



Muhammad Nawaz Iqbal

Case Study

Bancassurance: Reshaping the dynamics of Life Insurance culture in Pakistan

Executive Summary

Customer satisfaction and trust is a major challenge for life insurance sector because of intangible product. Existing literature in Pakistan rarely evaluate consumer intention towards life insurance and its reason. Here we discuss one window solution and online services of bancassurance customers via different smart mediums of communication for life insurance services at their door step. Life insurance sector still not establish the foundation of consumer perception and trust through its traditional channels. Bancassurance as a channel of selling insurance has fast gained momentum in life insurance sector which achieves customer trust and satisfaction towards life insurance products sell through banks. The study examines the approach of bank sales staff towards insurance products that is directly related to success of bancassurance activity and also highlights awareness of life insurance in customers through bancassurance channel. The study also evaluates the potential of bancassurance in the light of the findings of the study. Findings are aimed at improving bancassurance performance of banks and service provided to customers. Bancassurance is a hope for life insurance sector to achieve goals in consumer services with a reputable channel where banks can help to retain this relationship with their service marketing through the window of consumer banking. Life insurance sector achieve its market goals through channel of bancassurance and banks gain tax free revenue from life insurance sector that increase their profitability in consumer services. Through the channel of bancassurance, banks and insurers builds an institutional advantage to attract their customers for different life insurance products.

Problem Statement

Life insurance firms still not establishing a foundation of trust among their customers. Although in past few years, life insurance companies contribute their best to economic development of Pakistan but still there is a plenty of room to tapped the consumer market.

Background and History

The concept of Bancassurance can be generally defined as the collaboration or joint venture between Banks and insurers to provide Life Insurance products to bank customers for better financial protection (Swiss Re, 2007). Global financial market integration significantly impacts new technologies in banking sector to enhance consumer services through banking operations and even diversion of banking services to other distribution of products like insurance which change the global banking mechanism (Soni and Rao, 2014). Because of the cooperation between banks and insurers, this strategic alliance creates an institutional approach between two sectors to accommodate their clients with better services (Pinter, 2013).

Insurance companies are facing problems in transition of selling Life insurance products to a strategic and structured marketing strategy (Singh, Chakraborty and Raju, 2011). Globally and In Pakistan, Life Insurance falls in a category of unsought products (Kotler, 2015). Thus it is becoming more difficult to sell the insurance products by Life Insurers. The grievances of consumers for the insurance domain have gone up steeply. Such grievances arises due to low profit and services expectations of consumers by life insurance companies and their products (Parmjit and Menakshi, 2010).

Social security survival benefits are found to decrease the demand of Life insurance by customer (Fitzgerald, 1987). Categorically, women's perception and attitude towards life insurance is more hard and rigid because of perceiving insurance as tool for only risk coverage but not as a tax saving device, that's why women's have a lack of knowledge about life insurance policies (Zimmerman, 1999).

The drawback of previous studies and researches are because of their generalized nature without focusing the reason of penetration of Life insurance and subject might be contrary to the objective of the study of bancassurance distribution model and variation in its functions to perform (Kumar, 2014). To determine the problem, bancassurance is selected as a significant distribution.

Literature Review

Customer trust can give the pace to any product in the market with full penetration because of satisfaction level. Customer trust is a major factor of achieving the desired output of the product and to measure the productivity (Tiwari and Yadav, 2012). Bank is a prominent example of customer trust where customers easily deposit their investments and savings without any reservation. It means a channel of business environment significantly influences

customer trust (Sreedevi and Auguskani, 2014). Life insurance or any other financial product require a certain level of customer satisfaction. Product that can be assured by banking channel contain a high degree of satisfaction and loyalty for customer (Choudhry and Singh, 2015)

Customer intention is one of the major factor that influence on product as a medium. Customers required one window solution for their financial queries. If banks nurtured the customer about product properly, then it will impact a long financial relationship between customer and bank (Ali, Chatley, 2013).

Convenience is the important factor of customer awareness where customer gets a proper channel to understand about the product properly. Services are the part of processes which provide netter solutions and advise to customer to run their product accordingly (Ali, Chatley, 2013). The most important strategy to achieve customer awareness is the mutual relationship of insurer with the customer where insurer builds a secure financial protection to client's family and provides adequate financial solutions (Chari and Jayalakshmi, 2014).

The reason of bancassurance is not only to sell insurance to customer but also give a proper domain to link with the product and market strategy day by day. Online policy portals and advertisement on banking floor are the major tool to attract customers towards product (Chari and Jayalakshmi, 2014).

