



19TH INDIA FELLOWSHIP SEMINAR JUNE 2013

THE BANCASSURANCE DILEMMA

Should banks be brokers with higher responsibility towards customers or should they continue as corporate agents?

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AGENDA

- Bancassurance – The story so far
- Bancassurance models
- IRDA (Licensing of Bancassurance Entities) Regulations, 2012
- Comparative analysis of agent and broker models
 - Bank as corporate agent, bancassurance agent and broker
 - Insurer's perspective
 - Bank's perspective
 - Customer's perspective
- Industry views and concerns
- Summary



BANCASSURANCE -THE STORY SO FAR

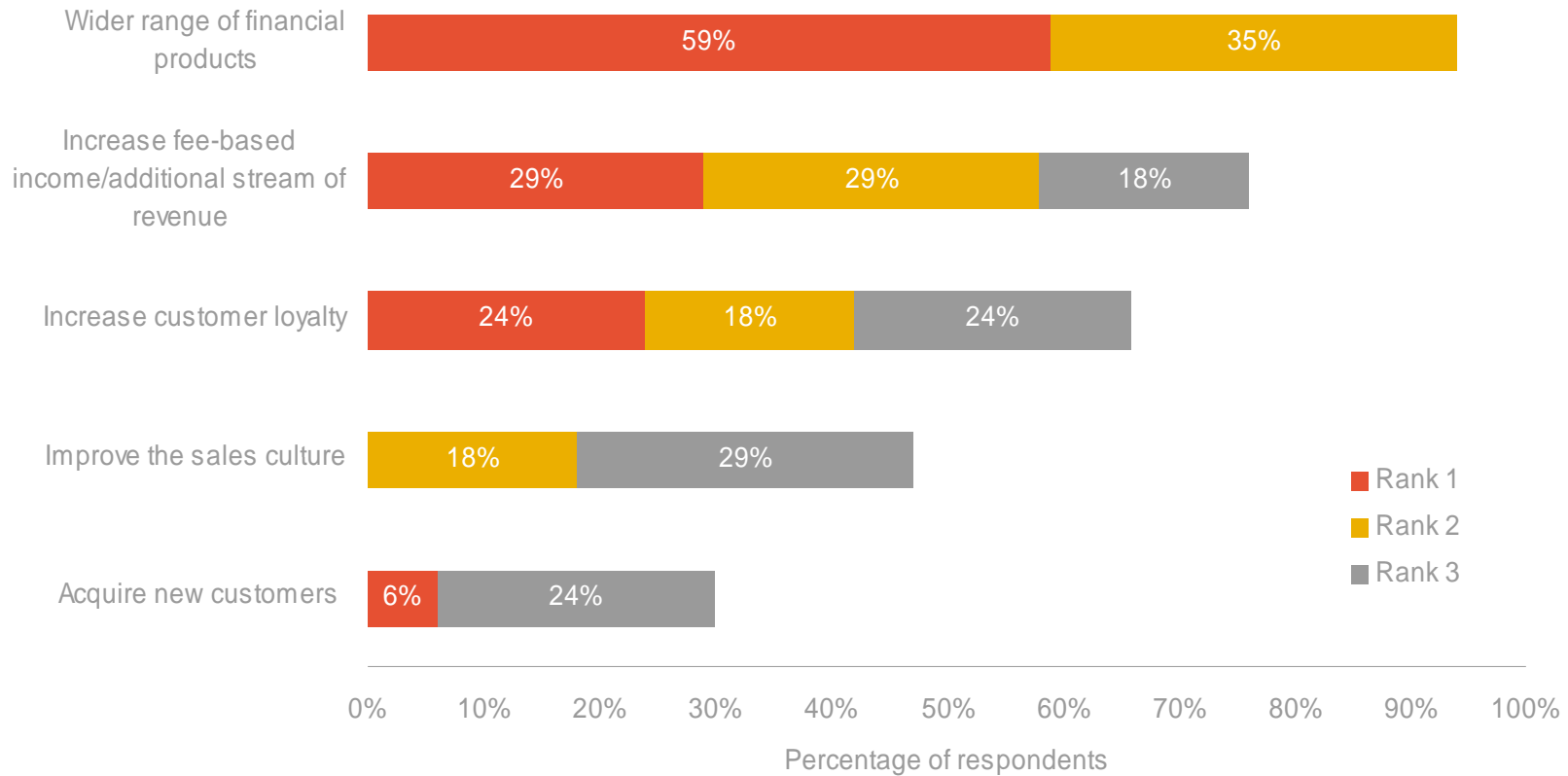
“Bancassurance is an arrangement in which a bank and insurance company form a partnership so that the insurance company can sell its products to the bank’s customer base.”

