BANCASSURANCE

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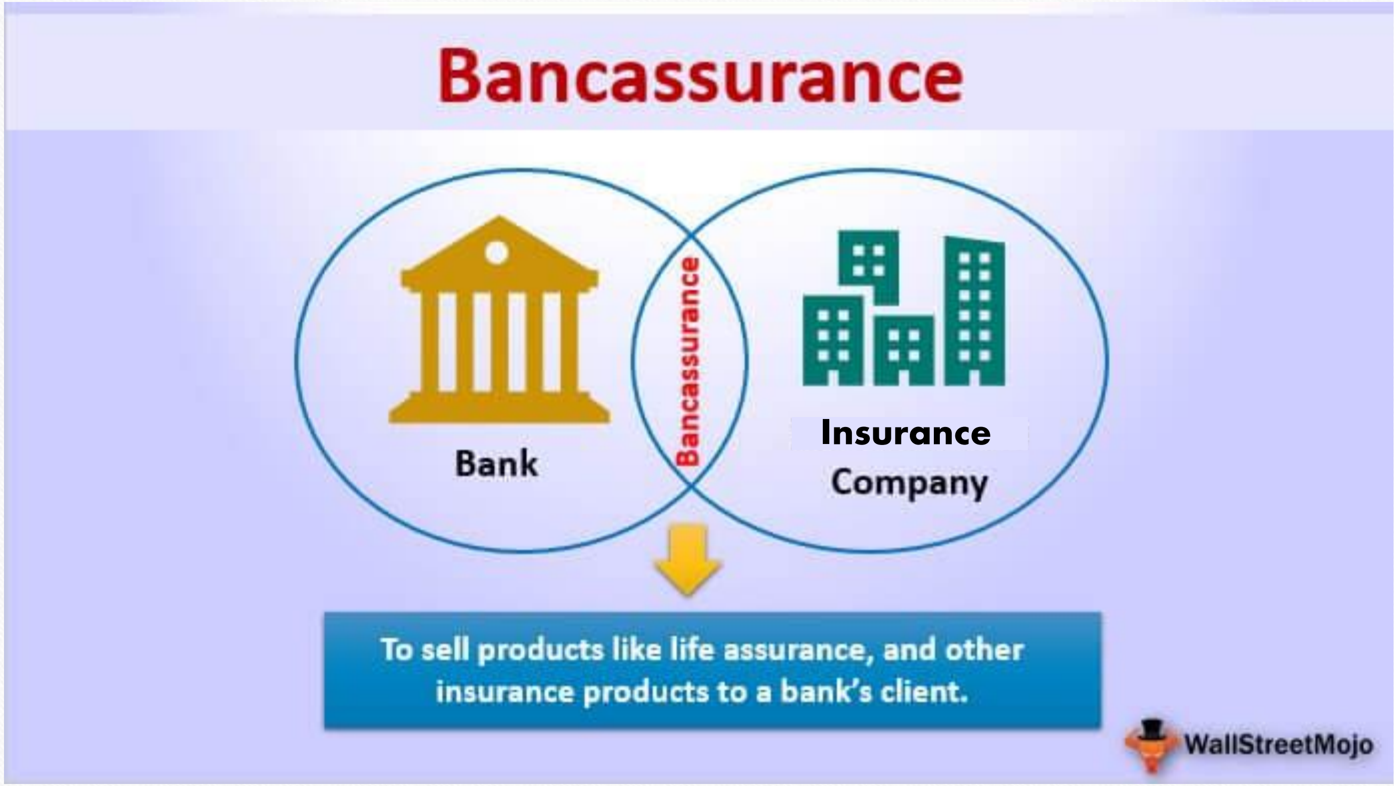
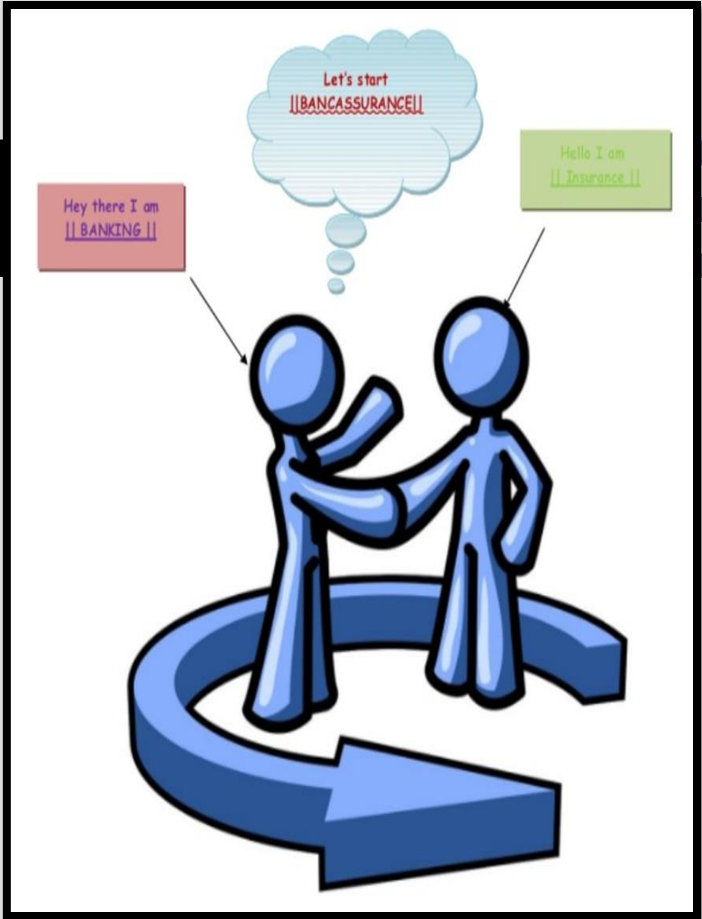

