BANCASSURANCE – THE INDIAN EXPERIENCE

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Abstract

Reserve Bank of India (RBI) has recognized "bancassurance" wherein banks are allowed to provide physical infrastructure within their select branch premises to insurance companies for selling their insurance products to the banks' customers with adequate disclosure and transparency, and in turn earn referral fees on the basis of premia collected. This would utilize the resources in the banking sector in a more profitable manner. Bancassurance can be important source of revenue. With the increased competition and squeezing of interest rates spreads profit of they are likely to be under pressure. Fee based income can be increased through hawking of risk products like insurance. There is enormous potential for insurance in India and recent experience has shown massive growth pace. A combination of the socio-economic factors is likely to make the insurance business the biggest and the fastest growing segment of the financial services industry in India. However, before taking the plunge in to this new field, banks as insurers need to work hard on chalking out strategies to sell risk products especially in an emerging competitive market. However, future is bright for bancassurance. Banks in India have all the right ingredients to make Bancassurance a success story. They have large branch network, huge customer base, enjoy customer confidence and have experience in selling non-banking products. If properly implemented, India could take leadership position in bancassurance all over the world. Hence, the present study focuses on BANCASSURANCE – THE INDIAN EXPERIENCE and the study based on both Primary and Secondary Sources.

Keywords: *Physical Infrastructure, Insurance Products, Competition and Squeezing Of Interest Rates, Financial Services Industry and Leadership Position in Bancassurance.*

Introduction

For a long time, the insurance industry has been locked in an ice age as the basic structure of the industry has remained more or less fixed. The glacier is now melting, revealing new challenges as traditional distribution and customer management processes are not proving to be adequate for the new age. The shape of the insurance industry is being changed by developments in distribution. The main driver is the lowering cost of increasingly sophisticated technology, enabling new economies of scale and scope, which extends beyond national boundaries.

The touch point with the ultimate customer is the distributor and the role played by him in the insurance markets is critical. It is the distributor who makes the difference in terms of the quality of advice for choice of product, servicing of policy, and settlement of claims. In the Asian markets, with their distinct cultural and social ethos, these conditions will play a major role in shaping the distribution channels and their effectiveness.

The banking and insurance industry have changed rapidly in the changing and challenging economic development throughout the world. In the competitive and liberalized environment everyone is trying to do better than others and consequently survival of the fittest has come into effect. Insurance companies are also to be competitive by cutting cost and serving in a better way to the customers. Now the time has come to choose and adopt appropriate distribution channel through which the insurance companies can get the maximum benefit and serve the customers in manifold ways. The intermediaries in the insurance business and the distribution channels used by carriers will perhaps be the strongest drivers of growth in this sector. Multi-channel distribution and marketing of insurance products will be the smart strategy which continues to play an important role in distribution, alternative channels like corporate agents, brokers and bancassurance will also play a greater role in distribution. The time has come for the industry to gradually move from traditional individual agents towards new distribution channels with a paradigm shift in creating awareness and not just selling products.

The Indian insurance sector has undergone a sea change in the last ten years, ever since the sector was opened up for private players. Traditionally, insurance products are sold only through agents and they account for a major chunk of the business in retail segment. With the opening up of this sector to private players, competition has become more intense and the public sector major LIC has been challenged with a flood of new products and new means of marketing. Instead of falling back on the individual agents for business, new insurance companies have started to experiment with other channels such as bancassurance and industry brokers.

The new generation companies have attempted appealing only to the middle, upper middle and elite classes in the major cities. Contrasted with Public sector insurance companies, with their offices across the country, the new companies have miles to go before they reach anywhere. They must overcome the mindset of the customer that life insurance is Life Insurance Corporation of India (LIC) and general-insurance is General Insurance Corporation of India (GIC), if at all they hope to grow in the market. Meanwhile, the public sector companies are going to great lengths to revamp their image to look and feel more contemporary.

