

Efficiency Gains of Bancassurance – Insurance Companies Perspective

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Abstract

Nowadays, more than 40% of the business of the insurance companies are done through the Bancassurance channel. Insurance companies can leverage the database of banks and banking outlets to sell out their product and thereby they can increase the level of rural penetration. The penetration level of life insurance in the Indian market is considerably low at 2.3% of GDP with only 8% of the total population currently insured. Thus, Bancassurance provide an apparently viable model for product diversification by banks and a cost-effective distribution channel for insurers.

The findings of the study reveal that the efficiency gain of Bancassurance to the insurance companies are high. The insurance company can achieve almost all the advantage of Bancassurance through selling their product by using the database of bank and their branch outlets. As far as India is concerned, the major share of the insurance sector is in the hands of the public sector. They still depend on the traditional agency channel for insurance business. In India 70% of the population are not under the coverage of Insurance especially in rural areas.

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Introduction

In India Bancassurance is introduced in the year 2000. The opening up of the insurance industry to private sector participation in December 1999 has led to the entry of 20 new players, with 12 in the life insurance sector and eight in the non-life insurance sector. Almost without exception, these companies are seeking to utilize multiple distribution channels such as traditional agency, Bancassurance, brokers and direct marketing. Nowadays, more than 40% of the business of the insurance companies are done through the Bancassurance channel. Insurance companies can leverage the database of banks and banking outlets to sell out their product and thereby they can increase the level of rural penetration.

Insurance Penetration and Density in India

Insurance penetration and density are the two key parameters showing the growth of the insurance sector in a country. The growth of life and non-life insurance in India from 2001 to 2011 in terms of insurance penetration and density is given in table No. 1.1. As compared to 2001, the increase in insurance density is very low in India. The contribution of life insurance premium in GDP in the year 2011 is only 3.4 percentage and the same is 0.70 percentage in the non-life sector. This shows huge potential for insurance business in India.

Table No. 1.1

Insurance Penetration and Density in India

YEAR	INDUSTRY	LIFE	NON LIFE		INDUSTRY	
	DENSITY (USD)	PENETRATION (%)	DENSITY (USD)	PENETRATION (%)	DENSITY (USD)	PENETRATION (%)
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3.0	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4.0	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.10	5.2	0.60	38.4	4.8
2007	40.4	4.00	6.2	0.60	46.6	4.7
2008	41.2	4.00	6.2	0.60	47.4	4.6
2009	47.7	4.60	6.7	0.60	54.3	5.2
2010	55.7	4.40	8.7	0.71	64.4	5.10
2011	49.0	3.40	10.0	0.70	59.0	4.10
2012	42.7	3.17	10.5	0.78	53.2	3.96

(Source: IRDA Annual Report 2013)

Insurance density is measured as a ratio of premium (in US Dollar) to the total population. Insurance penetration is measured as a ratio of premium (in US \$) to GDP (in US \$)

List of life insurance companies operating in India

Before privatization of the insurance sector, LIC is the public sector giant in the Indian Insurance sector. But as a part of financial sector reforms, private companies are allowed to enter into the insurance sector. The table No. 1.2 shows the life insurance companies operating in India both in private and public sector in the year 2012.

Table No.1.2: List of life insurance companies operating in India

1. LIFE INSURANCE CORPORATION OF INDIA	<p>1 Aegon Religare Life Insurance Co. Ltd.</p> <p>2 Aviva Life Insurance Co. Ltd.</p> <p>3 Bajaj Allianz Life Insurance Co. Ltd.</p> <p>4 Bharti AXA Life Insurance Co. Ltd.</p> <p>5 Birla Sun Life Insurance Co. Ltd.</p> <p>6 Canara HSBC OBC Life Insurance Co. Ltd.</p> <p>7 DLF Pramerica Life Insurance Co. Ltd.</p> <p>8 Edelweiss Tokio Life Insurance Co. Ltd.</p> <p>9 Future Generali Life Insurance Co. Ltd.</p> <p>10 HDFC Standard Life Insurance Co. Ltd.</p> <p>11 ICICI Prudential Life Insurance Co. Ltd.</p> <p>12 IDBI Federal Life Insurance Co. Ltd.</p> <p>13 ING Vysya Life Insurance Co. Ltd.</p> <p>14 India First Life Insurance Co. Ltd.</p> <p>15 Kotak Mahindra Old Mutual Life Ins. Co. Ltd.</p> <p>16 Max Life Insurance Co. Ltd.</p> <p>17 MetLife India Insurance Co. Ltd.</p> <p>18 Reliance Life Insurance Co. Ltd.</p> <p>19 Sahara India Life Insurance Co. Ltd.</p> <p>20 SBI Life Insurance Co. Ltd.</p> <p>21 Shriram Life Insurance Co. Ltd.</p> <p>22 Star Union Dai-ichi Life Insurance Co. Ltd.</p> <p>23 TATA AIG Life Insurance Co. Ltd.</p>
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Source: Annual Report of IRDA 2012

Efficiency gains of Bancassurance to insurance companies

For measuring the Efficiency gains of Bancassurance upon insurance companies, the researcher has measured the performance of two insurance companies namely SBI Life and ICICI Prudential Life insurance. These companies were selected on the basis of their market share in the private life insurance industry and also their substantial performance in Bancassurance.

