IJBARR
E-ISSN No. 2347 –685X
ISSN 2348 – 0653

BANCASSURANCE IN INDIA- A SWOT ANALYSIS

Dr. D.Rajasekar
Associate Professor,AMET Business School,AMET University,Chennai.
T.Hymavathi Kumari
Research Scholar,AMET University,Chennai.

Abstract
The introduction of Banc assurance has broadened the scope of retail banking. As per IRDA, the major driver of Bancassurance has been the private sector companies both in the bank as well as in the insurance gamut. Cooperative banks and regional rural banks are seen by private insurance companies as a cost-effective vehicle for insurers to tap into rural communities and fulfill their rural sector obligations. There is an immense scope for Bancassurance in India. At this juncture, this paper is to study the bancassurance, its origin scope, need for bancassurance and SWOT analysis of bancassurance in India.

Keywords: Bancassurance, Insurance Penetration, Insurance Density.

Introduction

Bancassurance in its simplest form is “the distribution of insurance products through a bank’s distribution channels”. In concrete terms Bancassurance, which is also known as Allfinanz describes a package of financial services that can fulfill both banking and insurance needs at the same time. "Bancassurance" in French and "All Finanz" (Universal Banking) in German refers to a tie up arrangement of banks with insurance companies for selling the insurance products in life and non life segments as corporate agents for fee based income.

Bancassurance as a concept first began in India when the insurance industry opened up to private participation in December 1999. There are basically four models of bancassurance:

- Distribution alliance between the insurance company and the bank.
- Joint venture between the two companies.
- Mergers between a bank and insurer.
- Bank builds or buys own insurance products.

Origin

Banc assurance has grown in different places in different forms based on the demographic, economic and legislative condition of the country. This concept has been successful in Europe, France (from where it originated), Italy, Belgium and Luxembourg. Bancassurance was not much popular in USA as Steagall Act, 1933 prevented banks of USA from entering into alliance with financial service providers, therefore putting a ban on banc assurance. As a result of this, Life insurance was primarily sold by insurance agents, who focused mainly on wealthier class of people, which lead to majority of American middle class households uninsured. With US government repealing the act, and after the passage of Gramm-Leach Bliley Act, 1999, the concept of Banc assurance started gaining momentum in USA also.

Motives behind Banc assurance

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 is a winner here.

Why should banks enter in insurance?

There are several reasons why banks should seriously consider Bancassurance, the most important of which is increased *return on assets* (ROA).

1. Deregulation of banking industry has given each banking an opportunity to differentiate its products and service and promote its strength and remove its weakness.
2. Technology has enabled the banks to design the innovative products that need to be promoted and marketed.
3. Growing Competition has induced the banks to create niche for itself by giving importance and highlighting the areas of their expertise and excellence.
4. Growth of market segments which provide opportunities for the banks that need to be marketed. For example, banks are offering various financial services in addition to the normal banking services to attract the customers.
5. Banks are expecting to increase its fee based income, overall productivity, customer satisfaction and loyalty by leveraging the branch network, the brand image and clientele base.

Bancassurance Business Models

I Structural Classification

a) Referral Model

Banks intending not to take risk could adopt 'referral model' wherein they merely part with their client data base for business lead of commission. Referral model is nothing but a simple arrangement, wherein the bank, while controlling access to the clients 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 was passed on This model would be suitable for almost all types of banks including the RRBs /cooperative banks and even cooperative societies both in rural and urban.

b) Corporate Agency

The other form of non-sick participatory distribution channel is that of 'Corporate Agency', wherein the bank staff as an institution acts as corporate agent for the insurance product for a fee/commission. 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.

c) Insurance as Fully Integrated Financial Service/ Joint ventures

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. This includes banks having wholly owned insurance subsidiaries with or without foreign participation.

II. Product Based Classification

(a) Stand-alone Insurance Products

In this case bancassurance involves marketing of the insurance products through either referral arrangement or corporate agency without mixing the insurance products with any of the banks' own products/ services. Insurance is sold as one more item in the menu of products offered to the bank's customer, however, the products of banks and insurance will have their respective brands too.

