

## A Study of Bancassurance undertaken by Private Sector Banks in India.

Ashok Kumar Sahoo, M.Phil Scholar

Gangadhar Meher University, Sambalpur, Odisha-768004

Nationality - INDIAN

### ABSTRACT

Before the emergence of the crisis, banks mainly had income only from the lending activities. But these days' banks are operating with diversified revenues, and are enjoying the benefits of sustainable partnerships with insurance institutions. With the innovative product, i.e. bancassurance, both banking and insurance companies are boosting their revenues. The biggest strengths of banks, like huge branch network, customer loyalty, brand name etc. are serving in making the same possible. Keeping this in view, the current paper examines the bancassurance business of Private Sector Banks in relation to branch network and total income of the bank. The study states that there is a significant positive relationship between bank branch network and bancassurance and also the bancassurance income, in comparison to the total income of the bank, is very much negligible.

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### I. INTRODUCTION

With the advancement in the technologies, the insurance industry has developed a new channel of distribution. It has given rise to a new field called "Bancassurance". Bancassurance is the process of using a bank's customer relationships to sell life and nonlife insurance products and it is emerging as a natural pathway for the effective development of insurance. A broader definition of bancassurance was provided by Swiss Re (1992): "Bancassurance can be described as a strategy adopted by banks or insurance companies aiming to operate the financial services market in a more or less integrated manner" [1]. In practice, the term bancassurance is consistently used to describe a new strategic orientation of financial institutions in private customer business (Gonulal S, Lester R., Goulder N., 2012) [2]. Here the two big financial institutions come together and generate a new way of marketing for encouraging their products and services (Alavudeen and Rosa 2015) [3]. In other terms, Bancassurance refers to banks acting as corporate agents for insurers to distribute insurance products. The bank acts as a mediator between the insurance company and their customers. Bancassurance has grown differently in different countries and taken shape according to the demography, economy and legislative prescriptions in that country. The birth of Bancassurance had taken place in France in 1980. It has also been activated in Europe as it inculcates the vision of "one stop shop" (Agrawal and Hajela, 2011). Soon the term Bancassurance had also become popular in the United States and Asian countries. It originated in

India in the year 2000 when the Government issued notification under Banking Regulation Act which allowed Indian banks to do insurance distribution. In the year 2002 the Insurance Regulatory and Development Authority (IRDA) passed a notification on „Corporate Agency“ regulations. According to the guidelines defined by Corporate Agency, banks can act as an agent of one life and one non life insurer (Sarvankumar et al., 2012) [4]. Under this tie-up, banks are allowed to sell insurance products to their customers. Banks with their widely spread network, sound infrastructure, existing customer base, can easily manage to convert customers to policy holders. The banks earn a huge revenue stream apart from their business (Lakhangaonkar, 2014) [5].

Currently, bancassurance accounts for a share of almost 25%-30% of the premium income amongst the private players in India. The oldest and largest present public sector insurance company in India is Life Insurance Company (LIC). It has a tie-up with 34 banks in the country. About 1.25% of LIC new business is through bancassurance. This shows that the bancassurance is becoming an important channel for selling the insurance products in India. Amongst the private companies, ICICI Prudential Life Insurance Company has exploited the bancassurance to the maximum. About 20% of the life insurance sales have been earned through bancassurance channel by ICICI. Likewise, Aviva insurance has tie-up with 22 banks and Birla sun life insurer also has collaboration with 10 leading banks in India. SBI Life Insurance has been extensively utilizing the SBI wide network for cross-selling

insurance products (Sarvankumar et al., 2012) [4]. Thus, the banking sector with its far and wide reach was thought of as potential distribution channels for the insurance companies (Kumari, 2012) [6]. Bancassurance has a bright future as it offers insurers a readymade distribution platform with a tremendous distribution network (Alavudeen and Rosa, 2015) [3].

## II. REVIEW OF LITERATURE

In order to get valuable insights about the topic, the following literature has been studied. The brief reviews of the relevant literature are as under:

**Popli and Rao (2009)** studied the response of customers of 20 different Banks towards Bancassurance. This will help to design further strategies in India to cross-sell insurance products through a network of bank branches. The research findings show that all the consumers are availing insurance products, mainly for vehicle and Life Insurance products. The study found that about 75% of the customers would prefer to buy insurance products from banks due to an existing personal relationship with banks. The customer relationship management helps in building "Trust" which has got the highest priority for the customers [7].

**Jongeneel (2011)** identified the critical drivers in bancassurance. The study measures the impact of market concentration, Internet usage, size of the insurance market, level of deregulation and bank branch density. The study found that size of the insurance market, branch density, and internet usage did not have significant affect on bancassurance business, whereas market concentration and level of deregulation had a positive effect on bancassurance [8].

