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Futuristic Analysis of Banc Assurance Market Scenario in India

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FUTURISTIC ANALYSIS OF BANC ASSURANCE MARKET SCENARIO IN INDIA

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ABSTRACT

Banc assurance is a concept of "Right partnership" between a bank and a insurance company to work hand in hand and to be mutually benefitted by each other's expertise in the existing market. It is a model, in which the partner companies try to take leverage of others expertise and competencies to offer the non banking products and act as one stop shop. In India, after privatization lots of private player have entered the insurance market and hence the competing insurance companies find out new ways of increasing the business and spreading to the untapped markets of our country. In this paper the author has made an attempt to explain the challenges faced by the Bank and the Insurance company in achieving the mutually agreed upon goals and the reasons of dissolution of such partnerships and the need and scope of improved models of Banc assurance namely the open architecture strategy

Key Words: *Open Architecture, Brokerage Fees, Banc assurance*

INTRODUCTION

Banc assurance is a concept in which an alliance exists in between the Banks and the Insurance Company to facilitate each other's working and increases the revenue (profitability) by using each other's expertise. In this arrangement the Insurance Company capitalizes on the customer base of the bank and sells its products through the bank's sales channel while the Banks gets the benefit of a new product in their kitty and also simultaneously earns Brokerage Fees for each sale done. A broader definition of banc assurance was provided by Swiss Re (1992): "Banc assurance can be described as a strategy adopted by banks or insurance companies aiming to

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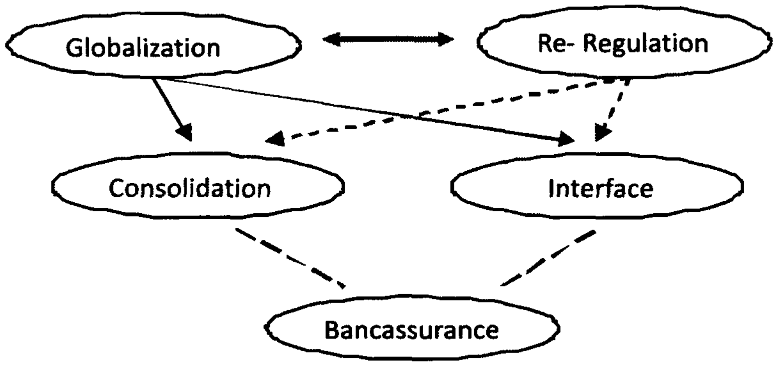
operate the financial services market in a more or less integrated manner. This arrangement aims at realizing the potential of the customer base of the bank to develop an excellent personalized customer focused service for consumers, and the highest value on returns for the bank and the insurer

Global Evolution

The concept of Banc assurance originated in France. Banc assurance has been a successful model in the European countries contributing 35% of premium income in the European life insurance market. It contributes over 65% of the life insurance premium income in Spain, 60% in France, 50% in Belgium and Italy. In India, the results are mixed, with some insurers such as SBI Life already selling almost 40% new business through banc assurance channel, and thus emulating the success story of the European nations, while others like ICICI-Prudential Life, HDFC-Standard Life, Kotak Life Insurance, Aviva Life Insurance, and ING-Vysya Life Insurance contributing about 25% from banc assurance channel.

Figure 1: Model of Banc assurance



Though such a model, there lies an equal opportunity with the bank and the Insurance company to get maximum returns in terms of profitability and long term relationship with the consumers of the banks.

Scenario in India

Post Banking reforms proposed by First Narasimham Committee, Banks were allowed to restructure themselves and enter diverse areas by offering innovative products that are required by the banking customers and there by thinning the line of difference between banking and non banking products. India stood second in terms of its coverage via its banking network while insurance had very niche recognition. Hence it became a overwhelming opportunity for Insurance companies to utilize this channel. Government of India Notification dated August 3, 2000, specified 'Insurance' as a permissible form of business that could be undertaken by banks under Section 6(1) (o) of the Banking Regulation Act, 1949. Then onwards, banks are allowed to enter the insurance business as per the guidelines and after obtaining prior approval of Reserve Bank of India.

As per the ICC summit in 2013 held in Kolkata, Indian Banking Industry comprise of 87 banks (including 26 public sector banks, 20 private banks and 41 foreign banks). While insurance penetration, which is the ratio of insurance premium as a percentage of GDP has increased from 2.32 in 2000-01 to 5.10 in 2010-11.Currently, India's life insurance penetration is 3.2 per cent (2012-13) and life insurance density is $43 (2012-13).

