

## **Bancassurance: A Study in relation to Total Income & Branch Network of Private Sector Banks in India**

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**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.

**Keywords-** Bancassurance, Private Sector Banks, Branch Network.

### **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. 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 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 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 a 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 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 existing personal relationship with banks. The customer relationship management helps in building “Trust” which has got highest priority from the customers [7].

**Jongeneel (2011)** identified the critical drivers in bancassurance. The study measure 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 insurance market, branch density and internet usage did not have significant affect on bancassurance business, where as market concentration and level of deregulation had positive effect on bancassurance [8].

**Kumari (2012)** studied customer attitude towards the bancassurance and found that the youth and senior citizen had 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 customer were 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 penetration of Bancassurance in 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 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 huge population there is a vast untapped insurance market. Banks having diversified branch network, regular interaction of banks with customer act as tool to learn the customers 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. OBJECTIVE OF THE STUDY

The present paper aims to achieve the following objectives:

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

### IV. HYPOTHESIS OF THE STUDY

In order to study the second objective, the following hypothesis is being made:

**H<sub>0</sub>:** There is no significant relationship between Branch Network of the Private Sector Banks and Bancassurance Income.

**H<sub>1</sub>:** There is a significant relationship between Branch Network of the Private Sector Banks and Bancassurance Income.

### V. RESEARCH METHODOLOGY

For 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 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 and Microsoft Excel. In order to examine the relationship between Branch Network and Bancassurance Income of Private Sector Banks in India the following regression model has been used:

$$BANCASSURANCE\ INCOME = \alpha + \beta * BRANCH\ NETWORK + \epsilon$$

### 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 march 31<sup>st</sup> 2015.

TABLE I. Showing no. of bank branches, bancassurance income, total income and % age of bancassurance income to total income

<i>Bank Name</i>	<i>Branches</i>	<i>Bancassurance Income (Rs crore)</i>	<i>Total Income (Rs crore)</i>	<i>%age of Bancassurance Income to Total Income</i>
<b>Axis Bank</b>	2,589	862.320	43,843.64	<b>1.967 %</b>
<b>Catholic Syrian Bank</b>	426	2.770	1671.89	<b>0.166 %</b>
<b>City Union Bank</b>	475	4.240	3102.96	<b>0.137 %</b>
<b>DCB Bank</b>	154	9.900	1,588.14	<b>0.623 %</b>
<b>Dhanlaxmi Bank</b>	266	1.420	1368.54	<b>0.104 %</b>

<b>Federal Bank</b>	1,247	26.710	3,258.72	<b>0.820 %</b>
<b>HDFC Bank</b>	4,014	591.080	57,466.26	<b>1.029 %</b>
<b>ICICI Bank</b>	4050	943.050	61,267.27	<b>1.539 %</b>
<b>Indusind Bank</b>	801	165.700	12,095.84	<b>1.370 %</b>
<b>Jammu &amp; Kashmir Bank</b>	821	33.420	3,245	<b>1.030 %</b>
<b>Karur Vysya Bank</b>	629	8.680	5976.7155	<b>0.145 %</b>
<b>Kotak Mahindra Bank</b>	1261	327.330	21,471.09	<b>1.525 %</b>
<b>Lakshmi Vilas Bank</b>	400	2.680	2498.57	<b>0.107 %</b>
<b>South Indian Bank</b>	822	3.390	5783.29	<b>0.059 %</b>
<b>Tamilnad Mercantile Bank</b>	430	4.150	3127.4137	<b>0.133 %</b>
<b>The Ratnakar Bank</b>	183	8.410	2,356.50	<b>0.357 %</b>
<b>Yes Bank</b>	631	35.788	13,618	<b>0.263 %</b>

*Source: Annual Reports of the Selected Banks*

Table I shows 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 II. Showing the result of various statistical techniques

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

*Source: Data processed using SPSS.*

Table II 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.

## VII. FINDINGS

- The study found that the income of Private Sector Banks from the Bancassurance business is very much negligible, when studied in relation to the total income. To the maximum, the amount of bancassurance income is 2% of the total income, which is a very insignificant amount. On an average the percentage of the bancassurance income to total income of private sector banks is .66%.
- $H_0$  is rejected because the p value is less than .05, which indicates that there is a significant positive relationship between the branch network and bancassurance income of the private sector banks in India.

## VIII. CONCLUSION

It can be concluded from the above study, that the bancassurance business of private sector bank is at the infant stage, as it's not producing much revenue for the banks. There is a need for private sector banks to frame such policies and products which could increase their bancassurance income. Such programmes need to be organized, 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, which could be in product, processes, procedures etc.

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