The key of success for any product is after sales service through different channels to serve the customer. Existing banking product engage the clients through various products like credit cards, debit cards, online banking, SMS service and even policy portals through which customer easily get any update about its product and raised the query if needed (Kumari, 2012).

Term plans, endowment policies and midterm cash back plans are the new and value added innovations to attract customers towards products. Undoubtedly, customer always focuses towards new features and product flexibility whether the product is tangible or intangible Singh, (Ali, Chatley, 2013).

Purchase of standalone products from banks will impact a high level of awareness among customers. The choice of standalone product is affected by extent of awareness positively and viceversa (Grover, Bhalla, 2013). Customers get updated information about their product by bancassurance, Investment with low risk with achievable profits and more efficient and effective marketing by segment the database of customer in Bancassurance (Sreedevi and Auguskani, 2014). Increase in awareness of consumers and their willing to select bank as insurance service channel are due to effective strategy of marketing the insurance products (Lymberopoulos et al, (2004), Popli and Rao, 2009).

In a study of 100 respondents from Centurion bank of Chennai regarding study on preference of customer towards Insurance Services , A Descriptive statistic along with Chi Square test is used to check the preference and awareness level of customers towards insurance (Rajkumari, 2007). The study resulted in 64 percent of the respondents were aware about the insurance that merged centurion bank of Chennai with insurance companies. Call centers play a main role to spread source of awareness of insurance among customers.

The distribution channel of bancassurance is the drastic change for insurance companies to offer an insurance product to their client through their basic financial point of sales as well as to provide awareness and willingness of sales into the lives of common man (Kumari, 2012). Bancassurance is consider to be the socio economic activity amenable with other and several types of risks such as natural disasters, and other known and unknown man made accidents like fire, theft, Burglary etc. Due to irrespective natures of incidents, There is a large society of people with hopeless livings (Murthy, 1978) while the reward to take a risk are the profits over long term investments (Mehta, 1992). Due to Large branch banking chain network, Banks are the main stream of insurance distribution for the customers that is also useful for Life insurance firms. Such merger of business is known as Bancassurance (Kumari, 2012).

The Insurance sector plays a vital role and provides impetus to obtain and achieve the economic objectives of the country's social security and welfare. In order to get social justice, Social security is inevitable (Dreze and Sen, 1996).

Life Insurance is a contract between two entities where insurer offers an intangible product to their customer which does not result in ownership of anything to use as a physical product (Kotler and Bloom, 1984 and Kotler, 2000).

The main objectives and aims of Bancassurance Marketing is to increase insurance awareness among customers, distribution of Life Insurance products successfully and appropriately, A Proper corporate image development, betterment of customer services, and to improve and upgrade customer data base (Sing, Chakraborty and Raju, 2011).

In a potential market, An insurance promotion is quite useful to persuade clients towards life insurance products and enable them to avail an insurance product with essential features (Periasamy, 2005). The major marketing tool is the online marketing to spread awareness of Life insurance in customers.

There is an increase in the activity of Life Insurance in public is due to the awareness of Insurance through different domains of marketing, Improvement in Post Sales operations, Rapid and Strategic business acquisition and strong supervisory rules and regulations (Sogunro and Abiola, 2014).

(Prof. PrashantaAthama and Prof. Ravikumar, 2007) in their study identified the factors which the consumers take into consideration before selecting the life insurance products. They classified those factors into product attributes and non-product attributes.

The channel of bancassurance is a one stop shop solution that can provide details of not only about their Life insurance policies but also update their clients about their banks accounts which help to extend customer services easily and gain their trust (Munich Re, 2001). The Insurance Company make the access of information more easily for their client through bancassurance distribution which might be difficult to access with other sales and marketing models for customers (AKI, 2010).

Bancassurance is basically a joint venture of life insurance distribution between banks and life insurers to provide long term and short term investment in financial market with their joint efforts (Diamond, 1984). A proper consultancy for life insurance is a mandatory requirement for insurers to achieve economic growth in the market and bring pace in their marketing (AKI, 2010).

Existing banking networks plays an important role in selling of insurance product with greater range of scale which increases sales economic graph of insurers through bancassurance distribution channel (Singhal and Singh, 2010). Bancassurance provide equity of life insurance product through strategic alliance with the bank through counter-productive strategies of products and services (Barua, 2004). Post sales services for customers is one of the most important element in customer services which is the key of success for life insurance business for insurance companies with various mediums of technology (Singh, Chakraborty and Raju, 2011).

