Bancassurance: A Comprehensive Study

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Abstract— **Today every investor has to learn to analyze the savings and investment avenues cautiously. Life insurance policies are also one of the investment alternatives. Life insurance policies are available in numerous forms. Nowadays banks have been involving in the distribution process of insurance products. Bancassurance is a significant milestone in the insurance business. The article explains the emergence and development of bancassurance in India. The article also outlined the regulatory framework of bancassurance business in India. The growth of bancassurance in the life insurance sector is described in the article.**

Index Terms— **Bancassurance, Corporate agents, life insurance, channel of distribution, regulations and customers.**

I. Introduction

The term bankassurance is a French word used since 1980 which refers to selling insurance products through banks. It is an emerging concept in India. According to IRDA, banks act as corporate agents for insurers to distribute insurance products which include life and non-life insurance products. It is emerging concept and gained importance in the global emerging insurance industry in search of new channels of distribution. Bancassurance termed as "assure banking" in some countries. Banks receive non-interest income from the insurance company for their services. The implementation of bancassurance is facing many hurdles due to poor human resource management, lack of call centers, relationships with customers, inadequate incentive to agents and non-execution of other essential requirement. However the great growth can be seen for bancassurance. As per regulations of Insurance Regulatory Development Authority, banks act as a corporate agent or a broker to insurance companies. Corporate agents can sell insurance products for only one insurer while a broker can sell products of multiple insurers. According to the Glass Stegal Act of 1933 which was a barrier to bancassurance provided by banks in the USA. As a result, the life insurance was primarily sold through individual agents who focused on American middle class households remained as under insured. However, with the US Government abolished the Act in 1999 then the concept of bancassurance came forward in the USA.

II. Review of Literature

The insurance times (2003) focused that bancassurance channel contributes around 40% of the total insurance premium income of the insurers in US and UK. Soni and Singh (2003) pointed out the public sector banks and RRBs are around 92 per cent in the bank branch network. This network includes 33,000 rural and 14,000 semi urban branches. Bharti (2004) indicated that bancassurance concept was generated in France countries. In France, 70 per cent in Portugal, 69 per cent and in Spain 63 per cent of the new business premium come through banks. Brahman (2004) focused that banks and insurers both would get more convenience and flexibility in payment modes access to a portfolio of financial services under the single roof. Agarwal (2004) concluded that the bancassurance concept would help to tap the huge rural masses of India and also supported the bank staff will take time to adopt the new environment. Bhatacharya (2004) described that bancassurance channel is the most viable channel for marketing the insurance products in rural area. Arora and Leach (2005) concluded that India has an extensive banking infrastructure that has branch recognition, credibility and profitable in customers' operations. Battacharya (2005) pointed out that foreign insurers are expected to bring more funds, technology and management practices in insurance sector but this flow depends on the investor's perception about the financial health of an economy which is measured by the stability of banking and also insurance market.

Veeraian and Sreenu (2005) said that Indian rural markets are still untouched territories to a great extent that are offering exciting opportunities to the insurers. This study also focused that the insurgent need to enter into tie ups of other agencies. Kumar (2006) explained about the need of trained and trust worthy bank staff for customer satisfaction. Rao (2006) mentioned that in new delivery channels like bancassurance which is a revolutionized process to sell insurance products, with the wide banking network, especially in rural areas. Qaiser (2007) suggested that bank staff and client relationships are very strong in small towns and these relationships can be maintained with proper training in the same direction. Asia insurance Port (2008) stated that after liberalization, the entry of new private insurance companies lead to new product innovations, network expansion and alternative distribution channels. Popli and Rao (2009) extracted that after opening up of the insurance sector, new opportunities have emerged for insurance and banking sectors in India. In such environment, bancassurance is very successful phenomenon for insurance distribution. Palhania and Sharma (2010) pointed out that Indian banking system is no longer restricted to metropolitan cities or big towns but also catering the need of rural population even in remote areas.

III. Need for the Study

The Business organizations and individuals have to make use of opportunities in ever changing competitive world. It is necessary to understand the market needs and start for the continuous growth. There are number of studies available on liberalization, privatization, efficiency and productivity of

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Indian banking and insurance sectors individually, but the studies related to both sectors are very few. Study about bancassurance which is one of the subsidiary services to both insurance sectors is essentially needed. The study describes the need of bancassurance as an effective distribution channel for insurance companies in Indian economy.

