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A Review of Bancassurance

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Abstract - In a bancassurance partnership, a bank and insurer work together to market and sell insurance to the bank's customer base. Each company stands to gain from this potential cooperation. When banks provide insurance to their customers, both the bank and the insurance company benefit from the transaction. In this article, we will examine the benefits and drawbacks of bancassurance.

Keywords - Bancassurance, bank, customer, Indian banks, Public sector.

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INTRODUCTION

The first Indian banks were established in the late 18th century. After bank nationalization, concerns centered on the public sector banks' potential to be productive and profitable. Profits and profitability have been on the decline since the banks were nationalized in 1969, and the new course they've been put on is widely blamed.[1]

Public sector banks, private sector banks, foreign banks operating in India, and scheduled commercial banks make up the four main subsectors of the Indian banking sector. Because they facilitate the success of both savers and investors, banks are seen as crucial financial intermediaries. Goods and services, as well as governmental operations, benefit from financing. It also supplies a significant percentage of the country's currency. The banks are the backbone of the economy because they help the nation maintain low inflation, a high employment rate, and healthy economic growth. An increase in savers' and investors' economic efficiency has a multiplier effect on raising the general quality of life.

Definition of insurance in the Encyclopedia Britannica: "a contract for reducing losses from accident incurred by an individual party through the distribution of the risk of such losses among a number of parties." In the event that the insured experiences loss due to the occurrence of a contingent event covered by the insurance contract or policy, the insurer agrees, in exchange for a set fee, to pay the insured or his beneficiary a specified sum. The insurer is often in a better position to absorb losses sustained during any given time than would the uninsured person by aggregating the financial contributions and 'insurable risks' of a large number of policyholders. Even though it has only been around for a short while, the bancassurance system is already one of the most innovative insurance distribution channels.[2]

Its primary benefit is that it enables efficient management of client portfolios by dramatically enhancing the supply of financial services with little overhead. Complex procedures of acquisition or consolidation are prompted by the variety of bancassurance institutional models, beginning with the straightforward nature of contractual ties and progressing all the way to the goods that serve as the system's object of distribution. Bancassurance is a business model in the financial markets that allows banks to better serve their clientele by enhancing the range of financial products and services they provide for them at low cost and with minimal administrative overhead.[3]

"Bancassurance refers to banks acting as corporate agents for insurers to distribute insurance products," says the Insurance Regulatory and Development Authority (IRDA). Banks, insurance companies, and consumers may all benefit from using bancassurance. Income from Bancassurance is the sole source of revenue for banks other than interest. The insurance firm expands its presence internationally without increasing its overhead. Customers are more satisfied with a business that meets all of their needs in one convenient location.4 Bancassurance is the practice of selling insurance products through banking institutions. This transaction results in profit for the bank. In the year 2000, work started in India. Regulations for the incorporation of businesses in India were developed by the IRDA. Under Section 6(1) (0) of the Banking Regulation Act, 1949, the Government of India also issued a Notification allowing banks to engage in "Insurance" as a legitimate activity. It was made clear, however, that any bank planning to enter the market would need separate authorisation from RBI. Without taking on any of the risk themselves, any scheduled commercial banks might act as agents for insurance firms in exchange for a fee. Detailed guidelines for the formation of risk-sharing joint ventures in the insurance industry have been established.[4]

OVERSIGHT OF BANKING INSURANCE

Banks are crucial to every country's economic growth and prosperity. They are in charge of a bigger share of the money supply. By controlling the supply of bank money, they may shape the composition of output in any nation. Economic growth is an ongoing process. A nation's economy relies heavily on its banking system. The amount to which resources and investment are mobilized and the operational efficiency of the different divisions of the economy are crucial to the economy's growth.[5]

'Banking' has evolved through time. The definition of banking is open to debate. There is no one, all-encompassing description of what a bank does since it provides such a wide variety of services. A bank is many things to many people: a safe place to save one's cash, a source of financing for businesses, and a possible savings account for employees. A financial entity that accepts deposits and lends money is called a bank. Therefore, a bank is a middleman that uses the money of others for its own gain. However, a bank is more than just a dealer; it also plays a crucial role in the creation of new currency. A bank, in other words, produces credit.