Table 1: Life Insurance in India

LIFE INSURANCE	Units	2000-2001	2010- 2011	2011- 2012
No Of Companies	Nos	5	23	23
Insurance penetration	%	-	4.4	3.4
Insurance density	US $	-	55.7	49
NON LIFE INSURANCE	Units	2000-2001	2010- 2011	2011- 2012
No Of Companies	Nos	9	25	25
Insurance penetration	%	-	0.7	0.71
Insurance density	US $	-	8.7	0.10

OPERATIONAL STRUCTURES OF BANC ASSURANCE

1. **Strategic Alliance Model or Specialist Model:** Under Such agreements bank agree to promote the insurance products from its desk. The Bank identifies the requirements of the customer and refers to the insurers whose responsibility lies of the product illustration and selling the product. Since in such a model the onus lies on the insurance company

hence less of technical training is provided to the banks . As a result this is the most acceptable and easily adopted model of Banc assurance.

2. **Full Integration Model:** This model works on true synergies between bank and insurers where by the selling is done by the Bank and services are rendered by insurance company. In such cases the bank have frontage on insurance company. Hence proper in depth technical and product training are provided to bankers so that they can match the product according to the diverse needs of customers.

3. **Mixed Models of Financial planning model:** Under this model dedicated insurance staffs/ employees are deputed in the various bank branches where the customers identified by bank is given a complete financial planning package by the bank . In such model the ultimate converter or the seller and service provider of insurance product is the insurance employee.

Table 2: Benefit by Synergy

To Banks	To Insurance Companies
Enhanced product array for customer	Low Insurance penetration and untapped market potential
Meeting customer's need	High confidence level and trust in banks and bank-backed brand
Additional profit centre	Big customer base
Recurring revenues	Increased margins
Sales & marketing expertise for insurance products	Ability to do cross selling
Strong technical expertise & product Know how	Customer base and relationships
Benefit of reduced service cost for insurance products	Benefit of reduced cost of sales channel because of use of Bank's sales channel
Reduced cost of risk	Risk diversification
Shareholder revenues	Economies of scale
Deco-relation of risk profiles	Facilitated risk pricing
Complementarily of the economic cycles	New distribution channel

ROAD AHEAD

Challenges Faced by Banks & Insurance providers

This channel though has been very successful worldwide but still faces certain limitations. India itself has witnessed the divorce of certain giant banc assurance partners of Organizations like Aviva Life Insurance, Dena Bank switching over its partnership to Life Insurance Corporation of India from Kotak Mahindra Life, Centurion Bank joining hands with Aviva by replacing Bajaj Allianz Life Insurance etc, HDFC Bank shutting its door for Birla Life Insurance, ICICI Prudential life Insurance break up with Citi Bank and Karur Vyasa Bank. Union Bank of India's Shift from HDFC Standard life to Star Union Dia-ichi (SUD) Life Insurance Co. Ltd and many more.

Table 3: Challenges Faced by Banks which leads to dissolution of Partnership

Lack of Knowledge about the Product
Gap in Support Systems – Technological, communication flow, Manpower.
Dependence on Insurance provider/Partner.
Reluctance & De-motivation of Employees
Absence of Co-branded promotions and awareness
Escapist approach.

The Next step to Open Architecture

Open architecture is an upcoming model of banc assurance proposed by IRDA in which the Banks will be allowed to have more than one tie-up with the insurance companies. Currently in India the banks are allowed only to have tie-up with insurer from life and non-life segment. Though IRDA presently only allows partial open architecture structure in which banks can have tie up with 2 insurers in each segment. This new model has been appreciated by most of the partners of banc assurance but still not allowed on the part of RBI because of its concern of increase in responsibilities at the bank's end.

Benefits of Open Architecture

This new model is expected to provide an all round benefit to the Banking Partner, Customer and even to the economy by providing

1. Cost effective products
2. Better innovative products, matching to the diverse needs of customer as a result of competition
3. Greater focus on services
4. Greater number of choice & option
5. Reduced mis-selling
6. Increased reach and coverage across geographies
7. Increase in competition will lead to increase in knowledge of banker and understanding of the better product for individual needs of his customer
8. Insurers will be able to diversify
9. Reduced cost of Distribution

10. Decrease in monopoly of new entrants
11. Reduction in reluctance of customer servicing

NEED AND SCOPE OF OPEN ARCHITECTURE

Current Scenario In India

India being a developing economy and country dominated by rural population is under huge pressure to provide social and financial support to its citizen in order to ensure a sustainable growth in GDP. Despite the various economic development programs and opportunities floated by government at various levels, the actual benefit is far beyond the reach of the masses. Hence it becomes even more important to spread the awareness toward insurance in order to provide financial safety. A research report of Insurance Council of Australia reported that out of the total non- insured and underinsured population; almost 70% are never able to recover their debts and normal livelihood after situation of accident, death, accident, fire and cattle theft.