History and relative importance of bancassurance globally

The bancassurance model was introduced in Europe in the 1980s.

- Main distribution channel for life insurance products in many countries in Europe
- Agents and brokers continue to be the dominant channels for the distribution of non-life products in Europe
- Most Asian markets are also witnessing growing contribution of the bancassurance channel to life insurance premiums.

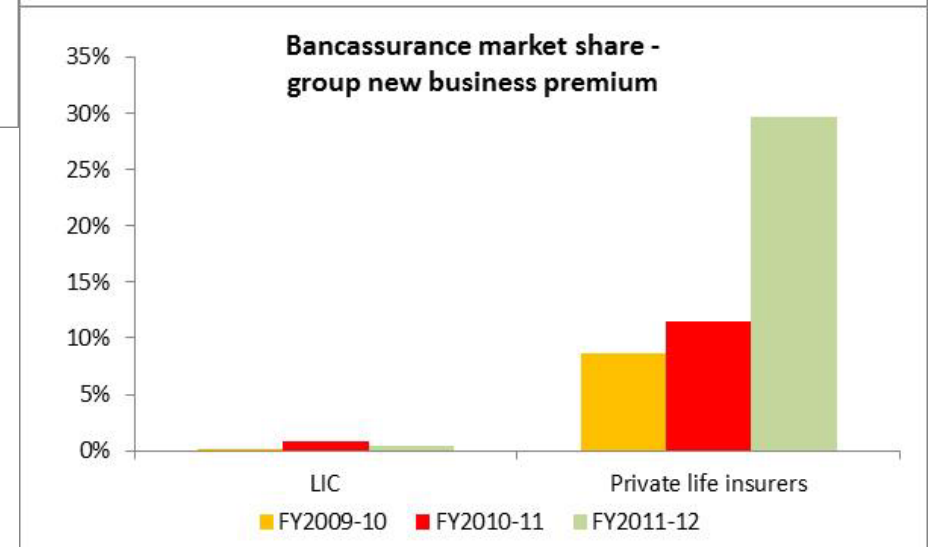
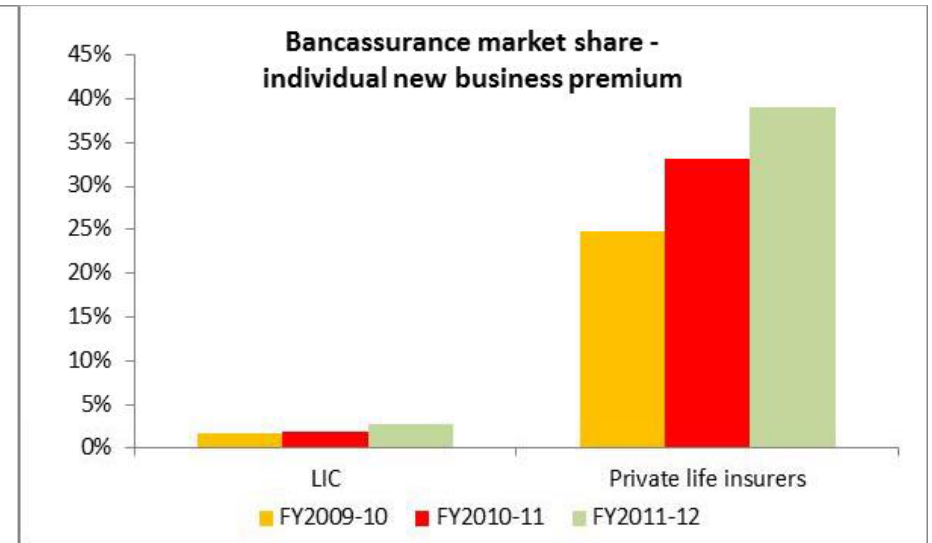
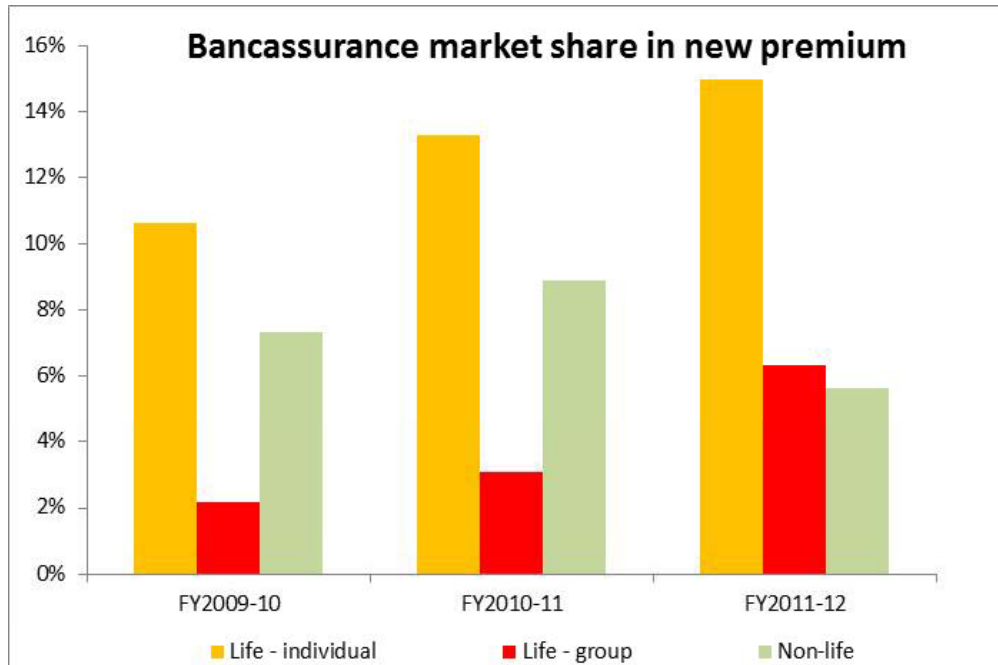
Factors that prompted banks to take up insurance distribution in India



