



## Trends in Bancassurance and it's Business Model

### KEYWORDS

Bancassurance, Insurance Company, Banking Sector, Insurers, Customer, Joint Venture

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### ABSTRACT

The growing global insurance industry has brought new channels of distribution into existence, leading to a new concept called Bancassurance. Nowadays banks have started increasing their business to securities and insurance and other sectors by adding new range of products. Bancassurance, one such concept, has gained recognition in the recent years. The growth of bancassurance depends on how well banks and insurance companies are able to conquer the operational challenges that are frequently thrown at them. Banks aims at a comprehensive Bancassurance Management with Core Banking platform ie; ease of premium payments using Auto Debit Cards, Net Banking, collection agencies etc. The present empirical based study was conducted with an objective to examine the recent trends of bancassurance and also to examine the issues and problems of bancassurance.

### Definition of Bancassurance

Bancassurance or Bank Insurance Model refers to the distribution of the insurance and related financial products by the Banks whose main business is NOT insurance. So, simply Bancassurance, i.e., banc + assurance, refers to banks selling the insurance products.

Bancassurance term first appeared in France in 1980, to define the sale of insurance products through banks' distribution channels.

### Bancassurance Across the World

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, Italy, Belgium and Luxembourg. The concept of bancassurance is relatively new in the USA. Bancassurance growth is different with different countries.

The Glass-Steagall Act of 1933 prevented the banks of the USA from entering into alliance with different financial services providers, thereby putting a barrier on bancassurance. As a result of this life insurance was primarily sold through individual agents, who focused on wealthier individuals, leading to a majority of the American middle class households being under-insured.

With the US Government repealing the Act in 1999, the concept of bancassurance started gaining grounds in the USA also.

### Bancassurance in India

There was a time in the past when insurance policies were meant for a small part of public who were financially strong. Today the scenario has completely changed where in insurance policies reach every person in almost every corner of our nation. This change in the financial horizon was ushered in with the birth of bancassurance in India. Banks which were meant for deposits, loans and transactions are allowed to provide insurance policies to people and this feature of bank is called 'bancassurance'. However to understand how this takes place one would have to

continue reading this article.

### Need for bancassurance in India:-

Researches and present day statistics speak about the need of a well equipped financial structure for a country that helps it to grow economically. The financial resources in the hands of people should be channelized in effective manner so as to increase the returns from the basic financial structure of nation and also the quality of living of people. With growth in number of middle class families in the country, RBI recognized the need of an effective method to make insurance policies reach people of all economic classes in every corner of the nation. Implementing bancassurance in India is one such development that took place towards the cause. The need and subsequent development of bancassurance in India began for the following reasons:

- To improve the channels through which insurance policies are sold/marketted so as to make them reach the hands of common man
- To widen the area of working of banking sector having a network that is spread widely in every part of the nation
- To improve the services of insurance by creating a competitive atmosphere among private insurance companies in the market

### BENEFITS OF BANCASSURANCE TO BANKS AND INSURANCE COMPANIES

- a) The insurance company hopes to attract further business, from both existing and new policyholders, because of the fact that it can offer a wider range of services than before, i.e. it can give its customers access to banking as well as to insurance services. It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank.
- b) The economics of the Bancassurance operation may allow the insurer to offer products which are not feasible through the insurer's existing channels. For example, sales costs incurred under existing channels may force premium rates for a product to be uncompetitive, so the product is not sold. The costs via the Bancassurance channel may be low enough to make it feasible.

