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BANK INSURANCE MODEL: A FINANCIAL STRATEGY FOR GROWTH

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ABSTRACT

In the post-recession it is the question for survival and growth for any sector in general and banking sector in particular. Thus Bank Insurance Model (BIM) or Bancassurance is a financial strategy for survival and growth for this sector. In this paper we attempt to explore the scope for Bancassurance models as feasible source of sustainable income to banking sector for their growth and survival strategy. To exploit the synergy for growth in Indian contest it will definitely be a successful strategy for the banking company. As India having the largest banking network on the one hand and lower insurance penetration and insurance density on the other hand, this financial strategy may result good for both the banking and insurance company. While implementing this strategy, the legal issues are also taken into consideration. The role of banking and insurance company regulator will be the deciding factor for successful implementation of this strategy. The concept of Bancassurance would turn out to be a norm for future banking and insurance business in India and it would be a 'win-win situation' for all the parties involved - the customer, the insurance companies and the banks. Bancassurance - a term coined by combining the two words bank and insurance (in French) - connotes distribution of insurance products through banking channels. Bancassurance encompasses terms such as 'Allianz' (in German), 'Integrated Financial Services' and 'Assure banking'. This concept gained currency in the growing global insurance industry and its search for new channels of distribution. Bancassurance is the process through which insurance products are sold to customers at their local banks. With banking network of 65,000 branches serving more than 300 million retail banking customers, insurance can be available at affordable prices to people even in remote corners of the country. But it is only one part of opportunities of retail banking in India by selling insurance product. For taking challenges we go through by present research of Bancassurance' Retail Relationship Banking Bancassurance Opportunity'. The financial liberalisation and financial innovations have drawn the worlds of banking and insurance closer together. Therefore, banks dealing in insurance products have increasingly become accepted norm rather than exception in India.

KEYWORDS

bancassurance, insurance penetration, insurance density, survival strategy, financial strategy.

INTRODUCTION

The financial reforms following the recommendations of First Narasimham Committee, the contemporary financial landscape has been reshaped. Banks, in particular, stride into several new areas and offer innovative products, *viz.*, merchant banking, lease and term finance, capital market / equity market related activities, hire purchase, real estate finance and so on. Thus, present-day banks have become far more diversified than ever before. Therefore, their entering into insurance business is only a natural corollary and is fully justified too as 'insurance' is another financial product required by the bank customers. The regulatory authority like Reserve Bank of India and Insurance Regulatory and Development Authority (IRDA) regulate and develop the banking and insurance sector in India through calibrated policy initiatives. India has a well-entrenched wide branch network of banking system in the world. Thus this financial strategy of "Bancassurance' will help in the integration of banking and insurance sector to harness the synergy of growth and prosperity.

Bancassurance is a long-standing dream of offering service of banking, life & non-life products. India, being the one of the most populous country in the world with a huge potential for insurance companies, has a multiple chain of bank branches as the lifeline of its financial system. Banks with over 65,000 branches & 65% of household investments are the backbone of the Indian financial market. In India, there are 75 branches per million inhabitants. Clearly, that's something insurance companies - both private and state-owned -would find nearly impossible to achieve on their own. Banks have expertise on the financial needs, saving patterns and life stages of the customers they serve. Banks also have much lower distribution costs than insurance companies and thus are the fastest emerging distribution channel. In India, as elsewhere, banks are seeing margins decline in their core lending business. Consequently, banks are looking at other avenues, including the sale of insurance products, to augment their income. The sale of insurance products can earn banks very significant commissions (particularly for regular premium products). In addition, one of the major strategic gains from implementing Bancassurance successfully is the development of sales culture within the bank. This can be used by the bank to promote traditional banking products and other financial services as well. Bancassurance is not simply about selling insurance but about changing the mindset of a bank.

