Bancassurance Models- An Overview

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Abstract

This paper is an attempt to understand the various models existing in various countries and to develop an alternative model from Indian context. For the purpose of the study various secondary sources reviewed and in depth study is made. It shows the due to dynamics of each country are different and the need for change of model is also important. One model cannot be implemented around the globe. Keeping the economic conditions of the country in mind the model needs to be developed.

Key words- Bancassurance, economic condition, insurance & banking.

Bancassurance Models- An Overview

The original concept of bancassurance is developed in European countries and Spain and France are the two countries where this particular model had been implemented in a successful manner. In the early 70s two companies, viz. ACM and Vie et IARD, were the two companies engaged in banking and insurance business together had for the first time came into an agreement to protect the interest of the bank customers against the loan that they were taking. That was the first time the association between these two companies selling different financial products had came into existence and the same had been termed as 'bancassurance'. The development initiative of bancassurance model was started in Spain in the late 80s when Banco De Bilbao Group acquired a majority stake in EUROSEGUROS SA. But their transaction was restricted to financial aspect only as during that time banks were not allowed to sell insurance products through bank networks a barrier which was subsequently removed during the year 1990s. Since then most of the players started involving in bancassurance model heavily and today the bancassurance plays a dominant role in selling the insurance products. Today the same model, which was initially only acted as a distribution channel has integrated the service of various financial products and at present ultimately looking for a customized approach as per the plan and requirement of the consumers. The model since then has travelled in various countries and each of the country the model has got its own shape due to various legal and regulatory rules and practices. The same model has its own sets application which is best suitable in one specific country. The success of the model is also depends on the level penetration that the country witnessing in both insurance as well as banking business. A country where branch banking expansion is not that much strong then surely bancassurance model will not be able to get the desired result as expected. Secondly, if the insurance market is stronger than the banking market, like in most of the developed countries, then surely insurance companies do not need the help of banking sectors to sell their insurance products. So, it all depends on the strategy and its implementations.

Models of Bancassurance

Although, the models of bancassurance varies country wise but the basic bancassurance model remains same in most part of the world. Since it's a tie up between two different players its pros and cons need to be analyzed first. Since, both the companies are looking for profit orientation developing a successful model has utmost importance. Traditionally the model can be grouped under three different groups which can be summarized below:

Table 1. Bancassurance Models

Model	Description	Advantages	Disadvantages	Country Adopted the Model
Distribution Agreement	Bank act as an intermediary for an insurance company	Operations start quickly and less costly	Lack of flexibility to launch new product and possibility of difference in corporate culture	USA, Germany, UK, Japan
Joint Venture	Bank in partnership with one or more insurance companies	Transfer of expertise	Difficult to manage in the long run	Italy, Span, Portugal
Full Integration	Creation of a new subsidiary	Same corporate culture	Substantial investment	France, Spain, Belgium, UK, Ireland

Source: Analysis of Bancassurance & its Status Around the World, Focus, 2005 Report, pp 5

These models are the most comprehensive model adopted by most of the developed countries. The application of the same model in developing countries or in emerging countries may not be same. In case of India, if we look at the nature of bancassurance business, then clearly it has created a hybrid model where almost all the models are visible. But the application first two models, i.e. distribution agreement and joint venture model are widely visible and acceptable among the prospective stakeholders.

Bancassurance Business Models Around the World

Normally, the bancassurance distribution model follows the broad areas as discussed above, but country or region wise there may be some differences according to the viability of the business model. Here an attempt has been made to understand the business model as witnessed in different parts of the world so as to get an overall idea about the business model.

European Model

In Europe bank plays an important role to sell the insurance products through its own banking network. Infact the entire business model is integrated with the banking facilities mostly in case of life insurance products. Countries like, France, Spain, Italy etc. have an agreement with the banks to sell the insurance products either through joint venture or by establishing a fully owned insurance subsidiary. The important part is that the insurance asset is managed by the banks and almost all the insurance products are distributed by the bank staffs. For this they have undergo proper product training. Sometimes, some banks engage staffs who are exclusively deals with the bancassurance business transactions. In some cases where the insurance products are more complicated and may not have a direct integration with the banking products, a specialized insurance representative may help the bank staffs to sell the same. The commission earned by the banks can be retained by them or sometimes to improve the performance and motivation a portion of the commission thus earned by selling of insurance products can be distributed among the designated staffs in the form of commission or bonus, provided they meet the target. The main characteristics of insurance products that are sold through bancassurance model are simplicity and direct integration of banking products so that consumer's acceptability increases. Since, the primary target is the bank's own consumers, the product integration need to be very strong. But over the years the bank staffs are becoming trained enough to sell various non – traditional products like health insurance, motor insurance etc. The simplicity of the insurance products is the primary importance for this kind of distribution model that most of the European countries are follows. To understand the risk associated with the consumers sometimes, the banks keep their own captive insurance underwriter to price the products according to the type of risks faced by the banks from the consumers. This is important, because for some insurance products like loan protection, banks repayment behaviour is very important to determine the risk associated with the consumers. So, this forces the bank to establish a separate underwriter for this job. For rest of the products, where direct banking products are not integrated with insurance products, the banks may take the underwriting proposals of insurance companies.