Source: Towers Watson India Bancassurance Benchmarking Survey, 2009-10

Essentially, banks see insurance products as a means to attract customers and additional fee income, at little extra investment.

Bancassurance market share



Source: IRDA data

- The **share of bancassurance** in new business sales has **increased steadily** over the last few years **for life insurance business**.
- **Private life insurers** tend to be more focused on **bancassurance** and hence generate a relatively higher proportion of their business through banks when compared to public sector insurers.
- Globally and in India, **banks contribution to general insurance business has been comparatively lower than their share in life insurance new premiums** collected by the industry.

Source: IRDA data

Bancassurance success factors

Benefits to insurers

- Higher market penetration through the existing customer base of the bank
- Increased turnover
- Lesser need to establish own networks
- Overall cost effectiveness versus agency channel

Benefits to banks

- Enhanced product portfolio
- Source of additional fee-based income
- Marginal additional distribution costs (use of existing staff)
- High degree of alignment in customised product design, sales support etc. for bank-led insurers

Benefits to customers

- Access to wider range of products within the bank
- Availability of need-based advice and assured service
- Higher trust
- Ease of premium payments (linked to bank accounts)
- Products may be cheaper versus agency channel

Prompted by the success of the bancassurance model globally and to facilitate active integration with the insurance company, several banks promote insurance companies singly or jointly in India.



BANCASSURANCE MODELS

There are four main types of bancassurance models globally...

