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Full Length Research Paper

Customer Attitude towards Bancassurance – An Indian Perspective

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Abstract
The insurance sector is one of the important segments for mobilizing financial resources for the growth of any economy. It plays an important role in mitigating life's uncertainties. The purpose of insurance is to safeguard against informing by making good the losses of the unfortunate few, through the help of the fortunate mans, who were exposed to the same risk but saved from misfortune. Due to the entry of private insurance players, people have got a host of options to choose from. Liberalization, Privatization and Globalization have created a more challenging environment in the banking sector as well as in the other segments of the financial sectors such as mutual funds, Non Banking Finance Companies, post offices, capital markets, venture capitalists, etc. Not only banking sector but also insurance sector plays a vital role in the development of the economy. At this juncture, banking sector with it's far and wide reach, was thought of as a potential distribution channel, useful for the insurance companies. The union of the two sectors is named as **banc assurance** business. This distribution will undergo a sea change as various insurance companies are proposing to bring insurance products into the lives of the common man by making them available at the most basic financial point, the local bank branch, through Bancassurance. At this juncture, an attempt has been made to study the customer attitude towards Bancassurance business. The present study analyzes the Bancassurance, its models and the customer attitude towards Bancassurance business in India. It also explains the relationship between GDP and the development of Insurance business in general.

Keywords: *Bancassurance, Referral Model, Corporate Agency, Stand-alone Products.*

Introduction
Business as a socio-economic activity is aimed at satisfying various parties in terms of meeting their needs. However, this socio-economic activity is amenable to several types of risks such as natural (drought, floods, earth quakes, while winds etc) and manmade; known and unknown (theft, burglary, fire accidents), expected and unexpected. Irrespective of their nature risks shatter the hopes of several groups of people and society at large. Profit is the reward for risk taking. If risks are continuous and contingent to business activity and if they are heavier than the aggregate revenues, the investment gets eroded. Hence, it is social loss. Insurance is meant to protect the insured against uncertain events which cause disadvantage to him. At this juncture, banking sector with its far and wide reach, was thought of as a potential distribution channel, useful for the insurance companies. The union of the two sectors is named as **banc assurance** business.

What is bank assurance?
Bancassurance in its simplest form is "the distribution of insurance products through a bank's distribution channels".

Performance of Life Insurance Sector in India:
India has come a long way since the economic reforms in 1991, moving from the growth rates of 5% into the orbit of 7-9% growth rates. This growth has been structurally driven by economic reforms, private entrepreneurship and linkages to the global economic boom. AMcKinsey study estimated that India is likely to emerge as the fifth largest consuming nation in the globe by 2025. Significant demographic changes over the next two decades should throw up major investment opportunities for businesses as well as investors.

Expansion of Offices
During the year under review, there was a major jump in the number of life insurance offices in India. While public insurers have added 2186 offices in the year 2001 and gradually the number is expanded to 3250 in the year 2010. Similarly, private sector insurers have 13 offices in the year 2001 and gradually increased to 8768 during 2010. This is due to Liberalization.

Table1. Number of Life Insurance Offices As on March 31st

Particulars	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public Sector	2186	2190	2191	2196	2197	2220	2301	2522	3030	3250
Private Sector	13	116	254	416	804	1645	3072	6391	8785	8768
Total	**2199**	**2306**	**2445**	**2612**	**3001**	**3865**	**5373**	**8913**	**11815**	**12018**

Source: IRDA Reports, various issues

Premium Income

Persons wishing to cover the risks should enter into contract of insurance with the insurance company. Under the contract the insurer undertakes to indemnify the insured for any loss suffered by the insured due to specified risks. For this purpose the insurer charges some price which is called as consideration in the form of 'premium'. It is the remuneration for the indemnity service promised by the insurer. As such it is an income to the insurer. As a matter of fact premium is the major source of income, besides the minor income items like interest, dividends, rents on reinsurance ceded.

