Bancassurance in India:
Promising Distribution Network of Insurance Industry

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Abstract

This paper aims to investigate the scope of bancassurance in Indian context. The trend of bancassurance in Indian life insurance sector for the past decade (2003-04 to 2013-14) is discussed. This research work is an empirical study primarily based on secondary data. Major indicators (population size, population structure, literacy rate, and structure of banking sector, registered insurer in India, and insurance penetration and density) of bright prospects in Indian bancassurance are identified. The share of individual new insurance premium of private life insurer and public life insurers are also analyzed. Moreover, compounded annual growth rate (CAGR) of new individual insurance premium is computed to study the trend analysis of private life insurance as well as public life insurance. Insurance penetration and density trend for the Asian countries is also explored to justify the further prospects of Indian bancassurance. Major findings indicate towards the need to use the bacassurance as a distribution network for the insurance sector and validate the vibrant scope of bancassurance in India.

Keywords: Bancassurance, Insurance, Banking, Insurance density, Insurance penetration.

Introduction

Genesis

Over the past one decade, Indian financial market has witnessed a remarkable change in the relationship between banking and insurance sector. A number of agreements have been initiated between banks and insurance companies and many more are in planning phase. Bancassurance is a new form of business wherein banks and insurers come together and integrate all their strength and efforts to generate new means of marketing their products and services. When these two big financial institutions join together with a mutual purpose, it gives birth to “bancassurance”. Banks have wide geographical reach and effective relationships with their customers developed over a period of time. Therefore, banks are evolved as viable sources for the delivery of insurance products to the customers.Bancassurance has elevated as a new form of disseminating insurance products/services to the various sections of the society through the means of banking institutions. In this cut throat competitive environment, this bancassurance model could help both banks and insurance companies to strengthen their market share and distribution channels.

"Bancassurance" the term first appeared in France in 1980; refers to the selling of insurance through a bank's established distribution channels. Bancassurance encompasses terms such as 'Allfinanz' (in German), 'Integrated Financial Services' and 'Assure banking'. Bancassurance is the allocation of insurance products through the huge network of banks whereby, banks act as a distribution channel for providing varieties of banking and investment products and services. In simple words, bancassurance tries to develop synergies between both - insurance companies and banks.

In India this term was initiated in the year 2000 when the Government issued Notification under The Banking Regulation Act (1949), which allowed Indian Banks to act as insurance distributor. It becomes functional after emergence of 'Corporate Agency' regulations passed by Insurance Regulatory and Development Authority (IRDA) in October 2002. All scheduled commercial banks were permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation.

It is used as product diversification and a source of additional income for banks, as a medium of raising their market penetration and premium turnover for insurance companies and for customer it is a roll-over prize in terms of reduced price, high quality product and delivery at a single roof. (Table 1.1)

Table 1.1 List of bancassurance agreements in India:

Insurance agencies in India	Banks in tie-up with insurance agencies
Life Insurance Corporation (LIC) of India	Syndicate bank, Dena bank, Cooperation Bank, Oriental bank of Commerce, Vijaya bank
Bajaj Allianz life Insurance Company Limited	Centurion Bank of Punjab
ICICI Prudential life insurance Company Limited	Lord Krishna Bank
Birla sun life Co. Ltd.	IDBI
SBI life insurance Co. Ltd.	State bank of India
HDFC standard life Insurance Co. Ltd.	HDFC bank
Canara bank, HSBC and Oriental Bank of Commerce Life Insurance Co. Ltd.	Canara Bank, HSBC Bank, OBC Bank
Non-life insurers	**Banks in tie-up with Non-life insurers**
United India Insurance company (UIIC) Co. Ltd.	Dena bank
Max Bupa Health Insurance Co. Ltd.	Standard Chartered Bank
Bajaj Allianz General insurance Co.Ltd.	Lord Krishna Bank
National Insurance Co. Ltd.	Overseas Bank, Bharat Overseas Bank, Allahabad bank, UCO bank, Vijaya bank, City Union bank, State bank of Bikaner and Jaipur, Bank of India
Oriental Insurance Co. Ltd.	Oriental Bank of Commerce

Literature Review

Ferhi, A. and Boujelbene, Y. (2015) analyzed the factors that can either speed up or hinder the development of bancassurance through taking into account the case of the Tunisian market.The empirical results showed that the saturation of the general insurance market, commercial synergy and the greater accessibility to financial services, are among the most important factors that encourage the development of bancassurance to make the services provided to their customers effective.

