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India's Bancassurance: A Potential Insurance Industry Distribution Network

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Abstract:

The purpose of this research is to examine the extent of bancassurance in the Indian setting. It is examined how bancassurance has changed over the last ten years (2007–08 to 2020–21) in the Indian life insurance market. This study is empirical in nature and mostly relies on secondary data. The main markers of promising futures in Indian bancassurance are recognized, including population size, population structure, and literacy rate, banking sector structure, registered insurer in India, insurance penetration, and density. Additionally examined is the percentage of new insurance premiums paid by commercial and governmental life insurers. Additionally, in order to analyze the trends in both private and public life insurance, the compound annual growth rate (CAGR) of new individual insurance premiums is calculated. In order to support Indian bancassurance's future potential, the trend of insurance penetration and density in Asian nations is also examined. Important conclusions confirm the thriving scope of bancassurance in India and point to the necessity of using it as a distribution network for the insurance industry.

Keywords: Bancassurance, Life Insurance, Insurance penetration, Insurance density.

Introduction:

The relationship between the banking and insurance sectors has changed significantly in the last ten years in the Indian financial industry. Banks and insurance companies have already entered into a number of agreements, and many more are in the planning stages. Bancassurance is a new business model in which banks and insurers pool their resources and combine their strengths to create new ways to promote their goods and services.

"Bancassurance" is created when these two large financial organizations band together for a common goal. Banks have a broad geographic reach and have built strong, long-lasting ties with their clients. As a result, banks have developed into reliable channels for providing clients with insurance products. Through banking institutions, bancassurance has emerged as a novel way to distribute insurance goods and services to different segments of the population. This bancassurance strategy may assist banks and insurance companies increase their market share and distribution networks in this fiercely competitive climate.

The word "bancassurance," which was coined in France in 1980, describes the practice of selling insurance through a bank's pre-existing distribution networks. Bancassurance includes phrases like "Assure banking," "Integrated Financial Services," and "Allfinanz" (in German). The distribution of insurance goods via the extensive bank network, which serves as a distribution channel for a range of banking and financial products and services, is known as bancassurance. To put it simply, bancassurance seeks to create synergies between banks and insurance companies. This phrase was first used in India in 2000 when the government issued a notification allowing Indian banks to distribute insurance under the Banking Regulation Act of 1949.

After 'Corporate Agency' regulations were enacted by the Insurance Regulatory and Development Authority (IRDA) in October 2002, it came into operation. As fee-based agents of insurance firms, all scheduled commercial banks were allowed to conduct insurance business without taking on any risk.

Table 1.: List of Indian bancassurance contracts. (Source: IRDAI)

Agreements of Banks with Insurance companies	Insurance Companies of India
Federal Bank	Tata AIA Life Insurance
Bank of Baroda	Tata AIG General Insurance
IndusInd Bank	Reliance General Insurance
ICICI Lombard	various banks
Max Life	CSB Bank
Bandhan Life	Bandhan Bank
IDFC First Bank, Axis Bank, Punjab National Bank (PNB), Corporation Bank, Central Bank of India, Oriental Bank of Commerce, and Bank of Punjab, IDBI Bank,	LIC
Federal Bank, Axis Bank, Dhanlaxmi Bank, HSBC India, India Post Payments Bank (IPPB), and AU Small Finance Bank	Bajaj Allianz life Insurance Company Limited
RBL Bank, NSDL Payments Bank, Standard Chartered Bank, and Ujjivan Small Finance Bank	ICICI Prudential life insurance Company Limited
HDFC Bank	HDFC standard life Insurance Co. Ltd.
SBI	SBI life insurance co. Ltd.

For banks, it serves as a source of additional revenue and product diversity; for insurance firms, it serves as a means of increasing market penetration and premium turnover; and for customers, it is a rollover prize in terms of lower prices, superior products, and delivery all under one roof. (Table 1)

According to Krishnamurthy (2002), banks have millions of clients, are aware of their spending and saving habits, and are able to contact insurance purchasers. In Europe, where banks sell more than half of all life insurance plans, the distribution of insurance through banks is expanding quickly. Singapore and Malaysia have demonstrated how bancassurance may increase insurance businesses' volume and value. Regulators in India have recently permitted our banks to offer insurance goods to its clientele.

Ferhi, A. and Boujelbene, Y. (2015) examined the elements that can either accelerate or impede the growth of bancassurance by considering the Tunisian market. The empirical findings demonstrated that the general insurance market's saturation, commercial synergy, and increased accessibility to financial services are some of the key elements that support the growth of bancassurance in order to improve the effectiveness of the services offered to their clients.

