Vol II Issue IX

ISSN No : 2230-7850

Monthly Multidiciplinary
Research Journal

Indian Streams Research Journal

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RNI MAHMUL/2011/38595 **ISSN No.2230-7850**

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Indian Streams Research Journal
Volume 2, Issue. 9, Oct 2012
ISSN:-2230-7850

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ORIGINAL ARTICLE

BANCASSURANCE – A New Viable Strategy For Indian Financial Sector

Sunil Lohiya

Hemchandracharya North Gujarat University-Patan

Abstract:

Now a day, the banking industry and insurance industry have been rapidly changed. Banking sector and Insurance sector contributes in nation GDP growth; it is life line of any economy. The Indian economy completely changed due to LPG policy introduced by Indian government, the pace of market expand due to LPG policy. The insurance company provided cutting cost services due to competition. In view to reach huge untapped market, the concept of Bancassurance was introduced by the IRDA. Bancassurance is a new and an emerging model of channel of distribution life insurance policy. In India, customers were used to monopolistic attitude of public sector insurance companies because of Government ownership. But now a day, the customers to move over to private insurance companies that are collaborated with foreign companies which are less known to the Indian public would take little more time. The present conceptual based research paper focus on objective, benefits, limitations, awareness and future perspective of Bancassurance

KEYWORD:

Bancassurance, Insurance, Bank, Life insurance, Co-branded business.

INTRODUCTION:

The rapid growth of financial markets is one of the significant developments in Indian economy after LPG policy implementation. Financial deregulation and innovations have changed whole structure and functioning of financial markets. The financial companies are searching highly distribution channel for far reaching the customer. The financial market became more aggressive due to price competition, marketing costs, and product differentiation. Insurance sector and Banking sector has emerged make new opportunity. Bank and insurance company provide enhanced new services to the customer; it is also satisfy customers need. Bank provides his customer's various types of normal fee based insurance services. Now a day, financial markets completely changed and new approach is required for market. The new form of Bank and insurance collaboration is known as Bancassurance, researcher has identified its structural based in India and its benefits, limitation encountered.

DEFINES BANCASSURANCE

Bancassurance is a combination of two words i.e., banc + assurance, this term identified that bank selling insurance products. Bancassurance term first appeared in France in 1980, it is also define that bank sale insurance policy through their wide distribution channel. Bancassurance is defined to mean banks dealing in insurance products of both life and non-life type in any forms. Bancassurance is very familiar word in European countries. In India Government issued notification under Banking Regulation Act which is allowed to Indian bank to distribute insurance policy, IRDA passed a notification in October 2002 on 'Corporate Agency' regulation. It is a phenomenon where insurance policy distributed by authorized

Please cite this Article as : Sunil Lohiya , BANCASSURANCE – A New Viable Strategy For Indian Financial Sector : Indian Streams Research Journal (Oct. ; 2012)

banking entity.

According to IRDA, 'Bancassurance' refers to banks acting as corporate agents for insurers to distribute insurance products".

In Indian context various types of Bancassurance model available, which is identified that how bank have done his insurance work with the help of insurance company and without help of insurance company.

HISTORICAL POINT OF BANCASSURANCE

Bancassurance term first appeared in France in 1980, to define the sale of insurance products through banks' distribution channels. This term is extremely familiar among the European countries as banks selling insurance products in most of these countries are a common feature. Banks are being used as an effective alternate channel to distribute insurance products either as 'stand-alone insurance products' or 'add-ons to the bank products' by way of combining the insurance with typical banking products/services.

In India context on march 2000 RBI amendment and IRDA's 2002 notification that Banks culturally more acceptance financial institute for Insurance. Private sector bank and private sector insurance companies are more active and beneficiaries of Bancassurance. It is apparent that there is a natural collaboration between banks and insurance companies. Banks derives revenue from sale of insurance major banks doing business on joint venture and ownership models. Banks works all works as per customer need and customer's benefits, Bancassurance model provides customer to provide necessary financial services.

