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Bank Customer Satisfaction for Bancassurance Products in India

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ABSTRACT

Globally there is a trend of increased convergence of financial services rather than getting confined to the narrow channel of banking products. The line dividing the banking and non-banking financial products is increasingly getting thinner. A typical illustration of this trend would be well organized distribution of insurance products through banking networks. The concept is popularly called as Bancassurance.

Banks look this channel as generating additional income and generally insurance is usually a long term contract. Therefore commission continues to flow in, till its maturity. Bank is viewed as trustworthy financial market by customer and if bank don't offer these products they face a threat of customer's migration.

This model requires a synchronized work culture between banks and insurers. In India the model is gaining its importance like other European countries especially France, Italy and therefore the researcher is in need to study the bancassurance model.

Keywords: Bancassurance, Satisfaction, India.

BANCASSURANCE –INDIAN SCENARIO

World over the idea of separation of roles between banks and other financial activities became redundant. After the Glass-Steagall Act, of 1933, in the United States, there was a strict separation of banking and nonbanking activities. During the post Gramm-Leach-Bliley (GLB) Act, of 1999, it was stated to have indicated increased preference for banks conterminously dealing with other non-banking financial products, including the insurance products. In Asian countries (e.g., Taiwan, Singapore, Japan, etc.) also, the trend was set towards financial supermarket. The financial liberalization and financial innovations drew the worlds of banking and insurance closer together, de-segmenting the financial industry and spurring competition. Therefore, banks dealing in insurance products increasingly became an accepted norm rather than exception.

In India, ever since espousing of financial reforms, following the recommendations of First Narasimham Committee report in 1991, the contemporary financial landscape was reshaped. Banks, in particular, paced into several new areas and offered inventive products, viz., merchant banking, lease and term finance, capital/ equity market related activities, hire purchase, real estate finance and so on. Thus, present-day banks became far more diversified than ever before. Therefore, their entry into insurance business was only a natural upshot and was fully justified too. Hence, 'insurance' became a different financial product, vital by the bank customers.

The Reserve Bank of India, being the regulatory authority of the banking system recognized the need for banks to diversify their activities at the right time and allowed them to enter into insurance sector as well. Furtherance to this line, it issued a set of detailed guidelines for the banks in India, to enter into insurance sector. The scope for Bancassurance in the Indian context from banker's and insurer's perspectives dwells on different Bancassurance models and the present trend of Bancassurance models in India. It highlights some issues not only in general, but they are regulatory and supervisory interconnected too. It was obvious that reforms in financial sector would not be complete if one of the key sub-sectors, viz., and insurance sector was not being taken along. Therefore, the Government of India appointed a Committee on Reforms in the Insurance Sector under the Chairmanship of Late R.N.Malhotra (known as Malhotra Committee) in 1993, and the committee submitted its report in 1994.

In the insurance sector, following the recommendations of Malhotra Committee report, the Insurance Regulatory and Development Authority (IRDA), was incorporated as a statutory body in

April-2000, IRDA acted as an exclusive Regulatory Authority for the insurance sector through the enactment of IRDA Act, 1999. Given India's size as a continent, it has, however, a very low insurance penetration and low insurance density. As opposed to this, India had a well-entrenched wide branch network of banking system which only few countries in the world could match with. An era of competition was put in with availability of wide range of insurance products, in the market than after.

Bancassurance simply means selling of insurance products by banks. Bancassurance term first appeared in France in 1980, to define the sale of insurance products through banks' distribution channels (SCOR 2003). In this arrangement, Insurance companies and banks undergo a tie-up, thereby allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate agency with one insurance company to sell its products. By selling insurance policies bank earns a revenue stream apart from their conventional services. It is called as fee based income. This income is purely risk free for the bank since the bank simply plays the role of an intermediary for sourcing business to the insurance company.

Bancassurance is a long standing dream of offering a seamless service of banking and life / non-life products. India, being the one of the most populous country in the world with a huge potential for insurance companies, has an envious chain of bank branches as the lifeline of its financial system. Banks with over 65,000 branches & 65% of household investments are the backbone of the Indian financial market. In India, there are 75 branches per million inhabitants. Clearly, that's something insurance companies - both private and state owned would find nearly impossible to achieve on their own. Considering bank as a channel for insurance gives insurance an unlimited exposure to Indian consumers.

Banks have expertise on the financial needs, saving patterns and life stages of the customers they serve. Banks also have much lower distribution costs than insurance companies and thus are the fastest emerging distribution channel. For insurers, tying up with banks provides extensive geographical spread and countrywide customer access; it is the logical route for insurers to take.