Pure distributor

Strategic
alliance

Joint venture

Wholly-owned
insurer / bank

Models prevalent in India

Pure distributor

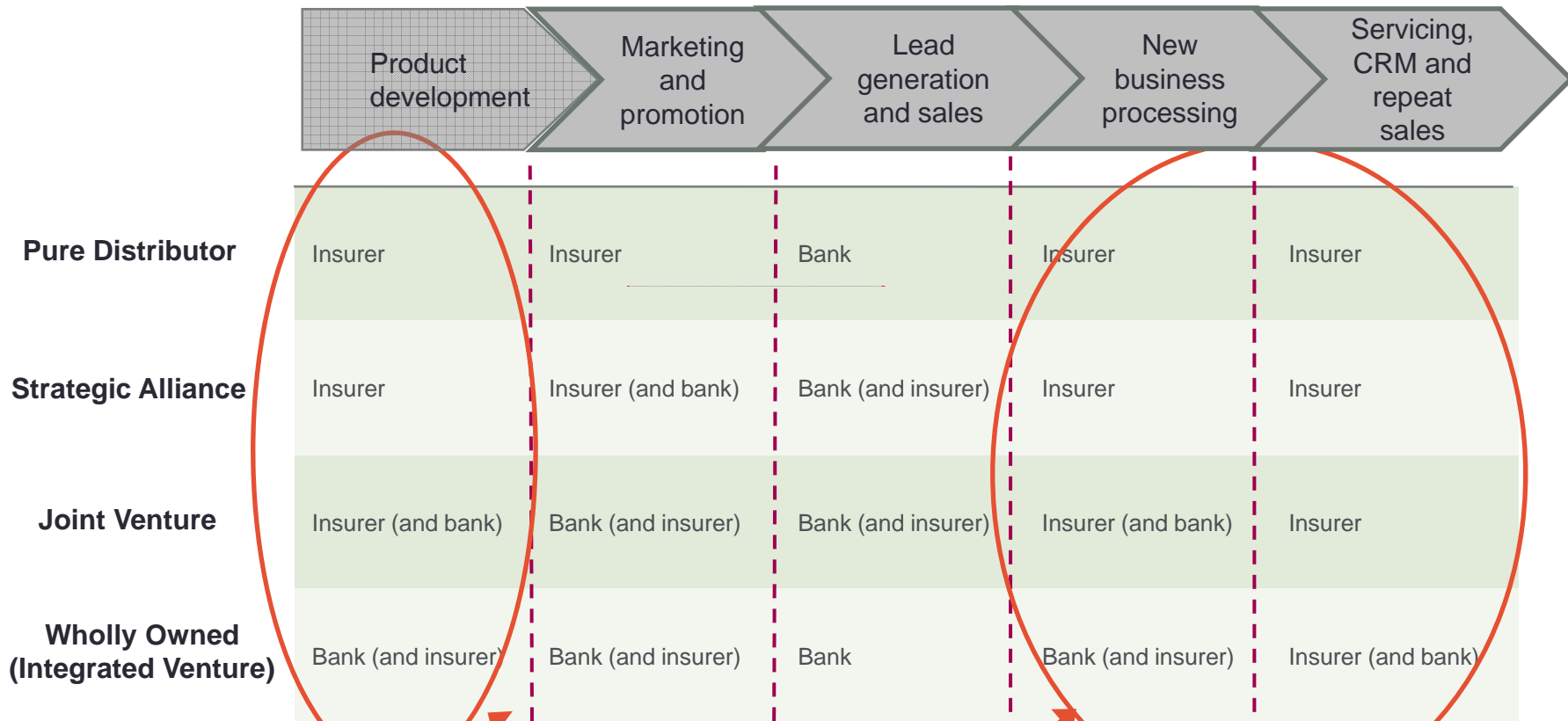
Strategic
alliance

Joint venture

Wholly-owned
insurer / bank

In India, while the first three models are practiced, regulations do not permit either banks or insurers to wholly own an insurance company or bank.

Roles and responsibilities



**These are hygiene areas:
Banks expect 'perfect' delivery**



IRDA (LICENSING OF BANCASSURANCE ENTITIES) REGULATIONS, 2012

Exposure draft – key provisions

Bancassurers can operate through the corporate agency or broker channel; the broker channel was previously not permitted.

