Vol. 4 No. 1 January 2016 ISSN: 2320-4168

BANCASSURANCE MODELS AND DISTRIBUTION CHANNELS - AN OVERVIEW

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Introduction

Bancassurance commonly means selling insurance products under the same roof of a bank. With the opening up of the insurance sector and with so many players entering the Indian insurance industry, it is required by the insurance companies to come up with innovative products, create more customer awareness about their products and offer them at a competitive price. New entrants in the insurance sector had no difficulty in matching their products with the customer's needs and offering them at a price acceptable to the customer. But, insurance not being an off the shelf product and one which requires personal counseling and persuasion, distribution posed a major challenge for the insurance companies. Further insurable population of over one billion spreads all over the country has made the traditional channels of the insurance companies costlier. Also due to heavy competition insurers do not enjoy the flexibility of incurring heavy distribution expenses and passing them to the customer in the form of high prices. With these developments and increased pressures in combating competition, companies are forced to come up with innovative techniques to market their products and services. At this juncture, banking sector with its far and wide reach, was thought of as a potential distribution channel, useful for the insurance companies.

Objectives of the Study

The objectives of the paper are as follows:

1. To study the concept of bancassurance growth of bancassurance
2. To identify the structural classification product-based classification
3. To assess the distribution channels of bancassurance.

Methodology

The study is based upon the secondary data. The secondary data has been collected from books, journals, articles and the websites.

Concept of Bancassurance

Business Model Suitability

The issue of business model suitability is found to be closely to historical and cultural aspects of a country. In some countries the process of integration has been natural and smooth. The two players have developed models based on the level of integration and the importance sought. We have cases of simple fee / commission sharing models and distribution alliances to that of establishing joint ventures and fully merged entities. The suitability of particular model or otherwise in any given case has been found to be very much contingent on the nature and background of the entities. Group soundness and brand image of the partners, product range in terms of quality and diversity, concurrence of operational areas and client base served are some of the other aspects that need to be addressed adequately before deciding upon the parents and the business model.

Functional Felicity

As a natural consequence to the selection of the right business model follows the issue of functional felicity. It is living together. Functional aspects such as enunciation of clear and aligned goals, level playing field – an issued related to the regulatory framework, training and competence requirements, mechanism for conflict resolution and revenue sharing, exploitation of each other's database on clients without violating privacy rights, and clear understanding of protection rules need to be attended to before the commencement of operation.

Attitudinal Flexibility

Attitudinal incompatibility on the part of employees of banks and insurance companies and the perception of customers on the poor quality of service in banks have been the major causes for the failure of bancassurance in some countries. Differences of opinion and perception because of different backgrounds of bankers and insurance have to be recognized and reconciled by the leadership on both sides. A high level of commitment on the part of the leaders is vital and the need for cascading of commitment down the organizations is equally important. If not more to find the right kind of cultural for which is a harmonious blend of both is a daunting challenge. It cannot be wished away, but should be confronted head on at the very beginning of the leadership.

Growth of Bancassurance

Banking

The banking sector is traditionally known to be more competitive. Banks are traditionally comfortable managing short-term assets. And if at all any bank wishes to enter insurance sector then it has to provide adequate training to its staff which is very costly. In case banks opt for distributing insurance products, then the cost incurred on training their staff will be nullified. Apart from that, cost of maintaining and updating their database will not be there. Banks will be comfortably earning commissions and referral fees without incurring any additional costs and improving their bottom lines. Though the competition in banking sector is cutthroat, banks that provide a platform for varied products will always be able to sustain their revenues.

Insurance

After the opening up of the Indian Insurance Sector from the hold of government insurance companies, the activity has fueled up. What remained as strong hold for the government owned insurance companies is immediately under threat. In less than one year, private insurance companies are eager to board the bandwagon of bancassurance. Eyeing the lucrative market of insurance in India, majority of banks from both public sector Insurance companies or with new private insurers to take advantage of huge untapped potential. In Contrast to the global [developing countries] benchmark of 4.5 percent of GDP, India's life insurance is only 2.9 percent of GDP. The huge gap from the global benchmark is itself lucrative for the private and new players of Indian insurance.

