BANCASSURANCE – AN EMERGING CONCEPT IN INDIA

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INTRODUCTION:

With the globalization and liberalization , the service sector has been witnessing a lot of changes. The life insurance industry in India has been progressing at a rapid pace since opening up of the sector in 2000. The size of the country, a diverse set of people combined with problems of connectivity in rural areas, makes insurance selling in India a very difficult proposition. Life insurance companies require immense distribution strength and tremendous manpower to reach out to such a huge customer base. This distribution will undergo a sea change as various insurance companies are proposing to bring insurance products into the lives of the common man by making them available at the most basic financial point, the local bank branch, through Bancassurance. "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 `Allfinanz' (in German), `Integrated Financial Services' and `Assurebanking'. Banks, with their geographical spread and penetration in terms of customer reach of all segments, have emerged as viable sources for the distribution of insurance products. The ubiquitous agent is no more the only distribution channel today for insurance products.

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. Actually, everybody can be a winner here.

Will it work in India? That can only be answered in the future; the initial action does show that many banks seem to believe that bancassurance will be a big success here. Some foreign and Indian banks -- Stanchart-Grindlays, ABN-Amro, Citibank, HSBC, Bank of Baroda (BoB) and State Bank of India (SBI) -- are hoping to replicate the French success of this insurance-cum-banking model. In India, as elsewhere, banks are seeing margins decline sharply 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 a 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 selling insurance but also changing the mindset of a bank. In addition to acting as distributors, several banks have recognised the potential of insurance in India and have taken equity stakes in insurance companies. However, the evolution of bancassurance as a concept and its practical implementation in various parts of the world, have thrown up a number of opportunities and challenges.

SCOPE FOR BANCASSURANCE IN INDIA:

By now, it has become clear that as economy grows it not only demands stronger and vibrant financial sector but also necessitates provision of more sophisticated and variety of financial and banking products and services. As India is being considered one of the fast developing economies among the emerging market economies, financial sector has also become more 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 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 levels, the need for the other non-banking financial products including insurance, derivatives, etc., are strongly felt. Moreover, as India has already more than 200 million middle class population coupled with vast banking network with largest depositors base, there is greater scope for use of bancassurance.

For instance, as at end March 2005, there were more than 466 lakh bank accounts with scheduled commercial banks. In simple words, it is aptly put that bancassurance has promised to combine insurance companies' competitive edge in the "production" of insurance products with banks' edge in their distribution, through their vast retail networks.

The prospects of bancassurance in India are really bright because of following reasons:

- Indian economy is growing at 9% of growth rate.
- Increasing PPP (purchasing power parity).
- Huge inflow of FDI.
- Expansion of middle income class Indians.
- Huge banking infrastructure across urban, semi urban & rural India.
- BASEL NORM-II (2009).

In 2007, India has 88 scheduled commercial banks (SCBs) - 28 public sector banks (that is with the government of India holding a stake), 29 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 31 foreign banks. Altogether they have a combined network of over 53,000 branches and reach in urban, semi urban & rural areas of nation. There are 70324 bank offices in India and around 16000 people are served by each bank office. It's a huge banking infrastructure and among the best banking network in the world.

Bancassurance if taken in right spirit and implemented properly can be a win-win situation for the all the participants, viz., banks, insurers and the customers.

ADVANTAGES TO BANKS

- Productivity of the employees increases.
- By providing customers with both the services under one roof, they can improve overall customer satisfaction resulting in higher customer retention levels.
- Increase in return on assets by building fee income through the sale of insurance products.
- Can leverage on face-to-face contacts and awareness about the financial conditions of customers to sell insurance products.
- Banks can cross sell insurance products e.g., Term insurance products with loans.

ADVANTAGES TO INSURERS

- Insurers can exploit the banks' wide network of branches for distribution of products. The penetration of banks' branches into the rural areas can be utilized to sell products in those areas.
- Customer database like customers' financial standing, spending habits, investment and purchase capability can be used to customize products and sell accordingly.
- Since banks have already established relationship with customers, conversion ratio of leads to sales is likely to be high. Further, service aspect can also be tackled easily.