(b) Blend of Insurance with Bank Products

This method aims at blending of insurance products as a 'value addition' while promoting the bank's own products. Thus, banks could sell the insurance products without any additional efforts. In most times, giving insurance cover at a nominal premium/ fee or sometimes without explicit premium does act as an added attraction to sell the bank's own products, e.g., credit card, housing loans, education loans, etc.

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.

Table 1.1, International Comparison of Insurance Density

Countries	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Developed Countries										
US	1602.0	1662.6	1657.5	1692.5	1753.2	1789.5	1922.0	1900.6	1602.6	1498.3
UK	2567.9	2679.4	2617.1	3190.4	3287.1	5139.6	5730.5	5582.1	3527.6	3025.7
France	1268.2	1349.5	1767.9	2150.2	2474.6	2922.5	2728.3	2791.9	2979.8	3251.9
Germany	674.3	736.7	930.4	1021.3	1042.1	1136.1	1234.1	1346.5	1359.7	1390.5
South Korea	763.4	821.9	873.6	1006.8	1210.6	1480.0	1656.6	1347.7	1180.6	1080.7
Japan	2806.4	2783.9	3002.9	3044.0	2956.3	2829.3	2583.9	2869.5	3138.7	3865.8
Developing Countries										
Brazil	10.8	27.2	35.8	45.9	56.8	72.5	95.3	115.4	127.9	139.4
Russia	33.2	23.1	33.9	24.8	6.3	4.0	8.1	5.4	4.50	4.30
Malaysia	129.5	118.7	139.8	167.3	188.0	189.2	221.5	225.9	206.9	198.2
India	9.1	11.7	12.9	15.7	18.30	33.2	40.4	41.2	47.7	52.2
China	12.2	19.2	25.1	27.3	30.5	34.1	44.2	71.7	81.1	93.6
South Africa	377.2	360.5	476.5	545.5	558.3	695.6	719.0	707.0	574.2	498.2
Australia	1040.3	1010.4	1129.3	1285.1	1366.7	1389.0	1674.1	2038.0	1524.8	1328.6

Insurance density is measured as ratio of premium (in US Dollar) to total population

Source: IRDA Annual Reports various issues from 2001-02 to 2010-11

One would clearly observe that the average density is much lesser in comparison to that of developing countries leave aside developed nations.

Table 1.2, International comparison of insurance Penetration

Countries	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Developed Countries										
US	4.40	4.60	4.38	4.22	4.14	4.00	4.20	4.10	3.50	3.10
UK	10.73	10.19	8.62	8.92	8.90	13.10	12.60	12.80	10.00	9.20
France	5.73	5.61	5.99	6.38	7.08	7.90	7.30	6.20	7.20	8.40
Germany	3.00	3.06	3.17	3.11	3.06	3.10	3.10	3.00	3.30	3.50
South Korea	8.69	8.23	6.77	6.75	7.27	7.90	8.20	8.00	6.50	6.20
Japan	8.85	8.64	8.61	8.26	8.32	8.30	7.50	7.60	7.80	8.10
Developing Countries										
Brazil	0.36	1.05	1.28	1.36	1.33	1.30	1.40	1.40	1.60	1.62
Russia	1.55	0.96	1.12	0.61	0.12	0.10	0.10	0.00	0.00	0.00
Malaysia	3.38	2.94	3.29	3.52	3.60	3.20	3.10	2.80	2.90	3.10
India	2.15	2.59	2.26	2.53	2.53	4.10	4.00	4.00	4.60	4.90
China	1.34	2.03	2.30	2.21	1.78	1.70	1.80	2.20	2.30	2.60
South Africa	15.19	15.92	12.96	11.43	10.84	13.00	12.50	12.50	10.00	9.10
Australia	5.70	5.02	4.42	4.17	3.51	3.80	3.80	4.40	3.40	3.10

Insurance penetration is measured as ratio (in per cent) of premium (in US Dollars) to GDP (in USD)