In today's scenario, insurance companies must move from selling insurance to marketing an essential financial product. The distributors have become trusted financial advisors for the clients and trusted business associates for the insurance companies, so this calls for leveraging multiple distribution channels in a cost effective and customer friendly manner.

Bancassurance is one such distribution channel that offers huge source of untapped opportunities. The business of banking around the globe is changing due to integration of

global financial markets, development of new technologies, universalisation of banking operations and diversification in non-banking activities. Due to all these movements, the boundaries that have kept various financial services separate from each other have vanished. The coming together of different financial services has provided synergies in operations and development of new concepts. Bancassurance is one among them.

Bancassurance simply means selling of insurance products by banks. In this arrangement, insurance companies and banks undergo a tie-up, thereby allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate agency with one insurance company to sell its products. By selling insurance policies bank earns a revenue stream apart from interest. It is called as fee-based income. This income is purely risk free for the bank since the bank simply plays the role of an intermediary for sourcing business to the insurance company.

It has its origin decades ago in France, where this channel of distribution today is still the predominant source of insurance business. It has grown at different places and taken shapes and forms in different countries depending upon demography, economic and legislative prescription in that country.

Bancassurance is a new buzzword. It originated in India in the year 2000. The present day banks have become for more diversified than ever before. The first Narasimham Committee, has reshaped, the contemporary financial landscape of commercial banks in India. Therefore, their entering into insurance business is only a natural corollary and is fully justified too as 'insurance' is another financial product required by the bank customers.

The importance of bancassurance is felt necessary even from the view point of insurance industry. With the increased pressures in combating competition, companies are forced to come up with innovative techniques to market their products and services. Banking sector with it's far and wide reach, was thought of as a potential distribution channel, useful for the insurance companies. Thus, bancassurance is poised to become a key determinator/ differentiating factor in the Insurance industry as well.

Objectives of the Study

The study under report has been undertaken with the following objectives:

1. To trace the origin and the global development of the bancassurance.
2. To examine the evolution of bancassurance in India and to analyse the performance of bancassurance business.
3. To analyse the strength, weakness, threats and opportunities (SWOT) of bancassurance in India.

4. To understand the perception of the customers about the bancassurance as a significant distribution channel with reference to utility and acceptance of bancassurance as a source of procuring insurance products.
5. To provide concrete suggestions on all aspects relating to bancassurance business in India, to improve the existing performance.

Hypotheses

Parametric statistical test is applied to test the hypotheses, all of which have been formulated for the proposed study. They are as follows:

Hypothesis 1

For banks, if the business per employee is low, it is likely to be attracted to improve productivity by adding bancassurance in their portfolios.

Hypothesis 2

For insurance companies, non-performing assets of a bank will act as a brake on the bank/insurance company tie-up for insurance distribution.

Hypothesis 3

If a bank is profitable (by the standard of banking industry), it could be less likely to get away from core business. On the other hand, a more profitable bank might be willing to gamble some of its profits to a new line of business.

Hypothesis 4

For insurance companies, the larger the network of bank branches (for banks with national presence), the more the likelihood of a bank/insurance company tie-up for insurance distribution.

Hypothesis 5

There is an association between the persons who are planning to take an insurance policy in future and the persons who prefer bancassurance to buy an insurance policy in the future.

Bancassurance – A Review

Bancassurance – a term coined by combining the two words - Bank and insurance – connotes distribution of insurance products through banking channels. Bancassurance has been defined as the Provision of distributing insurance and banking products and services through a common distribution channel to the same client base. It is basically selling insurance products and services by leveraging the vast customer base of a bank and fulfilling the banking and Insurance needs of the customers at the same time.

