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BANCASSURANCE - BANKS PLAYING THE ROLE OF INTERMEDIARY

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ABSTRACT
Banking sector has been through conglomeration during the past few years. Among the various features of conglomeration one pertinent feature which stands out is the diversification towards the insurance activities often termed as Bancassurance. Over the period Bancassurance which has been initiated as a diversification avenue gained ground in terms of generation of fee based income for banks. The easing of payment restriction to intermediaries has also contributed to the growth of alternative distribution channels in insurance sector and has paved the way for Bancassurance. This article is an attempt to brief about the Bancassurance – concept, emergence, relevance, role and growth, based upon the secondary data sources

Keywords: - *Bancassurance, Intermediary, Insurance*

INTRODUCTION

The very first traces of Bancassurance may be found in 1860 (Ghimire, 2013) when a Belgium based CGER savings bank initiated to offer mortgage linked insurance while the term Bancassurance was coined in France in 1980. In India it was introduced in year 2000 (Satsangi).
Bancassurance refers to – "The selling of life assurance and other insurance products and services by banking institutions".

- Oxford Dictionary

(Bancassurance) means "selling insurance product through banks. Banks and insurance company come up in a partnership wherein the bank sells the tied insurance company's insurance products to its clients".
According to Insurance Regulatory and Development Authority (IRDA) (Alavudeen & K.D, 2015), "Bancassurance refers to banks acting as corporate agents for insurers to distribute insurance products".

Who are the intermediaries:-

In general parlance intermediaries may be the firm or person such as agent, brokers or the advisors playing the role of mediator among the parties looking forward to a business deal, investment, and so on. In reference to insurance sector it may be stated that they are the one who mediates between the insurer and insured. In the insurance sector, (Rao & Bhaskara, 2016) "IRDA lists out agents, corporate agents, brokers, surveyors, TPA services, web aggregators, insurance repositories, and insurance marketing firms as the intermediaries"
Thus different types of recognised intermediaries or distribution channels in India (P.C.James, 2016) are:

1. Individual agents
2. Bancassurance
3. Corporate agents
4. Direct Channel
5. Insurance brokers
6. Micro insurance agents

7. Distance marketing channels
8. Web Aggregators
9. Insurance marketing firms

What is the requirement of the intermediaries in the insurance sector: -

Indian insurance sector has been paralysed by certain parameters (Kansra & Gill, 2016) some of them to be listed are:

- Lack of awareness
  In Indian market insurance is still being paralysed by lack of awareness regarding the insurance products and services.
- Lack of reliable data
  Indian insurance sector also faces the issue of unreliable data in terms such as morbidity profile which makes it tough for the insurance providers to set appropriate premium.
- Mis- Selling
  It is one of the major concern area of the insurance sectors over the period. Mis-selling in simple terms means selling or marketing the insurance by providing false information or by hiding relevant facts from the buyers.
- Traditional channels of distribution
  With the evolving environment, insurance sector also needs the new ways to deliver the products and services in the more efficient and effective manner to the customers.
- Fraudulent practices
  The insurance sector is at times being punished by the mal-practices adopted by the insured to avail excessive claim from the insurance service providers

The checklist of values that can be offered by the insurance intermediaries are mentioned in table 1: -

Table -1 Sample Checklist of Values that Intermediaries can offer

NO	VALUE	CUSTOMER	INSURER
1	Create a win-win in insurance	Give the best insurance fit to the customer	Give a insurable (good) customer to the insurer
2	Give the needed motivational push to the customer/insurer	Customers may not enjoy buying insurance - give the consumer the motivational push to buy	Be the first line underwriter to insurer. Make the customer desirable to the insurer
3	Reducing costs for insured and insurer	Lower the search costs of the customer	Reduce the 'total' risk cost for the insurer
4	Offer the best buy for the customer/ help the insurer to right price the risk	Understand customer need and fit the product as best buy for the customer.	Help to price risk more accurately in the true spirit of risk based insurance
5	Reduce the uncertainty costs for the customer and insurer	Reduce the complexity of products. Hand-hold the customer across the product cycle.	Reduce the frictional costs of insurance, provide comfort to both parties
6	Smoothen procedural hassles, reduce risks	Help customer to cross all procedural hassles when taking insurance.	Disclose the behavioural aspects of the insured's risk,
7	Provide additional services as required. Create lifetime relationship	Facilitate all services across the value chain	Match the needs of both parties optimally
8	Exemplary claim handling	Handhold the customer to speed assessment and settlement.	Help insurer to speed settlement, adhering to proper indemnity principles
9	Cross-sell and upsell products to the customer	Widen and deepen relationships and benefits of insuring	Improve the 'book' of the insurer
10	Make the product 'live' for the customer	Provide transparency and use for the products purchased.	Help to carry out feedback & research inputs for the insurer
11	Add relational value to customer	Shield the customer against the actuarial and bureaucratic mind-set of the insurer	Help the competitiveness of the insurer by life-time tie with the customer
12	Take the customer up the protection value chain	Help the customer to evolve with the changes regarding better products and prices	Ensure the life time revenue and profits from the relationship

