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“BANCASSURANCE & ITS PROSPECTS”

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Abstract

A sincere attempt has been made in this paper to analyze the changes brought about in the Indian banking scenario with the incorporation of insurance services in the banking sector brought about liberalization and through the recommendations of the Narsimhan committee. How has a vast network of customers and banks spread across a wide geographical area has brought about the need for Bancassurance has been dealt with in detail in this paper. The role of the Reserve Bank of India with regard to regulation of policies which govern banks in respect of Bancassurance has also been covered by this paper. Finally, the benefits and challenges faced by the banking sector in respect of Bancassurance along with the prevalence of Bancassurance at the international level particularly in Europe has been discussed which is followed by the conclusion of this paper.

Introduction

Selling of insurance products through a bank is referring to as Bancassurance. It originated in France in the 1980s. Apart from the general monetary exercises, the role of banks was very particular and specific which was later united by advancements in banking and liberalization. This change in the financial situation came about because of incorporation of the recommendations of the first Narsimhan committee. The standpoint of parties, financial, social and cultural viewpoints and authoritative hindrances, which are a part of a business are to be investigated to determine that whether a particular model is suited for a nation or not. For example, a bank may see this concept as a means of diversification of business but companies dealing in insurance policies see it as a way of expanding the market.[1]

Insurance has a long history in India. The Insurance sector in India governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts. Today insurance is growing at the rate of 15-20 per cent annually. Together with banking services, it adds about 7 per cent to the country's GDP. The distribution channel refers to the routes by which the product prepared by the producers reaches the ultimate consumers. In other words, it is the mechanism by which products are directed to customers either through intermediaries or direct. As a result, the distance between producers and the consumers are bridged by the distribution channel. The most upcoming distribution channel is Bancassurance. Bancassurance has grown at different places and taken shapes and forms in different countries depending upon demography, economic and legislative prescriptions in that country. It is most successful in Europe, especially in France, from where it started. Bancassurance is a new buzzword in India. It originated in India in the year 2000 when the Government issued notification under Banking Regulation Act which allowed Indian Banks to distribute insurance products. The Bancassurance is the distribution of insurance products through the bank's distribution channels. It is a phenomenon where in insurance products are offered through the distribution channels of the banking services along with a complete range of banking & investment products & services. Bancassurance is the collaboration between a bank and an insurance company wherein the bank promises to sell insurance products to its customers in exchange of fees. It is a mutual relationship between the banks and insurers. One of the most desirable traits of such an agreement is the low finance required by both the parties.

[1]BRAHMAM, R., IRALA, L. R. AND PULUGUNDLA, A, 'Bancassuarance in India Issues and Challenges' [2004].

Bancassurance can then be considered as nothing more than sharing of resources already present in an organization. It is a series of merges, tie ups and joint ventures between banks and insurance companies. Bancassurance started 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, bancassurance is contributing significantly in new business especially among the private sector companies. Bancassurance is tied up with commercial banks, cooperative banks and regional rural banks. It is expected to account for 13% in life and 5% in non-life business during next five years. In India, more banks have come to realize the value of their distribution network and are reportedly trying to discard existing channels in favor of financial service sector including insurance companies. Only standardized products are sold through bank channels specific products such as credit card or bank loans. Unit linked products are also being offered by bancassurers. Banks have developed more sophisticated investment products that have more financial content. Accident and health products are being offered by banc assurers

The motives behind bancassurance also vary. For banks, it is a means of product diversification and a 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 product and delivery at doorsteps.

Bancassurance deals with the distribution, legal, monetary behavioral and cultural aspects. 'Assure Banking' is a concept opposite to that of Bancassurance in which the charge of distribution is in the hands of the insurance companies.[2]

Scope Of Bancassurance In India

Present Means To distribute Insurance Product In India

The public sector's monopoly over the insurance sector in India has led to uneven distribution of work, slow work and progress. Reliance on conventional agencies like developmental officers and individual agents has been there for a very long time. There were no efforts made to find out new means in this sector due to the nonexistence of competition and this has become a norm.[3] Strong competition is also visible as result of rapid growth in insurance sector. Thus, more and more

[2]*Supra at* 1.
[3]KRISHNAMURTHY R , 'Blueprint for Success – Bringing bancassurance to India' [2003] 20, 23.

channels would be needed in near future.[4]