Banks with their geographical spread and penetration in terms of customer reach of all segments have emerged as a viable source for the distribution of insurance products. Bancassurance covers a wide range of detailed arrangements between banks and Insurance

companies, but in all cases it includes the provision of insurance and banking products or services from the same sources to the same customer base[1]. Bancassurance takes the various forms depending upon the demography, economic and legislative climate of the country[2]. The demographic climate will determine the kinds of insurance products. The economic climate will determine the trends in terms of turnover, market shares etc. The legislative climate will decide the periphery within which bancassurance has to operate. The motive behind the bancassurance also differs. For banks it just acts as a means of product diversification and additional fee income, for insurance company it acts as a tool for increasing their market penetration and for customers it acts as a bonanza in terms of reduced price, high quality products and delivery to door steps. Hence, it is a win-win situation for all the parties involved in Bancassurance.[3]

Benefits

Bancassurance is an important tool in the hands of bankers, insurers and customers to maximize their benefits at a time. As everybody is a winner in this system, their respective benefits are given below:-

From the viewpoint of Bankers

Bankers have the power and structure to relate to the customers' needs. This will enable them to enter in the area of bancassurance. In a situation of constant asset base, the bank can increase Return on Assets (ROA) by increasing their income, by selling insurance products through their own channel. It can cover operating expenses and make operating expenses profitable by leveraging their distribution and processing capabilities.

The bankers have a branch network to make face to face contact with the customers and a great deal of trust over the customers. By leveraging the facilities, the bankers can guess the attitude and diverse needs of the customers and could change the face of insurance distribution to personal line insurance.

Banks enjoy significant brand awareness within their geographical region providing for a lower per head cost[4]. The advantage of a bank over the traditional distributors of insurance is the lower cost per sales head, which is made possible by their sizeable loyal customer base. Banks have extensive experience in marketing to both existing customers

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[1] *Hoggarth.G and E.Saportar, 2001, "Costs of banking system instability: Some empirical evidence" , Bank of England financial stability review, June, PP 32 -39.*

[2] *Dasgupta,R. 2001, "RSA, Iffco-Tokio yet to appoint actuaries", Economic Times, January 23, PP 45-47.*

[3] *Kumari,V. A.Vaswati, 2001, "India Insurers Seek Perfect Partners." National Underwriters, March 5, PP. 38-39.*

[4] *Berman, P. 1996, "Rethinking Health Care Systems: Private Health Care Provision in India.", Harvard School of Public Health Working Paper, November, PP. 62-64.*

and non-customers. They also use technology access multiple communication channels such as statement inserts, direct mail, ATMS, telemarketing etc for the improvement in transaction processing and customer service[5].

Bancassurance offers advantages to bankers by creating a universal banking platform by offering a wider financial services package and positioning the Bank as a one-stop-shop for all financial and protection needs of customers. With customers getting more financially discerning in nature, a wider product offering is critical for creating customer loyalty.

Bancassurance also offers a good opportunity to increase the Bank's share of the customer's wallet through insurance cross sell. Banks may also be able to garner fresh banking business by using insurance as a selling hook. Bancassurance enables a Bank to satisfy the risk protection needs of its clients without assuming the underwriting of risk.

Building an expensive distribution network is a major drain on the bottom-line of a Bank. It is critical that these distribution points are optimized by selling a larger range of products, including Insurance products. The selling of insurance products provides bank employees with new challenges and enhanced skills, thus improving their productivity and efficiency. Banks can leverage their existing customer service and operations, infrastructure and expertise to effectively service insurance related processes as well.

From the view point of Insurer

The insurer can increase their volume of business through banking distribution channel and gain better. The presence of a Bank partnership brings about distribution diversification and places less reliance on traditional revenue streams generated from the agency distribution channel. It can solve the difficulties arising out of price competition which has driven down the margins and increased the compensation demand of successful agents. Bank partnerships provide a geographical reach to the insurer through the bank's existing network without significant investment in infrastructure. In India specifically, the costs of network development in far-flung areas would be prohibitive, and Bancassurance offers an ideal solution to this problem[6].

Banks have warm customer bases, which expect the banks to sell other financial products to them. Conversion rates of bank customers are expected to be higher than in alternate sales channels[7]. Through agents, the insurer can only sell fewer and large policies to a more upscale client. The middleclass income holders who comprise the bulk of bank

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[5] Mitra, Sumit,D. and H.Nayak, Shilpa, 2001,"Coming to Life.", India Today, May 7, PP 12-13.