Source: IRDA Annual Reports various issues from 2001-02 to 2010-11

Status of Bancassurance in India

As per IRDA, the major driver of Bancassurance has been the private sector companies both in the bank as well as in the insurance gamut. *Certain Facts from IRDA Annual Report of 2010-11* a) among the various corporate channels, the share of banks in total new business (Life Insurance) underwritten increased from 10.60 per cent in 2009-10 to 13.30 per cent in 2010-11. The figures are

IJBARR
E-ISSN No. 2347 –685X
ISSN 2348 – 0653

for individual life policies. b) During the year 2010-11, bancassurance contributed 11.51 per cent of the total group business of the private insurers. The same was 8.67 per cent during the previous financial year. This fact is for group insurance policies.

1. Total Premium Income & Bancassurance: Premium income is the amount which is earned by insurance company in the form of premium from the policyholders. Total Premium Income is one of the important and main indicators of the performance of the insurance business. The table no. 2 presents the total contribution of Banks in collection of life Insurance premium income. The secondary data of last five years have been used from 2006-07 to 2010-11.

Table 1.3, Total Life Insurance Premium Income and Bancassurance FY (2007-2011)

RS.(In Crores)

	2006-07	2007-08	2008-09	2009-10	2010-11
Total Premium income (Rs. In Crs)	13979.49	14259.83	17370.32	27838.37	43159.21
Banks (%)	326.98	492.69	569.19	599.57	1328.61
Total contribution of Banc assurance in Premium income	2.33	3.46	3.28	2.15	3.08

Source: Computed from IRDA Annual Reports various issues from 2006-07 to 2010-11

Interpretation: It is clearly pointed out from the Table, that the contribution of bank in premium income has increase from Rs. 326.98 crores in 2006-07 to Rs. 1328.61crores in 2010-11. Percentage-wise it has increased from 2.33 % in 2006-07 to 3.08 % in 2010-11. Thus it can be depicted that the contribution of bank increased to almost more than 50% increased in a period of five years; which is a positive indication for a growth of life Insurance business.

Channel- Wise Individual and Group New Business Performance of Life Insurers

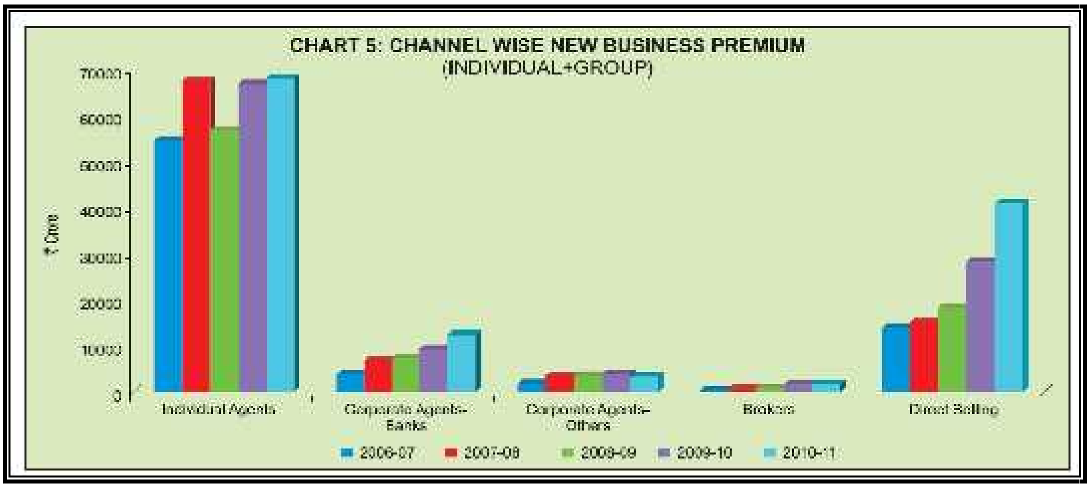
Table 1.4, Channel Wise New Business Performance of Life Insurers in Individual and Group Policies Segment