Why in India

Through research and statistics, it has become very evident that for economic growth of India, a very strong financial base is needed. A vast network of banks and customers in India may help in the creation of a platform for efficient business in the field of insurance.[5]Startup expense can be avoided because insurance industry is capable of a rapid growth. If a particular share of sales van be pre-arranged for the rural sector, then the concept of Bancassurance can be successful in India[6]. The banks also get considerable commissions.[7]

The committee on Bancassurance submitted its report in the year 2011[8], the conclusion of this report was that a model of Bancassurance is significantly affected by the existence of several banking groups as insurance products and services and promoters. However, a lot of observations have come down to the conclusion that life insurance is a business with an urban bias and the spread of the business is inversely proportional to the population of a rural area.[9]Statistics indicate that life insurance business in India has coverage of about 7% compared to 25% in Singapore and it is 100% in Japan.[10] As per the Malhotra Committee Report[11], India has an insurance market which is largely untapped and the need of the hour is to focus on the rural sector as it forms a major chunk of our population.[12] Lack of awareness amongst the target customers is the main reason for poor coverage in the rural areas.[13] There is an urgent need for the insurers to enter into tie ups and collaboration with other agencies.[14] Development of Bancassurance to its full potential would help in tapping large masses of the population of the rural areas.[15]Bancassurance will prove to be a revolutionary concept and will help in furthering the sale of insurance products with the help of vast banking networks if the problem of penetration in the rural areas is tackled efficiently.[16]

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[4]TAPENSINHA PhD, ' Bancanssurance in India: Who is tying the knot and why'.
[5]SUDHIR KUMAR JAIN, 'Consumer orientation – Insurance products [2012], 27,30.
[6]Ibid.
[7]LALAT K PANI&SUKHAMAYA SWAIN, 'Bancassurance and Indian Banks' [2013]
[8]'Report of the Committee on Bancassurance' (2011) <http://www.irda.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=Creport&mid=12>
[9]RAO, T, ' Life Insurance Business in India: Analysis of Performance' [1999] 2174, 2181.
[10]RANADE AND AHUJA, 'Life Insurance in India: Emerging Issues'[2000] 203, 212.
[11]Malhotra Committee Report, 'Report of the Committee on Reforms in the Insurance Sector' [1994].
[12]SINHA, T, ' Privatization of the Insurance Market in India: From the British Raj to Swaraj, Centre for Risk and Insurance Studies, CSIR Discussion Paper Series [2002].
[13]SATTAIAH, D. and Gunarajan, P. S, 'New Frontiers in Indian Insurance: Rural Insurance, Insurance Chronicle,The ICFAI University Press' [2005], 47,52.
[14]VEERAIAH, P. and Sreenu, I. S, 'Strategies for Improving Rural Insurance Business in India, The Insurance Times' [2005].
[15]AGRAWALA, 'Bancassurance: the Industry Scenario, The ICFAI University Press' [2005].
[16]RAO, T. S. R. K, 'Private Insurers Come of Age, Insurance Chronical, The ICFAI University Press' [2003], 43, 46.

Opening up of the insurance sector has provided multiple opportunities to both the insurance and the banking sector[17] Entry of private players as a result of liberalization will continue to open up new areas for product innovation, alternative distribution channels and the expansion of existing networks. [22]

After 1991, Bancassurance has been very successful in India because of the pivotal role it has played in the distribution of insurance by focusing on small as well as the new consumers. The path paved by bancassurance helps in providing effective costs to the consumer due to an already established banking infrastructure.[18]

The extensive banking infrastructure of India is famous for its credibility, branch recognition as well as rate of profitability in customer operations.[19] After nationalization, it was the priority of the banks to increase credit flow to the agricultural sector as well as small industries of India.[20] The system is catering to the population of the most remote areas also.[21]The RRBs and the public sector banks account for 92% of the entire banking network which is includes of 33,000 rural and 14,000 semi urban branches.[22]

Bancanssurance Models

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. The actual transaction with the prospective client in referral model is done by the staff of the insurance company either at the premise of the bank or elsewhere. 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 is passed on. In fact, a number of banks in India have already resorted to this strategy to begin with. This model would be suitable for almost all types of banks including the RRBs and cooperative banks and even cooperative societies both in rural and urban. There is greater scope in the medium term for this