[6] Roy, A. 1997, "Pension fund business in India", The Hindu, July 16, PP. 25.

[7] Sinha, Tapen.R and D.Sinha, Dipendra, 1997, "A Comparison of Development Prospects in India and China", Asian Economies, Vol. 27(2), June, PP. 5-31.

customers get very little attention from the agents. By using bank channel, the insurer can capture much of its under served market[8].

Banks possess financial and life stage information of customers, which assists greatly in identifying and filling financial need gaps and developing specially packaged products targeted at satisfying specific customer needs. By cutting cost, insurer can serve better to the customers in terms lower premium rate and better risk coverage through product diversification. Insurance companies can greatly leverage from the brand awareness and equity of Banks, thus enhancing customers' receptiveness for insurance products. Co-branding and joint marketing effort can greatly increase product recognition and awareness in the mind of the customer. Existing operations and service infrastructure and expertise of banks provide an ideal platform to service insurance customers acquired through the Bancassurance channel.

From the Customers' view point

For customers, Bancassurance provides the convenience of dealing with one financial institution for all financial needs. In an environment where most adult family members are working and leisure time is at a premium, customers are even willing to pay more for a one-stop shop. Further, owing to the customers' affinity towards the Bank, provision of insurance through the bank offers a more credible solution. Customers also benefit from service convergence between the Bank and insurer through a common service point. Product innovation and distribution activities are directed towards the satisfaction of the needs of the customer. Bancassurance model assists customers in terms of reduced price, diversified products, quality products and in time and doorstep service.

Bancassurance Products

All life insurance products are by nature products which belong to the wider financial services sector. For a bancassurance operation in particular, however, the decision on the types of insurance products which it wants to sell is very closely bound up with the methods of distribution which it plans to use. This is because the effort and expertise needed to sell a given product must be appropriate to the skills and cost base of the chosen distribution method. A product which is very hard for the available distribution channels to sell is not going to be successful for the operation, whether in terms of sales volumes or of profits[9].

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[8] *Business Today. 2000,"The Monitory Group Study on Insurance I and II." , March 22 and April 7, PP.11-12.*

[9] *Sinha, Tapen,R. 2000, "Pension Reform in Latin America and Its Implications for International Policymakers",Boston, USA, Kluwer Academic Publishers, Huebner Series, Volume No. 23, PP 76- 79.*

Apart from the traditional insurance products, bancassurers have developed special products in order to fulfill certain needs which emanate from banking transactions, or to improve certain products in order to make them more attractive and useful to the customer.

These products can be broken down into three categories:[10]

- Finance and repayment products
- Depositors' products
- Simple standardized package products.

Bancassurance in India

Bancassurance or the joint offering by a bank and an insurance company of their products within a single organization has flourished for decades in the global markets. Actually, a fact that many do not know is that bancassurance existed in a rather limited form in India, as well, before the general insurance industry was nationalized in 1972, and even more so before the nationalization of banks in 1969[11]. Before this, a large number of banks used their then-growing network to distribute products (Section 6 of the Banking Regulations Act prohibits them from taking up full-fledged insurance business), though these were mainly general insurance products. The product development and risk underwriting was done by their group insurance companies (most of these banks were the old private sector banks where the industry group they belonged to also had insurance companies in their fold). And though bankers say that it is too much in the remote past to quantify how lucrative this fee-based business actually was for them, it is not too difficult to hazard a guess. Many of these products were sold on the lines of a sort of captive business, insuring assets in companies that were primarily financed by the banks themselves. It was only after the non-life business was nationalized in 1972 and general insurance became the sole prerogative of the General Insurance Corporation and its four subsidiaries that banks were no longer allowed into the monopolistic sector.