Hong Kong Model

The bancassurance model is a growing trend in Hong Kong where at present the model is able to generate 35% of the total business volume. The banks and the insurance companies are most likely to follow wholly owned subsidiaries or joint ventures or try to set up an exclusive bancassurance agreement with only one insurance service providers. The tough competition among the various players may be the primary reason for this kind of agreement. The insurance products are mainly deals with the help of bank staffs and in some cases if required a representative designated in one specific branch to sell the insurance products on behalf of the bank as well as the insurance companies. Since, the consumer satisfaction is more important the insurance company's employees are in a better position to understand the risk that are being faced by the consumers or decision dilemma. Any wrong product offering may dilute the entire business opportunities which can be tackled with the help of designated employees of the insurance companies. Sometimes, they are also able to offer the customized products depending on the requirement of the consumers. Since, the insurance products are of both long term as well as short term type, customer's requirement may vary. The banks here sometimes develop their own wealth management services and may not go into direct agreement with any specific insurance companies. Rather, they prefer to choose the insurance products that best suit the requirement of the individual or that may give best return. This model gives them the flexibility to go for a product which maximizes the benefit of the consumers.

Bancassurance Business Model in Latin America

Although most of the Latin American countries are part of emerging countries, the success of bancassurance business model is quite attractive. The main reason is that most of the insurance companies have decided to enter in this market because the insurance penetration is typically low as compared to other parts of the world. This surely gives them market opportunities. The banks have a strong business network and most of the foreign insurance companies have come into an agreement with the banks or sometimes they simply purchase the banks to strengthen the distribution network of the insurance companies. In Brazil, the regulatory requirement mentions that an approved broker should deals with any kind of insurance sells and this made these financial organizations to have their own brokers who will deals with the products of that particular insurance company only. In case of Argentina, most of the foreign banks that are operating in the country, decided to purchase a stake in some of the prominent insurance companies to increase their source of income by selling insurance products. The direct control in this regard helps them to achieve the desired result and a proper expansion of business. In countries like Chile, the regulatory norms tell that an insurance agent should deals with any kind of insurance sells even under bancassurance model. So, the banks either train their staffs to get appropriate permission from regulatory authority or they simply depute the representative of insurance companies who has the authority to sell the insurance product on behalf of the banks.

Bancassurance Business Model in South Korea

Introduction of bancassurance model is not that much old which was launched in the year 2003 and since then the model has able to generate a substantial increase in the business volume. The market has a strong base of direct sells agent, still the introduction of bancassurance model has significantly impacted the nature of the business. Considering the present globalized environment and impact of liberalization the market will see a further improvement as the financial integration will surely bring lots more positive changes in the existing business model in near future.

Bancassurance Business Model in China

In China the insurance regulatory law brings some meaningful changes in the year 2003 which permitted the banks to sell insurance products of multiple insurance companies. Earlier, the bank was simply acting as an insurance agent where banks were permitted to sell the insurance products of only one insurance company. Looking at the vast nature of banking services the success of bancassurance in China will be a matter of time. Although, the banks are selling only non – sophisticated products, the changes in the regulatory environment may encourage the banks to go for more sophisticated products. Since, the banks are not restricted to sell the insurance products of any particular insurance companies; they have the freedom to provide the best insurance product that is available in the market. The China Insurance Regulatory Commission also proposed to take a decision regarding the choice of business model under bancassurance domain and suggests that the banks and the insurance companies can go for any one of the four distribution model, viz. exclusive distribution model, joint venture model, establishment of a financial holding company and development of integrated lines of business. Based on these proposed changes the model said to become a stronger player in the Chinese insurance market.

The market has the potential as the population size is huge and most of the market is untapped. The only requirement is successful implementation of the model.

Bancassurance Business Model in India

The story of bancassurance business model in India is relatively new and got its momentum after the opening up of the sectors for private and foreign players. The business experiences of foreign players in other markets give them enough exposure in this regard and they started implementing the same in case India as well. The vast branch network of Indian banks along with the huge untapped market, give them an ideal ground to operate in this particular business model. The initial model was only referral type where banks refer the prospective customers of insurance products to an insurance company where final transactions take place. But the model has developed further and active involvement of banks started playing an active role using their branch network. The joint venture and distribution agreement of one life insurance products is also witnessed during this time. The business opportunity basically created a win – win situation for both the banks as well as insurance companies as both of them is in a position to capitalize the existing resources for better expansion of insurance business using their existing expertise. The entire business operations are monitored by IRDA, the regulatory authority which controls it. The IRDA has the authority to change the rules and regulations of various business operations under various modes and to protect the interest of the policy holders. In India, selling life insurance products are more acceptable than non – a life insurance product as the same has the proper matching with the various banking products.