[17] Bhattacharya, A, 'Bancassurance-Needs and Effects, The Insurance Times' [2004], 27, 36.
[18]BOON, A. AND BANE, 'Polygamous Bancassurance, Insurance Chronical, TheIcfai University Press' [2008], 23.
[19]ARORA, S. S. AND LEACH, J, 'Towards Building an Inclusive Financial Sector: Lessons from South' [2004], 1726, 1730.
[20]RAMACHANDRAN, V. K. AND SWAMINATHAN, M, 'Financial Liberalization and Rural Banking in India. [2004], 1,29.
[21]PATHANIA, K. S. AND SHARMA, M, 'Adoption of Banking Technologies'[2003], 87,91.
[22]SONI. P. AND SINGH, R, 'Insurance Marketing in India: The Critical Success Factors' [2003].

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model. For banks to begin with, resorts to this model and then move on to the other models.[23]

Corporate agency

The other form of non-risk participatory distribution channel is that of' corporate agency', wherein the bank staff is trained to appraise and sell the products to the customers. Here the bank as an institution acts as corporateagent for the insurance products for a fee/ commission. This seems to before viable and appropriate for most of the mid-sized banks in India as also the rate of commission would be relatively higher than the referral arrangement. This, however, is prone to reputational risk of the marketing bank. There are also practical difficulties in the form of professional knowledge about the insurance products. Besides, resistance from staff to handle totally new service/product could not be ruled out. This could, however, be overcome by intensive training to chosen staff packaged with proper incentives in the banks coupled with selling of simple insurance products in the initial stage. 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. Bajaj Allianz stated to have established a growth of 325 per cent during April-September 2004, mainly due to bancassurance strategy and around 40% of its new premiums business (Economic Times, October 8, 2004)[24].Interestingly, even in a developed country like US, banks stated to have preferred to focus on the distribution channel akin to corporate agency rather than underwriting business. Several major US banks including Wells Fargo, Wachovia and BB &T built a large distribution network by acquiring insurance brokerage business. This model of bancassurance worked well in the US, because consumers generally prefer to purchase policies through broker banks that offer a wide range of products from competing insurers (Sigma, 2006).[25]

It has certain disadvantages. Firstly, it risks the bank's reputation. Secondly, the staff must have professional expertise regarding the products. Thirdly, because of the products being new, the staff also refuses to go along.[26] Exhaustive training for the staff can help in making this model the best model for the banks because the burden of investment in infrastructural facilities and risk sharing is not there and it is also a very good source of profits. For instance, a massive growth of 325% in the

[23]A. KARUNAGARAN, 'Bancassurance: A Feasible Strategy for Banks in India?' [2006].
[24]TapenSinha, S. 2002, " Privatisation of the Insurance Market In India: From the British Raj to Monopoly Raj To Swaraj", CRIS, June, Vol. XXXI, PP.45-87.
[25]Krishnamurthy, R. 2001, "Bancassurance in Insurance Distribution- Key Issues In The Indian Context", FICCI Seminar, October, Vol. 27, PP. 51-53.
[26]Ibid.

year 2004 was registered by Bajaj Allianz in 2004. Even, USA has preferred this model.[27]

Fully integrated financial service

Apart from the above two, the fully integrated financial service involves much more comprehensive and intricate relationship between insurer and bank, where the bank functions as fully universal in its operation and selling of insurance products is just one more function within. Where banks will have a counter within to sell/market the insurance products as an internal part of its rest of the activities. This includes banks having wholly owned insurance subsidiaries with or without foreign participation. In Indian case, ICICI bank and HDFC banks in private sector and State Bank of India in the public sector, have already taken a lead in resorting to this type of bancassurance model and have acquired sizeable share in the insurance market, also made a big stride within a short span of time. The great advantage of this strategy being that the bank could make use of its full potential to reap the benefit of synergy and therefore the economies of scope. This may be suitable to relatively larger banks with sound financials and has better infrastructure. Internationally, the fully integrated bancassurance have demonstrated superior performance.[28]Even if the banking company forms as a subsidiary and insurance company being a holding company, this could be classified under this category, so long as the bank is selling the insurance products alongside the usual banking services.

