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ROLE OF BANCASSURANCE IN THE PERFORMANCE OF COMMERCIAL BANKS WITH SPECIAL REFERENCE TO HDFC BANK

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ABSTRACT

The business of banking and insurance around the globe is changing due to integration of global financial markets, development of new technologies, universalization of banking operations and diversification in non-banking activities This has given rise to a new form of business i.e. bancassurance business where banks and insurance join hands together.

Bancassurance simply means selling of insurance products by banks. By selling insurance policies bank earns a revenue called as fee-based income. This may help the banks to cover up most of their operating expenses and also to improve the levels of staff efficiency in the banks. So, efforts are been made to do the evaluation of performance of bancassurance. The paper wants to study the role of bancassurance in the performance of banksand to find out that banks should continue their bancassurance business or not. CAMEL MODEL has been used as a tool of analysis, as it is a recognised model for measuring the financial performance of banks.

Keywords: Bancassurance, Capital Adequacy Ratio, NPA, EPS, Return on Asset, Business per Employee, Profit per Employee

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INTRODUCTION

Meaning and Definition of bancassurance

Bancassurance is a new buzz word. It originated in India in the year 2001. Bancassurance simply means selling of insurance products by banks. In this arrangement, insurance companies and banks go through a tie-up and thus allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate tie-up with one insurance company to sell its products by selling insurance policies, bank earns revenue stream apart from interest. It is called as fee based income. This income is purely risk free for the bank since the bank simply plays the role of intermediary for sourcing business to the insurance company.

The concept of bancassurance was started in France in 1980's and spread across different parts of Continental Europe, USA, and also in Asia, particularly in India. Government of India, during its notification dated 3rd August 2000, has accepted insurance as an acceptable form of banking under the Banking Regulations Act 1949. The Reserve Bank of India too has approved bancassurance by allowing banks to offer physical infrastructure to insurance companies within the premises of some selected branches and allowing them to sell their insurance products to the bank's customers. These banks in exchange earn referral fees based on the premium collected. . It started getting more recognition after Insurance Regulatory and Development Authority (IRDA) passed a notification in October 2002 of 'Corporate Agency' regulations. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer.

Reasons for banks to enter into bancassurance business

1. By getting into the business of general insurance, banks are trying to provide an extra flow of revenues from the same customers through the same channel of distribution and with the same people.
2. Insurance distribution will help the banks to increase its return on assets (ROA) by providing fee based income. Fee based selling helps the banks to cover part of their operating expenses and also helps to increase the levels of staff productivity in banks.
3. Banks can help to find a way out to lessen overstaffing problems without taking measures for reducing staff.

4. The expense ratio in insurance activities through bancassurance is extremely low. This is because the banks and the insurance companies are getting the advantage from the same distribution channels and customers.

5. Banks entry in distribution of insurance products helps them to expand their profit margin and simultaneously the customer base for the insurance companies rapidly. This helps to popularize insurance as an important financial protection product.

6. Banks try to retain customer loyalty by offering them an added and more sophisticated range of products like by selling personal life insurance policies to customers at a nominal rate while opening a new account.

7. Banks can also take the benefit of large scale customer base. With the help of this the per-head cost will be reduced rather than advertising it through print, radio or television.

It is expected that through bancassurance banks and insurance companies can collectively receive a fee - based income between Rs.13, 500 Cr. and Rs. 22,000 Cr. over the next five years. In India, with some insurers such as SBI Life already selling almost 40% new business through bancassurance channel, and thus following the success story of the European nations; while others like ICICI-Prudential Life, HDFC-Standard Life, Kotak Life Insurance, Aviva Life Insurance and ING-Vysya Life Insurance contributing about 25% from bancassurance channel. **HDFC bank** has been awarded as best bancassurance partner for the year 2011 during the 11th International Excellence in Retail Financial Services Awards Programme.

Entry of HDFC bank into bancassurance business

HDFCBank also distributes life insurance, general insurance companies and mutual fund houses. Third party distribution income contributed approximately 15% of total fee income for the year ended March 31, 2015, compared to 11% of the total fee income for the previous year. Under bancassurance business, HDFC bank has two subsidiaries **HDFC Standard Life Insurance Company Limited** and **HDFC ERGO General Insurance Company Limited**. HDFC Standard Life Insurance Co. Ltd. was established in the year 2000. It became the first private life insurance company in India.HDFC Life is a joint venture between Housing Development Finance Corporation Limited (HDFC), India's leading housing finance institution and Standard Life plc, the leading provider of financial services in the United Kingdom. HDFC Ltd. holds 70.65% and Standard Life (Mauritius Holding) 2006 Ltd. holds 26.00% of equity in the joint venture, while the rest is held by others.

