

Selling insurance products through banks essay sample

[Literature](#), [Russian Literature](#)



It's a combination of the term ' Bank' and ' Insurance'. It means that insurance have started selling there product through banks. It's a new concept to Indian market but it is very widely used in western and developed countries. It is profitable both to Banks and Insurance companies and has a very bright future to be the most develop and efficient means of distribution of Insurance product in very near future. Insurance company can sell both life and non-life policies through banks. The share of premium collected by banks is increasing in a decent manner from the time it was introduce to the Indian market. In India Bancassurance in guide by Insurance Regulatory and Development Authority Act (IRDA), 1999 and Reserve Bank of India. All banks and insurance company have to meet particular requirement to get into Bancassurance business.

It is predicted by experts that in future 90% of share of premium will come from Bancassurance business only. Currently there are more and more banking and Insurance Company and venturing into Bancassurance business for better business prospect in future. The banking business is also generating more profit by more premium collected by them and they also receive commission like normal insurance agent which increase there profits and better reputation for the banks as there service base also increase and are able to provide more service to customers and even more customer are attracted toward bank. It is even profitable for Insurance Company as they receive more and more sales and higher customer base for the company. And they have to directly deal with an organization which reduce there pressure to deal with each customer face to face. In all Bancassurance has proved to be boom in whole Banking and Insurance arena.

Bancassurance is defined as ' Selling Insurance products through banks'. The word is a combination of two words ' Banc' and ' assurance' signifying that both banking and insurance products and service are provided by one common corporate entity or by banking company with collaboration with any particular Insurance company. In concrete terms bancassurance, which is also known as Allfinanz describes a package of financial services that can fulfill both banking and insurance needs at the same time.

Financial Services

Banking

Insurance

Bancassurance Bancassurance

The usage of the word picked up as banking and insurance companies merged together and banks sought to provide insurance, in the market which has been liberalized recently. But it is a controversial issue as many experts feels that this ides gives banking sector too great a control over financial market in that country. Therefore it has also been restricted in many countries too. But, still which countries have permitted Bancassurance in their market has seen a tremendous boom in that sector. The share of premium collected by them has increased in constant and decent manner. This success coincided with a favorable taxation for life insurance products, as well as with the consumers' growing needs, in terms of middle and long term savings, which is due to an inadequacy of the pension schemes in India.

The links between bank and insurance takes place through various ways (distribution agreements, joint ventures, creation of a company new company) which gives rise to a complete upheaval concerning marketing strategies and the setting up of insurance products' distribution. More and better insurance starts coming in market. This stream of market has just been opened very recently for the Indian market and there is lot of development left to be done by the government and regulatory authority. But this has proven to be a boom for the Insurance and Banking companies together and both the different sector of the industry has shown better result and improvement in their own field due coming of the whole new concept of BANCASSURANCE. Bancassurance in its simplest form is the distribution of insurance products through a bank's distribution channels. It is the provision of insurance and banking products and service through a common distribution channel or through a common base.

Banks, with their geographical spreading penetration in terms of customer's reach of all segments, have emerged as viable source for the distribution of insurance products. It takes various forms in various countries depending upon the demography and economic and legislative climate of that country. This concept gained importance in the growing global insurance industry and its search for new channels of distribution. However, the evolution of bancassurance as a concept and its practical implementation in various parts of the world, have thrown up a number of opportunities and challenges. The concept of bancassurance was evolved in Europe. Europe leads the world in Bancassurance market penetration of banks assurance in new life business

in Europe which ranges between 30% in United Kingdom to nearly 70% in France. However, hardly 20% of all United States banks were selling insurance against 70% to 90% in many Western European countries. In Spain, Belgium, Germany and France more than 50% of all new life premiums is generated by banks assurance. In Asia, Singapore, Taiwan and Hong Kong have surged ahead in Bancassurance then that with India and China taking tentative step forward towards it. In Middle East, only Saudi Arabia has made some

feeble attempts that even failed to really take off or make any change in the system. The motives behind bancassurance also vary. For Banks, it is a means of product diversification and source of additional fee income. Insurance companies see bancassurance as a tool for increasing their market penetration and premium turnover. The customer sees bancassurance as a bonanza in terms of reduced price, high quality products and delivery at the doorsteps. With the liberalization of the insurance sector and competition tougher than ever before, companies are increasingly trying to come out with better innovations to stay that one-step ahead. Progress has definitely been made as can be seen by the number of advanced products flooding the market today - products with attractive premiums, unitized products, unit-linked products and innovative riders.