For Insurers based on the business strategy and the number of tie-ups, the contribution of bancassurance in India varies. The bancassurance has emerged as a very important channel for distributing Insurance products. The bancassurance channel accounts for about 35 percent of the total new premiums collected by the Industry in India.[29] SBI Life Insurance Company and Life Insurance of India are the two major players with nearly a two third or more of their premiums coming from the bancassurance segment.

For SBI Life Insurance Company, bancassurance continues to be an important distribution channel and it currently contributes about 69 percent of their business. Out of the new business premium of Rs.482 crore, during the year 2004-05, the company could achieve 67 percent of this business through bancassurance. The SBI Life Insurance could manage the same level of business through bancassurance even during the financial year 2008 – 2009.

Life insurance Corporation of India accounts for the major share of the life insurance business in India. The Corporation still depends considerably on individual agents and the business through the

[27] 'Bancassurance growth lifts Bajaj Allianz to No. 3 spot' *Business Standard,* (October 8, 2004) Bancassurance: Taking the Lead' *Financial Express* (January 1, 2006).

[28]Rajmohan, S. 2008, "Bancassurance in Emerging Markets –Building Perspective Partnerships",Insurance Chronicle, Vol. XXVI, PP. 23-31.

[29]BalaKrishna,P. 2001," Banks Get Into Insurance, Indian Infrastructure", ICFAI PRESS, March, Vol. 3, PP. 21- 25.

banc assurance channel is very limited or even negligible (1 percent) in relation to the overall business.[30]

Regulatory Authorities-Rules

The Banking and Insurance sectors are regulated by two different entities in India: -

i. Banking sector is regulated by Reserve Bank of India; and
ii. Insurance Sector is regulated by the Insurance Regulatory and Development Authority

In India, the Government of India through its Notification dated August 3, 2000, specified 'Insurance' as a permissible form of business that could be undertaken by banks under section 6(1)(o) of the Banking Regulation Act, 1949. The notification declared that any bank intending to undertake insurance business has to follow guidelines issued under the master circular set out in Annex-3 of the said circular. In addition, the bank has to obtain prior approval of Reserve Bank of India before entering such a business. Paragraph 12 of the said master circular provides the further formalities to be followed by the bank. Further, the circular provides 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 certain conditions.

The Reserve Bank of India that is the regulatory authority of banks has made a list of rules that guide banks as to how they should enter the business of insurance. In the year 1999, the Governor of the Reserve Bank of India expressed the need to make the amendments to the existing laws in the absence of legislations like the Banking Regulation Act. The banks are allowed to undertake businesses of any kind provided that they notify the central bank about it as per Section 6(1)[31] of the Banking Regulation Act.[32]

In 2000, The RBI issued certain guidelines to all the financial institutions in this regard.[33]

1. Scheduled commercial banks along with their subsidiaries can enter into the business of insurance acting as agent of insurance companies on compensation.
2. The eligible banks can start a joint venture company through which they can enter

[30]Reserve Bank of India ,2000, "Insurance and Banking Issuea Of Overlap, report on Trend and Progress of Banking in India" Reserve Bank Of India Publication, April, Vol. 3 No. 3, PP 68-91.
[31] Section 6(1), Banking Regulation Act, 1949
[32] www.rbi.org.in
[33]Scope for the Bancassurance in Indian life insurance sector an analytical approach'(2012) <http://www.academia.edu/3812519/> accessed on 29/03/2017 at 4:18 PM.

the insurance business. Only 50% of the paid-up capital can be taken up as equity contribution for the purpose of setting up an insurance company by the company set up by joint venture.

3. The eligibility criteria are:

(1) The bank/financial institution should have a net worth of not be less than 5 billion Rs. (2) The bank/financial institution has to maintain a capital adequacy ratio of not less than 10%. (3) The bank/financial institution has to show a minimum of three continuous years of profits. (4) The Nonperforming Assets of the bank/ financial institution should be at least 1% below the average of the industry. (5) The existing subsidiaries of the bank/financial institutions should show a satisfactory track record of performance.[34]

4. Generally, subsidiaries companies are not allowed to enter the business of insurance.

5. If a bank is ineligible for being a participant in a joint venture, then they have to make an investment of 50 crores or 10% of the net worth of the bank, whichever is lower. Such participation does not involve any contingent liability for the bank and is considered as an investment.

