Bancassurance in India: The Strategy Revisited

Dr.K.Alamelu
Professor, Department of Bank Management,
Alagappa University, Tamilnadu – India
&
Dr.S.Sankaramuthukumar,
Senior Lecturer, Commercial Studies Division, Bahrain Training Institute,
Kingdom of Bahrain

Abstract

Bancassurance, is a term coined by the combination of two words ‘bank’ and ‘insurance’ connecting the distribution of insurance products through banking channels. The tie-ups between the insurance companies and banks are doing reasonably well in India, through different types of Bancassurance models. The consequences of multi insurer tie up model are mixed. Insurance and bank professionals have varied opinion regarding such model which are to be given due weightage both by the RBI and IRDA before arriving at a concrete decision. Against the backdrop of the pros and cons of multi insurer tie-up models, there should be a roadmap drawn up for the banks to tie-up with more than insurance company

Introduction:

Bancassurance, is a term coined by the combination of two words ‘bank’ and ‘insurance’ connecting the distribution of insurance products through banking channels. Bancassurance in its simplest form is the distribution of insurance products through a bank's distribution channels. In concrete terms Bancassurance, which is also known as Allfinanz - describes a package of financial services that can fulfill both banking and insurance needs at the same time.

Banks see value in insurance business due to complementary nature of insurance products towards bank advances, augmentation of fee income through distribution of insurance products and ease of recovery of advances in the event of death of borrowers / destruction or properties. Bancassurance takes various forms in various countries depending upon the demography and economic and legislative climate of that country. Demographic profile of the country decides the kind of products Bancassurance shall be dealing in with, economic situation will determine the trend in terms of turnover, market share, etc., whereas legislative climate will decide the periphery within which the Bancassurance has to operate.
Figure 1: Bancassurance Penetration in Selected Emerging Life Insurance Markets, 2005


Figure 1 shows the spread of insurance habits amongst the developed and emerging markets of the globe through all channels. The figure makes it clear that there is ample scope for bancassurance in the Emerging Market Economies given the lower level of insurance penetration and density.

**Bancassurance Regulations in India:**

Bancassurance commenced 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) notified ‘Corporate Agency’ regulations, in October, 2002. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer. Currently Bancassurance including referrals accounts for a share of almost 25-30% of the premium income amongst the private insurance companies in India.

In India banking and insurance sectors are regulated by two different entities. The banking sector is governed by Reserve Bank of India and the insurance sector is regulated by Insurance Regulatory and Development Authority (IRDA). Bancassurance being the combination of two sectors comes under the purview of both the regulators. Each of the regulators has come out with detailed guidelines for banks getting into the insurance sector.

**Status of Bancassurance in India:**

The tie-ups between the insurance companies and banks are doing reasonably well in India, through different types of Bancassurance models. Some of the important Bancassurance tie-ups in India under both life insurance and non-life insurance sectors are listed in Table 1.

The analysis clearly points out that the insurers promoted by the banks have got a distinct advantage in terms of their reach to every corner of the country. Insurers like SBI Life, ICICI Pru, Canara HSBC, India First, IDBI Federal and Star Union Daichi out perform other insurers in terms of their reach and the infrastructure available. The branches of the banks which have promoted the insurer can develop as the sales points of the insurance companies. While the insurers not having the bank promoters are at a disadvantage in terms of availability of infrastructure as well as trained manpower, such skewness in the availability of infrastructure has resulted in smugness among the bancassurers in utilization of the potential available.
Bancassurance commenced 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) notified ‘Corporate Agency’ regulations, in October, 2002. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer. Currently Bancassurance including referrals accounts for a share of almost 25-30% of the premium income amongst the private insurance companies in India.

Table 1: Bank-Tie Ups with Various Life and Non-Life Insurance Companies.