But a hitherto untapped field is the one involving the distribution of these insurance products. Currently, insurance agents are still the main vehicles through which insurance products are sold. But in a huge country like India, one can never be too sure about the levels of penetration of a product. It

therefore makes sense to look at well-balanced, alternative channels of distribution. Nationalized insurers are already well established and have an extensive reach and presence. New players may find it expensive and time consuming to bring up a distribution network to such standards. Yet, if they want to make the most of India's large population base and reach out to a worthwhile number of customers, making use of other distribution avenues becomes a must. Alternate channels will help to bring down the costs of distribution and thus benefit the customers

What is bank assurance?

Bancassurance is the distribution of insurance products through a bank's distribution channels. It is a service that can fulfill both banking and insurance needs at the same time. Bancassurance as a concept first began in India when the insurance industry opened up to private participation in December 1999. There are basically four models of bancassurance:

Distribution alliance between the insurance company and the bank. Joint venture between the two companies. Mergers between a bank and insurer. Bank builds or buys own insurance products.

Most of the bancassurance operations fall in the first model.

How does it help?

Every insurance company has a wants to grow quickly to reduce painful start-up expense overruns. Banks with their huge networks and large customer bases give insurers an opportunity to do this efficiently. It gives the

companies an opportunity to tap the rural sectors. Selling insurance through traditional methods in these sectors falls very expensive. A tie up with a bank with an appropriate customer base can give an insurer a cheap access to these areas. Banassurance enables to have a huge pool of skilled professionals. The margins of the banks in their core lending business are declining sharply. Opportunities like banassurance augment their income. Banassurance enables to develop a sales culture within the bank. It helps to change the traditional mindset of banking companies.

Though a relatively new concept, banassurance has been a phenomenal success in most of the cases. Currently banks are not just lending organizations but are emerging as more diverse financial institutions. The distribution of insurance products through banks has been beneficial to both insurance and banking companies as well as the customers

Why should banks enter insurance?

There are several reasons why banks should seriously consider Bancassurance, the most important of which is increased return on assets (ROA). One of the best ways to increase ROA, assuming a constant asset base, is through fee income. Banks that build fee income can cover more of their operating expenses, and one way to build fee income is through the sale of insurance products. Banks that effectively cross-sell financial products can leverage their distribution and processing capabilities for profitable operating expense ratios. By leveraging their strengths and finding ways to overcome their weaknesses, banks could change the face of insurance distribution. Sale of personal line insurance products through

banks meets an important set of consumer needs. Most large retail banks engender a great deal of trust in broad segments of consumers, which they can leverage in selling them personal line insurance products. In addition, a bank's branch network allows the face to face contact that is so important in the sale of personal insurance.

Another advantage banks have over traditional insurance distributors is the lower cost per sales lead made possible by their sizable, loyal customer base. Banks also enjoy significant brand awareness within their geographic regions, again providing for a lower per-lead cost when advertising through print, radio and/or television. Banks that make the most of these advantages are able to penetrate their customer base and markets for above-average market share. Other bank strengths are their marketing and processing capabilities. Banks have extensive experience in marketing to both existing customers (for retention and cross selling) and non-customers (for acquisition and awareness).

They also have access to multiple communications channels, such as statement inserts, direct mail, ATMs, telemarketing, etc. Banks' proficiency in using technology has resulted in improvements in transaction processing and customer service. By successfully mining their customer databases, leveraging their reputation and 'distribution systems' (branch, phone, and mail) to make appointments, and utilizing 'sales techniques' and products tailored to the middle market, European banks have more than doubled the conversion rates of insurance leads into sales and have increased sales

productivity to a ratio which is more than enough to make Bancassurance a highly profitable proposition.

The Legal Requirements

RBI guideline for banks entering into insurance sector provides three options for banks. They are:

Joint ventures will be allowed for financially strong banks wishing to undertake insurance business with risk participation; For banks which are not eligible for this joint-venture option, an investment option of up to 10% of the net worth of the bank or Rs. 50 crores, whichever is lower, is available; Finally, any commercial bank will be allowed to undertake insurance business as agent of insurance companies. This will be on a fee basis with no-risk participation.

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.

Banking on Bancassurance

Though much ado was made about bancassurance, an alternate channel to

hawk risk products through banks, the channel is yet to pick up pace as of today. Most of the insurance companies have already tied up with banks to explore the potential of the channel that has been a success story in Europe and legislations are also in place. For insurance companies and banks the convergence brings about benefits for both but then what's stopping it from taking off in a big way? Bancassurance primarily banks on the relationship the customer has developed over a period of time with the bank. And pushing risk products through banks is a cost-effective affair for an insurance company compared to the agent route, while, for banks, considering the falling interest rates, fee based income coming in at a minimum cost is more than welcome. SBI Life Insurance Company a predominant player in bancassurance is positive about the channel bringing about a transformation in the way insurance has been sold so far. The company is ba RBI guideline for banks entering into insurance sector provides three options for banks.