Banking + Insurance

Perhaps a decade ago, majority of the financial institutions would not have dreamt about integrating the two big forces to create bancassurance. Both the evolutions of new markets and marketing strategies have prompted the big force to look at each other more closely and come out with a strategy that would be beneficial for both of them. It can be said as a package of financial services, which offers both the banking and insurances products under one roof. It is a combination, where both the services co-exist and add value to institution.

Bancassurance Models

- Structural Classification
- Referral Model
- Corporate Agency
- Insurance as Fully Integrated Financial Service/ Joint ventures
- Product-based Classification
- Stand-alone Insurance Products
- Blend of Insurance with Bank Products
- Banks Referrals

Structural Classification

Referral Model

Banks intending not to take risk could adopt 'referral model' wherein they merely part with their client data base for business lead for commission. The actual transaction with the prospective client in referral model is done by the staff of the insurance company either at the premise of the bank or elsewhere. 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 insurance company for a 'referral fee' or commission for every business lead that was passed on. In fact a number of banks in India have already resorted to this strategy to begin with. 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. There is greater scope in the medium term for this model. For, banks to begin with resorts to this model and then move on to the other models.

Corporate Agency

The other form of non-risk participatory distribution channel is that of 'corporate agency', where in the bank staff is trained to appraise and sell the products to the customers. Here the bank as an institution acts as corporate agent for the insurance products for a fee/ commission. This seems to be more viable and appropriate for most of the mid-sized banks in India as also the rate of commission would be relatively higher than the referral arrangement. There are also practical difficulties in the form of professional knowledge about the insurance products. Besides, resistance from staff to handle totally new service/product could not be ruled out. This could, however, be overcome by intensive training to chosen staff packaged with proper incentives in the banks coupled with selling of simple insurance products in the initial stage. This model is best suited for majority of banks including some major urban cooperative banks because neither there is sharing of risk nor does it require huge investment in the form of infrastructure and yet could be a good source of income.

Bajaj Allianz stated to have established a growth of 325 per cent during April September 2004, mainly due to bancassurance strategy and around 40% of its new premiums business (Economic Times, October 8, 2004). Interestingly, even in a developed country like US, banks stated to have preferred to focus on the distribution channel akin to corporate agency rather than underwriting business. Several major US banks including Wells Fargo, Wachovia and BB &T built a large distribution network by acquiring insurance brokerage business. 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 (Sigma, 2006).

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. Where banks will have a counter within sell/market the insurance products as an internal part of its rest of the activities. This includes banks having a wholly owned insurance subsidiary with or without foreign participation. In Indian case, ICICI bank and HDFC banks in private sector and State Bank of India in the public sector, have already taken a lead in resorting to this type of bancassurance model and have acquired sizeable share in the insurance market, also made a big stride within a short span of time.

Product-Based Classification

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, e.g., Karur Vysya Bank Ltd selling of life insurance products of Birla Sun Insurance or non-life insurance products of Bajaj Allianz General Insurance Company.

Blend of Insurance with Bank Products

With the financial integration both within the country and globally, insurance is increasingly being viewed not just as a 'stand-alone' product but as an important item on a menu of financial products that helps consumers to blend and create a portfolio of financial assets, manage their financial risks and plan for their financial security and well-being (Olson 2004). This strategy aims at blending of insurance products as a 'value addition' while promoting its 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. Many banks in India, in recent years, has been aggressively marketing credit and debit card business, whereas the cardholders get the 'insurance cover' for a nominal fee or (implicitly included in the annual fee) free from explicit charges/ premium. Similarly the home loans / vehicle loans, etc., have also been packaged with the insurance cover as an additional incentive.

Banks Referrals

There is also another method called 'Bank Referral'. Here the banks do not issue the policies; they only give the database to the insurance companies. The companies issue the policies and pay the commission to them. That is called referral basis. In this method also there is a win-win situation everywhere as the banks get commission, the insurance companies get databases of the customers and the customers get the benefits.

