand is Insurance sector, which has a lot of potential for growth. When these two join, it gives birth to BANCASSURANCE.

Bancassurance is nothing but the collaboration between a bank and an insurance company wherein the bank promises to sell insurance products to its customers in exchange of fees. It is a mutual relationship between the banks and insurers. A relationship, which amazingly complements each other’s strengths and weaknesses.

It is a new buzzword in India but it is taking roots slowly and gradually. It has been accepted by banks, insurance companies as well as the customers. It is an international concept, which is spreading all around the world and is favored by all.
Meaning of BANCASSURANCE

Bancassurance is the distribution of insurance products through the bank's distribution channel. It is a phenomenon wherein insurance products are offered through the distribution channels of the banking services along with a complete range of banking and investment products and services. To put it simply, Bancassurance, tries to exploit synergies between both the insurance companies and banks.

Bancassurance is an important source of revenue. With the increased competition and squeezing of interest rates spread, profits are likely to be under pressure. Fee based income can be increased through hawking of risk products like insurance.
A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

Bancassurance if taken in right spirit and implemented properly can be win-win situation for the all the participants' viz., banks, insurers and the customer.

6.2 MODELS OF BANCASSURANCE

Structural Classification

a) Referral Model

Banks intending not to take risk could adopt ‘referral model’ wherein they merely part with their client database for business lead of commission. The actual transaction with the prospective client in referral model is done by the staff of the insurance company either at the premises of the bank or elsewhere. Referral model is nothing but a simple arrangement, wherein the bank, while controlling access to the clients data base, parts with only the business leads to the agents/ sales staff of insurance company for a ‘referral fee’ or commission for every business lead that was passed on. In fact, a number of banks in India have already resorted to this strategy to begin with. This model would be suitable for almost all types of banks including the RRBs /cooperative banks and even cooperative societies both in rural and urban. There is greater scope in
the medium term for this model. For, banks to begin with can resort to this model and then move on to the other models.

b) Corporate Agency

The other form of non-sick participatory distribution channel is that of ‘Corporate Agency’, wherein the bank staff as an institution acts as corporate agent for the insurance product for a fee/commission. This seems to be more viable and appropriate for most of the mid-sized banks in India as also the rate of commission would be relatively higher than the referral arrangement. This, however, is prone to reputation risk of the marketing bank. There are also practical difficulties in the form of professional knowledge about the insurance products. This could, however, be overcome by intensive training to chosen staff, and packaged with proper incentives in the banks coupled with selling of simple insurance products in the initial stage. This model is best suited for majority of banks including some major urban cooperative banks because neither there is sharing of risk nor does it require huge investment in the form of infrastructure and yet could be a good source of income. This model of bancassurance worked well in the US, because consumers generally prefer to purchase policies through broker banks that offer a wide range of products from competing insurers.
c) Insurance as Fully Integrated Financial Service/ Joint Ventures

Apart from the above two, the fully integrated financial service involves much more comprehensive and intricate relationship between insurer and bank, where the bank functions as universal in its operation and selling of insurance products is just one more function within. This includes banks having wholly owned insurance subsidiaries with or without foreign participation. The great advantage of this strategy being that the bank could make use of its full potential to reap the benefit of synergy and therefore the economies of scope. This may be suitable to relatively larger banks with sound financials and has better infrastructure.

II. Product based classification

(a) Stand-alone Insurance Products

In this case, bancassurance involves marketing of the insurance products through either referral arrangement or corporate agency without mixing the insurance products with any of the banks’ own products/ services. Insurance is sold as one more item in the menu of products offered to the bank’s customer, however, the products of banks and insurance will have their respective brands too.
(b) **Blend of Insurance with Bank Products**

This method aims at blending of insurance products as a ‘value addition’ while promoting the bank’s own products. Thus, banks could sell the insurance products without any additional efforts. In most times, giving insurance cover at a nominal premium/fee or sometimes without explicit premium does act as an added attraction to sell the bank’s own products, e.g., credit card, housing loans, education loans, etc. Many banks in India, in recent years, has been aggressively marketing credit and debit card business, whereas the cardholders get the ‘insurance cover’ for a nominal fee or (implicitly included in the annual fee) free from explicit charges/premium. Similarly, the home loans/vehicle loans, etc., have also been packaged with the insurance cover as an additional incentive.