Bancassurance
Bank
Bancassurance
Insurance
Company
To sell products like life assurance, and other insurance products to a bank's client.
WallStreetMojo

BANK + INSURANCE = BANCASSURANCE

- Bancassurance is a French term.
- Bancassurance is a relationship between a bank and an insurance company that is aimed at offering insurance products or insurance benefits to the bank's customers.
- According to IRDA, ‘bancassurance’ refers to banks acting as corporate agents for insurers to distribute insurance products.
- It is an arrangement between a bank and an insurance company allowing the insurance company to sell its products to the bank's client base and by doing this both companies earn a profit.

FEATURES

1. Bank cannot pay a premium on behalf of the customer.
2. It can use only two insurance companies in one bank.
3. All commissions are disclosed in the annual accounts report.
4. A bank always focuses on its banking business.
5. For an insurance company, the network of a bank is useful for the sale.
6. It improves profitability.
7. It increases customer lifetime value.
8. It can offer all the financial facilities under one roof.



TYPES OF BANCASSURANCE

Life Insurance Products

- Term insurance plans
- Endowment plans
- Unit linked insurance plans

Non-Life Insurance Products

- Health insurance
- Marine insurance
- Property insurance
- Key men insurance

MODELS OF BANCASSURANCE

Full Integration Model:

This model entails a full integration of banking and insurance services. The bank sells the insurance products under its brand acting as a provider of financial solutions matching customer needs. Bank controls sales and insurer service levels including approach to claims. Under such an arrangement the Bank has an additional core activity almost similar to that of an insurance company.

Joint Venture Model:

In this model, the bank participates in product and distribution design. There are joint decision-making and high system integration for infrastructure utilization.

Strategic Alliance Model:

Under this Model, there is a tie-up between a bank and an insurance company. The bank only markets the products of the insurance company. Except for marketing the products, no other insurance functions are carried out by the bank.

Financial Service Group:

In this, all the facilities of financial activities are under one roof.