Coimbatore is the second largest city (by population) in the South Indian state of Tamil Nadu and a major textile and engineering hub of South India[1]. It is a heavily industrialized city and a regional hub for textiles, manufacturing, software services, education and health care. The city is also referred to as "the Manchester of South India" due to the presence of a flourishing textile industry. The city has over 25,000 small, medium and large scale industries and two IT SEZ's. Coimbatore has a well developed educational infrastructure, with 7 Universities, 2 medical colleges and over 54 Engineering Colleges and 70 Arts and Science colleges. Thus, it is important that we study the effectiveness of Bancassurance business model with reference to bank customers in Coimbatore. The researcher has undertaken to study the Bancassurance phenomenon.

In India liberalization started in the year 1990 and in the insurance sector in particular it started in 1999 with the setting up of the regulator in this field, namely Insurance Regulatory and Development authority (IRDA)[2]. Banks were permitted to undertake insurance business from the year 2000-2001[3]. As it offered a very attractive preposition to banks for generating additional fee based income against the backdrop of thinning spreads and severe competition, a series of tie-ups were announced immediately after the approval by IRDA and are even continuing to date. Even many co-operative banks have announced tie-ups with insurance companies to distribute insurance products. For the insurance companies too, it was a winning proposition as they could now leverage the wide network of the banks immediately: the process of on its own would have taken several years. An added attraction was that banks in India have enjoyed the trust and confidence of the customers, even though they have not been very pleased with the service quality levels. Bancassurance as a business generating channel has been increasingly becoming important for the new private insurance companies, especially for the new private insurance companies started after the reforms in the industry. The industry players analyzed the various models in operation across the world, which provide them with a wide variety of options and went for a model that seemed appropriate to them. While it is early to comment on the

[1] http://en.wikipedia.org/wiki/Coimbatore
[2] http://www.irda.gov.in
[3] Entry of Banks into Insurance Business, RBI, DBOD.No.FSC/BC.16/24.01.018/99-2000

models the banks and insurance companies have decided to settle for, these players are increasingly going in for the Corporate Agency Model. This model is attractive for the banks as it offers handsome returns (up to 35% in the first year of new business) involves very low startup costs (investment in the time and licensing of employees) and business risk is underwritten entirely by the insurance companies. Insurance products wrapped around the bank's loan and deposit products have also been gaining in popularity due to their mass appeal and simple product design while the referral model tie-ups have not been that successful.

Bancassurance, in its early stages in India, has brought about a host of cultural, HR and Operational challenges along with it. The success of the players concerned would depend on how they are able to cope up. For the banks it is the challenge of making their employees cover new ground by first undergoing mandatory hours of training, clearing a written test, getting themselves licensed and selling a new stream of products aggressively, in addition to their regular banking products. From the insurance companies, it is the challenge of facilitating this fledgling distribution channel to the fullest possible extent by designing appropriate products, a very conducive operational environment especially for the medical and financial underwriting process and designing effective training programs. Banks also have the vital task of managing long-term insurance contracts by servicing it continuously till its logical conclusion thus resulting in a perennial revenue stream. Also, it needs better customized services by individual agents, to make an impact as a superior alternative channel of distribution. Banks are well-positioned to take advantage of the improvements in technology to improve their service quality. Internet and ATM channels can be very effective facilitators in managing the insurance contracts.

GROWTH OF BANCASSURANCE IN INDIA

From a nameless channel, when the insurance sector opened up in India about ten years ago, Bancassurance had secured its spot as a key distribution platform, and had started widely attracting the attention of banks, insurers, regulators and policy planners. In India, known for its large multiplicity of banks and widespread branch networks, over the last few years, these branches are increasingly utilized to dish-up the insurance needs of over 400 million bank customers.

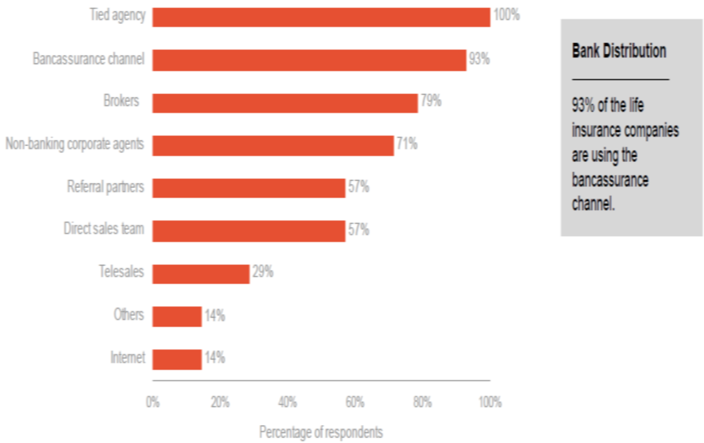

Chart 1: Distribution Channels in Insurance. (*Source: Tower Watson Survey 2009-10)*