Recognition was given to the relationship that existed between the insurance markets and the banks by the Reserve Bank of India and it gave acknowledgement to the concept of Bancassurance in the year 2001 in its Report on Currency and Finance. The Reserve Bank of India put forth its views by the identification of three routes through which banks can enter into the insurance business.[35] They are:[36]

(i) Free insurance-based services provided without any risk.

(ii) Providing infrastructure and services support b making an investment in an insurance company for and;

(iii) Establishment of a separate joint-venture insurance company which does not involve any risk factors.

However, certain risks can be encountered in third way because of which there is a requirement of strict compliance with entry norms that are rigid in nature. The respective regulatory authorities set

[34] Draft Guidelines for diversification into Insurance business by banks/financial institutions, Reserve Bank of India, Circular, January 10, 2000.
[35] Report On Currency And Finance 2009-12 Fiscal-Monetary Coordination' (n.d.) <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RCF040313_F0912.pdf> accessed on 31/03/2017 at 11:16 PM.
[36] Circular Number DNBS.(PD).CC.No.13 /02.01/99-2000, Reserve Bank of India.

up these norms. There is a reduction in the chances of any overlap between these authorities as this a separate joint venture company. A distance has to be maintained between the insurance functions and the banking business. The regulatory authorities direct the manner in which this company has to perform.[37]

The master circular provides three options for banks to enter the insurance Sector. They are as follows: -

Permission with Risk participation – A bank which wishes to undertake insurance business can be permitted provided joint ventures must be allowed for financially strong banks with risk participation. Provided that such bank further satisfies the following conditions: -

i. The minimum net worth of the bank must not be less than Rs.500 crore.
ii. The minimum level of Capital Adequacy Ratio must not be less than 10% in the bank.
iii. Non-Performing Assets (NPA) should be reasonable in the bank.
iv. The bank should have been earning a net profit continuously for last three years.
v. In case of any subsidiary, the performance of subsidiary should be satisfactory. For example in India, ICICI Bank and HDFC Bank in private sector and State Bank of India in the public sector has taken its shape by following this model. The main benefit of this model is that the foreign insurance company can enter into the Indian market through a joint venture.

i. **Permission without Risk Participation** – A bank which is not eligible for joint venture participation can make investment unto

a. 10% of the net worth of bank or

b. Rs.50 crores, whichever is lower, in the insurance company for providing infrastructure services support. Such participation is treated as investment and does not hold any contingent liability of the bank.

ii. **Referral Model** – This model of Bancassurance India is regulated by Insurance Regulatory and Development Authority (Sharing of Database for Distribution of Insurance Products) Regulations, 2010. Any commercial bank can undertake insurance business as an agent of insurance company on fee basis. The bank does not participate in risk under this category. This is also known as referral model. In this model, a 'referral arrangement' is done between 'referral company' and insurer for selling of insurance products. The referral company only shares the database of its customers and does not directly indulge in soliciting or selling of insurance product

[37] Circular Number DBS.FID No.C-8 /01.02.00/2001-02, Reserve Bank of India.

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through agent or corporate agent or insurance intermediaries. In other words, the actual transaction is done by the staff of the insurance company either at the bank premise or elsewhere. The bank charges only fees or commission for every business from their customers.

Regulating Guidelines Of IRDA

Insurance Regulation and Development Authority Act 1999 provides the entry norms for any new company for operation in insurance sector. Any such new company must have:-

i. Minimum paid up capital of Rs. 100 crores;
ii. Investment of policy holders fund only in India;
iii. Restriction of foreign companies to minority equity holding of 26%.

Recommendations Of Committee Constituted By Irda On Bancassurance

As we have discussed earlier those banks are not allowed to sell insurance products of more than one insurance company. But due to persistent request from the side of various life and general insurance companies from the IRDA led to formation of a seven-member committee in the mid of 2009 to look after the matter. The committee had to submit its report and to examine the desirability for a differential treatment of insurance intermediation by banks under the Bancassurance model consistent with intermediation best practices and modified suitably to meet domestic regulatory requirements. The committee submitted its recommendation on 26th May, 2011.

Following are some of the recommendations of the Committee: - channel and therefore there is need to enact a comprehensive legislation to cover all aspects of the working of the Bancassurance activities.

- Banks should be allowed to tie up with any of the following two sets of insurers: -

a. Two in life insurance sector the committee admitted that at present there is ambiguity on the organization and practices of the Bancassurance.
b. Two in non-life insurance sector excluding health
c. Two in health insurance sector
d. ECGC and AIC.