Comparatively, like other financial products, the pricing strategy for life insurance product is more complicated. Premium of life Insurance product is designed and determined by costs of claims i:e Sum assured, administrative cost of life insurance firm and loading on the profit if policy is non standard (Harrington and Niehaus, 2004).

Every insurer offers different features and innovation in their product to cater the needs and demands of customer in the market. Term insurance, Endowment policies, Cash back plans, pension policies are the most value added features for life insurance product offer by insurers for their customers. For more than one personal, Group Insurance is also the attractive product that can availed by employer for their employees to insured (Singh, Chakraborty and Raju, 2011).

The internal objectives of the company like productivity, cost efficiency and product technical quality are always measured by life insurance companies who possess product and services to meet the standards of consumer market (Shukla, 2006). Product innovation, friendly user techniques, marketing strategies with innovation and integration and incentives to insurance agents with high performance and significant distribution channels are the key drivers to remove hurdles in life insurance development through channel of Bancassurance ((Shukla, 2006).

Life Insurance companies provide a variety of products with protection and investment features for business groups as well as individuals in order to ensure financial security. They act as a source of long term capital for country's economic project and infrastructure through financial intermediation chain in country (Krishnamurthy, Mony, Jhaveri, bakshi, Ramesh Bhat, Dixit and Maheswari, 2008).

Findings

Based on above literature survey, following findings are formulated accoridng to different theories and perspective.

1. Customers has low awareness of Life insurance and did not get educated for products.
2. Customers require proper channel to understand the life insurance product that will run for long term.
3. Insurers should provide efficient and effective services to client for maintain long term financial relation.
4. Bank plays a vital role in disribution of life insurance products and act as an intermediary between client and insurer.

Discussion

After detailed review of previous literature, the study found that the bancassurance customers are willing to get proper financial solution for their life investment. Due to fast pace world, customers did not get enough time to approach bank or life insurance offices for discuss their financial problems with financial consultant(Rajan and Gomatheeswaran, 2013). Customer require a proper medium of smart communication like SMS service portals, online portals and email access of policy details through which they can get updated information about their policy. Another mean of information is to provide either smart card from life insurance firm to customers for transaction of their policy cash values like ATM or linked the same facility to their ATM cards like billing and POS system get updated information of their policy.

Bancassurance impacts on customer trust through various angles and dimensions. Due to this satisfaction, all the banks now consider bancassurance products as inevitable part of their customer services due to high customer responsive product (Rajan and Gomatheeswaran, 2013). This link and association between customer trust and bancassurance not only improves consumer banking but also helps the bank to execute relationship marketing with their high profile and high income clients and willing them to invest their capital in retail distribution for developing human resources in the area of bancassurance (Heong and Yuan, 2005).

Bancassurance is a channel of trust and values for both the bank and insurance companies. Customer are seeking the bank for their insurance needs and willing to invest their money for better financial protection (Chari and Jayalakshmi, 2014).

Bancassurance enable the customer to choose a particular plat form for their financial decisions. Customers are well aware about life insurance products and it gives ease to bank to target the customers according to their needs with specific insurance products for cross selling (Kumari, 2012). Different means of marketing for customers is the most efficient way to channelized life insurance products through banks. This marketing includes life insurance products brochures, magazines and publications are very helpful to engage the customer with adequate knowledge about insurance (Grover, Bhalla, 2013). Customer awareness is a variable to measure the insurance penetration and density according GDP of the country. Increase in insurance penetration is a major evidence of customer awareness towards product and this leads to long term product retention (Kumari, 2012).

Conclusion

Awareness of insurance helps the life insurance sector to understand the needs of customer and their future financial planning's for selling their products. Insurers and banks are seeking to provide proper post sales services with competent service quality to satisfy their well aware customers through channel of bancassurance.

Bancassurance provide efficient financial accessibility to their clients for getting update information through various channels of communication. Beside traditional Life Insurance product, an innovation in the product feature like unit linked policies, Pension and Post retirement plans, marriage plans, education plans and even health insurance are the newly innovative features for bancassurance customers to enjoy insurance protection amount for long time with affordable premium.

Banks are also introduced life insurance protection to their clients by providing accident and baggage insurance for their credit card holders which is the most significant and innovative idea for consumer value added services. Mortgage linked life Insurance and vehicle insurance are the value added features of consumer services provided by bank.

Innovative products and value added services not only influence the customers towards life insurance products but also concrete institutional advantage to both banking sector as well as insurers. Planning, Production and consumer development are the most prestigious factors of alliance between insurers and banks that facilitate the customer with competent services.

Recommendations

In order to achieve future objectives to serve better insured client following are the recommendations based on above conclusion.