The trend of growth in the overall life insurance premium generated by both the public and private insurers for the past ten years is given in the following Table 2. It is clear from the table that the CAGR for total life insurance premium during this period is a healthy. If we compare the performance of LIC to that of private life insurers, it is evident that the opening of the sector led to a better performance on the part of private insurers compared to LIC, as they have recorded a CAGR of 9.35 per cent in the year 2010-11 as against a CAGR of (42.79) per cent of LIC. Private insurers marked a remarkable growth in the year 2010-11 as 11.04 per cent.

Table 2. Premium underwritten by life insurers rs. in crore total premium

COMPANY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
LIC	**49821.91**	**54628.49**	**6353342.7**	**7512729**	**90792.22**	**127822.8**	**149789.99**	**157288.04**	**186077.31**	**203473.4**
Growth %	**(42.79)**	**(9.65)**	**15.63**	**18.25**	**20.85**	**40.79**	**17.19**	**5.01**	**18.3**	**9.35**
PVT	**272.55**	**1119.06**	**312032.63**	**772750.82**	**15083.53**	**28218.75**	**51561.42**	**64503.22**	**79373.06**	**88131.6**
Growth %	**(4124.31)**	**(310.59)**	**178.83**	**147.65**	**95.19**	**87.08**	**82.5**	**25.1**	**23.06**	**11.04**
TOTAL	**50094.46**	**55747.55**	**6665375.3**	**8285479.8**	**105875.76**	**156041.6**	**201351.41**	**221791.26**	**265450.37**	**291604.99**
Growth %	**(43.54)**	**(11.28)**	**18.91**	**24.31**	**27.78**	**47.38**	**29.01**	**10.15**	**19.69**	**9.85**

Source: Compiled from IRDA Reports, various issues Note: 1) Figures in the bracket represent the growth over the previous year in per cent.

Insurance penetration & density in India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). Since opening up of Indian insurance sector for private participation, India has reported increase in both insurance penetration and density. But, the increase has been almost entirely contributed by the life insurance sector. The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 55.7 in 2010. Similarly, insurance penetration of life sector had gone up from 2.15 per cent in 2001 to 4.40 per cent in 2009.

The expectations set out by the Malhotra Committee were focused on deepening the penetration of life insurance and introducing innovative practices in the Indian market. The evolution of Bancassurance was driven by the desire of these players to meet all financial needs for their existing customers and a timely development of the regulatory framework. Some of the other channels – direct sales models, tele-marketing, on-line selling – are still in their formative stages.

Table 3 Insurance Density and Penetration

	Life		Non-life		Industry	
Year	**Density**	**penetration**	**Density**	**Pene tration**	**Density**	**Pene tration**
	(USD)	**(% age)**	**(USD)**	**(% age)**	**(USD)**	**(%age)**
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3	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	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.1	5.2	0.6	38.4	4.8
2007	40.4	4	6.2	0.6	46.6	4.7
2008	41.2	4	6.2	0.6	47.4	4.6
2009	47.7	4.6	6.7	0.6	54.3	5.2
2010	55.7	4.4	8.7	0.71	64.4	5.1

Insurance density is measured as ratio of premium (in US Dollar) to total population. Source: Swiss Re, Various Issues. Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars).

GDP and insurance Business:

By observing the insurance penetration, there is a relationship between insurance business and economic development. In most of earlier economic literature, the prosperity of the nation was measured through the yard stick of increase in the national income of the country. The national income could be measured through its different variants such as gross domestic product (GDP) or net domestic product (NDP) at current or constant prices. The relationship between capital formation and insurance services in both developing and developed economies of the world has been quite pronounced and significant. To examine this phenomenon an attempt is made to study the coefficient of rank correlation between the volume of Gross Premium collected and the GDP growth on the other hand.

