Publication: Yahoo! India **Date: Friday,11th December, 2015**

Edition: Portal

Banks in Insurance

Banks are an important channel for distributing insurance products given their reach with retail customers. In September, the insurance regulator had notified the new framework for corporate agents, which allowed banks to tie up with up to three insurers each in life, non-life and health insurancesegments to increase the penetration.

However, response for insurers have been lukewarm as many leading banks like State Bank of India, HDFC Bank, ICICI Bank, Bank of Baroda, Punjab National Bank have stakes in insurance subsidiaries and are unlikely to expand their agencies to other insurers.

The concept of bancassurance was introduced in 2000 when insurance sector was opened for the private sector. This channel enables banks, which have trusted relationship with the customers, to provide them various financial products through a single-window service. A report by Intuit Consulting --- a management consulting firm ---- authored by Surabhi Jain and Ankita Trivedi shows that productivity of bancassurance channel in the private sector has grown from 21% to 44% of the total premium from 2009 to 2014 and is expected to grow at a much faster rate in the next five years.

“The introduction of technology and integration of IT system between insurers and banks have led to much faster flow of data and also better control on persistency of policies. It is expected that this channel will emerge as a dominant distribution channel in next five to ten years. Rapid increase in banking network and low cost of managing this channel are likely to make bancassurance a powerful as well as popular channel,” says the report titled Bancassurance Today.

Before the September regulations of Insurance Regulatory and Development Authority of India (Irdai) came into place, banks were allowed to distribute life and non-life products of only one insurance company each. This restriction had hampered sales of policies and customers did not have much choice.

Analysts say to service the retail audience, insurance companies will not only have to put in place an efficient distribution system but also have to shift towards a variable cost distribution model. Insurance companies that have access to banks’ databases and walk-in customers will do well as it will reduce their acquisition costs.

Bancassurance can play a pivotal role in reaching out to the rural areas where a vast population remains outside the reach of insurance. It can help banks to mobilise non-volatile source of funds over a long period of time and can enable direct interface with customers and customise the product according to their needs. Moreover, banks that have higher fee income can cover more of their operating expenses through the sale of insuranceproducts and leverage their distribution and processing capabilities.

Globally, bancassurance has emerged as an important channel for distribution of insurance products. Various international studies have shown that a bancassurance strategy has indeed saved costs of insurance companies in the long run.

A study by Swiss Re shows that for insurers, bancassurance has resulted in cost saving of around 21% and revenue gain of around 5%. Citing the US example, McKinsey estimates that bancassurance helped to boost the life insurance business by around 25% in that country.

In India there are two categories of insurers distribution life insurance products. First, companies promoted by banks such as SBI Life Insurance,ICICI Prudential Life, IndiaFirst Life, HDFC Standard Life, etc.

The other category is companies having only bancassurance tie-up with banks such as Aviva Life, Bajaj Alliaz Life, Max Life, Exide Life etc. Bank-promoted companies work through bancassurance channel as their major distribution channel.

For sales, at present the proposal forms are either filled at banks or at the residence of the proposer. The sales person of the insurance company completes the documentation, need analysis and know-your customer. The bank employee who recommends the proposer to the insurance company knows the customer personally. To make bancassurance successful, regular training is required for bank employees regarding products and some employees will be required exclusively for insurance at bank branches.

The insurance industry was virtually divided on the need for bancassurance as those promoted or dependent on banks were of the opinion that there won't be much impact while non-bank-led insurers saw some business sense in it.

As the corporate agents regulations will be applicable from April 1, next year, bank-led insurers are not yet jumping to sell insurance polices of companies other than those promoted by them. The Intuit report underlines that insurance companies feel that lack of coordination among regional and branch level bank employees can adversely affect growth of insurance business.

Other factors that could affect bancassurance are lack of clarity on roles to be played by bankers at branch level, lack of focus on commission income as a potential source of income for the branch potential. Bankers often disown post-sales service to policy holders.

The report points out that bancassurance companies must maintain regular coordination with top officials of the banks for target and performance, have strong grievance redressal machinery and respond to communication from bankers promptly.