

EMERGENCE OF BANCASSURANCE IN INDIA- A LITERATURE REVIEW

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ABSTRACT

The present paper is an attempt to understand the various dynamics of bancassurance in India from the operational point of view. Through this paper the authors tried to decode the issues related to bancassurance. The paper is based on secondary data and the objective is to undertake an in-depth analysis of the emergence of bancassurance in India with special reference to the eastern part of the country. We are sure that the literature included for this paper will provide new dimensions for the various researchers working in this area.

Key words- Bancassurance, Banks, Insurance & Financial Market

Sinha (2005) The author highlights the emerging trends of bancassurance in the Indian market. There are various factors responsible for this growing trend and among these, factors like a huge branch network, fee-based earnings for bank staffs and common acceptability of banks among mass consumers vis-à-vis insurance companies play a dominant role. Along with these, the problems of bad loans faced by the Indian banks as well as the overstaffing situation also forces the banks to take this route. This not only *increase the level of income substantially it also helps to use the manpower resources in a proper manner for banks*. The author concluded that the change in the regulatory environment just after the liberalization of the Indian economy plays a significant role for the development of the bancassurance business model. ¹

Focus Publication (2005) The paper concluded that country-wise performance of the bancassurance business model can't be grouped under one condition due to the different regulatory environment that may exist in different countries. In most of the Latin American countries and European countries where bancassurance has a huge growth still growing at a faster rate and in other parts of the world

the growth of bancassurance business model is not that much effective. Very recently some of the emerging countries like, India and China have shown significant improvement in this aspect but still they have to go a long way as the common model has not been decided yet. If we look at the geographical spread of these countries, implementing one single model of bancassurance may not be that much effective as its acceptability and reach may not be beneficial for the implementing agencies.²

Kumar (2008) The paper highlights the various distribution mechanism which can be implemented through bancassurance distribution channel. Among these, effective utilization of brand equity enjoyed by the banks and the strategy to cater to the bank consumers are most important for the success of this model. The concept of bancassurance is not new but with changing time and geographical location wise the same model need to be re – oriented so that it becomes acceptable by the target consumers. The main difference that it has compared to other types of distribution network which the insurance industry at present maintaining is low cost and effective reach which the banks are enjoying. But under any circumstances the cultural differences should not play a pivotal role in this regard. Since, both the industries selling financial products but the individual choice of banking products and insurance products are vastly different. Thus, there may be a chance of cultural conflict which needs to be handled with care.³

Capgemini (2011) The paper focuses on the new operating model of bancassurance under the changing circumstances as it provides better cost efficiency and reach as compared to traditional agent based distribution channel. The focus should be shifted to better technology platform which can provide better customer access.⁴

Chang (2011) The present work focuses on the sales efficiency of various insurance channels that exist in the Taiwan market. The authors concluded that although, bancassurance is a channel proved to be more effective for new generation banks and insurance companies but the traditional agent based insurance channel is more effective in terms of customer preference. The main difference between these two distribution channels is come across in terms of portfolio of products offered by the insurance agents and lack of understanding about insurance industry and insurance products from bank employee's point of view. To handle this kind of problem, a thorough training programme need to be implemented to reduce the difference that may arise as a result of this customer preference.⁵

Mukadam (2011) The author focuses on the changing trend of insurance industry after the introduction of bancassurance model. The success of bancassurance model in European market makes it more acceptable in the developing country and the same has got momentum after the liberalization of the Indian economy. The entry of private players generates the need of trust which is mostly enjoyed by the Indian banking industries. Since the initial set up cost of bank branches and subsequent promotion of the brand incurs huge investment which may not be a profitable decision for a new entrant in the Indian insurance industry. Thus, most of these new players find the opportunity to cater the trust and brand loyalty owned by the Indian banking industries. This also helpful for the customers as they are able to get the services of various financial products under one roof in a hassle free manner.⁶

Clipci (2011) The author highlights that bancassurance provides an opportunity to expand the income base of the banks apart from the traditional earnings from lending only. The impact of financial crisis also affected the banking business badly which needs a steady recovery mechanism. The proper optimization of capacity and existing workforce for an extra income is always welcome and this particular distribution channel may give this opportunity of survival for the industry as a whole. This is a win – win situation for both the industries as the insurance industry is looking for a cost effective distribution channel to minimize the operational cost and the bank is looking for extra earnings through alternate channel.⁷

Bajaj Allianz Report (2011) The paper focuses on the issue that since bancassurance primarily targeting the bank customers, so there is an increasing need to develop wide variety of product ranges catering to the need of the bank customers first. In this case the along with the traditional insurance products, some other products like loan insurance, health insurance etc. can be designed to meet the growing requirement of the bank customers. If this can't be attended properly then surely it will lost the readymade customer base enjoyed by the banks. Not only that the premium pricing should be made in such a manner so that customers can be easily attracted with the help of the same. Since, the banks have different types of customer base starting from low value customers to high value customers, a proper distinction need to be made for these two groups. The mixing of the same will ultimately dilute the true nature of the business which may become costly affairs for both the banks as well as insurance companies who is actually offering the service.⁸

Sorina (2012) The author describes the bancassurance as a strategic orientation towards developing a financial conglomerate for the betterment of the each and every stakeholders. The financial crisis of European nations surely impacted the business of the banks and this may be the way out to

compensate the same. The insurance companies able to reach to a larger consumer base at a lesser cost as they don't have to wait for the expansion of the business by establishing the branches. Sometimes, it may not be possible to enter in extremely backward areas by establishing a branch rather it is a wiser decision to depend on bank. The situation is extremely favourable in a developing country where low penetration of insurance services creates financial insecurity. Thus, the association is surely profitable but the implementation of the same needs complete understanding of the business model. The implementation of the same model throughout the world may not be effective as the specific socio economic conditions of the people and the society severely impact the business.⁹

