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DEVELOPMENTS IN BANCASSURANCE - INDIAN LIFE INSURANCE INDUSTRY

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Abstract

The opening of insurance sector in the year 2000 has paved the way for entry of private insurance companies in India. With this development, the life insurance industry has witnessed growth and increased competition. Bancassurance has become an important channel of distribution of the insurance products. This concept has its origins in France but has now become popular in different parts of the world. It is made up of two words – bank and assurance. Apart from the traditional and most common distribution channels like online distribution, agency, brokers and direct selling, bancassurance is seen by many as an important channel. Banks in India have a large network including in the remote areas. This has helped the Life insurance companies to get improved geographical reach. Through the development and effective use of this distribution channel, the Life insurance players have been able to target previously untapped markets. For the banks too, it has become an important source of income.

Keywords

Bancassurance, Distribution Channel, Life Insurance, Banks, Developments, Geographical Reach

1. Introduction

Bancassurance refers to the collaboration between the insurance company and the bank in which the banks distribute the insurance products to the bank customers. In simple words, it is a distribution channel whereby the insurer sells its insurance products through the bank. This concept has developed in India over the last 15 years or so. The Insurance sector was opened up in the year 2000. It paved the way for the entry of private insurance companies. Traditionally, the insurance products were sold through the insurance agents. But with competition has become intense and bancassurance as a distribution channel has become popular. In fact, for many of the life insurance companies like SBI life, it has become the primary channel of distribution of insurance products. In India, the banks have a large network of branches even in the remote areas. Therefore, bancassurance channel helps to sell the life insurance products in different parts of the country which was more difficult earlier. The total branches of all the banks in India are more than 112,000 branches.

Table 1: *Branches opened by commercial banks in India during the year 2014-15*

SBI and its associates	809
Nationalized banks	4364
Other Public sector Banks	373
Private sector Banks	1941
Foreign banks	9
Regional rural Banks	916
Local Area banks	15
Total	8427

(Source: https://www.rbi.org.in)

In return, it is an opportunity for the banks to generate income without having to bear risk or go the extra mile. It is a win-win situation for both the life insurance company and the banks. Bhattacharya (2014) stated that bancassurance channel is the most viable channel for marketing the insurance products, partiscularly in the rural areas. Bancassurance has been successful in many European countries like Germany, France, Belgium and Italy. In USA the concept is fairly new, though. This was only after the repeal of The Glass-Steagall Act of 1933. This had earlier prevented the banks for entering into strategic alliances with other financial service providers.

Among all the regions in the world, bancassurance is growing most quickly in Asia. Countries like India, Singapore, Japan and Philippines have witnessed tremendous growth in bancassurance. According to the Swiss Re sigma study, Bancassurance in Asia is set to grow in the next five years and expected to account for about 13% of the life insurance premiums. In India, the bancassurance channel accounts for 15.6% of the industry individual new business premium and 43.6% of the private insurers' new premium.

The principle objectives of the research are:

- To study and analyse the developments in bancassurance in the Indian life insurance industry.
- To make recommendations and analyse the challenges in bancassurance in Indian context.

2. Reasons for Bancassurance

1. Bancassurance is a very effective channel in increasing the insurance penetration if the banks take active interest in marketing such products.

2. Banks have a large network of branches. They have offices in the rural and remote areas of the country. This helps in selling the insurance products to the masses. That is the reason why a prominent insurer like SBI Life has bancassurance as its primary channel of distribution of insurance products.

3. It is a win-win situation for both the insurance company and the bank. Margin for the banks is squeezing because of increased competition in the banking sector. Parida, T (2014) suggested that Bancassurance provides the banks with an opportunity for additional source of income.

4. It increases the insurer's ability to segmentise the markets to support more effective product design and marketing efforts.

5. It lowers the distribution costs.

6. Bancassurance is beneficial to the consumer as it provides a single point to the consumer for his/her different financial needs at affordable cost.

7. Bancassurance can help in the financial inclusion which shall pave the way for greater economic development of India.

8. In India, the banks have more credibility than the insurance companies. Bancassurance can turn out to be a very important distribution channel in this context.