Objective:

The objective of this study is to examine the satisfaction level of bank customers for the insurance product offered by the bank. The present study was conducted among the one public sector bank SBI and one private sector ICICI bank customers (respondents) are from India. The data collected and analyzed using suitable statistical tool. The Primary data were collected by using structured questionnaire. The sample is 300 rounded figures after considering the product holders.

Statistical Tools for Analysis:

The data collected from sample were suitably tabulated and used in the appropriate place for interpretation. Reports, journals, articles and books were also referred to collect secondary data. The primary data collected were analyzed by using the following statistical tools.

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Descriptive analysis:

The descriptive analysis was used to express the percentage respondents falling under each category. It describes the total frequency of respondents/responses in percentage.

Average Score Analysis:

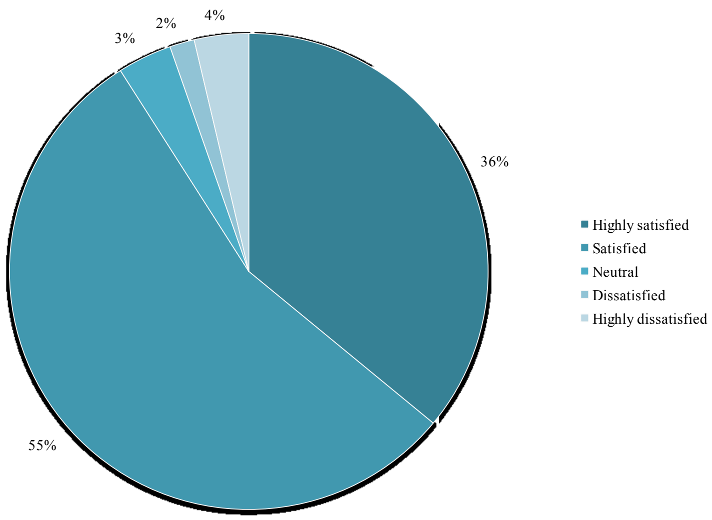
Based on the consolidated opinion obtained from five point scaling technique for different categories of respondents, the weighted average score was calculated to assess the level of satisfaction/agreeability of the respondents.

ANOVA

The ANalysis Of VAriance is a powerful and common statistical procedure in the social sciences. The ANOVA is used to test the significant difference in the mean values of more than two groups.

THE DESCRIPTIVE ANALYSIS SHOWS THE LEVEL OF SATISFACTION REGARDING BANCASSURANCE PRODUCTS.

Chart 2: Exhibits the Level of Satisfaction with General Banking Services



- Majority 55% of the respondents were satisfied with the general banking services offered by their bank. Overall 91% of the respondents were satisfied with current banking services, which denote that banking sector has enhanced its services and customer relationship management in recent years. This good will is quite enough to penetrate the Bancassurance market.
- The level of satisfaction regarding Bancassurance products with factors the variables like product features, assistance provided to choose better plan, administration charges, Process timing, CRM, Loan facilities, Rider(Add-on) features, NAV prices, Underwriting, Coverage years (age-at-entry, age-exit), Premium rate, Policy terms, Premium receipts, Late fee charges it was found that among these factors 60.28% of the respondents were highly satisfied with the assistance provided to choose better plan in the Bancassurance products.
- Majority 73% of the respondents felt that Bancassurance products may affect the regular banking services. This opinion is due to their low level of awareness of Bancassurance and its operational isolation from regular banking activities. The influence of Bancassurance to customer may affect the level of customer satisfaction. Hence, it is suggested to promote the product with proper level of education.
- Majority 67.67% of the respondents were visiting the bank thrice a week.

AVERAGE SCORE ANALYSIS SHOWS THE SATISFACTION LEVEL OF BANCASSURANCE WITH PERSONAL FACTORS.

- The male gender level of satisfaction for Bancassurance product feedback was few than female genders satisfaction level factors that was due to the fact that the savings attitude and budget planning of female respondents have improved considerably than previous years. Moreover though the female respondents were less in number in our study their entry level in banks for new services is growing at a rapid speed.

