Bancassurance Technology Road Ahead: Indian Perspective

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ABSTRACT

Bancassurance is a system in which a bank has a corporate agency agreement with one insurance company to sell its product (life and general insurance) and by selling insurance products bank earns a revenue stream apart from interest. Bancassurance in India has taken a flying start. Little has been studied of this phenomenon in emerging markets. And Bird's eye overview with the economies of scale and scope, has also been put up. This study can give a picture of the parties how could be a feasible task to make lucrative business with the pace of emerging scenario.

KEYWORDS

Bancassurance	RBI	IRDA

PREAMBLE

The theories of banking and insurance contain a number of similarities that contradict the traditional distinctions between the two businesses. Lewis (1990) explained that banks take advantage of economies of scale in portfolio management, which arises from the law of large numbers. Insurance economics rely on the law of large numbers, which states that the expected loss distribution approaches the true loss distribution as the sample grows. This enables insurance companies to pool individual reserves to protect against adversity. Similarly, banks provide the insurance of financial security for their clients; the insurance premium is reflected in service charges and the spread between interest rates on loans and deposits. Levy-Lang (1990), argued that insurance companies undertake some form of fund management (a banking attribute) through the investment of their technical reserves. This function brings them closer to banking.

Gumbel (1990) summarized the affinities of banking and insurance as follows: Both operate with reserves, rely on the law of large numbers, use economies of scale, and have expertise in administration and money management. They create liquidity and assume a risk-spreading function through reinsurance or refinancing. Endowment policies have been a long-term financial tool to meet financial objectives that were the domain of banks. In the UK, 83% of mortgages were financed by endowment policies in 1988. In France, most insurers experienced growth through capitalization products, originally single-premium policies, which are very similar to time deposits of banks. Although these products are classified as insurance, they were in direct competition with traditional banking products. As insurers developed more and more products with shorter maturities, savings became a focus of competition for banks and insurance companies. Another similarity between banks and insurance is that they often relate to the same purchase.

They are in a sense complementary, if not similar. Banks require their borrowers to insure against various risks, including death, disability, unemployment and property damages. These guarantees become an inherent component of the loan that is granted. Both banking and insurance products provide means of savings and insurance. In general, banks and insurers have more in common than their separation may suggest. The traditional view is that banks handle funds and insurers take risks. However, funds management and risk-bearing are clearly features of both types of activities. Banking and insurance rely on the pooling of resources to protect financial security (banking) or protect against adverse events (insurance). In practice, some insurance products are really savings vehicles. This is particularly evident in India, where a survey conducted in 2008, revealed that Indians consider life insurance as the most popular vehicle for long-term savings. Banking and insurance are often complimentary, as is the case for mortgages that require credit and property insurance. Bancassurance therefore is a natural outlet for both businesses to diversify.

The trend towards bancassurance or Allfinanz refers primarily to banks entering the insurance sector by offering insurance products to their retail customers. The definitions of bancassurance concept focus on distribution and cross-selling. A broader definition of bancassurance was provided by Swiss Re (1992): “Bancassurance can be described as a strategy adopted by banks or insurance companies aiming to operate the financial services market in a more or less integrated manner. In practice, the term ‘bancassurance’ is consistently used to describe a new strategic orientation of financial institutions in private customer business”. Morgan (1994), argued that a proper approach is one whereby financial institutions can be placed along a continuum denoting the degree to which an insurance company and a deposit-taking institution co-exist within a common structure (holding company), but also integrate their strategies. Morgan’s continuum is shown in Figure1 from the deposit-taker’s point of view. Vaquin (1990) described the development of bancassurance along two dimensions: the degree of integration and product profile (life or general insurance).

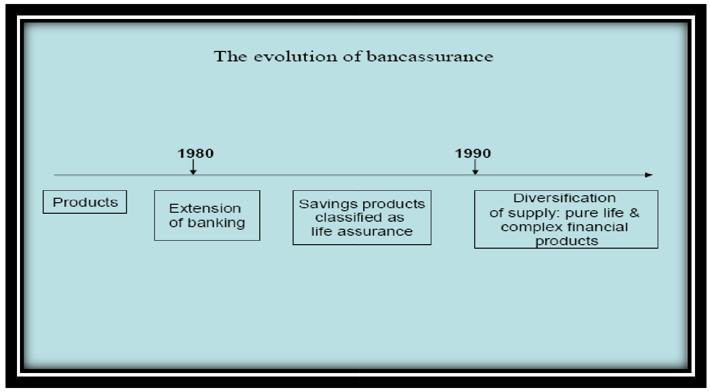
The concept of bancassurance differs from one observer to another. This is because the integration of insurance and banking can vary from a simple distribution agreement to some type of capital link between the two activities.

