

Bancassurance : A SWOT Analysis

(with special reference to Indian Market)

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Some Basic Questions

- **Why are we talking about ba ?**
- **Is it our idea or we have learnt from somebody ?**
- **Are we going to change the definition of ba ?**
- **What is our objective in starting ba ?**
- **Do we want to learn from the mistakes committed by established players ?**

Definition of Bancassurance

- **Ba is the selling of insurance products through a bank's distribution channels to bank's customers**
- **It is a French term**
- **Bank Assurance, Bank Insurance, Assure Banking are used interchangeably**
- **Alfinanz, Universal Banking and One Stop Shop are further extension of ba**

Bank's Distribution Channels

- **Branch network**
- **Tele banking**
- **Statement inserts**
- **Direct mail**
- **ATMs**

Cutting Edge for banks

- **Brand Loyalty**
- **Data Bank**
- **Face to Face Contact**

Bank's advantage over Insurers

- **Better hit ratio**
- **Lower costs per sales**
- **Access to middle income group**
- **Better processing technology**
- **More informed knowledge of potential buyers of insurance**

Objectives of banks for ba

- **Increased ROA**
- **Fee Income which is risk free**
- **To reduce operating expenses**
- **To prepare to eventually diversify into insurance business**

Benefits to Insurers

- **Personal Insurance - sky is the limit**
- **Lesser Procurement Cost**
- **Known customer and therefore risk assessment is easier**
- **Increase in turnover**
- **Increase in Market Penetration**
- **Access to middle market segment**

Benefits to Customers

- **Lower cost**
- **Refined, high quality product**
- **Double Assurance**
- **Delivery at doorsteps**
- **Convenience in payment**
- **Easy & Automatic renewals**

Options for Banks

- **Subsidiary**
- **Mergers**
- **Acquisitions**
- **Joint Venture**
- **Working Relationships with one or many insurers**
- **Division within bank**

Options for Insurers

- **Subsidiary**
- **Joint Venture**
- **Working Relationships with one or more banks**
- **Postassurance**
- **Shopassurance**
- **UTI - for India**

Products

- **Suitable only for personal line insurance products in Life & General**
- **Examples** - Health/Medical, Pension, Life, Travel/Overseas Mediclaim, House Holders, Motor, Credit Insurance, Gap Insurance, Cattle, Mortgage Linked, Employment Protection Insurance

Determinants of ba

- **Demographic profile of the population - type of products**
- **Economic condition of the masses - turnover, market share**
- **Legislative Climate - regulatory issues**

Indian Scene in ba

- **We already have ba in place in some form or the other; banks are distributing insurance products -**
 - **Mortgage linked insurance, i.e. Fire, Motor, Cattle, etc.**
 - **Credit cards related insurance like baggage, accidental breakdown and personal accident**

At Stake

- **Capital Investment in infrastructure - IT & Telecommunications**
- **Call Center - Tele banking**
- **Hiring of professionals**
- **R & D Cell for product development**

Strengths

- **1 Billion people - Most suitable for personal line products**
- **900 Million lives uninsured for life**
- **200 Million households - House Holders' Comprehensive Insurance**
- **2nd largest middle market segment in the world**

Strengths (..continued)

- **Huge pool of skilled professionals**
- **Just needs to be relocated - no extra manpower required at any level**
- **A big arsenal of personal line products already lined up**
- **No or little R & D effort required at the outset**

Strengths (..continued)

- **Operating Offices**
 - **GIC - 4200**
 - **LIC - 2048**
 - **Banks - NA**
- **Omnipresent - essential for ba**

Weaknesses

- **IT culture missing**
- **LAN, WAN & VAN - nothing in place**
- **Internet - essential for operating offices**
- **Inflexibility of the products**
- **Middle Class overburdened - no money left after tax**

Weaknesses (..continued)

- **No incentive for the people to go for insurance - Tax Exemption for all ba products required**
- **Lack of goodwill by banks as well as insurance companies**
- **Tariffs - inflexible**
- **Ratings not based on sound actuarial principles**

Opportunities

- **Bank's enormous database**
- **Homogeneous groups can be churned out of the database to develop and market products**
- **Product Positioning**
- **Experiment has already been done elsewhere and we know in advance about the highs & lows of ba**

Opportunities (..continued)

- **Examples of various kinds of ba galore**
- **Almost all have done just distribution of insurance products for nearly 5-10 years before going into risk carrying business**
- **Developing countries like Malaysia, Thailand and Singapore have successfully ventured into ba**

Opportunities (..continued)

- **Liberalisation process is already on**
- **Political consensus on the subject**
- **Therefore RBI & IRDA should have no hesitation in allowing the marriage of banks and insurance companies**

Threats

- **Requires change in approach, thinking & work culture on the part of everybody concerned**
- **Resistance to change due to any relocation**
- **Non-response from target customers, example USA - St Germaine Act in 1980s - refer article (page 6)**

Threats (..continued)

- **Lower rate of return on investment**
- **Unholy alliances may lead to rate cutting and ba may never break-even**
- **Lower profits may lead to insolvency or liquidation despite regulatory regime**

Looking Around

- **% of banks selling insurance in 1998**
USA - 20%
Europe - 70% to 90% (100% in France)
- **Ba' s share in new life businesses**
UK - 30% Germany- 50%
France - 60% Spain - 70%

Looking Around (..continued)

- **Examples of giant ba ventures**
 - In 1991 Nationale Nederlanden of Netherlands merged with Post Bank to form ING Group - giant in itself
 - Merger of Winterthur, the largest Swiss Co. with Credit Suisse
 - Merger of Citibank & Travellers Group in USA

Looking Around (..continued)

- **Trends**

- **Postassurance in France, Japan**
- **Shopassurance - distribution through supermarkets**
- **Low penetration in P&C products**
 - **6% in Spain**
 - **5% in Belgium**
 - **4% in France & Italy**

- **Study by BCG - refer article (page 7)**

Lessons

- **Develop ba only gradually**
- **Europe & USA - banks were first allowed to distribute insurance products and later were allowed to carry risks**
- **Distribution alone can yield substantial fee income which is net and is free of any encumbrances that an insurer has to deal with**

Lessons (..continued)

- **Each player does the job in which he excels - banks in mass distribution and insurance companies in risk management - no need to overlap**
- **Develop innovative products**
 - **CIBC of Canada] details in article**
 - **BBV of Spain] page 8**
- **Concentrate on captive customers - examples of UK, France & Spain**

Finally

Theodore Roosevelt said,

“it is not the critic who counts, but the one who strives valiantly, who errs and comes up short again and again.”

Those who have tried and erred are that much closer to profiting from Bancassurance.



THANK YOU !