

Customer Awareness and Preference for Bancassurance: An Empirical Study of a Changing paradigm in Indian Insurance Market

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Abstract

The two decades of liberalization, globalization and privatization has enabled the Indian economic forces to galvanize to such an extent that, India has been catapulted into BRICS countries zone as the fast emerging economic group of the world. The financial reforms unleashed in India in the wake of opening of the economy in 1990s, revolutionized the financial markets and more so the insurance sector, which was hitherto a monopoly of the Government of India, was thrown open to private sector. Further, the advent of separate regulatory authority – IRDA (Insurance Regulatory and Development Authority) to oversee and supervise the insurance sector provided the adequate impetus. Many new companies, both life and non life insurance, plunged into this promising sector, to explore and exploit the vast and potential insurance market, with the association of foreign partners, imbued with the expertise in capturing and nurturing the upcoming market. Obviously accessing the market, understanding and capturing the customer – became an immediate challenge, as the monopolistic LIC (Life Insurance Corporation of India), held the sway over the market with an army of agents, spread far and wide in the country. Even though the LIC was able to perform its role, a lacuna still existed in the distribution channels. “Bancassurance” was found to be an appropriate alternate distribution model, given the formidable size of branch banking in India.

Keywords: Banking, Insurance, Globalization, Insurance market, Customer.

Introduction

In a recent global study on ‘Consumer Attitudes to Savings’, conducted by Aviva Life Insurance, it was observed that “Indians were better than rest of world in saving habits” across 25 countries. The survey also revealed that, while most Indians had never bought pension plans, mutual funds or bonds for themselves, around 60 per cent just depended on savings account. It is thus evident that, Indians have savings in their genre. But the critical question that arises is ‘Where are the Indians saving their money and what is the preferred channel they are choosing for channelizing the savings?’As per the Central Statistical Organization (CSO) Research reports, of late, India’s savings from households has witnessed a visible shift from physical savings to financial savings. More precisely, financial savings today from the household amount to the tune of Rs.7676.91bn from a meager Rs. 5.16bn in year 1951. The composition of life insurance funds in the gross financial savings from households has been significantly rising. It comprised about 26.2 percent of the gross savings in year 2009-10, which declined to about 22. 3 percent in the year 2010-11, but again increased to 23.1 percent in the year 2011-12. This trend reflects the growing awareness, interest, faith and trust evinced by Indians today in the banking and insurance institution. Hence, the financial services landscape today offers significant challenges and huge opportunities to the Life Insurance Industry in India and more so through the Bancassurance channel.

However, the constantly changing banking scenario and risk intensification all over the globe has made the banks to consider more carefully and consciously their risk undertaking and concomitant capital requirements. Further, the articulation of new capital norms by Basel III has further added to banks’ woes in terms of resource mobilization. This has in some cases, led to banks reconsidering their strategies with regard to insurance. This was the much needed and awaited impetus to insurers. This has also given insurers greater opportunities to take advantage of the changing banks mindset. In fact the dynamics between banks and insurers have changed over the recent years, moving from banks trying to squeeze insurer margin to a joint approach to expand the potential market

for both parties. This change in attitude in fact has led some insurers to support this distribution channel more actively, particularly, as this is a very effective way for insurers to achieve scale economies in a key target growth market. Further, the phenomenon of convergence of financial services today is visibly dominated by marketing innovations, resulting from modernization and technology up gradation. Some of the innovations to exploit with include, cross selling of banking, insurance and brokerage products and services, increased use of internet by consumers, fusion of banking and insurance work cultures.

This paper attempts to capture the changing mindset of the customers (policy holders), evidenced by their awareness of bancassurance, increasing preference for this channel to obtain life insurance policies reflecting enhanced customer satisfaction, supported by empirical study.

The objectives of the paper is mainly to

1. To analyze the perception of policy holders about bancassurance
2. To examine the market related perception of policyholders.

Research Methodology

For the survey a structured questionnaire was administered amongst select banks' customers i.e. policy holders who have purchased life insurance policies from banks instead of from insurance companies or their agents. The focus of the questionnaire is to ascertain the motives for purchasing insurance, insurance awareness sources and the satisfaction level. An effort has been made to understand basically the reasons for taking insurance including the major reasons like number of dependents in a family, relationship with bank, low premiums or rebates / concessions. The relationship dimensions which lead to customer satisfaction have been identified with the help of chi-square analysis. The survey was conducted in the following banks namely Andhra bank, Axis(UTI) Bank, Bank of Baroda, Canara Bank, HDFC Bank, ICICI Bank, ING Vysya Bank, Punjab National Bank, State Bank of India and Standard Chartered Bank. The questionnaires were administered on 315 customers.

