

## **AN EMPIRICAL STUDY OF BANCASSURANCE ROLE IN THE INDIAN LIFE INSURANCE SECTOR**

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### **ABSTRACT**

*In the changing economic environment around the world, the banking and insurance industries have changed quickly. The banking and insurance industries together account for about 7% of our economy's GDP. Thanks to increased market competition as a result of liberalisation and privatisation, life insurers were forced to become more competitive by lowering costs and providing better service to customers. The IRDA introduced the idea of Bancassurance in order to tap into a large untapped market. Bancassurance is a modern and evolving medium of distribution that is being used by almost all life insurance companies to expand market share and penetration. The aim of this empirical study was to determine the role of bancassurance in the Indian life insurance industry, as well as to assess customer knowledge, satisfaction, and perceptions of buying life insurance products from banks.*

**Key words:** Bancassurance, Life Insurance Market, Customer Awareness, Untapped Market

### **Introduction**

A stable economy relies on a strong financial sector. As a financial service, the insurance industry is regarded as one of the most significant segments in an economy's growth and development. For a long time, from 1956 to 1999, prior to liberalisation, the Life Insurance Corporation of India had a full monopoly on the life insurance industry. To increase insurance penetration, the insurance sector was opened up to private participation in 1999. Liberalization and privatisation have brought about massive changes in the financial sector, especially in life insurance. The vast untapped population provides life insurance companies with virtually limitless opportunities for business expansion and premium growth. The efficiency of the distribution channel is critical to the performance of life insurance companies. By offering quality services to consumers, an appropriate channel of distribution will help improve sales volume, brand promotion, and brand building. Regardless of the existence of several

Life insurance companies' output is unsatisfactory due to a lack of distribution networks and a wide variety of new products. To boost insurance growth and market penetration in the life insurance industry, IRDA launched a new concept called " Banc assurance " in late 2002, in

which insurance firms form joint ventures with various banks to offer insurance products. The definition of bancassurance is based on a win-win situation in which the business relationship benefits both banks and insurers.

### **Concept & Meaning of Bancassurance**

It began in India in 2000, when the government released a notification under the Banking Regulation Act allowing Indian banks to distribute insurance. It began to pick up after the Insurance Regulatory and Development Authority (IRDA) issued a notice on 'Corporate Agency' regulations in October 2002. In India, bancassurance accounts for nearly 35-40% of the premium income produced by private players. It's a practise in which insurance products are sold alongside a full range of banking and investment products and services across banking distribution networks.

Bancassurance seeks to capitalise on the synergies that exist between insurance firms and banks. The following are some examples of Bancassurance:

Bank of Rajasthan, Andhra Bank, Bank of Muscat, Development Credit Bank, Deutsche Bank, and Catholic Syrian Bank are all members of the Birla Sun Life Insurance Company.

Canara Bank, Lakshmi Vilas Bank, American Express Bank, and ABN AMRO Bank are among the banks that offer Aviva Life Insurance. Union Bank Of India HDFC Standard Life Insurance, ICICI Prudential, ICICI Bank, Bank of India, Citibank, Allahabad Bank, Federal Bank, South Indian Bank, Bank of Commerce, LIC Corporation Bank, Overseas Bank of India, Vijaya Bank

United Bank of India, SBI Life, BNP Paribas Tata AIG, HSBC, and SBI Life.

Bajaj Allianz Syndicate Bank, Centurion Bank, Bajaj Allianz Syndicate Bank.

Bancassurance is a form of contract or arrangement between a bank and an insurance firm in which the bank receives a fixed percentage or proportion of profit benefits based on the amount of business. In contrast to other distribution networks, most insurance companies considered bancassurance to be a low-cost attractive distribution channel.

### **Reasons for Entering Into Bancassurance**

Banks believe they meet the three main criteria for a profitable insurance business: asset management, investment expertise, and capital adequacy, so insurance is an ideal choice. Banks would also like to meet all of their customers' financial needs. Banks are getting into the insurance industry for a variety of reasons, including:

1. Extensive branch network- Due to their extensive branch network, banks may serve as an important distribution channel.
2. Customer database- Banks can sell insurance products to their current clientele, which includes both corporate and retail customers.
3. Cross-selling products: Currently, banks are able to cross-sell their products alongside insurance products. SBI Bank, for example, sells SBI life insurance in addition to their core financial products.
4. Fee-based service-Insurance policies can be sold on a fee-for-service basis. It means that

by selling insurance products, banks can gain a risk-free fixed income that can be used as a source of revenue.