A 'bancassurance agent' will be allowed to tie-up with one life, one non-life, one standalone and one specialised insurer in a minimum of 10 and maximum 20 of the listed states / Union Territories.

In any one given state, exclusivity of the bancassurance partnership must be maintained.

The conduct of bancassurance through the broking channel will be governed by the IRDA (Insurance Broker) Regulations, 2002 which are currently under review.

Those opting to act as brokers will need to withdraw from existing ancassurance partnerships.

The driving factor behind the new regulations is reportedly to increase overall insurance penetration by utilising the vast network of banks, particularly in rural and semi-urban areas.



COMPARATIVE ANALYSIS OF AGENT AND BROKER MODELS

Bank as corporate agent, bancassurance agent and broker

Corporate agent (current)	Bancassurance agent (proposed)	Broker (proposed)
Sell products of one life and one non-life company across the country	Sells the products of one life, one non-life, one standalone health and one specialised insurance company in one location	Sell products of all insurance companies
Represent one life and one non-life insurance company across the country	Represent one life, one non-life, one standalone health and one specialised insurance company in one location	Represent the customer and find the product that best meets the requirement among the products of all companies
Works on rates offered by the insurance company		May be able to secure better rates as all companies' products are offered

Comparison of corporate agency and broker models (1)

Insurer's perspective

Bancassurance model	Advantages	Challenges
Corporate agency (single tie-up)	<ul style="list-style-type: none">• Automatic tie-up for bank-led insurers and brand integration• Higher senior management commitment / interest from bank• Enhanced investments by bank – equity stake, people, training infrastructure, marketing etc.• Customised product development based on bank's customer segmentation and needs analysis	<ul style="list-style-type: none">• Might need to offer equity stake to ensure commitment• Need to commit resources to maximise productivity• Potential conflict with core business

Comparison of corporate agency and broker models (1) Insurer's perspective (contd.)

Bancassurance model	Advantages	Challenges
Corporate agency (multiple tie-ups)	<ul style="list-style-type: none">• Access to a wider range of banks• Commitment from bank in a single location• Customised product development for major banking partner	<ul style="list-style-type: none">• Conflict of interest for bank-led insurers• Dilution of brand association for customers in areas where the promoter bank partner's products are not offered• Need to engage with different banks in different locations, requiring additional time and resources

Comparison of corporate agency and broker models (1)

Insurer's perspective (contd.)

Bancassurance model	Advantages	Challenges
Broker channel	<ul style="list-style-type: none"> ● Opportunity to offer products through several banks to maximise product reach across the country ● Insights into the needs of different customer segments and associated product development 	<ul style="list-style-type: none"> ● Conflict of interest for bank-led insurers ● Need to offer better fee / commissions owing to increased competition ● Risk of inadequate product push amidst availability of products of several companies ● Risk of inadequate product push due to mis-selling to maximise fee-based income ● Risk of high lapses if frequent churning due to mis-selling

Comparison of corporate agency and broker models (2)

Bank's perspective

Bancassurance model	Advantages	Challenges
Corporate agency (single tie-up)	<ul style="list-style-type: none">• Sales and training support from insurer• Better collaboration on product development• Brand integration	<ul style="list-style-type: none">• Increased involvement of bank staff• Potential conflict with core business• Limited product range

Comparison of corporate agency and broker models (2) Bank's perspective (contd.)

Bancassurance model	Advantages	Challenges
Corporate agency (multiple tie-ups)	<ul style="list-style-type: none">• Support from insurer in one location• Customised product development• Opportunity to experience the services of different insurance providers	<ul style="list-style-type: none">• Possible conflicts of interest• Engaging with more than one insurance provider requiring significantly more management time, commitment and resources;• Training / re-training bank staff on products, processes of more than one insurance provider• Aligning bank's IT systems with that of more than one insurance provider;

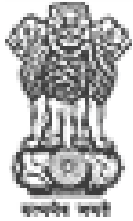
Comparison of corporate agency and broker models (2) Bank's perspective (contd.)

