An Analysis on Contribution of Bancassurance on Financial Performance of Bank of India

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ABSTRACT
The Indian banking sector contributes the most to the economy. The contribution of the banking sector in Indian GDP has increased a lot in the last few years. In the current scenario, competition is stiff & to cope up with this competition & maintain percentage of GDP, banks are trying to adopt different measures that can maintain their fee based income & level of GDP. "Bancassurance" is one of the major channels that banks have adopted.

Bank Insurance Model (BIM) also known as, BANCASSURANCE, is an association between a bank & an insurance company where, insurance company uses bank's canal to sell its insurance products. By selling insurance policies bank earns a 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 an intermediary for sourcing business to the insurance company.The paper wants to study the impact of bancassurance on performance of banks & also wants to find the motivation behind adoption of bancassurance by banks, as a major channel for maintaining fee-based income. For this, the researcher has compared the fee-based income of selected bank prior & post to adoption of bancassurance. For this, CAMEL MODEL has been used as a tool of analysis.
Key Words: Bancassurance, Indian Banking sector, Insurance Sector, Fee based income, GDP, etc.,

Introduction

The business of banking 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. Due to all these movements, the boundaries that have kept various financial services separate from each other have vanished. The coming together of different financial services has provided synergies in operations and development of new concepts. Insurance companies require immense distribution strength and tremendous manpower to reach out to such a huge customer base. This distribution will undergo a sea change as various insurance companies are proposing to bring insurance products into the lives of the common man by making them available at the most basic financial point, the local bank branch, through Bancassurance. Simply put, bancassurance is the process through which insurance products are sold to customers at their local banks. In India, ever since espousing of financial reforms following the recommendations of First Narasimham Committee, the contemporary financial landscape has been reshaped. Banks, in particular, stride into several new areas and offer innovative products, *viz.*, merchant banking, lease and term finance, capital market / equity market related activities, hire purchase, real estate finance and so on. Thus, present-day banks have become far more diversified than ever before. Therefore, their entering into insurance business is only a natural corollary and is fully justified too as 'insurance' is another financial product required by the bank customers. The Reserve Bank of India being the regulatory authority of the banking system, recognizing the need for banks to diversify their activities at the right time, permitted them to enter into insurance sector as well. Furtherance to this line, it issued a set of detailed guidelines setting out various ways for a bank in India to enter into insurance sector. In the insurance sector, the Insurance Regulatory and Development Authority (IRDA), despite its recent origin in 2000, avowed to regulate and develop the insurance sector in India through calibrated policy initiatives. Given India's size as a continent it has, however, a very low insurance penetration and low insurance density. As opposed to this, India has a well entrenched wide branch network of banking system which only few countries in the world could match with. It is against this backdrop an attempt is made in this paper to explore the 'bancassurance strategy' which integrates banking and insurance sector to harness the synergy and its allied problems and prospects in the Indian context.

Why Bancassurance?

1. **Advantage to Banks:**
   - **a.** Reduction of fixed cost of banks
   - **b.** Increased fee based income
   - **c.** Increased product line
   - **d.** Helps in enhancing customer loyalty
   - **e.** Helps in creating monopoly in market
   - **f.** Increased customer base
   - **g.** Enhanced profitability of banks

2. **Advantage to customers:**

   a Avability of wide range of financial products in one basket

   b Customer preferences are changing in terms of investments, they are shifting their investment decisions from deposits towards mutual funds & insurance, so bancassurance provides a platform to customers to stay connected with banks

3. **Advantage to Insurance Company :**
   - a. Reduction of fixed cost of insurance companies
   - b. Through banks, insurance companies can offer different products to customers like with a business loan it can offer fire insurance policy
   - c. Insurance companies get the customer base through bank networks
   - d. Gain's the confidence of customers by connecting through bank
   - e. It is easy for insurance companies to get data base for reference
   - f. One of the best ways for adopting cross-selling

Bank of India, Union Bank of India enters life insurance: Star Union Dai-Ichi Life Insurance Company Limited, a joint venture life insurance company promoted by Bank of India, Union Bank of India and Dai-ichi Mutual Life Insurance Company, Japan, has been registered as a Life Insurer by IRDA. The Certificate of Registration has been issued by The Insurance Regulatory and Development Authority (IRDA) on 26.12.08. With this registration, the total number of Life Insurers registered with the Authority has gone up to 22.

The Joint Venture Agreement, among others, envisages, a capital stake of 51% by BOI, 26% by Dai-ichi Life and 23% by Union Bank. The Joint Venture company would have initial paid-up capital of Rs. 250.00 Crore. The Joint Venture Company, with the strength of the domestic partners in the Indian Financial Sector coupled with the Dai-ichi Life's strong domain expertise is expected, to emerge as a strong player in the Indian Life Insurance market. The company aims to develop various products to serve all strata of the society. Bank of India and Union Bank have a strong nationwide network of more than 5000 offices, which shall provide a sound distribution channel with a wide reach, which is the key to the success of an insurance venture. More than 48 million strong banking customer base of the two banks provides ready scope of cross selling of insurance products. The two banks have strong brand equity, and command high level of trust among their customers and people at large.