<table>
<thead>
<tr>
<th>S. No</th>
<th>Non-Life Insurers</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>Life Insurers</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ITI</td>
<td>100</td>
<td>0</td>
<td>HDFC Std</td>
<td>7</td>
<td>9</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>ICICI</td>
<td>90</td>
<td>3</td>
<td>LIC of India</td>
<td>8</td>
<td>8</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Rel</td>
<td>64</td>
<td>52</td>
<td>SBI Life</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Bajaj</td>
<td>17</td>
<td>17</td>
<td>Max NewYork</td>
<td>7</td>
<td>7</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>United</td>
<td>13</td>
<td>12</td>
<td>Birla Sun Life</td>
<td>6</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>New India</td>
<td>5</td>
<td>4</td>
<td>Bajaj Alliance</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Oriental</td>
<td>4</td>
<td>5</td>
<td>Tata AIG</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Royal Sun</td>
<td>4</td>
<td>3</td>
<td>Axa Life</td>
<td>4</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Chola</td>
<td>3</td>
<td>3</td>
<td>Met Life</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Unnati</td>
<td>2</td>
<td>3</td>
<td>ICICI Pru</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Tata AIG</td>
<td>4</td>
<td>4</td>
<td>Canara HSBC</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Bharti Axa</td>
<td>1</td>
<td>0</td>
<td>Kotak Life</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>AIC</td>
<td>1</td>
<td>0</td>
<td>IDBI Federal</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>HDFC</td>
<td>0</td>
<td>0</td>
<td>Star Union</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Raheja</td>
<td>0</td>
<td>0</td>
<td>ING Vipsa</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Star</td>
<td>0</td>
<td>0</td>
<td>Future Generali</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Apollo</td>
<td>0</td>
<td>0</td>
<td>Bharat Axa Life</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Shriram</td>
<td>0</td>
<td>0</td>
<td>Aegon Religare</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Future Generali</td>
<td>0</td>
<td>0</td>
<td>DLF Pramerica</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>National Ins</td>
<td>NA</td>
<td>NA</td>
<td>Shriram Life</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>ECC</td>
<td>NA</td>
<td>NA</td>
<td>Reliance Life</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>SBI</td>
<td>1</td>
<td></td>
<td>Sahara Life</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
| 23    | India First Life  |         | 2       |         | Source: Report of the Committee on Bancassurance, 2011.

Multi Insurer tie-ups: Is it a Feasible Distribution Strategy?

At present insurance companies have a choice of distribution channels viz, corporate agents, agents and brokers. Banks are engaged in different distribution activities on their own and / or through separate legal entities subject to the general conditions specified by the Authority for the concerned channel. The agency distribution arrangement through banks is generally understood as “Bancassurance” model.

Insurers are competing among themselves to grab the Bancassurance channel of business thereby increasing the commission and other expenses to attract banking intermediaries. Present regulations prevent the banks to tie-up with more than one Insurer. Since Banks are limited (and already having tie-ups) and Insurers are adding each year, the newly entered Insurer finds it difficult to engage a bank as its Corporate Agent. This situation gives an unfair advantage to the banks to demand higher commission/expenses from the Insurer. Most of the upfront payments are being made through the “other expenses” head of Account.

The Insurance Regulatory & Development Authority (IRDA) has been receiving requests from various Life and General Insurance companies to relax the requirement that the banks cannot have agency tie-ups with more than one insurer. Indian Banks’ Association in their representation to IRDA...
stated that the banks have wide network throughout the country and are well suited to market insurance products in the areas of low insurance penetration.

A Committee constituted by IRDA in September 2007 (Chairman, Shri N.M. Govardhan) to study the functioning of various distribution channels, their effectiveness and weaknesses and makes recommendations to make them more professional, had also looked into the various aspects related to Bancassurance.

Another committee on Bancassurance was constituted by IRDA in 2009, under the Convenorship of Shri.Giridhar, Executive Director of IRDA. This committee submitted its report in May 2011.

According to the Committee on Bancassurance 2009, the Bancassurance channel may be allowed to operate on principles of tied agency preserving the current legal status of the bank as an agent of the insurer. Banks may be allowed to have tie-up with any two sets of insurers.

- Two in life insurance sector
- Two in non-life insurance sector excluding health
- Two in health insurance sector
- Export Credit Guarantee Corporation and Agriculture Insurance Company of India Ltd.

The consequences of multi insurer tie up model are mixed. Insurance and bank professionals have varied opinion regarding such model which are to be given due weightage both by the Reserve Bank of India (RBI) and Insurance Regulatory & Development Authority (IRDA) before arriving at a concrete decision. Established insurers prefer a single tie-up and new players like an open architecture.

**IRDA (Licensing of Bancassurance Agents) Regulations, 2011:**

In continuation of the submission of the report of Committee on Bancassurance in May 2011, the IRDA has come out with IRDA (Licensing of Bancassurance Agents) Regulations, 2011 on 23rd November 2011. The core aspects of the recent regulations on Bancassurance are in two folds;

Ceiling on number of tie ups on Bancassurance Agent: No Bancassurance Agent shall tie up with more than one life, one non-life and one standalone health insurance company in any of the states in addition to one each specialized Insurance companies. Further Provided that in case the agreement of general insurer/s do not have any health product to distribute, the Bancassurance Agent may tie up with one more general insurance company carrying on exclusively business of health insurance.

Ceiling on number of tie up on Insurance Company: No insurers other than the specialized insurer shall tie up with any Bancassurance agent in more than nine states / Union Territories in Zone A and six states / Union Territories in Zone B.

**Multi Insurer Tie-ups – The Pros:**

India is the only Asian country which applies one bank – one insurer model. This model does not promote competition and has limited industry growth in terms of product development, cost efficiency and service quality. An open architecture allowing more than one tie-up as prudent in many countries will certainly boost the level of insurance penetration.