Commercial banks provide the full range of traditional banking services. It gets its name because it facilitates business and commerce via the provision of funds and credit. They take in deposits from the general public for short and medium periods of time and then lend or advance money against the value of their inventory of agricultural products, manufactured items, etc. They also provide inventory advisory services, draft and letter of credit issuance, and traveler's check and dividend collection among other agency functions. In India, commercial banks are known as banking firms and are structured as joint stock corporations. The two main categories for these financial institutions are "scheduled" and "non-scheduled" banks. Nationalized banks, State Banks of India and its subsidiaries, private sector banks, and foreign banks are all examples of scheduled banks. Banks that are not on the RBI Act's second schedule are considered "non-scheduled."[6]

BANCASSURANCE

Itrepresents the merging of the financial and insurance sectors. Insurance goods are sold via a bank's branch network under this name. In spite of its proven effectiveness in Europe, bank assurance is still a novel idea in Asia. Simply put, bank assurance is the sale of insurance via traditional banking channels. Bancassurance, also known as Allfinanz, is a phrase used to represent a collection of banking and insurance products and services that may be purchased together. The demographics, economy, and laws of a given nation all have a role in shaping how it is implemented there. The goods a bancassurance must handle are determined by the country's demographic profile, the country's economic state will dictate the trend in terms of turnover, market share, etc., and the legislative environment will establish the boundaries within which a bancassurance must function. Among its members are:

- Financial institutions peddling insurance, retirement accounts, and other pooled investments
- General insurance sold by banks
- Insurance businesses that also provide banking services

CAUSE OF BANCASURANCE

This allows financial institutions to broaden their product offerings and generate new revenue via service fees. There is a wide range of services that banks provide. First and foremost, they have access to proprietary databases that can be mined for warm leads in the middle market. They may also capitalize on their well-known status in the community and the area. More than half of the global insurance premium comes from the life insurance sector, which is primarily a savings market.[7]

Insurance Bancassurance is seen as a means through which businesses may expand their customer base and generate more revenue from premiums. Customers are ecstatic with bancassurance because of the low prices, good quality, and convenient doorstep delivery it provides. The services provided by banks and insurance firms complement one another. No one financial institution or insurance firm is well-equipped to launch a bancassurance business on their own. The success of this new channel depends on cooperative efforts.

BANCASURANCE, A RISING PHENOMENON

Bank deposits may be boosted in part by the premiums people pay for life insurance. Banks are expanding their non-life insurance businesses to generate more income from existing clients, using the same distribution channels and internal staff. Due to the high costs of agency services, insurers have been more interested in exploring other channels of distribution. For many insurance companies, these expenses eventually outweighed the profits they brought in.[8]

Bancassurance is used by insurers because it allows them to maintain a direct interaction with their clientele. Directing their interactions with clients has proven to be a cost-effective way for insurers to have more influence over their operations. The agency model gives insurers very little say in how they interact with their policyholders. Through bancassurance, insurance costs are kept to a minimum. Mutually beneficial distribution channels and personnel are shared by the banking and insurance industries.

BANCASURANCE'S CHALLENGES

Consistent strategies, knowledge of target customers' needs, a defined sales process for introducing insurance services, simple yet complete product offerings, strong service delivery, and a high level of trust appear to be crucial for success when trying to persuade customers to commit to regular savings plans (where most banks have been ineffective) and when providing advice and selling more complex products, especially pensions and particularly to more affluent customers. Poor human resource management, the absence of a sales culture within the bank, the lack of involvement by the branch manager, a lack of product promotions, the inability to integrate marketing plans, a lack of database expertise, a lack of sales channel links, insufficient incentives, resistance to change, a negative attitude toward insurance, and a cumbersome marketing strategy are the most common factors preventing businesses from achieving their goals.[9]

A comprehensive strategy for bancassurance is necessary to shift from product-centric cross-selling to customer-centric cross-buying. Nothing can stop you now. The potential for a bank to increase its non-interest revenue through the bancassurance distribution channel is substantial. To ensure the success of a bancassurance enterprise, all parties involved will need to adjust their usual methods, ways of thinking, and work cultures. Banks' conventional lending operations are slowing down, and there is more competition in the market, therefore there is a real risk that our workforce may reject any change that bancassurance may bring about since they are so ingrained in their old ways of functioning. Banks can't continue to rely on spreads alone and need to explore other revenue streams.

CURRENT SITUATION

In India, insurance products may be obtained via banks and other financial institutions. As an added perk, financial institutions are also offering credit card holders personal accident and luggage insurance. Mortgage-related insurance products, such as fire, auto, and livestock insurance, are sold by several banks. To supplement their revenue, banks may advertise insurance products by using their customer databases and in-person interactions.

Personal lines insurance options have no limits in a nation with 1 billion inhabitants. Especially for life insurance, there is a huge untapped market. There are more than 900 million uninsured people and around 200 million uninsured families (only 91.73 million individual life insurance were sold in 1998–1999). If we exclude those living in extreme poverty, the global middle class is only second in size to China. The attention of insurance firms globally.[10]

Indian banks selling risk products via its 66,700 branches may enter bancassurance and be guaranteed of a steady stream of fee-based revenue. Banks might see a fee-based revenue of between Rs.13,500cr. and Rs.22,000 cr. over the next five years, according to a back-of-the-envelope estimate using just the current client base. In 2001–02, the Indian banking sector earned a total of Rs.9, 213 cr. through fees. Therefore, banks are considering insurance company partnerships as a means to increase their non-interest revenue. And insurance firms are watching the proliferation of bank branches and the possibility of accessing 18 crore consumer accounts with great interest.

