

Study of customer expectation from bancassurance business essay

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Acknowledgement

It gives me great pleasure in presenting the project report that gives the details of my project on " Study on customer expectation from bancassurance" I am extremely thankful to my Faculty Mentor Mr. Rajesh Verma for his kind and consistent guidance during the project work. I would like to thank Prof. R. C Bhatnagar who gave me useful inputs in the project. It is impossible to list all the people who have helped me during my project I would also like to express my deep sense of gratitude towards all those who directly or indirectly helped me in successfully execution of my work.

Declaration

I do hereby declare that this project work entitled " Study on customer expectation from bancassurance" submitted by me to " ASIBAS" for the partial fulfillment of the requirement for the award of Master In Business Administration(MBA) is a record of my own research work. The report embodies the finding based on my study and observation and has not been submitted earlier for the award of any degree or diploma to any Institute or University.

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1. INTRODUCTION

1.1 CUSTOMER EXPECTATION

Customers of a business are those who buy what the business has to offer. They are obviously persons who are outside the business enterprise. What the organization produces must meet the needs of customers. Otherwise the products will not be bought. Therefore, the organization should keep in mind the interests and concerns of the customer. When a person goes to a bank to arrange for a fixed deposits, his mind set and needs and concerns are different from the same person when he is going to buy a house or going to buy a ticket for a holiday abroad. Thus, while the person is the same, the 'customer', as characterized by his needs (what he is looking for) and concerns (what is important at that time), is different each time. As the customer, the same individual will be different every time. The business of insurance is different. So also the customers for insurance are different. Customers, for most products, make purchases because they want to enjoy benefits from that purchase. There is expectation of pleasure of some kind from the purchase. This is true in the case of tangible goods (dresses, cosmetics, refrigerators, houses) as well as services (tour packages, cinema,

bank (deposits). One is a customer of a hospital because of a need at that time and the benefit is to get rid of sickness. There is a compulsion. It was not avoidable. But even here, there is an expectation of pleasure (sickness being cured) from the purchase. In case of insurance, the situation is very different. The customer who buys insurance does not derive any immediate pleasure. The customer will have to wait for some time before the benefits, if any, can be experienced. During this period of waiting, there could be doubts as to the wisdom of the purchase. The customer for insurance often wishes that the benefits from insurance may not become necessary as the case of life insurance; the wait can be very long. The person, who buys, may not be the one who experiences the benefits. The purchase of insurance is not based on expectations of immediate pleasure, but is based on thoughts of likely tragedies. The perception is that one has to forego some (current) need in order to meet some need that may arise (not certain) in some (distant) future. The customer has to visualize the possibility of being visited by some tragedy. Only then will he seek relief through insurance. There is no compulsion like customer for the hospital, because the comfort is not real. The discomfort, if any, is, at the time of purchase, imaginary. The insurance salesman's job is, to that extent, tougher than in the case of all other sales. He has to create unpleasant images and generate anxiety before making a sale. That is one reason why the attrition rate among insurance agents is high. A customer is the individual who uses our products and services. So he/she has certain expectations about the product or service which keeps on changing constantly. Expectation also depends on company to company. Expectations arise as there are many products of similar nature in the

market i. e. all products provide same core benefit. So a customer opts for that product which will yield him/her maximum returns. These expectations are based on his/her perceptions about the product, about the company, and moreover benefit for which he/she actually seeks the product. Ideal service and adequate service are the prime most expectation of a customer from the insurance product be it a life insurance product or non life insurance product. Certain major factors that affect customer expectation are:-

Zone of Tolerance

Brand Image of the company

Awareness about products and Services

Self Perceived value about product/service

Desired Service Expectation

It is the level of service that a customer hopes he/she will receive at the time of purchasing a product/service. Personal needs and other individual stabilizing factors like income, age, etc...Example: - If a customer purchases a insurance product his/her desired service expectation may be:-

Adequate Premium

Suitable Insurance Product and Plan

Satisfactory and Prompt Service

Quick Settlement of Claim

Adequate Service Expectation

It can be defined as the lowest level of a service that a customer expects.