They are: nking heavily on bancassurance and plans to explore the potential of State Bank of India's 9000 plus branches spread across the country and also its 4000 plus associate banks - one of the reasons why SBI Life Insurance is not laying much emphasis on increasing its agent force from the present 3000. The company plans to appoint Certified Insurance Facilitators (CIFs) in a phased manner at its branches. For now around 320 CIFs, one from each of its bank branches have been identified for the purpose in addition to setting up insurance counters at its banking outlets. The number is expected to go up to 500. ' Out of our present business of around Rs 150-200 crore bancassurance has brought in 50 percent while corporate agency

and the agent channel have contributed about 10 percent and 40 percent respectively', says Pradeep Pandey, Head, PR, SBI Life Insurance Company. The company aims at acquiring 75 percent of the total business through bancassurance and the balance through the other channels by 2007.

Various models are used by banks for bancassurance. One is the insurance salesman of the respective company being posted in the bank, the other is where a select group of wealth management people of the bank sell insurance and the third is where the bank employees are incentivised to hawk insurance products. But the pertinent question is how far will bancassurance succeed when insurance is a product that is sold not bought in our country. Insurance needs hard selling but banks have never been aggressive about selling financial products. Says Pradeep Pandey' I agree that in our country insurance awareness is low but with falling interest rates, banks are on the look out for additional revenue and bancassurance can provide them fee based income - insurance is one outlet where income can be gained. And the cost that banks have to incur is minimal. With all the other infrastructure in place already, the cost is only about training a few individuals'. And will products sold through bancassurance be any different? ' The products sold will be the same. In the first phase we plan to sell endowment and pension' opines Mr Pandey, SBI Life Insurance.

On the contrary Shivaji Dam, CEO, OM Kotak Mahindra Life Insurance begs to differ,'Yes products will have to be different to be sold through bancassurance. They will have to be term and savings products with not much of complications. In other words products that are static and simple'

OM Kotak Mahindra Life Insurance has tied up with Dena Bank and its own Kotak Bank for bancassurance. The company is targeting around 10 percent of the business during its start up phase. Adds Shivaji Dam, ' Our focus will not be the affluent class but the middle class' But in case of SBI Life there is no such emphasis on a segment of the population perhaps considering the wide reach its bank branches have even in the remotest corners of the country.

Also SBI Life plans to offer its complete basket of products but OM Kotak will be selling select products. Insurers are no doubt optimistic about the channel but it does come with a few limitations. While sale of insurance comes at a lower cost through this channel in comparison to the agency route and the insurance company gains much through the large bank network spread across the country the potential can be impeded if bank officials do not actively generate leads. Also it is yet to be seen how far buying shelf space in a bank helps push sale of insurance. Besides the target audience is limited to those individuals who visit the bank during the working hours. And with technology changing at a "rapid pace ATMs and internet banking have been reducing the individual's visits to the bank which could perhaps be a dampener for bancassurance. Insurance companies are positive about the bancassurance channel raking in volume business at a low cost and banks have been salivating over the feebased income that it will bring. But unless products are simple, easy to understand and easy to market much of the benefits the bancassurance channel holds, may remain only on paper.

Will bancassurance click?

Bancassurance, the much talked about channel of insurance distribution through banks that originated in France and which has been a success story in Europe is yet to take off here. A number of insurers have already tied up with banks and some banks have already flagged off bancassurance through soft launches of select risk products. While reams have been written about the numerous benefits of bancassurance considering the wide scale availability of risk products it will enable, rules and regulations regarding the same are yet to fall in place. Fee based income: For banks, bancassurance would mean a major gain. Since interest rates have been falling and profit on offtake of credit has been low all banks have been able to do is sustain themselves but not profit much.

Enter bancassurance and fee based income through hawking of risk products would be guaranteed. Unique strategies: Before taking the plunge, banks as also insurers need to work hard on chalking out strategies to sell risk products through this channel especially in an emerging market as ours. Through tie-ups some insurers plan to buy shelf space in banks and sell insurance to those who volunteer to purchase them. But unless banks set up a trained task force that will focus on hard-selling risk products, making much headway is difficult especially with a financial product that is not so easily bought over the counter.