- **Strategic Alliance**

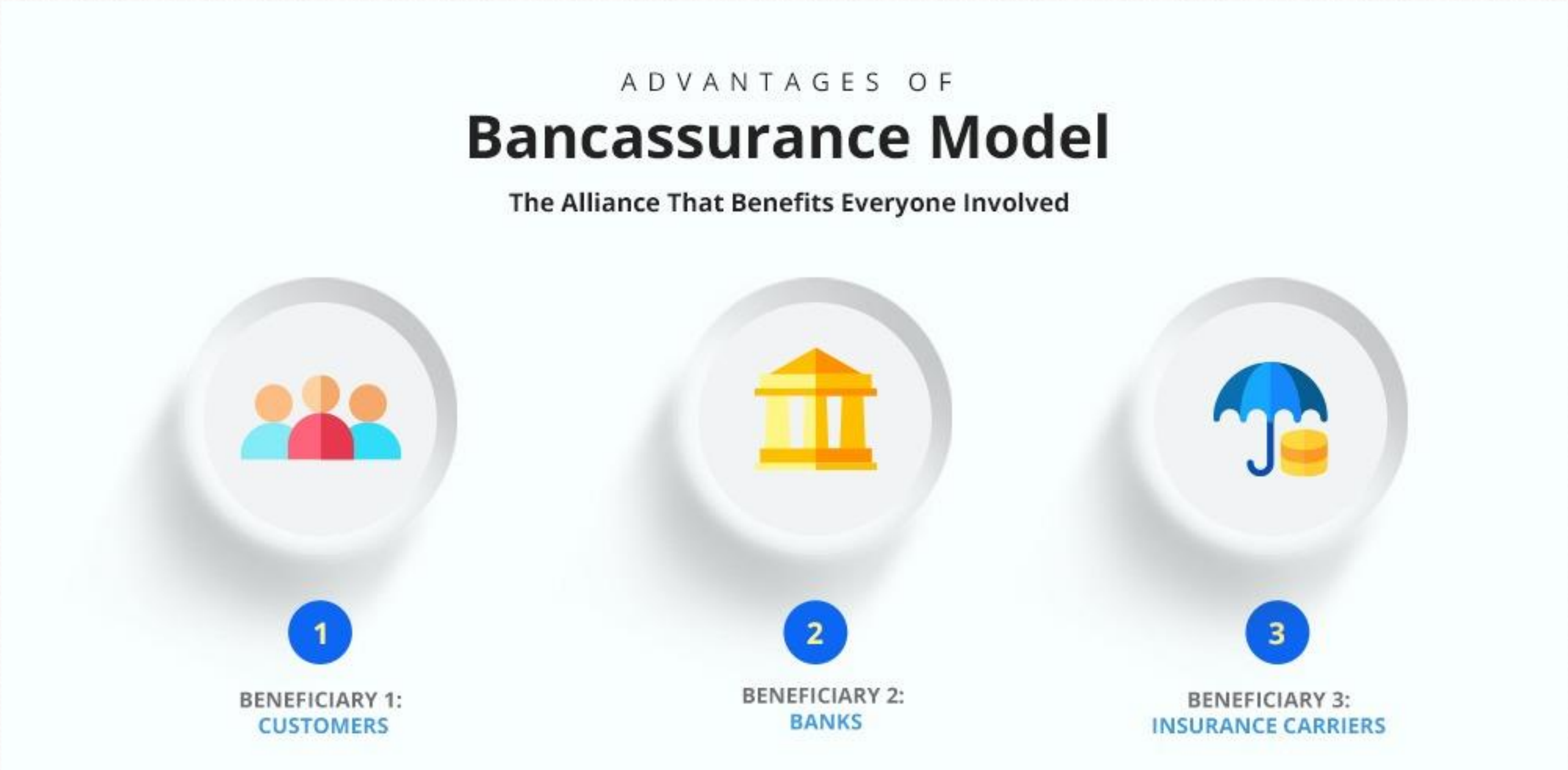
a) Insurer able to leverage the bank's infrastructure; source of fee income for banks. b) Integration in product development and channel management. c) Sharing of customer database. d) Reluctance of bank staff to sell insurance; insurer has little control over distribution.

- **Joint Venture**

a) Joint decision making; bank participation in product and distribution design. b) High system integration, infrastructure utilization; low-cost model. c) Insurer loses control on distribution. d) Bank may be able to realize higher profitability as an insurance distributor rather than a producer.

- **Financial Services Group**

a) Full integration of system; lowcost model. b) Potential for fully integrated products and developing a onestop shop for financial services. c) Insurer is ill-equipped to exercise control over distribution. d) Bank may be able to realize higher profitability as an insurance distributor rather than a producer.