Below this level a customer will be dissatisfied and will change the company.

In case of life insurance product the policy will lapse whereas in general insurance contract won't be renewed by the customer again from the same company. Some of the factors that will affect adequate service in expectation in insurance sector are:-

Claim

Settlement Amount

Documents

Time of Claim Settlement

Basic Information

Correct Information related to products

Place

Policy Bond

Opening and closing of offices

Agents association with the company

Non forfeiture option

Qualified People

Sources of Customer Expectation in case of Insurance Services

Perceived Value of Insurance Experience Personal Emergency Situation Service
Commitment Word of Mouth Communication Technology Prediction about the
insurance product

1. 2 BANCASSURANCE

' BANCASSURANCE' as term itself clears the meaning. It's a combination of the term ' Bank' and ' Insurance'. It means that insurance companies have started selling their products through banks. It's a new concept in Indian financial market but it is very widely used in western and developed countries. Bancassurance is the channel of selling insurance product. It can be said that it is a medium of marketing of insurance products through entire bank networks. However Bancassurance is relatively a new concept in Indian financial market. At present, the Bancassurance channel contributes around 25% to the total premium of life and non-life insurance companies. Non-bank promoted companies has tied up with banks for a term of one to three years as corporate agents. The premium collected through Bancassurance was Rs 21, 947 crores in 2009-10, according to the latest data. The business of banking in India has undergone a sea change due to the integration of the global financial market, development of new technologies, universalisation of banking operation, and diversification of non-banking activities. The Narasimham Committee and the Khan Committee Reports have also facilitated this transformation in the banks to become universal service providers. Banks, world over have realized that offering value added services facilitate to meet client expectation. With the entry of new generation private sector and foreign banks with advanced base of automation and multiple channels, customers have become more discerning in the products and services offered to them. This makes it imperative for the Indian banks to provide wide variety and best possible products and services to ensure customer satisfaction. When these products are offered to

the customer from the same bank branch, it automatically makes the branch a one stop financial provider or a super market of financial services to its customers. The Reserve Bank of India, being the regulatory authority of the banking system has recognized the need for banks to diversify their activities at the right time permitted them to enter into insurance sector as well. Banks with their brand image and existing customer relationship offer a natural market for selling insurance products. Insurance is an ideal option as banks feel that they can fulfill the three major requirements for a successful insurance business viz., asset management and investment skills, distribution and capital adequacy. A bank, which is able to market insurance products has a competitive edge over its competitors and furthermore can impart complete financial planning service to its customers under one roof. To sum up, for banks, insurance offers opportunities like sophisticated product offerings, greater life cycle management, diversification and growth of revenue base from existing relationships, diversifying risk by tapping another area of profitability, and the realization that insurance is a necessary customer need. Therefore, public sector banks entering into insurance business is only a natural corollary and is fully justified too as ' insurance' is another financial product bestowed to the bank customer. Bancassurance provides ample scope for the banks to diversify and to increase their fee based income by leveraging the existing customer database. The prospects for Bancassurance seem to be bright based on the scores rated by the respondents. The customers well perceive the Bancassurance venture which would ultimately ends up with multiple benefits to customers. The benefits to customer range from better service quality, advice on financial planning,

credibility, transparency dealing, ease of renewals, electronic banking and the like. In addition, Bancassurance offers customers with comprehensive financial services under one roof. The customer has the satisfaction of the brand strength of the bank, his relationship and trust on the bank. The products sold through Bancassurance can give better value and offer lesser premiums for customers due to lower distribution costs. In a nut shell, Bancassurance assists customers in terms of reduced price, diversified, quality products and doorstep service. With the increasing usage of information technology and enhanced customer sophistication, Bancassurance is expected to play an important role in future growth of life insurance.

