

PalArch's Journal of Archaeology of Egypt / Egyptology

Contribution of Bancassurance to the Financial Performance of Banks:A Review Paper

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Sibaprasanna Pattanaik, Dr. Pramod Kumar Patjoshi: Contribution of Bancassurance to the Financial Performance of Banks:A Review Paper -- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(9). ISSN 1567-214x

Keywords: Bancassurance, Financial performance.

ABSTRACT

This paper aims at providing an insight to the practices of bancassurance and its contribution to financial performance. Promotion of bancassurance has been widely gaining appreciation as an important financial instrument for banks to add to their existing product and service line and also holds good for the consumers to obtain savings and protection under one roof. Content analysis method is used for reviewing published literature. The overall evidence on the outcomes of bancassurance in India shows mixed results. Though there are many success stories, still bancassurance has not yet flourished upto expectation in India because of the mismatch in vision and practice. The reasons of the slow growth can be attributed to the structural, operational and technological problems which need to be addressed for a far better positive consequence in terms of contribution to financial performance of commercial banks.

1. Introduction

In the era of liberalization and globalization, the commercial banks in India are consistently facing numerous challenges for their successful existence.

There is a trend of increased convergence of financial services for banks rather than getting confined to the narrow channel of banking products only. The insurance sector also hears the same tune and the insurance companies are always in a search of new channel partners which can significantly increase their sales. To tackle the challenges of generating more revenue, both the banking sector & the insurance sector have joined hands to re-energize their work and revamp the whole system utilizing their individual specializations. Consequently, the concept of bancassurance emerged in which insurance products are sold by effectively utilizing the banks' branch network. It is regarded as a one-stop solution for bankcustomer where a complete range of banking and insurance products are available under one roof. Bancassurance seems lucrative to banks as it generates additional income for the bank and keeps on yielding in form of commission till maturity of the insurance policy. This paper is an attempt to study the literatures to know the actual benefits served by bancassurance to the commercial banks financial performance in India.

2. Review Methodology

To review the literature, content analysis method is followed for literature review. Content analysis is an observational research which helps to identify the literature in terms of various categories and create research opportunities. The reviews include the published literature in different journals. Different internet academic sites like Academia and Research Gate were explored to have more access to the literatures on bancassurance. Articles focusing on the concept of bancassurance, its acceptance on the global stage, performance in Indian scenario and its impact on financial performance of banks are selected for the purpose.

The conceptual framework is developed by taking the objectives of bancassurance into consideration. The first section of the literature review starts with the evolution of bancassurance. Bancassurance is the process through which an insurance firm ties up with the commercial banks to sell insurance policies through the bank distribution network (Anja Ettl 2010). It aims at generating more revenues for the banks at a nominal additional cost which in turn contributes to the financial performance of the banks. The second section gives an insight to the literatures regarding the global status of bancassurance. The third section explores the literature of bancassurance in Indian context. The fourth section highlights the literature review on actual contribution of bancassurance to the financial performance of commercial banks. The last section presents the findings & conclusions.

3. Literature Review

The literature review is classified into four distinct categories. They are (i) evolution of bancassurance (ii) studies of bancassurance on a global stage

(iii) studies on Indian context and (iv) Contribution made by bancassurance to the financial performance of commercial banks.

3.1. Evolution of Bancassurance

The concept of bancassurance first came into light in France in 1980 to address the consumers' need for a pension scheme which wasn't available for everyone at that time. Since then bancassurance has stamped its feet firmly in the European markets where it has acquired one third share of the European life and pension market. In certain countries such as Portugal, Spain and France, bancassurance possesses the lion's share of life insurance business as well.

In India, bancassurance is relatively a new concept as its evolution is not even two decades old. First, the Government of India through a notification (Banking Regulation Act) dated 3rd August 2000, laid out the bancassurance clearance. Then the Insurance Regulatory and Development Authority of India (IRDA, now known as IRDAI) *via* a Notification in 2002, paved way for commercial banks to participate as Corporate Agents. Since then both commercial banks and insurance companies have been trying to capitalize on this opportunity.