This inter-relationship between gross premium collected and the percentage relationship between the insurance services is established by a few experts. For establishing the extent of relationship between the premium collected and the GDP, they computed the percentage of the former (Premium collected) to the total GDP. Higher the percentage of the premium collected to the GDP greater is the economic development. This presumption is incomplete as they fail to develop a composite index for this inter-relationship for aggregate understanding. Hence, an attempt is made to reduce the inter-relationships into one coefficient of rank correlation. The details of the computations are presented below:

Table 4 The Relationship between GDP and Premium Income of Insurance Business

Year	**GDP (Rs)**	**Premium Rs. In Cr.**	**R1**	**R2**	**D**	**D2**
2000-01	1902284	34898.47	10	10	0	0
2001-02	2077658	50094.46	9	9	0	0
2002-03	2244725	55747.55	8	8	0	0
2003-04	2519921	66653.75	7	7	0	0
2004-05	2855331	82854.80	6	6	0	0
2005-06	3249554	105875.76	5	5	0	0
2006-07	3760285	156065.32	3	4	-1	1
2007-08	3525267	201351.41	4	3	+1	1
2008-09	4162509	221785.47	2	2	0	0
2009-10	4493743	265450.37	1	1	0	0

D2=2

Source:
1) Column 2: GOI, India 2009, A Reference Annual; Publications Division , Ministry of Information And Broadcasting, Government of India. p. 129.* Table: 2.3 **Gupta, P.K., Insurance and Risk Management, Himalaya Publishers, New Delhi, 2005, p. 219
2) Column 3: Table No. 3.4 Legend: R_1 is Rank of GDP, R_2 is Rank of Gross Premium D is the difference between R_1 and R_2 r k : between premium collected 'X' series and GDP 'Y' series.

Coefficient of rank correlation is significant because R_c is more than 6 times of PE
The Karl Pearson coefficient of rank correlation is worked out to + 0.914 which explain that there is a positive correlation which is highly significant.

The aforesaid analysis is depending on the data compiled by Srivastava and Shashank Srivastava concerning the gross premium and the national income statistics of certain developing nations. An attempt is made to examine the inter-relationship between these two variables (GDP and aggregate gross premium collected by the insurance companies) by considering the Indian situation. Rank coefficient correlation is calculated and found that in India also there is close and significant relationship between them. The details of the data and computations are given below:

N= 10
$D^2 = 2$
$R_c = 0.966$
P.E =0.102

Since Rank Coefficient correlation value is more than 6 times of the PE the relationship between them is positive and highly significant. As such the argument of the experts that higher the gross domestic product greater is the potential for doing insurance business is valid.

"Bancassurance" in French and "All Finanz" (Universal Banking) in German refers to a tie up arrangement of banks with insurance companies for selling the insurance products in life and non life segments as corporate agents for fee based income. This income is risk-free, as the bank plays a role of an intermediary for souring business to insurance company. Banc assurance is a package of banking and insurance service at one roof. The introduction of Banc assurance has broadened the scope of retail banking.

Motives behind Banc assurance:
The motives behind Bancassurance also vary. For banks it is a means of product diversification and a source of additional fee income. Insurance companies see Bancassurance as a tool for increasing their market penetration and premium turnover. The customer sees Bancassurance as a bonanza in terms of reduced price, high quality product and delivery at doorsteps. Actually, everybody is a winner here.

Entry of banks into insurance business:-
On December 28, 2000, the State Bank of India (SBI) announced a joint venture partnership with Cardiff SA (the insurance arm of BNP Paribas Bank). This partnership won over several others (with Fortis and with GE Capital). Many experts in the industry have awaited the entry of the SBI. It was well known that the SBI has long harbored plans to become a universal bank (a universal bank has business in banking, insurance and in security). For a bank with more than 13,000 branches all over India, this would be a natural expansion.

This was the first for an Indian bank to enter the insurance market. Second, even though the regulators have said that banks would not (generally) be allowed to hold more than 50% of an insurance. This kind of synergy between a bank and an insurance company is not so rare in other parts of the world, but in India, it was. Company, the SBI was allowed to do so (with a promise that its share would be eventually diluted).

Ever since the entry of the SBI, a number of other insurance companies have declared their desired banking partners. In this process, both life and nonlife companies have tied up with banks. The list of partnerships is given in the Annexure-I.