- Efforts should be made to more use of information technology which would reduce the manpower requirement and would increase more structured, transparent and efficient organization.

- The tenure of the agreement between the banker and insurer is normally one to three years at present. This makes the relationship between the two unstable, therefore the minimum period of the agreement between the banker and the insurer shall not be less than five years. Here, the committee also made a very significant point that the responsibility of servicing of the policies issued already through the bank or subsidiary or special purpose vehicle shall remain with the bancassurance partner even if the tie-up ends and the said partner shall receive the renewal commission on per renewed policy basis. For all this purpose there is need of proforma for memorandum of agreement between bank and insurer with minimum requirement

- As far as inspection and supervision is concerned, the proposed regulation must contain separate provision which empowers IRDA and RBI to inspect any of the Bancassurance partner.

- The regulation must have provisions of maintaining accounts and certification which should be furnished in periodicals returns to the authority. Corporate governance norms regarding disclosure should be complied by the banks treating bancassurance as integral part of bank’s business operation.

- Regulations should made it mandatory that the bank staff be fully trained in handling insurance products so that the sale process is transparent and the policyholder gets full disclosure of the features of the product.

- The committee gave the green light for multiple insurers but only if a bank fulfills all other conditions specified in the committee’s recommendations.

- The Committee recommended abolition of the referral system of bancassurance because it is costlier than corporate agent model. The reason behind the high cost is that the insurer has not only to pay the higher amount of first year premium as referral fee but also has to deploy staff and infrastructure in the bank premises.

Reasons For Banks Entering Into Insurance

1. Competition between banks is rising and interest rates are going down, so an increase in the costs of marketing and administrative expenses is also observed. The scope of profit is also narrow from the conventional banking products. So, it is needed that the banks enter into new businesses which have boosts its productivity effectively.[38] An increase in income in the form of profits and commissions in the business is insured by Bancassurance. There is a reduction in the fixed costs of the bank's business with the spread in business. The staff's productivity can also be enhanced as a variety of services are available to present to the customers.[39]

2. Shifts in the preferences of the consumers are also seen. Instead of medium- and long-term deposits, the consumers prefer insurance products as the return is higher. Entering into life-insurance helps the bank in covering up the reduction in deposits. So, it is more profitable for banks to enter into this area of business.[40]

Benefits

There can be a lot of prospective customers for insurance products from a country like India which has a booming population of 1.2 billion people.[41] The fact that Mediclaim, Overseas and Travel insurance and other such insurance policies are not valued in India can also help in opening up prospects for the banking companies.[42]

Insurance companies also have an option for expansion of business. Both the customers as well as the banks get a chance to improve their functioning.[43]Bancassurance will not carry the stigma that insurance does and will provide for more acceptable banking transactions. Complementary products like home insurance will also be provided by some banks.[44] Health care services will also be benefited by Bancassurance in India as health care facilities are availed by only 2.5 million

[38]WRIGHT CHRIS, DASGUPTASAIBAL. Asiamoney, 'Mixed greetings for bancassurance'[2000], 54, 58.
[39]REVATHY, B, 'Bancassurance, Taking the Lead' [2003] 31.
[40]RANADEAJIT AND AHUJA RAJEEV, 'Life Insurance in India: Emerging Issues' [1999], 23, 29.
[41]KALYANI, K NITYA, 'Fast track for Insurance' [2003], 17, 18.
[42]SWAROOPDEBASISHSATHYA, 'Efficiency Performance in Indian Banking: Use of Data Envelopment Analysis' [2006], 325, 333.
[43] Ibid.
[44]MALPANISUDARSHAN, 'Many Roads to bancassurance' [2004]. structure.[44]

people in India. The productivity of the employees can be increased as the loss in profits because of competition is compensated with the help of the fee based

From The Viewpoint Of Bankers

Bankers have the power and structure to relate to the customers'needs. This will enable them to enter in the area of bancassurance. In asituation of constant asset base, the bank can increase return on Assets (ROA) by increasing their income, by selling insurance products throughtheir own channel. It can cover operating expenses and make operatingexpensesprofitable by leveraging their distribution and processingcapabilities.The bankers have a branch network to make face to face contact withthe customers and a great deal of trust over the customers. By leveragingthe facilities, the bankers can guess the attitude and diverse needs of thecustomers and could change the face of insurance distribution to personalline insurance.Banks enjoy significant brand awareness within their geographicalregion providing for a lower per head cost[45]