ADVANTAGES OF
Bancassurance Model
The Alliance That Benefits Everyone Involved
1
BENEFICIARY 1:
CUSTOMERS
2
BENEFICIARY 2:
BANKS
3
BENEFICIARY 3:
INSURANCE CARRIERS

ADVANTAGES TO CUSTOMERS

1. ONE-STOP-SHOP FOR ALL FINANCIAL NEEDS

The advantage of bancassurance is just that:

a) Right Product: It provides the end users a customized insurance solution.

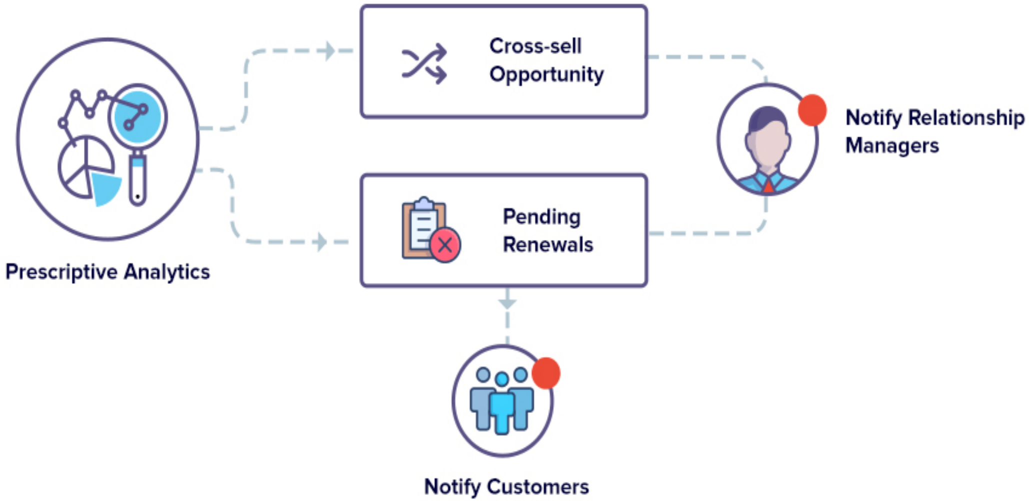
b) Right Time: At a location, they already are for their financial needs – their banks.

This improves the overall experience of the customers. They are more likely to opt for a complete financial solution from their banks, thus making bancassurance a success.

2. IMPROVED APPLICATION AND POLICY PROCESSING TIME

Bank already has the data and documentation of customers. This real-time information accessibility makes sure that the turnaround time is reduced – in application processing and claims management.

3. EASE OF RENEWALS



Bank being the front dealing with customers, handle renewals as well, making the transaction even more hassle-free.

In the EY survey, 52% of insurance customers from banks stated their willingness to renew their policies. This was against a dismal 19% of insurance customers from non-bank channels, willing to renew.

Also with new tech and data access for the bancassurance channel, tracking the renewals is very easy.

4. TRUST

Customers trust their banks to sell them the right product. The trust they would place on insurance carriers and independent agents is comparatively lesser. Therefore, the propensity to buy insurance products from their banks is higher.

5. EXPERT ADVISE

Banks sit on mounds of customer data. This, along with insurance carriers' expertise in packaging insurance products helps the alliance suggest the right products. Customers also recognize this expertise, majorly because of their trust in their banks.

ADVANTAGES TO BANKS

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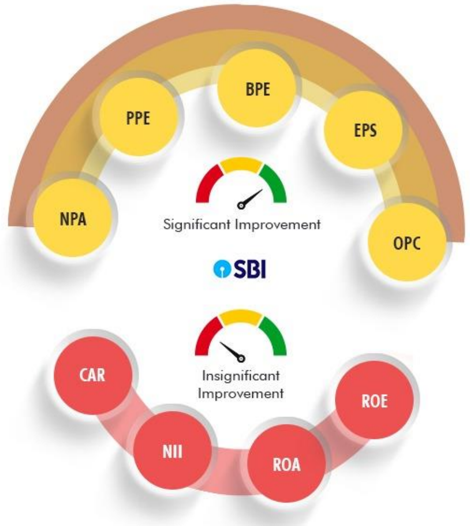
1. DIVERSIFICATION OF CUSTOMER PORTFOLIO

Banks already have a relationship with their customers selling them an amalgamation of financial products. With Bancassurance, insurance is added to the banks' product mix, diversifying their customer portfolio and increasing their penetration in the market.