**III. Bank Referrals**

There is also another method called 'Bank Referral'. Here the banks do not issue the policies; they only give the database to the insurance companies. The companies issue the policies and pay the commission to them. That is called referral basis. In this method also there is a win-win situation everywhere as the banks get commission, the insurance companies get databases of the customers and the customers get the benefits.
6.3 UTILITIES OF BANCASSURANCE

1. For Banks:

i. As a source of fee based income

ii. Product diversification

iii. Building close relations with the customers

2. For Insurance Companies

i. Stiff competition

ii. High cost of agents

iii. Rural penetration

iv. Multi-channel distribution

v. Targeting middle income customers

**For Banks**

**As a source of fee based income**

Banks’ traditional sources of fee income have been the fixed charges levied on loans and advances, credit cards, merchant fee on point of sale transactions for debit and credit cards, letter of credits and other operations. This kind of revenue stream has been more or less steady over a period and growth has been
predictable. However shrinking interest rate, growing competition and increased horizontal mobility of customers have forced bankers to look elsewhere to compensate for the declining profit margins and Bancassurance has come in handy for them. Fee income from the distribution of insurance products has opened new horizons for the banks and they seem to love it. From the banks’ point of view, opportunities and possibilities to earn fee income via Bancassurance route are endless. A typical commercial bank has the potential of maximizing fee income from Bancassurance up to 50% of their total fee income from all sources combined. Fee Income from Bancassurance also reduces the overall customer acquisition cost from the bank’s point of view. At the end of the day, it is easy money for the banks as there are no risks and only gains.

Product Diversification

In terms of products, there are endless opportunities for the banks. Simple term life insurance, endowment policies, annuities, education plans, depositors’ insurance and credit shield are the policies conventionally sold through the Bancassurance channels. Medical insurance, car insurance, home, contents insurance, and travel insurance are also the products, which are being distributed by the banks. However, quite a lot of innovations have taken place in the insurance market recently to provide more and more Bancassurance-centric products to satisfy the increasing appetite of the banks for such products. Insurers who are generally accused of being inflexible in the pricing
and structuring of the products have been responding too well to the challenges (say opportunities) thrown open by the spread of Bancassurance. They are ready to innovate, experiment, and have set up specialized Bancassurance units within their fold. Examples of some new and innovative Bancassurance products are income builder plan, critical illness cover, return of premium and Takaful products, which are doing well in the market.

**Building close relations with the customers**

Increased competition also makes it difficult for banks to retain their customers. Bancassurance comes as a help in this direction also. Providing multiple services at one place to the customers means enhanced customer satisfaction. For example, through bancassurance a customer gets home loans along with insurance at one single place as a combined product. Another important advantage that bancassurance brings about in banks is development of sales culture in their employees. In addition, 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. In a typical Bancassurance model, the consumer will have access to a wider product mix - a rather comprehensive financial services package, encompassing banking and insurance products.
For Insurance Companies

Stiff Competition

At present, there are many insurance companies in India. Because of the Liberalization of the economy, it became easy for the private insurance companies to enter into the battlefield, which resulted in an urgent need to outwit one another. Even the oldest public insurance companies started facing the tough competition. Hence, in order to compete with each other and to stay a step ahead there was a need for a new strategy in the form of Bancassurance. It would also benefit the customers in terms of wide product diversification.

High cost of agents

Insurers have been tuning into different modes of distribution because of the high cost of the agencies services provided by the insurance companies. These costs became too much of a burden for many insurers compared to the returns they generate from the business. Hence there was a need felt for a Cost-Effective Distribution channel. This gave rise to Bancassurance as a channel for distribution of the insurance products.

Rural Penetration

Insurance industry has not been much successful in rural penetration of insurance so far. People there are still unaware about the insurance as a tool to insure their life. However, this gap can be bridged with the help of Bancassurance. The branch network of banks can help make the rural people...
aware about insurance and there is a wide scope of business for the insurers. In order to fulfill all the needs bancassurance is needed.

**Multi channel Distribution**

Now a days the insurance companies are trying to exploit each and every way to sell the insurance products. For this, they are using various distribution channels. The insurance is sold through agents, brokers through subsidiaries etc. In order to make the most out of India’s large population base and reach out to a worthwhile number of customers there was a need for Bancassurance as a distribution model.

**Targeting Middle income Customers**

In previous there was lack of awareness about insurance. The agents sold insurance policies to a more upscale client base. The middle-income group people got very less attention from the agents. So through the venture with banks, the insurance companies can recapture much of the under served market. So in order to utilize the database of the bank’s middle-income customers, there was a need felt for Bancassurance.