ADVANTAGES TO CONSUMERS

- Comprehensive financial advisory services under one roof, i.e., insurance services along with other financial services such as banking, mutual funds, personal loans and so forth.
- Enhanced convenience on the part of the insured.
- Easy access for claims.

BANCASSURANCE : EMERGING TRENDS AND STRATEGIC CHALLENGES

According to a recent Sigma study, bancassurance is on the rise, particularly in emerging markets. Worldwide, insurers have been successfully leveraging bancassurance to gain a foothold in markets with low insurance penetration.

Bancassurance, the provision of insurance services by banks, is an established and growing channel for insurance distribution, though its penetration varies across different markets. Europe has the highest bancassurance penetration rate. In contrast, penetration is lower in North America, partly reflecting regulatory restrictions. In Asia, however, bancassurance is gaining popularity, particularly in China, where restrictions have been eased. The research shows that social and cultural factors, as well as regulatory considerations and product complexity, play a significant role in determining how successful bancassurance is in a particular market.

The outlook for bancassurance remains positive. While development in individual markets will continue to depend heavily on each country's regulatory and business environment, bancassurers could profit from the tendency of governments to privatize health care and pension liabilities. In emerging markets, new entrants have successfully employed bancassurance to compete with incumbent companies. Given the current relatively low bancassurance penetration in emerging markets, bancassurance will likely see further significant development in the coming years.

EMERGING TRENDS

Though bancassurance has traditionally targeted the mass market, bancassurers have begun to finely segment the market, which has resulted in tailor-made products for each segment. The quest for additional growth and the desire to market to specific client segments has in turn led some bancassurers to shift away from using a standardised, single channel sales approach to adopting a multiple channel distribution strategy. Some bancassurers are also beginning to focus exclusively on distribution.

In some markets, face-to-face contact is preferred, which tends to favour bancassurance development. Nevertheless, banks are starting to embrace direct marketing and Internet banking as tools to distribute insurance products. New and emerging channels are becoming increasingly competitive, due to the tangible cost benefits embedded in product pricing or through the appeal of convenience and innovation.

Finally, the marketing of more complex products has also gained ground in some countries, alongside a more dedicated focus on niche client segments and the distribution of non-life products. The drive for product diversification arises as bancassurers realise that over-reliance on certain products may lead to undue volatility in business income. Nevertheless, bancassurers have shown a willingness to expand their product range to include products beyond those related to bank products.

STRATEGIC CHALLENGES:

These developments are expected to challenge traditional bancassurers in the following ways:

1. The shift away from manufacturing to pure distribution requires banks to better align the incentives of different suppliers with their own.
2. Increasing sales of non-life products, to the extent those risks are retained by the banks, require sophisticated products and risk management.
3. The sale of non-life products should be weighted against the higher cost of servicing those policies.
4. Banks will have to be prepared for possible disruptions to client relations arising from more frequent non-life insurance claims.

BANCASSURANCE IN INDIA - A SWOT ANALYSIS

Banks can straightaway leverage their existing capabilities in terms of database and face-to-face contact to market insurance products to generate some income for themselves, which hitherto was not thought of. Huge capital investment will be required to create infrastructure particularly in IT and telecommunications, a call center will have to be created, top professionals of both industries will have to be hired, an R & D cell will need to be created to generate new ideas and products. It is therefore essential to have a SWOT analysis done in the context of bancassurance experiment in India.

STRENGTHS

In a country of more than 1 billion people, sky is the limit for personal lines insurance products. There is a vast untapped potential waiting to be mined particularly for life insurance products. There are more than 900 million lives waiting to be given a life cover (total number of individual life policies sold in 1998-99 was just 91.73 million). There are about 200 million households waiting to be approached for a householder's insurance policy. Millions of people travelling in and out of India can be tapped for Overseas Mediclaim and Travel Insurance policies. After discounting the population below poverty line the middle market segment is the second largest in the world after China. The insurance companies worldwide are eyeing on this, why not we pre-empt this move by doing it ourselves?