Particulars	Remarks	Unit	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Channel Wise-New Businesss (Amount of Premium)-Individual plus Group													
Individual agents	FY	(₹ Crore)							54611	57611	56884	65806	60064
Corporate agents-Banks	FY	(₹ Crore)							3590	6377	7507	9268	12391
Corporate agents-Others	FY	(₹ Crore)							1879	3503	3011	1912	3277
Brokers	FY	(₹ Crore)							363	573	557	1406	1685
Direct selling	FY	(₹ Crore)							13847	15174	18340	28262	40886
Total	FY	(₹ Crore)							75557	90903	86900	109045	126833
Referrals	FY	(₹ Crore)							1758	2347	2731	7810	775
Channel Wise-New Business (No. of Lives Covered)-Individual plus Group													
Individual agents	FY	In Lakhs							423.29	489.89	462.66	540.33	460.17
Corporate agents Banks	FY	In Lakhs							29.06	34.62	41.13	32.68	65.88
Corporate agents-Others	FY	In Lakhs							17.53	32.74	33.35	103.58	97.24
Brokers	FY	In Lakhs							7.51	9.48	9.50	53.66	51.69
Direct selling	FY	In Lakhs							174.97	277.23	493.92	908.54	645.40
Total	FY	In Lakhs							660.15	853.96	1007.05	1530.66	1313.39
Referrals	FY	In Lakhs							7.79	73.52	19.57	17.56	8.60

Source: Computed from IRDA Annual Reports various issues from 2001-02 to 2010-11

IJBARR
E-ISSN No. 2347 –685X
ISSN 2348 – 0653

Chart 1.1,Channel-wise new business performance of individual and group



Interpretation: It is revealed out from the above table no. 5.4, that the share of individual agents, corporate agents-banks, others, brokers and direct selling has been referred in the above table. The above table clearly shows the growing importance of Bancassurance as a channel for sale of life policies. It has been increasing steadily as indicated by total premium collected in the individual segment as well as the total number of lives covered.

Individual and group new business performance and Banc assurance:
Different insurance company have tie-up within or the another bank through joint-venture. In banc assurance, banks are selling insurance products to the customers against some fixed percentage of fee or commission which adds profit to the earnings of bank.

Table 1.5, Channel wise Life Insurance Business over the Years in the individuals Segment

(Premium in ₹ Crore)

Particulars	Number of Policies Issued					Amount of Premium				
	2010-11	2009-10	2008-09	2007-08	2006-07	2010-11	2009-10	2008-09	2007-08	2006-07
Individual Agents	41591811 (86.44)	45036904 (86.44)	43460509 (85.38)	44752611 (88.01)	42301907 (93.15)	65685.52 (78.95)	65209.25 (79.61)	55327.54 (79.57)	66515.43 (83.75)	54605.30 (90.46)
Corporate Agents-Banks	1936562 (4.03)	2084543 (3.92)	1896457 (3.73)	1693670 (3.33)	1426019 (3.14)	11062.63 (13.30)	8688.68 (10.60)	6737.38 (9.69)	6329.22 (7.97)	3363.17 (5.57)
Corporate Agents- Others*	2986401 (6.21)	3619790 (7.10)	2790776 (5.50)	2599723 (5.11)	1204785 (2.63)	2957.75 (3.56)	3510.76 (4.26)	3380.54 (4.86)	3461.39 (4.36)	1825.09 (3.02)
Brokers	511386 (1.06)	439396 (0.83)	306277 (0.60)	227403 (0.45)	259177 (0.57)	1471.60 (1.77)	1128.50 (1.36)	773.62 (1.11)	473.73 (0.60)	351.63 (0.55)
Direct Selling	1088426 (2.26)	1814508 (3.41)	2442772 (4.80)	1573649 (3.10)	139077 (0.31)	2016.32 (2.42)	3389.85 (4.13)	3310.33 (4.76)	2642.71 (3.33)	235.33 (0.39)
TOTAL	48106668 (100.00)	53185191 (100.00)	50904671 (100.00)	50847196 (100.00)	45411365 (100.00)	83174.03 (100.00)	82007.05 (100.00)	69529.41 (100.00)	79422.97 (100.00)	60361.32 (100.00)
Referrals	548772 (1.14)	1232079 (2.32)	1952102 (3.83)	1349396 (2.65)	715933 (1.55)	835.81 (1.01)	2567.61 (3.13)	2714.81 (3.90)	2345.03 (2.95)	1256.51 (2.04)

*Any entity other than banks but licensed as a corporate agent.