As per IRDAI, during the financial year 2020-21, The life insurance sector generated an after-tax profit of ₹8,661 crore in 2020-21, compared to ₹7,728 crore in 2019-20. 18 of the 24 life insurers that were active in 2020-21 reported making money. LIC reported a total profit of ₹2,901 crore for the year under review, compared to ₹2,713 crore for the year prior. Compared to ₹5016 crore the year before, the private insurers collectively earned ₹5,760 crore in profit after taxes.

Importance of the Study:

There are plenty of studies on the productivity and efficiency of the Indian banking and insurance industries separately, but few explain the growth of bancassurance. For this reason, the current study investigates whether the Indian economy, with its distinct characteristics, can suggest a thriving opportunity for bancassurance ventures in India.

Research Methodology:

The current study is entirely dependent on secondary data and is exploratory/analytical in nature. The information was gathered from a number of sources, such as journals, RBI and IRDA publications, economic surveys, websites, textbooks, periodicals, etc. The study was conducted between 2007-08 and 2020-21. The growth rate is calculated using the Compound Annual Growth Rate (CAGR), which is the mean annual growth rate of an investment over a specified period of time longer than one year. The data was evaluated using tabulation in Microsoft Excel 2010.

Results and Discussions:

The researcher has identified several key indicators, including population size, population structure, literacy rate, banking sector structure, registered insurers in India, insurance penetration, and density, in order to investigate the scope of bancassurance in India. Results are broken down into two segments: segment I discusses the scope of bancassurance in India, and segment II explains the trend analysis of bancassurance in the life insurance sector. Bancassurance is a growing distribution channel with high potential and scope to spring up in a country like India.

Segment-I

The following indicators - population size, population structure, literacy rate, banking sector structure, registered insurers in India, and insurance penetration and density- are appropriate for explaining the extent of bancassurance in India.

(a) Population Size:

With more than 1.38 billion people (2020-21), or more than a sixth of the world's population, India is the second most populous country in the world. Over half of India's population is under 25, and over 65% are under 35. A significant portion of this population is uninsured. A large number of young people and untapped prospective clients indicate that the insurance sector has a promising future.

(b) Structure of India’s Population:

According to the current demographic structure of India, almost 65 percent of the population is between the ages of 15 and 64. This percentage is sufficient to demonstrate that India presents an excellent opportunity for insurance companies to acquire new clients (Table 2).

Table 2.: Structure of Population in India (2020-21) (source: world bank).

Sr. No.	Age Group	Population in India (In Millions)
1	0-14 year	364629
2	15-64 Year	938586
3	60 + Year	142309
4	65 + Year	93171

(c) Literacy rate:

According to the 2011 census, 74% of people aged 7 and up are literate. Because it will be simple for literate people to comprehend the necessity and significance of having insurance, this is a positive sign for the insurance sector.

(d) Structure of banking sector:

With more than 120,000 branches nationwide, banks- both domestic and foreign- are significant participants in the Indian financial system. Because of this, banks are a suitable medium for offering banking services as well as insurance products (Figure 1).

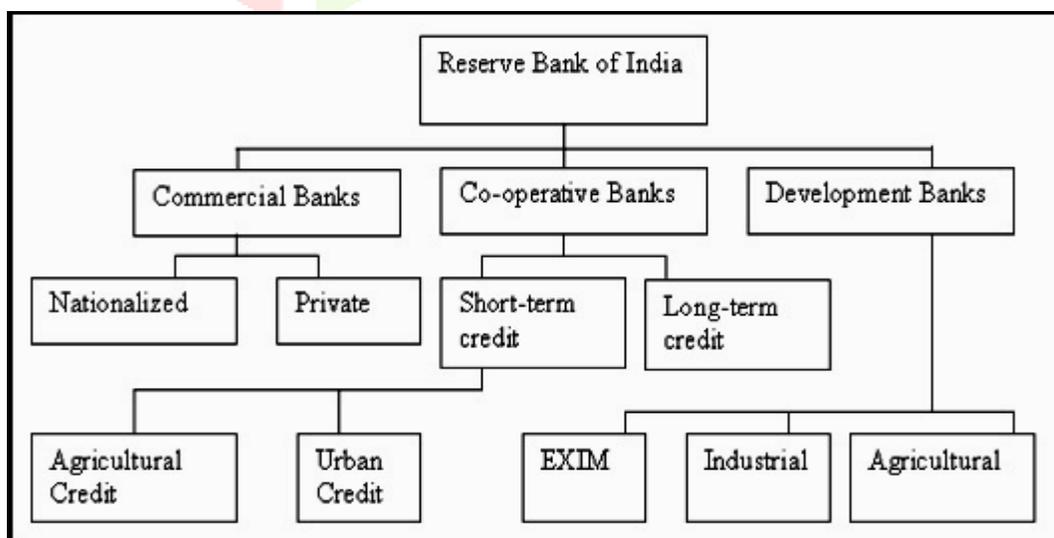


Figure 1: Structure of Banking Sector in India (source: RBI).