HDFC Ergo General Insurance was established in the year 2002. It is a74:26 joint venture between HDFC Ltd. which is India's housing finance institution and ERGO International AG, the primary insurance entity of Munich Re Group.Banks earned commission income for the year ended March 31, 2015 includes fees of ` 454.01 crore (previous year: ` 337.56crore) in respect of life insurance business from HDFC Standard Life Insurance Company Limitedand ` 137.07 crore (previous year: ` 116.69 crore) in respect of general insurance business from HDFC ERGO General Insurance Company Limited.

LITERATURE REVIEW

Sparks, K. Karol. (2013) it provides a detailed roadmap for banking institutions seeking to commence insurance activities and maximise opportunities in this competitive era.Insurance activities of banks are logical pursuits for partnerships and joint venture structures as banks seeks expertise and support from insurance companies and insurance agencies. Joint ventures between banking and insurance companies are gaining popularity in the late 1990. These arrangements permits the banks to focus on distribution and marketing, and with the insurance companies focusing on product development, underwriting and insurance expertise. The bank assumes variety of roles through various activities in networking arrangements : sale of customer lists, referrals, lease of office space, employee sharing, marketing accommodations and administrative support.

Krishnamurthy, R. (2004) banks command enormous trust in the minds of the public and has a close knowledge of the customer's background. This helps bank in selling life insurance and hence insurance companies seek to enter into wide ranging banking partnerships. Bancassurance has achieved remarkable success in some European countries. Banks in Europe have also chosen to concentrate on bancassurance, as a major fee earning activity to beat the stringent risk-based capital needs imposed by the Basle Rules. The extensive presence of bank branches and the large no of bank customers would mean that India in some ways as in the case of Japan is an ideal candidate to take bancassurance forward.

Kulkarni, Shubhada, Mohan. (2012) banks are having the necessary potential to make bancassurance the most efficient way to achieve financial inclusion in insurance sector. The bank customers with higher average premium per-capita provide quicker means to grow for insurers. The complementary nature of insurance products towards the bank advances (e.g.

credit life) provide synergies in operations to the entire financial sector. The ease of access to bank customers reduces servicing costs, contributes to lower lapsation of insurance policies and hence lower costs to the economy. Banks see value in insurance business due to complementarity of products, fee income derived from the distribution of insurance and ease of recovery of advances in case of death of the borrower or destruction of properties

Pejawar, Anand. (2008) by doing proper analysis of the transactions, the banker can understand the "Investment psychology" of the customer and accordingly offer the insurance products to them. The lengthy forms, lengthy processes, tough underwriting norms, cumbersome health check-up will put off the customer as they are used to having simple and faster approvals. Products sold through bancassurance channel should be simple to understand, simple to sell and simple to buy. The future is bright and positive. Indian life insurance industry, which is growing at a CAGR of around 25% is expected to be a big boon to this segment which could be a major contributor in Asian Bancassurance markets in the coming years.

Venugopal, R. (2011) bancassurance is the second most preferred channel for the Customers after agency channel. For banks, it is a source of additional fee-based income. For insurers, it is a tool of increasing their market penetration and premium turnover. For the customers, it is a bonanza in terms of easy purchase, high quality product and service delivery at own will and doorstep. Thus it is a win-win situation for all. Banks have extensive experience in marketing to both existing customers and new clients. They have access to multiple communication channels like the direct mail, ATMs, telemarketing etc. So there is a vast scope for life insurance business when banks provide the insurance support for Home loan, Personal Loan, Vehicle Loan etc. and an equally considerable opportunity for selling General insurance while sanctioning other advances for machinery, equipment, properties and the like.

Sreesha, C.H. (2014) it explains the conceptual frame work of bancassurance and explains the different models of bancassurance prevailing in India. A brief description about different bancassurance product available and major bancassurance tie-ups in India are also given. For measuring the real benefit of convergence of banking and insurance to banking companies, a case study has done by selecting the largest public sector bank in India named State Bank of

India. This case study reveals the extent of cross selling benefit enjoyed by banks in India. The correlation analysis shows the relationship between the cross selling percentage and performance measurement variables of banks.

Karunagaran A. (2006)This paper identified the various bancassurance models as feasible source of sustainable income to banking sector by exploiting the synergy in the context of India having the largest banking network on the one hand and lower insurance penetration and insurance density on the other hand. It also highlights some of the likely issues in general as well as specific from the point of regulator and supervisor. It concludes that going by the present pace, bancassurance would turn out to be a norm rather than an exception in future in India and it would be a ‘win-win situation’ for all the parties involved - the customer, the insurance companies and the banks.

