Emergence of bancassurance as distribution channel

With the opening up of the insurance sector and with so many players entering the Indian insurance industry, it is required by the insurance companies to come up with innovative products, create more consumer awareness about their products and offer them at a competitive price. New entrants in the insurance sector had no difficulty in matching their products with the customers' needs and offering them at a price acceptable to the customer.

But, insurance not being an off the shelf product and one which requiring personal counseling and persuasion, distribution posed a major challenge for the insurance companies. Further insurable population of over one billion spread all over the country has made the traditional channels of the insurance companies costlier. Also due to heavy competition, insurers do not enjoy the flexibility of incurring heavy distribution expenses and passing them to the customer in the form of high prices.

Introduction to bancassurance: With these developments and increased pressures in combating competition, companies are forced to come up with innovative techniques to market their products and services. At this juncture, banking sector with it's far and wide reach, was thought of as a potential distribution channel, useful for the insurance companies. This union of the two sectors is what is known as Bancassurance.

Research methodology

Research Objective: To study the critical issues involved in emergence of bancassurance as an alternative distribution channel to captive agents for insurance products in India

Literature Survey: Many researchers and practitioners in recent have studied the importance and emergence of bancassurance as an alternative distribution channel to captive agents. Most of the project has been modeled on the basis of articles published in journals, magazines and interviews of industry experts. Some primary research in form of interview of some industry people has also been undertaken on their views on the topic.

Channels of Distribution

Personal distribution channel

Captive/Tied agents: Insurance sales agents who work exclusively for one insurance company are referred to as captive/tied agents. Agents prepare reports, maintain records, seek out new clients, and, in the event of a loss, help policyholders settle their insurance claims. Increasingly, some are also offering their client's financial analysis or advice on ways the clients can minimize risk. Insurance sales agents commonly referred to as " producers" in the insurance industry, sell one or more types of insurance, such as property and casualty, life, health, disability, and long-term care.

An increasing number of insurance sales agents are offering comprehensive financial planning services to their clients, such as retirement planning, estate planning, or assistance in setting up pension plans for businesses. As a result, many insurance agents are involved in " cross-selling" or " total account development." Besides offering insurance, these agents may become licensed to sell mutual funds, variable annuities, and other securities. This practice is most common with life insurance agents who already sell annuities; however, property and casualty agents also sell financial products.

Corporate agents: Firms and not individuals selling policies of Insurance companies. An amendment in October 2002, to the Act of Corporate Agents, recognized banks, and other entities like cooperatives, NGOs and panchayats as intermediaries who can sell Insurance for a commission. While under the old laws the only corporate agent that was recognized, was a firm where all directors were Insurance agents, the new law allows virtually any entity to sell Insurance. The measure has provided a big boost to the private insurers in the country, who have been facing a distribution conundrum. The various channels that can be used under the purview of the amendments are:

Bancassurance: Bancassurance in its simplest form is the distribution of Insurance products through a bank's distribution channel. Banks are straightaway leverage their existing capabilities in terms of database and face-to-face contacts to market Insurance products.

Co-operative societies and village panchayats: Rural places and small towns offer a huge potential to the Insurance companies. This potential was largely untapped due to inadequate distribution. The key to market access in these areas can be: Co-operative societies; Village Panchayats; Post Office. The Co-operative societies and village panchayats can act as ' Corporate Agents' to sell Insurance products most specific to the community's needs.

NGO: This channel could be used to increase awareness about the Insurance products. As many NGOs have strong presence and a positive reputation in rural areas they can prove to be an effective channel. HelpAge signed as a corporate agent for the Life Insurance Corporation and National Insurance Corporation

Other Financial Service providers: financial service providers like India Info line, Way2wealth, Geojit etc. have signed as corporate agents for different insurance companies. The objective is providing the customers a one-stop solution, increase the other income and make effective use of the existing distribution.

Broker: An insurance broker will act as an intermediary between the customer and the insurer and his scope of activities will be far wider than that of the agent. Unlike an agent who represents a single insurance company, a broker will represent a minimum of three insurance companies. A broker, as per the client's requirements, will obtain quotes from various insurers. And as per the requirements of the customer he will advise him on just the right policy that he could go for from a whole range of products available in the market from various insurers.

Regulations

Insurance brokers are given the required training by the insurance company and have a code of conduct to follow. They are more professional and have minimum capital norms and stringent regulations to be followed as laid down by the insurance regulator. The regulations proposed the minimum capital for a direct broker at Rs 25 lakh while for a reinsurance broker it is Rs 1 crore.