HISTORICAL DEVELOPMENTS OF BANCASSURANCE

The strategy for using the established, entrenched distribution network for one product to market other new products has long existed in the consumer goods sector. Thus the networks for soaps and detergents have been used by companies to distribute newly launched food products, the distribution channel for radios has been used to market televisions and so on. Of course, the basic premise for this kind of cross-selling is the fact that companies keep diversifying their product portfolios, using established 'incumbent' networks to promote and distribute new product lines. Banks, too, have in the recent past adopted this strategy both in India as well as internationally.

They have moved away from the classical model of deposit taking and credit disbursal through their branch networks and have begun to offer a wide range of products and services like security broking facilities and mutual funds. This is the phenomenon of 'universal banking' that builds on the principle of leveraging existing networks to broaden portfolio offerings. Change in regulatory regimes also facilitated this diversification. This diversification of banking services has been driven by a number of factors, all of which have threatened bank profitability. In the US, the banks were earlier not allowed to sell insurance due to the restrictions imposed by Glass-Stegall Act of 1933, which acted as a 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. Daniel (1995) provided an analysis of how 'bancassurance' products have evolved, which reflects the way the concept of bancassurance itself grew. The analysis of Daniel is based on the French market with reference to other European countries. Daniel divided the evolution of bancassurance products into three periods.

- In the first period, prior to 1980, banks sold insurance guarantees that were a direct extension of their banking activities, but were not associated with life insurance. For example, credit insurance was not regarded as bancassurance.
- After 1980, savings products that benefited from advantageous tax regimes associated with life insurance flourished in the banking markets.
- Around 1990, the supply of insurance products by banks became much more diversified in both life and general insurance categories.

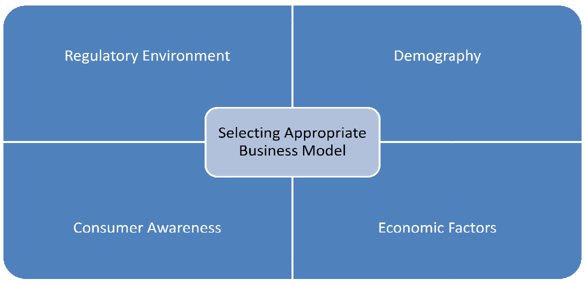


WHY SHOULD BANKS ENTER INSURANCE?

There are several reasons why banks should seriously consider Bancassurance:

- **The most important of which is increased return on assets (ROA).**
- **Another advantage banks have over traditional insurance distribution is lower cost per sales.**
- **Banks have extensive experience in marketing to both existing customers and non-customers.**
- **Banks have access to multiple communication 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, banks can convert their insurance leads into sales.**