Trivedi, Smita Roy. (2015) the paper looks at the impact of new business lines and income streams on banks’ profitability and stability. In Indian banking, the move to innovation adoptions and new income streams has been more pronounced for new private and foreign banks, while there appears to have been certain hesitation on the part of public sector and old private banks. The implications of the study may be that banks adopting new income streams must choose those that are likely to enhance stability of income. The distribution of non-interest income can significantly impact stability of income as increasing ‘fee-income’ in non-interest income may have a positive impact on risk-adjusted Performance. Trading income, an important component of non-interest income, seems to be more volatile while core service income or the fee, commission, and brokerage income generated from provision of new products and services may lead to greater stability in income.

Pandey Pooja and Asthana Pradeep. (2015) itanalyse the financial impact of banc-assurance business on performance of the banks and to compare the financial position of banks dealing in insurance. The paper concludes that bancassurance is a petite earner for the banks but if it used effectively then this will certainly be the good source of fee-based income for banks. Growth rate of insurance income is remarkable in some of the banks so there is scope of selling bancassurance products by the banks in the long run.

Sridharan, G and Allimuthu, S. (2009)Banks in India have a wider network with high level of confidence and trust among public. This made insurance companies to have distribution agreements with banks. The introduction of bancassurance concept the banks with the customer base they have are able to tap the market very well. Banking institutions and insurance companies have found bancassurance to be an attractive and profitable complement to their existing activities.The successes demonstrated by various bancassurance operations particularly in Europe have triggered a concept of mergers and acquisitions across continents and efforts are on to replicate the early success of bancassurance in other parts of the world as well.

SIGNIFICANCE OF THE STUDY

Banks are the key pillars of the Indian Financial system. Banks have realised the importance of value added services like insurance service to fulfil customer need at one door step. As bancassurance services helps to increase the fee based earnings of the banks through commission which is profitable for the banks and side by side it helps in improving the productivity of staffs.This study is helpful in knowing the impact of bancassurance activity on the performance of banks and to find out that banks should continue their bancassurance business or not.

OBJECTIVES OF THE STUDY

1. To analyse the impact of bancassurance on the financial performance of bank.
2. To identify the important financial ratios from the camel model on which banks performance can be judged.
3. To know that bancassurance business is profitable for banks or not.

RESEARCH METHODOLOGY

The study will be analytical in nature. It is mainly based on secondary data. For this study, HDFC bank, the largest private sector in Indian banking industry was taken as a sample. The annual report of HDFC bank has been used for making an analysis on the financial performance of banks in bancassurance and the data pertinent to bancassurance has been collected from journals & magazines as well as the internet. The study period is 5 years, starting from year 2010 to 2015. CAMEL Model has been used as a tool for the analysis of data.

LIMITATIONS OF THE STUDY

The limitation to this work is the time factor as it covers the five year period ranging from 2010-2015 which restricts the facts. And it is mainly based on secondary data which is derived from annual reports of banks so the reliability and accuracy depends on the data published in such reports. This study is totally quantitative in nature so it does not give the importance to the qualitative facts like efficiency of workers, reputation and prestige of the management which also play an important role.

CAMEL MODEL

To judge the financial viability of banks, the Reserve Bank of India has introduced a rating methodology known as CAMEL [Capital adequacy, Asset quality, Management performance, Earning performance, Liquidity] model. The CAMEL model can be implemented by making use of the publicly available accounting data. In general CAMEL rating is designed to reflect a bank's financial performance. The table below presents the financial indicators (taken for this study) for each of these selected modules and its expected effects on the likelihood of improvements of bank's performance. Those important variables are been selected from the CAMEL model which have direct link with bancassurance performance.

Table 1 Financial indicators from CAMEL model and their expected improvement in the bank's performance

Financial Indicators	Expected effect on performance
Capital Adequacy and Solvency	
Capital Adequacy Ratio	Increase
Asset Quality	
Return on Assets	Increase
Non-performing assets as % to net advances	Decrease
Management Performance	
Staff cost as a % to total income	Decrease
Non-Interest income as % of operating profit	Increase
Operating cost as a % to total income	Decrease
Business per Employee	Increase
Profit per Employee	Increase

Earning Performance Earnings Per share	Increase

Analysis of performance of HDFC in bancassurance by using CAMEL Model

1. Capital Adequacy Ratio- It is a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. As per the RBI guidelines for the banks to enter into the insurance sector, the CAR of the bank should not be less than 10 % and the level of non – performing assets should be reasonable. By entering into bancassurance business the bank can reduce the risk weighted assets and thereby increase capital adequacy ratio.

2. Return on Assets: It is calculated to know productivity of the assets. The return on assets formula looks at the ability of a company to utilize its assets to gain a net profit. The best opportunity for the banks, which undertakes bancassurance operation is to increase its return on assets.

ROA= Net Income/ Average Total Assets

3. **Non-performing assets as a % to net advances -** Banks are required to reduce their NPAs to a reasonable level, as a precondition to enter into bancassurance. And moreover, when insurance products will be used as collateral to secure bank advances and loans, banks would be able to control their NPA.