Hypothesis of the Study

The study assumed the following hypothesis for enquiring into the awareness levels and preference of the customers, namely

(Ho): There is no association between policy holders' personal characteristics (age, gender, experience, education, occupation, income and marital status) and their preference and satisfaction with bancassurance services.

In order to find out the association between policy holders profile in terms of their age, education, occupation, income, gender and marital status and satisfaction with bancassurance service, the collected data has been analysed using chi-square techniques.

Liberalization of Insurance Sector in India: A Brief Background

As cited earlier, with the opening of the insurance market in year 2000, most of the insurance companies were a joint venture between an Indian insurance company and a foreign company. Therefore, the challenge ahead for the new players was to compete with the established public sector companies like LIC in life insurance and GIC and its subsidiaries in general insurance business. Therefore, all the new players extensively concentrated on *marketing*, as they realized that a good marketing strategy could only ensure the crux of their success too. New channels of distribution were identified and innovated, out of which the *Bancassurance* channel was widely accepted and became popular. The IRDA and RBI also supported the move with issuance of guidelines. What is unique about the Bancassurance model is that it unites "*an insurance arm with a banking arm*" and the basic rationale behind bancassurance is to improve earnings of the bank by selling the products of one arm to the customers of the other arm.

Insurance as a Component of the Household Savings

Indians are known for their savings habit. However, the earlier generations had much of the savings either in the form of land or gold only i.e *physical savings*. The Gross Domestic Savings as a percent of GDP over the years has seen a significant increase as shown in the Table 1 below.

Table – 1

Gross Domestic Savings as a component of Gross Domestic Product

[1950 – 51 to 2010 -11]

Years	1950 -51	1960 -61	1970 -71	1980 -81	1990 -91	2000 -01	2007- 08	2008 -09	2009 -10	2010 -11
GDS as % of GDP at Current Market Price	8.6	11.2	14.2	18.5	22.8	23.7	36.8	32.0	33.8	32.3

Source: Economic Survey 2011

As seen in the above table, from a meager 8.6 percent in the year 1950 – 51, the domestic savings as percent of GDP has increased to 32.3 percent, which is a significant growth showing the savings *genre* of the Indians. On further analysis, the domestic savings can be seen that compared to the Public sector, the private corporate and households savings contribute significantly.

Table – 2

Sector – wise Contribution of Savings [2006 – 2011]

Years	Households	Private	Public	Total Savings
2010 – 11	22.8	7.9	1.7	32.3
2009 – 10	25.4	8.2	0.2	33.8
2008 – 09	23.6	7.4	1.0	32.0
2007 – 08	22.4	9.4	5.0	36.8
2006 – 07	23.2	7.9	3.6	34.6

Source: Economic Survey 2011

On further analysis of the components of the Households savings of late, it is seen that the financial savings as a component of the domestic savings is increasing significantly showing the increasing levels of awareness of the Indians in financial savings. Further, as the Table 3 shows the insurance component in the financial savings is also on the increase reiterating further the fact that Indians customers are consciously savings in Life and Pensions to take care of the future contingencies. It is interesting to note that life insurance funds experienced a decline from 26.2 percent in 2009-10 to 23.1 percent in 2011-12. During the same period, however, the PF & Pension funds experienced a significant increase from 13.1 percent to 15.6 percent. This trend clearly shows that Indians are more conscious of outliving age rather than death. Hence the pension sector is going to see a huge growth and opportunity for growth in the coming years in India.

Table – 3

Financial savings of HH sector (Gross)

Components of HH savings	2009-10	2010-11	2011-12
Life Insurance Funds	26.2	22.3	23.1
PF & Pension Funds	13.1	14.0	15.6
Claims on Government	4.4	4.1	- 2.1
Shares & Debentures	4.5	0.2	- 0.7
Deposits	41.9	45.6	52.8
Currency	9.8	13.8	11.3