Additionally the Regional Rural Banks sponsored by the two banks have more than 1400 branches to tap the life-insurance business in the rural areas. Dai-ichi Life is a leading player in the Life Insurance Segment in Japan and is one of the Top 10 Life Insurers in the world and the second largest Life Insurance Company in Japan. Established in 1902, it has more than a century of experience in Life Insurance business. It has sound product knowledge, sharp asset management skills, and strong operational capabilities to manage Life Insurance business, which make Dai-ichi Life the best insurance JV partner on the domain sizes .

Review of Literature

Sreesha C.H., Dr. M.A. Joseph, "Indian Journal of Finance" Financial Performance of Banks In Bancassurance: A Study With Special Reference to State Bank of India, studied the impact of selling insurance products using banks as a channel. With the help of the study the researcher found that bancassurance is one of the vital medium to improve performance of banks

Goran bergandahl (1995) in an article titled "The Profitability of Bancassurance for European banks "assumed that the expansion of bancassurance relied on three perquisites (i) cross selling through existing branch network

(ii) Sale of insurance products to customer of the bank (iii) products produced by a subsidiary to the bank. The author verified these assumptions in many of the banks in Europe. The author also found that, where customers per branch are sufficiently large and if cross-selling ratio is acceptable, in that particular branch, with investment appraisal assistance bancassurance came out successfully.

Fraser and Kolari (2004) in the paper titled "What's Difference about Bancassurance"? Evidence of Wealth Gains to Banks and Insurance Companies" -a study on wealth effects in bancassurance mergers between banking and insurance firms in the period 1997-2002 found that bancassurance mergers were positive wealth creating events. On the other hand, they did not find any statistically significant change in total or systematic risks before and after bancassurance mergers. According to the authors, economic motives are the driving forces behind bancassurance mergers. However, the study suggested Bancassurance model as not only legal, but also economically viable organizational form for financial service firms.

Vineet Agarwal (2004) in the article entitled "Bancassurance: Concept, Framework and Implementation" observed the key issues faced by the banking sector today. Intense competition along with falling interest margin in banks creates an urgent need for developing sophisticated financial products and innovations. Insurance has come as an ideal option for the banks. It fulfills the major requirements for a successful insurance business viz., asset management and investment skills, distribution and capital adequacy. The author made a note in his study that French banks, those pre-dominantly choose to start –up their own operations, achieved the greatest bancassurance market shares.

Brahman R. (2004) et al. in their article "Bancassurance in India- Issues and Challenges" opined bancassurance as an established and growing channel for insurance distribution though its penetration varies across different markets. The study found that Europe has the highest penetration rate in contrast to the lower penetration in North America. According to the authors, social and cultural factors, together with regulatory considerations and product complexity determine the success of bancassurance in a particular market.

Tapen Sinha's (2005) study entitled "Bancassurance in India: Who is Tying the Knot and Why" focused on why do banks and insurance companies get into bancassurance in the emerging markets. Economies of scale and scope make this alliance attractive for both the parties. The author had also examined the reasons behind bancassurance by examining the developments and by conducting different quantitative tests. The author in his study found that there are natural synergies between banks and insurance companies. With the test results the author concluded bancassurance as one of the viable proposition for banks.

OBJECTIVES OF STUDY

The main motive behind the study is to make an analysis of contribution of bancassurance on financial performance of Bank of India. The researcher also wants to hit upon reasons, for various changes in the financial performance of Bank of India and wants to know that is only bancassurance the only reason for these changes

RESEARCH METHEDOLOGY

Data collection

The study is based on the secondary data taken from the annual reports of Bank of India and all the data relating to history, growth and development of Bank of India have been collected mainly from the books and magazine relating to the bank and published paper, report, article and from the various news papers, bulletins and other various research reports published by bank and various websites.

Selection of Samples

The study has been carried out on the micro-level, as it is not possible for the researcher to conduct it on the macro-level. As the study is to be carried out by the individual researcher it is not easy to select all the banks as the samples for the study. So, selection based upon growth aspect of Bank of India in Indian industry in present scenario.

Period of the Study

The present study is mainly intended to examine the financial performance of bank four years before opting for bancassurance and four years after opting it, i.e. from financial year 2004-2012

TOOL OF ANALYSIS

In order to study the contribution of bancassurance on financial performance of Bank of India the tool used is CAMEL MODEL.CAMEL(Capital Adequacy, Management Performance, Earning Performance, Liquidity) MODEL is a very popular model for measuring the financial performance of banks.