4. Staff cost as a % to total income: It is the amount spent by an organisation towards an employees which includes salary, wages, and perks, etc. out of its total income earned. Banks have excess human resources which it can use for other cross selling activities like bancassurance and can reduce the staff cost.

5. **Non-Interest income as % of operating profit** – It is the ratio of non-interest income to operating profit. Banks which indulge in bancassurance activities earns commission income which is included in non-interest income. So it is necessary to calculate.

6. Operating cost as a % to total income – Due to bancassurance, banks will be able to enjoy economies of scale advantage which lead to reduction in the operating costs of the banks.

7. Business per Employee: This ratio is used to find out the productivity of employees. It is the other benefit associated with Bancassurance .The bank can be able to earn income through Bancassurance business by using its existing employee.

Business per employees – Total of net advances and deposits / Average employee Numbers

8. Profit per Employee: it helps to find out the productivity of the employees in terms of profit. By entering into bancassurance business, it can be able to increase its profit per employee by utilising existing employees only.

Profit per employee- Net profit/ No of Employees

9. Earnings per share-The portion of a company's profit share serves as an indicator of a company's profitability. It shows the overall performance.

EPS = Net Income/Average Outstanding Shares

Table 2: Performance of HDFC in bancassurance from 2010-2015

Financial Indicators of HDFC	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Capital Adequacy Ratio	16.2%	16.5%	16.8%	16.1%	16.8%
Return on Assets	1.58%	1.77%	1.90%	2%	2.02%
NPA as % to net advances	0.19%	0.18%	0.20%	0.27%	0.25%
Staff cost as% to total income	11.69%	10.10%	9.46%	8.52%	8.72%
Non-interest income as %of operating profit	60.60%	61.59%	59.97%	55.15%	51.70%
Operating cost as % to total income	32.06%	27.56%	26.81%	24.55%	24.34%
Business Per employee	6.53	6.54	7.50	8.90	10.10
Profit per employee	0.07	0.08	0.10	0.10	0.12
Earnings Per share	17.0	22.1	28.5	35.5	42.1

RESULTS OF THE STUDY:

1. The Capital Adequacy ratio has been found to be in a favourable position because it shows an increasing trend. The bank slightly showed a continuous growth of 16.8% in 2014-15 from 16.2% in 2010-11. Asper the norms of RBI, the capital adequacy ratio should not be less than 10% while performing bancassurance operations. So it is concluded that HDFC has the potential to go for bancassurance operations in future.

2. The return on asset ratio is continuously increasing and reached to2.02% in 2014-15 from 1.58% in 2010-11.Therefore, it can be said that bank has the full ability to utilise its assets for earning maximum profit by going through bancassurance activities.

3. According to the RBI norms, there is another precondition that banks should have a reasonable level of NPA. So this ratio should be considered. It is noted in the observation s that in the year 2011-12 the NPA to net advances ratio decreases to 0.18% then it increases to 0.27% in 2013-14 and again it decreases in next year. Thus, banks should take steps for reducing this ratio.

4. The staff cost as a % to total income is continuously declining year by year which proves that banks are using their excess human resources for other cross selling activities profitably. So their staff per cost reduces.

5. Commission income is earned by banks through bancassurance which is included in the non – interest income. From the table, it is clear that non-interest income as % of operating profit is continuously declining which is not a positive signal for bancassurance operations.

6. Bancassurance will lead to the reduction in operating expenses of banks as it can have the opportunity of economies of scale. It is observed in the table that operating expenses as % to total income is continuously decreasing. So banks are getting benefit from bancassurance.

7. The other benefit of bancassurance is that, banks can increase its business per employee and profits per employee by redeploying its existing human force for selling insurance. Table 2 indicates that business per employee and profits per employee have increased from 6.53 and 0.07 in 2010-11 to 10.10 and 0.12 in 2014-15.

8. The earning per share (EPS) also shows an increasing trend although it is not directly linked with bancassurance .But the ultimate aim of banking activity is to increase its EPS.

CONCLUSIONS

The performance of HDFC bank in bancassurance business has been found to be satisfactory. It has done a good job till now but still it is not utilising its full potential in bancassurance activities. The financial indicators like increase in capital adequacy ratio, return on assets, business per employee, profit per employee and decrease in staff cost operating expenses shows a favourable position of bank performance through bancassurance. But from the negative side, the decrease in non-interest income and NPA fluctuations is not a positive signal. Banks has to take necessary steps like making efforts to increase the fee income through more insurance sales by employees training & customer awareness programmes etc.to overcome this problem. So lastly it is concluded that the progress of bank is the result of many factors and bancassurance is one of the important factor playing a greater role in the performance of banks.

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