India which is agriculture dominated country where the distribution of wealth is highly uneven and restricted to few, it becomes even more important for government to allow open architecture to increase the insurance penetration.As per the census of2014, Indian population stands to 1.27 billion out of which approx 69% population still resides in the rural areas.

In India the banking services are considered to have the densest networks of branch and financial services after Indian railways. India reports to have approximately 12000 per branch of population base. (Population Base refers to the number of people that can be served by a branch)

Table 4: Banks with respect to population

	Year			
Indicator	**2009**	**2011**	**2012**	**2013**
No. Of Commercial Banks	166	163	169	151
No. Of Branches	82,897	94,019	102,377	109,811
Population per Banks (in thousands)	15	13	13	12

Despite of this the banking services have a feeble coverage by not even reaching to half of the population. Despite of the various schemes, grants and no frill facilities of the bank and the rigorous effort at various levels, the banking services are enjoyed by the so called 'privileged few'

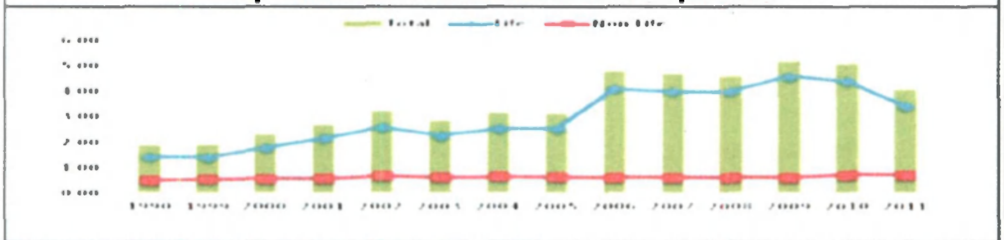
Table 5: Penetration level of banking services

Years	Branch penetration (In%)		Credit penetration (in%)		Deposit penetration (in %)	
	2009	2011	2009	2011	2009	2011
INDIA	37.3	41	33.5	36.8	39.7	48.3

Now, turning the focus back to insurance to find the insurance spread in India, the picture gets even worse. The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz., Insurance Penetration and Insurance Density. Insurance penetration is measured as the percentage of insurance premium underwritten in a given year to Gross Domestic Product (GDP), while insurance density is calculated as the ratio of premium underwritten in a given year to the total population (per capita premium).

The Insurance Regulatory and Development Authority (IRDA), in its annual report for 2012-13, said insurance penetration stood at 3.96 per cent, while insurance density stood at $53.2 for 2012.

Graph 1. Insurance Penetration in India (in per cent)[11]



Source: Swiss Re, Various Issues

Table 6: Insurance Penetration in various countries

	Insurance Penetration(%) In Yr 2010				
Brazil	UK	US	South Africa	Switzerland	India
3.10	12.40	8.00	14.80	9.90	5.10

The actual picture seems to more devastating when compared with European and developed countries. As per the IRDA annual reports of 2008-20011 the insurance density of India stood at less than $49, while that of Brazil was more than $200. United States reported to have insurance density of $1700 while UK stood at approx $3400.

Expectations in Future

Banks till date have been a bleak contributor to insurance industry. The Banc assurance channel seems to have much of potential which has not been exploited to its utmost capacity because of the various problems illustrated above. With the changeover suggested via Open architecture, the scenario is expected to improve. Not only will the insurance companies will get a huge exposure of the potential customer in varied geographical areas but because of the immense rise of competition the companies will start focusing on offering new products for the varied needs of the customers depending on the 'pocket size'. With the stringent regulations of IRDA to decrease the hidden costs and overhead charges and with the increase in potential customer base, the companies will also be able to increase their profitability and offer a wider array of product and service offerings.

At present the Bank contribution to the total insurance policies underwritten in year 2010-11 stands only to 4.03% which is expected to increase multiple folds because of open architecture. This will also benefit the third major participant 'the Bank' by providing more competitive rates and the best of product that will help them further nurture the relationship and the lost clients . This will also further help in increasing the profitability of the bank and overall development of the economic condition of the Nation.

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