Bancassurance is highly successful in Europe, Portugal and France approximately 70% of the insurance products were sold through banking channel.

BANCASSURANCE IN INDIA

Indian insurance market rapidly growth in next 10 years, it is stated that India accounts not even 1% of the contribution in global insurance markets. However, studies of the insurance company pointed that Indian insurance future will be bright. Indian insurance market quite silent as longer period because of tradition system of sales insurance policy, therefore, the new channel of distribution is needed, it is a Bank + Insurance company, it's also known as Bancassurance. As per March 2008, the number of Insurance companies works in India are as given below.

Life Insurance Companies	15 Private Insurance Companies
	1 Public Insurance Company (LIC)
Non- life Insurance Companies	9 Private Insurance Companies
	4 Public Insurance Company

As the insurance sector is aggressive rapid growth, in terms of business as well as tough competition has become inevitable, so new distribution channel would become necessary.

Bank + Insurance company collaboration in India

The growth of Bancassurance was phenomenal in India of initial years of opening. The Bancassurance premium collection became Rs. 21947 crore in the financial year 2009-10 which is7.31% of the total premium income of life and non-life insurance sectors in India. Bank received total compensation in 2009-10 approximately Rs. 2744 crore. Bancassurance in India context are given below:-

Table no:-1
Insurance company and Bank collaboration

Insurance Company	Bank
Birla Sun Life Insurance	Bank of Rajasthan, Andhra Bank, Bank of Muscat, Development Credit Bank, Deutsche Bank and Catholic Syrian Bank
Aviva Life Insurance	Canara Bank, Lakshmi Vilas Bank, American Express Bank and ABN AMRO Bank
HDFC Standard Life Insurance	Union Bank Of India
ICICI Prudential	Lord Krishna Bank, ICICI Bank, Bank of India, Citibank, Allahabad Bank, Federal Bank, South Indian Bank, and Punjab and Maharashtra
Bajaj Allianz	Syndicate Bank, Centurion Bank and Standard Charted bank.
LIC	Corporation Bank, Overseas Bank of India, Vijaya Bank, Bank of Commerce.
SBI Life	SBI, BNP Paribas
Tata AIG	HSBC, United Bank of India

(Source:- www.bimaonline.com)

RBI Guidelines for the bank doing Insurance Business

RBI Guidelines for the Banks to do Insurance Business Following the issuance of Government of India 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. RBI issued the following guidelines for banks wishing to do insurance business.

Any scheduled commercial bank would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation.
The subsidiaries of banks will also be allowed to undertake distribution of insurance products on agency basis.
Banks which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The eligibility criteria for joint venture participant are as under.
The net worth of the bank should not be less than` 500 cores;
The CRAR of the bank should not be less than 10 percent;
The level of non-performing assets should be reasonable;
The bank should have net profit for the last three consecutive years
The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

A subsidiary of a bank will not normally be allowed to join the insurance company on risk participation basis. Subsidiaries would include bank subsidiaries undertaking merchant banking, securities, mutual fund, leasing finance, housing finance business etc.

MONITORING STAGE

Monitoring of the Bancassurance partners can be done by IRDA and RBI, IRDA inspect by every stages of distribution level of the insurance policy and largest component of the expenses.

Code of Conduct followed by Bancassurance partners

Any malfeasance by the bank staff shall be strictly dealt with RBI.
Banking Ombudsmen may be mandated by RBI to accept complaints from policyholder, whenever bank staff found in default.
Claim settlement of insurance policy may be done through as per the agreement between banker and insurance company.
Bancassurance shall be provided detailed service level agreement to the policy holder.
Insurer must provided detailed information regarding KYC norms issued by the RBI.
Bank staff shall compulsorily analyzed product than after sell out.
Senior staff of bank and insurer has set up review complaints at pre-ombudsmen stage at end of every quarter.

