BANKS AS A HOUSE FOR INSURANCE

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Abstract: Insurance was strictly dominated by Agents and Development officers till 2000. But IRDA has opened up new distribution channels such as Corporate Agent, Insurance Broker, Bancassurance, Online Sale of Insurance, Direct Sale, etc. Therefore, some experts believe that the best approach for a public sector commercial bank to enter the insurance field is to make a strategic investment of say 10-30 per cent of the equity in a strong insurance joint venture company. Banks to be permitted to act as insurance brokers" to increase insurance penetration was one of the key form for insurance sector. Reserve bank of India had also expressed concern against the above rules. India has potential market for insurance companies particularly in rural areas. It is very important that insurer and bankers must have a good understanding of each other and proper strategy to capture the opportunity and service for their customers, finally this paper is stating that the concept of bank assurance and is an efficient and cost effective measures for the insurance companies.

Keywords*:* Bank assurance, Direct sale, Financial supermarket, Corporate agent, Stake holders.

Introduction

A bank and an insurance company can work together by leveraging synergies and working towards a customer-focused approach. A financial supermarket can be the end result. Nationally and internationally last few years have witnessed large mergers between commercial banks and insurance companies. Two of the biggest mergers and acquisitions However, there has been a certain amount of debate as to the best way that banks should venture into the insurance arena. Both the Union Government and the Reserve Bank of India are a little wary of allowing free entry of public sector commercial banks into this field, in spite of international developments. The concept of insurance plans being sold through banks is called 'bank assurance' and there is a lot of interest in this distribution channel from all the stakeholders - customers, banks, insurance companies and the regulator.

As is well known, most of the public sector banks show weaknesses with their main line of business, including high levels of Non-Performing assets (NPAs), low productivity levels and lack of selling skills. The insurance business will throw up a different set of risk factors. Further, public sector banks have, in the past, set up capital market, mutual fund and housing finance subsidiaries as well as credit card divisions with the objective of distributing new products and services. However, their success has been limited in most cases. Further, entry into the insurance sector as a promoter of an insurance company would entail substantial outlay of capital as initial capital required for entry into life and general insurance businesses is a minimum of Rs. 100 crores each. As business expands, there will be additional requirement of capital.

Therefore, some experts believe that the best approach for a public sector commercial bank to enter the insurance field is to make a strategic investment of say 10-30 per cent of the equity in a strong insurance joint venture company. Further, the bank can become a corporate agent of the insurance company. Of course, the bank will have to take a corporate agency from the insurance venture(s) after fulfilling various Insurance Regulatory Development Authority (IRDA) norms in terms of training, selling restrictions and the like. However, if the public sector bank becomes a minority shareholder in an insurance venture, and the international insurance partner's share is limited to a maximum of 26 per cent of the equity, then the combine would require a third partner.

Insurance was strictly dominated by Agents and Development officers till 2000. But IRDA has Opened up new distribution channels such as Corporate Agent, Insurance Broker, Bancassurance, Online Sale of Insurance, Direct Sale, etc. These new channels are growth engines of the insurance industry. One interesting aspect of this growth is that Insurance Sector is heading towards SERVICING from merely Selling. The mantra of “Sell it and forget it” is now converting as “Service & Retain Client”. This requires Core insurance knowledge and not merely Selling Expertise.

Major need of bankassurance in India

- Now banks have realised that by entering into the product value services in insurance sector, they can meet client expectations and earn more profit while carrying on their banking business.
- In an insurance product there is a periodic nature of premium deposit which is positive for the bank
- Banks have also realised that customer’s loyalty increases profit.
- Banks are projected as a ‘shoppers stop’ to provide all kind of financial services.
- Insurance sector is in the extensive need to use the bank’s distribution network, large client base and huge customer database, which are helpful in selling their products.
- It reduces the cost of distribution of insurance products in comparison to the traditional agency channel.

Table 1.1 showing the list of Bank assurance tie-ups in India

Name of the insurance company	Tie-up banks for insurance business
LIC of India	1. Corporate bank 2. Indian Overseas Bank 3. Centurion Bank 4. Sahara District Central Co-operative bank 5. Janta Urban Co-operative bank 6. Yeotmal Mahila Sahakari Bank 7. Vijaya Bank 8. Oriental Bank of Commerce
State Bank of India Insurance Company	State bank
Chubb and Standard life, USA.	HDFC Bank
Lombard Insurance and Prudential life, England	ICICI
Birla Sun life Insurance Company Ltd	1. Bank of Rajasthan 2. City Bank 3. Bank of Muscat 4. Dutch Bank 5. Development Credit Bank 6. Andhra Bank
Bajaj Allianz General Insurance Company	1. Vysya Bank 2. Lord Krishna Bank.
Royal Sundaram and ING life Insurance.	Ing VYSYA Bank

The above particulars clearly stating that the significance of bankassurance in India for the growth and development of Indian insurance business and the growth of Indian economy and also to retain existing customers in the competent world and to attract new market segment by providing various types of services in that bank assurance is one .