With the increased structural deregulation within the financial system and globalization ,the banking system in India has been exposed to tough competition compelling them to move towards new vistas of business activity under one roof by moving towards the 'universal banking framework' and eventually the emergence of financial conglomerate. Such developments bring along some regulatory and supervisory concerns. Banks have all along been functioning strictly on a 'traditional banking style' with highly

[10] *Patel, F. 2001, "Centre wants GIC to merge unviable outfits before recast.", Business Standard, April 13, PP 12-13.*

[11] *Naveen, S. 2003, "Bancassurance- an emerging concept in India"- ICFAI Press Unoversity Vol. XXXIV (9), PP. 56-61.*

compartmentalised manner. Now that the banking system enjoys more of 'structural freedom' exposing themselves to non traditional activities such as insurance, derivatives, investments banking, etc., there is possibility of migration of risks from the rest of the activities to the banking system. Thus, the increased market integration and globalization are demanding new realism on the part of the regulator and supervisor for stricter prudential regulation. While it is inevitable that Indian banks entering into insurance sector, given the size of the transactions in 'general insurance transactions', coupled with the type of built-in risks on the one side and that the banking system being the focal point of the payment and settlement on the other, any migration from the former to the latter will have a greater systemic implications[12]. Therefore adequate and appropriate checks and balances are required to be put in place in time by all regulatory authorities concerned.

The regulator of the insurance sector is of very recent origin unlike the banking sector regulatory authority, namely Reserve Bank of India. Banks are regulated by the Indian central bank, the Reserve Bank of India (RBI).Therefore, the RBI has set down the rules for the entry of banks in the field of insurance. In 1999, the Governor of the Reserve Bank of India declared: "Presently, there is no provision in the Banking Regulation Act whereby a bank could undertake the insurance business. The Act may have to be amended before banks could undertake insurance business. Alternatively, there is a provision in the Banking Regulation Act whereby banks could take any other form of business which the central government may notify. Thus, if the central government notifies insurance business as a lawful activity for a banking company, perhaps banks would be able to undertake insurance business. It may, of course, be necessary to specify what type of insurance business they could undertake[13]".

RBI had permitted banks to enter the insurance sector, as the insurance business takes a longer time to breakeven. Banks don't have the archival and technical expertise; they should be strong enough to withstand the initial losses. Therefore, the Reserve Bank of India issued a set of draft regulations to all the commercial banks and select financial institutions for venturing insurance business.

Rbi Guidelines for the Banks to Enter into Insurance Business

Following the issuance of Government of India Notification dated August 3, 2000, specifying 'Insurance' as a permissible form of business that could be undertaken by banks

[12] *Raje, P. 2000, "Where Did India Miss a Turn in Banking Reform? Is there a comeback?" Center for the Advanced Study of India, CASI Working Paper, December Vol. XXV (3), PP. 78-83.*

[13] *Krishnamurthy, R. 2003, "Bancassurance in India," CEO Summit of Swiss Reinsurance Company, Vol 25, PP. 45-47.*

under Section 6(1) (o) of the Banking Regulation Act, 1949; RBI issued the guidelines on Insurance business for banks.

1. Any scheduled commercial bank would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. The subsidiaries of banks will also be allowed to undertake distribution of insurance product on agency basis.
2. Banks which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The maximum equity contribution such a bank can hold in the joint venture company will normally be 50 per cent of the paidup capital of the insurance company. On a selective basis the Reserve Bank of India may permit a higher equity contribution by a promoter bank initially, pending divestment of equity within the prescribed period.

   The eligibility criteria for joint venture participant are as under:
   - The net worth of the bank should not be less than Rs.500 crore;
   - The Capital Adequacy Ratio of the bank should not be less than 10 per cent;
   - The level of non-performing assets should be reasonable; i.e the level of NPA should be 1percent below the industrial average.
   - The bank should have net profit for the last three consecutive years;
   - The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.
3. In cases where a foreign partner contributes 26 per cent of the equity with the approval of Insurance Regulatory and Development Authority/Foreign Investment Promotion Board, more than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance joint venture. As such, participants will also assume insurance risk, only those banks which satisfy the criteria given in paragraph 2 above, would be eligible.
4. A subsidiary of a bank or of another bank will not normally be allowed to join the insurance company on risk participation basis. Subsidiaries would include bank subsidiaries undertaking merchant banking, securities, mutual fund, leasing finance, housing finance business, *etc*.
5. Banks which are not eligible for ‘joint venture’ participants as above, can make investments up to 10percent of the net worth of the bank or Rs.50 crore, whichever is lower, in the insurance company for providing infrastructure and services support. Such participation shall be treated as an investment and should be without any contingent liability for the bank.