**Kumari (2012)** studied customer attitude towards the bancassurance and found that the youth and senior citizen had a very low degree of awareness about the bancassurance products. The study also found that major business of bancassurance was in life insurance and motor vehicle insurance. According to the study, the customer was more interested in purchasing insurance products through the bank because of the quality service, good customer relationship management, trust factor etc [6].

**Rajan and Gomatheesawarm (2013)** study named "a comparative study on customer satisfaction in Public and Private sector bank in Pathanamthitta district in Kerala" found that customers gave much priority to the convenience, instead of giving much importance to Public and Private Banks [9].

**Sreedevi and Auguskani (2014)** examined the awareness level of the bank customers on Bancassurance. The survey was conducted to study the penetration of Bancassurance in the Indian market. Only the 38% of the people had taken the Bancassurance policy from their respective banks. About 50 percentages of the respondent believe that

private sector banks are better in bancassurance, because of the quality services provided by them and the aggressive selling policies adopted by the private sector. 32 percentages of the respondents felt that foreign banks would perform better with the aggressive selling strategies and proper management. Public sector banks were given the least choice because of their lazy approach to work [10].

**Lakhangaonkar (2014)** studied that bancassurance was a win-win approach for both banking and insurance institutions. Insurance companies, without making much expenditure, were able to sell their product all over the country through the network of bank branches. Banks also earn an additional fee-based income without investing in additional resources [5].

**Rajasekar and Kumari (2014)** in their study made the SWOT analysis of bancassurance in India. The study found that in India with the huge population there is a vast untapped insurance market. Banks having a diversified branch network, the regular interaction of banks with customer act as a tool to learn the customer's psychology, banks brand name, confidence and reliability of customer on banks were the strengths of bancassurance [6].

**Alavudeen and Rosa (2015)** in the study, "Growing Role of Bancassurance in Banking Sector", found that the insurance industry in India had been progressing at a rapid speed since the inception of this sector. There will be a bright future for bancassurance in the Indian insurance market [3].

## III. OBJECTIVES OF THE STUDY

The present paper aims to achieve the following objectives:

- ❖ To examine the proportion of Bancassurance Income of Private Sector Banks in relation to the Total Income.
- ❖ To examine the relationship between Branch Network and Bancassurance Income of Private Sector Banks in India.
- ❖ To examine the Bancassurance Income of Private Sector Banks in South India.

## IV. HYPOTHESIS OF THE STUDY

In order to study the objectives, the following hypothesis has been formed:

1. **H0:** There is no significant relationship between Branch Network of the Private Sector Banks and Bancassurance Income.
2. **H1:** There is a significant relationship between Branch Network of the Private Sector Banks and Bancassurance Income.

## V. METHODOLOGY

For the present study, exploratory research design has been used. The sample consists of 18 Private Sector Banks, out of the list of 21 Private Sector Banks operating in India. Three banks have been excluded from the study, because they are not providing bancassurance services. To gather the data, annual reports of the selected banks have been used. Statistical techniques, like regression, correlation, percentage are used to draw conclusion from the data

under study using **SPSS model (Statistical Package for the Social Science)** and **Microsoft Excel**.

### VI. ANALYSIS AND INTERPRETATION

The following table shows the detail regarding the number of branches, total income and bancassurance income of selected private sector banks as on **31<sup>st</sup> march 2015**

**TABLE NO. I.**

| SL.NO. | Bank Name            | Branches | Bancassurance Income (Rs. in crore ) | Total Income (Rs. in crore ) | %age of Bancassurance Income to Total Income |
|--------|----------------------|----------|--------------------------------------|------------------------------|--|
| 01     | Axis Bank            | 2589     | 862.320                              | 43843.64                     | 1.967 %                                      |
| 02     | Union Bank           | 475      | 4.240                                | 3120.96                      | 0.137 %                                      |
| 03     | DCB Bank             | 159      | 9.900                                | 1588.14                      | 0.623 %                                      |
| 04     | HDFC Bank            | 4014     | 591.080                              | 57466.26                     | 1.029 %                                      |
| 05     | ICICI Bank           | 4050     | 943.050                              | 61267.27                     | 1.539 %                                      |
| 06     | Indusind Bank        | 801      | 165.700                              | 12095.84                     | 1.370 %                                      |
| 07     | Jammu & Kashmir Bank | 821      | 33.420                               | 3245.00                      | 1.030 %                                      |
| 08     | Kotak Mahindra Bank  | 1261     | 327.330                              | 21471.09                     | 1.525 %                                      |
| 09     | Ratnakar Bank        | 183      | 8.410                                | 2356.50                      | 0.357 %                                      |
| 10     | Yes Bank             | 631      | 35.788                               | 13618.00                     | 0.263 %                                      |

Source: Annual Reports of the Selected Banks

**Table I** An analysis of the above table reveals the no. of bank branches, bancassurance income, total income and %age of bancassurance income to total income of the selected private sector banks in India. The table shows that ICICI has the largest branch network followed by HDFC and Axis bank. Because of their large branch networks, they have greater total income and bancassurance income in comparison to other banks. When bancassurance income is

examined as a percentage of total income, it is shown that the Axis Bank is the leading player followed by ICICI, Kotak Mahindra, Indusind Bank and HDFC Bank whereas South Indian Bank and Dhanlaxmi Bank are at the lower end. Above table also shows that bancassurance income of banks, if compared to total income, is very low. It's maximum in case of Axis Bank which is around **2%**.