1.3 CUSTOMER EXPECTATION FROM SERVICES

Insurance is a business of trust. The policy holder entrust their small savings to an insurer, trusting it to look after these funds and look after the interest of themselves and of their dependents in a later years. Issues of propriety and ethics are extremely important in insurance business. Services are provided by various service providers but each service provider does not enjoy customer loyalty. Since customers have certain expectations from the service provider, and if these expectations are not fulfilled customers switch. So in order to retain as well as acquire customers, all expectations must be fulfilled. A company must keep all the five service dimensions in mind and must provide services accordingly. The insurance industry in India witnessed radical changes at the end of the 20th century. Although the rest of the world saw these changes much earlier, it took four long decade for the insurance industry in India to usher in the changes. Liberalization and the re-

opening of the insurance sector for private participation have led companies to diversify their products. Mr. raj Raman, Sr. VP (marketing), Tata AIG commented " with the opening up of the insurance sector, India has witnessed a large number of players with great credibility, rich experience in technology, product innovation, ability to underwrite, strong marketing and distribution skills." The above statement is clear indication of the number of players in the industry and the competition that leads to greater expectations from the public. The reason for the many multinational private players entering India is the number of potential buyers of insurance. Low insurance penetration and high population makes India an attractive place for insurer and even a small chunk of this vast market is good enough for any player. Following are the five service dimensions:-Tangibility: - There must be a physical place example company's office where a prospective client or existing client can meet and discuss about the service quality or any information. Physical evidence gives a sense of security to the client, Reliability: - customer prefers companies that deliver their promises. Further the company should show sincere interest towards the customer's problem and must try to solve them, apart from providing the right services Responsiveness:- Service provider must respond to client/prospective client's query as early as possible. Since late response or no response will make the customer switch. Assurance:-The promise or commitment made by the company must be fulfilled in appropriate time. False or delayed commitment will hamper company's goodwill and market image. Empathy:-Empathy basically means understanding the customer's problem properly and sympathizing with him. Understanding his problem and

giving him best possible solution. Even in Bancassurance these dimensions remains the same but customer expectations increases as insurance is a contract under which a promise is sold and when the promise is not fulfilled the image of the Bank as well as insurance company will go down. So all these dimensions as well as expectations becomes more important as new banks are about to get new license so competition will increase and competitive environment deliver better service quality so that company will meet or exceed customer expectations. Customers are happy when they are recognized and respect they or their views and feelings are not ignored they do not feel that they are being taken advantage of they feel that they are cared for and are helped. The intermediaries are mainly responsible to keep the customer satisfied. Agent and brokers do so, when the policies are being taken. They should do so when the policies are in force before any claim arises. These are the servicing activities. The servicing activities make sure that the customers are not taken away from competition. The importance of service activities is more in life insurance.

1. Goran bergandahl (1995) in an article titled " The Profitability of Bancassurance for European banks " assumed that the expansion of Bancassurance relied on three perquisites (i) cross selling through existing branch network (ii) Sale of insurance products to customer of the bank (iii) products produced by a subsidiary to the bank. The author verified these assumptions in many of the banks in Europe. The author also found that, where customers per branch are sufficiently large and if cross-selling ratio is acceptable, in that particular branch, with investment appraisal assistance Bancassurance came out successfully.

2 Fraser and Kolari (2004) in the paper titled " What's Difference about

Bancassurance"? Evidence of Wealth Gains to Banks and Insurance Companies" -a study on wealth effects in Bancassurance mergers between banking and insurance firms in the period 1997-2002 found that Bancassurance mergers were positive wealth creating events. On the other hand, they did not find any statistically significant change in total or systematic risks before and after Bancassurance mergers. According to the authors, economic motives are the driving forces behind Bancassurance mergers. However, the study suggested Bancassurance model as not only legal, but also economically viable organizational form for financial service firms.