FACTORS INFLUENCING THE DEVELOPMENT OF BANCASSURANCE

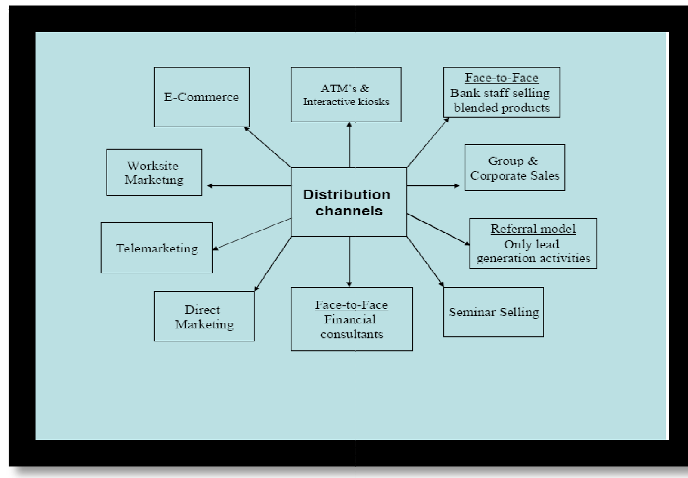


BANCASSURANCE TECHNOLOGY

Bancassurers should plan a technological infrastructure that will exploit customer information found in the bank's database to uncover sales opportunities and produce transactional simplicity for insurance customers. The information banks have about their customers' buying habits, economic status and money management practices constitutes a valuable asset often unrecognized even by large, sophisticated banking institutions. Using technology to order information about the economic behavior of customer segments can provide valuable insights about insurance-selling opportunities. For instance, customers buying a home through a bank mortgage can be approached for a variety of insurance products. With a traditional insurer, behavioral information about policyholders is usually unavailable, but even when known, can only be employed by agents (who have an economic interest in thwarting a direct relationship between the company and the client).

Bancassurers should use technology to simplify the insurance purchase as much as possible, thereby making the purchase an easier, more pleasant experience and further differentiating themselves in the process. Buying insurance in the traditional way means dealing with agents and the complications of the underwriting process, which bancassurance can eliminate. Branch customers are usually in a hurry and don't want to wait, so banks will serve them best by simplification. With point-of-sale technology, customers should be able to buy policies in a short time and leave the bank with coverage in hand. Particularly with an intangible such as an insurance policy, the buying experience itself is a key part of the purchase. Bancassurers should make the experience as positive as possible, and technology can contribute greatly to this effort.

DISTRIBUTION CHANNELS IN BANCASSURANCE



The main characteristics of each of these channels are:

- **Career Agents:** Career agents are full-time commissioned sales personnel holding an agency contract.
- **Special Advisors:** Special advisers are highly trained employees usually belonging to the insurance partner, who distribute insurance products to the banks corporate clients.
- **Salaried Agents:** The only difference between career agents and salaried agents is in terms of remuneration. They are paid on a salary basis and career agents receive incentive compensation based on their sales.
- **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 with the bank
- **Direct Response:** The consumer purchases products directly from the bancassurer by responding to the company's advertisement, mailing, or telephone offers.
- **Outside Lead Generating Techniques:** One last method for developing Bancassurance eyes involves "outside" lead generating techniques such as seminars.

- **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 non-banking 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.

- **E-Commerce:** This channel is the fastest growing and most convenient way of purchasing insurance cover. Online sales of insurance policies can be encouraged by designing special non-medical term policies, which are easy to understand, and which do not warrant expert advice from trained advisors. E-commerce sites that offer the lowest quotes from all insurers are being introduced by entrepreneurs and they are slowly making the mark. Growth of broadband connections and personal computers will clearly fuel the growth of online purchases of insurance policies, especially by the white-collar employees, for whom time and convenience are top-most factors in any buying decisions.

INTEGRATION OF VARIOUS DISTRIBUTION CHANNELS

It seems very difficult for a single distribution channel to successfully reach the bancassurer's goals and specific target markets. Many bancassurers are using multiple distribution channels. This way they avoid becoming locked into one channel and they can offer services to a greater number of target markets. Multiple distribution channels provide another valuable feature. They enable the enterprise to offer customers multiple options for access. Therefore, if a customer wants to see someone about a particular service on one day but wants to transfer funds at a later date, e.g. on a Sunday night, the availability of both branch office and 24-hour telephone access increase the service value to that customer.

However, conflicts may arise among the various channels and also within channels under a multi-channel system. To avoid this it is necessary to ensure the following:

- Colleagues within a channel are motivated to cooperate
- There is communication of the importance of every link in the distribution process
- Cultural differences are communicated and respected
- The goals of every partner in the distribution process can be fulfilled by the process
- The specific role and performance expectations of each channel member are clearly stated, understood and accepted
- Communication between channels is encouraged
- Channel leadership is strong and committed to success.

By completely integrating their distribution channels in accordance with an established model, companies can achieve substantial cost savings, improve productivity and ensure that all stakeholders, shareholders, customers and staff are satisfied. The future of integrated distribution calls for the customer to be placed at the heart of the distribution network.