Rajasekar, D. and Kumari, H.T. (2014) assessed the awareness of life insurance about the customer preference especially in bancassurance, quality of product delivery and satisfaction level of the customers. It has been observed through the Research Findings that 80% of the customers are aware of bancassurance and 66% of customers are taken insurance policy from their banks.

Rajan, M. F. C. J. et al. (2013) focused on the level of customer satisfaction of bancassurance in public and private sectors bank. Customers are effectively satisfied with the cost, trust and value added services of availing insurance from banks. Customers are also satisfied with the benefits and convenience offered by banks while buying insurance policy.

During the financial year 2013-14, the life insurance industry reported net profit of 7,588 crore as against, 6,948 crore in 2012-13. Out of the twenty four (21) life insurers in operations during 2013-14, eighteen companies (18) reported profits. They are Aviva Life, Bajaj Allianz, Birla Sun Life, Canara HSBC, DHFL Pramerica, EXIDE Life, HDFC Standard, ICICI Prudential, IDBI Federal, Kotak Mahindra, Max Life, PNB MetLife, Reliance Life, Sahara India, SBI Life, Shriram Life, Tata AIA and LIC of India. LIC of India reported net profit of 1,656.68 crore i.e. an increase of 15.24 per cent over 1,437.59 crore in 2012-13 (IRDA annual report 2013-14). Syndicate Bank has entered into a Memorandum of Understanding (MOU) with LIC of India on 27.6.2013, as its corporate agent for selling life insurance products through its branch network with a intention that the tie-up will provide a comprehensive insurance option to the customers.

Gonulalet al. (2012) discussed the potential of Bancassurance to contribute to the growth and the stability that both life and non-life insurance products can bring to developing countries and also provided a detailed study of the operation of Bancassurance in a major developed market (France). Researchers summarized their findings by concluding that Bancassurance has increased its importance in the Mexican insurance market significantly.

Verma, A. and Bala, R. (2012) analyzed the scope for bancassurance in Indian life insurance sector and it was discovered that because of strong access of public and private sector banks, there is a good scope for banks to prove themselves as a cost effective channel to increase life insurance density and penetration. Both banking and insurance regulator (RBI and IRDA) have to come forward to develop a common business vision.

Many banks and financial institutions have set up joint ventures with foreign insurance companies like SBI Life (with Cardiff of France), MetLife India (MetLife and J&K Bank amongst others) ICICI Prudential (with ICICI), HDFC Standard Life (with HDFC), etc. The companies like Aviva, MetLife, Birla Sun Life, SBI Life, etc., have opted bancassurance as an important channel of distribution. SBI Life Insurance Company is a predominant player in bancassurance. Banks may be allowed to tie up with any two sets of insurers - two in the life insurance sector, two in non-life, two in health, ECGC and AIC.

(TheEconomic Times report , 2011)

Fiordelisi, F. and Ricci, O. (2010) assessed whether bancassurance firms outperform other life insurance companies. Cost and profit efficiency are estimated using a stochastic frontier analysis and including several firm-specific factors to overcome possible sample heterogeneity. On the cost side, they found strong evidence in favour of bancassurance as a distribution channel. Results on the profit side suggest the need to continuously revise the product mix. Bank ownership is not found to provide any direct advantages.

The Finance Ministry has constituted a committee comprising regulators, bankers and insurers to evolve a suitable model of bancassurance for effective distribution of insurance products through the network of bank branches. The panel has also been asked to suggest administrative measures which will encourage banks to take up distribution of insurance products, particularly in the unorganized and rural sector.

(The Economic Times, 2003).

Krishnamurthy, R. (2002) stated that banks deal with millions of customers, know about saving and spending patterns and can reach insurance buyers. Distribution of insurance through banks is growing fast in Europe, where banks sell more than half the total life insurance policies. Malaysia and Singapore have shown how bancassurance can build volume and value for insurance companies. In India, regulators have just allowed our banks to cross sell insurance products to bank customers.

Significance of the Study

Surplus studies are available on efficiency and productivity of Indian banking and insurance sectors separately but studies explicating growth of bancassurance are rare, therefore the present work explores that whether Indian economy with its unique features is able to indicate a vibrant scope for bancassurance venture in India.