Review of the study

The finance minister P. Chidambaram (2013) said that “banks to be permitted to act as insurance brokers" to increase insurance penetration was one of the key forms for insurance sector. Reserve bank of India had also expressed concern against the above rules. Dr. Nandita Mishra(2012) bankassurance is defined as the insurance Distribution model where insurance products are sold through bank branch network. The presence of several banking groups as promoters of insurance companies is of great significance to this model.

Dr. Ansuja Tiwari (2012) denoted that the banking and insurance industry have changed rapidly in the changing economic environment throughout the world. Together Banking and Insurance Industry contributes about seven percent GDP of our economy. The increased pace of market competition due to liberalization and privatization forced life insurers to be competitive by cutting cost and serving in a better way to the customer. Shilpa Sinha (2012) stated that one can't have the cake and eat it too, but public sector banks can do it, thanks to their solid brick and mortar business model and decades-long sticky customers who can be a perennial source of revenue for insurers.

Johannesburg (2006) bancassurance is widely viewed as being the future of business success, which spans both the banking and insurance industries. The results that emerged from these interviews indicated that a strong organisational structure with executive e support, together with simple products designed for bancassurance distribution, was essential in any successful strategy. In addition to this, a level of integration between the bank and insurer was necessary, with the retail network of banks being viewed as a potential contributor to success if certain challenges could be overcome.

Insurance penetration and density in India

In the life insurance business, India ranked 10th among the 156 countries, for which the data is published by Swiss Re. During 2011-12, the life insurance premium in India declined by 8.5 per cent (inflation adjusted). During the same period, the global life insurance premium declined by 2.7 per cent. The share of Indian life insurance sector in global life insurance market stood at 2.30 per cent during 2011, as against 2.54 per cent in 2010.

The non-life insurance sector witnessed a significant growth of 13.5 per cent during 2011-12. Its performance is far better when compared to global non-life premium, which expanded by a meagre 1.8 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium increased slightly from 0.57 per cent in 2010- 11 to 0.62 per cent in the year 2011-12. India stood at 19th rank in global non-life premium income. Table 1.2 shows the insurance penetration and density in India.

Table 1.2 insurance penetration and density in India

Year	Life		Non-life		Industry	
	Density (USD)	Penetration %	Density (USD)	Penetration %	Density (USD)	Penetration %
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3.0	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4.0	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.10	5.2	0.60	38.4	4.80
2007	40.4	4.00	6.2	0.60	46.6	4.70
2008	41.2	4.00	6.2	0.60	47.4	4.60
2009	47.7	4.60	6.7	0.60	54.3	5.20
2010	55.7	4.40	8.7	0.71	64.4	5.10
2011	49.0	3.40	10.0	0.70	59.0	4.10

1. *Insurance density is measured as ratio of premium (US Dollars) to total population*
2. *Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars)*

3. *The data of insurance penetration is available with rounding off to one digit after decimal from 2006.*
   Source: Swiss Re, Various issues.

As per the above table 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). Since opening up of Indian insurance sector for private participation, India has reported increase in insurance density for every subsequent year and for the first time reported a fall in the year 2011. However, insurance penetration, which surged consistently till 2009, slipped in the consecutive second year on account of slower rate of growth in the life insurance premium as compared to the rate of growth of the Indian economy.

Nationalisation and its impact on Bancassurance

The banking industry in India became a major tool for the development of country's economy by the 1960. The industry also became a large employer creating a number of opportunities for the job-seekers. In order to spread banking infrastructure in rural areas, the then Prime Minister, Indira Gandhi took the initiative to nationalize some commercial banks. She submitted a paper “Stray thoughts on Bank Nationalisation’ in the All India Congress Meeting, which got positive feedback. On July 19, 1969, 14 commercial banks were nationalized, which got presidential approval on August 9, 1969.

Bancassurance refers to selling of insurance policies through banks. Banks earn revenue through this sale. In India, the process began in 2000. IRDA came up with regulation on registration of Indian companies. Government of India also issued a Notification 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. However it was clarified that any bank intending to take up the business would have to take specific approval from RBI. All scheduled commercial banks were permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. Specific rules were framed for setting up of joint venture companies for undertaking insurance business with risk participation.