3. Opportunities in Asia – Pacific for insurers

Asia- Pacific region is set for growth in 2015 as can be seen clearly from the chart given below. The growth rates are better than in US and Europe. It will mean that insurance industry in these countries have opportunities and bright prospects. According to the International Monetary

Category	Country/Territory	Real	Real	Short –	Short –	CPI	CPI

Fund (IMF), although Asia-Pacific insurers are likely to face diminishing economic growth in 2015, affecting demand for life and non-life insurance products, nonetheless the overall gross domestic product (GDP) growth is forecasted to be 5.5% in 2015. This rate is well above the anticipated growth in the Europe and USA. It is likely that Asia-Pacific region's continuing appeal to foreign insurers seeking growth opportunities remains strong (Binder & Ngai, 2013).

In the chart below, one can clearly see that India has a projected real GDP growth rate of 6% in 2015, which augurs well for the insurers.

		GDP growth 2014	GDP growth 2015	term interest rate 2014	term interest rate 2015	Inflation 2014	Inflation 2015
Mature	Australia**	2.6%	2.9%	2.5%	2.7%	3.0%	2.0%
	Hong Kong (SAR)***	3.5%	3.6%	0.5%	0.7%	3.8%	3.7%
	Republic of South Korea*	3.0%	3.9%	2.7%	3.5%	2.0%	2.7%
	New Zealand**	3.5%	3.3%	3.5%	3.5%	1.6%	1.3%
	Singapore***	3.9%	4.1%	0.1%	0.2%	3.0%	2.9%
	Taiwan***	2.7%	3.2%	1.9%	1.8%	1.1%	1.3%
Developing	China*	7.3%	7.2%	4.9%	4.5%	3.1%	2.9%
	India*	**5.5%**	**6.0%**	**8.0%**	**8.6%**	**6.0%**	**5.8%**
	Malaysia*	4.8%	4.4%	3.2%	3.7%	2.9%	3.2%
	Thailand*	3.4%	5.6%	2.6%	3.7%	2.5%	2.5%
Emerging	Indonesia*	5.4%	5.9%	7.8%	7.8%	6.3%	5.0%
	Philippines***	6.6%	6.9%	3.8%	6.9%	4.3%	4.0%
	Vietnam*	5.4%	6.4%	7.0%	6.0%	6.5%	6.0%

Table 2: *Asia-Pacific country forecasts*

*Sources: * EY Rapid - Growth Market forecast, July 2014*
*** Organization for Economic Co-operation and Development (OECD) and trading economics*
**** Asian Development Bank, Asian Development Outlook, 2014*

4. India's Life insurance Market

There are presently twenty four (24) life insurance companies operating in India. Life insurance industry has 360 million policies which are expected to increase at a Compounded Annual Growth Rate (CAGR) of about 12-14% over the next five years. This implies that the Indian life insurance industry is one of the biggest in the world. It is expected that the insurable population in India will touch 750 million in 2020. The insurance sector is a huge business opportunity waiting to be tapped.

The table given below outlines the insurance penetration in India and other Asian Countries. Insurance penetration has been measured as a **ratio of premium (in US Dollars) to GDP (in US Dollars)**. As can be seen, the life insurance penetration in 2013 is 3.10% in India. There is a tremendous scope of life insurance in India.

Table 3: *Insurance Penetration in Asian Countries*

(In Percent)

Source: IRDA, Swiss Re, Sigma various volumes

5. Developments in Bancassurance

Table 4: *Channel Wise distribution – New Business*

Countries	**2009**			**2010**			**2011**			**2012**			**2013**		
	Total	Life	Non - Life	Total	Life	Non - Life	Total	Life	Non - Life	Total	Life	Non - Life	Total	Life	Non - Life
Asian Countries															
Hong Kong	11.00	9.60	1.40	11.40	10.10	1.40	11.40	10.10	1.40	12.44	11.02	1.42	13.20	11.70	1.50
India	**5.20**	**4.60**	**0.60**	**5.10**	**4.40**	**0.70**	**4.10**	**3.40**	**0.70**	**3.96**	**3.17**	**0.78**	**3.90**	**3.10**	**0.80**
Japan	9.90	7.80	2.10	10.10	8.00	2.10	11.00	8.80	2.20	11.44	9.17	2.27	11.10	8.80	2.30
Malaysia	4.40	2.90	1.50	4.80	3.20	1.60	5.10	3.30	1.80	4.80	3.08	1.72	4.80	3.20	1.70
Pakistan	0.70	0.30	0.40	0.70	0.30	0.30	0.70	0.40	0.30	0.71	0.43	0.28	0.70	0.50	0.30
PR China	3.40	2.30	1.10	3.80	2.50	1.30	3.00	1.80	1.20	2.96	1.70	1.26	3.00	1.26	1.40
Singapore	6.80	5.10	1.70	6.10	4.60	1.60	5.90	4.30	1.50	6.03	4.43	1.60	5.90	4.40	1.60
South Korea	10.40	6.50	3.90	11.20	7.00	4.20	11.60	7.00	4.60	12.12	6.87	5.25	11.90	7.50	4.40
Sri Lanka	1.40	0.60	0.90	1.40	0.60	0.90	1.20	0.60	0.60	1.20	0.54	0.66	1.10	0.50	0.60
Taiwan	16.80	13.80	3.00	18.40	15.40	3.00	17.00	13.90	3.10	18.19	15.03	3.16	17.60	14.50	3.10
Thailand	4.00	2.40	1.60	4.30	2.60	1.70	4.40	2.70	1.70	5.02	2.95	2.07	5.50	3.80	1.70
World	7.00	4.00	3.00	6.90	4.00	2.90	6.60	3.80	2.80	6.50	3.69	2.81	6.30	3.50	2.80