5. Rural Penetration- Insurance products can be sold through the current large network of banks in rural areas. Banks have an easier time tapping the rural market than insurance firms because rural people have a higher level of knowledge and trust in banks.

### **A SWOT Study of Bank Assurance in India**

#### **Strength**

- 1: India's vast untapped population.
2. Insurance firms' product creation and innovation.
3. Households with a lot of money and a lot of confidence in banks.
4. A less expensive delivery route.

#### **Weakness**

1. Consumer knowledge is low.
2. Product inflexibility.
3. High premiums
4. It is seen as an investment rather than a means of defence.

#### **Opportunity**

1. Over 70% of the population is uninsured.
2. People have confidence in banks to assist in the sale of insurance products.
3. Increased demand for new insurance products such as ULIPS, pension plans, and health insurance.
4. The adoption of emerging technologies and the provision of prompt customer support.

#### **Threat**

1. Insurance policies are difficult to market.
2. Incompatible with complex products.
3. Bank workers are under more stress.
4. A variety of investment options are available.

### **Benefits of Bancassurance to Banks, Insurers and Customers: An Analysis**

#### **For banks:**

The first and most important advantage is that they now have another commodity to add to their portfolio, reducing their chance of losing daily profits. Second, they prefer to earn extra income in the form of commissions by selling insurance policies. Finally, banks would be able to attract customers by supplying them with a comprehensive banking and insurance service via a single point of contact.

#### **For insurance company :**

They were able to reach a large rural market by selling their goods through banks. Many public sector banks have branches in remote rural areas, which serve as an inexpensive untapped market for insurance companies. Via the banks' distribution network, insurance companies could reach out to the society's well-off and growing middle class.

**For customers:**

The Bancassurance model helps with price reductions, product diversification in time, all services under one roof, and bank service at their doorstep. Product ranges that are more innovative and better, as well as goods that are tailored to meet the needs of consumers. Customers can also benefit from cost savings in the form of lower premium rates due to economies of scale, as well as better financial advice at a single location.

**Suggestions for Overcoming Bancassurance Issues and Challenges**

1. A lot of focus should be placed on performance evaluation and sales training for bank managers, as this will help them actively market insurance products in bancassurance.
2. Insurance providers must develop easy IT solutions that enable bank employees to record sales information at the branch level.
3. To increase the sale of insurance products, the bank's marketing staff should be given attractive rewards and sufficient encouragement.
4. Insurance firms should develop more personalised bancassurance products.
5. Banks should increase the quality of their services and sell insurance policies more aggressively.

**Future Prospects of Bancassurance in India**

Insurance is essentially a consumer-

focused concept marketing company in which a policy is marketed to the customer via the required distribution channel. Agents and banks are the two most popular and significant sources of distribution for insurance products these days. Developments in distribution are changing the face of the insurance industry. The distributor is the one who makes the distinctions in terms of product quality, customer care, and claim resolution.

The smart approach for the Indian market would be multi-channel distribution and promotion of insurance products. Insurers will increasingly rely on alternative distribution networks such as corporate agents, brokers, and banks. Bancassurance is an example of a distribution channel that has a lot of untapped potential. Bancassurance is a more cost-effective and customer-friendly delivery option than other options. In the insurance industry, bancassurance generates approximately 35-40% of premium revenue, making it the second most significant channel after agents. PSU banks alone have over 67,000 branches in India, and if all of them offer insurance products, the scope of insurance can be greatly expanded at the lowest possible rate. The vast uninsured Indian market provides enough room for bancassurance to develop and expand in the future.

**Conclusion**

Insurance is essentially a consumer-focused concept marketing company in which a customer is offered a policy through the proper medium of distribution. Agents and banks are the two most popular and significant sources of distribution for insurance products these days. When India's insurance market first opened up a decade ago, bancassurance was a largely unknown insurance distribution channel. Today, it is projected to produce 40% of premium revenue for

private insurers, a slightly higher amount.

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The smart approach for the Indian market would be multichannel distribution and promotion of insurance products. Insurance sales in India are extremely difficult due to the country's size, a diverse population, and problems with connectivity in rural areas. To reach out to such a large customer base, life insurance firms need enormous distribution strength and considerable manpower.

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