1. Introduce proper channel to educate client for other products of life insurance.
2. Efficient services required with one window solution electronically.
3. Do not specify the products for specific group of people.
4. Insurer should extend its distribution channel with different domains of consumer services.

References

- Ali, Liaquat and Chatley, Pooja (2013), Customer perception of Bancassurance: A Survey, *European Journal of Business and Management* www.iiste.org, ISSN 2222-1905 (Paper) ISSN 2222-2839 Vol.5, No.22, 2013.
- AKI (2010), Revisiting the role of Bancassurance: The Kenya Insurer, *Journal of the Association of Kenya Insurers*, July 2010 Vol 7 No. 2.
- Banerjee, Anuja (2009), Bancassurance: a major para-banking activity, *ICFAI Insurance chronicle magazine*, 2009.
- Barua, Abheek, (2004), Bancassurance : New concept cut chair, up fast in India, *The chartered Accountant*, PP 1348- 1351.
- Chari, V.G and Jayalakshmi. V (2014), Customer awareness and preferences for Bancassurance: An Empirical Study of a Changing Paradigm in Indian Insurance Market, *Journal of exclusive Management Science*, November 2014 Vol 3 Issue 11 ISSN 2277-5684.
- Choudhury, Mousumi* & Singh, Dr. Ranjit (2015), Customers' Perception Regarding Reliability of Bancassurance Channel: An Empirical Study, *The SIJ Transactions on Industrial, Financial & Business Management (IFBM)*, Vol. 3, No. 4, April 2015.
- Cooper, John (2013), Success in Bancassurance, *Ernst & Young The Bancassurance Bulletin*, Issue 1, January-May 2013.pg4.
- Diamond, D (1984), Financial Intermediation and Delegated Monitoring, *Review of Economic Studies*, 51: 393-414.
- Dreze, J. and Sen, A (1996), India: Economic Development and Social Opportunity, *Oxford University Press*, New Delhi.
- Fitzgerald, J. (1987), The Effects of Social Security on Life Insurance Demand by Married Couples, *The Journal of Risk and Insurance*, Vol 54 No.1, PP 86-89.
- Goldberg, I.W. (1997), Putting the customer first, *Limra's Market facts*, Jan and feb.
- Grover, Nidhi, G.S. Bhalla. G.S (2013), Level of Awareness Regarding Bancassurance and Choice of Insurance Product among Bank Customers in India, *Eurasian Journal of Business and Economics* 2013, 6 (12), 63-77.
- Harrington, S. E. and Niehaus, G. R. (2004), Risk Management and Insurance, *TataMcGraw-Hill Publishing Company Limited*, New Delhi.
- Heong, Robert Liankeng and Yuan. Wu (2005), Bancassurance: A Singapore Perspective, *Division of banking and Finance*, Nanyang Technological University, Singapore.
- Kotler, P. and Bloom, P. N. (1984), Marketing Professional Services, *Prentice-Hall*, New Jersey.
- Kotler, P. (2015), Marketing Management, *Prentice-Hall International*, New Jersey.
- Krishnamurthy. S, Jhaveri. Nani, Bakshi. S (2005), Insurance Industry in India: Structure, performance and future challenges, *Vikalpa IIMA* Volume 30, No. 3, Pg no. 93-95 5.
- Kumar, R (2006), Bancassurance-Opportunities and Challenges in India, *Bancassurance: Trends and Opportunities*, First Edition, Hyderabad, ICFAI publication, 2006, pp-176-178.
- Kumar. S.Saravan,U.Punitha, Gunasekaran & S.Sankar (2014), Flourishing Bancassurance business an Indian Perspective, *International Journal of Multidisciplinary Research*.
- Kumari, T.Hymavathi (2012), Customer attitude towards Bancassurance – An Indian perspective, *Global Journal of Current Research*, Vol. 1 No. 1. 2012. Pp. 31-41.
- Liu, T. and Wu, L. (2007) Customer retention and cross-buying in the banking industry: An integration of service attributes, satisfaction and trust. *Journal of Financial Services Marketing* 12(2): 132–145.
- Liu, T. and Wu, L. (2009) Cross-buying evaluations in the retail banking industry. *The Service Industries Journal*, 29(1): 1–20.
- Mehta. P.L. (1992); Managerial Economics: Analysis, Problems and Cases; *Sultan Chand & Sons*, New Delhi, p. 501.
- Murthy K.S.N. (1978), Modern Law of Insurance in India; N.M. Tripathi Pvt. Ltd., Bombay, pp 3 – 20.

