THE BANCASSURANCE DILEMMA

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

Bhavna Verma & Shivank Chandra
Guide - Varun Gupta
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 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.”
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

- **Wider range of financial products**: 59% (Rank 1), 35% (Rank 2)
- **Increase fee-based income/additional stream of revenue**: 29% (Rank 1), 29% (Rank 2), 18% (Rank 3)
- **Increase customer loyalty**: 24% (Rank 1), 18% (Rank 2), 24% (Rank 3)
- **Improve the sales culture**: 18% (Rank 1), 29% (Rank 2)
- **Acquire new customers**: 6% (Rank 1), 24% (Rank 2)

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.
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.
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**
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

<table>
<thead>
<tr>
<th></th>
<th>Product development</th>
<th>Marketing and promotion</th>
<th>Lead generation and sales</th>
<th>New business processing</th>
<th>Servicing, CRM and repeat sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pure Distributor</strong></td>
<td>Insurer</td>
<td>Insurer (and bank)</td>
<td>Bank (and insurer)</td>
<td>Insurer (and bank)</td>
<td>Insurer (and bank)</td>
</tr>
<tr>
<td><strong>Strategic Alliance</strong></td>
<td>Insurer</td>
<td>Insurer (and bank)</td>
<td>Bank (and insurer)</td>
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<tr>
<td><strong>Joint Venture</strong></td>
<td>Insurer (and bank)</td>
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<td>Insurer (and bank)</td>
<td>Insurer (and bank)</td>
</tr>
<tr>
<td><strong>Wholly Owned (Integrated Venture)</strong></td>
<td>Bank (and insurer)</td>
<td>Bank (and insurer)</td>
<td>Bank</td>
<td>Bank (and insurer)</td>
<td>Insurer (and bank)</td>
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</table>

*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

<table>
<thead>
<tr>
<th>Corporate agent (current)</th>
<th>Bancassurance agent (proposed)</th>
<th>Broker (proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell products of one life and one non-life company across the country</td>
<td>Sells the products of one life, one non-life, one standalone heath and one specialised insurance company in one location</td>
<td>Sell products of all insurance companies</td>
</tr>
<tr>
<td>Represent one life and one non-life insurance company across the country</td>
<td>Represent one life, one non-life, one standalone heath and one specialised insurance company in one location</td>
<td>Represent the customer and find the product that best meets the requirement among the products of all companies</td>
</tr>
<tr>
<td>Works on rates offered by the insurance company</td>
<td></td>
<td>May be able to secure better rates as all companies’ products are offered</td>
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## Comparison of corporate agency and broker models (1)

### Insurer’s perspective

<table>
<thead>
<tr>
<th>Bancassurance model</th>
<th>Advantages</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate agency (single tie-up)</strong></td>
<td>• Automatic tie-up for bank-led insurers and brand integration</td>
<td>• Might need to offer equity stake to ensure commitment</td>
</tr>
<tr>
<td></td>
<td>• Higher senior management commitment / interest from bank</td>
<td>• Need to commit resources to maximise productivity</td>
</tr>
<tr>
<td></td>
<td>• Enhanced investments by bank – equity stake, people, training infrastructure, marketing etc.</td>
<td>• Potential conflict with core business</td>
</tr>
<tr>
<td></td>
<td>• Customised product development based on bank’s customer segmentation and needs analysis</td>
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</tbody>
</table>
Comparison of corporate agency and broker models (1)
Insurer’s perspective (contd.)

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<tr>
<td><strong>Corporate agency (multiple tie-ups)</strong></td>
<td>• Access to a wider range of banks</td>
<td>• Conflict of interest for bank-led insurers</td>
</tr>
<tr>
<td></td>
<td>• Commitment from bank in a single location</td>
<td>• Dilution of brand association for customers in areas where the promoter bank partner’s products are not offered</td>
</tr>
<tr>
<td></td>
<td>• Customised product development for major banking partner</td>
<td>• Need to engage with different banks in different locations, requiring additional time and resources</td>
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</tbody>
</table>
Comparison of corporate agency and broker models (1)
Insurer’s perspective (contd.)

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<th>Bancassurance model</th>
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</table>
| Broker channel      | ● 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 | ● 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

<table>
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<tr>
<th>Bancassurance model</th>
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<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate agency (single tie-up)</td>
<td>• Sales and training support from insurer</td>
<td>• Increased involvement of bank staff</td>
</tr>
<tr>
<td></td>
<td>• Better collaboration on product development</td>
<td>• Potential conflict with core business</td>
</tr>
<tr>
<td></td>
<td>• Brand integration</td>
<td>• Limited product range</td>
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</tbody>
</table>
Comparison of corporate agency and broker models (2)
Bank’s perspective (contd.)

<table>
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<tr>
<th>Bancassurance model</th>
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<tbody>
<tr>
<td>Corporate agency (multiple tie-ups)</td>
<td>• Support from insurer in one location</td>
<td>• Possible conflicts of interest</td>
</tr>
<tr>
<td></td>
<td>• Customised product development</td>
<td>• Engaging with more than one insurance provider requiring significantly more management time, commitment and resources;</td>
</tr>
<tr>
<td></td>
<td>• Opportunity to experience the services of different insurance providers</td>
<td>• Training / re-training bank staff on products, processes of more than one insurance provider</td>
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<td></td>
<td></td>
<td>• Aligning bank’s IT systems with that of more than one insurance provider;</td>
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</tbody>
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Comparison of corporate agency and broker models (2)
Bank’s perspective (contd.)

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<tbody>
<tr>
<td>Broker channel</td>
<td>• Wider product choice to customers</td>
<td>• Increase costs of training staff on several products and providers</td>
</tr>
<tr>
<td></td>
<td>• Innovative products and better rates due to higher competition</td>
<td>• Possible need to establish separate broking arm</td>
</tr>
<tr>
<td></td>
<td>• Lesser staff motivation issue as selling insurance will be the core activity under a segregated broking arm if required</td>
<td>• Guard against mis-selling to avoid reputational risks</td>
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</table>
Comparison of corporate agency and broker models (3)  
Customer’s perspective

<table>
<thead>
<tr>
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<th>Challenges</th>
</tr>
</thead>
</table>
| **Corporate agency (single tie-up)**     | • Brand association  
• Trust and reliability                                                       | • Limited product options                                                 |
| **Corporate agency (multiple tie-ups)**  | • Brand association in core states  
• Wider array of products across locations  
• New product options available                                                   | • 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**                       | • Availability of all product options in one place  
• Need-based selling in the true sense if implemented ethically  
• Higher accountability towards customer                                           | • Risk of mis-selling to maximise fee-based income  
• Risk of frequent churning to maximise fee-based income                         |
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