Banks and insurance firms in India have been able to expand their usage of bancassurance thanks to the Insurance Regulatory and Development Authority (IRDA) Bill of 2000. In an effort to protect their market share from insurance firms, several banks have resorted to bancassurance as a defensive measure. However, they quickly realized that by diversifying their product lines, instituting a sales culture throughout their organizations, establishing a multi-channel distribution structure, and capitalizing on the potential of customer information that can enable the identification of customer needs, they could increase their market share.[11]

The leading player in bancassurance, SBI Life Insurance, is certain that the channel would revolutionize the insurance industry. The firm has high hopes for bancassurance and intends to tap into the vast resources of State Bank of India's 9,000+ branches and its 4,000+ affiliate banks throughout the nation. OM Bancassurance is a service offered by Kotak Mahindra Life Insurance, which has partnered with Dena Bank and its own Kotak Bank. In its early stages, the firm hopes to capture around 10% of the market.

BANCASURANCE IN THE INDIA-SPECIFIC SETTING

In India, no one entity may engage in both the insurance and banking industries. They're maintained in different areas. Even a firm that qualifies as an insurer must decide whether it will focus on life or non-life insurance. It can't serve two purposes at once. Therefore, Indian banks cannot enjoy the benefits enjoyed by their European counterparts.

In India, banks and international insurance companies have formed joint ventures. For instance, State Bank of India, HDFC Bank, ICICI Bank, and Vysya Bank are all Indian financial institutions. The joint venture will not provide one side a competitive edge in the other's market, but it will increase their readiness to aid each other. The joint venture operates as its own distinct entity, with its own set of employees and its own set of finances.

In India, financial institutions may only participate in the insurance market by taking on the role of corporate agent. The financial institution may do so for a specified life insurer and/or non-life insurer. Banks are prohibited from creating their own insurance offerings. Given its close relationships with its clientele, it is in a prime position to provide advice.[12]

Many financial institutions and insurance companies have settled on mutually beneficial agreements since the year 2000. The LIC works with several financial institutions and insurance companies.

BANCASURANCE RECOMMENDATIONS

A. India's Reserve Bank Recommendations

The insurance industry is one that the Reserve Bank of India (RBI) has provided rules for banks to join. Here is a list of them:

1. First, commercial banks may act as insurance firms' agents for a fee and without taking on any of the risk themselves.

2. Strong banks that want to enter the insurance market on a risk-sharing basis might form junior partnerships with other companies.

3. For financial institutions that do not qualify for participation in the joint venture, we offer an investment opportunity in:-

   I. As much as ten percent of the bank's total assets, i.e.

   II. The lesser of either Rs.50 Crore or the whole amount is accessible.

These rules must be followed by every bank with ambitions in the insurance sector.

B. IRDA Recommendations

The following are some rules that have been established by the Insurance Regulatory and Development Authority:

1. Every insurance-selling bank needs a top executive who can oversee the industry as a whole.

2. All insurance salespeople must complete IRDA-mandated training at an approved training center and pass an IRDA-administered test.

3. Commercial banks, such as RRBs and cooperative banks, may represent a single insurance carrier as corporate agents.

4. Insurers cannot be banks and vice versa..

SBI Life has profited the most from bancassurance in India. By using its branch network, it was able to earn about 39% of its total premium in 2006–07. Therefore, bancassurance has its own set of benefits and drawbacks. The idea of a "one-stop shop" for all financial services is likely to become a reality if it is implemented well.[13]

THE BANCASTURANCE OF THE FUTURE

Although bancassurance is still in its infancy as a concept, the fact that customers seem to favor this channel is promising. Most recently established insurance providers have gravitated toward this medium. Future events alone will determine which models become popular and which do not. Integrating human resources in terms of attitude, IT, and supporting systems will be crucial to the model's success. Bancassurance provides extra value for customers since they are advised by bank representatives who are more qualified and reliable than advisers or agents, whose main motivation is frequently claimed to be financial gain.[14]

Despite the potential cost savings from combining banking and insurance operations, the subject of bancassurance is fraught with a number of dangers. Irresponsible capital allocation within the group, the distinct possibility of both partners to aggregate risk exposures rather than act as a hedge, and a lack of focus on areas such as insufficient managerial experience, supervisory oversight, and enhanced potential for regulatory arbitrage are just a few examples. Despite concerns, private insurers expect bancassurance to develop rapidly over the next three to four years and ultimately acquire the same percentage of the insurance market as their agency channel.[15]

CONCLUSION

In a bancassurance arrangement, the bank primarily acts as a middleman, marketing the insurance product of the insurance business to its customers. This helps the insurance firm expand its client base and market presence. Bancassurance has also been mired in controversy over the years, with some suggesting that it gives banks too much power in the financial industry and should thus be avoided. To achieve this goal, a select number of nations have outlawed bancassurance. Bancassurance continues to expand over the world despite this.

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