- Mughal, F.-u.-D. (2014). To Facilitate Growth of Free and Fair Media. *PEMRA*, Islamabad.
- Munich Re (2001), Banc assurance in practice, *Munchen*, 2001.
- Ochieng, Ombonya Erick (2013), Bancassurance as a penetration strategy used by insurance companies in Kenya, *School of Business, University of Nairobi*, Kenya.
- Parmjit, Kaur and Menakshi, Negi (2010), A study of customer satisfaction with the life insurance in chandigarh tricity, *Institute of Management and Technology*, ISSN 0971-8907.
- Periasamy, P. (2005), Principle and Practice of Insurance, 1st Edition, *Himalaya Publishing House*, Mumbai.
- Pinter. Eva (2013), Strategic and Marketing Aspect of Bancassurance – Service Innovation in Hungary, *University of Pecs*, Hungry, DOI: 10.7763/IPEDR. 2013. V59. 26.
- Proehl, Robert and Robinson, Ian (1998), Success in Bancassurance: A Coin Toss? ,*Maui I Spring meeting*, June 15-17 1998, Volume 24 No.1.
- Prof. PrashantaAthama and Prof. Ravikumar, (2007) An Explorative Study of Life Insurance Purhase Decision Making: Influence of Product and Non-product factors, *The Icfai Journal of Risk and Insurance*, Vol IV, no.4,October 2007.
- Rajan, Joji. M.F.C ,Gomatheeswaran, Dr. M (2013), Bancassurance : A Comparative Study on Customer Satisfaction Towards Public and Private Sector Banks in Pathanamthitta.
- Rajasekar. S, Philominathan. P, Chinnathambi.V, (2013), Research Methodology, *Bharathidasan University*, Tamil Nadu, India.
- Rajkumari, M. (2007). A Study on Customer Preference towards Insurance Services and Bancassurance. *ICFAI Journal of Risk and Insurance*, 4(4), 49-60.
- Ramaabaanu. R, andElakkiya. S (2014),Bancassurance - An emerging Scenario in Indian Insurance Sector, *International Journal of Commerce, Business and Management (IJCBM)*, ISSN: 2319–2828Vol. 3, No. 3, June 2014.
- Shukla. A.K (2006), The Marketing Challenge, *Yogakshema*, April 2006, P.10-13.
- Singh, ManvendraPratap, Chakraborty, Arpita, Raju, Dr.G (2012), Contemporary Issuesin Marketing of Life Insurance Services in India , *International Journal of Multidisciplinary Research* Vol.1 Issue 7, November 2011, ISSN 2231 5780.
- Singhal, A.K. and R. Singh (2010), Bancassurance: Leveraging on the Synergy between the Banking and Insurance Industry, *IUP Journal of Risk and Insurance*, 7(1): 28-37.
- Krishnamurthy.S , S V Mony, NaniJhaveri, SandeepBakhshi, Ramesh Bhat and M R Dixit, and Sunil Maheshwari, (2008),”Insurance Industry in India: Structure, Performance and Future Challenges”, *Vikalpa*, Vol30, No.3.
- Sogunro, A.B, and Abiola, B (2014) ,Measuring customer satisfaction on Life insurance Products Case Study : Lagose State, Nigeria, *Department of Actuarial Science and Insurance, Faculty Business Administration, University of Lagos, Akoka, Yaba, Lagos, Nigeria* International. J. Manag. Bus. Res., 4 (2), 73-80, Spring 2014.
- Soni, Chetali and Rao, N.S (2014), A Study of bankers perception fir the factors which banks deliver to customers in bancassurance, *Abhinav National Monthly Refereed Journal of Research in Commerce & Management*, Vol 3, Issue 12.
- Sreedevi. V and Auguskani . P. Lovelin (2014),Preference of Bancassurance, *IOSR Journal of Business and Management (IOSR-JBM)* e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 16, Issue 1. Ver. I (Jan. 2014), PP 08-13.
- Swiss Re. (2007), Bancassurance: Emerging Trends, Opportunities and Challenges, *Sigma*, 5: 1-39.
- Tiwari. Dr. Anshuja and yadav. Babita (2012), A Customer Survey and Perception towards Bancassurance (With reference to life insurance industry) *South Asian Journal of Marketing and Management research (SAJMMR)*, Vol. 02, Issue 2, ISSN: 2249-877X.
- Zimmerman. A, (1999), A study of the interaction of insurance and financial markets: efficiency and full insurance coverage, *Journal of Risk and Insurance*, Vol 75, No.2, PP 31342.