Note: 1) The leads obtained through referral arrangements have been included in the respective channels.
2) New business premium includes first year premium and single premium.
3) Figures in bracket show percentage to total individual new business procured through respective channels.

Source: Computed from IRDA Annual Reports various issues from 2006-07 to 2010-11

Table1.6, Channel wise Life Insurance business over the years in the Group segment

(Premium in ₹ Crore)

Particulars	Number of Schemes					Number of Lives Covered					Amount of Premium				
	2010-11	2009-10	2008-09	2007-08	2006-07	2010-11	2009-10	2008-09	2007-08	2006-07	2010-11	2009-10	2008-09	2007-08	2006-07
Individual Agents	5112 (16.71)	3636 (12.69)	3882 (15.68)	4082 (16.42)	49 (0.10)	3435022 (4.13)	8596035 (11.15)	2806100 (5.30)	5236200 (15.15)	27384 (0.14)	2426.30 (5.60)	1617.12 (5.81)	1596.76 (0.96)	1005.23 (7.05)	5.63 (0.04)
Corporate Agents-Banks	1834 (5.99)	444 (1.55)	1358 (5.48)	765 (3.08)	275 (1.19)	4651600 (5.59)	1101334 (1.46)	2246435 (4.25)	1757953 (5.12)	1479325 (7.46)	1320.61 (3.08)	596.57 (2.15)	568.19 (3.28)	492.69 (3.46)	326.90 (2.37)
Corporate Agents- Others*	671 (2.19)	1891 (6.60)	132 (0.53)	278 (1.12)	8 (0.03)	5735574 (0.08)	6530290 (0.10)	536758 (1.07)	674212 (1.95)	467538 (2.34)	318.92 (0.74)	401.73 (1.44)	130.74 (0.75)	40.63 (0.29)	3.17 (0.02)
Brokers	1266 (4.14)	1072 (3.74)	541 (2.18)	462 (1.86)	251 (1.08)	4657417 (5.60)	4926933 (5.11)	613490 (1.22)	720816 (2.08)	492094 (2.46)	213.54 (0.49)	347.50 (1.25)	83.77 (0.48)	99.55 (0.70)	31.21 (0.21)
Direct Selling	21713 (70.97)	21612 (75.42)	18651 (76.12)	19271 (77.53)	22507 (97.50)	63752072 (76.60)	59049732 (75.18)	46849070 (88.72)	26149036 (75.69)	17358013 (87.39)	38039.75 (76.90)	24873.06 (89.34)	15029.91 (86.53)	12531.47 (87.08)	13611.19 (97.59)
TOTAL	30596 (100.00)	28655 (100.00)	24764 (100.00)	24858 (100.00)	23102 (100.00)	83232045 (100.00)	80693285 (100.00)	52880550 (100.00)	34548616 (100.00)	19824304 (100.00)	43159.21 (100.00)	27836.37 (100.00)	17370.32 (100.00)	14250.83 (100.00)	13978.49 (100.00)
Referrals	3 (0.01)	13 (0.05)	-	2 (0.01)	2 (0.01)	319262 (0.38)	53746.00 (0.07)	4771 (0.01)	2136 (0.01)	62913 (0.31)	39.23 (0.09)	42.29 (0.15)	15.03 (0.09)	1.64 (0.01)	1.50 (0.01)

*Any entity other than banks but licensed as a corporate agent.
Note: 1) The leads obtained through referral arrangements have been included in the respective channels.
2) New business premium includes first year premium and single premium.
3) Figures in bracket show percentage to total individual new business procured through respective channels.