Our other strength lies in a huge pool of skilled professionals whether it is banks or insurance companies who may be easily relocated for any bancassurance venture. LIC and GIC both have a good range of personal line products already lined up, therefore R&D efforts to create new products will be minimal in the beginning. Additionally, GIC with 4,200 operating offices and LIC with 2,048 branch offices are almost already omnipresent, which is so essential for the development of any bancassurance project.

WEAKNESSES

The IT culture is unfortunately missing completely in all of the future collaborators, i.e. banks, GIC & LIC. A late awakening seems to have dawned upon but it is a case of too late and too little. Elementary IT requirement like networking (LAN) is not in place even in the headquarters of these institutions, when the need today is of Wide Area Network (WAN) and Vast Area Network (VAN). Internet connection is not available even to the managers of operating offices.

The middle class population that we are eyeing at is today overburdened, first by inflationary pressures on their pockets and then by the tax net. Where is the money left to think of insurance? Fortunately, LIC schemes get IT exemptions but personal line products from GIC (mediclaim already has this benefit) like householder, travel, etc. also need to be given tax exemption to further the cause of insurance and to increase domestic revenue for the country.

Another drawback is the inflexibility of the products, i.e. it cannot be tailor made to the requirements of the customer. For a bancassurance venture to succeed, it is extremely essential to have an in-built flexibility so as to make the product attractive to the customer.

OPPORTUNITIES

Banks' database is enormous even though the goodwill may not be the same as in case of their European counterparts. This database has to be dissected so that various homogeneous groups are churned out in order to position the bancassurance products.

With a good IT infrastructure, this can really do wonders. Other developing economies like Malaysia, Thailand and Singapore have already taken a leap in this direction and they are not doing badly. There is already an atmosphere created in the country for liberalization and there appears to be a political consensus also on the subject. Therefore, the marriage of the two can take the form of merger or acquisition or setting up a joint venture or creating a subsidiary by either party or just the working collaboration between banks and insurance companies.

THREATS

Success of a bancassurance venture requires change in approach, thinking and work culture on the part of everybody involved. Our work force at every level are so well entrenched in their classical way of working that there is a definite threat of resistance to any change that bancassurance may set in. Any relocation to a new company or subsidiary or change from one work to a different kind of work will be resented with vehemence.

Another possible threat may come from non-response from the target customers. This happened in USA in 1980s after the enactment of Garn - St Germaine Act.

A rush of joint ventures took place between banks and insurance companies and all these failed due to the non-response from the target customers. US banks have now again (since late 1990s) turned their attention to insurance mainly life insurance. The investors in the capital may turn their face off in case the rate of return on capital falls short of the existing rate of return on capital. Since banks and insurance companies have major portion of their income coming from the investments, the return from bancassurance must at least match those returns. Also if the unholy alliances are allowed to take place, there will be fierce competition in the market resulting in lower prices and the bancassurance venture may never break-even.

BANCASSURANCE IN INDIA – SOME ISSUES:

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 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 spill over 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.

In view of the above, reorientation of staff in the public sector banks in particular, to be less bureaucratic and more customer friendly would indeed be a challenging task, albeit it is a prerequisite for the success of bancassurance. With the financial reforms and technological revolution embracing the financial system, there has been a great deal of flexibility in the mind set of people to accept change. The problems outlined above need not, however, deter the banking sector to embark on bancassurance as any form of resistance from the bank employees could be tackled by devising an appropriate incentive system commensurate with intensive training to the frontline bank staff.

CONCLUSION:

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.

The success of bancassurance greatly hinges on banks ensuring excellent customers relationship; therefore, banks need to strive towards that direction. Regulators could explore the possibility of allowing banks having tie-up arrangements with more than one insurance company, giving wider choice for the customers. In addition to acting as distributors, banks have recognised the potential of bancassurance in India and will take equity stakes in insurance companies, in the long run. Going by the present pace, bancassurance would turn out to be a norm rather than an exception in future in India. Adequate training coupled with sufficient incentive system could avert the banks' staff resistance if any. In sum, bancassurance strategy would be a 'win-win situation' for all the parties involved - the customer, the insurance companies and the banks.

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