IV. Objectives of the Study

1. To study the emergence and development of bancassurance in Indian life insurance sector;
2. To monitor the regulatory frame work of bancassurance.

V. Methodology

The present study is exploratory in nature and is purely based on secondary data. The data has been collected from secondary sources such as journals, text books and magazines, RBI and IRDA Reports etc. However, the study is limited to picture the current information.

VI. Channel of Bancassurance

Bancassurance is gaining popular as a channel in Asia and more particular in India. Bancassurance facilitates private insurance companies to focus highly competitive markets. In the bancassurance, insurance companies and banks tied up to sell the insurance products to its customers. Banks earn revenue which is called as fee-based income by selling insurance policies. In traditional business of agency a channel of distribution involves for selling insurance policies through tied agents which are hired by insurance companies on commission basis. Career agents work as full time sales personnel on the basis of commission. Specialized advisers are highly trained employees usually belonging to the insurance partner, who distribute insurance products to the clients of banks. They are paid salary and compensation based on sales. The corporate agencies and brokerage firms are in the form of banks, they cooperate to independent agencies. E-Brokerage is also another channel through which selling of insurance products from multiple insurers. Other methods like seminars and direct mails are also used to sell the schemes of insurance.

VII. Progress of Bancassurance

Generally, insurance products were promoted and sold through agency system around different geographical areas. The trust of insurance industry is totally based on the agents. As the technology and new distributions channels have been developed rapidly in recent years, the ways of approaching the customers are differing. In the same way, the system of bancassurance has been developed. The success of bancassurance becomes with cooperation between banks and insurance companies. A bank signs in a distribution agreement of insurance company under which the bank will act as their appointed representative. According to the agreement a bank passes the offer to client data base which is already saved in the data base of banks. In acquisition of a bank, the main objective is usually to use the bank's retail banking branches and gain access to valuable client information for corporate clients. The same strategy is used by existing insurance companies to capture their target market share. Income of fee from the distribution of insurance products has opened new horizons for the banks. Opportunities and possibilities to earn income through bancassurance are everlasting from the banks' point of view. A typical commercial bank gets the potential fee income from bancassurance up to 10 per cent of their total fee from all sources combined. It can be understood that there is a win - win strategy between banks and an insurance companies. Infinite schemes like term life insurance, endowment policies, annuities, education plans and depositors' insurance are the policies conventionally sold through the channel of bancasssurance. However a lot of innovative products have taken place in the insurance market recently to satisfy the increasing demands of banks and customers. Specific benefits are identified to the banks, customers and insurers due to the bancassurance services.

The benefits are mentioned below.

1. Banks can get extra income through commission.
2. Bank customers get insurance services at One stop
3. Customer satisfaction can be improved.
4. Customer can save agency charges and time.
5. Convenience to make payment of insurance premium.
6. The bank can concentrate on rural areas also.
7. Direct interaction may be possible with customers.

New companies in life insurance sector identified that banks are as low cost distribution channels. And banks have large client base and business across the country. Both IRDA and RBI play the role of regulatory authorities to formulate a policy and process. The banks have over 80,000 branches across the country. The bancassurance channel contributes around 25% to the total premium income of life and non-life insurance companies. This became possible due to tie-ups of many companies with banks in short duration. The premium collected through bancassurance was Rs. 21,947 crore in the year 2009-10. As life insurance industry is succeeded in rural sector, bancassurance is valuable channel to make aware of the people living in rural areas. The growth of bancassurance differs in different countries due to various reasons. It has been estimated that bancassurance would contribute almost 16% of the life premium in the Asian markets in the year 2006. For the year 2012-13, 70-75 per cent premium was generated by Indian insurers along with banks. As per the IRDA annual reports 2010-11, Rs. 52,732.09 crore individual new business premiums underwritten by the public sector company (LICI), 97.45% of the new business premium from its banking agents. Banks contributed 1.81% of the new business premium, corporate agents contributed 0.59% brokers contributed 0.04% while direct selling contributed only 0.11%. According to the predictions of Technavio's analysis, the growth rate of bancassurance market may increase to 6.16% by the year 2019. Life Insurance Corporation of India is one of the pioneers in the insurance industry in India. It offers spectrum of policies covering every segment of the society. Although, LIC has large traditional agency system of insurance business by enter into tie-ups of banks. Central Bank of India and Syndicate bank are significant corporate agents of LIC. Bandhan is the largest micro-lender in the country. Bandhan planed to open 600 branches and is aiming to transform into a fully operational bank by September 2015.

