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Bancassurance: A base for financial Inclusion

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Abstract
Developed and sustainable financial market is pre-requisite base for an economy approaching towards milestone of 100% development. Indian economy is emerging as a developed economy in coming years. For 100% economic development, 100% involvement of all sources is required. Banking and insurance are two main financial activities of financial market. These are to be all-pervasive activities. If there is any integration possible of these two activities, it could be a blessing. Bancassurance is that integration. Bancassurance is the relationship between a bank and an insurance company, whereby the insurance company uses the bank sales channel in order to sell insurance products. India has a diverse banking system with wide reach and credibility but insurance market is not that developed. So bancassurance is going to be a base for the all-round development.

Keywords: Bancassurance, Financial market, IRDA, NPAs.

Introduction

Bancassurance is a French word which means selling insurance products through banks. This concept originated in Europe in 1980 and now has become popular worldwide. According to IRDA (Insurance Regulatory and Development Authority), “Bancassurance refers to banks acting as corporate agents for insurers to distribute insurance products.” Bank and insurance company come up in a partnership wherein the bank sells the tied insurance company’s products to its customers. This type of arrangement benefits both the partners i.e. bank and insurance company. Bank earns non-interest income and insurance company increases its market share and customer reach. Bancassurance is the result of amalgamation of a bank and an insurance company aiming to reach a wider customer base for more penetration. Bancassurance is prohibited in some countries on the plea that it could give unnecessary control to banks over financial industry. But in liberalized countries, it has got that momentum. Banks welcome bancassurance because it brings more income with less or no investment in infrastructure and customer generation. They can sell insurance at better prices and push products with risk to their customers relying on their relationship with the customers. The primary benefit that the banks bring to the insurance companies is the customers trust and reach. The insurance company is benefitted in a way that it needs to make limited investment but this is offset to a large extent by high payouts demanded by the partner banks and in form of equity shares in insurance companies for extending reach to the customers and access to infrastructure and facilities.

Models

1. Strategic alliance model

Under this model bank only markets the products of the insurance company and there is no risk participation.

2. Full integration model

Under this model, the bank sells the insurance products under its own brand name and acts as a provider of financial solutions matching to its customers’ needs. Bank participates in product and distribution design. Bank earns more as an insurance distributer than a producer.

3. Mixed model

According to this model bank sells its database to the insurance company and the marketing is done by insurance company itself. It needs very little investment. Low level of integration is there and bank staff is reluctant to sell insurance products. Insurance company has little control over distribution system.

Need of Bancassurance in India

Indian economy is a growing economy where the number of middle class families is increasing. RBI recognized the need to expand the financial reach so as to meet development criteria in today's global environment. To expand financial reach, bancassurance is one step. Bancassurance is supported in India because:

1. It helps the banking industry to widen its area of working which may reach to every corner of the nation.
2. It helps development and enhancement of channels through which insurance products can be made available to every person of India.
3. It facilitate competition among private insurance companies and thus best possible and effective products availability to Indians.

India has banking system with an extensive, branch recognition, credibility and profitability in customers' operations. This is advantageous for insurance companies to sell their products through banking channels. Moreover banking and insurance industry are two parameters of a healthy economy which can attract foreign investment. So the collaboration of these two sectors make an attractive base for overall economic development.

In liberalized era, banks are also facing the heat of competition from financial and non-banking financial institutions. Banks are to look for other sources of income to maintain and sustain profitability. Indian Banking system was prone to NPAs in 1990s which were reduced sharply till 2010. Bancassurance is still an opportunity for enhancement of earnings with no more risk of increase in NPAs.

Regulations on Bancassurance

In India, Bancassurance gained recognition in 2000. Government of India issued a notification specifying 'Insurance' as a permissible form of business for banks under section 6 (1) (o) of Indian Banking Regulation Act, 1949. As per this, any bank intending to undertake insurance business can do the same with specific approval from RBI. Scheduled Commercial Banks can enter insurance business only as insurance agents on fee basis without any risk participation. A specific criterion has been framed for banks to enter into a joint venture with insurance companies, which is as under:

1. Minimum net worth of the bank should be Rs. 500 crore.
2. The CRAR of the bank should not be less than 10 percent.
3. Level of NPAs should be reasonable.
4. The bank should have net profit for the last three consecutive years.
5. The track record of the subsidiaries, if any, should be satisfactory.

Banks which are not eligible for joint venture as per above mentioned criteria can make an investment up to 10% of the net worth of the bank or Rs. 50 crore whichever is less, in insurance company to provide infrastructure and support services.

Subsidiaries of banks are not allowed to enter insurance business on risk participation basis. Every bank needs to obtain prior RBI approval for entering into insurance business. RBI grants such permission on case to case basis.

IRDA is also heading to provide open architecture bancassurance and has allowed banks to tie up with a maximum of 9 insurers from three segments- life, non-life and standalone health insurers- as part of the new bancassurance guidelines.

Advantages of Bancassurance

Bancassurance helps bank customers to be aware of insurance policies available and get to buy them for more competitive prices through widely distributed banking networks. It results in more strong relationship between bank customers and banks. On the same time, banks may have to compromise on data security while sharing customer database with insurance companies. Moreover customers may get confused on choice of products (competing products) being offered by banks and insurance companies. Banks need to be more proactive on customer service requirements.

Advantages to customers

Customers can have a variety of products under one roof. They get risk coverage at bank itself. They can get help in taking more informed decisions on finance management. They are at ease to get renewals through executing standing instructions.

Advantages to banks

Banks get more non-interest income. They can get new customers and increase penetration on their existing customer databases. Bancassurance results in better bank-customer relations and thus increasing profitability for banks.

Advantages to Insurance companies

Insurance companies get greater geographical reach through bank's network at relatively lower cost. Companies get credibility in customers' mindset by associating with banks. There are benefits of easy renewals and less chance of lapse incidences. Companies can enjoy the potential of cross selling, up selling including depth and width. It becomes easy to attract walk in customers of bank towards insurance products. Moreover co-branded products like fire policy for home loans can be made available to benefit all the stakeholders.

Issues of bancassurance

Banks needs to have developed infrastructure for taking up and maintaining the innovative and strategic products like bancassurance. Public sector banks, RRBs and Co-operative banks need to do more in this context. They have to develop requisite IT structure to monitor premium renewals, premium lapses, premium sourced and policies taken and their persistency.

A large proportion in Indian population is under effect of inflationary pressure so the companies must consider this when formulating their product policies. Moreover banks and insurance companies have to work upon to improve communication with customers. Customers need to be informed about bancassurance, new policies, conditions and updates. Bank staff should be motivated to enhance bancassurance through product development, product training, product awareness and commission as incentive.

Though Regulatory bodies are doing well in promotion of bancassurance, still there is a lot to do in order to improve customer reach and win their trust.

Conclusion

Government of India and regulatory bodies are resorting to reach every doorstep in the country to ensure 100% financial inclusion through different schemes such as PMJDY (Pradhan Mantry Jan Dhan Yojna), Micro-insurance and microfinance. In such an environment, Bancassurance would be a great base on which the pillars of 100% financial inclusion can be constructed. Bancassurance is going to be a win-win situation for all the stakeholders. With a number of benefits, bancassurance is expected to be a part and parcel of upcoming financial supermarket which is emerging rapidly in developed and developing countries.

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