**TABLE NO. II.**

| SL.NO. | Bank Name            | Branches | Bancassurance Income (Rs. in crore ) | Total Income (Rs. in crore ) | %age of Bancassurance Income to Total Income |
|--------|----------------------|----------|--------------------------------------|------------------------------|--|
| 01     | Catholic Syrian Bank | 2589     | 862.320                              | 43843.64                     | 1.967 %                                      |
| 02     | Dhanlaxmi Bank       | 475      | 4.240                                | 3120.96                      | 0.137 %                                      |
| 03     | Federal Bank         | 159      | 9.900                                | 1588.14                      | 0.623 %                                      |
| 04     | Karur Vysya Bank     | 4014     | 591.080                              | 57466.26                     | 1.029 %                                      |
| 05     | Lakshmi Vilas Bank   | 4050     | 943.050                              | 61267.27                     | 1.539 %                                      |
| 06     | South Indian Bank    | 801      | 165.700                              | 12095.84                     | 1.370 %                                      |
| 07     | Tamilnadu            | 821      | 33.420                               | 3245.00                      | 1.030 %                                      |

|  |                         |  |  |  |  |
|--|-------------------------|--|--|--|--|
|  | <b>Merchantile Bank</b> |  |  |  |  |
|--|-------------------------|--|--|--|--|

Source: Annual Reports of the Selected Banks

**Table II** An analysis of the above table reveals the no. of bank branches, bancassurance income, total income and percentage of bancassurance income to total income of the selected private sector banks in **South India**. The table shows that Federal Bank have the largest branch network followed by South Indian Bank and Karur Vysya Bank. Federal Bank has lesser total income as compared to Karur Vysya Bank & South Indian Bank. But, when percentage bancassurance to total income is examined, it is found that Federal Bank is the leading player followed by Catholic Syrian Bank & Karur Vysya

Bank whereas South Indian Bank & Dhanlaxmi Bank are of the lower end.

The above Table also shows that the people of South India have been able to conceive the idea of bancassurance & therefore the banks have been able to mobilise more revenue by way of selling Bancassurance products. Moreover, by comparing the above south Indian Banks, it is found that bancassurance income of banks, if compared to total income is too low as compared to other zonal banks. It is maximum in case of Federal bank which is around 1%.

**TABLE III.** Showing the result of various statistical techniques

| Correlation | R square    | Beta value  | Sig. Value of F | P value     |
|-------------|-------------|-------------|-----------------|-------------|
| <b>.911</b> | <b>.829</b> | <b>.232</b> | <b>.000</b>     | <b>.000</b> |

Source: Data processed using SPSS model

**Table III** shows the result of the various statistical techniques applied on the data under study. It shows that there prevails a high degree of positive correlation among the two variables under study, i.e number of bank branches and bancassurance business of private sector banks, which is .911. The value of R square shows that the change in dependent variable is explained .829 times by the change in independent variable, which is a significant value. Beta value shows that a unit change in the independent variable brings about .232 times change in the dependent variable. Significance value of F is less than .05 which indicates that the model is a good fit and also since the P value is .000, which is less than .05, shows that null hypothesis is rejected.

6. It is also found that the percentage bancassurance income in South India Private Sector Banks, it is maximum in Federal Bank.

### VII. FINDINGS

1. It is observed from the study that the income of Private Sector Banks from the Bancassurance business is very much insignificant in relation to the total income.
2. It is found that the percentage bancassurance income to total income is maximum to 2% in case of Axis Bank.
3. It is further observed that, there is a significant positive relationship between the branch network and bancassurance income.
4. It is also observed that Karur Vysya Bank ranks first in respect of income earned from the sale of bancassurance products in South India. However, the percentage of bancassurance to total income is higher in Federal Bank.
5. It is also found that ICICI bank secures the first position in respect of bancassurance income as compared to other private sector banks.

### VIII. CONCLUSION

From the above elaboration, it can be concluded that the bancassurance business of private sector bank is at the infant stage, as it is not producing much revenue for the banks. The performance of bancassurance income in South India private banks also not satisfactory. There is a need of changes in private sector banks to frame such policies and products which could increase their bancassurance income. Such programmes need to be organized in a systematic manner, which would make the customer aware about the bancassurance products of the banks. Banks should make such strategies, which could use their strength of branch network in generating bancassurance income. Special training to the staff needs to be given, so that they could motivate the bank's customer to purchase insurance policies. So at the end it is the innovation which generates the income or we may say revenue for the banks as well as the concerned country, which could be in product, processes, procedures etc.

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