All banks entering into insurance business will be required to obtain prior approval from the Reserve Bank. The Reserve Bank will give permission to banks on case to case basis keeping in view all relevant factors including the position in regard to the level of non-performing assets of the applicant bank so as to ensure that non-performing assets do not pose any future threat to the bank in its present or the proposed line of activity, *viz.*, insurance business. It should be ensured that risks involved in insurance business do not get transferred to the bank and that the banking business does not get contaminated by any risks which may arise from insurance business. There should be 'arms length' relationship between the bank and the insurance outfit.

Insurance Agency Business/ Referral Arrangement

The banks (includes SCBs and DCCBs) need not obtain prior approval of the RBI for engaging in insurance agency business or referral arrangement without any risk participation, subject to the following conditions:

i. The bank should comply with the IRDA regulations for acting as 'composite corporate agent' or 'referral arrangement' with insurance companies.
ii. The bank should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the bank. The customers should be allowed to exercise their own choice.
iii. The bank desirous of entering into referral arrangement, besides complying with IRDA regulations, should also enter into an agreement with the insurance company concerned for allowing use of its premises and making use of the existing infrastructure of the bank. The agreement should be for a period not exceeding three years at the first instance and the bank should have the discretion to renegotiate the terms depending on its satisfaction with the service or replace it by another agreement after the initial period. Thereafter, the bank will be free to sign a longer term contract with the approval of its Board in the case of a private sector bank and with the approval of Government of India in respect of a public sector bank.
iv. As the participation by a bank's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by the bank in a prominent way. There should be no 'linkage' either direct or indirect between the provision of banking services offered by the bank to its customers and use of the insurance products.
v. The risks, if any, involved in insurance agency/referral arrangement should not get transferred to the business of the bank.

Some confusion arose about interpreting these rules for all types of financial institutions from the circular. Therefore, the RBI proposed a series of amendments in March

2000. In addition to the entry of banks, the RBI also laid down a set of guidelines for the entry of Non-Bank Financial Companies (NBFC) into insurance business (June 30, 2000)[14]. There were two critical differences in the requirements proposed for the NBFCs.

First, the capital adequacy ratio of the NBFC (applicable only to those holding public deposits) should not be less than 12 percent if engaged in equipment leasing/hire purchase finance activities and 15 percent if it is a loan or investment company.

Second, the level of nonperforming assets should be no more than 5 percent of total outstanding leased/hire purchase assets and advances. On November 28, 2001, the same rules were extended to cover "All India" Financial Institutions. Specifically the rules for these institutions were set at the same level as the NBFCs noted above.

Some confusion still remained whether it was possible for the financial institutions to accept fees for their services directly or not. The RBI cleared their position in two separate circulars: one for the scheduled commercial banks and the other for the other institutions. It also stated that financial institutions "should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company"[15].

In the 2001 Report on Currency and Finance, the RBI laid down its views in more concrete term. "The Reserve Bank, in recognition of the symbiotic relationship between banking and the insurance industries, has identified three routes of banks' participation in the insurance business, viz., (i) providing fee-based insurance services without risk participation, (ii) investing in an insurance company for providing infrastructure and services support and (iii) setting up of a separate joint-venture insurance company with risk participation. The third route, due to its risk aspects, involves compliance to stringent entry norms. Further, the bank has to maintain an 'arms length' relationship between its banking business and its insurance outfit. For banks entering into insurance business with risk participation, the prescribed entity (viz., separate joint-venture company) also enables to avoid possible regulatory overlaps between the Reserve Bank and the Government/IRDA. The joint-venture insurance company would be subjected entirely to the IRDA/Government regulations"[16].

