



An Analysis of Effectiveness of Bancassurance As A Distribution Channel in India

Dr. M.N. Periasamy	Head & Associate Professor of commerce Department of Commerce Muthyammal College of Arts & Science Rasipuram- 637 408
A. Narmatha	M.Phil Research Scholars, Department of Commerce, Muthyammal College of Arts & Science, Rasipuram- 637 408
E. Ananthi	M.Phil Research Scholars, Department of Commerce, Muthyammal College of Arts & Science, Rasipuram- 637 408

ABSTRACT

Bancassurance, which basically involves banks acting as corporate agents for insurers to distribute insurance products, has evolved as a strong distribution channel in many countries. Following the deregulation of the Indian insurance industry and amendment of the insurance law, Indian banks have been looking towards bancassurance as a logical step in the expansion of their business and have planned to venture into this lucrative segment which has hitherto been dominated by few public sector companies. Similarly, new insurers have also viewed banks as an ideal mechanism to gain distribution power. The present paper is an exploratory study to understand the effectiveness of Bancassurance on three dimensions :

1. The motivating factors behind the Bancassurance
2. Potential benefits of Bancassurance
3. Implementation problems of Bancassurance

Factor analysis used to conclude the findings on one hand has identified greater fee based income, improved profit margins, effective utilization of the resource are the motivators for banks to enter into bancassurance, on the other hand factors such as expansion of the existing market , access to ready client base of banks and encashing the brand name of the banks motivate insurance companies for the same. It also reveals that customers prefer bancassurance to purchase a policy due to more benefits and authenticity. The study concludes that successful bancassurance partnerships in India is due to the fact that by entering into this both parties have win- win proposition since there is nothing to lose.

KEYWORDS

Bancassurance, Effectiveness, Distribution channel.

INTRODUCTION

The process of liberalization of the insurance sector has geared insurers to face stiff competition and pressures. In this regard Government of India has notified major amendments to insurance laws recognizing banks, brokers and other entities like Cooperatives, NGOs and Panchayats as intermediaries who can sell insurance for a commission. The focus of many of the new entrants is to implement multichannel strategies including most significantly Bancassurance.

Bancassurance is a new buzzword. It originated in India in the year 2000. Following the recommendations of First Narasimha Committee, the contemporary financial landscape has been reshaped. Thus, present-day banks have become far more diversified than ever before. Therefore, **their entering into insurance business is only a natural corollary and is fully justified too as 'insurance' is another financial product required by the bank customers.**

MEANING OF BANCASSURANCE

Bancassurance a term coined by combining the two words 'bank' and 'insurance'(in French) –connotes distribution of insurance products through banking channels.

“Bancassurance is the provision of insurance and banking products and services through a common distribution channel and/or to the same client base.”

SIGNIFICANCE OF THE STUDY

In the period of metamorphosis of Indian insurance sector, it is of prime importance that one analyzes the bancassurance

as an intermediary; the motivating factors behind the bancassurance tie up; benefits of bancassurance tie up to all the stakeholders; and the problems associated with the implementation of bancassurance. The present study is an effort in this direction.