Particulars	Remarks	Unit (INR)	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Channel Wise – New Business (Amount of premium) Individual plus Group										
Individual agents	FY	Crore	54611	67611	56884	68906	68094	53113	49761	48831
Corporate agents - banks	FY	Crore	3690	6822	7307	9288	12391	12811	12154	11327
Corporate agents - others	FY	Crore	1829	3508	3511	3912	3277	2322	1663	1252
Brokers	FY	Crore	363	573	857	1476	1686	1460	1288	1267
Direct Selling	FY	Crore	13847	15174	18340	28662	40886	44163	42380	57478

Referrals	FY	Crore	1258	2347	2731	2610	875	35	21	20
Channel Wise – New Business (No. of lives covered) Individual plus Group										
Individual agents	FY	In Lakhs	423	500	463	540	450	478	510	484
Corporate agents - banks	FY	In Lakhs	29	35	41	33	66	48	52	56
Corporate agents - others	FY	In Lakhs	18	33	33	104	97	27	74	53
Brokers	FY	In Lakhs	8	9	9	54	52	28	27	41
Direct Selling	FY	In Lakhs	175	277	491	609	648	527	560	714
Referrals	FY	In Lakhs	8	14	20	13	9	0.13	0.13	0.13

Source: IRDA Website

As can be seen from the above chart, there has been a substantial increase in the new business as well as the number of lives covered over the years through the banks as distribution channels. Banks have now come to the forefront of distribution of life insurance policies, thereby contributing to the development of life insurers and the economy of the country. In 2013, Bancassurance was at third position in terms of new business generated. Only direct selling and individual agents generated more new business than the bank as a distribution channel. It was a similar case in terms of the lives covered. This implies that bancassurance has a long way to go. At the same time it suggests that more market can be tapped through the use of bancassurance and that its potential is high.

Indians are high savers and most of their savings are locked in the banks including the co-operative banks of the country. These banks are present not only in cities but also in the rural and remote areas. There are more than 100,000 branches of the various banks in the country. Generally, people in India trust the banks and therefore bancassurance can bring positive results for the life insurers.

Traditionally, bancassurance was targeting the mass market. However, nowadays, it is focusing on segments and providing tailor made policies for each of these segments. There is more desire to market to specific client segments keeping in mind the great potential of this channel of distribution.

In some markets, the face-to-face contact has been preferred. However, the banks are embracing other ways like internet marketing to distribute the 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.

It is believed that the prospects for increased consolidation between banking and insurance is more likely dominated and derived by the marketing innovations that are likely to follow from financial service modernization. Such innovations would include cross selling of banking, insurance, and brokerage products and services; the increased use of the Internet by consumers; and a melding of insurance and banking corporate cultures. The banks are also realising the importance of product diversification and offering diversified and innovative products to the customers in the wake of increasing competition.

Alternative channels of distribution like direct mail have not met with much success. Therefore, a change in approach is called for. The banks and the insurance companies are combining their expertise to market the life insurance policies. Life insurance, as we know, is a long term contract and requires the genuineness and belief of the organizations. Banks definitely score better in this regard because the general public in India has more faith in the banks compared to the other financial providers.

Banks are more inclined to distribute the life insurance policies as it results in increased Return on assets (ROA) for them. It helps the banks in increasing their fees income through the sale of insurance products. The banks in India have also realised that they incur lower cost per sales lead which is made possible by their sizable, loyal customer base. Further, The ratio of expenses to premiums called the expenses ratio, an important efficiency factor is extremely low in the insurance activities through bancassurance. This is because the bank and the insurance company is benefiting from the same distribution channels and people.