- c) The insurance company can offer to carry out the administration activities of the bancassurer's business, if for example the bancassurer is a separate company. Combining the bancassurer's business with the other business of the insurer can produce economies of scale in administration costs (including capital expenditure). This in turn allows the insurer to improve profitability and to price future products with narrower margins, which helps to make the insurer's products more competitive.
- d) For both bank and insurer there is a great opportunity to learn and to make improvements in their own operation. Each gets exposure to the other's distinctive management styles, its objectives and measures and the pressures which it can exert and which it feels. The benefit comes when either company can implement changes as a result of the learning process

#### BENEFITS OF BANCASSURANCE TO CUSTOMERS

- a) It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank.
- b) The people who are unaware of and/or are not in reach of insurance policies can be benefitted through widely distributed banking networks and better marketing channels of banks.
- c) Increase in number of providers means increase in competition and hence people can expect better premium rates and better services from bancassurance as compared to traditional insurance companies.

#### Demerits of bancassurance:-

- Data management of an individual customer's identity and contact details may result in the insurance company utilizing the details to market their products, thus compromising on data security.
- There is a possibility of conflict of interest between the other products of bank and insurance policies (like money back policy). This could confuse the customer regarding where he has to invest.
- Better approach and services provided by banks to customer is a hope rather than a fact. This is because many banks in India are known for their bad customer service and this fact turns worse when they are responsible to sell insurance products. Work nature to market insurance products require submissive attitude, which is a point that has to be worked on by many banks in India.

#### Bancassurance companies:-

- SBI life insurance Company
- LIC is tied up with Vijaya bank, Oriental bank of commerce, Corporation bank
- ICICI Lombard
- Barclays – MetLife India
- Axis bank – MetLife India

#### Important Bancassurance tie-ups in India

There are certain tie-up between the Insurance Company & banks are given at present daysthesetie-up are going well, running well & past in the field of Bancassurance.

- 1) LIC: The insurance company LIC of India have tie up with the following bank for Bancassurance. They are: -

- Corporation Bank
- Indian Overseas Bank
- Centurion Bank
- Sahara District Central Co-operative bank

- Janta Urban Co-operative bank
- Yeotmal Mahila Sahakari Bank
- Vijaya Bank &
- Oriental Bank of Commerce

2.)SBI – Life – Insurance Co: The SBI life Insurance Co Ltd is starting & Running its Insurance business with the help of S.B.I.

3.)Bajaj Allianz general Insurance Co. Ltd: In the field of general Insurance the Bajaj Allianz General Insurance Co Ltd., has tie-up with Karur Vysya Bank & Lord Krishna Bank.

4.)Birla Sun life Insurance Co. Ltd: The Birla Sun life Insurance Company has a tie-up with the following bank for the insurance purpose:

- Bank of Rajasthan
- Andhra Bank
- Bank of Muscat
- Development Credit Bank
- Dutch Bank &
- Catholic Syrian Bank

5.)Private life insurer Tata AIA Life and Citibank tie up.

6.) ICICI Lombard in bancassurance tie-up with CSB

Inspite of the above mentioned tie-up with banks. There are many tie-ups for the purpose of bancassurance. Like ICICI Prudential, United India Insurance Co-Ltd. & so on.

#### RBI GUIDELINES FOR BANCASSURANCE

RBI finalises guidelines for banks to enter insurance .They can also act as corporate agents without seeking prior approval from the RBI. However, they will have to comply with IRDA guidelines. Under existing bancassurance guidelines, a bank can act as a corporate agent and sell policy of only one life insurer and one non-life insurance company. Seeking to increase insurance penetration in the country, the Reserve Bank today allowed banks to act as brokers for insurers, set up their own subsidiaries and also undertake referral services for multiple companies. "Banks may undertake insurance agency or broking business departmentally and/or through subsidiary,...," RBI said in the guidelines for entry of banks into insurance business. Under existing bancassurance guidelines, a bank can act as a corporate agent and sell policy of only one life insurer and one non-life insurance company. The new guidelines allow banks to act as brokers permitting them to sell insurance policies of different insurance companies. The guidelines follow an announcement made by the former Finance Minister P Chidambaram in 2013-14 Budget. "Banks will be permitted to act as insurance brokers so that the entire network of banks' branches will be utilised to increase the penetration of insurance," the Budget had said. There are about 87 commercial banks in the country with 1.2 lakh branches across the country. There are 52 insurance companies operating in India; of which 24 are in the life insurance business and 28 are in general insurance business. In addition, GIC is the sole national reinsurer. There has been a long pending demand from the insurance industry to allow banks to act as insurance brokers. Regulator IRDA has already issued guidelines in this respect. According to the RBI guidelines, banks are not allowed to undertake insurance business with risk participation departmentally and may do so only through a subsidiary/JV set up for the purpose. Banks which satisfy the eligibility criteria (as on March 31 of the previous year) may approach RBI