### 6.4 NORMS AND GUIDELINES FOR BANKS AND INSURANCE COMPANIES

**RBI Guidelines for the Banks to enter into Insurance Business**

Following the issuance of Government of India Notification dated August 3, 2000, specifying ‘Insurance’ as a permissible form of business that could be
undertaken by banks under Section 6(1) (o) of The Banking Regulation Act, 1949, RBI issued the guidelines on Insurance business for banks.

1. Any scheduled commercial bank would be permitted to undertake insurance business as agent of insurance companies on fee basis. Without any risk participation permitted to set up a joint venture company for undertaking insurance

2. Banks that satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards.

**The eligibility criteria for joint venture participant are as under:**

i. The net worth of the bank should not be less than `500 crore;

ii. The CRAR of the bank should not be less than 10 per cent;

iii. The level of non-performing assets should be reasonable;

iv. The bank should have net profit for the last three consecutive years;

v. The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

3. In cases where a foreign partner contributes 26% of the equity with the approval of Insurance Regulatory and Development Authority/Foreign Investment Promotion Board, more than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance joint venture.
4. A subsidiary of a bank or of another bank will not normally be allowed to join the insurance company on risk participation basis.

5. All banks entering into insurance business will be required to obtain prior approval of the Reserve Bank. The Reserve Bank will give permission to banks on case to case basis keeping in view all relevant factors including the position in regard to the level of non-performing assets of the applicant bank so as to ensure that non-performing assets do not pose any future threat to the bank in its present or the proposed line of activity, viz., insurance business. It should be ensured that risks involved in insurance business are not transferred to the bank. There should be ‘arms length’ relationship between the bank and the insurance outfit.

6. Holding of equity by a promoter bank in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with Section 6 AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period.

IRDA Norms for Insurance Companies

The Insurance regulatory development & Authority has given certain guidelines for the Bancassurance they are as follows: -
1) Chief Insurance Executive: Each bank that sells insurance must have a chief Insurance Executive to handle all the insurance matters & activities.

2) Mandatory Training: All the people involved in selling the insurance should under-go mandatory training at an institute determined (authorized) by IRDA & pass the examination conducted by the authority.

3) Corporate agents: Commercial banks, including co-operative banks and RRBs may become corporate agents for one insurance company.

4) Banks cannot become insurance brokers.

Issues for regulation: Certain regulatory barriers have slowed the development of Bancassurance in India down. Which have only recently been cleared with the passage of the insurance (amendment) Act 2002. Prior it was clearly an impractical necessity and had held up the implementation of Bancassurance in the country. As the current legislation places the following:-

1) Training and examination requirements: upon the corporate insurance executive within the corporate agency, this barrier has effectively been removed. Another regulatory change is published in recent publication of IRDA regulation relating to the (2) Licensing of Corporate agents (3) Specified person to satisfy the training & examination:According to new regulation of IRDA only the specific persons have to satisfy the training & examination requirement as insurance agent.
6.5 BENEFITS OF BANCASSURANCE

1. To Banks

2. To Insurance companies

3. To Customers

To Banks

From the banks point of view:

(A) By selling the insurance product by their own channel, the banker can increase their income.

(B) Banks have face-to-face contract with their customers. They can directly ask them to take a policy. And the banks need not to go any where for customers.

(C) The Bankers have extensive experience in marketing. They can easily attract customers & non-customers because the customer & non-customers also bank on banks.

(D) Banks are using different value added services life E-Banking, telebanking, direct mail & so on. they can also use all the above- mentioned facility for Bankassurance purpose with customers & non-customers.

(E) Productivity of the employees increases.
(F) By providing customers with both the services under one roof, they can improve overall customer satisfaction resulting in higher customer retention levels.

(G) Increase in return on assets by building fee income through the sale of insurance products.

(H) Can leverage on face-to-face contacts and awareness about the financial conditions of customers to sell insurance products.

(I) Banks can cross sell insurance products E.g.: Term insurance products with loans.

To Insurers

From the Insurer Point of view:

(A) The Insurance Company can increase their business through the banking distribution channels because the banks have so many customers.

(B) By cutting cost Insurers can serve better to customers in terms lower premium rate and better risk coverage through product diversification.

(C) Insurers can exploit the banks' wide network of branches for distribution of products. The penetration of banks' branches into the rural areas can be utilized to sell products in those areas.

(D) Customer database like customers' financial standing, spending habits, investment and purchase capability can be used to customize products and sell accordingly.
(E) Since banks have already established relationship with customers, conversion ratio of leads to sales is likely to be high. Further service aspect can also be tackled easily.