Mishra (2012) The paper focuses that a relationship based model will play an important role for the greater success of bancassurance model in India. Considering the trust enjoyed by the banks, they should give more focused approach for the development of this relationship based bancassurance model. Not only that for the effective implementation of this strategy, in the long run banks should focus on equity participation rather than playing as an agent or distributor of various insurance products of different insurance companies. In this regard proper regulatory norms need to be made so that success can be achieved. The effective utilization of technology should be taken into consideration and most importantly an awareness campaign need to be created so that consumers get an in depth idea about the products as well as services. Since trust and loyalty is pivotal this should be capitalize for the betterment of this initiative.¹⁰

Kumaraswamy (2012) The author focuses on the issue that due growing importance of convenience in availing various types of financial products under one roof forcing the banks to opt for different financial products including insurance so as to retain the consumers. Today consumers become more technology savvy and have less time to avail any services. So, in this competitive market, if the banks failed develop integrated financial services then it will create a pressure on them. Thus, the emergence of bancassurance model, help the banks to sustain in the business and become a dominant player in the financial market.¹¹

Cognizant Report (2013) The Cognizant report on insurance industry focuses on the increasing role of IT for effective distribution of insurance products among the mass consumers. The development of new distribution channels like bancassurance should be aligned with proper IT enabled services so that the cost of distribution can be reduced substantially. It can be observed that the main reason behind the changing nature of distribution channel is cost. So, if the same cost can be further reduced substantially with the help of IT enabled services then it will surely attract mass consumers

which transform into volume. The main reason behind the low penetration of insurance business is cost and reaches. Thus, if implemented properly then it will surely help to get a next big growth which the industry is looking for.¹²

Rajan (2013) The paper made a comparative analysis of customer satisfaction between private and public sector banks in terms of service delivery through bancassurance channels. The outcome of the result indicates that instead of who is offering the service, the convenience of availing the service plays a most significant role for the betterment of the service delivery. Thus, it can be concluded that the main agenda of introducing bancassurance services should be customer enabled service delivery. Other things remain constant, if the banks able to improve this then surely it will be an added advantage for the banks and its customers.¹³

Gulati (2014) The author introduces a unique relationship building strategy which the insurance companies should applied looking at the various degrees and nature of distribution channels implemented by the companies. Being in the service industry selling a financial product is surely tough and most of the time success comes through a proper relationship building strategy. But, this degree and nature of relation may vary distribution channel wise. So, the kind of relationship strategy which may be implemented in case of agency based system, the same may not applicable for bancassurance channel where both the service providers as well as service receivers may vary considerably. Thus the author suggests that a separate training mechanism needs to be developed for the betterment of the entire industry.¹⁴

Malik (2014) As the insurance industry is not growing as expected in the Indian market, a need arises to identify the root cause of the same. The analysis shows that the lack of reach, lack of competitive premium and lack of knowledge plays a significant role in this regard. Along with that the high attrition the industry is observing also plays a dominant role related to this. Overall, the industry is lacking in all aspect. Looking at the country like India, with vast reach and spread there is a need to implement an alternative distribution channel apart from agent based distribution system to cater to the need of the consumers. But, only having tie ups with banks will not resolve the issue as physical infrastructure of the banks will not be sufficient for the effective implementation of this strategy. The need is to develop a mindset which is a must for this kind of service related products.¹⁵

Bhateja et al. (2014) The authors highlights that in spite of huge population growth the penetration level of insurance products are simply not that much encouraging. Considering the overall growth aspect, the industry has the potential but to achieve the same a new initiative need to be developed.

Creation of bancassurance business model is one such initiative but the same has *not gain its momentum due lack of regulatory and infrastructural bottlenecks*. So, to tap the potential that the industry has, all the stakeholders need to design the reform in to the business model so that it helps to give positive result.¹⁶

Concluding note

Through this review of literature the various variables identified are increase the level of income substantially it also helps to use the manpower resources in a proper manner for banks, implementing one single model of bancassurance may not be that much effective as its acceptability and reach may not be beneficial for the implementing agencies, there may be a chance of cultural conflict, it provides better cost efficiency and reach as compared to traditional agent based distribution channel, the traditional agent based insurance channel is more effective in terms of customer preference, training programme need to be implemented to reduce the difference that may arise as a result of this customer preference, customers able to get the services of various financial products under one roof in a hassle free manner, an opportunity to expand the income base of the banks apart from the traditional earnings from lending only, cost effective distribution channel to minimize the operational cost, increasing need to develop wide variety of product ranges catering to the need of the bank customers first, strategic orientation towards developing a financial conglomerate for the betterment of the each and every stakeholders, a relationship based model will play an important role for the greater success of bancassurance model in India, The effective utilization of technology should be taken into consideration, , help the banks to sustain in the business and become a dominant player in the financial market, bancassurance should be aligned with proper IT enabled services so that the cost of distribution can be reduced substantially, bancassurance services should be customer enabled service delivery, separate training mechanism needs to be developed for the betterment of the entire industry, to develop a mindset which is a must for this kind of service related products and has not gain its momentum due lack of regulatory and infrastructural bottlenecks.

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