The advantage of a bank overthe traditional distributors of insurance is the lower cost per sales head,which is made possible by their sizeable loyal customer base. Banks haveextensive experience in marketing to both existing customers and non-customers. They also use technology access multiple communicationchannels such as statement inserts, direct mail, ATMS, telemarketing etc. forthe improvement in transaction processing and customer service.[46]

Bancassurance offers advantages to bankers bycreating a universal banking platformby offering a wider financial services package and positioning the Bank as a one-stop shop for all financial and protectionneeds of customers. With customers getting more financially discerning innature, a wider product offering is critical for creating customer loyalty.Bancassurance also offers a good opportunity to increase the Bank'sshare of the customer's wallet through insurance cross sell. Banks may also be able to garner fresh banking business by using insurance as a sellinghook. Bancassurance enables a Bank to satisfy the risk protection needs ofits clients without assuming the underwriting of risk.Building an expensive distribution network is a major drain on the bottom-line of a Bank. It is critical that these distribution points areoptimized by selling a larger range of products, including Insurance products. The selling of insurance products provides bank employees withnew challenges and enhanced skills, thus improving efficiency. Banks can leverage their existing customer service andoperations, infrastructure and

[45]Berman, P. 1996, "Rethinking Health Care Systems: Private Health Care Provision in India.", HarvardSchool of Public Health Working Paper, November, PP. 62-64.
[46]Mitra, Sumit,D. and H.Nayak, Shilpa, 2001,"Coming to Life.", India Today, May 7, PP 12-13.

expertise to effectively service insurancerelated processes as well.

From the view point of Insurer

The insurer can increase their volume of business through bankingdistribution channel and gain better. Thepresence ofabank partnership brings about distribution diversification and places less reliance ontraditional revenue streams generated from the agency distribution channel.It can solve the difficulties arising out of price competition which has drivendown the margins and increased the compensation demand of successfulagents. Bank partnerships provide a geographical reach to the insurerthrough the bank's existing network without significant investment ininfrastructure. In India specifically, the costs of network development infar-flung areas would be prohibitive, and Bancassurance offers an idealsolution to this problem.[47]

Banks have warm customer bases, which expect the banks to sellother financial products to them. Conversion rates of bank customers areexpected to be higher than in alternate sales channels[48]. Through agents, theinsurer can only sell fewer and large policies to a more upscale client. Themiddleclass income holders who comprise the bulk of bank customers getvery little attention from the agents. By using bank channel, the insurer cancapture much of its underserved market[49]. Banks possess financial and life stage information of customers,which assists greatly in identifying and filling financial need gaps anddeveloping specially packaged products targeted at satisfying specificcustomer needs. By cutting cost, insurer can serve better to the customers interms lower premium rate and better risk coverage through productdiversification. Insurance companies can greatly leverage from the brandawareness and equity of Banks, thus enhancing customers' receptiveness forinsurance products. Co-branding and joint marketing effort can greatlyincrease product recognition and awareness in the mind of the customer.Existing operations and service infrastructure and expertise of banks providean ideal platform to service insurance customers acquired through theBancassurance channel.

From the customers' view point

For customers, Bancassurance provides the convenience of dealingwith one financial institution for all financial needs. In an environmentwhere most adult family members are working and leisure time is at a premium, customers are even willing to pay more for a one-stop shop. Further, owing to

[47] Roy, A. 1997, "Pension fund business in India.", The Hindu ,July 16, PP. 25.
[48] Sinha, Tapen.R and D.Sinha, Dipendra, 1997, "A Comparison of Development Prospects in India andChina.", Asian Economies,Vol. 27(2), June, PP. 5-31.
[49] Business Today. 2000,"The Monitory Group Study on Insurance I and II." , March 22 and April 7, PP.11-12.

the customers' affinity towards the Bank, provision ofinsurance through the bank offers a more credible solution. Customers also benefit from service convergence between the Bank and insurer through acommon service point. Product innovation and distribution activities aredirected towards the satisfaction of the needs of the customer.Bancassurance model assists customers in terms of reduced price, diversified products, quality products and in time and doorstep service.