(F) The insurance companies can also get access to ATM’s and other technology being used by the banks.

(G) The selling can be structured properly by selling insurance products through banks.

(H) The product can be customized as per the needs of the customers.

**To Customers**

**From the customers' point of view:**

(A) Product innovation and distribution activities are directed towards the satisfaction of needs of the customer.

(B) Bancassurance model assists customers in terms of reduction price, diversified product quality in time and at their doorstep service by banks.

(C) Comprehensive financial advisory services under one roof. i.e., insurance services along with other financial services such as banking, mutual funds, personal loans etc.

(D) Easy access for claims, as banks are a regular visiting place for customers.

(E) Innovative and better product ranges and products designed as per the needs of customers.
Any new insurance product routed through the bancassurance Channel would be well received by customers.

Customers could also get a share in the cost savings in the form of reduced premium rate because of economies of scope, besides getting better financial counseling at single point.

**6.6 DISTRIBUTION CHANNELS:**

Bancassurers have been making use of various distribution channels, they are:

1. Career agents
2. Special advisers
3. Salaried agents
4. Bank employees
5. Corporate agency & Brokerage firm
6. Direct response
7. Internet
8. E-Brokerage
9. Outside lead generating techniques

**Career Agents:**

Career Agents are full-time commissioned sales personnel holding an agency contract. They are generally considered independent contractors. Consequently, an insurance company can exercise control only over the activities of the agent, which are specified in the contract. Many bancassurers, however avoid this
channel, believing that agents might oversell out of their interest in quantity and not quality. Such problems with career agents usually arise, not due to the nature of this channel, but rather due to the use of improperly designed remuneration and incentive packages.

**Special Advisers:**

Special Advisers are highly trained employees usually belonging to the insurance partner, who distribute insurance products to the bank's corporate clients. The Clients mostly include affluent population who require personalised and high quality service. Usually Special advisors are paid on a salary basis and they receive incentive compensation based on their sales.

**Salaried Agents:**

Salaried Agents are an advantage for the bancassurers because they are under the control and supervision of bancassurers. These agents share the mission and objectives of the bancassurers. These are similar to career agents, the only difference is in terms of their remuneration is that they are paid on a salary basis and career agents receive incentive compensation based on their sales.

**Bank Employees / Platform Banking:**

Platform Bankers are bank employees who spot the leads in the banks and gently suggest the customer to walk over and speak with appropriate representative within the bank. The platform banker may be a teller or a personal loan assistant. A restriction on the effectiveness of bank employees in
generating insurance business is that they have a limited target market, i.e. those customers who actually visit the branch during the opening hours.

**Corporate Agencies and Brokerage Firms:**

There are a number of banks who cooperate with independent agencies or brokerage firms while some other banks have found corporate agencies. The advantage of such arrangements is the availability of specialists needed for complex insurance matters and through these arrangements, the customers get good quality of services.

**Direct Response:**

In this channel, no salesperson visits the customer to induce a sale and no face-to-face contact between consumer and seller occurs. The consumer purchases products directly from the bancassurer by responding to the company's advertisement, mailing or telephone offers. This channel can be used for simple packaged products, which can be easily understood by the consumer without explanation.

**Internet:**

Internet banking is already securely established as an effective and profitable basis for conducting banking operations. Bancassurers can feel confident that Internet banking will also prove an efficient vehicle for cross selling of insurance savings and protection products. Functions requiring user input
(check ordering, what-if calculations, credit and account applications) should be immediately added with links to the insurer. Such an arrangement can also provide a vehicle for insurance sales, service and leads.

**E-Brokerage:**

Banks can open or acquire an e-Brokerage arm and sell insurance products from multiple insurers. The changed legislative climate across the world should help migration of bancassurance in this direction. The advantage of this medium is scale of operation, strong brands, easy distribution and excellent synergy with the internet capabilities.