Source: Economic Survey 2011

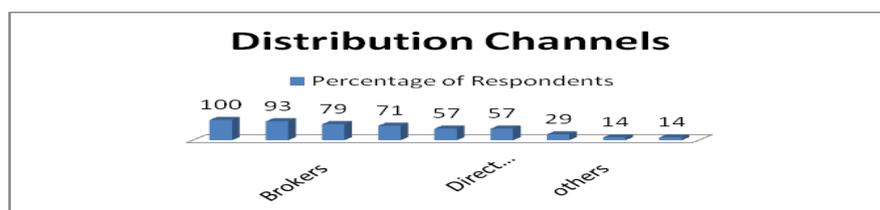
The Life insurance funds' contribution today as a component of the household savings is significant and the trend seen from the above Table 3 shows that people are consciously making savings in the *Pension sector* too realizing that outliving or Retirement has become a great economic risk today for the households than early death or dying early. The contribution of life insurance has declined from 26.2 percent in the year 2009-10 to 23.1 percent to 2011-12. On the other hand, the pension funds have significantly increased from 13.1 percent in the year 2009-10 to 15.6 percent in the year 2011-12. Therefore, the pension sector has a huge potential to grow in India as with the advancement of medical sciences and longevity, pension needs of the population also has to be met and hence with the recent establishment of PFRDA, India is poised for a big breakthrough in the Pension sector, which will again indirectly boost the economic well-being of its population.

Bancassurance in India

The growth of Bancassurance was very impressive and phenomenal in initial years of opening of the insurance industry to private and foreign players. The premium collected through Bancassurance increased to Rs. 21947 crore in the year 2009-10 which amounts to 7.31% of the total premium income of life and non-life insurance sectors. As per the recent India Bancassurance Benchmarking Survey report, 2010, by Towers Watson, Bancassurance in India has secured its position as a key distribution platform, and is widely attracting the attention of banks, insurers, regulators and policy planners. India with its large variety of banks and extensive branch networks is providing the underlying support and is increasingly being utilised to serve the insurance needs of over 400 million bank customers.

Distribution Channel Preferences of Insurance companies

As Figure: 1 below shows more than 93% of the life insurance companies are using the bancassurance channel which is a very significant achievement.

Figure: 1**Distribution Channels used by Insurance Companies**

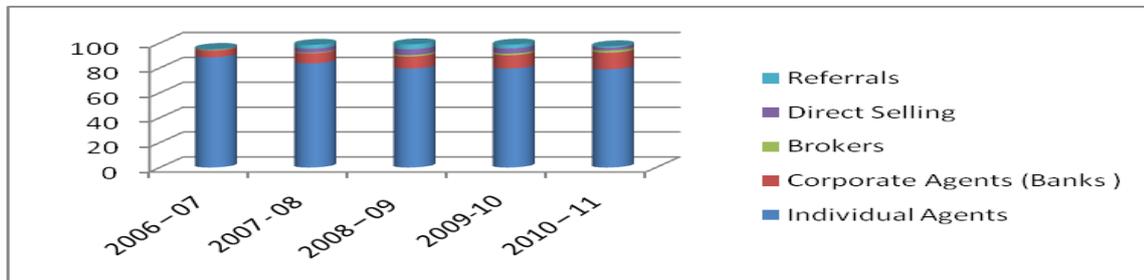
Source: India Bancassurance Benchmarking Survey Report, 2009-10 by Towers Watson

The internet medium seems to be a weak channel which otherwise means that even today, personal touch still holds key component in insurance sales. Further, the survey revealed that the private life insurance companies have procured 29 percent of their new business premiums during the year 2008-09, from Banking and Non-banking channels

equal to about Rs. 100 billions, whilst in case for general insurance companies it is quiet lesser. The increasing preference of the insurance companies and customers in using bancassurance channel in the procurement of life insurance business is further authenticated by the premium volumes procured by the life insurance companies in India over the last five years as shown in the Figure 2.

Figure: 2

Individual Life New Business Premium – Channel Wise [2006 – 11]



Source: compiled from IRDA Annual Reports 2006 – 2011

The Individual new business life insurance premiums procured through different channels clearly reveals the declining trend in the individual agency channel and the slow and steady increase in business through the corporate agency channels namely the Bancassurance channel. The graph clearly shows that the business increased from a meager 5.46 percent in the year 2006-07 to an impressive double digit of 13.3 percent in the year 2010-11, while the agency channel showed a steady decline from 88.62 percent to 78.7 percent during the same period. This shows clearly the increasing *positive* influence of the banks on individuals in the purchase of insurance. This may be also due to the existing trust between the customers and the bankers which also has a positive impact on the purchase of insurance through a bank.