3.2. Bancassurance on Global Platform

Chawla and Singh (2008) verified the experience of various Countries with regard to Bancassurance. They suggested that in order to encash the benefits of bancassurance, issues like tie-ups, awareness among customers and knowledge of bank employees need to be addressed. Fan and Lee (2010) in their study 'Key Factors Influencing Bancassurance Success -Mainland China Evidence' found that factors such as creation of integrated groups are perceived as more important for bancassurance. Jongeneel (2011) in his study made a country-wise comparison and found that bancassurance has excelled in the countries where insurance markets are still in under-developed stage. Sorina (2012) in his study analyzed bancassurance from different aspects. He suggested that banks should have a range of insurance products linked to the available banking products to cater to the need of retail and corporate customers so that sales can be increased and risk can be diversified.

Ghimire (2013) studied the practices of bancassurance in Nepalese insurance industries. He concluded that overall Nepalese banks have been doing well with bacassurance. The penetration for non-life insurance is more than life insurance through bancassurance. Peng and Jeng (2017) in their study "The Impact of Bancassurance on efficiency & profitability of banks : Evidence from Taiwan" concluded that after deregulation of "Financial Holding Companies Act" in 2001 in Taiwan, rapid acceleration was noticed in the growth of bancassurance which subsequently led to enhanced efficiency in management & increased profitability of banks.

3.3. Bancassurance – The Indian Scenario

Krishnamurthy, Mony, Jhaveri, Bakhshi, Bhat and Dixit (2005) clearly explained the status and growth of Indian Insurance Industry after

liberalization and presented future challenges and opportunities for bancassurance. They concluded that penetration of bancassurance largely depends on awareness of customers, availability of insurance products to meet customers' need and quality of services provided by the banks. Kumar (2006) identified that though banks and insurance companies have cultural differences, still then banks have a huge advantage to capitalize on bancassurance as they have large customer base and enjoy trust of people more than the insurance companies. Rajkumari (2007) in her study examined the customer's attitude towards purchase of insurance products and also their knowledge on bancassurance. She suggested that measures should be taken to enhance customer awareness on bancassurance. Mishra (2012) in her study "Bancassurance: Problems and Challenges in India" found that the major problems in promoting bancassurance are lack of interest and motivation amongst bank staffs, lack of updates on product knowledge, product training and product awareness and little advertisement of bancassurance at contact point counters. Counseling is necessary for customers to convince them that bancassurance can be a good product in their portfolio to protect their family.

Grover (2013) found that longer the duration of the relationship of customer with the bank, the more is the extent of awareness among them regarding bancassurance. The frequent dealings of the bank employees with customers also enhance the awareness level.

Rajan (2013) found that the various reasons for taking bancassurance policies based on the variables are savings, retirement, income, and tax benefit which need to be catered by a reliable service system. Pani and Swain (2013) in their study "Bancassurance & Indian Banks" concluded that except private sector banks, other banks haven't developed the necessary IT infrastructure to monitor premium renewals, lapses & persistency etc.. So it was suggested to focus on the policy service to customers to provide higher consumer satisfaction which in turn can increase sales. Chari (2014) found that the unhelpful attitude and inadequate knowledge of the agents are driving business to banks. In this case the credibility of the banks could be a winning point for them to sell insurance. Bhusan and Murtaza (2014) in their study "Bancassurance : The Indian Scenario" concluded that owing to the positive contribution of bancassurance to banks, reforms should be made to allow banks to tie up with both life & non-life insurance companies, providing diverse choice for the customers. Sahoo (2017) in his article "A Study of Bancassurance by Pvt. Sector Banks in India" observed that among private banks, ICICI Bank secures the top position in income from Bancassurance. Other banks have insignificant percentage of income from Bancassurance in comparison to their total income. Hence, he concluded that all private commercial banks have huge opportunities to explore more in bancassurance.