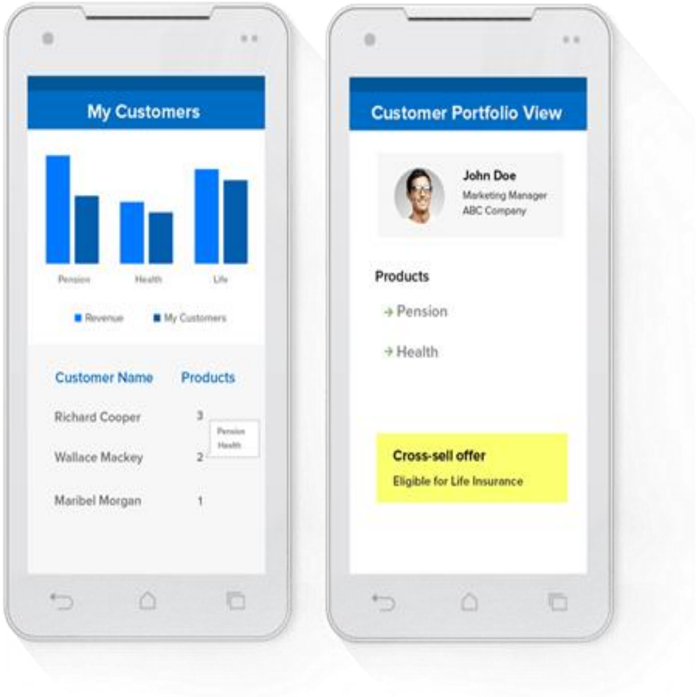
2. IMPROVED PROFITABILITY & NON-INTEREST FEE INCOME

In Bancassurance models, banks can easily generate risk-free income in the form of the commissions from insurance carriers. Multiple studies have been done in Indian bancassurance context to prove its positive impact on the bank's profitability.

SBI, after entering Bancassurance, improved almost all components of CAMEL model (except four indicators).



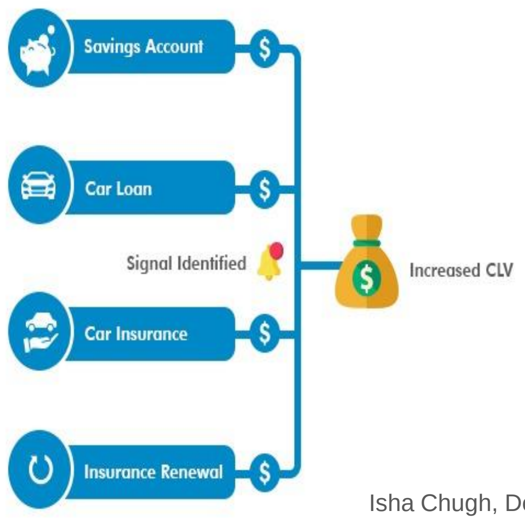
3. CUSTOMER LOYALTY AND RETENTION



Banks enjoy the benefit of being able to provide yet another product to their customers. Providing integrated financial services strengthens customer relationships and builds better customer loyalty and retention levels.

4. COST-EFFECTIVE USE OF EXISTING RESOURCES

Banks use their existing premises and employees (tellers and branch staff) for the sale of the new insurance products. This means that there's no additional cost of operation in selling insurance. They also utilize the insurance company's expertise in training bank employees and packaging insurance products. This reduces the cost of distribution for both insurers and the banks, increasing the channel's profitability.



5. INCREASED CUSTOMER LIFETIME VALUE

With increased loyalty and stickiness, comes higher CLV per customer which is a very important metric for banks.

ADVANTAGES TO INSURANCE COS.