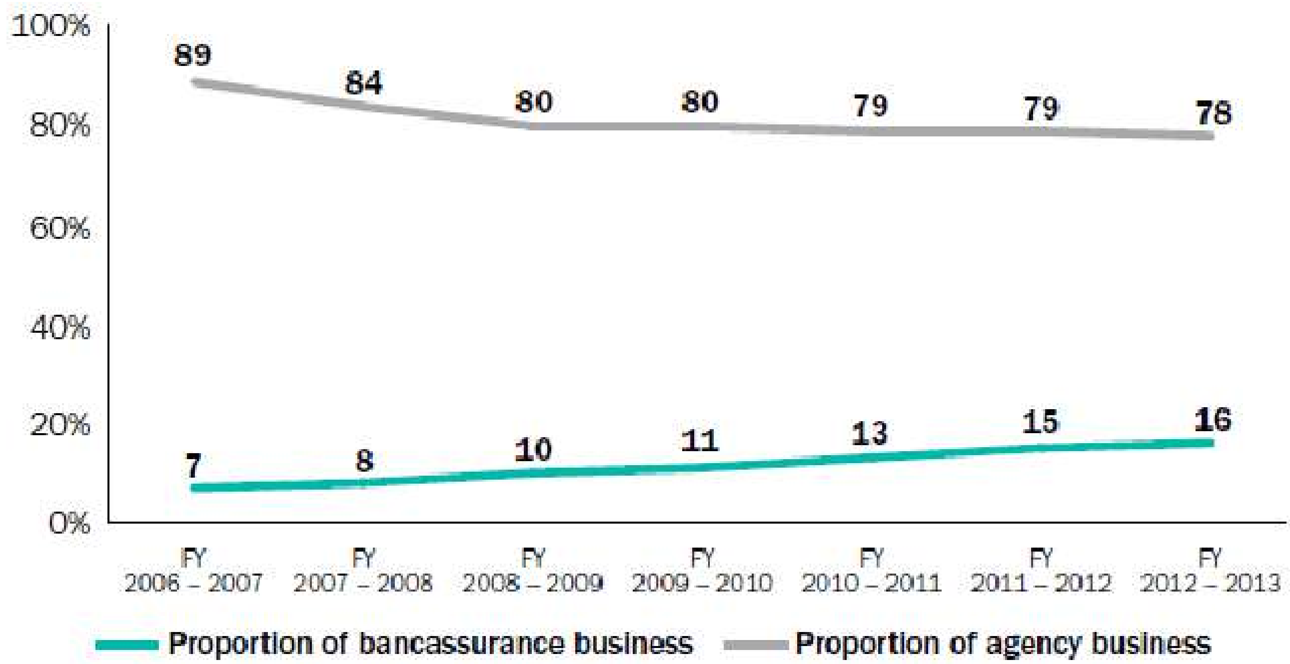
Presently, the private life insurers are using this channel heavily. They should also try to tap the rural markets effectively. Life Insurance Corporation of India should also do a lot of work through the use of this channel more effectively. Channels like Direct Marketing and corporate agency have not been successful. Therefore, bancassurance should be used adequately by the life insurers to insure greater number of lives in the country. The new IRDA regulations give the banks enough flexibility in bancassurance operation. The banks need not remain tied with a single insurer now. Rather they can act as a broker or corporate agent of multiple life insurers. This can well be an advantage to the public banks in India who have a wide network of branches. The regulation further gives the bank permission to tie up with an insurer in not more than 20 locations and not less than 10 locations.

The banks in India should sensitize their staff that bancassurance arrangements will increase the bottom line of the bank which shall benefit the employees and shareholders ultimately. They should explain that banks like SBI and ICICI are benefiting from this arrangement. The banks should train their staff about life insurance products and its distribution. Banks are offering space in their premises for the insurance staff and also providing the databases access of their clients. This will give impetus to the growth of Life insurance in India.

Health insurance products are very useful for almost all of the customers of the bank. Almost 98% of the Indians spend from their pockets to pay for medical bills. The banks can use this opportunity to convince the customers of buying health insurance plans. The tied agents have not been able to sell these products to the extent desired by the life insurers. Bancassurance can be a good channel for selling the health insurance policies to the banks' customers.