Nowadays Banks are major distribution channels for insurers. Insurance companies avail the facilities of banks as distributors at least cost. Life insurance Industry in India has been growing rapidly since opening up of the sector to private. Here, banks should act as financial advisers to the customers to take decisions and also make aware of them about complete product offerings, strong service delivery mechanism, quality administration and early claim settlements. Banks and Insurance companies should work jointly to provide a wider range of products which lead to creation of one stop-shop for mortgages, pensions and insurance products. Indeed, a few countries could match with India which is having largest banking network in terms of bank branches. This is a direct outcome of the prevailing deliberate policy thrust towards branch expansion. There are 70,324 bank offices of which nearly 70% of the branches are located in rural and semi urban areas and the rest of 30% are in urban and metropolitan areas. Besides the commercial banking system, India has a large rural credit cooperative and also urban cooperative banking network.

There is greater scope for innovation of new insurance products in the process. A survey conducted by FICCI revealed that 93% of the respondents have preferred banks selling insurance products. Therefore bancassurance can be a feasible activity and viable source of additional revenue for the banks as well as insurance companies. The studies of Europe have proved that bancassurance strategy had saved the cost to insurers to a greater extent. In one of the study by Swiss Re observed that bancassurance have resulted in cost saving to the extent of 21.2% and the expected revenue gain of 44%. In India, all the insurers in private sector established through collaborative arrangements with one or more banks to reach the client base without a huge investment for infrastructure facilities. Banks can sell insurance policies of multiple companies after the IRDA allowed them as licensed insurance brokers. RBI as the regulator of banking system had smoothened the way for the banks to enter the insurance activities. The central Government also took a number of proactive measures which are necessary amendments in the banking regulations Act, 1949 and other insurance related acts so as to enable the banks and insurance sector to come closer and coordinate each other's activities. It was occurred only after IRDA came into existence as the regulator. The other form of channels such as corporate agents including bancassurance brokers, internet marketing and telemarketing were added. In terms of business as well as number of new entrants came into the market, as the insurance sector is posed for a rapid growth. The following table shows that the status of proportion of bancassurance business involved in India.

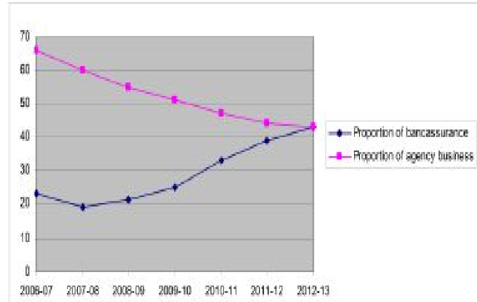
GROWTH OF BANCASSURANCE

TABLE - 1

Year	Proportion of bancassurance	Proportion of agency business
2006-07	23	66
2007-08	19	60
2008-09	21	55
2009-10	25	51
2010-11	33	47
2011-12	39	44
2012-13	43	43

Source: IRDA reports

Graph -1



From the Table-1, it can be observed that the comparison picture of the bancassurance business and agency business from the year 2006-07 to 2012-2013. As years passed the proportion of bancassurance business has been growing whereas the proportion of agency business showing the opposite trend that of the bancassurance.

VIII. REGULATIONS

IRDA set up a committee to sell insurance products through banks on 4th May 2009. The Committee submitted its report to the regulator in June 2011. The committee recommended allowing partial open architecture for bancassurance distribution, permitting banks to tie up with two insurance companies from each of the life, non-life and health sectors. Afterwards the IRDA released draft bancassurance regulations for the public consultation on 23rd November, 2011. Although the draft regulations allow partial "open architecture", they include additional geographic restrictions on bancassurance partnerships that have surprised the industry. The completed regulations will govern various aspect of bancassurance distribution in India.

The important Provisions are as follows:

The banks may be permitted to tie-up with different insurance companies in different states. The IRDA is also restricting the number of geographic areas where an insurers can tie-up with a given bancassurance partner. As part of the proposed regulations, the IRDA has divided various Indian states, union territories and large cities into three Zones, namely Zone 'A' Zone 'B' and Zone 'C'.