PROFILE OF SBI LIFE INSURANCE

SBI Life insurance, a joint venture between State Bank of India, the largest bank in the country and Bancassurance major Cardiff in France. SBI's stake in the venture is 74%, whereas Cardiff has 26% share. They have launched many products so far incorporating certain features that are introduced for the first time in the country. SBI Life is planning to introduce more novel and user friendly products to cater to the requirements of the consumers in different segments.

SBI has the largest banking network in the country. The bank is looking for business from every customer segment of the bank in rural and urban segments, upper, middle and lower income segments/groups and corporate segment. Besides their own channels they are planning to distribute products through other interested banking channels also.

Technology is an integral part of this operation. Cardiff provided the technology required. The project was initiated in April 2004, and the initial rollout was completed by August 2004.

SBI Life Insurance is uniquely placed as a pioneer to usher Bancassurance into India. The company hopes to extensively utilize the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans, personal loans and credit cards. SBI's access to over millions of accounts provides a vibrant base to build insurance selling across every region and economic strata in the country. India's rural market has huge potential that is still untapped by the insurance companies. Setting up their own networks entails such a huge cost, that no company would be interested in doing so. It helps the insurance companies to tap the market at a much lower cost. The penetration level of life insurance in the Indian market is considerably low at 2.3% of GDP with only 8% of the total population currently insured. Thus, Bancassurance provide an apparently viable

model for product diversification by banks and a cost-effective distribution channel for insurers. The success of the partnership between the two entities depends on the 'right model' partnership. Given these changes, Bancassurance and collaboration between banks and insurers has a long way to go in India. State Bank of India enjoys the largest banking franchise in India. Along with its seven Associate Banks, SBI Group has the unrivaled strength of over 14,500 branches across the country, arguably the largest in the world. Cardiff is a wholly owned subsidiary of BNP Paribas, which is the Euro Zone's leading Bank. BNP Paribas is one of the oldest foreign banks with a presence in India dating back to 1860. Cardiff is ranked 2nd worldwide in creditor insurance offering protection to over 35 million policyholders and net income in excess of Euro 1 billion. Cardiff has also

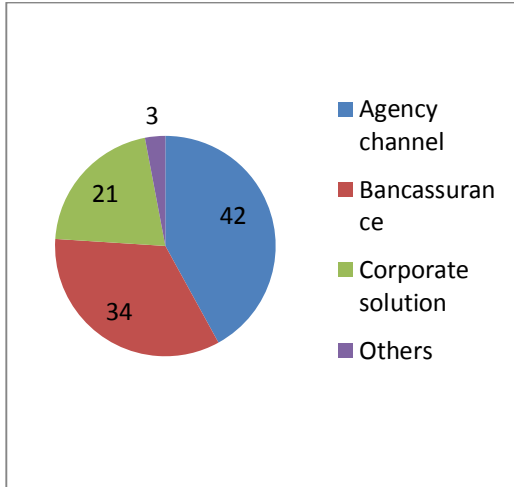
been a pioneer in the art of selling insurance products through commercial banks in France and in 35 more countries. SBI Life Insurance's mission is to emerge as the leading company offering a comprehensive range of Life Insurance and pension products at competitive prices, ensuring high standards of customer service and world class operating efficiency. SBI Life has a unique multi-distribution model encompassing Bancassurance, Agency and Group Corporate. SBI Life extensively leverages the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans and personal loans. SBI's access to over 100 million accounts across the country provides a vibrant base for insurance penetration across every region and economic strata in the country ensuring true financial inclusion. Agency Channel,

comprising of the most productive force of more than 25,000 Insurance Advisors, offers door to door insurance solutions to customers.

Channel wise performance of SBI Life Insurance

The diagram No. 1.1 shows the performance of different channels of distribution of SBI Life Insurance on March 2013. The contribution of agency channel is 42% in the year 2013. The contribution of Bancassurance channel is 34% in 2013. The Diagram clearly shows the position of the Bancassurance business of SBI Life.