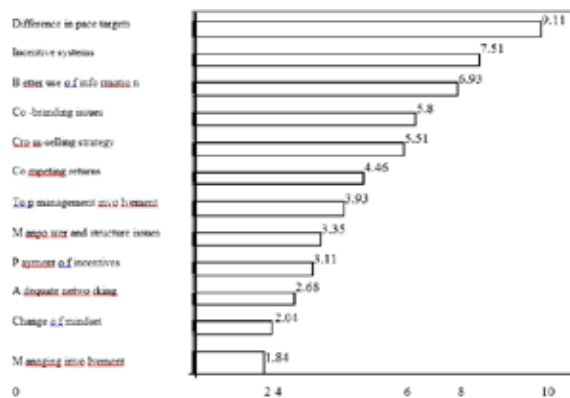
EFFECTIVENESS OF BANCASSURANCE IN INDIA

To measure the effectiveness of bancassurance in India the three sets of structured questionnaires were used, which were administered upon randomly selected 200 customers, 20 respondents from companies and 25 from banks. Each set of questionnaire comprised of statements related to- **(a)The motivating factors behind the bancassurance; (b)Potential benefits of bancassurance; (c)Problems associated with the implementation of bancassurance.** Each section of questionnaire comprised of a number of factors. The respondents were asked to rank the factors in order of their preferences. The highest rank i.e. one was given to the most important and the most preferred statement and the lowest rank was to be attributed to the least preferred statement depending upon the number of statements.

PROBLEMS ASSOCIATED WITH THE IMPLEMENTATION OF BANCASSURANCE IN INDIA

Bancassurance is a new concept in India. It is seen from above discussion that tie-ups between banks and insurance companies are growing successfully in India. But to implement bancassurance properly they are still facing problems. The problems identified in informal discussions were asked to be ranked by the two partners in bancassurance tie-up according to their preferences. These problems have been depicted

graphically in the figure.



PROBLEMS FACED BY BANKS AND INSURANCE COMPANIES IN BANCASSURANCE

COMPANIES IN BANCASSURANCE

PERCEIVED BENEFITS OF BANCASSURANCE

Factor analysis has also been carried out to find the perception and viewpoint regarding the benefits of the bancassurance tie-up. It has been used to identify the important and pertinent characteristics(factor)or features which the bancassurance tie-up have brought to all stakeholders i.e the insurers ,the banks and customers. Exploratory Factor analysis using PCA was carried out for the variables.

FACTOR MATRIX

Factors are combinations of the characteristics which the bancassurance tie-up has brought to all stakeholders in the bancassurance tie-up. Factors are linear equation of the state-

the banks and insurance both tend to lose nothing. So marketing of insurance products and earning an additional income is a blessing for the banks. By deploying the excess staff in marketing of insurance products and to harness their existing customer base , the banks are eyeing partnership as a win- win situation.

THE MOTIVATING FACTORS FOR BANACASSURANCE

Factors Which Motivate Banks for Tie-Up with Insurance Companies

Factors	Rank	Acc	Mean	Std.	Mini.	Maxi.	N Label
			to Mean				
			Dev				
Improved profit margins	I		1.00	.00	1.00	1.00	25
Effective utilization of resources	II		1.52	.714	1.00	3.00	25
Assets securitization by selling insurance products	III		2.00	.957	1.00	4.00	25
Huge pool of professionals	IV		2.60	1.22	2.00	5.00	25
Exploiting The huge base of Customers	V		3.36	.637	3.00	5.00	25
Value addition to their services	VI		4.28	.936	3.00	5.00	25
Greater fee based income	VII		5.16	.800	4.00	6.00	25
Factors Which Motivate Insurance Companies for Bancassurance Tie-Up							

ments (variables) measured during the course of study and account for variance in data as a whole. Each factor is a weighted, linear combination of the two variables analyzed. The best combination makes up the first component and is the first factor. How the factors are correlated with the statements is given by factor loading.

COMMUNALITY AND EIGEN VALUE

Communality indicates the proposition of variance in response to statements which are explained by the two factor. Eigen value are used to indicate how well any given factor fits the data from all the respondents on all of the statements. Each value of above 1or close to 1 are considered best.

The effectiveness of bancassurance from the point of view of banks, companies and customers results from the balancing and summation of many specific importance on the variables in bancassurance over a period of time. Factor analysis of the selected 24 variables of bancassurance resulted in five important factors. The resulted factors are (for banks) **return on assets, resource utilization,**(for insurance companies) **tap the service synergies, maximizing benefits,** (for customers) **customer satisfaction.** All the variables with high communal-ity values indicate that the variables within each factor have very high association among them.