to set up a subsidiary/joint venture company for undertaking insurance business with risk participation, it said. Elaborating on the condition for setting up subsidiary/joint venture company, it said, the net worth of the bank should not be less than Rs 1,000 crore and the CRAR of the bank should not be less than 10 per cent. The level of net non-performing assets should be not more than 3 per cent, it said, adding the bank have made a net profit for the last three continuous years. The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory, it said. "It may be noted that a subsidiary of a bank and another bank will not normally be allowed to contribute to the equity of the insurance company on risk participation basis," it said. For banks undertaking insurance broking through a subsidiary or JV without risk participation, the net worth of the bank should not be less than Rs 500 crore after investing in the equity of such company. "RBI approval would also factor in regulatory and supervisory comfort on various aspects of the bank's functioning such as corporate governance, risk management, etc," it said. For setting up JV, a comprehensive board approved policy regarding undertaking insurance distribution, whether under the agency or the broking model should be formulated and services should be offered to customers in accordance with this policy. The policy will also encompass issues of customer appropriateness and suitability as well as grievance redressal. "It may be noted that as IRDA Guidelines do not permit group entities to take up both corporate agency and broking in the same group even through separate entities, banks or their group entities may undertake either insurance broking or corporate agency business," it said. "It must be ensured that no incentive (cash or non-cash) should be paid to the staff engaged in insurance broking services by the insurance company," it added. Violation of the above instructions will be viewed seriously and will invite deterrent penal action against the banks.

#### Business Model of Bancassurance

For Bancassurance, the Banks need to obtain a prior license from the IRDA or Insurance Regulatory and Development Authority, so that they can work as "Composite Corporate Agent" or may have "Referral Arrangement" with the Insurance Companies. RBI Guidelines: As per the Government of India Notification dated August 3, 2000, specifying '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 RBI, in line with this issued its guidelines for the Bancassurance as follows:

#### Agent Business

- Any scheduled commercial bank would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation.
- The subsidiaries of banks will also be allowed to undertake distribution of insurance product on agency basis.

#### Joint venture

Only the Banks which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The maximum equity contribution such a bank can hold in the joint venture company will normally be 50 per cent of the paid up capital of the insurance company. On a selective basis the Reserve Bank of India may permit a higher equity contribution by a promoter bank initially, pending divestment of equity within the prescribed period:

- The net worth of the bank should not be less than Rs.500 crore;
- The CRAR of the bank should not be less than 10 per cent;
- The level of non-performing assets should be reasonable;
- The bank should have net profit for the last three consecutive years;
- The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

#### JV with Foreign partners

In cases where a foreign partner contributes 26 per cent of the equity with the approval of Insurance Regulatory and Development Authority/Foreign Investment Promotion Board, more than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk, only those banks which satisfy the criteria given above, would be eligible. A subsidiary of a bank or of another bank will not normally be allowed to join the insurance company on risk participation basis. Subsidiaries would include bank subsidiaries undertaking merchant banking, securities, mutual fund, leasing finance, housing finance business, etc.

#### CONCLUSION

The insurance industry in India has been progressing at a rapid speed since the inception of this sector. There is a bright future for bancassurance in the Indian insurance market. Growth rate of insurance income is remarkable in some of the banks so there is very good scope for further development in the selling of bancassurance products by the banks in the long run. We can conclude that bancassurance is gaining recognition in the market

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