**Outside Lead Generating Techniques:**

One last method for developing bancassurance eyes involves "outside" lead generating techniques, such as seminars, direct mail and statement inserts. Great opportunities await bancassurance partners today and, in most cases, success or failure depends on precisely how the process is developed and managed inside each financial institution.
# Bancassurance Ventures Must Have Clear Objectives

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<th>Insurers</th>
<th>Banks</th>
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<td><strong>Be aligned with good</strong></td>
<td><strong>Penetrate client base</strong></td>
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<td>Public image of bank</td>
<td>further with more products</td>
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<td>Forge relationship</td>
<td>Leverage positive image</td>
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<td>Earlier in customer’s life</td>
<td>Increase customer loyalty &amp; retention</td>
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<td>Lower acquisition costs</td>
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**Customers**

- Buy lower-costs products
- Buy more products from a Single source
- Get better, more efficient Service
6.7 KEY DRIVER OF BANCASSURANCE

Banks are seeking ways to raise additional earnings without commitment of additional capital in a low interest rate environment; increased competition; reducing margin. Insurance Companies are seeking new customers using new distribution activities to reach such segment. As noted above, the biggest driver in India is different at present. banks are seeking an alternative method of redeploying their surplus workers. Of course, this is a one time only phenomenon.

Therefore, over time, we will see other factors that have played important roles in other countries will also play out in India. It might be instructive to examine what succeeded in America for the expansion of bancassurance business. A survey by LIMRA identified the following elements for success of bancassurance:

2. Sales Staff Management/Training.
3. The Branch Network/Geographical Coverage.
4. Bank and Insurance products form a complementary range.
5. Single view of the customer.

8. Integration of the bank and insurance organizations producing a single culture.


**Requirements for success in Bancassurance**

1. Attractive Insurance Product Base

2. Cost-Efficient Distribution System

3. Linked and Leveraged Bank and Insurance Products

4. Concurrent Sale of Bank and Insurance Products

5. Appropriate Structure Based on Level of Integration between Bank and Insurer

**6.8 STATE BANK OF INDIA AND BANCASSURANCE**

**SBI Life Insurance (profile)**

**Products offered**

**SBI Life Insurance (perspective)**

**State bank of India Life Insurance**

SBI Life Insurance is a joint venture between the State Bank of India and Cardif SA of France. SBI Life Insurance is registered with an authorized
capital of ` 1000 crore and a paid up capital of ` 500 crores. SBI owns 74% of the total capital and Cardif the remaining 26%.

State Bank of India enjoys the largest banking franchise in India. Along with its 7 Associate Banks, SBI Group has the unrivalled strength of over 14,500 branches across the country, arguably the largest in the world. Cardif is a wholly owned subsidiary of BNP Paribas, which is the Euro Zone’s leading Bank. BNP Paribas is one of the oldest foreign banks with a presence in India dating back to 1860. Cardif is ranked 2nd worldwide in creditor’s insurance offering protection to over 35 million policyholders and net income in excess of Euro 1 billion. Cardif has also been a pioneer in the art of selling insurance products through commercial banks in France and in 35 more countries.

SBI Life Insurance’s mission is to emerge as the leading company offering a comprehensive range of Life Insurance and pension products at competitive prices, ensuring high standards of customer service and world class operating efficiency. SBI Life has a unique multi-distribution model encompassing Bancassurance, Agency and Group Corporate.

SBI Life extensively leverages the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans and personal loans. SBI’s access to over 100 million accounts across the country provides a vibrant base for insurance penetration across every region and economic strata in the country ensuring true financial inclusion.
Agency Channel, comprising of the most productive force of more than 25,000 Insurance Advisors, offers door to door insurance solutions to customers.

Products Offered by SBI

Individual Products

A. Unit Linked products:

1) SBI Life - Horizon II:

2) SBI Life - Unit Plus II:

3) SBI Life- unit plus child plan:

4) SBI Life – Unit Plus Elite:

B. Pension Products

SBI Life - Horizon II Pension:

1) SBI Life - Unit Plus II Pension:

2) SBI Life - Lifelong Pensions:

3) SBI Life - Immediate Annuity:

C. Pure Protection Products

1) SBI Life - Swadhan:

2) SBI Life - Shield:
3) SBI Life – Shield as a Keyman Insurance Policy:

D. Protection cum Savings Products

1) SBI Life – Sudarshan:

2) SBI Life - Scholar II:

E. Money back scheme products

1) SBI Life - Money Back:

2) SBI Life - Sanjeevan Supreme:

F. For Brokers:

1) SBI Life - SARAL ULIP:

Group Products

A. Group Employee Benefit Products

I. Retirement Solutions:

1) SBI Life - CapAssure Gratuity Scheme:

2) SBI Life - CapAssure Superannuation Scheme:

3) SBI Life - CapAssure Leave Encashment Scheme:

4) SBI Life - Group Immediate Annuity:
5) SBI Life - Golden Gratuity:

6) SBI Life - Dhanrashi:

7) SBI Life - Swarna Jeevan:

8) SBI Life - Group Gratuity cum Life Cover Scheme:

9) SBI Life - Group Superannuation Scheme:

10) SBI Life provides SBI Life - Group Leave Encashment cum Life Cover Scheme:

**SBI Life Insurance Company (perspective)**

SBI Life insurance, a joint venture between State Bank of India, the largest bank in the country and bancassurance major Cardiff of France. SBI’s stake in the venture is 74% whereas Cardiff has 26% share. They have launched many products so far incorporating certain features that are introduced for the first time in the country. SBI -Life is banking on the bancassurance model on the strength of the SBI Groups 10000 plus bank branches and its vast customer base. In addition, it is also tapping other. Banks corporate agents and the traditional agency route to penetrate the insurance market SBI Life is planning to introduce more novel and user-friendly products to cater to the requirements of the consumers in different segments.

SBI has the largest banking network in the county. The bank is looking for business from every customer segment of the bank rural and urban segments,
upper, middle and lower income segments /groups and corporate segment. Besides their own channels, they are planning to distribute products through other interested banking channels also. It is expected that 2/3 rd of the premium income in expected to come by way.

6.9 TRENDS A N D CHALLENGES

Trends

However, bancassurance has traditionally targeted the mass market, but bancassurers have begun to finely segment the market, which has resulted in tailor-made products for each segment. Some bancassurers are also beginning to focus exclusively on distribution. In some markets, face-to-face contact is preferred,

Which tends to favour bancassurance development. Nevertheless, banks are starting to embrace direct marketing and Internet banking as tools to distribute insurance products. New and emerging channels are becoming increasingly competitive, due to the tangible cost benefits embedded in product pricing or through the appeal of convenience and innovation. Bancassurance proper is still evolving in Asia and this is still in infancy in India and it is too early to assess the exact position. However, a quick survey revealed that a large number of banks cutting across public and private and including foreign banks have made use of the bancassurance channel in one form or the other in India.
Banks by and large are resorting to either ‘referral models’ or ‘Corporate agency model’ to begin with. Banks even offer space in their own premises to accommodate the insurance staff for selling the insurance products or giving access to their client’s database for the use of the insurance companies.

As number of banks in India have begun to act as ‘corporate agents’ to one or the other insurance company, it is a common sight that banks canvassing and marketing the insurance products across the counters.

**Challenges**

1. Increasing sales of non-life products, to the extent those risks are retained by the banks, require sophisticated products and risk management. The sale of non-life products should be weighted against the higher cost of servicing those policies. Bank employees are traditionally low on motivation. Lack of sales culture itself is bigger roadblock than the lack of sales skills in the employees. Banks are generally used to only product packaged selling and hence selling insurance products do not seem to fit naturally in their system.

2. Human Resource Management has experienced some difficulty due to such alliances in financial industry. Poaching for employees, increased workload, additional training, maintaining the motivation level are some issues that has cropped up quite occasionally. So, before entering into a bancassurance alliance, just like any merger, cultural due diligence should be done and human resource issues should be adequately prioritized. Private sector insurance firms
are finding ‘change management’ in the public sector, a major challenge. State-owned banks get a new chairman, often from another bank, almost every two years, resulting in the distribution strategy undergoing a complete change. So because of this there is distinction created between public and private sector banks.

3. The banks also have fear that at some point of time the insurance partner may end up cross-selling banking products to their policyholders. If the insurer is selling the products by agents as well as banks, there is a possibility of conflict if both the banks and the agent target the same customers.

6.10 BANCASSURANCE IN INDIA - A SWOT ANALYSIS

Even though, banks and insurance companies in India are yet to exchange their wedding rings, Bancassurance as a means of distribution of insurance products is already in force in some form or the other. Banks are selling Personal Accident and Baggage Insurance directly to their Credit Card members as a value addition to their products. Banks also participate in the distribution of mortgage linked insurance products like fire, motor or cattle insurance to their customers. Banks can straightaway leverage their existing capabilities in terms of database and face-to-face contact to market insurance products to generate some income for themselves, which hitherto was not thought of. Once Bancassurance is embraced in India with full force, a lot will be at stake. Huge capital investment will be required to create infrastructure particularly in IT
and telecommunications, a call center will have to be created, top professionals of both industries will have to be hired, an R & D cell will need to be created to generate new ideas and products. It is therefore essential to have a SWOT analysis done in the context of Bancassurance experiment in India.