The Insurance Regulatory Development Authority (IRDA) issued circulars in January and February 2003 setting out the ground rules for bancassurance. Now, the IRDA has also come up with guidelines pertaining to referral arrangements with the banks.

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[14] *Karunagaran, A. 2005, "Towards Universal Banking in India – Some Regulatory and Supervisory Issues", IBA Bulletin, Special Issue 2005, January, Vol XXVII No 1, PP. 145-160.*

[15] *Krishnapani, K. 2003, "Bancassurance an introduction", ICFAI Press, Hyderabad, Vol . XX, PP. 24-45.*

[16] *Krueger, O. A., 2004, "Banking Needs of Global Economy", Keynote Address, IBA Bulletin, Special Issue 2005, January, Vol XXVII, PP. 12-15.*

Arising out of the notification of the monetary and credit policy by RBI on October,2002 permitting banks to undertake referral business through their network of branches for selling insurance products with prior permission of IRDA and RBI, the insurance regulatory authority has been receiving enquiries from insurance companies about IRDA's guidelines on the subject. All insurers entering into agreements/ arrangements with banks under the referral fee model or renewing such agreements / arrangements may take note that the following points form part of any agreements / arrangements:-

1. The referral fee shall be for access to bank's customer database and it should not exceed the ceilings on agency commission prescribed under the Insurance Act, 1938 and the IRDA regulations and shall form part of acquisition cost of business and shall not form part of management expense. This will include arrangements where bank branches operating outside India are sharing customer's base of NRI account holders.
2. The participation by bank's customers shall be purely on voluntary basis and this should be stated prominently in all publicity materials distributed by the bank and the insurance company. It should also be clearly mentioned.
3. There should be no linkage either direct or indirect between the provision of banking services by the bank to its customer and use of the insurance products.
4. There should be no interest surcharge, concession dependent upon non use\ use of the insurance service by the customer.
5. Any administrative \ management expenses to be incurred for distributing literature and other information on insurance should be brought out in the agreement. Information exchange should be exclusively for the promotion of the business and not for any other purposes during the validity of the government.
6. The bank will not be paid any referral fee for promotional campaigns.
7. The insurance company shall not provide any details of its customers to the bank on account of confidential obligations.
8. The insurance company and the bank shall enter into a referral fee arrangement based on a memorandum of understanding or an agreement which needs to be filed with the authority.
9. The bank which enters into referral fee arrangements should not be permitted to enter into any similar arrangements with more than one life insurance Company or more than one general insurance company. This is important to measure that a bank does not act defector as an insurance agent or as an insurance broker without any license.
10. The insurance company should enter into a separate agreement with the bank for allowing the use of premises and the use of existing infrastructure of the bank and a copy of the same should be filed with the authority. In no case the fee for such services

rendered \ offered by the bank should be linked to premium and it should be on a flat basis. Such fee shall not form part of acquisition cost of business.

11. All agreements should be for fixed period and should be with prior approval of the boards of both the insurance company and the bank.
12. If a bank has already been licensed as an agent or an intermediary, it cannot also enter into a referral arrangement.
13. The referral arrangement may be entered into with a bank for access to its data base, the provision of physical infrastructure and for the display of the Insurer's publicity material.
14. All publicity material distributed by the bank and the Insurer has to make it clear that
    i) Bank customers' participation is voluntary.
    ii) The Insurance contract is between the Insurer and the Insured, not the bank and the Insured.
    iii) The referral arrangement is not an agent-principal relationship.
15. There is to be no link between the provision of banking services and the use of insurance products.
16. The Bank can have only one referral arrangement with a life Insurer and a general Insurer.
17. The referral fee paid by the Insurer is to be treated as an acquisition cost.
18. There is to be a written agreement, filed with the IRDA, recording the referral arrangement.