Range of products:

Insurance brokers are well versed with product information to offer advise on the risk products they sell and hence are in a position to offer a whole basket of risk products of various companies with several options to meet the customers growing insurance requirements. As for the customer, there will be no difference in the price of the product.

Brokers fees:

Brokerage fee is capped at 17. 5 percent. But in certain countries abroad the average brokerage commission is about 18 to 20 percent while in some cases it has gone up to even 30 to 35 percent. The insurance regulator plans to come out with the necessary regulations soon in this regard

Advantages

Brokers in the urban arena can attract the elite and the upper middle class customer

Brokers represent the customer and will sell the products of more than one company

They seek to determine the best fit for the client and can effectively address the mind block faced by the public about the various companies

Work site marketing: Worksite marketing is the selling of voluntary (employee-paid) Insurance and financial products at the worksite. The products may be on either an individual or group platform and are usually paid through periodic payroll deductions. Another potential channel that reduces the need for an owned distribution network is worksite marketing.

Insurers will be able to market pensions, health insurance and even other general covers through employers to their employees. These products may be purchased by the employer or simply marketed at the workplace with the employer's co-operation.

Advantages:

Captive customer base

Potential to sell individual insurance and group insurance

High trust factor

High hit ratio for the intermediaries

Challenges:

Cost effectiveness

Product customization

Efficient post sales servicing

Technology has a key role to play in worksite marketing to ensure cost benefits.

Direct response distribution channel: – Direct response distribution systems are the method whereby the client purchases the insurance directly. The limitations of reach of direct medium like internet and lack of such culture has seen limited growth of this medium via the personal distribution medium

Internet: – All leading insurance companies have websites with product features, other details and application forms for closing sales. However, due to lack of technological aptitude and lack of penetration of the medium this medium is not very effective. In near future this channel can be handy for selling simple off the shelf products. In our countries context, these channels by themselves will not be able to overcome the mindset of the people, but rather can only be enablers for the human channels

At present most of the insurance companies, have product information and/or illustrative tools on the web.

Call centers for tele marketing: – Call centers make effective use of databases provided to them and make he customers aware about their product features etc. However, as because insurance is a high involvement product it is practically impossible to close a sale over the telephone. It for sure can only act as an enabler for human channels.

Direct mail- another effective use of database can be for sending direct mailers. Direct mailers can be in form of electronic mails or snail mails. The companies for the shear reason of their cost effectiveness prefer electronic mails to snail mails.

Need for bancassurance

The growth of Bancassurance as a distribution channel can be ascribed to the following:

Conducive environment: Progressive dismantling of laws relating to undertaking of insurance businesses by banks, increasing use of electronic channels and automation, growing needs for private retirement plans to complement public pensions, the concern for providing total financial services to customers, etc. have paved the way for Bancassurance.

Cost effectiveness: Insurers look to Bancassurance as an alternative cost effective mode of distribution as against the costly agency services. It is estimated that 50% of the insurers cost structure is directly or indirectly related to distribution

Fee-based income: A bank expects to increase its fee-based income and overall productivity by leveraging its branch network, brand image and client base by optimally using its assets/infrastructure and by positioning itself as an one-stop-shop with value-added service for its customers, thereby increasing customer loyalty and retention. Bancassurance enables a bank to satisfy the risk protection needs of its clients without assuming underwriting risk.

Fund Management: Life insurance (where premium is about 55% of the insurance premium worldwide) is a savings market. It is one of the methods to increase the deposits of banks. Both life and non-life insurance business provide additional flow of float funds besides fee based income to banks, through the same channel of distribution and with the same people.

Innovations and efficiency: Increased convergence of banking and insurance would lead of melding of their corporate cultures, skill and synergising/innovating the marketing of financial services.

What is bancassurance?

Bancassurance in French or All finanz (Universal Banking) in German, simply put, means using the bank's distribution channels to sell insurance products. The philosophy behind Bancassurance is to combine the manufacturing capability sand selling culture of insurance companies with the distribution network and large receptive client base of banks.

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

Models of bancassurance

Different models of bancassurance on basis of depth of relationship between bank and insurance company

Different Bancassurance business models as given below are prevalent in different countries:

Distribution agreements: In simplest form called ' tied agent', the bank's personnel sell the products of one insurer exclusively, either in stand-alone basis or bundled with bank products.

Strategic alliance: This is a higher degree of intervention in product development, service provision and channel management by way of bank investing sizably in insurance business without any contingent liability.