Vineet Agarwal (2004) in the article entitled " Bancassurance: Concept, Framework and Implementation" observed the key issues faced by the banking sector today. Intense competition along with falling interest margin in banks creates an urgent need for developing sophisticated financial products and innovations. Insurance has come as an ideal option for the banks. It fulfills the major requirements for a successful insurance business viz., asset management and investment skills, distribution and capital adequacy. The author made a note in his study that French banks, those pre-dominantly choose to start -up their own operations, achieved the greatest Bancassurance market shares. Brahman R. (2004) et al. in their article " Bancassurance in India- Issues and Challenges" opined Bancassurance as an established and growing channel for insurance distribution though its penetration varies across different markets. The study found that Europe has the highest penetration rate in contrast to the lower penetration in North America. According to the authors, social and cultural factors, together with regulatory considerations and product complexity

determine the success of Bancassurance in a particular market. Tapen Sinha's (2005) study entitled " Bancassurance in India: Who is Tying the Knot and Why" Focused on why banks and insurance companies get into Bancassurance in the emerging markets. Economies of scale and scope make this alliance attractive for both the parties. The author had also examined the reasons behind Bancassurance by examining the developments and by conducting different quantitative tests. The author in his study found that there are natural synergies between banks and insurance companies. With the test results the author concluded Bancassurance as one of the viable proposition for banks. www.reviewofresearch.net2. Customer expectations are rising. They want individual attention, responsiveness, customization and other value additions without any premium for these services. There is therefore an urgent need to improve and increase the convenience and comfort level of the customers. It is possible to meet these challenges through CRM initiatives. While it is very important to retain customer, no retention strategy can be 100% success. Customer acquisition becomes vital to ensure growth in customer base. The current scenario in the insurance industry is a complex and competitive environment tinged with little stability. The major hassle the industry faces is obtaining clients. This is due to the fact that the big fish in the insurance industry dominate the sector. It has become increasingly difficult for this particular sector to gain profits while curtailing costs. Acquisitions, mergers, have all contributed to the difficulty insurance agents and other professionals from this industry face. Long considered a job only restricted to insurance companies, selling insurance policies has now become an option

for banks as well. This has resulted in a lot of increased as well as unwelcome competition. Customers tend to lose out as they are not buying from the right provider. In addition to this the Internet has increased the pressure for insurance companies in capturing the market. All this has succeeded in making the insurance world more complicated. The consumer in this immense competition are demanding something always more than their expectations and so it is necessary to develop such a mechanism that helps the service providers to have access to these changing needs, demands and expectations of the consumers, Customer Relationship Management (CRM) is one of the tool to achieve the desired level of customer satisfaction. CRM involve high level of customer research and is the only way to reduce customer dissatisfaction and to achieve a level of loyalty and satisfaction among customers. 3. According to Kamalji Sahay, managing director and chief executive officer, Star Union Dai-ichi Life, " I am not in favour of allowing banks to sell products of more than one life and one general insurance company. Availability of products of different companies through banks would cause more confusion for the banks as well as for their customers. Even now, when they sell products of one insurance company, I observe that bankers do not show any inclination to learn and understand the merits of available products; and I am sure that, with the variety of products offered by two to three companies, we would be exposing Bancassurance customers to mis-selling. Open architecture may also lead to unhealthy practices on the part of companies to encourage bankers to patronize their products." 2. European Journal of Business and Management (www. iiste. org)ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)Vol 3, No.

33. By-article Bancassurance: The more the merrier? Published on 2 June 2014. As per service marketer Valarie A Zeithaml, Mary Jo Bitner, Dwayne D Gremler, Customer expectation is basically a belief about the service delivery. Later on customer considers it as a standard and starts drawing the conclusion on performance comparison. It is the need, wants or any other preconceived ideas that the customers carries which he or she expects while purchasing a insurance products. Mainly two Major types of expectation are predominant in case of life insurance purchasing scenario. One the highest, mostly " should be" in nature for the customer is normally told as ideal or desired service and the other one carries the minimum expectation from the service provider, known as adequate Service. Of course both these service expectation varies from product to product, companies to company (from old to new Companies), advisor to advisor and industry to industry (life Insurance Industry to banking one who is also selling life Insurance apart from his usual banking products). Zone of tolerance, across various categories of services, brand image of company, awareness about the products and self perceived value about the service also influence customer expectation about a particular Service . We will now discuss the various adequate and desired service expectation of Customers about insurance products.