Source - (P.C.James, 2016)

Factors contributing to the need and growth of Bancassurance (Dr. Ikpefan, 2016)**:**

- Improvisation of the channels via which insurance policies are made available or in within the reach of the common man
- Widening of banking sector working scope
- Creation of competitive market and improvisation of services being offered by the insurance players

Apart from the above factors the benefits (Ghimire, 2013) (Dorthy, 2014) (Dr. Ikpefan, 2016) that insurance companies can derive from joining their hand with the banks includes:-

- The access to the huge customer base of banks
- Reduction of reliance over the traditional agents
- Development of new financial products in collaboration with banks
- Wider market penetration and presence
- Improvisation of solvency by being in the able to acquire supplementary capital from banks
- Drawing the benefits from the banks trustworthy reputation

Different categories of Bancassurance arrangements (CLIPICI & BOLOVAN) (Ghimire, 2013):

- Strategic Alliance –
  Under such type, bank only undertakes the role of marketing the insurance product and apart from that bank does not carry any other insurance function.
- Full Integration –
  As the name suggests, this type of arrangement refers to complete integration between bank and insurance provider. The bank not only sells the insurance product but also exercise controls on services such as insurance claims. In other word it can be stated that bank following this model accepts insurance as additional core activity.
- Mixed Models –
  This arrangement makes bank responsible for lead generation however the marketing aspects is taken care by the insurer's employee. In simple terms it may be seen as model where in the banks customer database is being shared with the insurance service provider.

Scope of Bancassurance:

Broadly speaking banking sector is one of the most critical sectors in any economy of the world. Insurance sector also falls under the umbrella of service sectors. But over the period the insurance sectors fails to perform especially in countries like India (Dorthy, 2014). Bancassurance or joining hands with the banks has paved the way or laid the platform which is more robust and concrete in nature in comparison to platforms offered by the traditional distribution channels in the insurance sector. Rather it would not be wrong to state that (Rao & Dr. Fasiuddin Syed, 2009) Banassurance came out as the win-win situation both for the insurance service providers and the banks. In country like India, full of diversity in terms of people, insurance sectors fall prey to lack of proper education and guidance and fails to tab the huge opportunities offered in terms of large population base to sell the insurance services or products. Indian banking sector which runs across the nation as life line extensively with the network of over 65000 branches and holding around 65% of household investments (Rajput, 2013). Not only this, Indian banking sector has network of 75 branches per million inhabitants, which is almost impossible for insurance sector to achieve own its own. Thus Bancassurance appeared to be the way for the insurance companies to have the access to such an extensive banking network and using the same for the promotion and selling of insurance products.

CONCLUSION

Bancassurance the buzzword that originated from the European countries and has been gaining the ground in the developing countries like the India. The search of the alternative distribution channel from that of traditional distribution channel that can better match the need of the changing environment and the requirement of the customers made the insurance service provider to opt for Banks. Banks owing to their huge customer base and the trustworthy reputations across the globe has lured the insurance service providers. Bancassurance came out as the win-win model where both the banks as well as the insurance providers benefited. Banks got a new source of earning a fee based income while the insurance providers got the access to extensive network coverage which was almost impossible for to create own its own. In countries like India where banks covers a huge population and insurance sector is paralysed by the lack of education and reach, Bancassurance as business model holds a great opportunity and growth potential.

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