At present, newer insurance companies feel discriminated as there are no banks left to tie-up under the single insurer model. Multi insurer tie-up model will enable such new entrants to penetrate into the bancassurance market by tying with experienced, well established bancassurance.

With increase in the number of tie-ups, customers can enjoy lot of advantages accruing out of choice and competitive benchmarking in terms of products, distribution, service quality and innovation.
Single insurer tie-up model prevalent today gives an unfair advantage to banks to demand a fat upfront fees from insurers under different heads such as training costs, incentives, travel, promotion, etc; this in turn leads to the payouts exceeding the prescribed commission. The intensity of this problem can be much minimized in the multi insurer tie-up model, as the bargaining power of banks is streamlined. Ultimately this translates into lower premium for policyholders.

**Multi Insurer Tie-ups – The Cons:**

Due to the asymmetry of the relationship, insurer has hardly any say in the manner of marketing their products. The regulations prescribe that the insurance products have to be sold by only trained persons. Only persons familiar with features of the products and the risks they cover can do justice to the customers. Banks at present do not have trained persons in all the branches, which means that solicitation is happening through untrained persons. This opens the possibility of mis-selling by the bank staff, which in turn puts liability on the insurance company. The risk of mis-selling and the insurer being held liable is higher in products which also have savings features. As the banks are not directly under IRDA for regulatory purpose, this poses a challenge to insurance regulator in the prevention of mis-selling. Opening up the sector for multiple tie ups for banks with insurers carries the danger of aggregating the problem of mis-selling by banks.

It is also argued that in countries such as Ireland, Italy, and France where Bancassurance is successful have adopted a single agency tie-up model. In India, insurance industry is still in its infancy and not matures enough for open architecture system.

According to Critics, multiple tie-ups may neither lead to improvement in insurance penetration nor would it provide value addition to the customer. Greater possibility of mis-selling tempts the customers to exercise cool off the options and result in higher lapse. Poor insurance service capabilities of banks may push up the level of orphaned policies.

It may not be realistic to expect banks to become highly focused on insurance distribution in a short time and seek to develop this as an independent line under a broker license to represent multi insurers. RBI’s concerns on banks’ involvement as brokers in any form of activity are known, given the weak governance structure in banks, their inadequate skills in risk management, the public sector character of the banking system posing ultimate ownership risks to the sovereign etc. It is useful to recall the experience in the 90s when a few banks had to be bailed out following the misadventures in their captive mutual funds.

**Roadmap for Multi Insurer Tie Ups:**

Against the backdrop of the pros and cons of multi insurer tie-up models as above, there should be a roadmap drawn up for the banks to tie-up with more than one insurance company.

Banks may be allowed to enter into distribution arrangements for group insurance products with one or more life and general insurance companies. While the present regulations do not forbid the same, it may be useful to explicitly allow the same so as to send a message that this would provide an opportunity to cover different segments of population. Experience shows group insurance, such as saving-oriented group products for farmers linked to kisan credit cards, and schemes covering clusters of small and medium enterprise customers, can be beneficial to the priority segments of population. The regulator may create better awareness of this opportunity among banks, thereby contributing to improvement in the overall insurance coverage.

Banks with more than 1000 branches may be allowed to tie up with one more life and non-life insurance company with effect from April 2011 for distribution of insurance products. This could be done by allowing the additional insurer to distribute insurance products at branches situated in specific
regions in the country (thereby carving out the total branch network among two insurance companies), or it can be practiced at all branches, at the option of the bank.

The choice made available to banks to allocate branches in certain regions for the additional insurer might help bank managements to consider selecting the additional partner based on the specific strengths of the latter, such as the brand image of the insurer in specific regions if any, support forthcoming on the training and customer support aspects in the regions concerned etc.

At the regulatory level, such a limited opening made available to large banks would help to closely monitor the implementation, and take corrective steps where required. The availability of this facility from a proposed future date would enable bank managements to take necessary structural steps, such as getting their sales personnel qualified at a higher level for selling investment products, oversight by the inspection staff etc. as proposed.

At the same time, there should be no compulsion for any bank to tie up with more than one insurance company. This is only an enabling facility which bank managements might wish to consider as a prudent business move. The scope for banks with less than 1000 branches to tie up with an additional insurer may be examined after April 2011 based on the experience gained.

Conclusion:

The creation of Bancassurance operations has a material impact on the financial services industry at large. Banks, insurance companies and traditional fund management houses are converging towards a model of global retail financial institution offering a wide array of products. It leads to the creation of ‘one-stop shop’ where a customer can apply for mortgages, pensions, savings and insurance products. The penetration level of life insurance in the Indian market is quite low at 4.6% of GDP with only 12% of the total population currently insured. With almost half of the population likely to have been in the ‘wage earner’ bracket by 2010, there is every reason to be optimistic that Bancassurance in India will play an important role in the growth of insurance industry.

References:

3. IRDA (Licensing of Bancassurance Agents) Regulations, 2011