IMPORTANCE OF THE STUDY

Until the entry of private insurers, state-owned insurance entities intentionally force the tied agency and their own employees. The Life Insurance Corporation of India continues to command the largest group of agents today. But agents and employees have their limitations. If LIC is to be focused, it seems to be full of its agents who cover the wider locality. But agents and employees of LIC are having some limitations so Bancassurance can be a fruitful channel for them. It is profitable both to Banks and Insurance companies and has a very bright future to be the most developed and efficient means of distribution of Insurance products. Insurance companies can sell both life and non-life policies through banks. The share of premiums collected by banks is increasing in a decent manner from the time it was introduced to the Indian market.

In India Bancassurance is guided by Insurance Regulatory and Development Authority Act (IRDA), 1999 and the Reserve Bank of India, all banks and insurance company have to meet particular requirements to get into Bancassurance business. It is predicted by experts that in future 70% of share of premium will come from Bancassurance business only. Currently more and more banking and Insurance Companies are venturing into Bancassurance business for better business prospects in future. It is two-way street to make profits. The banking business is also generating more profit by more premiums collected and they also receive commission like normal insurance agents which increase the profits and bring a better reputation for the banks. It is even profitable for Insurance Companies 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 their pressure to deal with each customer face to face. In all Bancassurance has proved to be boon in whole Banking and Insurance arena. Bancassurance, the most important feature is to 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 non fund income as fee is through the sale of insurance products. Banks those effectively cross-sell financial products can leverage their distribution and processing capabilities for profitable operating expense ratio. Sale of personal life 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 life 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 size, loyal customer base. Other bank strengths are their marketing and processing capabilities. Banks have extensive experience in marketing to both existing customers 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.

OBJECTIVES OF THE STUDY

Bancassurance is a channel having a great scope to fulfil the challenges of the retail banking sector. The study deals with factors that affect the purchasing of insurance products through Bancassurance. The objectives of the study are:

1. To find out the customers' behaviour for purchasing of insurance products from bank.
2. Judge the awareness level of customers for Bancassurance.

SCOPE OF THE STUDY

As India is being considered one of the fastest developing economies among the emerging market economies, the financial sector has also grown much vibrant with the financial reforms. In fact, in recent years, it is surmised that even the 'global economic growth' hinges on growth prospects of the emerging economies like China and India to a greater extent. Significantly, Indian economy has recorded an average growth of over 8.5 per cent for the last four years, with macroeconomic and financial stability (RBI, 2006) and indications are that it may grow at even better rate in the near future provided there is good monsoon. Experience also showed that economic growth had strongly supported the expansion of the middle income class in most of the Asian countries, and now it is the turn of India. Experience reveals that at the initial growing stage of the economy the primary financial needs are met by the banking system and thereafter as the economy moves on to higher pedestal, the need for the other non-banking financial products including insurance, India's population having much more money in their hand, which help to invest them in banking retail sector. Through Bancassurance, banking retail sector to meet their customers need by changes in life stages. Like single, couple, new family, established family, pre-retirement and retired family who makes them independent.

METHODOLOGY

This is basically a descriptive research design. This research has been done with the help of primary and secondary method of data collection. This methodology followed in the selection of sample, scope of the study, sources of data, collection of data, nature of the data required, tools and techniques used for the study. The second approach involves an event study methodology, where stock market data are analyzed to determine whether an announcement of showing strong interest and attention to engage in insurance activities is perceived to be a positive or negative event. The final approach is the one employed in the experiments or experience rather than theory. The industry returns analysis, between banks and different insurance groups shows that the insurance broking activities have the highest return.

INSURANCE SECTOR IN INDIA

It is obvious that reforms in financial sector would not be complete if one of the key sub-sectors, *viz*., insurance sector is not being taken along. Therefore, the Government of India had appointed a Committee on Reforms in the Insurance Sector under the Chairmanship of Late R.N. Malhotra (known as Malhotra Committee) in 1994. There has been considerable time lag between reforms in the insurance sector and the rest of the financial sector, particularly in comparison with the banking sector. Incidentally, the experiences with many other countries were also very similar. However, following the implementation of Malhotra Committee's far reaching recommendations, the insurance sector had undergone sweeping changes during the later 1990s and 2000 onwards and of which only a few developments are highlighted here. IRDA was established in the year 2000 as an exclusive Regulatory Authority for the insurance sector through the enactment of IRDA Act, 1999. A number of amendments were brought in various insurance related statutes, *viz.,* Insurance Act, 1938, LIC Act, 1956 and General Insurance Business Nationalisation Act, 1972 (GIBA). The Progress in the overall developments in the insurance sector was swift and more prominent after the establishment of IRDA. The four public sector non-life insurance companies were de-linked from being subsidiary of the General Insurance Company of India. Now they operate independently and compete with each other. The upshot of these developments was the breakage of monopoly by public sector in the insurance sector paving the way for the entry of private entities into the insurance market and the era of competition set in with availability of wide range of insurance products in the market than ever.