Identifying Target audience: Besides, identifying the target audience is yet another important aspect. Banks have a large depositor base of corporate as well as retail clients they can tap. Talking of retail clients the lower end and

middle-income group customers constitute a major chunk who have over a period of time built a good rapport with the bank staff and thus hold big potential for bancassurance. Reduced costs: While products such as retirement planning will involve an elaborately worked out plan with the help of a financial advisor, simple products such as an accident cover in other words pure risk products will be sold through this channel enabling savings on solicitation costs of these products. So will insurers pass on a part of the gains on cost saving (saving on agent training etc) to customers?

At present insurers are non-committal on this one. Also there are no immediate plans to redesign products to suit the bancassurance channel but banks are gung-ho about cross-selling products. Legal issues: Conversely, the Insurance Regulatory Development Authority (IRDA) has adopted a cautious approach before Bancassurance is flagged off. While on the one hand it is an economical proposition to sell risk products through the numerous bank branches spread across the country the fact that claim settlement disputes take an unusually long time in our country is one of the causes for worry. In such a situation will banks be in a position to fight for the cause of their clients is a major concern? Besides regulatory authorities for both - banks and insurance companies are different. Moreover, banks may have to part with confidential information about their clients. Now where should banks draw a line?

THE WIN - WIN CONDITION FOR BANKS AND INSURANCE COMPANIES.

Banks

Insurance

Customer retention

- Revenues and channel of diversification
- Satisfaction of more financial need under same roof. • Revenue diversification • More Profitable resources utilization. • Establish sales orientated culture. • Enrich work environment.
- Quality customer access.
- Establish a low cost acquisition channel. • Creation of Brand Image. • Quicker Geographical reach. • Leverage service synergies with Bank.

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 (total number of individual life policies sold in 1998-99 was just 91. 73 Million). There are about 200 Million households waiting to be approached for a householder's insurance policy. Millions of people travelling 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.

Benefits and value proposition in bancassurance

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. Can leverage on face-to-face contacts and awareness about the financial conditions of customers to sell insurance products. Banks can cross sell insurance products Eg: Term insurance products with loans.

Advantages to insurers

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. 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 banks are a regular go. Innovative and better product ranges

The other benefits include

- Better customer retention and stronger relationships.
- Clear competitive advantage in the rural areas.
- Possibility that the insurer's account as well as the accounts from the claimants will remain with the bank.
- Insurance products can augment the value of the banking products and services.
- Banks are in better position to offer complete integrated financial solutions.

Value Propositions The services offered by the banks as well as the insurance companies, are related to assets and risks. They have to be managed. These institutions manage risks and assets for the customers, reducing and taking over the risks and transforming the assets. The cores of the businesses are similar, though not same. The basic values offered by banks, Insurance companies and other financial institutions are indicated below.

Banks offer to its customers liquidity (while at the same time making long term loans), safety, trust (managing estates on behalf of beneficiaries), collection of interest or dividends payments of commitments (rentals and insurance premiums for example) and annuities. Insurers primarily protect clients from risks (political, financial, commercial, business, and human). In life insurance, there is major component of management of an asset, which is created by the policy. The benefits of the insurer's expertise in asset management, passes on the clients by way of premiums levels and bonuses. The liquidity concerns of insurers are different from liquidity concerns of

banks. Securities firm primarily provide information and advice. They also act as brokers or agents for the customers, but not take responsibility for risks and assets. Pension funds manage the saving made directly or through employers and help the pensioners manage the risks of loss of income in old age. Mutual funds are asset transformers, providing small savers easy access to complex portfolios of capital market, without sacrificing the needs of liquidity.

Most customers, big and small, individual and companies are all interested in all these services. That is the justification for concept of a single window for all financial services. Bancassurance is a step in this evolution

Marketing and Distribution Channels in Bancassurance

One of the most significant changes in the financial services sector over the past few years has been the growth and development of bancassurance. Banking institutions and insurance companies have found bancassurance to be an attractive and profitable complement to their existing activities. The successes demonstrated by various bancassurance operations particularly in Europe have triggered an avalanche of mergers and acquisitions across continents and efforts are on to replicate the early success of bancassurance in other parts of the world as well. Distribution is the key issue in bancassurance and is closely linked to the regulatory climate of the country. Over the years, regulatory barriers between banking and insurance have diminished and has created a climate increasingly friendly to bancassurance.

The passage of Gramm-Leach Bliley Act of 1999 in US and IRDA Bill in India in 2000 have stimulated the growth of bancassurance by allowing use of multiple distribution channels by banks and insurance companies.

Bancassurance experience in Europe as well as in other select countries offers valuable guidance for those interested in insurance distribution through the banking channel in developing markets. Many banks and insurers are looking with great interest at building new revenue through bancassurance - including large, traditional companies that wouldn't have considered such an approach about a decade ago. Of particular interest, many believe, is the potential for bancassurance in developing economies such as those of Latin America and Southeast Asia.