The call centre and the agency no longer operate as separate channels. Rather a synergy is realized through realignment of roles and responsibilities and the creation of a new sales integrated sales process, maximizing lead generation activity. Whatever the combination of distribution channels, the financial services company must seek to always improve the customer experience and deliver the service more cost effectively.

BANCASSURANCE MODELS

There are several Bancassurance models, and each has its own advantages and disadvantages. The challenge remains for most bancassurers to effectively combine the sales and support techniques for the life company structure into a non-threatening banking environment. Achieving this balance will allow them to bridge the gap between high net-worth advice and high-pressure product push.

Structural Classification

1. **Referral Model:** Banks intending not to take risk could adopt 'referral model' wherein they merely part with their client data base for business lead for commission. Referral model is nothing but a simple arrangement, wherein the bank, while controlling access to the client's data base, parts with only the business leads to the agents/sales staff of insurance company for a 'referral fee' or commission for every business lead that was passed on. This model would be suitable for almost all types of banks including the cooperative banks and even the cooperative societies both in rural and urban.

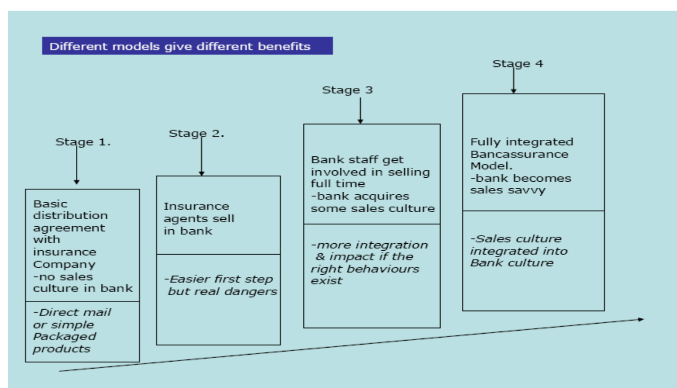
2. **Corporate Agency:** In corporate agency agreement the bank staff is trained to appraise and sell the products to the customers. Here the bank as an institution acts as corporate agent for the insurance products for a fee/commission. This model is best suited for majority of banks including some major urban cooperative banks because neither there is sharing of risk nor does it require huge investment in the form of infrastructure and yet could be a good source of income.

3. **Insurance as Fully Integrated Financial Service/Joint Venture:** As per the regulation of insurance sector the foreign insurance company could enter the Indian insurance market only in the form of joint venture, therefore, this type of bancassurance seems to have emerged out of necessity in India to an extent. There is a greater scope for further growth both life and non-life insurance segments.

PRODUCT –BASED CLASSIFICATION

1. **Stand-alone Insurance Products:** In this case of bancassurance involves marketing of the insurance products through either referral arrangements or corporate agency without mixing the insurance products with any of the banks own products/services. Insurance is sold as one more item in the menu of products offered to the bank's customer, however, the products of banks and insurance will have their respective brands too, e.g., Karur Vysya Bank Ltd selling life insurance products of Birla Sun Insurance or non-life insurance products of Bajaj Allianz General Insurance Company.

2. **Blend of Insurance with Bank Products:** This strategy aims at blending of insurance products as a 'value addition' while promoting its own products. Thus, banks could sell the insurance products without any additional efforts. For example, the home loans/vehicle loans have been packaged with the insurance cover as an additional incentive.



The various models/ stages for bancassurance ventures

RECENT SCENARIO OF BANCASSURANCE IN INDIA:

The insurance sector opened up in India about ten years ago, Bancassurance has now secured its position as a key distribution platform, and it's widely attracting the attention of banks, insurers, regulators and policy planners. India is known for its large variety of banks and extensive branch networks, and over the last few years, these branches are increasingly being utilized to serve the insurance needs of over 400 million bank.