Customer Expectation about insurance product In Indian Life Insurance Industry

Prof. Bhagabat Barik, Asst. Professor, Marketing, Innovation-The Business School, Khurda, Bhubaneswar

Rationale of the Study

Today Indian public awareness about insurance has increased. Indian people use it as a source for security, tax savings as well as investment. Not only has this people purchased insurance from different avenues like agent, broker, corporate agent, online. A channel which is become very relevant and popular these days is Bancassurance. So keeping this emerging channel in mind I would try to find out customer expectation from this channel which undoubtedly has a significant role in penetration of insurance products.

Chapter-3

(Scope of the study)

I done my dissertation from 13. 12. 2012 to 12. 02. 2013. In the project I got exposure and details about Bancassurance which helped me to increase my existing domain knowledge about both banking and insurance, and give me details about what customer expect from Bancassurance.

Chapter-4

(Objectives of the study)

The proposed research study is to be centered on fulfilling the following objectives: To understand customer expectation from Bancassurance. To know the various factor which directly or indirectly affect the customer expectations.

(Research Methodology)

Hypothesis:

Null hypothesis (H0): there is no difference in expectation of customer with reference to public sector and private sector bank in Bancassurance.

Alternative hypothesis (H1): there is difference in expectation of customer with reference to public sector and private sector bank in Bancassurance.

Null hypothesis (H0): there is no difference in expectation of type of insurance policies (Life/Non Life) offered by bank
Alternative hypothesis (H1): there is difference in expectation of type of insurance policies (Life/Non Life) offered by bank

Research Design: - Descriptive Research

Sample Size and Design:-

Target Population-Universe or the whole mass under study will be people of sector 18 Bancassurance customers. Sample Frame- will be educational qualifications, working and non-working males and females, professionals, students and business class. Sampling Unit-Individuals. Sampling method - Non Probability method under which convenient Sampling method. Sample size -will be around 200. Method of Data Collection- Primary data
Tools of Data Collection- Questionnaire
Period: the primary data is proposed to be collected through various means of communications, i. e. In person, by telephone, e-mail , between 10. 01. 2013 to 25. 01. 2013 the period and mode of collecting data shall be reviewed suitably at the appropriate times so as to make it meaningful and closest possible to the objectives set for the research study.

DEMOGRAPHIC INFORMATION

Type of respondent

Gender

Frequency

Male132Female68Interpretation: 66% of respondent are male and only 34% of respondent are female from this we can analyze that most of the insurance policies are purchased by men.

Age of respondent

Age

Frequency

20-303231-4011741-5041Above 5010Interpretation: 58% of respondent comes under age of 31-40, 21% of respondent comes under age of 41-50, 16% of people comes under age of 20-30 and only 5% of respondent comes under age above 50 i. e. most of policy are taken by people of age group 31-40 .

SPECIFIC INFORMATION

Type of bank having bank account.

Type of bank

Frequency

Public sector115Private sector62Both33Total200Interpretation: 55% of people having bank account in public sector bank that means they feel public sector banks are more reliable and cheaper than private sector bank

and 30% respondent having bank account in private sector and only 15% respondent having bank account in both public and private.

Chi-Square Test

Observed Frequency (O) Expected Frequency

(E) (O-E) (O-E)² (O-E)²/E 11566.6648.342336.7535.056266.66-4.6621.

710.323366.66-33.661132.9916.99 = $\sum (O-E)^2/E = 52.36$ Degrees of

Freedom = 2 Tabulated chi-square value at 5% significance level and 95%

confidence level = 5.99 Since the calculated value is more than given value

we reject the null hypothesis and accept the alternative hypothesis that

there is difference in expectation of type of insurance policies (Life/Non Life)

offered by bank.

You have purchased any insurance product from Bancassurance.