Joint venture: Here a large bank with a well developed customer database partners with a large insurer with strong product and channel experience, to develop a powerful new distribution model. Alternatively, a bank and insurance company may agree to have cross holdings between them to share the profits.

Financial service group: Under further integration between a bank and insurer, an insurance company may build/buy a bank or a bank may build/buy an insurance company.

Thus banks could associate themselves with insurance companies by becoming a distributor or by being a strategic investor or developing a joint venture or by becoming a promoter. Most of the bancassurance operations fall in the first model.

Different models of bancassurance on basis of sales force

Insurer employs sales force & deploys at bank

Bank employs sales force/ Bank employees sell insurance

Insurer employs sales force to follow up Bank generated leads

Process managed by Bank

Insurer only product/service

provider

Minimal cross-cultural issues

Strengths of insurer not utilized

Greater change management required engendering sales culture

Quick to implement

Reduced bank management time

Little integration required

Least effective in maximizing opportunities from the Bank database

Insurer controls sales process

Quick to implement

Both partners' strengths utilized

Bank as introducer, insurer sales force as converters

Cultural fit key, since insurer staff deployed at Bank branches

Table 5. 1 Different models of bancassurance on basis of sales force

Advantages

Advantages to banks

Productivity of the employees increases.

By providing customers with both the services under one roof, they can improve overall customer satisfaction resulting in higher customer retention levels.

Increase in return on assets by building fee income through the sale of insurance products. (Minimum investment and “ No” risks)

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

Generation of additional profits

Staff will be motivated through financial and other incentives

The “ Tough” effective and efficient sales and marketing culture will have a favorable impact on the banks marketing function

Retention of “ existing” and acquisition of “ new” customers

Certain life insurance products will protect or minimize their risk exposure – mortgage or other loans, key man etc

Ability to sell bank products to life insurer’s clients

Advantages to insurers

Generation of additional sales

Increase in profits

Additional funds for investment

Ability to sell bank products to client base – generating additional profits

Sales force will be motivated through additional income and ability to offer more products to their clients and prospects

Retention of “ Existing” and acquisition of “ New” customers

The “ Good” culture of the bank will have a favorable impact on the life insurer

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.

Customer database like customers’ financial standing, spending habits, investment and purchase capability can be used to customize products and sell accordingly.

This channel allows an insurer to effectively tap the rural sector. Selling insurance through traditional methods in rural area is an expensive proposition.

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.

Advantages to consumers

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

Enhanced convenience on the part of the insured

Easy access for claims, as customers visit banks regularly

Innovative and better product ranges

Bancassurance in India

The Indian insurance industry is growing fast. Banks and insurance companies see bancassurance as the answer to the Indian retail financial industry’s future income. Non-life products have featured les prominently in such channel as compared to life products. The banks in India have a client base of close to 100 million and therefore are an ideal case for carrying bancassurance forward. A unique aspect will be predominance of rural bank branches in sales processes and the closeness of the bank staff with customers in general in the rural pockets.

Bancassurance in India is a very new concept, but is fast gaining ground. In India, the banking and insurance sectors are regulated by two different entities (banking by RBI and insurance by IRDA) and bancassurance being the combinations of two sectors comes under the purview of both the regulators. Each of the regulators has given out detailed guidelines for banks getting into insurance sector

As per the recommendations of the Malhotra Committee on Reforms in the Insurance Sector, Indian Parliament passed the Insurance Regulatory & Development Authority (IRDA) Act 1999. IRDA is constituted to regulate, promote and ensure orderly growth of insurance and reinsurance business. According to IRDA, a private sector participant has to fulfill the following criteria for entry into insurance sector:

(a) Minimum paid-up capital of Rs. 100 crores

(b) Investment in policyholders' funds only in India

(c) Restriction of international companies to minority equity holding of 49 %

Reserve Bank of India has prescribed entry guidelines under the following three options for banks wanting to diversify into insurance:

Joint-venture on risk participation basis: Joint ventures (JV) for insurance business with risk participation is allowed for banks which have

(i) Net worth not less than Rs. 500 crores,

(ii) CRAR of not less than 10%,

(iii) Reasonable level of NPA,

(iv) Net profit continuously for the last three years,

(v) Satisfactory performance records of subsidiaries

Strategic Investment: Banks which are not eligible for JV participation as above, can make investments up to 10% of the net worth of the bank or Rs.