Banking is fully governed by Reserve Bank of India & Insurance sector is by Insurance Regulatory and Development Authority**.** With effect from October 29, 2002, banks have also been allowed to undertake referral business through their network of branches. However, before entering into insurance business, banks are required to obtain prior approval of the IRDA and RBI. It has now been decided that banks need not obtain prior approval of the RBI for engaging in insurance agency business or referral arrangement without any risk participation, subject to the following conditions:

- The bank should comply with the IRDA regulations for acting as 'composite corporate agent' or referral arrangement with insurance companies.
- The bank should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the bank. The customers should be allowed to exercise their own choice.
- The bank desirous of entering into referral arrangement, besides complying with IRDA regulations, should also enter into an agreement with the insurance company concerned for allowing use of its premises and making use of the existing infrastructure of the bank. The agreement should be for a period not exceeding three years at the first instance and the bank should have the discretion to renegotiate the terms depending on its satisfaction with the service or replace it by another agreement after the initial period. Thereafter, the bank will be free to sign a longer term contract with the approval of its Board in the case of a private sector bank and with the approval of Government of India in respect of a public sector bank.
- As the participation by a bank's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by the bank in a prominent way. There should be no 'linkage' either direct or indirect between the provision of banking services offered by the bank to its customers and use of the insurance products.
- The risks, if any, involved in insurance agency/referral arrangement should not get transferred to the business of the bank.

BANCASSURANCE IN INDIA SWOT ANALYSIS

Strengths: In a country of 1 billion people there is a huge potential market for life insurance products. In India the penetration of the insurance sector in the rural and semi-urban areas is low. There is a market of 900 million for life insurance and 200 million for householder's insurance policy. In addition to this the affluent section can be tapped for Overseas Medi-Claim and Travel Insurance Policies. Whether it is banks or insurance companies there is no dearth of skilled professionals in India to carry out a successful Bancassurance venture.

Weakness: In spite of growing emphasis on total branch mechanization (TBM) and full computerization of bank branches, the rural and semi-urban banks have still to see information technology as an enabler. Complete integration of branch network involves huge investments for creating IT and communication infrastructure. Though we have a huge market for insurance policies, the middle class who constitutes the bulk of this market is today burdened under inflationary pressures. The secret lies in inculcating savings habit but considering the amount of surplus funds available with the middle class for investing in future security, the ability to save is very nominal.

Opportunities: Banks have a huge customer database which has to be properly leveraged. Target segments should be identified and tapped. A wide distribution network of banks provides a great opportunity to sell insurance products through banks. Another potential area of growth of bancassurance is exploiting the corporate customers and tying up for insurance of the employees of corporate clients.

Threats: Success in Bancassurance venture requires a change in mindset. Though we have a large talent pool, the inability to sell complex insurance products on the part of bank professionals and their reluctance to learn can be severe setback. There has to be a change in the thinking, approach and work culture. Non-response from the target groups can also pose a challenge as it happened in the USA in 1980s.

BANCASSURANCE CHALLENGES AHEAD

The challenge of Bancassurance lies in innovation. Both partners, whether banks or insurance companies must be creative in thinking. Banks need to think differently and analyze (probably anticipate) customers' requirements and put a demand on the partner insurance company to reciprocate. The insurance company on its part must be able to manufacture products in tandem with bank's requirements. Other challenges facing Bancassurance today are complexity of regulation, lack of long term vision and commitment from top management, too much emphasis on fee income and sometimes mis-selling by banks. Banks would do well to factor these before they embark on a Bancassurance journey. The success of Bancassurance also lies in integrating it within the bank's structure so as to harness its full potential. Each division within the bank whether corporate or retail, has to accept the new neighborhood called Bancassurance and should be willing to share the leads and customer relationships. There are challenges ranging from assimilation process within the bank to the ownership of the customer; from profit sharing between multiple divisions within banks to bringing in the sales culture.

CONCLUSION

With the opening of insurance sector and with so many players entering the industry, it is essential to come up with well established infrastructure facilities with superior call centre service to attract and provide information to customer regarding high quality product and their premium payment scheme. Banks will bring a customer database, leverage their name, recognition and reputation of both local and regional levels. But the proper implementation of Bancassurance is still facing so many hurdles because of poor manpower management, lack of call centers, and no personal contact with customers, inadequate incentives to agents and un-fulfillment of other essential requirements.

Finally we can say that the Bancassurance would mostly depend on how well insurers and bankers understanding is with each other and how they are capturing the opportunity and how better service them are providing to their customers. Let us you all pay more attention towards the products and enjoy the service provide by banks and insurance companies by The Mode of Banassurance.

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