Basis

Frequency

Yes

120

No

80 Total 200 Interpretation: 60% respondents have purchased insurance

product from the channel of Bancassurance whereas remaining 40% have

yet not opted for Bancassurance channel.

Type of policy purchased by customer through Bancassurance

Basis Frequency Life insurance 78 General insurance 34 Both 8 Interpretation:

65% of respondent buy life insurance product from bank, 28% of respondent buy general insurance product from bank and only 7% of respondent buy both insurance product life as well as general insurance products.

Chi-Square Test

Observed Frequency (O) Expected Frequency

$(O-E)(O-E)^2(O-E)^2/E$ 78 40 38 144 436. 134 40-63 60. 98 40-32 102 425. 6 = \sum

$(O-E)^2/E = 62.6$ Degrees of Freedom = 2 Tabulated chi-square value at 5%

significance level and 95% confidence level = 5.99 Since the calculated

value is more than given value we reject the null hypothesis and accept the

alternative hypothesis that there is difference in expectation of type of

insurance policies (Life/Non Life) offered by bank.

Behavior of bank staff is satisfactory towards:

Basis

Agree

Neutral

Disagree

Product knowledge 42 19 59 Proper attention 44 10 66 Ethical

behavior 60 20 40 Interpretation: 55% of respondent feels bank don't give

proper attention to customer while they buy insurance product, they feel

they are engage in other work of bank so that they are not able to give

proper attention That means they expect from bank that they should be

recognized and respect by the staff of Bancassurance. Whereas 37 % of respondent feel they give proper attention while they buy insurance product. Interpretation: 50% respondents felt that behavior of bank staff towards them regarding Bancassurance was ethical, 33% were neutral on this aspect but 17% felt bank staff was not at all ethical towards them.

Bank should give policy document.

Basis

Frequency

Agree80Neutral15Disagree25Interpretation: 65% of respondent expect from bank that bank should give policy document i. e. after buy from bank customer have to go to insurance company to collect policy document so if bank give policy document then problem of convenience will not be there but 25 % of respondent don't expect this because they feel if they take policy from insurance company they can ask more queries from about insurance product.

Bancassurance should give renewal notice of insurance policy

Basis

Frequency

Agree102Neutral10Disagree8Interpretation: 85% of respondent expect that bank should give renewal notice so that they can easily remind their renewal policy date.

People not buy insurance policies due to following reasons:

Basis

Frequency

Lack of awareness 32 Lack of interest 23 No requirement 15 Other

factors 10 Interpretation: 40% of respondent are not aware about

Bancassurance therefore bank should focus on advertisement, 29% are not

buy insurance product due to lack of interest, 19% of respondent feels that

there is no need of insurance product and only 12 % of respondent comes

under other factors i. e..... Lack of trust Lack of convenience Not satisfied

with bank services Fear of mis-selling

You have experience regarding mis-selling through

Bancassurance

Basis

Frequency

Yes 28 No 92 Interpretation: 77% of respondent have not any experience

regarding mis-selling through Bancassurance but 23% have experience of

mis-selling through Bancassurance, they said bank force them to buy an

insurance product for taking a loan, they also said they don't have enough

knowledge about insurance product so what they want, don't get from

Bancassurance.

SUGGESTIONS

After analyzing and interpreting data, I feel banks are not able to meet

customer expectations from Bancassurance, So based on my findings I am

putting forward following suggestions. People prefer banks for purchasing life

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insurance which is a complicated product hence proper training to the staff about insurance products specifically life insurance products is needed. In my survey I came to know that a large number of respondents were even not aware that bank is selling insurance products so in order to encash this opportunity banks must do some campaigning of their Bancassurance products. Respondents feel they have faced mis-selling from banks so even in this competitive scenario banks must not push insurance products but must focus on need based selling. Apart from just selling insurance products customers expect many more services like premium renewal notices as well as issue policy documents so banks must look to provide these extra services to the customers. People are preferring public sector banks for Bancassurance so it's high time that public sector banks meet customer expectations to acquire there customer base and focus on cross-selling.

CHAPTER- 9

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CHAPTER-10