50 crores whichever is less in insurance company for providing infrastructure and service support without any contingent liability, provided they fulfill the requirements:

(i) CRAR of not less than 10%,

(ii) Reasonable level of NPA

(iii) Net profit continuously for the last three years

Agency business on fee basis: Any commercial bank may undertake insurance business on fee basis, as an agent of insurance companies, with no risk participation IRDA has also notified regulations, interalia, on registration of insurers, their assets and liabilities, conduct of business, obligation to rural social sectors, protection of policy holders interest, licensing of insurance agents, agents' training etc. A bank can act as a Corporate Agent of any one life and/or non-life insurer(s); but cannot act as a broker on behalf of many life/non-life insurers. Thus banks undertaking bancassurance will also be subject to IRDA Regulations

The Insurance Regulatory and Development Authority (IRDA) guidelines for the bancassurance are:

Each bank that sells insurance must have a chief insurance executive to handle all the insurance activities.

All the people involved in selling should under-go mandatory training at an institute accredited by IRDA and pass the examination conducted by the authority.

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

Banks cannot become insurance brokers.

Bancassurance tie-ups in India

Table 8. 1 Bancassurance tie-ups in India

Insurance Company

Bank

Birla Sun Life Insurance Co. Ltd.

Bank of Rajasthan, Andhra Bank, Bank of Muscat, Development Credit Bank, Deutsche Bank and Catholic Syrian Bank

Dabur CGU Life Insurance Company Pvt. Ltd

Canara Bank, Lakshmi Vilas Bank, American Express Bank and ABN AMRO Bank

HDFC Standard Life Insurance Co. Ltd.

Union Bank of India

ICICI Prudential Life Insurance Co Ltd.

Lord Krishna Bank, ICICI Bank, Bank of India, Citibank, Allahabad Bank, Federal Bank, South Indian Bank, and Punjab and Maharashtra Co-operative Bank.

Life Insurance Corporation of India

Corporation Bank, Indian Overseas Bank, Centurion Bank, Satara District Central Co-operative Bank, Janata Urban Co-operative Bank, Yeotmal Mahila Sahkari Bank, Vijaya Bank, Oriental Bank of Commerce.

Met Life India Insurance Co. Ltd.

Karnataka Bank, Dhanalakshmi Bank and J&K Bank

SBI Life Insurance Company Ltd.

State Bank of India

Bajaj Allianz General Insurance Co. Ltd.

Karur Vysya Bank and Lord Krishna Bank

National Insurance Co. Ltd.

City Union Bank

Royal Sundaram General Insurance Company

Standard Chartered Bank, ABN AMRO Bank, Citibank, Amex and Repco Bank.

United India Insurance Co. Ltd.

South Indian Bank

Global Scenario of Bancassurance

Bancassurance is a subject of continuing interest to the financial services industry worldwide. Over the years, regulatory barriers between banking and insurance have diminished altogether, creating a climate increasing friendly to Bancassurance. The degree to which banks devote themselves to the sale and servicing of Insurance varies from country to country and among individual banks. Bancassurance so far has been principally European.

Bancassurance has transformed the Insurance industry in most of the developed world. Bancassurance represents over 65% of the premium income in life insurance in Spain, 60% in France, 50% in Belgium and Italy. By making use of existing legislation in Insurance, Bancassurance has provided them with a new source of profit, which served to diversify their banking activity and optimize their choice of products, thereby increasing customer loyalty.

Table 9. 1 Life Insurance density and penetration in Top 10 countries in terms of GDP in 2003

Country

GDP (In US $ Billion)

Population (Million)

Density (in US $)

Penetration (In %)

United States

10988

290. 2

1657. 5

4. 38

Japan

4429

127. 0

300. 9

8. 28

Germany

2418

82. 3

930. 4

4. 74

U. K

1797

59. 2

2617. 1

8. 62

France

1759

59. 6

1767. 9

5. 99

Italy

1476

57. 5

1238. 3

4. 82

PR China

1410

1290. 8

25. 1

2. 30

Canada

867

31. 6

722. 9

2. 63

Spain

843

41. 0

488. 6

2. 38

Mexico

608

102. 5

41. 3

0. 70

India

601

1056. 3

12. 9

2. 26

Issues to be tackled

Given the roles and diverse skills brought by the banks and insurers to a Bancassurance tie up, it is expected that road to a successful alliance would not be an easy task. Some of the issues that are to be addressed are:

Inherent differences between products of banking and insurance

Bank

Life Insurer

Products

Demand driven (Bought approach)

Sold(It needs proactive sales approach)

Process driven(forms &paperwork)

Personality &Relationship driven

Short term

Long term

Simple

Complex

Table 10. 1 Inherent differences between products of banking and insurance

Banks especially the public sectors ones have been found wanting on the desired service levels. Insurance as such needs high level of consultation and excellent service levels primarily during claim settlement. This mismatch has to be bridged to make bancassurance a success as a distribution channel for insurance products.