Scope for Bancassurance in India
By now, it has become clear that as economy grows it not only demands stronger and vibrant financial sector but also necessitates providing with more sophisticated and variety of financial and banking products and services. Krueger (2004) pointed out that the history of the North America is a case in reference of one of financial strengthening and deepening in tandem with economic growth. As India is being considered one of the fast developing economy among the emerging market economies, financial sector has also grown much vibrant with the financial reforms.

BANCASSURANCE BUSINESS MODELS

I. STRUCTURAL CLASSIFICATION

a) Referral Model

Referral model is nothing but a simple arrangement, wherein the bank, while controlling access to the clients data base, parts with only the business leads to the agents/ sales staff of insurance company for a 'referral fee' or commission for every business lead that was passed on.

b) Corporate Agency

The other form of non-sick participatory distribution channel is that of 'Corporate Agency', wherein the bank staff as an institution acts as corporate agent for the insurance product for a fee/commission.

c) Insurance as Fully Integrated Financial Service/ Joint ventures

Apart from the above two, the fully integrated financial service involves much more comprehensive and intricate relationship between insurer and bank, where the bank functions as fully universal in its operation and selling of insurance products is just one more function within.

II. PRODUCT BASED CLASSIFICATION

(a) Stand-alone Insurance Products

In this case bancassurance involves marketing of the insurance products through either referral arrangement or corporate agency without mixing the insurance products with any of the banks' own products/ services.

(b) Blend of Insurance with Bank Products

This method aims at blending of insurance products as a 'value addition' while promoting the bank's own products.

III. BANK REFERRALS

There is also another method called 'Bank Referral'. Here the banks do not issue the policies; they only give the database to the insurance companies.

Customer Attitude towards Bancassurance in India:

Methodology

A survey was conducted with a target population comprising men and women of over 21 years old, who have transactions with banks or an insurance company. Convenience Sampling was used for survey. The final questionnaire was administered personally to 115 participants, representing both genders and different age groups. The respondents were from Visakhapatnam. The survey was done in the month of August, 2012.

Questionnaire Design

A questionnaire consisting of 14 questions was administered. The questionnaire has been adapted from the study of Lymberopoulos K et al (2004). The questionnaire was pilot tested in Visakhapatnam town and based upon the feedback appropriate changes were made to improve the questionnaire to make it more respondent friendly. In the first part, participants were requested to state their usage of insurance products, their awareness about banks selling insurance products and their cooperation with banks and insurance companies. In the second part, customer's willingness to buy certain insurance products from their banks was explored. In the next part of the questionnaire, customer's attitudes towards the main distribution channels were measured on three dimensions – trustworthiness, self competence and service expertise. Specifically, participants were asked to express their consent level with 14 statements, which were related to whether they preferred the insurance agent or the bank. For the measurement of all these items a five-point Likert Scale was used (1 = strongly disagree to 5 = strongly agree).

In the last part, questions relating to the demographics of the respondents were included. Specifically, gender, age, education and income were later on divided according to their current use of insurance products: light (up to two products), medium (three to five products) and heavy users (more than six products).

Field Study Results:

The main objective of this study was to find out the response of customers of 10 different Banks towards Bancassurance. This will help in devising further strategies to cross-sell insurance products through network of bank branches. In addition, there was an effort to investigate the areas of insurance products portfolio that could have a better potential to be sold by banks and to identify the profile of potential customers.