Challenge

Differences in the business approach and thinking of the bank managers and insurer can exist because of their cultural differences which will ultimately lead to problems in communication and execution issues.[50] These differences are to be comprehended for success in the venture of bancassurance. Issues like delay in the claim settlement, vague and confusing language can have an adverse effect both on the policyholder's faith and the market image of the company[51]

In India, banks generally face two main problems. Firstly, a lot of bad loans exist.[52] However, this is not a very serious issue as the government infused a large amount of money in the system which sustained for a considerable period of time following the aftermath of the 1991-92 crises. Secondly, overstaffing in the banks exist.[53] Many international organizations and committees have focused on this problem.[54]

The difference in working style and culture of the banks and insurance sector needs greater appreciation. Insurance is a 'business of solicitation' unlike a typical banking service, it requires great drive to 'sell/ market' the insurance products. It should, however, be recognized that 'bancassurance' is not simply about selling insurance but about changing the mindset of a bank. Moreover, in India since the majority of the banking sector is in public sector and which has been widely disparaged for the lethargic attitude and poor quality of customer service, it needs to refurbish the blemished image. Else, the bancassurance would be difficult to succeed in these banks.

Studies have revealed that the basic attitudinal incompatibility on the part of employees of banks and insurance companies and the perception of customers about the poor quality of banks had led to

[50] KUMAR M, 'Marketing and Distribution Channels in Bancassurance, [2004], 33, 39.
[51] QAISER R, 'General Insurance Policy Wordings: Issues and Concerns in Liberalized De-tariff Regime,[2002], 18, 20.
[52] ARTIKIS, P. G., MUTENGA, S. AND STAIKOURAS, S. K, 'A Practical Approach to Blend Insurance in the Banking Network' [2008], 106, 124.
[53] Ibid.
[54] MAJI, S. G. AND DEY, S, 'Bancassurance: An Indian Scenario' [2003], 21, 25.

failures of bancassurance even in some of the Latin American countries. There are also hitches in the system of bancassurance strategy in the form of 'conflict of interests', as 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. In case the bancassurance is fully integrated with that of the banking institution, it is suitable only for larger banks, however, it has other allied issues such as putting in place 'proper risk management techniques' relating to the insurance business, and the like. 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.

Moreover, insurance products have become increasingly complex over a period of time, due to improvisation over the existing products as well as due to constant innovation of new products, emanating from the excessive competition adding to even more difficulties in comprehension of the products and marketing by the bank staff. These can result in resistance to change and leading to problems relating to industrial relations. Unlike, 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 spillover effect even on their regular banking business. Bankers in India are extremely naïve in insurance products as there were no occasions in the past for the bankers to deal in 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.

Conclusion

It has been mostly observed that Bancassurance is a successful method when backed by a relevant legislation. Now, it is spreading steadily throughout Asia giving birth to the concept of 'Universal Banking'. The major role in its success in India has been played by the banker-consumer relationship. The regulatory authorities have a very vital role to play in their success and failure i.e., how coordination execution of policies is being done by them. If it continues to grow at its current pace, it will no longer be an exception and become and accepted norm. The major resistance that exists can be done away only with the provision of satisfactory incentives and by proper training of the staff.

Where legislation has allowed, bancassurance has mostly been a phenomenal success and, although slow to gain pace, is now taking off across Asia, especially now that banks are starting to become more diverse financial institutions, and the concept of universal banking is being accepted. In India, the signs of initial success are already there despite the fact that it is a completely new phenomenon. The factors and principles of why it is a success elsewhere exist in India, and there is no doubt that banks are set to become a significant distributor of insurance related products and services in the years to come.

India has a potential market for insurance companies particularly in rural areas. Setting up a network and creating infrastructure for doing business attracts a huge investment by the insurance companies. Bancassurance is a better alternative in this area where insurance companies without investing on advertisement, market channels, infrastructure etc. does business. The database shared by the bank in this regard help the insurance companies to target thecustomerseasily.

In addition to it, there are also certain issues which need to be clarified by the authorities such as the jurisdiction and interference of RBI and IRDA. We would rather suggest that there should be a separate regulator for regulating Bancassurance and provide remedy for any grievances. It is very important that insurer and bankers must have a good understanding of each other and proper strategy to capture the opportunity and service for their customers. Finally, we appreciate the concept of Bancassurance and feels it is an efficient and cost-effective measures for the insurance companies.