Customers’ Awareness and Preference for Bancassurance

Customer satisfaction is an important theoretical as well as practical issue for, most of marketers and consumer researchers. Consequently, customer satisfaction is increasingly becoming a corporate goal as more and more companies strive for quality in their products and services. Customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used and is generally described as the full meeting of one’s expectations. Customer satisfaction is a major outcome of marketing activity whereby it serves as a link between the various stages of consumer buying behaviour. For instance, if customers are satisfied with particular service offering after its use, then they are likely to engage in repeat purchase and try line extensions. The bottom line is that organizations will always be attentive to maximizing profits and their success will be determined by how they manage customer relationships. As mentioned earlier, the present paper attempts to capture the experience of the customers in particular those policyholders who have made their purchase of life insurance policies through a bank. Through an empirical study, the policyholders’ profile, satisfaction levels, reasons for opting banking channel, reasons for dissatisfaction, sources of awareness about Bancassurance, reasons for taking insurance, policy holders’ dependants and relationship with bank, preference for low premium policies, rebates / concessions / discounts in purchase, policy holders insurance experience with banks, effectiveness of banks are studied and the results are presented below.

Survey Results

A survey was conducted among select banks’ customers i.e. policy holders who have purchased life insurance policies from banks *by choice* instead of from insurance companies or their agents. The focus of the questionnaire was to ascertain (i) Motives for purchasing insurance, (ii) Insurance awareness sources and (iii) Satisfaction levels.

In order to find out the association between policy holders profile in terms of their age, education, occupation, income, gender and marital status and satisfaction with bancassurance service, the collected data has been cross tabulated in SPSS and presented in the tables

Findings out of Survey

The satisfaction levels of the policy holders who obtained policies under bancassurance have been studied on different parameters of personal profile like age, education, occupation, income, gender and marital status. The major findings of study are presented below:

Policy Holders profile and Satisfaction

1. As education levels are increasing the satisfaction is also increasing. 63.6 per cent undergraduates, 70.2 per cent graduates, 63.9 per cent post graduates and 76 per cent of professionals were satisfied with the insurance policies obtained from banks under bancassurance.
2. The salaried class (60.2 per cent) is more satisfied than other classes with bancassurance. Probably because of the time constraint salaried class is preferring bancassurance.
3. Those with annual income of Rs 2.5 – 4.00 lakhs are highly satisfied (73 per cent). Surprisingly the policy holders in the annual income group of Rs 4.00 – 6.00 lakhs (58.8 per cent) are least satisfied as against the general expectation of first income group namely under Rs 50,000 pa which is (71.4 per cent) satisfied.
4. The investment scene here is dominated by young age group of people. The age group (26 - 35 yrs) constitute majority (109 in number) as far as satisfaction is concerned. In terms of percentage it is > 55 years age group (83.3 per cent) which is misleading.
5. Marital status – married or unmarried – has not impacted the satisfaction levels. Both married (65.6 per cent) and unmarried (69.7 per cent) respondents are satisfied.
6. Majority among males (171 respondents) compared to females (31 respondents) are satisfied among those responded.

Reasons for Opting Banking Channel

1. Majority of the people (65.4 per cent), irrespective of age group have been maintaining contact with banks only for last 3 years. Thus the credibility of the banks has been established and that could be a winning point for the bank to sell insurance.
2. Among those who said YES to take policies from bank, majority (64.5 per cent) are satisfied. Thus it can be said relationship with bank certainly influenced their decision in majority of cases.
3. As far as bank staff selling skills are concerned, those who said YES to take policies from bank, majority (73.4 per cent) are satisfied with their Insurance Policies. The bank staff's selling skills are certainly resulting in expanding the business and satisfying the customer.
4. Regarding the proximity of the bank branch, among those who said YES to take policies from bank proximate to them, majority (60.9 per cent) are satisfied. Proximity of the branch is influencing the decision in majority (67.3 per cent) of cases.
5. By and large majority (67.3 per cent) are not interested to visit insurance company as they are satisfied with bank.
6. Overall more than half of them are satisfied with the Insurance Policy, from bank. The unhelpful attitude and inadequate knowledge of the agent is driving business to bank in more cases.
7. Regarding ambience and infrastructure of the bank, more than half of respondents are satisfied, and remaining (32.7 per cent) are not satisfied. This finding is revelation to the banks which are spending more on ambience and infrastructure. They are important only to certain extent.

8. Knowledge level and attitude of bank staff play a vital role. The finding that majority (67.3 per cent) on the whole are satisfied with the attitude and knowledge level of bank, is a shot in arm to bank staff.