The recent changes in bancassurance regulations with the help of IRDA (Licensing of Bancassurance Agents) Regulations, 2011 has made the process more comprehensive and business oriented. Under this agreement the banks need to train its employees, deals with the bancassurance products and the employees need to clear the relevant examination conducted by the regulatory authority to deal with the bancassurance business on behalf of the bancassurance agent, i.e. bank. The regulations also restricts the banks to establish tie ups with not more than one life and one non – life and one standalone health insurance company in any of the states of India. In case, if the general insurance company is not dealing with health insurance products, the bank can establish tie ups with one more general insurance companies to deal with the health insurance business only. The authority also divided the country into three zones and it is specified that no insurance companies are able establish tie up with any bancassurance agents in more than nine states or union territories in zone A and six states or union territories in zone B. The regulations also mentioned that insurance companies can use the logo and name of the bancassurance agents while selling the insurance products. This particular change has bring lots of positive response as in India banks enjoys tremendous trust and faith among the consumers.

The table below would like to give a detailed understanding about different country wise variation of regulatory environment which compels the bancassurance model to take different formats. It is very difficult to create a unique environment as the economic developments of various countries are not same and they are not in a same growth path. In some countries the penetration of insurance is high whereas in other countries the penetration of banking sector is high. Thus, what is required is to understand the socio economic position of the country and accordingly develop a model best suitable in that particular environment. The comparison in this regard helps to determine the same and accordingly the business model can be modified and implemented which best suits the local requirement.

Reasons for going into Bancassurance Business Model

Bancassurance is a sells channel through which insurance companies sells their portfolio of products using bank's network. It is assumed that bancassurance channel is a win – win situation for each and every stakeholder. For banks, it is expected to give some extra earnings without having any risk exposure. The present financial conditions in most of the developing countries urges bank to give more focus approach in other income generating activities as the bank's main source of earnings are not that much lucrative unless and until there is a drastic improvement in economic conditions of that country where it operates. The changing economic condition is not in the hand of banks thus to sustain in this environment they need modify or search for some alternatives avenues where the banks can compensate their loosing income. The advantages that the banks are enjoying are mainly related to consumer trust and existing branch network. The age old banking operations in India and its social angle of business forced them to open up branches in some of the remotest corner of the country where normal financial transactions may not be possible. The involvement of government and proper banking regulations also help them to earn the trust that the banks are enjoying over the years. When a consumer deposit it's hard earned money in any specific bank, then this trust plays a crucial role. So, by getting a product offering from their own banks make the purchasing decision of insurance product easier.

The success is not lying with the banks only as the insurance companies first time realize the potential to use the bank as a distribution partner to sell the insurance products. The main advantage that the new age insurance companies are getting is in terms of coverage. After opening up of the Indian insurance market, these private players realize that to get hold of the market, the best way is to expand the business as fast as possible as the entire market is open to all and there are huge areas are there which are still remains untapped. This untapped regions may give them cost advantage and at the same time market coverage. But implementation of this programme is a cumbersome task as it requires a huge amount of investment. Not only that the new entrants are not at the top of the consumer's mind as the brands are new in the market people has a strong recall of the brand call LIC. So, initially they are lacking trust. On the one hand they are unknown and on the other hand insurance is not product which the consumers are going to purchase without any interference of a person having good knowledge and convincing power to sell the insurance product. This sees an opportunity by establishing a tie ups with the existing banks to sell the insurance products through bancassurance model. The collaboration gives the insurance company the much needed expansion base without investment large amount of money to develop their own branch network. Along with this the insurance companies are also able to get hold of a readymade consumer base which otherwise they need to develop of their own. The low brand recalls of most of the insurance companies are tackled by using the brand reputation of the banks with which the insurance company is able to establish a tie ups. By providing a proper training, thus the insurance companies are able to expand their business in a rapid manner. But the statistics shows that out of the total five distribution channels the bancassurance channel failed to achieve the desired level.

Normally a consumer visits bank branches to meet its financial requirements. Normal banking products like loan, opening a bank account, recurring deposits etc. are some of the important products which are demanded by the consumers of a bank. In any case the consumers have to get the advice of the bank staffs for any of the financial products that they would like to avail. Since, the bank employees are directly interacting with the consumers there is a chance that they would be able to play the role of financial advisers for selling a wider range of financial products to its consumers. For a consumer it is also feasible as he or she do not have to move from one place to other to purchase the different types of financial products. Since, the awareness level of insurance products are very low, sometimes the consumers are also not in a position to understand the exact requirement of the same as well as amount of coverage that they should go for. Thus, an expert advice is highly desirable in any of these circumstances. Considering this, the bank employees can play an active role to facilitate the right need of the consumers.

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