The growth of GDP and per capital income is altering the income distribution in India. The income of Indians is rising in rural areas and there is unmet need for long term savings products and a preference for life insurance over other products. (Mckinsey India insights, 2015). According to this Mckinsey report, life insurers should use bancassurance for insuring more of the insurable population. It suggests using insurance to market distinct consumer segments like 'rising affluent', 'growing middle class' and 'newly emerging bankable classes.

The following figure depicts the increasing proportion of bancassurance vis-à-vis the agency business.



Source: IRDA annual reports

Figure 1: *Proportion of bancassurance business vis-à-vis agency business*

The industry channel mix is skewed in favour of the LICI, which accounted for nearly two-thirds of the individual new life insurance premium in 2013-14.

6. Challenges

- Many customers do not understand the concept of bancassurance in India. They have an opinion that the banks just want to sell the products to increase their revenues.
- The staff at the banks is not adequately trained to handle the insurance queries of the customers. Life insurance, particularly, is a long term contract which may last for 20 years or more. The customer is apprehensive unless the staff are able to satisfy and clear their doubts adequately.
- There is a lack of brochures, posters and communication about bancassurance to the prospective customers.
- There is a lack of interest and motivation amongst the bank staff to promote bancassurance.
- The banks are not prepared to offer group insurance products. More needs to be done in this regard.

- Banks in India are offering a more transactional platform rather than an advisory platform, which must change now.
- Banks may suffer a reputational risk in as the clients may misconstrue the life insurance products being offered as a guarantee by the bank. The banks should educate the customer in this regard and should not mis-sell the products.

7. Recommendations

- Banks should modify themselves from being merely a transaction platform to an advisory platform. That would effectively mean that banks would have to effectively take customer complaints directly and be more accountable for mis-selling.
- Bank staff should be explained that the bank can improve its bottom line through the bancassurance distribution. It will benefit the staff as well as the shareholders. This may encourage the staff to promote bancassurance.
- Banking staff should be better trained and at all times there should be a few insurance professionals at the bank to guide them for any issues. Insurance is a field of study in itself and is different from banking, Hence, banking staff cannot handle the intricacies of life insurance unless well trained and supported.
- The bancassurance channel is being used for selling the insurance products. Insurance companies and their banking partners should devise strategies and make the insurance products more marketable and useful to the bank customers.
- As there are a large number of people who are uninsured, the life insurance industry needs to innovate simple and standardized products which could be marketed to the prospective customers.
- The banks are selling more of the investment linked savings products with a low life insurance cover. This has to change where the banks should also focus more on term and whole life insurance plans.

8. Conclusion

Drucker (1973) stated that “The aim of marketing is to make selling superfluous. The aim is to know and understand the customer so well that the product or service sells itself.” This statement given by the great Management Thinker applies aptly to life insurance and bancassurance also. The needs and wants of the customer should be understood and then the life insurance product should be distributed effectively through the bancassurance channel. Bancassurance channel can be very successful if the banks and their staff take keen interest in marketing the life insurance products. Most of the banks in India have low Capital to Risk Weighted Asset Ratio (CRAR). To keep it compliant with Basel-II, the banks have to increase their 'income from other sources'. One of these 'other sources' can well be the life insurance. Banking and life insurance now seem to be two closely linked activities sharing the primary goal of fulfilling the customer need. The bancassurance model is likely to gain market share not only in India but also in the other Asian countries. Bancassurance will succeed when the banks and insurance companies work together, provide better services to the customers and bring innovation to the products. Given India's size and low insurance penetration, it is very likely that this channel will see growth in times to come. Bancassurance will prove effective to both the public and private insurance companies. It will help in increasing the insurance density and insurance penetration. The success of this channel will depend on how well the insurers and banks understand and support each other.

The life insurance products should be marketed from the point of view of high risk cover plans rather than the savings or investment products. The banks and insurance companies can benefit as the former are having a wide network of branches in the country. This will help in bringing more income to the life insurers and banks. It will also help in benefitting the families of life insured and economic development of the country.

World-over, the idea of separation between banking and other financial activities has become redundant. Even the USA, which previously did not confirm to such practices, has started to accept that banking and other financial activities can be linked or collaborated if it is the interest of the organizations and economic development of the country. In developed Asian countries like Japan, Singapore and Taiwan, bancassurance has been a success. The trend is getting towards one-stop-shop, the world over. People now want to purchase the financial products at one place and bank is their number one choice for that. India is also set to benefit more through the bancassurance channel of distribution.

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