The provisions regarding licensing are as follow:

- The IRDA proposes to introduce a bancassurance agent 'license' which will be mandatory for all banks and non- banking finance companies or NBFCs.
- The license will be granted on a rolling three-year basis.

In the frame work, 'Specified Persons' is defined as who is an employee of the bank / NBFC has been qualified the examination of the IRDA insurance Distributor Licensing and such person will be allowed to procure insurance business as a bancassurance agent. A sp is allowed to supervise a maximum of three branches in zone B and five in zone 'C'.

Limitations on number of tie-ups for bancassurance partnerships are observed below:

- Bancassurance agents will be limited to tying up with one life insurer one non-life insurers and one standalone health insurer in each state, in addition to tying up with one specialized insurance company.

- In a situation where the non-life insurance partner does not offer health products, the bancassurance agent can tie-up with another non-life insurance company that writes health insurance business exclusively.
- Insurance companies, other than the specialized insurance companies' cannot tie-up with another non-life insurance company that writes health insurance business exclusively.
- Insurance companies other than the specialized insurance companies' cannot tie up with a particular bancassurance agent in more than nine areas listed under Zone 'A' and six areas listed under zone 'B' while there are no such limits specified for Zone 'C'.

Provisions regarding remuneration of bancassurance agents are shown below:

- The maximum commission payable to a bancassurance agent will be limited to 85% of the limits specified under section 40A of the insurance Act 1938.
- For products approved by the IRDA before notification of these new regulations and that are distributed exclusively through one bancassurance agent, the maximum commission payable cannot exceed the level specified in the products's 'File and Use' document.
- An additional amount equal to a maximum of 2.5% of premiums may also be paid to the bancasurance agent for sharing of infrastructure, cost of training and for the provision of incentives to sps.
- No payments, by any other name, shall be made by the insurance company for the sale, introduction, lead generation, referral and finding of customers.

Maintenance of records and submission of information to the IRDA:

- Every bancassurance agent is required to file an audited statement of remuneration within six months from the end of each financial year.
- All business related documents are required to be retained for a period of at least 10 years from the end of the period to which they relate and should be available to IRDA officers for inspection.
- In addition each bancassurance agent is required to submit an unaudited half-yearly statement along with a declaration confirming the fulfillment of the requirements of the 'sp' in each and every branch before the end of 15th November of each year.

In the process of bancassurance, banks are regulated by the Reserve Bank of India and IRDA as well. On 15th January, 2015the IRDA has drafted guidelines to promote open architecture in bancassurance. Currently a bank has a tie-up with only one life insurer and one non-life insurer. But in the new model, the banks necessarily have to have multiple tie-ups. In the country every bank has to choose multiple insurers within the zones. With this the customer will have a wide range of insurance products offered by different insurers. It will also lead to a deeper penetration in the selling of insurance products.

Guidelines for Banks undertaking Insurance Broking and Agency Business:

- A comprehensive Board approved policy regarding undertaking insurance distribution, whether under the agency or the broking model should be formulated and services should be offered to customers in accordance with this policy. The policy will also encompass issues of customer appropriateness and suitability as well as grievance redressal.
- It may be noted that as IRDA Guidelines do not permit group entities to take up both corporate agency and broking in the same group.
- The IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013 and the code of conduct prescribed by IRDA, as amended from time to time should be complied by banks undertaking these activities.
- The deposit to be maintained by an insurance broker as per the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013, as amended from time to time, should be maintained with a scheduled commercial bank other than itself.
- While undertaking insurance distribution business, either under the corporate agency or broking model under the relevant IRDA Regulations, banks must keep the following in view:
- All employees dealing with insurance agency/ broking business should possess the requisite qualification prescribed by IRDA.
- There should be a system of assessment of the suitability of products for customers. Pure risk term products with no investment or growth components that are simple and easy for the customers to understand will be deemed universally suitable products. More complex products with investment components will require the bank to necessarily undertake a customer need assessment prior to sale. It should be ensured that there is a standardized system of assessing the needs of the customer and that initiation/transactional and approval processes are segregated.
- Banks should treat their customers fairly, honestly and transparently, with regard to appropriateness of the insurance product sold.
- There should be no violation either of Section 10(1)(ii) of the BR Act, 1949 or the guidelines issued by IRDA in payment of commissions/brokerage/incentives. This may be factored in while formulating a suitable performance assessment and incentive structure for staff. Further, it must be ensured that no incentive (cash or non-cash) should be paid to the staff engaged in insurance broking/corporate agency services by the insurance company.
- The instructions/ guidelines on KYC/AML/CFT applicable to banks, issued by RBI from time to time, may be adhered to, in respect of customers to whom the services of insurance broking/agency are being provided.
- The bank should not follow any restrictive practices of forcing a customer to either opt for products of a specific insurance company or link sale of such