Distribution channels in Bancassurance

Traditionally, insurance products have been promoted and sold principally through agency systems in most countries. With new developments in consumers' behaviors, evolution of technology and deregulation, new distribution channels have been developed successfully and rapidly in recent years. Bancassurers make use of various distribution channels: -Career Agents -Special Advisers -Salaried Agents -Bank Employees / Platform Banking -Corporate Agencies and Brokerage Firms -Direct Response -Internet -e-Brokerage -Outside Lead Generating Techniques

The main characteristics of each of these channels are: Career Agents: Career Agents are full-time commissioned sales personnel holding an agency contract. They are generally considered to be independent contractors. Consequently an insurance company can exercise control only over the

activities of the agent which are specified in his contract. Despite this limitation on control, career agents with suitable training, supervision and motivation can be highly productive and cost effective. Moreover their level of customer service is usually very high due to the renewal commissions, policy persistency bonuses, or other customer service-related awards paid to them. 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/or 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. Banks refer complex insurance requirements to these advisors. 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: Having Salaried Agents has the advantages of them being fully under the control and supervision of bancassurers. These agents share the mission and objectives of the bancassurers. Salaried Agents in bancassurance are similar to their counterparts in traditional insurance companies and have the same characteristics as career agents. The only difference in terms of their remuneration is that they are paid on a salary basis and career agents receive incentive compensation based on their sales. Some bancassurers, concerned at the bad publicity which they have

received as a result of their career agents concentrating heavily on sales at the expense of customer service, have changed their sales forces to salaried agent status.

Platform Bankers: 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 and the representative being referred to may be a trained bank employee or a representative from the partner insurance company. Platform Bankers can usually sell simple products. However, the time which they can devote to insurance sales is limited, e. g. due to limited opening hours and to the need to perform other banking duties. A further 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. In many set-ups, the bank employees are assisted by the bank's financial advisers. In both cases, the bank employee establishes the contact to the client and usually sells the simple product whilst the more affluent clients are attended by the financial advisers of the bank which are in a position to sell the more complex products. The financial advisers either sell in the branch but some banks have also established mobile sales forces.

If bank employees only act as “ passive” insurance sales staff (or do not actively generate leads), then the bancassurer's potential can be severely impeded. However, if bank employees are used as “ active” centres of influence to refer warm leads to salaried agents, career agents or special

advisers, production volumes can be very high and profitable to bancassurers.

Set-up / Acquisition of agencies or brokerage firms: In the US, quite a number of banks cooperate with independent agencies or brokerage firms whilst in Japan or South Korea banks have founded corporate agencies. The advantage of such arrangements is the availability of specialists needed for complex insurance matters and -in the case of brokerage firms - the opportunity for the bank clients to receive offers not only from one insurance company but from a variety of companies. In addition, these sales channels are more conceived to serve the affluent bank client.

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. The reasonable expectation is that personal banking services will increasingly be delivered by Internet banking. Bancassurers can also feel confident that Internet banking will also prove an efficient vehicle for cross selling of insurance savings and protection products. It seems likely that a growing proportion of the affluent population, everyone's target market, will find banks with

household name brands and proven skills in e-business a very acceptable source of nonbanking products. There is now the Internet, which looms large as an effective source of information for financial product sales. Banks are well advised to make their new websites as interactive as possible, providing more than mere standard bank data and current rates. 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. Seminars in particular can be very effective because in a non-threatening atmosphere the insurance counselor can make a presentation to a small group of business people (such as the local chamber of commerce), field questions on the topic, then collect business cards. Adding this technique to his/her lead generation repertoire, an insurance counselor often cannot help but be successful. To make the overall sales effort pay anticipated benefits, insurers

need to also help their bank partners determine what the “ hot buttons” will be for attracting the attention of the reader of both direct and e-mail. 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. This includes the large regional bank and the small one-unit community bank.

Bancassurance Ventures Must Have Clear Objectives

Insurers Banks

Be aligned with good Public image of bank Forge relationship Earlier in customer's life Lower acquisition costs

Penetrate client base further with more products Leverage positive image Increase customer loyalty& retention

Customers

Buy lower-costs products Buy more products from a Single source Get better, more efficient Service

Key driver of Bancassurance

Elsewhere in Asia has been the following. 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: ☛ Strength of the Brand. ☛ Sales Staff Management/Training. ☛ The Branch Network/Geographical Coverage. ☛ Bank and Insurance products form a complementary range. ☛ Single view of the customer. ☛ Focus on Customer Service/satisfaction. ☛ Use of Customer Relation Management Tools and Techniques. ☛ Integration of the bank and insurance organizations producing a single culture. ☛ Providing advice/solutions, not selling products.