Customers' Perception

To gather first hand information from the consumers of bancassurance, a survey was conducted among 300 respondents who do regular banking business and also have insurance policy of any nature whether life or non-life.

The concept of bancassurance is simple enough in theory, but in practice it has been found to be far from straight forward. With this in mind the researcher tried to measure the awareness level of this innovative financial product among the respondents.

Awareness of Bancassurance

Are you aware of Bancassurance?	No. of Respondents	Percentage to Total
Yes	272	90.66
No	28	9.34
Total	300	100.00

Source: Primary data

It is heartening to note that almost 90 percent of the respondents have a fair idea about Bancassurance. They also know the insurance partners of their bank and are fully aware of the various insurance products provided by their banks. However, about 10 percent of the respondents are amused with the term bancassurance and they do not know anything about the concept and the various services provided by their banks.

Reasons for Taking an Insurance Policy through Bancassurance

During the course of survey, the respondents were requested to give the reasons for taking the insurance policies from the banks. Security benefits, savings, Brand image of the banks and the brand image of the insurance companies are the four major reasons cited by the survey respondents. However, the pattern of responses from the customers is mixed and depicted in the following table.

Reasons for Taking Insurance Policy from Banks

Reasons	Number of Responses	Percentage to Total
Security	92	81
Savings	32	28
Brand image of banks	74	65
Brand image of insurers	46	40

Source: Primary data

About 81 percent of the responses points towards security benefits of the insurance products as the reason for acquiring insurance policies from the banks. Sixty five percent of the customers say that they have taken the insurance policy because they trust their banks. The customers have a lot of trust on the banks and because of that trust, the customers take the insurance products from their banks. The brand image of the banks and their goodwill among the customers to a large extent influence them to buy the insurance products. The brand image of the insurance company also matters. Forty percent responses reveals that the brand image of the insurance company is also a major reason for acquiring their products. As the brand name of the banks is important, so is the brand image of the Insurance Companies. Savings is also another reason that encouraged the respondents to buy insurance policies, especially life insurance. However, the percentage of responses on this count is less. Only 28 percent respondents say that they buy insurance policies with view to save for their future.

Planning to take any Life Insurance in Future
Bancassurance as a Choice to take Insurance Policy in Future

	Yes	No	Row Total
Yes	90	51	141
No	36	123	159
Column Total	126 42%	174 58%	300 100%

Calculation of Ψ²

Observed Frequency (O)	Expected Frequency (E)	(O - E) ²	(O - E) ² / E
90	59.22	947.41	16.00
36	66.78	947.41	14.19
51	81.78	947.41	11.58
123	92.22	947.41	10.27
			52.04

Ψ² calculated value = $\Sigma \frac{(O-E)^2}{E}$ **= 52.04**

Calculated chi-square **value** is **52.04**

Tabulated **Ψ²** value for 1 degree of freedom at 5% level of significance is 3.841.

The calculated value of **Ψ²** is 52.04 which is much higher than the tabulated value of 3.841. Therefore the Null hypothesis (Ho) is rejected and alternative hypothesis has been accepted.

Inference

Thus, there is an association between the persons who are planning to take an insurance policy in future and the persons who prefer bancassurance as a source to buy an insurance policy in the future.

Conclusion

Bancassurance is not just selling insurance, but it is also about changing the mind sets of doing a plain vanilla banking. The time has come for banks to move beyond their traditional business to turn into a financial super mall; of course with necessary safeguards and after a meticulous due diligence process. Bancassurance has been a phenomenal success and although slow in gaining momentum, it has taken off in India.

The growth of bancassurance will primarily depend on the customers' response, ability of insurers and banks to understand each others business; iron out the differences and seize the emerging opportunities. It is the need of the hour for the bancassurance

venture to include new ideas, and new thinking approach and work culture to dominate the world of tomorrow.

Bancassurance will definitely play a defining role as an alternative distribution channel and will change the way insurance is sold in India. Bancassurance in India has just taken a playing start, but it has a long way to go "SKY IS THE LIMIT".