

# Analysis of Bancassurance as a Significant Factor in the Expansion of the Life Insurance Industry in India

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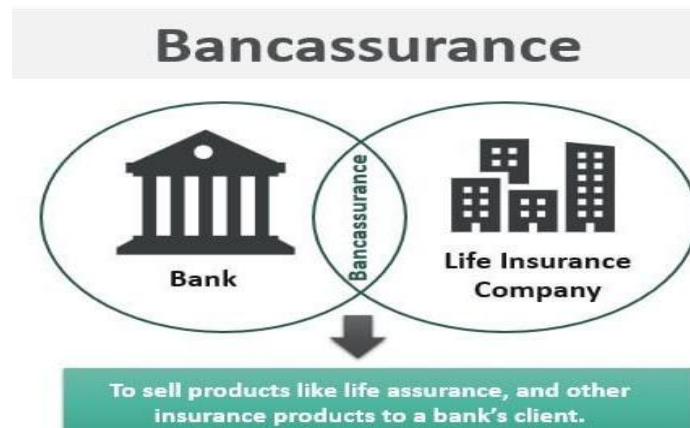
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**Abstract:** *The banking and insurance sectors have experienced rapid transformations due to the global economic landscape. The aggregate GDP of the banking and insurance sectors in our nation is roughly 7%. Life insurance companies were forced to enhance their competitiveness by reducing expenses and improving customer service due to the heightened market competition resulting from liberalization and privatization. The IRDA introduced the concept of Bancassurance with the objective of capitalizing on a large untapped market. The majority of life insurance firms have used banc assurance, a recently emerged and evolving distribution channel, in order to increase their market share and insurance penetration. The primary objectives of the present empirical study were to examine the level of client awareness, contentment, and perception about the purchase of life insurance products from banks, and to understand the role of banc assurance in the Indian life insurance business.*

**Keywords:** bancassurance, life Insurance market, customer awareness, untapped market

## I. INTRODUCTION



The term "bancassurance," which was created by fusing the French terms "bank" and "insurance," refers to the sale of insurance products via banking channels. Terms like "Assure banking," "Integrated Financial Services," and "Allfinanz" (in German) all fall under the umbrella of "bancassurance." This idea gained popularity as the insurance industry expanded globally and looked for new distribution channels. Banks have become effective channels for the marketing of insurance goods due to their wide geographic reach and penetration of all consumer demographics. And in order to get a piece of the action cake, everyone wants to get on board. A robust financial sector serves as the foundation of a sound economy. As a financial service, the insurance industry is regarded as one of the key areas for an economy's expansion and advancement. Prior to the liberalization, the Life Insurance Corporation of India held a total monopoly on the life insurance industry for a very long time, from 1956 to 1999. To boost insurance penetration, the insurance industry was made more accessible to the private sector in 1999. The financial sectors have seen incredible transformation as a result of privatization and liberalization, especially the life insurance industry. Large untapped population offers life insurance firms limitless opportunities for premium growth and market expansion. The efficiency of the distribution channel has a major impact on the success of life insurance firms. By offering consumers high-

quality services, the right distribution channel can boost sales volume, promote a brand, and foster brand development. The performance of life insurance firms is inadequate, even with a multitude of new products and distribution channels. Therefore, in late 2002, the IRDA launched a new idea called "Banc assurance," wherein insurance companies form joint ventures with various banks to provide insurance products, with the aim of improving insurance growth and market penetration of the life insurance business. The foundation of banc assurance is a win-win scenario in which a commercial collaboration benefits banks and insurers alike.