Requirements for success in Bancassurance

☛ Attractive Insurance Product Base ☛ Cost-Efficient Distribution System ☛ Linked and Leveraged Bank and Insurance Products ☛ Concurrent Sale of Bank and Insurance Products ☛ Appropriate Structure Based on Level of Integration Between Bank and Insurer

Achieving Success

To achieve success in bancassurance, Asian companies must overcome a host of challenges. Some are cultural, while others reflect a lack of incentives to generate sales as well as the natural conflicts between banking and insurance products. The most successful products from a sales perspective are those that are linked to banking products (e. g., loans and credit

insurance) or that are very similar to banking deposits (certainly in the initial stages of the bancassurance operation) and offer superior returns to deposits, albeit over a longer term than the usual time deposits. Some obstacles are country specific. For example, in South Korea, each bancassurer must have at least three life partners and three non-life partners, and all of these partners must receive less than 50% of the new business generated by the bank, in their respective sectors, in any given quarter. Notwithstanding the many obstacles to success and challenges faced, bancassurance ventures have enjoyed success in Asia. For example, Exhibit 3 shows the impressive emergence of bancassurance in Hong Kong. Prior to 1999, market share attributable to bancassurers was minimal.

To achieve the level of success of bancassurance, banks will need to own insurance companies or work very closely with insurance company partners to restructure the value chain and provide products suitable for bank customers. As long as regulatory constraints exist, alliances will be a critical part of the effort by US banks to establish their insurance business. Banks must develop successful alliances in the near term and use those experiences to evaluate the opportunity to buy or build insurance companies as regulations change. There are five key approaches to forming insurance partnerships that form a continuum from complete outsourcing to complete ownership: list rental, working with a third party marketer, agency purchase, integrated alliance, and ownership. Each of these approaches involves a different level of value chain ownership and control.

The Indian Context

In India, no company is allowed to transact both insurance and business. The banking and insurance are kept separate. In fact, even a company registered as an insurer has to choose one as between life and non-life business. It cannot do both: Therefore, the banks in India cannot have the advantages, which are available in the European context. There are joint ventures in India between banks and foreign insurers. State Bank of India, HDFC, ICICI and Vysya Bank are examples. But apart from a greater willingness to help each other, the joint venture will not give either party advantage in the other's business. The joint venture is an entirely independent operation with unit of separate personnel and funds and subject to different regulations.

The only way in which banks can be associated with the insurance business in India is by becoming a corporate agent, for remuneration. A bank can do so for a particular life insurer and/or particular non-insurer. The bank cannot develop any of its intimate life contacts with the customers. Since 2000 many banks and insurers agreed to have an arrangement for mutual benefits. The LIC has tied with more than one bank. So also have others. For more than a hundred years, insurance business had been sold through insurance agents and their supervisors. This system had not been very satisfactory. The LIC inherited this system. The efforts to make the agents more professional had not yielded very satisfactory results, despite incentives and training programmes. Many of them continue to treat the agency business casually, as a source of additional income. The turnover had been high and the efforts of replenishing the strength, costly.

The banks have skilled staff, to which the procurement of insurance can be reassigned as a duty. This was an opportunity made available after the regulation of IRDA.

Bancassurance in India

Bancassurance commonly means selling insurance products under the same roof of a bank. Though bancassurance had roots in France in the 1980s, and spread across different parts of Continental Europe since, it has spread its wings in Asia – in particular, in India. In India, there are a number of reasons why bancassurance could play a natural role in the insurance market. First, banks have a huge network across the country. Second, banks can offer fee-based income for the employees for insurance sales. Third, banks are culturally more acceptable than insurance companies. Dealing with (life) insurance, in many parts of India, conjure up an image of a bad omen. Some bank products have natural complementary insurance products. For example, if a bank gives out a home loan, it might insist on a life insurance cover so that in case of death of the borrower, there is no problem in paying off the home loan. Bancassurance is: “ The provision of a complete range of banking, investment and insurance product and services, to meet the individual needs of the customers of the bank and its associates.”

Bancassurance in asian market:

Two Asian markets of great interest for their potential size are China and India. Although their insurance markets are relatively young, bancassurance is now emerging in both countries. India opened to private competition only two years ago, and so far 12 life insurers have entered to compete with the

Life Insurance Corporation of India. Three-quarters of these new entrants have formed relationships with banks (a number with several banking partners). Some relations are particularly strong, having been established as joint venture partners. At present, foreigners cannot hold more than a 26% stake. Clearly, bank branches are an excellent way to extend reach over the huge geographies of India and China. In China, the regulatory enforced maximum arrangement fee of 8% between banks and insurers has led to the vast majority of sales to date being single premium (or short term) in nature. Furthermore, it appears that relationships at the branch level currently carry more weight than those at head office, leading to what some observers call “branch assurance” rather than bancassurance. As in many markets in Asia, bancassurance in China and India is in its early days. Nonetheless, bancassurance will surely form an important component of the Asian insurance landscape.