Table:-2
Regulatory process at country wise

Name of the country	Regulatory process
Indonesia	Bancassurance Starting : -1990
	Monitoring: - The sales process governed through central government
Singapore	Bancassurance Starting: -1992
	Monitoring: - Regulatory monitors sales practices through regular fact finding process
Malaysia	Bancassurance Starting: -1996
	Monitoring: - Regulatory monitors sales practices through regular fact finding process
France	Bancassurance Starting: -2000
	Monitoring: -The regulator exercises regular monitoring.
Hong Kong	Bancassurance Starting: - 2001
	Monitoring: - Sales control processes are generally conducted by the insurers themselves
UK	Bancassurance Starting: -2001
	Monitoring: - The regulator exercises regular monitoring through compliance visits
China	Bancassurance Starting : - 2001
	Monitoring: -insurance stating in 2001 and the insurance law revised in 2003 to lift restrictions stating that banks were no longer limited to being agents for one insurance
Japan	Bancassurance Starting: - 2001
	Monitoring: - the Bancassurance channel introduced in 2001 and fully de - regulated Banks usually have non -exclusive distribution agreements with several companies, but the regulation imposes restrictions to protect consumers, respect privacy and security of data.
India	Bancassurance Starting : - 2008
	Monitoring: - IRDA (Insurance Regulatory and Development Authority) and RBI (Reserve Bank of India) control and monitoring all the stages of the insurance process.

(Source: - Insurance Regulatory and Development Authority, Report of the Committee on BANCASSURANCE)

BANCASSURANCE- STRUCTURAL CLASSIFICATION

Integrated model

Bancassurance means the distribution of insurance products to a bank's client base, the business models of Bancassurance vary widely from country to country, it's model is divided into various types Integrated model popular in European countries like France, Italy, and Spain operate either through fully owned insurance subsidiaries or through joint ventures that company have exclusive distribution agreement with the bank. Insurance activity is integrated with the bank's routine processes. Banks are collected premiums directly through customer's account. Bank staff perform specialized insurance advisers, this integrated model very successful business.

Non-integrated model

This model instance work in UK, the sale of life insurance products has been limited by regulatory boards. Customer can done investment in insurance by the help of insurance advisors who have minimum qualification regarding insurance policy, so bank set up financial authorized advisor network and sell life insurance products.

Open architecture model

This model is instance Japan, bank collaborate with several insurance company and try to provide various types of insurance product where customers requirement in some cases banks product specifically tailored for their customers demand and white labeled strong competition among insurance and banking sector. Bank tailored their product and attract customer.

BANCASSURANCE PRODUCT BASED CLASSIFICATION

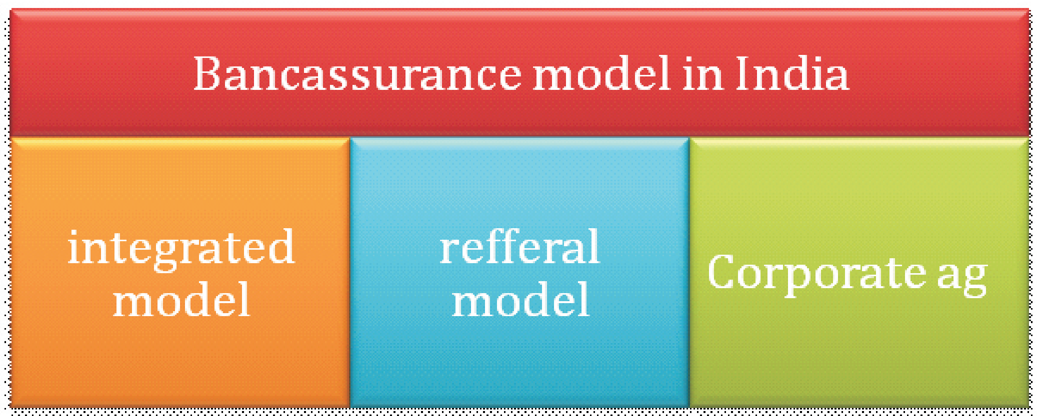
Stand-alone Insurance Products

In this model Bancassurance involves in marketing based of the insurance products through refferal model or corporate agency, bank and insurance company one or more items sold by the bank customers. However, the products of bank and insurance will have their respective brand too, e.g., HDFC bank selling of life insurance products of Tata AIG.