India has very low 'insurance penetration ratio' (defined as ratio of insurance premium to GDP), a key indicator of the spread of insurance coverage and insurance culture, India compares poorly by international standards. The penetration ratio was less than one per cent in 1990s and it improved to 4.8% by end-March 2006. As against this, a Survey Report of Swiss Republic revealed that the penetration ratio as at end-March 2006, in respect of some of the European countries, *viz.,* UK and Switzerland at 16.5% and 11.0%. In Asia, Taiwan and South Korea had registered their respective ratio of as high as 14.5% and 11.1%. Insurance Penetration ratio for the World was placed at 7.5% far greater than that of India. The Insurance Regulatory and Development Authority (IRDA) has informed that the total insurance penetration, which is the ratio of insurance premium as a percentage of GDP has increased from 2.32 in 2000-01 to 5.10 in 2010-11. The life insurance penetration has decreased from 4.60 in 2009-10 to 4.40 in 2010-11, whereas the non-life insurance penetration has increased from 0.60 in 2009-10 to 0.71 in 2010-11. The insurance penetration is impacted by several macro-economic factors such as growth, inflation, interest rates; small saving return and returns of competing financial products offered by banks and mutual funds. Thus in a country with more than 1.2 billion population, the poor penetration ratio indicates that a vast majority of population remain outside the reach of the insurance, especially in rural and semi-urban areas, in the context of the absence of social security schemes. This clearly suggests the presence of vast potential for tapping the insurance market particularly by widening the distribution channels. This is where the strategy of bancassurance could possibly become more relevant.

The future of the Indian insurance sector looks bright. The sector which stood at a strong US$ 72 billion in 2012 has the potential to grow to US$ 280 billion by 2020. This growth is driven by India's favourable regulatory environment which guarantees stability and fair play. This environment has given rise to an insurance market which encourages foreign investors to tap into the sector's massive potential. Ever since the Indian government liberalised the insurance sector in 2000 and opened the doors for private participation, the sector has gone from strength to strength. The resultant competition has provided the consumer with a never-before-seen range of products and providers, and also enhanced service levels markedly. The health of the insurance sector reflects a country's economy. This sector not only generates long-term funds for infrastructure development, but also increases a country's risk-taking capacity. India's economic growth since the turn of the century is viewed as a significant development in the global economy. This view is helped in no small part by a booming insurance industry. Health insurance is an up-and-coming segment in this sector. Currently, it caters for 10 per cent of the overall US$ 30 billion healthcare expenditure in India. Consequently, there is plenty of scope for players in this area. Presently the life insurance segment contributes about 4 per cent to India's gross domestic product (GDP) in terms of total premiums underwritten annually. There are 23 private companies in the segment. The state-owned Life Insurance Corporation (LIC) dominates the field, with about 71 per cent of the market share, according to Insurance Regulatory and Development Authority (IRDA).

BANKING SECTOR IN INDIA

The difference in working style and culture of the banks and insurance sector needs greater appreciation. Insurance is a 'business of solicitation'. But a typical banking service requires a great drive to sell the insurance products. Moreover, in India since the majority of the banking sector is in public sector are no emotional attachment and lethargic attitude and poor quality of customer service, some of the products offered by the banks, *viz.,* 'term deposits' and other products which are mainly aimed at long term savings/ investments can be very similar to that of the insurance products. Banks could as well feel apprehension about the possibility of substitution effect between its own products and insurance products and more so, as a number of insurance products in India come with an added attraction of tax incentives. As there is a great deal of difference in the approaches of 'selling of insurance products' and the usual banking services- thorough understanding of the insurance products by the bank staff coupled with extra devotion of time on each customer explaining in detail of each product's intricacies is a prerequisite.