Bancassurance performance 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. No when we talk of statistics, we have to check out the performance of nationalised banks for the growth and development of our country tying up with various activities along with its routine banking activities, in that bank assurance is a significant activity which can help both the banks and insurance companies as per their business point of view and help to the growth and development of economy and also help the people by providing various services at a place. So the concept of bank assurance developed and contributing its contribution to the nation. The following tables from table 1.3 to Table 1.8showing individual new business performances, group new business performance, number of individual agents, average number of policies sold by individuals and corporate agents, average individual and corporate new business , share of individual policies of different channels of life insurance.

Table 1.3 showing individual new business performances of life insurers for 2011-12 channels wise.
(Figures in percent of premium)

Insurer	Individual Agents	Corporate Agents		Brokers	Direct selling	Total individual new business	referrals
		Banks	Others *				

Private	44.05	39.01	7.52	5.07	4.35	100.00	0.16
LIC#	96.56	2.57	0.22	0.04	0.61	100.00	0.00
Industry	78.69	14.96	1.75	1.75	1.90	100.00	0.05

Any entity other than banks but licensed as a corporate agent.
 # does not include its overseas new business premium.
Note: *1) New business premium includes first year premium and single premium.*
2) The leads obtained through referral arrangements have been included in the respective channels.
Source: Compiled from IRDA Annual reports

As per the table 1.2 the concept of bank assurance played significant role in private insurance players in in new business performance holding 39.01 % in insurance new business and grab14.96% of the total new individual business share. It indicates the concept of bank assurance playing a very vital role with private insurance players comparing to the domestic company LIC of India.

Table 1.4 showing Group new business performances of life insurers for 2011-12 channels wise.

(Figures in percent of premium)

Insurer	Individual Agents	Corporate Agents		Brokers	Direct selling	Total individual new business	referrals
		Banks	Others *				
Private	4.26	29.65	5.61	2.99	57.49	100.00	0.003
LIC#	4.38	0.36	0.02	0.07	95.17	100.00	0.000
Industry	4.36	6.35	1.17	0.66	87.46	100.00	0.001

Any entity other than banks but licensed as a corporate agent.
 # does not include its overseas new business premium.
Note: *1) New business premium includes first year premium and single premium.*
2) The leads obtained through referral arrangements have been included in the respective channels.
Source: Compiled from IRDA Annual reports

Direct selling continues to be the dominant channel of distribution for group business, with a share of 87.46 per cent during 2011-12. The corresponding share in the previous year was 90.06 per cent. While LIC has procured 4.38 per cent of the group business through its traditional individual agency force; private insurers procured 4.26 per cent through this channel. Another important channel for the private insurers was banks. During the year 2011-12, banks contributed 29.65 per cent of the total group business in case of the private insurers. This figure stood at 11.51 per cent in the previous year.

Table 1.5 showing new business premiums (individual and group) of life insurers for 2011-12 channels wise.

(Figures in percent of premium)

Insurer	Individual Agents	Corporate Agents		Brokers	Direct selling	Total individual new business	referrals
		Banks	Others *				
Private	31.59	36.08	6.92	4.42	20.99	100.00	0.11
LIC#	52.55	1.51	0.12	0.05	45.76	100.00	0.00
Industry	46.64	11.25	2.04	1.28	38.78	100.00	0.03

** Any entity other than banks but licensed as a corporate agent.*
 # does not include its overseas new business premium.
Note: *1) New business premium includes first year premium and single premium.*
2) The leads obtained through referral arrangements have been included in the respective channels.
Source: Compiled from IRDA Annual reports

Individual agents continue to play a major role in procuring new insurance business. At the aggregate Level (individual and group business together), individual agents contributed 46.64 per cent of the total New

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business, however, their share declined significantly from 53.90 per cent in 2010-11. The channel which witnessed a noticeable growth as compared to previous year was direct selling. This mode contributed 38.78 per cent of the total new business as compared to 32.36 per cent during the year 2010-2011.

Table 1.6shows the average number of individual policies sold by Individual agents and corporate agents

Average individual new business policies sold by individual agents					
	2007-08	***2008-09***	***2009-10***	***2010-11***	***2011-12***
Private	*7*	*6*	*4*	*4*	*3*
LIC	*32*	*28*	*28*	*26*	*27*
Industry	***20***	***16***	***15***	***15***	***16***
Average individual new business policies sold by Corporate agents **(Rs. In lakhs)**					
	2007-08	***2008-09***	***2009-10***	***2010-11***	***2011-12***
Private	*1798*	*1857*	*2289*	*1976*	*2533*
LIC	*1905*	*2190*	*1606*	*1708*	*2194*
Industry	*1815*	*1908*	*2172*	*1933*	*2474*

Source: Compiled from IRDA Annual reports

From the above table, it is observed that the average number of individual policies sold by the corporate agents of LIC has shown significant increase during the last two years. In case of individual agents, the average number of individual policies sold by private insurers has been consistently lower than that of the LIC and has also witnessed a downward trend over time. The same has dipped from an average of seven policies in 2007-08 to mere three in 2011-12. The share of business in number of individual policies of private insurers and LIC is exhibited in the chart. From the table, it is interesting to see that the share of individual policies sold through corporate agents of the private insurers is increasing over the years in line with the increase in its average number of individual policies sold through corporate agents.