Research Methodology

The present work is exploratory cum analytical in nature and purely based on secondary data. The data have been collected from various sources including Journals, reports of RBI and IRDA, economic surveys, web sites, text books and magazines, etc. The time duration of the study is from 2003-2014. Data has been analyzed using tabulation in Microsoft's-Excel 2010 and growth rate is computed by using Compound Annual Growth Rate (CAGR) which is the mean annual growth rate of an investment over a specified period of time longer than one year.

Objectives of the Study

1) To investigate the future prospects of bancassurance in India.
2) To analyse the trends of bancassurance in Indian life insurance industry.

Results and Discussion

Bancassurance is a rising distribution channel with high potential and scope to spring up in country like India. In order to investigate the scope of bancassurance in India, the researcher has identified some major indicators i.e. population size, population structure, literacy rate, structure of banking sector in India, registered insurer in India and insurance penetration and density. Growth rate of bancassurance is explored by calculating CAGR. Results are divided in two section; section I deals with the scope of bancassurance in India and section II explicate the trend analysis of bancassurance in life insurance sector.

Section I

The scope of bancassurance in India is explained by the following indicators, that are suited to explain the same i.e. population size, population structure, literacy rate, structure of banking sector in India, registered insurer in India and insurance penetration and density.

a) Population size

India is the second most populous country in the world, with over 1.277 billion people (2015), more than a sixth of the world's population.India has more than 50% of its population below the age of 25 and more than 65% below the age of 35 and large part population is uncovered by insurers. Immense youth population and untapped potential customers shows a bright future to the insurance industry.

b) Population structure

Present structure of Indian population shows that major chunk of population lies between age group of 15-64 years) i.e. 63.40 percent. This proportion is enough to show that India offers a great scope to insurance company to reap the potential customers. (Table 1.2)

Table 1.2Population Structure in 2015

Age group	Male	Female	Total	Percent
0-14	194 351 275	178 092 741	372 444 116	30.76
15-64	394 175 879	373 559 847	767 735 726	63.40
65+	32 370 123	33 815 210	66 185 333	5.47

(Source: www.worldbank.org)

c) Literacy rate

Asper 2011 census report, literacy rate is 74% (age 7 and above). This is a good indicator for insurance industry as it will be easy for the literate persons to understand the need and importance of being covered under insurance.

d) Structure of banking sector

Banks are major players in the Indian financial system with over 115000 branches in India including public, private and foreign banks. This makes banks a worthy vehicle for the distribution of insurance products along with banking services. (Table 1.3)

Table 1.3Number of branches opened by commercial banks in India during the year 2014-15

Bank Group	Total branches opened
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)

e) Registered insurers in India

At present, there are 53 insurance companies operating in India; of which 24 are life insurers and 28 are non-life insurers. In addition, GIC is the sole reinsurers. Large number of registered insurers provides a strong platform for the success of bancassurance. (Table 1.4)

Table 1.4 Registered Insurers in India

Type o f business	Public sector	Private sector	Total
Life insurance	1	23	24
Non-life insurance	6	22	28
Reinsurance	1	0	1
Total	8	45	53

(Source: IRDA, Annual Report, 2013-14)

f) Insurance penetration and density

India is ranked 11th among the 88 countries in life insurance business. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). As per IRDA annual report 2013-14 life and non-life insurance penetration rate of India is 3.1 and 0.8 percent respectively which is very low; on the other hand low insurance density between Indian life and non-life insurance sector clearly indicates that there is a wide scope for insurance to grow. Low penetration and density could prove a boon to bancassurance. (Table 1.5)

Table 1.5 Comparison of insurance penetration and density among Asian countries (2013)

	Insurance penetration (in per cent)			Insurance density (in US Dollar)		
Country	Life	Non-life	Total	Life	Non-life	Total
Hong Kong	11.7	1.5	13.2	4445	557	5002
India	**3.1**	**0.8**	**3.9**	**41**	**11**	**52**
Japan	8.8	2.3	11.1	3346	861	4207
Malaysia	3.2	1.7	4.8	341	176	518
Pakistan	0.5	0.3	0.8	6	3	9
P R China	1.6	1.4	3.0	110	91	201
Singapore	4.4	1.6	5.9	2388	863	3251
South Korea	7.5	4.4	11.9	1816	1079	2895
Sri Lanka	0.5	0.7	1.2	16	21	36
Taiwan	14.5	3.1	17.6	3204	682	3886
Thailand	3.8	1.7	5.5	214	96	310

(Source: IRDA, Annual Report, 2013-14)

Section II

Bancassurance gained momentum after the Government of India issued 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.