- The average score on the level of satisfaction by Bancassurance products feedback of above 50 years age group had significance for their transaction. Thus the aged respondents have used the possible Bancassurance products to attain the maximum benefits from their existing bank transaction for a secured banking transaction.
- Only married respondents had purchased the Bancassurance products and they were satisfied with assistance provided to choose better plan, product features and premium rate. Respondents were neutrally satisfied late fee charges, premium receipts, policy terms, policy coverage years, underwriting, and NAV price of Bancassurance product.
- Satisfaction level of occupants in business has agreed to the Bancassurance model and their feedback has acquired in most of the product features. The study revealed that the majority respondents were male who were under graduates. The study results that the respondent's age group of 23-30years may reveal the business respondents of the study, Therefore business occupants who were experienced in the regular banking transaction support the Bancassurance product.
- The family monthly income of respondent's satisfaction level of Bancassurance products is favorable in turn with their income.

ANOVA ANALYSIS

(A) The following table shows the analysis of variance between the duration of being bank customer and their level of satisfaction of Bancassurance products.

Hypothesis: The duration of being bank customers have no significant difference on satisfaction of Bancassurance products.

ANOVA – DURATION OF BEING BANK CUSTOMER Vs LEVEL OF SATISFACTION

Descriptives

Level of Satisfaction

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Less than 5 years	56	41.8571	5.02151	.67103	40.5124	43.2019	29.00	50.00
5 years - 10 years	45	43.0222	6.03584	.89977	41.2089	44.8356	32.00	53.00
10 years - 15 years	9	40.1111	4.25572	1.41857	36.8399	43.3823	32.00	46.00
Above 15 years	31	40.7097	5.26747	.94607	38.7776	42.6418	30.00	50.00
Total	141	41.8652	5.40928	.45554	40.9646	42.7659	29.00	53.00

ANOVA

Level of Satisfaction

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	129.329	3	43.110	1.489	.220
Within Groups	3967.111	137	28.957		
Total	4096.440	140			

The descriptive table express that 5 years – 10 years account holders have found high mean value of 43.02. The F-value is 1.489 and sig. (p-value) is 0.220, which is greater than the level of significance 0.05.

Findings:

- The duration of being bank customers have no significant difference of Bancassurance product satisfaction. Therefore, the customer satisfaction was found close to one another.

(B) The following table shows the analysis of variance between the frequency of visit to bank and their level of satisfaction of Bancassurance products.

Hypothesis: The frequency of visit to bank has no significant difference on satisfaction of Bancassurance products.

ANOVA – FREQUENCY OF VISIT TO BANK Vs LEVEL OF SATISFACTION

Descriptives

Level of Satisfaction

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Daily	16	39.6875	5.25000	1.31250	36.8900	42.4850	30.00	50.00
Weekly Thrice	90	41.7889	5.33905	.56279	40.6706	42.9071	32.00	52.00
Weekly Twice	10	41.2000	5.28730	1.67199	37.4177	44.9823	32.00	51.00
Weekly Once	11	44.0909	6.23626	1.88030	39.9013	48.2805	29.00	50.00
Fortnight	3	43.6667	6.80686	3.92994	26.7575	60.5758	36.00	49.00
Montly Once	11	43.5455	4.86546	1.46699	40.2768	46.8141	35.00	53.00
Total	141	41.8652	5.40928	.45554	40.9646	42.7659	29.00	53.00

ANOVA

Level of Satisfaction

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	176.110	5	35.222	1.213	.306
Within Groups	3920.329	135	29.039		
Total	4096.440	140			

According to descriptive analysis, fortnight visiting customer found high level of satisfaction 43.67 and the mean level of satisfaction among various frequency of visit category is 41.87. From the ANOVA table, it can be observed that F-value is 1.213 and sig. (p-value) is 0.306, which is greater than the level of significance 0.05. Hence, the hypothesis is rejected.

FINDINGS:

- The frequency of visit to bank has no significant difference of satisfaction on Bancassurance products.

CONCLUSION

To conclude Bancassurance in India is conceptually in its emerging stage but holds a good promise for the future. Banks have been attracted to this field in view of scope for generating non-interest income while for the insurers it is of increasing the low insurance penetration levels in the country by leveraging the extensive distribution reach of Indian banks.

India a land of promise for Bancassurance with the democratic government and a population of 121 crores and has a savings rate of 23% of which savings with bank constitutes more than 50% of the domestic households savings. This paper on the satisfaction of customers for bancassurance products presents a vista of opportunities for private and public insurers to take advantage of our extensive bank networks.

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a. Source: Tower Watson Survey 2009-10
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