**Strengths**

In a country of 1 Billion people, sky is the limit for personal lines insurance products. There is a vast untapped potential waiting to be mined particularly for life insurance products. There are more than 900 Million lives waiting to be given a life cover. There are about 200 Million households waiting to be approached for a householder's insurance policy. Millions of people traveling in and out of India can be tapped for Overseas Mediclaim and Travel Insurance policies. After discounting the population below poverty line the middle market segment is the second largest in the world after China. The insurance companies worldwide are eyeing on this, why not we preempt this move by doing it ourselves?

Our other strength lies in a huge pool of skilled professionals whether it is banks or insurance companies who may be easily relocated for any Bancassurance venture. LIC and GIC both have a good range of personal line products already lined up; therefore, R & D efforts to create new products will be minimal in the beginning. Additionally, GIC with 4200 operating offices and LIC with 2048 branch offices are almost already omnipresent, which is so essential for the development of any Bancassurance project.
Weaknesses

The IT culture is unfortunately missing completely in all of the future collaborators i.e. banks, GIC & LIC. A late awakening seems to have dawned upon but it is a case of too late and too little. Elementary IT requirement like networking (LAN) is not in place even in the headquarters of these institutions, when the need today is of Wide Area Network (WAN) and Vast Area Network (VAN). Internet connection is not available even to the managers of operating offices.

The middle class population that we are eyeing at are today overburdened, first by inflationary pressures on their pockets and then by the tax net. Where is the money left to think of insurance? Fortunately, LIC schemes get IT exemptions but personal line products from GIC (mediclaim already has this benefit) like householder, travel, etc. also need to be given tax exemption to further the cause of insurance and to increase domestic revenue for the country.

Another drawback is the inflexibility of the products i.e. it can not be tailor made to the requirements of the customer. For a Bancassurance venture to succeed it is extremely essential to have in-built flexibility so as to make the product attractive to the customer.

Opportunities

Banks' database is enormous even though the goodwill may not be the same as in case of their European counterparts. This database has to be dissected
variously and various homogeneous groups are to be churned out in order to position the Bancassurance products. With a good IT infrastructure, this can really do wonders.

Other developing economies like Malaysia, Thailand and Singapore have already taken a leap in this direction and they are not doing badly. There is already an atmosphere created in the country for liberalisation and there appears to be a political consensus also on the subject. Therefore, RBI or IRA should have no hesitation in allowing the marriage of the two to take place. This can take the form of merger or acquisition or setting up a joint venture or creating a subsidiary by either party or just the working collaboration between banks and insurance companies.

**Threats**

Success of a Bancassurance venture requires change in approach, thinking and work culture on the part of everybody involved. Our work force at every level are so well entrenched in their classical way of working that there is a definite threat of resistance to any change that Bancassurance may set in. Any relocation to a new company or subsidiary or change from one work to a different kind of work will be resented with vehemence.

Another possible threat may come from non-response from the target customers. This happened in USA in 1980s after the enactment of Garn - St Germaine Act. A rush of joint ventures took place between banks and
insurance companies and all these failed due to the non-response from the target customers. US banks have now again (since late 1990s) turned their attention to insurance mainly life insurance.

The investors in the capital may turn their face off in case the rate of return on capital falls short of the existing rate of return on capital. Since banks and insurance companies have major portion of their income coming from the investments, the return from Bancassurance must at least match those returns. Also, if the unholy alliances are allowed to take place there will be fierce competition in the market resulting in lower prices and the Bancassurance venture may never break-even.

**SOME IMPORTANT BANCASSURANCE TIE – UPS**

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<thead>
<tr>
<th>INSURANCE</th>
<th>BANKS</th>
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<tbody>
<tr>
<td>LIFE INSURANCE CORPORATION (LIC)</td>
<td>Corporation Bank, Indian</td>
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<td>Overseas Banks, Centurion</td>
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<td>Bank, Satara District Bank,</td>
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<td>Cooperative Bank, Janata</td>
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<td>Urban Cooperative Bank,</td>
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<td>Yeotmal Mahila Sahkari Bank,</td>
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<td>Oriental Bank of Commerce.</td>
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<td>Insurance Company</td>
<td>Banks and Financial Institutions</td>
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<tr>
<td>HDFC Standard Life Insurance Co.</td>
<td>Union Bank of India.</td>
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<td>Insurance Company</td>
<td>Associated Bank</td>
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<tr>
<td>SBI INSURANCE CO.</td>
<td>State Bank of India, Associate Banks</td>
</tr>
<tr>
<td>BAJAJ ALLIANZ GENERAL INSURANCE</td>
<td>Krur Vysya Bank, Associate Bank</td>
</tr>
<tr>
<td>ROYAL SUNDARAM GENERAL INSURANCE CO.</td>
<td>Standard Chartered Bank, ABN Amro Bank, Citibank, Amex and Repco Bank</td>
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<tr>
<td>UNITED INDIA INSURANCE CO.</td>
<td>South Indian Bank</td>
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**Bancassurance: Taking the lead**