The first factor 'return on assets' accounts for 86.177 %of variance and the Eigen value for this factor is 7.813 which is greater than 1.0 indicating that they best fit the data obtained from the responses, which indicate that the factor contains very high information than other factors. This factor provides the maximum insights of potential benefits of banks in bancassurance**FINDINGS AND ANALYSIS**

THE MOTIVATING FACTORS

There are a number of theoretical reasons as to why banks should enter into the insurance market in India. The following depicts the findings which reveal that the main reason behind the bancassurance partnerships in India has been the fact that

Factors	Rank	Acc	Mean	Std.	Mini.	Maxi.	N Label
			to Mean				
				dev			
To expand the existing market	I		1.15	.366	1.00	2.00	20
To tap the wide pressure of bank branches in urban and rural area	II		1.75	.444	1.00	2.00	20
To reduce The administration and marketing cost of selling Policies	III		2.60	.680	2.00	4.00	20

To gain access to ready client base of banks	IV		3.05	.60	2.00	.963	.979	.108	8.830
Encash the brand name of the banks to increase sales	V		3.40	.502	3.00	.940	.968	.0457	20

Factors	Rank Account Mean	Std. dev.	Min.	Max	N Label
More Benefits	I	1.16	.372	2.00	200
Bank's wide area coverage	II	1.32	.649	3.00	200
e Easy accessibility	III	1.57	.888	4.00	200
Authentic media	IV	2.04	1.22	4.00	200
Multi products	V	2.80	1.25	4.00	200
Loyal customer	VI	5.955	.849	7.00	200

Factors Which Motivate Customers to Purchase a Policy through Banks.

Source : Primary Data

FACTOR LOADING OF POTENTIAL BENEFITS OF BANCASSURANCE VARIABLES AT A GLANCE

Factor (Eigen value) Fact or one	Variables Fact or Two	Com-munality	Factor Load-ing		Variance (%)
FOR-BANKS					
Return on assets (7.813)	Fee based Income	.941	.767	.594	
	Lower Cost/Sales	.952	.967	1.33	
	Assets securitization by Selling Insurance Product	.964	.979	0.088	86.177
	Increase in the size of market	.981	.936	1.324	
Re-source Utilization (.723)	More Profitable resource Utilization	.922	.957	0.08	
	Efficient Utilization of Multiple communication Channel	.945	.876	-.422	
	Use of huge data base	.943	.910	.340	

Value addition to their services	.963	.979	.108	8.830
Services synergies	.940	.968	.0457	20

Tap the Service Synergies	Quicker geographical reach	.964	.911	.367	80.444
	Channel diversification	.862	.737	.565	
	Leverage upon service synergies	.934	.948	.187	
Maximiz-ing Benef-its (.923)	To gain access to ready client base of banks	.938	.966	0.072	11.54
	Resource Utilization of banks	.947	.966	-.114	
	To Reduce the administration and marketing Cost	.911	.937	-1.81	
	Quality of leads	.889	.793	-.510	
	Expansion of market	.913	.888	.352	

FOR CUS-TOMERS				
Factor (Eigen Value)	Val-ue	Com-munality	Factor One	Variance (%)

Customer Satisfaction (6.092)	Product According to customer need	.816	.903	87.035
	Services pre and post	.815	.948	
	Easy accessibility	.898	.917	
	Satisfaction of more financial needs	.841	.919	
	Authentic channel	.845	.963	
	Lower premium	.927	.974	
	Return on investment	.949	-	

CONCLUSI ON:

To conclude, one can say that bancassurance is indeed a win-win situation for all the parties involved- the customer, the insurance companies and the banks. The benefits of such a channel clearly states that it is best suited for distributing insurance products in India. The rural and semi urban areas have till date remained unscathed from this distribution channel. The penetration level of life insurance in the Indian market is abysmally low at 4.8% of GDP. Almost half of the population likely to be in the wage earner bracket by 2014, there is every reason to be optimistic that bancassurance in India will play a long inning.

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