Bancassurance Across The Globe

Bancassurance” is a term, which first appeared in France after 1980 to define the sale of insurance products through banks’ distribution channels. But this term does not just refer specifically to distribution. Other features, such as legal, fiscal, cultural and/or behavioral aspects form an integral part of the concept of bancassurance. In fact, all these characteristics combined can explain the marked differences in bancassurance across the globe. Although it is clearly a predominant feature on some markets, representing over two thirds of the premium income in Life Insurance, other markets do not appear to have chosen it as their model. This type of distribution is

predominant in markets such as France, Spain and Portugal, followed by Italy and Belgium. Bancassurance represents over 65% of the premium income in Life Insurance in Spain, 60% in France, 50% in Belgium and Italy. -In these countries, in only ten years, bancassurance has become widely recognized as a successful model. In France, in the 1970s, banks had to contend with a mature and highly competitive market in banking. 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. Consumers were provided with simple solutions from a “one-stop shop” addressing all their financial concerns: short-term liquidity, estate and retirement planning, property purchase, protection against any unforeseen events in everyday life. In 2000, bancassurance accounted for 35% of Life Insurance premiums; 60% of savings premiums; 7% for Property Insurance and 69% of new premium income in individual savings. This success has made France the leading individual savings insurance market in Europe. In terms of premium income, it ranks first in bancassurance. Spain, like France, is among the most developed markets in bancassurance.

Today, it represents over 65% of life insurance premium income compared with 43% in 1992. However, this high growth rate is not specifically due to bancassurance, rather the whole of the life insurance market, which has sustained a 30% increase per annum on average in the past fifteen years. In the last decade, many international, often European, alliances have been made between banks and insurance groups. This has concentrated the

bancassurance market, which was originally highly fragmented. On the Spanish market, bancassurance developed more quickly because of the well-established network of regional building societies, which today account for 50% of Life insurance premiums in the bancassurance sector.

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 financial year 2004-05 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-Steagall 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 focussed on wealthier individuals, leading to a majority of the American middle class households being under-insured. 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

The 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.

The Future of Bancassurance

Although bancassurance ventures in Latin America and Asia have followed different paths, they share the same objectives and requirements for success. All recognize the value of the bank's customer base. Bancassurance will eventually take hold in the US. The objectives announced when Bank One acquired Zurich Insurance Operation point to bancassurance as a fundamental reason behind the acquisition. Experiences in both Latin America and Asia may prove valuable to banks and insurers entering into bancassurance ventures in the US and elsewhere. Indian Insurance Business

Projected to US\$60 Billion by 2010 The Associated Chambers of Commerce and Industry of India (ASSOCHAM) has projected a 500% increase in the size of current Indian insurance business from US\$ 10 billion to US\$ 60 billion by 2010 particularly in view of contribution that the rural and semi-urban insurance will make to it.

Rural and Semi-Urban Life Insurance business is expected to touch US\$ 20 billion figure in next 4 years from current level of less than US\$ 5 billion now as rural and semi-urban folk will want themselves to ensure them for better future and their rising purchasing power will motivate them to move towards insurance sector. In view of Assocham, the non-life insurance will rise to US\$ 15 billion by 2010 from its negligible size now and in Urban areas, life insurance businesses are anticipated to reach US\$ 15 billion and that of non-life insurance US\$ 10 billion, according to Chamber Paper on Insurance Sector : Its Future Perspective. Assocham has revealed that rural and semi-urban India shall contribute US \$35 billion to the Indian insurance industry by 2010, including US \$20 billion "by way of life insurance and the rest US \$15 billion through non-life insurance schemes.

A large part of rural India is still untapped due to poor distribution, large distances and high costs relative to returns. Urban sector insurance is estimated to reach US \$25 billion by 2010, life insurance US \$15 billion and non-life insurance US \$10 billion. Estimating the potential of the Indian insurance market from the perspective of macro-economic variables such as the ratio of premium to GDP, Assocham Papers reveals that India's life insurance premium, as a percentage of GDP is 1. 8% against 5. 2% in the US,

6. 5% in the UK or 8% in South Korea. Assocham findings further reveals that in the coming years the corporate segment, as a whole will not be a big growth area for insurance companies. This is because penetration is already good and companies receive good services. In both volumes and profitability therefore, the scope for expansion is modest. Survey suggested that insurer's strategy should be to stimulate demand in areas that are currently not served at all. Insurance companies mostly focus on manufacturing sector, however, the services sector is taking a large and growing share of India's GDP. This offers immense opportunities for expansion opportunities.