In the last financial year, India has experienced a substantial growth in the life insurance business. The new business premium growth rate for the current year over the previous financial year is 36%. This growth is primarily due to the aggressiveness witnessed in the private life insurance sector, which grew by 129%.

One of the drivers for this substantial growth is the contribution of the banking industry. The private life insurers have been instrumental in building strong relationships with established banks for bancassurance. The bancassurance model, in simple terms means distribution of insurance products by banks to
their customers. Apart from having the advantage of reaching out to the potential customers at the remotest of places, it offers a complete basket of financial advice to customers under one roof.

Bancassurance has been a successful model in the European countries contributing 35% of premium income in the European life insurance market. It contributes over 65% of the life insurance premium income in Spain, 60% in France, 50% in Belgium and Italy.

In the US, the banks were earlier not allowed to sell insurance due to the restrictions imposed by Glass-Stegall Act of 1933, which acted as a Chinese wall between banking and insurance. As a result of this life insurance was primarily sold through individual agents, who focused on wealthier individuals, leading to a majority of the American middle class households being underinsured. With the repealing of this Act in 1999, the doors were opened for banks to distribute insurance and cater to the large middle class segment. In the Asian markets, bancassurance has a limited share of the total sales primarily because of the near monopoly of the life agents in Japan, which is the largest life market. But there is a shift in stance with markets like Japan, South Korea and the Philippines where bancassurance was previously prohibited, taking a more accommodating stance towards this channel. It has been estimated that bancassurance would contribute almost 16% of the life premium in the Asian markets in the year 2006 primarily due to the growth expected in India and China.
In India, the bancassurance model is still in its nascent stages, but the tremendous growth and acceptability in the last three years reflects green pasture 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

6.11 PROBLEMS IN BANCASSURANCE

Any bank getting into business of selling insurance cannot afford to have casual approach to it. The staff, if deputed from within the existing bank staff, will have to be specially trained in the intricacies of insurance and the art of salesmanship. These skills will be required at levels different from the requirements in banking operations. They will have to be persons who have an external orientation. The amount of business acquired through the banks depends entirely on the personal skills of specified persons and the corporate insurance executives. An effective and successful specified person might perhaps find it more remunerative to branch off as an insurance agent on his own, instead of being tied to the bank. The options available to the bank to prevent this may lie in developing attractive compensations packages. The relevant issues will be the restrictions imposed by insurance Act as well as relative pressures within the unions of banks of employees. The commitment of senior management is crucial to the success of the persons deputed for the insurance work. The priorities for the managers may depend on the criteria by which they will be appraised at the end of the year. If the progress in insurance
is not important criterion, the support to the insurance activities may be reduced. They would see mainstream banking activities as more important for their own future growth. The appraisal and reward systems of the bank have to be appropriately aligned.

6.12 FUTURE OF BANCASSURANCE

By now, it has become clear that as economy grows it not only demands stronger and vibrant financial sector but also necessitates providing with more sophisticated and variety of financial and banking products and services. The outlook for bancassurance remains positive. While development in individual markets will continue to depend heavily on each country’s regulatory and business environment, bancassurers could profit from the tendency of governments to privatize health care and pension liabilities.

India has already more than 200 million middle class population coupled with vast banking network with largest depositors base, there is greater scope for use of bancassurance. In emerging markets, new entrants have successfully employed bancassurance to compete with incumbent companies. Given the current relatively low bancassurance penetration in emerging markets, bancassurance will likely see further significant development in the coming years.

In India, the bancassurance model is still in its nascent stages, but the tremendous growth and acceptability in the last three years reflects green
pasture 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.

To be fruitful, it is vital for bancassurance to ensure that banks remain fully committed to promoting and distributing insurance products. This commitment has to come from both senior management in terms of strategic inputs and the operations staff who would provide the front-end for these products. In India, the signs of initial success are already there despite the fact that it is a completely new phenomenon. there is no doubt that banks are set to become a significant distributor of insurance related products and services in the years to come.