Section II elucidates about Growth rate of bancassurance in life insurance sector. For the trend analysis CAGR method is used and concluded with major findings. CAGR is a useful measure of growth over multiple time periods. It can be thought of as the growth rate that gets one from the initial investment value to the ending investment value if it is assumed that the investment has been compounding over the time period.

CAGR = (EV / BV) 1 / n - 1

where:
EV = Investment's ending value
BV = Investment's beginning value
n = Number of periods (months, years, etc.)

Table 1.6 Bancassurance contributions in individual new business premium of private life insurers

Year	Bancassurance premium (in percent)	Bancassurance premium (? Cr.)	Premium from other channels (? Cr.)	Total premium from private life insurance (? Cr.)
2003-04	10.57	329.81	2790.5	3120.3
2004-05	15.42	1191.58	6535.92	7727.5
2005-06	16.87	2544.59	12538.9	15083.5
2006-07	16.58	4684.35	23568.66	28253.01
2007-08	18.89	9739.95	41821.47	51561.42
2008-09	20.78	13403.77	51099.45	64503.22
2009-10	24.88	26359.79	53013.27	79373.06
2010-11	33.21	29268.5	58863.1	88131.6
2011-12	39.01	32839.72	51343.11	84182.83
2012-13	43.08	33774.25	44624.66	78398.91
2013-14	43.62	33736.1	43604.8	77340.9
CAGR of Bancassurance premium = ((33736.1 /329.81)*(1/10)-1)*100 = 58.84%				
CAGR of Premium from other channels=((43604.8/33736.1)*(1/10)-1)*100 = 31.63%				

Trend analysis of bancassurance contribution in Individual new business premium

The share of bancassurance premium grew at 58.84% compounded annually over a period of ten years in private life insurance as CAGR of premium from other distribution channels i.e. individual agents, banks, brokers, referrals & direct selling etc. contribute only 31.63%. Bancassurance played good, as its share in percent was 10.57% in the year 2003-04; made headway in 2013-14 at 43.62%. (Table 1.6)

Individual agents play a major role in public life insurance sector as more than 95 percent premium business is contributed by them and only 2.77 percent business is done through bancassurance in 2013. Compounded annual growth rate (CAGR) of bancassurance over a decade is 57.49 percent as against 13.76 percent from other distribution channels. (Table 1.7)

Major Findings

This study was set out to achieve the basic objectives, scope and growth of bacassurance in Indian life insurance sector. The conclusion is summarized according to section I and II.

Section I discussed the scope of bancassurance in Indian context. Following indicators i.e. population size, population structure, literacy rate, structure of banking sector in India, registered insurer in India and insurance penetration and density were identified, which obtrusively explicate grand success of bancassurance.

Section II discussed the growth of bancassurance from 2003-04 to 2013-14 and growth rate is calculated with compounded annual growth rate (CAGR) in context with life insurance sector. Bancassurance's share in individual new business premium hiked from 10.57 percent in 2003-04 to 43.62 percent in 2013-14 in private life insurance sector with a CAGR of 58.84 percent but in public sector life insurance more than 95 percent premium business is done by individual agent therefore 2.77 percent share is contributed by bancassurance in 2013-14 in comparison to 2003-04 i.e. 0.11 percent but CAGR of bancassurance from public life insurance sector is 57.49 percent.

Conclusion

In brief, the insurance companies in India are looking for the competitive advantage based on key success indicators related to technology, distribution channels, distribution marketing etc. to create a sustainable business model, hence “bancassurance” model is suited model to make money. Considering all the factors like population size, population structure, and structure of insurance and banking sector etc.; bancassurance would rise as a promising and cost effective distribution channel to increase insurance penetration in Indian insurance industry. By now, it is evident that a strong and vibrant financial sector with variety of financial products and services is demanded by a growth oriented economy

Managerial Implications

Bancassurance is well established around the world but shows a huge potential in many countries especially in developing country like India where insurers can use the strong data base of banks' customers. Customer centric approach could be developed, allowing the alignment of interest of both insurers and bankers. Besides this, managers of insurance companies can think of synergic relationship with banking companies, because Indian banking system is deep rooted in urban as well as in rural area, using their infrastructure, healthy relationships with customers and man power; bancassurance can become a cost effective and efficient channel of insurance distribution.

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