Diagram No. 1.1 Channel wise performance of SBI Life Insurance as on 2013March



Source: SBI Life Annual Report 2013

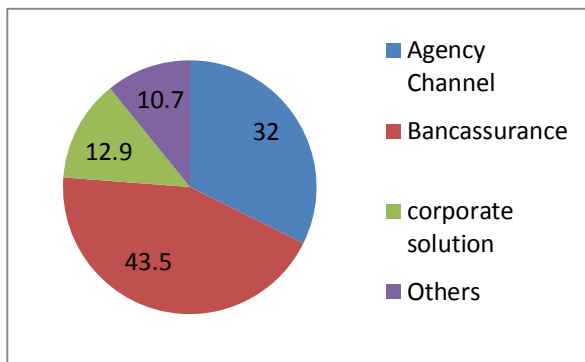
PROFILE OF ICICI PRUDENTIAL LIFE INSURANCE

ICICI Prudential Life Insurance Company is a joint venture between ICICI Bank - one of India's foremost financial services companies - and Prudential Plc - a leading international financial services group headquartered in the United Kingdom. Total capital infusion stands at Rs. 37.72 billion, with ICICI Bank holds a stake of 74% and Prudential PLC holds 26%. The company began its operations in December 2000 after receiving approval from the Insurance Regulatory Development Authority (IRDA). ICICI Prudential was the first life insurer in India to receive a National Insurer Financial Strength rating of AAA from Fitch ratings.

Channel wise performance of ICICI Prudential Life Insurance

The diagram No. 1.2 shows the performance of different channels of distribution of ICICI Prudential Life Insurance on March 2013. The contribution of agency channel is only 32% in the year 2013. But the contribution of Bancassurance channel is 43.5% in 2013. The Diagram clearly shows the substantial share of the Bancassurance business of ICICI Prudential Life Insurance.

Diagram No.1.2.Channel wise performance of ICICI Prudential Life Insurance



Source: Annual Report of ICICI Prudential Life Insurance 2013.

Channel wise new Business Premium of Life Insurers in 2011-2012

Table No.1.3 shows channel wise new business premium of life insurance companies both in private and public sector in the year 2011-12. The table also shows the contribution of different channels in the total life insurance industry. From the table, it is clearly understood that the contribution of banks in case of LIC is very low (i.e., Only 1.51 percentage) in 2011-12 but in the private sector the contribution of banks is very high.

TABLE No. 1.3

Channel wise new Business Premium of Life Insurers in 2011-2012 (Figures given in percentages)

Insurer	Individual agents	banks	Other corporate Agents	brokers	Direct selling
Private	31.5	36.0	6.9	4.4	20.9
LIC Industry	52.5	1.5	0.1	0.0	45.7
(Total)	46.6	11.2	2.0	1.2	38.7

Source: Annual Report of IRDA 2012.

Efficiency gains of Bancassurance – SBI Life Insurance and ICICI Prudential Life Insurance Companies Perspective

An attempt has been made to identify the extent of attainment of the Bancassurance benefit of the insurance companies. Through Bancassurance, the insurance company can increase the rural penetration percentage, premium income, net profit, the number of lives covered etc. If Bancassurance is effective these variables should be positively correlated with the number of policies sold by the insurance companies through bank branches. The data from the annual report of insurance companies from 2008 - 2012 were taken for correlation analysis. Table No.1.4 shows the correlation between numbers of policies sold through bank branches and variables used for measuring the benefit of Bancassurance to insurance companies.

Table No.1.4

The correlation between number of policies sold through bank branches and variables used for measuring the benefit of Bancassurance to insurance companies

SBI Life Insurance	Average No. of policies sold through bank and rural penetration	Average No. of policies sold through bank and net profit	Average No. of policies sold through bank and gross written premium growth rate	Average No. of policies sold through bank and total number of life covered
Pearson correlation	.298	.101	.120	.053
ICICI Prudential Life Insurance	Average No. of policies sold through bank and rural penetration	Average No. of policies sold and net profit	Average No. of policies sold and gross written premium growth rate	Average No. of policies sold and total number of life covered
Pearson correlation	.659	.984	.857	-.824

The result of the table shows that all the variables are positively correlated with average of the number of policies sold through bank branches except the negative correlation between number of lives covered by the ICICI Prudential life and the average number of policies sold through bank branches. So it is concluded that as far as an SBI Life insurance company is concerned Bancassurance is effective in improving their performance. But ICICI Prudential life insurance is concerned, the company could not able to fully achieve the cross selling benefit.

Conclusion

In India, the contribution of public sector life insurance sector is very meager as far as the private sector is concerned. The findings of the study reveal that the efficiency gain of Bancassurance to the insurance companies are high. The insurance company can achieve almost all the advantage of Bancassurance through selling their product by using the database of bank and their branch outlets. As far as India is concerned, the major share of the insurance sector is in the hands of the public sector. They still depend on the traditional agency channel for insurance business. In India 70% of the population are not under the coverage of Insurance especially in rural areas. The market share of public sector insurance is 72.70 in 2013. But the rural penetration is only 17% in 2013 in the public sector. The share of private sector insurance is only 27.3%. Their rural penetration is 22%. So insurance companies in India come forward with more and more Bancassurance channels to increase the insurance penetration and density in India.

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