Table 1.7shows the average individual new business premium by individual and corporate agents

Average individual new business premium by individual agents **(Rs. In lakhs)**					
	2007-08	***2008-09***	***2009-10***	***2010-11***	***2011-12***
Private	*1.62*	*1.10*	*1.01*	*0.99*	*0.81*
LIC	*4.22*	*3.10*	*3.59*	*3.75*	*3.14*
Industry	*2.94*	*2.02*	*2.21*	*2.34*	*2.03*
Average individual new business premium by Corporate agents **(Rs. In lakhs)**					
	2007-08	***2008-09***	***2009-10***	***2010-11***	***2011-12***
Private	*453.10*	*443.79*	*492.59*	*594.82*	*399.55*
LIC	*207.81*	*232.84*	*235.52*	*313.42*	*444.90*
Industry	*414.00*	*411.21*	*448.84*	*550.36*	*403.84*

Source: Compiled from IRDA Annual reports

From the above table, a similar trend may be observed in respect of the premium per policy through the above channels and share of business thereof. Further, it is noticed that the premium per policy underwritten by corporate agents is significantly higher than that of the individual agents.

Table 1.8 shows the share of individual policies of different channels

Share Of Individual Policies Of Different Channels

(in percent)

Year	Private			LIC			Total		
	Individual Agents	Corporate Agents	Others	Individual Agents	Corporate Agents	Others	Individual Agents	Corporate Agents	Others
2007-08	59.73	26.97	13.31	97.99	1.91	0.10	88.01	8.44	3.54
2008-09	56.16	25.73	18.11	97.60	2.32	0.08	85.38	9.22	5.40
2009-10	48.42	35.95	15.62	98.06	1.91	0.03	84.66	11.10	4.24
2010-11	47.65	38.20	14.15	98.06	1.86	0.08	86.44	10.24	3.33
2011-12	48.12	37.72	14.16	98.10	1.64	0.26	88.55	8.53	2.99

Source: Compiled from IRDA Annual reports

The above data denoted that there has also been a decrease in the share of direct selling in the total individual new business. Its share has gone down from 2.42 per cent in 2010-11 to 1.90 per cent in 2011-12. While private insurers have procured 4.35 per cent of their new business through direct selling, LIC has procured only 0.61 per cent of their new business through this channel. The share of corporate agents in the new business premium procured by the private life insurers was significant at 46.53 per cent in 2011-12 as compared to 41.91 per cent in 2010-11. On the other hand, LIC has 96.56 per cent of the new business premium from individual agents. With such heavy reliance on the agency force, the contribution of corporate agents for LIC has been a mere 2.79 per cent.

Findings

- At present the middle class people is overburdened with inflationary pressures, growing expenses of education & living standard and tax rates
- Excepting for the private banks, all banks have not developed the necessary IT infrastructure to make the best of Bancassurance. The channel will work best only when we have all Regional Rural Banks, cooperative banks and all public sector banks develop the requisite IT structure to monitor premium renewals, premium lapses, premium sourced, policies taken, persistency if any et al.
- The figures based on which these assumptions, projections and presumptions are being made are everything other than the authentic data provided by the bancassurance companies and partners. The regulatory framework of the country (at present) does not offer any such mandatory disclosure.

Conclusion

India has potential market for insurance companies particularly in rural areas. Setting up a network and creating infrastructure for doing business attracts a huge investment by the insurance companies. Bank assurance is a better alternative in this area where insurance companies without investing on advertisement, market channels, infrastructure. The database shared by the bank in this regard help the insurance companies to convert their customers into consumers.

Banks are having the database of their customers and besides it the reputation and recognition of the bank also help in the selling of insurance products by the insurance companies. But we would like to state at this stage that bancassurance would not be successful to the extent it should be due to the poor manpower management, untrained bank staff in selling the insurance products, lack of incentives to agents, lack of accountability of bank managements for their customer complaints, ambiguity regarding grievance redressal forum etc.

In addition to it, there are also certain issues which need to be clarified by the authorities such as the jurisdiction and interference of RBI and IRDA. We would rather suggested that there should be a separate regulator for regulating bankassurance and provide remedy for any grievance. It is very important that insurer and bankers must have a good understanding of each other and proper strategy to capture the opportunity and service for their customers, finally, we appreciate the concept of bank assurance and feels it is an efficient and cost effective measures for the insurance companies.

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