Partnership Models of Bancassurance

There are several forms of partnership between banks and life insurers. A bank can either be an arm's-length provider of warm leads to a life insurer, or take control of bancassurance by moving into distribution, selling or even product development and underwriting. By the same token, a life insurer may choose either to take control of bancassurance using multiple banks as sources of warm leads, or to be an arm's-length provider of product and underwriting expertise to a bank. Alternatively, banks and insurers could rely on a third- party, such as broker, to integrate their divergent skills.

Combining these roles produces a number of models for banc -assurance delivery. The three most promising models are:

- Leverage life distribution
- Leverage bank distribution
- Bank / life joint venture

Leverage Life Distribution

Under this model, the life insurance company takes the lead in the partnership, while several banks provide access to middle – market leads. The main protagonist under this scenario would be large life company with a range of effective distribution channels [career agents, independent agents, low–cost middle–market agents]. A number of banks would feed its channels with warm leads. Under the terms of the leverage life distribution contract, the life insurer would pay the banks a fee for each lead or ultimate sale. As an additional incentive to banks, agents mining their middle–market customer base would also take on a portfolio of bank products to cross – sell to the customers that they contact. For its part, the life insurer earns profits from underwriting, asset management, and distribution and benefits by better leveraging its distribution system.

Leveraged Bank Distribution

Under leveraged bank distribution, it is the bank that takes the lead in the partnership, while multiple life insurance companies supply products for its bancassurance efforts. This model calls for a large bank with a range of effective distribution channels (branches, ATMS, trust sales force, mail, phone). The bank mines its own customer base while playing off multiple life insurers against one another to garner the most advantageous products for its channels.

Bank / Life Joint Venture

This type of partnership brings together a large bank with a well-developed customer database and a large life insurer with strong product and channel experience to develop a powerful new distribution model. The partners bring their individual excellence to forge a best practice bancassurance operation with tailored products tailored distribution a lead generation mechanism, and middle-market sales processes. The life insurer and bank share equally in the earnings.

Distribution Channels of Bancassurance

Traditionally, insurance products were promoted and sold principally through agency systems only. The reliance of insurance industry was totally on the agents. Moreover with the monopoly of public sector insurance companies there was very slow growth in the insurance sector because of lack of competition. The need for innovative distribution channels was not felt because all the companies relied only upon the agents and aggressive marketing of the products was also not done. But with new developments in consumers' behaviours, evolution of technology and deregulation, new distribution channels have been developed successfully and rapidly in recent years. Recently Bancassurers have been making use of various distribution channels, they are:

Career Agents

Career Agents are full-time commissioned sales personnel holding an agency contract. They are generally considered to be independent contractors. Consequently an insurance company can exercise control only over the activities of the agent which are specified in the contract. Many bancassurers, however avoid this channel, believing that agents might oversell out of their interest in quantity and not quality. Such problems with career agents usually arise, not due to the nature of this channel, but rather due to the use of improperly designed remuneration and incentive packages.

Special Advisers

Special Advisers are highly trained employees usually belonging to the insurance partner, who distribute insurance products to the bank's corporate clients. The Clients mostly include affluent population who require personalized and high quality service. Usually Special advisors are paid on a salary basis and they receive incentive compensation based on their sales.

Salaried Agents

Salaried Agents are an advantage for the bancassurers because they are under the control and supervision of bancassurers. These agents share the mission and objectives of the bancassurers. These are similar to career agents, the only difference is in terms of their remuneration is that they are paid on a salary basis and career agents receive incentive compensation based on their sales.

Bank Employees / Platform Banking:

Platform Bankers are bank employees who spot the leads in the banks and gently suggest the customer to walk over and speak with appropriate representative within the bank. The platform banker may be a teller or a personal loan assistant. A restriction on the effectiveness of bank employees in generating insurance business is that they have a limited target market, i.e. those customers who actually visit the branch during the opening hours.