Reasons for Dissatisfaction

1. As far as dissatisfaction is concerned, by and large dissatisfaction on account of lack of proper service is low (5.4 per cent) across all age groups.
2. Regarding the relationship between the occupation and dissatisfaction, on the whole 94.6 per cent who say that they are satisfied with it? Thus the dissatisfaction among various occupational groups is found to be negligible.
3. Most of the respondents (296 respondents) across the age groups said 'No' to dissatisfaction on account of running from pillar to post.
4. There is some evidence of the people dissatisfied on account of lack of product knowledge on the part of bank staff namely 8.5 per cent in the age group of less than 25 years, 11.4 per cent in the age group of 26-35 years and 15.2 per cent in the age group of 36-45 years and 8.7 per cent in the age group of 46-55 years Product knowledge really matters while interacting with customers.
5. Regarding attitude of bank staff, across the age groups the trend is the dissatisfaction levels are low among respondents which is indicative from response 'No' (5.7 per cent). This clearly shows that attitude of the bank staff is satisfactory to policy holders.

Sources of Awareness about Bancassurance

1. Respondents with below graduation qualification are mostly (54.5 per cent) influenced by TV advertisements, whereas professionals were very less influenced (72.0 per cent) by TV advertisements. By and large TV appears to be a popular medium through which policy holders came to know about bancassurance.
2. Respondents in Professionals category are mostly (56 per cent) influenced by newspapers, whereas people with below graduation qualification are very less influenced (27.3 per cent) by newspapers. Overall upper strata of society i.e more educated people are carried away by News papers as far as bancassurance is concerned.

Reasons for Taking Insurance

1. The fundamental reason for taking insurance cover is security and risk protection and findings show that majority in this category are satisfied.
2. Among those who said YES to take policies with motive of income tax exemption, majority (64.7 per cent) are satisfied and remaining (35.3 per cent) are not satisfied. The motive of Income tax exemption is influencing a majority of policy holders.
3. Around 66.7 per cent of those prompted to take insurance policy for 'good returns' are satisfied and 33.3 per cent are not satisfied. Thus we can conclude that majority of policy holders are satisfied in terms of returns.
4. A majority (212 respondents) feel satisfied with insurance as a wealth creation tool.
5. Sometimes image of the insurance company may satisfy the customer with their insurance policy. Those who are not prompted to take insurance policy due to image of the company, out of them just little bit more than half (67.9 per cent) are satisfied with the insurance policy and 32.1 per cent are not satisfied.

Policy Holders Dependents and Relationship with Bank

1. The significant observation that we can make is dependants are more (three and above) for 46 - 55 age group (52.2 per cent). As the dependents are growing they require more insurance because they have to feed them irrespective of earning.
2. A majority of people (74.3 per cent) in different age groups have relation as 'depositor' with the bank. This gives good potential for the bank to canvass bancassurance products among depositors as they have surplus money.

3. Hardly 12.7 per cent of respondents have relationship with banker as borrower which shows that financially they are sound. Barely 4.1 per cent of respondents maintain lockers with bank, which means that they are diverting their money to other avenues of investment and bancassurance could be one of them.

Preference for low premium policies

1. Dissatisfaction, arising on account of policies not being simply attractive, the dissatisfaction levels is high in the age group above 55 years age group (33.3 per cent). This clearly shows that more innovation is required in developing new products to suit the requirements of policy holders.

2. Overall more than half (53.7 per cent) are satisfied, more than one third (34.6 per cent) of them couldn't decide whether they are satisfied or not and remaining (11.7 per cent) are not satisfied with policies carrying lower premiums. By and large there seems to be demand for lower premium policies at least by a larger section of the people though not all.

Rebates/ Concessions / Discounts in Purchase

The finding is that still the rebates / discounts have place in procurement of business but it is not significant in bancassurance channel.

Policy Holders' Insurance Experience with Bank

On the whole agents, who are traditional source of mobilizing insurance business in India, have moderate influence (38.4 per cent) on all sections in spreading the awareness about bancassurance.

Conclusion

Bancassurance is undoubtedly growing as an important and trustworthy channel in India as both the banks and the insurance companies see a visible *value – in- partnership* in tapping the financial savings of the households on one hand and in creating much required *trust* in their mutual relationship, towards building a sound *Family Financial Security* net for the common households. On the other hand, as the survey results have shown, the banking customers are increasingly showing interest and trust the banks in meeting their insurance needs too. Thus, it can be concluded that the bancassurance has caught the imagination of all stake holders and is emerging as a promising channel of distribution in India.

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