3.4. Contribution of Bancassurance on Financial Performance of Commercial Banks:

Financial performance refers to the extent to which the firm's financial objectives have been met or attained (Yahaya and Lamidi, 2015). The financial performance of an organisation measures its efficiency in utilizing its assets to generate revenues. Financial performance can be measured from various perspectives including: solvency, liquidity and profitability (Angima and Mwangi, 2016). A firm's performance measurement can be done through accounting based measures which are extracted from firm's financial statements through ROE, ROA and Gross profit margin. Commercial banks have a greater chance of approaching its customers and persuading them to purchase insurance products, since they have the trust of customers more than insurance companies. By selling multiple products, the banks can efficiently use fixed capacity resources, product combination strategy and customer demand for several products from a single channel. Aggarwal (2004) discussed the experience of Bancassurance across the globe and in India on the basis of modes of entry, various delivery routes and benefits associated with it. He suggested two staged procedure for identification of bancassurance partner. In the first stage filtering process would be done, analyzing banks financial performance using CAMEL model and in the second short listing of banks would be done with reference to Compatibility Index. He concluded that an effective Bancassurance Model would definitely contribute positively to CAR, ROA & EPS etc. which are considered important parameters in a bank's financial performance. Sreesha and Joseph (2011) in their study focused on SBI and examined its performance in Bancassurance with exclusive reference to life insurance. He concluded that bancassurance had contributed positively to the overall performance of the bank.

Grover and Bhalla (2013) in their research titled "Profitability Gains from Bancassurance – A Case Study of State Bank of India" observed that in case of SBI, bancassurance has contributed positively to the profitability of the bank. So they concluded that it is worth to be optimistic about the role of Bancassurance to be played in Indian scenario in the coming times. Alavudeen and Rosa (2015) in their study "Growing Role of Bancassurance in Banking Sector" concluded that almost all the private sector banks have gained from bancassurance as their incentives from selling insurance is increasing year on year. So the public sector banks, which enjoy more trust of consumers, are to give more attention to bancassurance in order to encash a substantial gain from the opportunity. Brar and Singh (2016) in their study "Bancassurance: A Study in Relation to Total Income & Branch Network of Pvt. Sector Banks in India" concluded that income from Bancassurance on an average constitutes only 0.66% of total income of Private Sector Banks. So there is ample scope for all private banks to improve the percentage of contribution. Ranganath and Rao (2016) in their article "An Empirical Study on Impact of Bancassurance on Efficiency of Banking Sector in

India” concluded that most of the commercial banks experienced improvement in efficiency and increase in sales after adding bancassurance to their product portfolio. Kipitisi and Wanyoike (2016) in their study “Influence of Bancassurance on Financial Performance of Commercial Banks in Kenya” concluded that Bancassurance adds option to customers’ financial product portfolio & subsequently enhances the level of financial performance of commercial banks.

4. Conclusion

Literature reviews reveal that bancassurance has not resulted in the synergy anticipated in India. Banks and insurance companies have several things in common, in terms of products and services, which makes it better to sell multiple financial instruments under one roof. However, from the literature review it was evident that banks did not show keen interest in promoting their insurance partner. Thus, in this context an in-depth study needs to be made to identify opportunities and challenges in terms of contribution of bancassurance to financial performance of commercial banks, especially in India. As the banking sector plays an important role in the economy of the country, it needs to be strengthened. A study should be carried out to determine the contribution of bancassurance to the Capital Adequacy, Asset Quality Management, Earning per Employee & Liquidity through CAMEL Analysis system to measure the financial performances of commercial banks in India.

After reviewing the literatures on bancassurance, it can be concluded that bancassurance can definitely be utilised as an effective tool to enhance financial performance of commercial banks. Bancassurance has been a success story in France, Spain and Portugal, but not as much in India. The success of bancassurance in the respective countries reflect properly organized strategy which enables the banks to reach and convince their customers to add bancassurance as a beneficial product to their portfolio. From the bankers’ point of view, regular economic gains from bancassurance empower the financial performance of banks. This in turn leads to improved infrastructures, awareness and education of the employees as well as customers. Recognition and appreciation of resources inculcate a positive attitude in the minds of personnel and bancassurance succeeds. With bancassurance becoming more popular, there is an increase in the willingness of banks and insurers to go for it. But in India, bancassurance has not been so successful for meeting its objectives. The reasons behind the under-performance of bancassurance in India can be associated with (1) lack of consumers’ awareness (2) insufficient knowledge of bank personnel to address the query of customers (3) inadequate training programmes for the employees to sharpen their knowledge and skills to sell bancassurance (4) absence of a supportive technology to provide an effective after sales service (5) little focus on reminding customers for collecting renewal premiums (6) lack of intense

willingness on the part of top management, particularly in case of public sector banks to utilize bancassurance as an effective contributor to financial performance.

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