Corporate Agencies and Brokerage Firms

There are a number of banks who cooperate with independent agencies or brokerage firms while some other banks have found corporate agencies. The advantage of such arrangements is the availability of specialists needed for complex insurance matters and through these arrangements the customers get good quality of services.

Direct Response

In this channel no salesperson visits the customer to induce a sale and no face-to-face contact between consumer and seller occurs. The consumer purchases products directly from the bancassurer by responding to the company's advertisement, mailing or telephone offers. This channel can be used for simple packaged products which can be easily understood by the consumer without explanation.

Internet

Internet banking is already securely established as an effective and profitable basis for conducting banking operations. Bancassurers can feel confident that Internet banking will also prove an efficient vehicle for cross selling of insurance savings and protection products. Functions requiring user input (check ordering, what-if calculations, credit and account applications) should be immediately added with links to the insurer. Such an arrangement can also provide a vehicle for insurance sales, service and leads.

E-Brokerage

Banks can open or acquire an e-Brokerage arm and sell insurance products from multiple insurers. The changed legislative climate across the world should help migration of bancassurance in this direction. The advantage of this medium is scale of operation, strong brands, easy distribution and excellent synergy with the internet capabilities.

Outside Lead Generating Techniques

One last method for developing bancassurance eyes involves "outside" lead generating techniques, such as seminars, direct mail and statement inserts. Great opportunities await bancassurance partners today and, in most cases, success or failure depends on precisely how the process is developed and managed inside each financial institution.

Factors to be considered for the Success of Bancassurance

- Strategies consistent with the banks vision, knowledge of target customer needs, defined sales process for introducing insurance services. Simple yet complete product offerings, strong service delivery mechanism, quality administration, and synchroxd planning across. All business line and subsidiaries, complete integration of insurance with other bank product and service, extensive and high-quality training, sales management tracking system for reporting on agents time and results of bank referrals and relevant and flexible database systems.
- Another point is the handling of customers with customer awareness levels increasing. They are demanding greater convenience in financial services.
- The emergence of remote distribution channels. Such as pc - banking, and Internet banking, would hamper the distribution of insurance product through banks.

- The emergence of newer distribution channels seeking a market shares in the network.

Advantages of Bancassurance

- Every insurance company wants to grow quickly to reduce painful start-up expense overruns. Banks with their huge networks and large customer bases give insurers an opportunity to do this efficiently.
- It gives the companies an opportunity to tap the rural sectors. Selling insurance through traditional methods in these sectors is very expensive. A tie up with an appropriate customer base can give an insurer a cheap access to these areas.
- Bancassurance enables one to have part of skilled professionals.
- The margins of the banks in their core leading business are declining sharply. Opportunities like bancassurance augment their income
- Bancassurance enables to develop a sales culture within the bank. It helps to change the traditional mindset of banking companies.

The distribution of insurance products through banks has been beneficial to both insurance and banking companies as well as customers.

Advantages to Banks

- Production ability of the employees' increases.
- By providing customers with both the services under than 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 sales of insurance products.
- Can have 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, investments 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 Customers

- Comprehensive Financial advisory services under one roof. I.e., Insurance services along with other financial services such as banking, mutual funds, personal loans and the like
- Enhanced convenience on the part of the insured
- Easy access for claims, as banks are a regular go
- Innovative and better product ranges

Conclusion

Bancassurance is the distribution of Insurance products through a bank's distribution channels. It offers a great opportunity to banks to improve their profitability by enhancing fee-based income. It enables to develop a sales culture within the bank and helps to change the traditional of banking companies. Bancassurance is an ideal launch pad for both insurance companies and banks to increase their revenues. Enter Bancassurance and fee income through banking of risk products would be guaranteed. Bancassurance helps to easily identify the target audience.

Bancassurance will definitely play a defining role as an alternative distribution channel and will change the way insurance is sold in India. Bancassurance in India has just taken a playing start, but it has a long way to go "SKY IS THE LIMIT".

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