Bancassurance model	Advantages	Challenges
Broker channel	<ul style="list-style-type: none">• Wider product choice to customers• Innovative products and better rates due to higher competition• Lesser staff motivation issue as selling insurance will be the core activity under a segregated broking arm if required	<ul style="list-style-type: none">• Increase costs of training staff on several products and providers• Possible need to establish separate broking arm• Guard against mis-selling to avoid reputational risks

Comparison of corporate agency and broker models (3) Customer's perspective



Bancassurance model	Advantages	Challenges
Corporate agency (single tie-up)	<ul style="list-style-type: none"> • Brand association • Trust and reliability 	<ul style="list-style-type: none"> • Limited product options
Corporate agency (multiple tie-ups)	<ul style="list-style-type: none"> • Brand association in core states • Wider array of products across locations • New product options available 	<ul style="list-style-type: none"> • Dilution of brand association for customers in areas where the promoter bank partner's products are not offered • Lack of clarity about product offerings in different locations
Broker channel	<ul style="list-style-type: none"> • Availability of all product options in one place • Need-based selling in the true sense if implemented ethically • Higher accountability towards customer 	<ul style="list-style-type: none"> • Risk of mis-selling to maximise fee-based income • Risk of frequent churning to maximise fee-based income



MINISTRY OF
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INDUSTRY VIEW AND CONCERNS



Mixed industry response to the proposal of banks acting as brokers...

Government

The **Finance Ministry** is keen on banks acting as insurance brokers, in a bid to increase insurance penetration and increase accountability to policyholders.

Insurers

There is initial apprehension among **bank-led insurers** on the brokerage model due to a conflict of interest issue. Some other insurers also have strong existing exclusive partnerships.

At the same time, **non bank-led insurers** are optimistic about the opportunity to reach under-penetrated areas by utilising the networks of multiple banks.

Regulators

The **Financial Stability Report of the RBI dated December 2012** makes reference to the revised bancassurance guidelines stating that the option to allow banks to act as insurance brokers should be carefully considered in the light of potential conflicts of interest for bank-led insurers and reputational risks.

Report of an IRDA Committee on Insurance Broking has indicated that while insurance broking by banks is likely to enhance penetration and overall service levels, approval of the banking regulator RBI has to be sought and conflicts of interest for bank-led insurers need to be managed.

Are the mis-selling concerns valid?

- In **May 2013**, investigative website **Cobrapost** revealed a money-laundering racket involving 23 banks and insurance companies, including major players.
- In general, **mis-selling** by bank representatives to maximise fee income and/or to meet sales pressures is common, even in a single tie-up model.
- Banks already act as brokers for mutual fund distribution. **Frequent churning** of customers' mutual fund portfolio is observed.

Safeguards and standards needs to be put in place internally by banks and insurance companies, as well as the regulator to minimise mis-selling in both a corporate agent and broker model for banks.

Safeguards in new broker regulations

Proposed by IRDA Committee

- Limit of placement of business with one insurance company limited to not more than 25% of total business

To ensure that the brokers offer multiple options to customers based on genuine needs analysis and added that they don't see a major impact on insurance companies.

Potential safeguards

- Banks to provide written undertaking as broker that the needs of the customer have been considered and the best product provided
- Regulations to control frequent churning through penalties on excessive surrenders on business secured by banks as brokers, particularly given the long-term nature of life insurance products



SUMMARY

Should banks act as brokers?

- Increased flexibility on the operating model for banks is good.
- The proposal to allow banks to act as brokers provides a lot of opportunity to insurance companies to increase the reach of their products to a wider customer base and less penetrated areas of the country.
- Higher accountability of banks to policyholders via the broker channel is a step in the right direction which may also help banks strengthen relationships with customers in the long-run.
- However, necessary safeguards need to be put in place given the likely mis-selling issues raised by stakeholders in a broker model.
- For the success of the bank broker model, stakeholders should implement the broking model in the right spirit in the interest of the customer.
- Bank-led insurance companies may not wish to adopt a brokerage model immediately due to potential conflicts of interest.



DISCUSSION