Being an agrarian economy again there are immense opportunities for the insurance companies to provide the liability and risks associated in this sector. The Paper found that the rural markets are still virgin territories to a great extent and offer exciting opportunities for insurance companies. To understand the prospects for insurance companies in rural India, it is very important to understand the requirements of India's villagers, their daily lives, their peculiar needs and their occupational structures. There are farmers, craftsmen, milkmen, weavers, casual labourers, construction workers and shopkeepers and so on.

More often than not, they are into more than one profession. The rural market offers tremendous growth opportunities for insurance companies and insurers should develop viable and cost-effective distribution channels; build consumer awareness and confidence. The Paper found that there are a total 124 million rural households. Nearly 20% of all farmers in rural India own a Kissan Credit cards. The 25 million credit cards used till date offer a huge

data base and opportunity for insurance companies. An extensive rural agent network for sale of insurance products could be established. The agent can play a major role in creating awareness, motivating "purchase and rendering insurance services. There should be nothing to stop insurance companies from trying to pursue their own unique policies and target whatever needs that they want to target in rural India. Assocham suggests that insurance needs to be packaged in such a form that it appears as an acceptable investment to the rural people.

UCO inks bancassurance MoU with LIC

Barely a month before its scheduled Rs 200 crore (Rs 2 billion) initial public offering, UCO Bank on Monday signed a memorandum of understanding with the Life Insurance Corporation of India to market the latter's insurance schemes from its branches. " Our endeavour is not only for selling products, but to go for a strategic alliance with LIC," UCO Bank chairman and managing director V P Shetty said after signing the MoU in Kolkata. The tie-up was aimed at providing value added services in the form of life insurance products to over 2 crore (20 million) customers of UCO. LIC chairman S B Mathur said things were really happening with the opening up of the insurance sector, and achieving and retaining customers was high on the agenda. With interest margins coming down and costs rising, increasing fee-based income had become important for both the banks and insurance companies, he said. Mathur said it was a win-win situation for both LIC and UCO Bank. It was more critical considering that PSU had become a kind of dirty word related with inefficiency, absence of work culture, but what has

happened in UCO and LIC during the last few years, had helped changed that notion. Shetty said, “ Our interest income is dwindling and to compensate for this we had to resort to other avenues like this to increase fee-based income.”

SBI-New India Bancassurance Tie Up

State Bank of India, the country’s largest Bank and New India Assurance Co. Ltd, India’s largest non- life insurance company have tied up for distributing general insurance policies of New India through SBI’s branch network. A Memorandum of Understanding was signed yesterday between SBI and New India for the Bancassurance tie up. As per the memorandum of Understanding, SBI will become the corporate Agent of New India after completing the formalities prescribed by IRDA. SBI, has of late, been laying emphasis on cross selling various products to its customers. It has already become Corporate Agent of SBI Life Insurance Co. Ltd for life insurance business. SBI Life’s products are now being sold by around 1000 SBI branches. Mutual Fund products of SBI Mutual Fund are also now being sold through select branches of SBI. Similarly, SBI Credit Cards are also sold through SBI’s branch network. While all these products are from SBI’s own stable, the tie up with New India will be a first for SBI in vending a third party’s product.

New India as the largest non-life insurer in the country is the first general insurance company to cross Rs. 4000 crs premium mark last year having booked overall premium of Rs. 4812. 79 crs. The Company has been reaffirmed ‘ A’ Excellent rating for the 4th consecutive year by A. M. Best

(Europe). For New India a tie up with SBI, the country's largest bank with a 9000 strong branch network is a major boost. Bancassurance as a distribution channel is assuming increasing importance for both life and non-life insurers. The tie up between the two largest players in their respective fields will enable SBI to leverage its unmatched branch network and customer base to cross sell a range of general insurance products and thus open up a new revenue stream. For New India, the tie up with SBI will enable it to tap into SBI's huge network and customer base.

The above Agreement was signed by the Director and General Manager, (Indian Business Dept.) of New India and General Manager (Marketing) of SBI.

SBI Life Insurance is one of the leaders among the fast growing private life insurance players in India. Current milestones 1st in "lives covered" amongst private players – 2. 8 Million at last count • 1st in the Group Insurance segment • 4th in terms of premium income, with Rs 600 Crores in 2004-05 • Ranked as one of the Most Tr