Develop innovative products for bancassurance: The tie-ups need to develop innovative products and services rather than depend on the traditional methods. The kinds of products the banks would be allowed to sell are another major issue. For instance, a complex unit-linked life insurance product is better sold through brokers or agents, while a standard term product or simple products like auto insurance, home loan and accident insurance cover can be handled by bank branches

Clarity on operational issues: There needs to be clarity on the operational activities of the bancassurance i. e., who will do the branding, will the insurance company prefer to place a person at the bank branch, or will the bank branch train and put up one of its own people, remuneration of these people.

Training: Even though the banks are in personal contact with their clients, a high degree of pro-active marketing and skill is required to sell the insurance products. This can be addressed through proper training.

Direct competition: There are hazards of direct competition to conventional banking products. Bank personnel may become resistant to sell insurance products since they might think they would become redundant if savings were diverted from banks to their insurance subsidiaries.

Inherent conflicts: Sometimes there are inherent conflicts between the banking and insurance businesses that make it difficult to combine both in the organization. A parent or guardian may close his bank account if his child is refused motor insurance.

Model to be likely changed: If the bancassurance model of one bank tying up with only one life insurance partner is changed to that of many life insurance partners than the entire dynamics of the game will change. Any player with over reliance on bancassurance and weak main distribution network will be left stranded.

Incentive and travel allowance problem: The bank officer is not willing to strain himself because of incentive problem and travel allowance problem.

Incentive problem: The Banking Regulations Act does not permit financial incentives for bank employees. Some insurance partners are therefore resorting to other means. Lack of incentives can be a major hindrance in motivating bank employees in selling insurance.

Travel Allowance: Without the insurance company footing the petrol bill the bank officer would have been unable to work, as public sector banks do not pay any travel allowance to employees for any travel beyond 8 km.

Factors critical to the success of bancassurance

Factors that appear to be critical for the success of bancassurance are: –

Commitment of senior management: Senior management of the bank must be committed to bancassurance as a core strategy that should be integrated with other core strategies.

Due Importance: Bancassurance should not be merely viewed as an add-on product but as an important aspect of the business

Change in culture: Bank's culture must be transformed to sell insurance and it must be ensured that " shelf space" is adequately provided in the bank's retail delivery system.

Handling of customers: With customer awareness levels increasing, they are demanding greater convenience in financial services.

Emergence of remote distribution channels: The emergence of remote distribution channels, such as PC-banking and Internet-banking, would hamper the distribution of insurance products through banks.

Emergence of newer distribution channels: The emergence of newer distribution channels seeking a market share in the network.

Others: Strategies consistent with the bank's vision, knowledge of target customers' needs, defined sales process for introducing insurance services, simple yet complete product offerings, strong service delivery mechanism, quality administration, synchronized planning across all business lines and subsidiaries, complete integration of insurance with other bank products and services, extensive and high-quality training, sales management tracking system for reporting on agents' time and results of bank referrals and relevant and flexible database systems.

Future of bancassurance in India

India is 23rd largest insurance market in the world but it compares poorly with other countries in respect of insurance penetration and density, as shown in the table below:

Table 12. 1 Comparison of Insurance penetration and density of India with other countries

During 2001-02, the total life insurance premium collection in India rose to about Rs. 50, 000 crores. If the industry is to grow at a rate of 20% per annum (against LIC's growth of 39% during 2001- 02), the life insurance market in India will be around Rs. 1, 71, 500 crores in ten years time. Even if banks can manage to get 25% of the market, they will account for sales worth Rs. 43, 000 crores in premium. This is only a conservative figure as most of the private insurance companies bancassurance business is contributing in the range of 25 to up to 70 %(in case of Aviva). If the average commission is 10% of the total premium, banks can earn about Rs. 4300 crores per year. Similarly they can earn another Rs. 1000 crores as commission from non-life business (the annually renewable non-life market is above Rs. 10, 000 crores in premium per year).

This magnitude of potential fee based income by banks in India from bancassurance business is the attraction for banks to be preferred vendors of insurance products, in spite

Figure 12. 1 Future trends in Bancassurance

Of possible challenges relating to choice of insurance business (life or non-life or both), cultural issues, compensation structure and capacity building.

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