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I. PIGGYBACKING ON BANKS' HIGH MARKET PENETRATION RATE

On its own, it would be impossible for insurance companies to reach the market coverage comparable to that of banks. Banks have a magnanimous distribution network, especially in India, with lakhs of commercial bank branches. So, penetration is the foremost benefit that the insurance carriers gain out of a bancassurance alliance.

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2. RELEVANT OFFER GENERATION AND CUSTOMER ENGAGEMENT

Banks have a huge amount of data on their customers. This includes their demographic and financial info, transactional information, spending patterns, credit repayment history (investment and purchase capability) and more. The carriers and banks can use this information to forge intelligent engagement workflows and to customize relevant insurance covers.

3. INCREASED PREMIUM TURNOVER

With increased market penetration, insurers' motive of increasing premium turnover is also achieved using bancassurance as the driving force.

For instance, max life's partnership with axis bank accounted for 55% of its revenue after axis bank acquired its shares.

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4. INCREASED OPERATIONAL EFFICIENCY AND REDUCED COSTS

In several of the bancassurance distribution models, bank employees are on the forefront, closing the deals and taking responsibility. Therefore, the channel proves to have a much wider reach with much less investment. A similar reach through traditional channels would need them to hire several hundred agents in different parts of the country. Through bancassurance, their market penetration goals can thus be met in a much shorter timeframe than through an agency channel.

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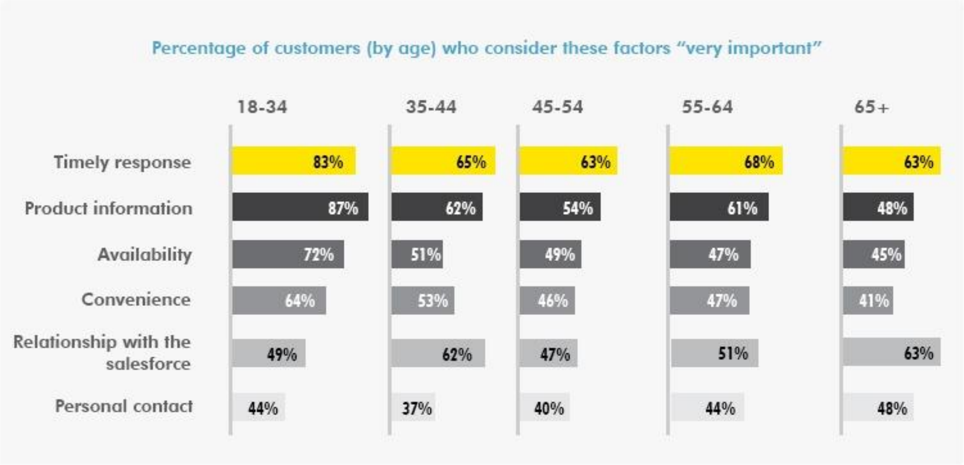
5. IMPROVED TURN AROUND TIMES (TATS)



Bank employees are on the forefront, data access ensures that the turn-around-time is low (responsiveness is high). This is important because responsiveness is rated by most customers as a very important factor in insurance buying.

DISADVANTAGES 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 the 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 the 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 requires submissive attitude, which is a point that has to be worked on by many banks in India.

BANCASSURANCE IN INDIA

- In India, the process of Bancassurance began in 2000. IRDA came up with regulation on registration of Indian companies. Government of India also issued a Notification specifying ‘Insurance’ as a permissible form of business that could be undertaken by banks under Section 6(1)(o) of the Banking Regulation Act, 1949. However it was clarified that any bank intending to take up the business would have to take specific approval from RBI.

- 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

Bancassurance companies in India

1. SBI life insurance Company
2. LIC is tied up with Vijaya bank, Oriental bank of commerce, Corporation bank
3. ICICI Lombard
4. Barclays – MetLife India
5. Axis bank – MetLife India
6. Aviva Life
7. Kotak Mahindra
8. ICICI Pru - ICICI Pru Life Insurance has tied up with 18 banks
9. HDFC Standard Life - HDFC Bank, Indian Bank and Bank of Baroda and many co-operative banks
10. Birla Sun Life - The **first bancassurance** policy in India was sold by Birla Sun.

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THANK YOU