

System of Bancassurance in India

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Abstract:

The provision of insurance and banking products and services through a common distribution channel or to a common client base is referred to as bancassurance. Today the scenario has completely changed wherein insurance policies reach every person in almost every corner of our nation. This change in the financial horizon was ushered in with the birth of bancassurance in India. Banks which were meant for deposits, loans and transactions are allowed to provide insurance policies to people and this feature of bank is called 'bancassurance'. However to understand how this takes place one would have to continue reading this article.

Need for bancassurance in India:

Researches and present day statistics speak about the need of a well equipped financial structure for a country that helps it to grow economically. The financial resources in the hands of people should be channelized in effective manner so as to increase the returns from the basic financial structure of nation and also the quality of living of people. Insurance policies are instruments/products that play major role in upholding the financial structure of developed countries. Though the teething phase of insurance, one may say is just past, a desirable foothold is yet to be found. With growth in number of middle class families in the country, RBI recognized the need of an effective method to make insurance policies reach people of all economic classes in every corner of the nation.

Implementing bancassurance in India is one such development that took place towards the cause. The need and subsequent development of bancassurance in India began for the following reasons:

- To improve the channels through which insurance policies are sold/marketed so as to make them reach the hands of common man
- To widen the area of working of banking sector having a network that is spread widely in every part of the nation
- To improve the services of insurance by creating a competitive atmosphere among private insurance companies in the market.

Regulations under RBI and IRDA:

The Reserve Bank of India and the insurance development and regulatory authority have a set of guidelines for companies that couple to form bancassurance. Based on the equity a bank should hold in joint venture, the highest allowable value of equity, the type of banks and insurance companies that can couple together and the operation of bancassurance are all the factors that are regulated by RBI and IRDA. The IRDA has recently drafted guidelines to promote open architecture in bancassurance. Currently a bank has a tie-up with only one life insurer and one non-life insurer. But in the new model the banks necessarily have to have multiple tie-ups. The country is divided into zones and every bank has to choose multiple insurers within the zones. With this the customer will have a wider range of insurance products offered by different insurers. It will also lead to a deeper penetration in the selling of insurance products.

Benefits of Bancassurance:

- It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank.
- The people who are unaware of and/or are not in reach of insurance policies can be benefitted

through widely distributed banking networks and better marketing channels of banks.

- Increase in number of providers means increase in competition and hence people can expect better premium rates and better services from bancassurance as compared to traditional insurance companies.

Demerits of bancassurance:

- Data management of an individual customer's identity and contact details may result in the insurance company utilizing the details to market their products, thus compromising on data security.
- There is a possibility of conflict of interest between the other products of bank and insurance policies (like money back policy). This could confuse the customer regarding where he has to invest.
- Better approach and services provided by banks to customer is a hope rather than a fact. This is because many banks in India are known for their bad customer service and this fact turns worse when they are responsible to sell insurance products. Work nature to market insurance products require submissive attitude, which is a point that has to be worked on by many banks in India.

Opportunities to Banks:

- Bankers have good relationship with the customers. So they can act as financial advisors to customers. Convincing the customers for insuring is relatively easier for a banker than an agent.
- Banks have a wide branch network. Millions of customers become accessible to insurance companies through banks branches. In India, the LIC of India has a formidable agent network. The private insurance companies have been in existence for less than four years. In a short period, to appoint agents all over the country and effectively follow them up will be an uphill task. Tie up with banks provides great opportunity for insurance as well as banking business.

- New insurance companies in public sector are yet to become popular. They are in process in building brand equity. Tie up with banks will help to boost their image. In this process banks are also benefited.
- Customers have more faith in banks and they view that banks as more responsible than individual agents. Moreover, agents may not be available for further services. But customers can approach the banks at any time and paying the premium is easier with banks because of standing instructions.

Measures to improve Bancassurance:

- More specified persons should be appointed by banks and officials should be properly trained. Apart from specified persons, other staff members should also be trained on the basis of insurance schemes and products available etc.
- All staff members must be made aware of the benefits derived from the bancassurance business viz. earning non interest risk free commission income. The difference in attitude required for selling insurance has to be explained and joint sessions may be conducted by the bank and the insurance company.
- Marketing persons also should have basic knowledge about insurance skills. They should sell insurance products along with banking products.
- During business hours, specified persons are to be meet customers visiting the branch and market insurance products.
- There are many potential customers who may not visit branch frequently. They have to be approached by marketing persons at the customer place to sell insurance products.
- Branch managers and staff along with specified persons can discuss with the potential customers, the benefits of insurance and schemes available in broader sense, targets may be fixed for marketing officers and a suitable reporting system may be evolved.
- Banks should provide very good after sales service in respect to collection of premium, automatic

transfer of premium assistance in claim preferring and ensuring early settlement of claims.

Conclusion:

Insurance in India will be growing at a much faster rate in the year to come. The contribution of bancassurance will be substantial. The success begins with a valid observation that banks though unaccustomed to selling their own products are venturing in to bancassurance, which involves selling of more complex products. There is an ample scope to exploit the underserved rural and social sector through the existing distribution net work banks. At the same time, there is a need for banks to be sensitive to customer preferences. The growing competition to sell insurance products due to the entry of many new players and in their new found enthusiasm, if bankers try to push too hard they run the risk of driving away even their existing customers, and on the other hand if they are passive the customers may fall back on the agent who has a proven track record of success.

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