#### **The Meaning and Concept of Bancassurance:**

It started in India in 2000 when the government gave notice under the Banking Regulation Act enabling Indian banks to provide insurance. After the Insurance Regulatory and Development Authority (IRDA) issued a notification in October 2002 about "Corporate Agency" regulations, it began to gather up steam. About 35–40% of premium income received by private players in India comes from banc assurance. It is a phenomenon where a whole range of banking and investment products and services, as well as insurance products, are distributed through the channels of banking services. Bancassurance seeks to take use of the synergies that exist between banks and insurance providers. The following are a few instances of bancassurance:

Development Credit Bank, Deutsche Bank, Bank of Muscat, Andhra Bank, Birla Sun Life Insurance Bank of Rajasthan, and Catholic Syrian Bank

Life Insurance from Aviva American Express Bank, Canara Bank, Lakshmi Vilas Bank, and ABN AMRO Bank

HDFC Ordinary Life Insurance Indian Union Bank

Bank of India, Citibank, ICICI Prudential, South Indian Bank, Federal Bank, ICICI Bank, Allahabad Bank, and Punjab and Maharashtra Cooperative Bank

Bank of Commerce, Vijaya Bank, Overseas Bank of India, and LIC Corporation Bank.

United Bank of India, BNP Paribas Tata AIG, SBI Life, and HSBC.

Standard Chartered Bank, Centurion Bank, and Bajaj Allianz Syndicate Bank.

A sort of partnership or agreement known as "banc assurance" gives banks a set percentage of profit rewards based on the volume of business they do with insurance companies. When compared to alternative distribution channels, banc assurance was deemed by the majority of insurance companies to be a low-cost, attractive option.

#### **Reasons for the inception of Bancassurance:**

Banks believe that they meet the three main needs for a successful insurance business: capital sufficiency, investment expertise, and asset management. As a result, they believe that insurance is a great alternative. Additionally, banks want to satisfy all of their clients' financial requirements. Banks are getting into the insurance market for the following reasons:

1. Broad branch network: Because banks currently have a large branch network throughout the country, they can serve as an essential distribution channel.
2. Customer database: Banks can offer insurance products to their current clientele, which includes both corporate and retail customers.
3. Cross-selling items: As things stand, banks are able to offer their goods alongside insurance products. For instance, SBI Bank offers SBI life insurance policies in addition to their primary financial offerings.
4. Fee-based service: It is possible to sell insurance products as a fee-based service. This means that banks will have an extra source of income through the sale of insurance products, which will provide them with risk-free fixed income.
5. Rural Penetration: Insurance products can be sold in rural regions using the extensive bank network that currently exists there. Banks find it simpler to access the rural market because, in contrast to insurance companies, the rural population is more aware of and trusting of banks.

#### **India's Bancassurance: A SWOT Analysis**

##### **Strength:**

1. strength is the big unexplored Indian population.
2. Insurance companies' innovation and product development.

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3. A sizable middle-class population that has faith in banks.
4. A less expensive distribution channel mode.

**Weakness:**

1. Limited customer awareness
2. Products' lack of adaptability.
3. High premiums.
4. Seen as an investment rather than a means of defence.

**Opportunities:**

1. Over 70% of people do not have health insurance.
2. People have faith in banks to aid in the sale of insurance goods.
3. Growing interest in new insurance products such as health, pension, and ULIPS plans.
4. The launch of new technologies and prompt client support.
5. Assist in the banking industry's growth by providing more money from the insurance industry.

**Threat:**

1. It's hard to offer insurance goods.
2. Unsuitable for intricate items.
3. Bank workers are under more job pressure.
4. A variety of investment possibilities are available.

**Role of Bancassurance**

**For banks:**

The banks get an extra product in their basket to lower the risk of regular income, which is the primary benefit. Second, they typically make more money in the form of fees from the sale of the insurance products. Thirdly, by offering their clients a full range of banking and insurance services through a single window, banks will be able to keep their business and build deeper relationships with them.

**For the Insurance company**

Access to the sizable rural market was made possible by selling their goods through banks. Numerous public sector banks maintain branches in isolated rural locations, which provide as an inexpensive, ready-to-use market for insurance companies. Through the banks' distribution network, insurance companies could connect with the well-off and expanding middle class segment of the population.

**For Customers**

Customers benefit from the Banc assurance model in several ways, including lower prices, timely product diversity, centralized services, and doorstep banking services. improved and innovative product lines, as well as goods created to meet consumer demands. In addition to receiving greater financial counselling at a single location, customers may also benefit from economies of scope in the form of a lower premium rate.