LIMITATIONS

The banking service, there is no guarantee for insurance products that all efforts that a bank staff spends in explaining to a customer would clinch the deal due to the very nature of the insurance products. This frustration of the bank staff has the danger of spill over effect even on their regular banking business. Bankers in

India are extremely negative in insurance products as there were no occasions in the past for the bankers to deal with insurance products, therefore they require strong motivation of both monetary and non-monetary incentives. This would be more so in the emerging scenario due to complex innovations in the field of insurance / pension products at a rapid pace with the entry of a number of foreign insurance companies with vast experience in the developed countries' framework. In the above view the staff in the public sector banks in particular, to be less bureaucratic and more customer friendly would indeed be a challenging task.

SOURCES OF OPPORTUNITIES

Banks deliver product to their customer on segment of economics. Technology is an important delivery regardless of different channels, like branch, agent, call centre, internet. Banks' database is enormous even though the goodwill may not be the same as in the 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. 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. BIM allows the insurance company to maintain smaller direct sales teams as their products are sold through the bank to bank customers by bank staff. Bank staff and tellers, rather The Bank Insurance Model (BIM), also sometimes known as Bancassurance, is the term used to describe the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products. BIM allows the insurance company to maintain smaller direct sales teams as their products are sold through the bank to bank customers by bank staff.

SUMMARY OF FINDINGS

Key findings from the executive summary that the banking sector getting Credit insurance protects the loan security, multi product improves, Customer loyalty and retention, optimizes fixed expense base, Easier to sell insurance to existing relationships, Fee income to boost shareholder ROE and also finding how does the Bancassurance help retail banks. The bank sees Bancassurance as a way of creating a new revenue flow and diversifying its business activities. This advantage was all the greater in the early 1990s, a period characterized by increased competition between financial institutions and a reduction in the banks‟ profit margins and, therefore, the need to look for new business. The bank becomes a sort of supermarket, a one-stop shop for financial services, where all customers‟ needs whether financial or insurance related can be met. The broadening of its product range makes the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty. The consumer enjoys greater access to all financial services from a bank that offers both banking and insurance products. Since the distribution costs are lower than in a traditional distribution network, the consumer can usually get cheaper insurance products than through traditional channels. In addition, premium payment methods are simplified, since premiums are collected directly from bank accounts. The special relationship between the customer and the bank means that there is a better match between what the customer needs and the solutions provided by the bank. One disadvantage that has come up with this model is that banks, after allying with one insurance company may discontinue it to set up their own venture. Changing insurance partners due to attractive benefits offered by a competing insurer is also not ruled out.

CONCLUSION

Finally, for both bank and insurer there is a great opportunity to learn and to make improvements in their own operation. Each gets exposure to the other's distinctive management styles, its objectives and measures and the pressures which it can exert and which it feels. The benefit comes when either company can implement changes as a result of the learning process. The market is increasing in this sphere convergence of banks and insurance companies is moving towards a model of global retail financial institutions offering a wide impression of products. Which will create one roof shop where mortgages, savings, pension and insurance product will be available for customers? It is expected that if in India, bank assurance is planned properly and implemented, it will reach the required height. There is a need for constant innovation in retail banking. In bracing for tomorrow, a paradigm shift in bank financing through innovative products and mechanisms involving constant up gradation and revalidation of the banks' internal systems and processes is called for. Banks now need to use retail as a growth trigger. This requires product development and differentiation, innovation and business process reengineering, micro-planning, marketing, prudent pricing, customisation, technological up gradation, home / electronics / mobile banking, cost reduction and cross-selling.

While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. How far the retail banking is able to lead growth of the banking industry in future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably in Bancassurance. However, the kind of technology used and the efficiency of operations would provide the much needed competitive edge for success in retail banking business. Furthermore, in all these customers' interest is of paramount importance. The banking sector in India is demonstrating this and I do hope they would continue to chart in this traded path.

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