Source: Computed from IRDA Annual Reports various issues from 2006-07 to 2010-11

Interpretation: It is revealed from the above Table indicates, total no. of policies sold and premium income accumulated through banc assurance are increasing year by year All the insurance players have shown positive growth in terms of no. of policies sold and premium income obtained from banks.

SWOT Analysis

Banking and Insurance are very different businesses. Banks have less risk but the insurance has a greater risk. Even though, banks and insurance companies in India are yet to exchange their relationships, Bancassurance as a means of distribution of insurance products is already in force in some form or the other. It is therefore essential to have a SWOT analysis done in the context of bancassurance experiment in India. A SWOT analysis of Bancassurance is given below:

Strengths

In a country like India of one billion people where sky is the limit there is a vast untapped potential waiting for life insurance products. 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.

1. Banks have the credibility established with their constituents because of a variety of services and schemes provided by them.
2. Banks also enjoy a wide network of branches, even in the remotest areas that can facilitate taking up the task on a large and massive scale, simultaneously.
3. Banks are very well aware with the psychology of the customers because of their interaction with the customers on regular basis.
4. People rely more upon LIC and GIC for taking insurance. If the products of LIC and GIC are provided through bancassurance it would be an added advantage to the insurance companies.
5. With the help of banks trained staff, its brand name and the confidence and reliability of people on the banks, the selling of insurance products can be done in a more proper way.

IJBARR
E-ISSN No. 2347 –685X
ISSN 2348 – 0653

6. Other than all these things there is a huge potential for insurance sector, as the population of India is high and a large part of it has remained untapped till now. So this can create an added advantage for both banks and insurers.

Weaknesses

1. The IT culture is unfortunately missing completely in all of the future collaborations. The internet connections are also not properly provided to the staff.
2. To undertake the distribution of the insurance products, the bank employees have to undergo certain minimum period of training, followed by a test and then get them licensed.
3. There is lack of personalized services because the traditional insurance agent is considered a member of the family and hence is able to render a personalized service during and after the sales process. However that may not be the case in regards to a bank employee.

Opportunities

1. 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.
2. There are many people in many areas that are still unaware about the insurance and its various products and are waiting that somebody should come and give them the information about it.
3. In urban and metro areas, where the customers are willing to get many services like lockers and safe deposit systems and other products and services from banks, there is a good opportunity to market many property related general insurance policies like fire insurance, burglary insurance and medi-claim insurance etc.
4. Banks' database is enormous even though the goodwill may not be the same. This database has to be dissected and various homogeneous groups are to be churned out in order to position the Bancassurance products. With a good IT infrastructure, this can really do wonders.
5. Banks in their normal course of functions lend finance in the form of loans for cars, or for buying a house to clients etc. They can take advantage of this by cross-selling the insurance products and combine it as a package.

Threats

1. Success of a Bancassurance venture requires change in approach, thinking and work culture on the part of everybody involved. The 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.
2. Another possible threat may come from non-response from the targeted customers.
3. Insurance in India is perceived more as a saving option than providing risk cover.
4. There would be a problem of “Reputational Contagion” i.e. loss of market confidence towards one in a venture leading to loss of confidence on the other because of identical brand recognition, similar management and consolidated financial reporting etc.
5. The most common obstacles to success of Bancassurance are poor manpower management,

Conclusion

The success of bancassurance greatly hinges on banks ensuring excellent customers relationship, therefore banks need to strive towards that direction. As pointed out by Low (2004), the changing mindset is cascading through the banking sector in India and this would be a right time for banks to resorting to bancassurance, especially in the context of proactive policy environment of regulatory authorities and the Government. The fact that the banking operations in India, unlike in other developed countries, are still branch oriented and manually operated vis-à-vis highly

IJBARR
E-ISSN No. 2347 –685X
ISSN 2348 – 0653

mechanized and automated banking channels, viz., internet banking, ATMs, etc. are all the more conducive for flourishing of bancassurance.

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