

*Bancassurance in Insurance Distribution:
Key Issues in the Indian context*

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Bancassurance



- The provision of insurance and banking products and services through a common distribution channel or to a common client base.

Relevance of Bancassurance in the Indian financial sector

- **Integration of the financial service industry in terms of banking, securities business and insurance is a growing worldwide phenomenon. The Universal Banking is evolving on these lines in India.**
- **Banks are the key pillars of India's financial system. Public have immense faith in banks.**
 - Share of bank deposits in the total financial assets of households has been steadily rising (presently at about 40%).

Relevance of Bancassurance (cont'd)

- **Indian Banks have immense reach to households.**
 - Total of 65700 branches of commercial banks, each branch serving an average of 15,000 people.
- **Banks enjoy considerable goodwill and access in the rural regions.**
 - There are 32600 branches in rural India (about 50% of total), and 14400 semi-urban branches, where insurance growth has been most buoyant.
 - 196 exclusive Regional Rural Banks in deep hinterland.

Relevance of bancassurance (cont'd)

- **Banks have enormous retail customer base.**
 - Total of 406 million accounts with aggregate deposits of Rs.700,000 crore as at Sept 2000.
 - Share of `individuals' as a category in bank accounts is steadily increasing.
 - Rural and semi-urban bank accounts constitute close to 60% in terms of number of accounts, indicating the number of potential lives that could be covered by insurance with the frontal involvement of banks.

Relevance of bancassurance (cont'd)

- **Banks world over have realized that offering value-added services such as insurance, helps to meet client expectations.**
 - Competition in the Personal Financial Services area is getting 'hot' in India.
 - Banks seek to retain customer loyalty by offering them a vastly expanded and more sophisticated range of products.

Relevance of bancassurance (cont'd)

- **Insurance distribution helps to increase the fee-based earnings of banks to a considerable extent.**
 - Internationally, insurance activities contribute significantly to banks' total domestic retail revenues.
- **Fee-based selling helps to enhance the levels of staff productivity in banks.**
 - This is vitally important to bring higher motivation levels in banks in India.

Relevance of bancassurance (cont'd)

- **Banks can put their energies into the 'small-commission customers' that insurance agents would tend to avoid.**
 - Banks' entry in distribution helps to enlarge the insurance customer base rapidly. This helps to popularize insurance as an important financial protection product.

Relevance of bancassurance (cont'd)

- **Bancassurance helps to lower the distribution costs of insurers.**
 - Acquisition cost of insurance customer through banks is low. Selling insurance to existing mass market banking customers is far less expensive than selling to a group of unknown customers.
 - Experience in Europe has shown that bancassurance firms have a lower expense ratio. This benefit could go to the insured public by way of lower premiums.

Relevance of bancassurance (cont'd)

- **Banks have an important role to play in the pension sector when deregulated.**
 - Low cost of collecting pension contributions is the key element in the success of developing the pension sector. Money transfer costs in Indian banking is low by international standards.
 - Portability of pension accounts is a vital requirement which banks can fulfill in a credible framework.

Relevance of bancassurance (cont'd)

- **Banks can play a major role in developing a viable healthcare programme in India.**
 - Only 2.5 million people have access to healthcare facilities. There is a growing demand for healthcare products which banks can distribute (and facilitate administration).

Bancassurance: Patterns of Distribution alliances

- **Banks selling products of their insurance subsidiary exclusively.**
- **Banks selling products of an insurance affiliate on an exclusive basis.**
- **Banks offering products of several insurance companies as 'super market'.**

Distribution alliances in bancassurance: Key Regulatory issues

- **Corporate Agency model**
 - Issues and responsibilities.
 - How relevant in the case of banks?
- **Corporate Broker model**
 - Banks as brokers.
 - Regulatory and operational issues.

Implementing Bancassurance: Key Challenges in the Indian context

- **Creating an environment of top level involvement of bank management.**
- **Bringing relevance, motivation and skill development at the operating level at bank branches.**
- **Resolving possible conflicts of interest between the bank and the insurer.**
- **Setting up distribution procedures consistent with the manual systems in most banks.**
- **Establishing credible service level agreements between the bank and the insurer.**