(e) Registered insurers in India:

India now has 58 insurance companies, 24 of which are life insurers and 33 of which are non-life insurers. Furthermore, GIC is the only reinsurer. A robust foundation for bancassurance's success is provided by the large number of registered insurers (Table 3).

Table 3.: Registered Insurers in India

Type	Public Sector	Private Sector	Total
Life Insurance	01	23	24
Non Life Insurance	06	27	33
Reinsurance	01	00	01
Total	08	50	58

(f) Insurance density and penetration:

In terms of the life insurance market, India is placed eighth out of ninety nations. The degree of development of the insurance sector in a nation is indicated by the insurance penetration and density measures.

Table 4.: Comparison of insurance density and penetration (2020-21). Source: IRDAI

Country	Insurance density (in USD)			Insurance Penetration (in Percent)		
	Life	Non-Life	Total	Life	Non-Life	Total
USA	1918	5754	7673	3.00	9.00	12.00
Russia	41	105	146	0.40	1.00	1.40
India	59	19	78	3.20	1.00	4.20
China	241	214	455	2.40	2.10	4.50
Japan	2329	951	3280	5.80	2.40	8.10
Pakistan	6	3	10	0.50	0.30	0.80

Insurance density is computed as the ratio of premium to population (per capita premium), whereas insurance penetration is determined as the percentage of insurance premium to GDP. India's life and non-life insurance penetration rates are 3.20 and 1.00 percent, respectively, according to the IRDA annual report 2020-21. These figures are extremely low; nonetheless, the low insurance density between the life and non-life insurance sectors in India makes it evident that there is a lot of room for insurance to expand. Bancassurance may benefit from low penetration and density (Table 4).

Segment-II

After the Government of India published a notification on August 3, 2000, defining "insurance" as a legitimate business activity that banks might engage in in accordance with Section 6(1)(o) of the Banking Regulation Act, 1949, Bancassurance gained traction. The growth rate of bancassurance in the life insurance industry is explained in Section II. The CAGR approach is applied for the trend analysis, and key conclusions are drawn. A helpful indicator of growth over several time periods is CAGR. If it is assumed that the investment has been compounding over time, it can be regarded of as the growth rate that gets one from the beginning investment value to the ending investment value.

$$\text{CAGR Formula} = [(EV / BV)^{1/n} - 1] * 100 \%$$

There: EV = ending value of Investment, BV = beginning value of Investment and n = Number of years.

An examination of the patterns in the contribution of bancassurance to individual new business premiums:

The intermediation process saw a discernible increase in the insurance business. Numerous new intermediaries entered the market, including web aggregators, corporate agents, and bancassurance. At first, agents were thought to be a dynamic conduit between clients and insurers; but, as new intermediaries have entered the market, the role of individual agents has changed. Individual agents contributed 96% of the premium business in 2020–21 to the Life Insurance Corporation (LIC), the only player in the public sector; in 2007–08, this percentage was 99.78%. The 12-year compound annual growth rate (CAGR) showed a decline in the share of individual agents, but another new channel-banks, or bancassurance- made a substantial

contribution with a compounded growth rate of 28.26 percent, followed by other intermediaries (see table 5 and figure no. 2).

Table: 5 - Channel Wise - Individual new business performance of life insurance (in percent)

Financial Year	LIC			Private		
	Individual agents	banks	others	Individual agents	banks	Others
2007-08	98.36	1.3	0.34	59.81	18.89	21.3
2008-09	97.34	1.7	0.96	54.94	20.78	24.28
2009-10	97.75	1.64	0.61	50.67	24.88	24.45
2010-11	97.45	1.81	0.74	46.89	33.21	19.9
2011-12	96.56	2.57	0.87	44.05	39.01	16.94
2012-13	95.86	3.16	0.98	39.68	43.08	17.24
2013-14	95.99	2.77	1.24	40.08	43.62	16.3
2014-15	95.97	2.6	1.43	35.73	47.37	16.9
2015-16	96.50	2.18	1.32	31.90	51.70	16.4
2016-17	95.99	2.39	1.62	30.09	53.50	16.41
2017-18	95.59	2.61	1.80	27.87	54.15	17.98
2018-19	95.81	2.49	1.70	25.58	53.80	20.62
2019-20	94.74	2.78	2.48	24.63	52.70	22.67
2020-21	93.87	3.07	3.06	23.00	54.55	22.45
Compounded annual growth rate (CAGR)	-0.336%	6.33%	45.20%	-6.59%	7.86%	0.37%