Bancassurance Structural classification in India

Every banks try to satisfy customer need and provide better services, so it is necessary that what customer requirement. Bank create portfolio of financial assets, financial risks and financial security. This models min strategy is blending of insurance product as a value addition' while promoting its own products. Bank sells the insurance products without any additional efforts. Bank charges normal fees and giving an insurance cover.

In India context Bancassurance model can be classified as under



Integrated Model

In this model insurance companies and bank work together, distributed insurance policy and earn profit as well faced losses. In India this model known as "Joint venture", comparison to the reffel model and corporate agency this model is very complex. Bank function is fully universal in this model.

Refferal model

Referral model is costlier than the corporate agency model. Inequitable relationship between the banker and the insurer has resulted in higher premium on the policyholder. The referral system shall not be available to bancassurers. Refferal model is simple arrangement between bank and insurance company, bank access to the customer's data parts with only the business leads to the staff of insurance company for a normal charges charged by the bank it is also known as referral fee as well commission. Co-operative banks started this method of Bancassurance.

Corporate Agency

This model is more popular in India. Under this model bank act as corporate agent for the insurance company for the purpose of fee/commission/ charges. It is must mentioned that insurance company borne all insurance based risk factor. This model is appropriate in Indian context because bank gives large number of customer to the insurance company so; insurance company managed both risk and reputation.

BANCASSURANCE DISTRIBUTION PATTERN

Bank offering insurance products
Bank selling an insurance product on an exclusive basis.
Bank selling a product of their subsidiary basis.
Challenges encountered of Bancassurance in India
The challenges for the bank encountered in India are given below.
Manage conflict level of interest between insurer and bank
To take motivating skill at the operating level
Creating an environment in the bank top level management.
Setting up absolute distribution system.
Bringing work related with customer awareness.
Reach from rural area.
Spread bank branches.
Counseling to bank customer regarding insurance policy.

Benefits for the banks

Bank receive large number of non interest income
Bank get new customer
Bank branch get target profit
Leverage on their extensive customer bases and increase customer retention
Bank made financial assets
Bank became financially strong and made competition with competitor
Revenue will deposit into the bank customers get benefits of tax relief.
Provide various types of financial services to clients
Bank provide his customer tailor based service so, satisfaction level of the customer became high

Benefits for the Insurance Company

Access bank customer directly
Used Bank distribution channel
Directly debited premium in bank account
Capturing premium and made bank financial assets
Introducing various types of co-branded product
Attract bank customer with walk in distance

Potential market for cross selling policy

PROBLEM PROSPECTUS

Integration with different types of financial constitutions
The problem of interest a rise in different form
In India insurance company face large number of natural calamities which is breaks up the profitability level of insurance company.
In India customer does not believe in private sector so, public sector banks and insurance company done his business in easy way so, private sector bank work in attract customer with better service level.
Government should made particular regulatory form so, operation should be easy for bank and insurance company.

CONCLUSION

The banks get their commission for selling the insurance products and in the same way the insurance companies get the wide spread networking of their branches without any cost. The most advantage for customers is that, in insurance business trust can plays greater role for attract customer, especially built relationship between insurers and insured for a long time. Customers always attract by the public sector insurance company it is monopolistic attitude, so private sector bank and insurance company have a no large number of business market. Private insurance company collaborate with foreign companies which are un known of Indian people. Under the circumstances insurance company collaborate with bank and introduced various types of tailored based services to the customer. Bancassurance will provide better distribution channel for the insurance company with the help of bank. Bank spread all over the countries so insurance company does not have any branch section requirement. Bank and insurance companies mange all the things shall be perform his duties well with the get a structural benefits of the Bancassurance model available in the country.

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