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# The Current Trends in Bancassurance Channel of Life Insurance Sector in India

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## Abstract

*Bancassurance is the blend of the terms 'Bank' and 'Insurance'. In this kind of arrangement, the insurance product is sold through banks. This paper attempts to explore the current trends in bancassurance models as feasible source of sustainable income to banking sector. On the one hand Indian banks are having the largest banking network and on the other hand India has lower insurance penetration and insurance density. This paper tries to highlight global as well as Indian perspective of bancassurance model. While analyzing the present trend of banks handling insurance products, it also highlights opportunities & threats for Bancassurance sector.*

**Keywords:** Bancassurance, Life Insurance Companies, Banking Network.

**Introduction:** Bancassurance simply means banks selling of insurance products. The Insurance Regulatory and Development Authority (IRDA) notification of 2002 empowered the banks to act as agents for one life and general insurer, each. Under this tie up between insurance companies and banks, banks were allowed to sell insurance products to their customers. Banks are appointed as corporate agents, Banks, with their widely spread network, sound infrastructure, existing customer base, can leverage on their existing relationships, to convert customers into policyholders. The bank usually earns a high commission on the first premium paid by each customer and marginal trailing commissions on renewal premiums till the maturity of the policy, for regular premium plans. And a one-time commission is paid in case of the single premium policies.

In the insurance industry, there are currently 24 private players along with the public sector giant Life Insurance Corporation. Out of these companies, the early birds had the advantage of entering into a tie-up with commercial banks and cooperative banks for exclusive bancassurance arrangements. In India, the bank branch network encompasses nearly 75,000 branches inclusive of Public Sector Undertaking and private banks. Close to 1, 00,000 branches of co-operative, district co-operative and regional rural banks also exist.

### Objectives:

- To study the role & Scope of the bancassurance channel, global as well as Indian perspective.
- To examine the recent trends of bancassurance business in India.

**Bancassurance: Global Perspective:** The demography, economic and legislative prescriptions in a country plays a major role in the growth and sustainability of Bancassurance Channel. This particular alternate

channel of insurance distribution is most successful in Europe; Europe has the highest bancassurance penetration rate especially in France, from where it started Italy, Belgium and Luxembourg. - Bancassurance accounts for the 35% of the sales in the European life insurance market and is the dominant distribution channel in a number of South European countries such as Belgium, France, Italy, Spain and Portugal. European Bancassurers are generating 15% to 20% of Banks Retail Profits from Insurance Sales.

The concept of bancassurance is relatively new in the USA. As mentioned above bancassurance growth differs due to various reasons in different countries. Restrictive legislative prescriptions -Glass-Steagall Act of 1933 prevented the banks of the USA from entering into alliance with different financial services providers and set a barrier on bancassurance. The US Government replaced the Act in 1999 and the concept of bancassurance started gaining grounds in the USA also.

Coming to Asia, bancassurance is gaining in popularity, particularly in China, where restrictions have been eased. Bancassurance has contributed almost 16% of the life premium in the Asian markets in the year 2006. The primary contributors are no other than India and China.

The research shows that social and cultural factors, as well as regulatory considerations and product complexity, play a significant role in determining how successful bancassurance is in a particular market.

### Bancassurance

**Indian Perspective:** Coming to India, bancassurance is a new buzzword in India. When compared with the population & potential, India has an absolute low level of insurance penetration and density. Insurance Sum Assured as a percent of GDP for India is only about 55% while it ranges between 150% and 250% in some

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emerging and mature economies. India is under insured and still trying hard to succeed.

Bancassurance channel even though well accepted worldwide, it is still evolving in Asia. In India it has completed its 10 years and in infancy stage. It originated in India in the year 2000 when the Government issued notification under Banking Regulation Act which allowed Indian Banks to do insurance distribution. It started picking up after Insurance Regulatory and Development Authority (IRDA) passed a notification in October 2002 on 'Corporate Agency' regulations. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer. It is too early to assess the exact position of this alternate channel. However, a quick survey revealed that a large number of banks including public, private and foreign banks have adopted a bancassurance channel in one form or the other in India. Banks in India are resorting to either 'referral models' or 'corporate agency'. Banks even offer space in their own premises to accommodate the insurance staff for selling the insurance products or giving access to their client's database for the use of the insurance companies. However, the present IRDA's regulation restricts bankers to act as a corporate agent on behalf of only one life and non-life insurance company. Currently bancassurance accounts for a share of almost 22% of the premium income amongst the private players in India.

If we start from the public sector life insurance company - **LIC**, It is the oldest and largest presence insurance company in India. LIC has a tie-up with 34 banks in the country; it is likely that this could be the largest number of banks selling single insurance company's products. It is significant to note that the public sector giant LIC which has branches all over India, too moving towards making use of bancassurance channel. Around 1.25 percent of the new business of LIC is through bancassurance. This speaks for itself the rate at which the bancassurance is becoming an important alternate channel of distribution of insurance products in India.