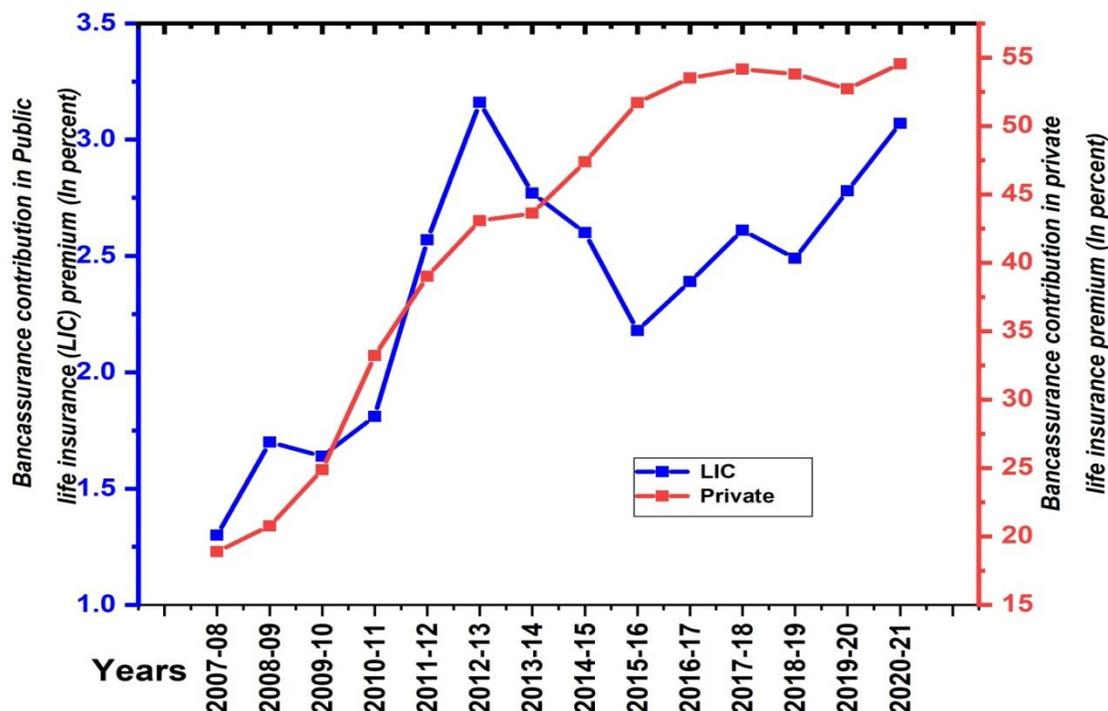


Figure 2: Bancassurance contribution in life insurance (Private and LIC) premium (in percent).

Segment-I discussed the scope of bancassurance in the Indian context, and the following indicators- population size, population structure, literacy rate, banking sector structure in India, registered insurer in India, insurance penetration and density- were identified that obtrusively explain the grand success of bancassurance. This study was done to accomplish the basic objectives, scope, and growth of bacassurance in the Indian life insurance sector. Segments I and II summarize the conclusion.

The growth of bancassurance from 2007-08 to 2020-21 was covered in Segment-II. The growth rate was computed using the compound annual growth rate (CAGR) in relation to the life insurance industry. In the private life insurance sector, Bancassurance's share of individual new business premiums increased from 29.0 percent in 2007-08 to 59.8 percent in 2020-21 with a compound annual growth rate (CAGR) of 59.80 percent. However, in the public sector, where over 93.87 percent of premium business is handled by individual agents, Bancassurance contributed 3.07 percent of the total in 2020-21 compared to 2007-08, or 1.3 percent, but the CAGR of Bancassurance from the public life insurance sector is 51.53 percent.

Conclusion:

To put it briefly, the "bancassurance" model is a suitable model to generate revenue because Indian insurance companies are searching for a competitive edge based on key success factors pertaining to technology, distribution channels, distribution marketing, etc. in order to develop a sustainable business model. Given all the variables, including population size, demographic composition, and the structure of the banking and insurance industries, among others, bancassurance would emerge as a viable and affordable distribution method to boost insurance penetration in the Indian insurance market. It is now clear that a growth-oriented economy requires a robust and active financial sector offering a wide range of financial goods and services.

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