Table 5: Respondents' Profile

Gender	Number	Percentage
Male	60	52
Female	55	48
Age		
21-30	23	20
31-40	30	26
41-50	32	28
51-60	16	14
61Above	14	12
Education		
School level	4	3
Graduates	58	51
PGs'	37	33
Doctorates	2	1
Others	14	12
Annual Income		
2lakhs to 4lakhs	19	17
4lakhs to 6 lakhs	32	27
6 lakhs to 8 lakhs	26	23
8 lakhs to 10 lakhs	20	17
10 lakhs above	18	16

Table 6: Profile of Customers who have already used their bank in order to buy Insurance Products

Age	21 to 30 yrs	31 to 50 Yrs	51 Yrs and above	Total
No.of users/Total No. Percentage	23/115 20	62/115 54	30/115 26	115
Gross Monthly Income	2-6lakhs	6-10lakhs	10lakhs above	
No.of users/Total No. Percentage	50/115 43	48/115 42	17/115 15	115
Education	School	Graduation	PG and above	
No.of users/Total No. Percentage	6/115 5	57/115 50	52/115 45	
No. of Products used	Light	Medium	Heavy	
No.of users/Total No. Percentage	57/115 50	30/115 26	28/115 24	

Source: Compiled from Field survey results

It has been observed from the above table that almost all respondents using bancassurance products. The awareness that banks offer insurance products is low among youth and senior citizen groups. Since India has youth close to 50% of its population with high disposable income, the banks should target them on priority. And the majority belongs to the high income group.

Table 7: Current use of Insurance Products

	Number	Percentage
I use Vehicle Insurance	115	100
I use Life Insurance	90	78
I use Health Insurance	82	71
I use Pension Insurance	26	23
I use unit linked Insurance	82	71

Source: Compiled from Field survey results

It has been observed from the above table that all the consumers are availing insurance products. The highest usage rates are for vehicle and Life Insurance products (Table 7). This could be one of the facts that vehicle insurance is a legal requirement in India and Life Insurance offers both security cover as well tax benefits.

Table 8: Reasons for buying insurance products from Banks instead of from Agents

Reason	Number	Percentage
Personal Relationship	90	78
Trust	102	89
Convenience	83	72
Communication	65	57
Financial soundness	75	65
Expertise	80	70
Service quality	90	78

Source: Compiled from Field survey results

From the above table it is clearly identify that the banks' are providing the best service quality and they are maintaining 'customer relationship management' for the bancassurance. More than 80 percent of the customers are trusted their banks. This is a good indication for the future of the Bancassurance business in India.

Table 9: Sources of Information regarding Bancassurance

Source	Number	Percentage
Advertisement	95	83
Bank Employees	82	71
Friends	65	57
Internet	78	68
Published material like Brochures etc.	105	91

Source: Compiled from Field survey results

The banks that offer bancassurance should think of new media channels to reach the customers. Table 9 clearly shows that advertisements are one of the main sources of information for customers. Better trained bank employees as well as the informative marketing material can give boost to business.

Table 10: Willingness to buy insurance products from Bank according to awareness

	Aware 95		Not Aware 20	
	Number	**Percentage**	**Number**	**Percentage**
I would buy Vehicle Insurance from Bank	85	89	12	60
I would buy Life Insurance from Bank	65	68	10	50
I would buy Health Insurance from Bank	72	76	14	70
I would buy Pension Insurance from Bank	83	87	14	70
I would buy Home Insurance from Bank	85	89	15	75
I would buy Unit Linked Insurance Plan from Bank	70	74	9	45

I would buy at least one Insurance Product from Bank	95	100	20	100

Source: Compiled from Field survey results

Consumer Attitudes to Insurance Agents

By analyzing the customers' attitude towards insurance agents and bankers was calculated by getting the mean of 14 statements on Likert Scale. Among all these statements, bankers are having more trust levels than insurance agents.

To conclude, there is lot of opportunities available in the Indian market to the banks to cross-sell insurance products. Identification of target customer market, and specific insurance products increases the banks' performance to cross-sell the insurance products. Therefore, Banks in India should try to exploit the existing opportunities to cross-sell insurance products through their branch network, by designing a clear and effective marketing strategy aimed at increasing awareness and customer's willingness to choose banks as insurance providers. Banks should focus an integrated marketing communication strategy that encompasses advertising, public relations and direct marketing in order to inform their customers about the provision of insurance services via their branch network. This is a good indication for the emerging development of the Indian Economy.

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