While we're on the subject even the private sector companies like **ICICI-Prudential Life Insurance Company**, within its two years of operations; it has reached more than 25 major cities in India. ICICI Pru Life has earned more than 20 per cent of the life insurance sales through the bancassurance channel in the year 2004. In the case of ICICI bank, SBI and HDFC bank insurance companies are subscribers of their respective holding companies. ICICI bank sells its insurance products practically at all its major branches, besides it has bancassurance partnership arrangements with 19 other banks as also as many as 200 corporate tie-up arrangements. Thus, among the private insurance companies, ICICI Prudential seems to be exploited the bancassurance potential to the maximum. ICICI

prudential had also reported to have entered into similar tie-ups with a number of RRBs, to get the potential of rural and semi-urban market. It is a step in the right direction to tap the vast potential of rural and semi-urban market. It will not be surprising if other insurance companies too follow this direction.

After ICICI Pru Life, **Aviva Insurance** has the second highest tie-ups. It has a tie up with 22 banking companies, which includes private, public sector and foreign banks. Similarly, **Birla Sun Life Insurer** reported to have tie-up arrangements with 10 leading banks in the country. The recent trend in bancassurance arrangement is that a number of cooperative banks have entered into the tie ups. This has added advantage for insurance company as well as the cooperative banks, such as the banks can increase the third party income without the risk participation and for the insurers the banking network can be used and the vast rural and semi-urban market can be tapped without its own presence. Bancassurance alone has contributed richly to as much as 45 per cent of the premium income in individual life segment of Birla Sun Life Insurance Company in the year 2006.

**SBI Life Insurance** for instance, is uniquely placed as a pioneer user of Bancassurance in India. The company has been extensively utilising the SBI Banking network as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans, personal loans and credit cards. SBI has largest client base, access to over 100 million accounts which helps in insurance selling across every region and economic strata in the country. In 2004, SIB Life reported to have become the first company amongst private insurance players to cover 30 lakh lives.

During 2005-06, approximately 16.87 per cent new business were underwritten through banks as corporate agent channel alone as compared with 6.61% through direct business

Banks as referrals taken together has sizeable chunk of business. This growth can be attributed to aggressiveness vested in the private life insurance sector and one of the drivers for this substantial growth is the contribution of the banking industry.

It is considerable to note that in the Indian context, all those insurance companies and banks who have initiated in identifying the bancassurance channel, at the early stage, are now enjoying the maximum benefits of deeper existing customer relationship as also wider coverage of newer customers besides enhancing fee based income.

#### **Recent Trends in Bancassurance in India:**

##### **Opportunities:**

- There is huge opportunity for Bancassurance as above 40% of Financial Household Savings lie with

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the Banks. If we consider tier II and III cities, approximately 80% of Banking Transactions are done at the Bank. This Semi Urban and rural population of India have a very high Trust in the Banking System. The Bank Managers therein are looked upon as “Financial Advisors”. The wide spread of Banking Network and Trust of a common man on Indian banking system has proved to be the biggest advantage for Bancassurance.

- The outlook for bancassurance remains positive. While development in individual markets will continue to depend heavily on each country's regulatory and business environment, Bancassurers could profit from the tendency of governments to privatize health care and pension liabilities. In emerging markets, new entrants have successfully employed bancassurance to compete with incumbent companies. Given the current relatively low bancassurance penetration in emerging markets, bancassurance will likely see further significant development in the coming years.

#### Threats:

- The insurance business through Bancassurance is only about 7.5% of the total insurance premiums in 2013 and only about one-sixth of the existing 100,000 bank branches are engaged in selling insurance.
- The finance ministry has directed IRDA to suspend its proposed regulation on bancassurance and hold consultation with banks and insurers before framing the rules. (ET 8/07/2013) As against the current norm of bank entering into an exclusive agreement with insurer for selling insurance product across the country, IRDA has proposed that an insurer can tie up with bank on exclusive basis in particular region and cannot tie up with individual insurer for a Pan-India footprint. It has suggested that the country needs to be divided into three zones, which will be further subdivided into 40 geographical entities. And, a bank can tie up with individual insurance firm for a maximum of 10 regions on exclusive basis.
- Banks are not in favour of multiple tie-ups and want to continue with exclusive arrangement with insurance firms as they make money by selling insurance products on exclusive basis.
- IRDA is judging the possibility of allowing insurers to sell policies through post offices. There could be a number of possibilities and products that do not clash with postal insurance could be one of the possible product offerings. If this works out in nearing future, it can be one of the threats to Bank assurance channel in India. As India Posts can prove to be the biggest competitors to Banks.

- IRDA is also looking at the possibility of allowing more than one life insurers and more than one general insurer to design and sell micro insurance policies together. This is a thought doing the round and it will be taken up for discussion.

**Conclusion:** The bancassurance phenomenon that is undoubtedly one of the most important trends in the evolution of the European financial services industry and it can be considered as a consequence of the progressive relaxation of regulatory barriers to financial conglomerates.

Bancassurance in India too, during its ten years of time has proved to be a win-win model for insurance companies and banks. Insurance companies, with their relatively limited infrastructure, were able to sell their products throughout the country by using the distribution channel of bank branches. At the same time, banks, without investing in additional resources or infrastructure, were able to earn a fee based income, to supplement their core lending activities.

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