**Ways to overcome Issues and Difficulties with Bancassurance**

1. In order to aggressively promote the insurance products in banc assurance, bank managers' performance reviews and sales training must receive a lot of attention.
2. To allow bank employees to record sales information at the branch, insurance companies must devise straightforward IT solutions.
3. To increase the sale of insurance products, the bank's marketing staff should be provided with alluring incentives and appropriate motivation.
4. Insurance providers ought to offer more specialized banc assurance products.
5. Banks must up their game in terms of service quality and aggressively market insurance products.
6. To provide clients with the greatest product in an economical manner.

7. In order to boost their clients' confidence and dependability, banks should also handle claim settlements.

8. It's important to educate clients about banc assurance and its advantages.

The integration procedures are what define the insurance industry intrinsically. Insurance businesses must weigh the many benefits and risks associated with the globalization of business, capital consolidation, and convergence of insurance with other financial services before determining whether or not to engage in these integration processes.

### **The impact of risk on bancassurance**

One of the most noticeable developments in the contemporary insurance sector is the realization of ever-more catastrophic disasters. The insurance's underlying premises are threatened by this realization of catastrophic losses. These tendencies impair the insurance industry's ability and raise insurance prices, endangering the insurance's essential function in the economy and society—protecting policyholders. It is nearly a given that the patterns that have been shown thus far will have an impact on the insurance industry going forward. Insurance companies must therefore adjust by creating creative solutions. Anticipation and adaptation serve the public interest in addition to their own. It is clear that there are new threats emerging in relation to information, bio, and nanotechnology.

Future technology advancements will be facilitated by the capacity to recognize, quantify, and manage novel hazards. As a result, technological advancements will open up previously unthinkable possibilities for improving human life and the workplace, which will present growth potential for insurers. However, insurers need to be aware of the potential new risks that come with new technologies and be able to recognize, evaluate, and decide whether to accept or reject these risks based on their own capabilities.

### **India's Future Prospects for Bancassurance**

In essence, selling insurance is a customer-focused concept where a policy is offered to a client via the proper distribution channel. These days, the two most common and significant channels for selling insurance products are agents and banks. Advances in distribution are transforming the Insurance Industry. Regarding product quality and after-sale and claim settlement customer services, the distributor is the one that sets the differences. For the Indian market, it will be wise to distribute and market insurance goods through multiple channels. Banks, brokers, and corporate agents will be more important distribution channels for insurance. One such distribution route that presents a wealth of unexplored potential is bancassurance. In comparison to other distribution channels, Bancassurance is more affordable and user-friendly. In the insurance industry, bancassurance accounts for around 35–40% of premium income and is the second-most significant channel after agents. PSU banks alone have more than 67,000 branches in India; if every branch offered insurance products, the reach of insurance could be greatly expanded at the lowest feasible cost. The vast uninsured market in India presents ample opportunities for bancassurance's growth and development in the future.

## **II. CONCLUSION**

Insurance is primarily a customer-centric industry that involves selling policies to clients through appropriate distribution channels. Currently, agents and banks are the predominant and influential channels for selling insurance products. When the insurance sector in India was initially liberalized ten years ago, Bancassurance was a completely unfamiliar method of distributing insurance. At now, it is expected to generate 40% of the total premium money collected by private insurers, which is a significantly bigger sum. The Insurance Industry is undergoing significant changes due to advancements in distribution. The distributor is responsible for determining the disparities in terms of product quality, as well as the customer services provided for after-sales support and claim settlement. It would be prudent to distribute and market insurance products through several channels in the Indian market. Selling insurance in India is a tremendously complex endeavor due to the nation's large size, diverse population, and difficulties with connectivity in rural areas. In order to access a substantial number of customers, life insurance companies require an extensive distribution network and a substantial workforce. The expansive segment of the Indian population without insurance coverage offers significant prospects for the future expansion and advancement of bancassurance.

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