products to any banking product. It should be prominently stated in all publicity material distributed by the bank that the purchase by a bank's customer of any insurance products is purely voluntary.

- Further, the details of fees/brokerage received in respect of insurance agency business undertaken by them should be disclosed in the 'Notes to Accounts' to their Balance Sheet.
- A robust internal grievance redressal mechanism should be put in place along with a board approved customer compensation policy for resolving issues related to services offered. It must also ensure that the insurance companies whose products are being sold have robust customer grievance redressal arrangements in place.
- Violation of the above instructions will be viewed seriously and will invite deterrent penal action against the banks.
- Banks are permitted to set up insurance joint ventures on risk participation basis and also to undertake insurance business as agents of insurance companies on fee basis, without any risk participation by banks and their subsidiaries.
- The Finance Minister in the budget speech 2013-14 announced that banks will be permitted to act as insurance brokers. Consequent to the announcement, IRDA formulated and notified the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013 to enable banks to take up the business of insurance broking departmentally. Reserve Bank of India had also issued Draft Guidelines on Entry of Banks into Insurance Business - Insurance Broking Business on November 29, 2013.
- Banks which satisfy the eligibility criteria (as on March 31 of the previous year) given below may approach Reserve Bank of India to set up a subsidiary/joint venture company for undertaking insurance business with risk participation:

A. The net worth of the bank should not be less than Rs.1000 crore;
B. The CRAR of the bank should not be less than 10 per cent;
C. The level of net non-performing assets should be not more than 3 percent;
D. The bank should have made a net profit for the last three continuous years;
E. The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory;

- →Banks require prior approval of RBI for setting up a subsidiary/JV. Accordingly, banks desirous of setting up a subsidiary for undertaking insurance broking/corporate agency and which satisfy the eligibility criteria (as on March 31 of the previous year) given below may approach Reserve Bank of India for approval to set up such subsidiary/JV:

A. The net worth of the bank should not be less than Rs.500 crore after investing in the equity of such company;
B. The CRAR of the bank should not be less than 10 per cent;
C. The level of net non-performing assets should be not more than 3 per cent;
D. The bank should have made a net profit for the last three continuous years;
E. The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory;

It may be noted that a subsidiary of a bank and another bank will not normally be allowed to contribute to the equity of the insurance company on risk participation basis. It should be also be ensured that risks involved in insurance business do not get transferred to the bank and that the banking business does not get contaminated by any risks which may arise from insurance business. There should be an arm's length relationship between the bank and the insurance unit.

CONCLUSION

India is lagging behind in life insurance density when compare to developed countries. Bancassurance, the term emerged from Europe countries and developed gradually in our country. The concept gained importance in the global emerging insurance industry in search of new channels of distribution. Banks earn revenue which is called as fee-based income by selling insurance policies. The income is purely risk free, since banks simply play the role of an intermediary for business to the insurance company. Bancassurance is the best way to reach a wider customer base. A key aspect of the success of the bancassurance operations is the group management that demonstrates strong commitment to achieve the benefits. There can be seen a win - win strategy between banks and insurers. Insurance companies make use of facilities of banks at low cost. The banks have over 80,000 branches across the country. The bancassurance channel contributes around 25% to the total premium income of life and non-life insurance companies. Now banks can sell insurance policies of multiple companies after the IRDA allowed them as licensed insurance brokers. The central government also took a number of active measures which are necessary amendment to the banking regulations Act, 1949 and other insurance related acts so as to enable the banks and insurance sector to come together and coordinate each other's activities. Consequently, the banks and life insurers are generating various schemes to satisfy their customers within the limits of the regulations. Anyhow, the community of customers as well as insurers always welcomes the bancassurance with open arms.

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