Following are the financial indicators which are included in CAMEL MODEL:

1. CAPITAL ADEQUACY:
   a. Capital Adequacy Ratio
   b. Gearing Ratio
2. Asset Quality:
   a. Return On Asset
   b. Non Performing Assets as % to Net Advances

3. Management Performance:
   a. Staff cost as % to total income
   b. Staff cost as % to operating expense
   c. Business per employee
   d. Profit per employee
   e. Non fund income as a % to total income
   f. Operating cost as % to net income

4. Earning Performance
   a. Earnings per share
   b. Net profit as % to total income
   c. Spread as % to total income
   d. Burden as % to total income

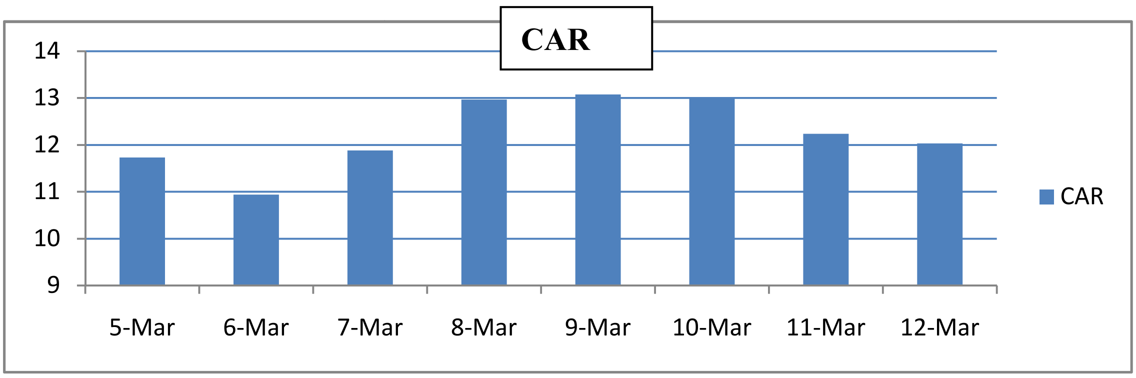
5. Liquidity Management
   a. Credit Deposit Ratio
   b. Time Deposit as % to total deposit
   c. Liquid Asset as % to Short Term Liabilities

Graphs showing performance of Bank of India from F.Y 2004-05 to 2011-12 on various grounds of CAMEL MODEL:

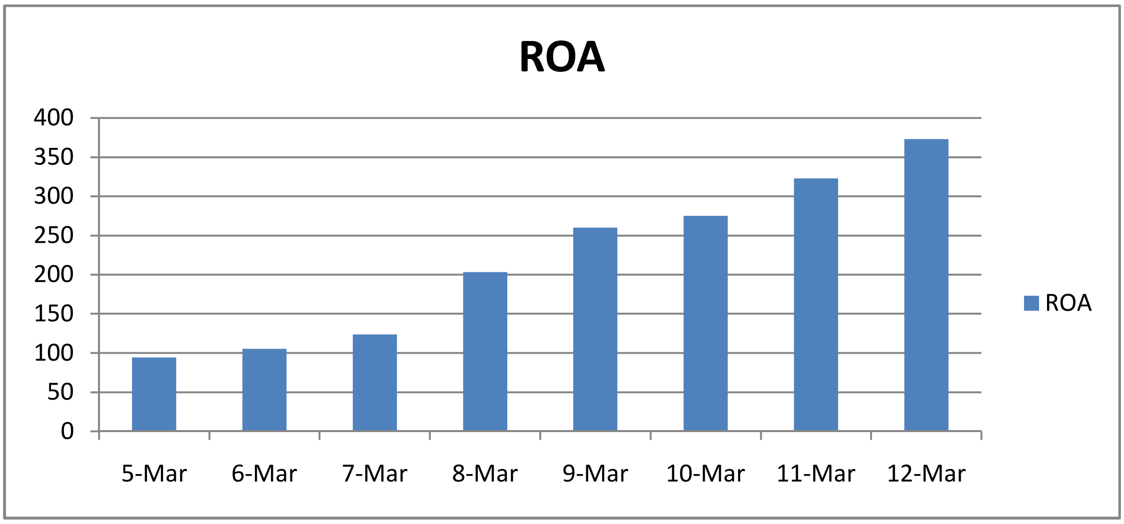
1. **Capital Adequacy Ratio or CAR :** It is calculated to determine the ability of the firm that whether it will meet the liabilities or not. It is ratio of capital fund to risk weighted assets expressed in percentage terms.

   Minimum requirements of capital fund in India:
   * Existing Banks 09 %
   * New Private Sector Banks 10 %
   * Banks undertaking Insurance business 10 %
   * Local Area Banks 15%

   Tier I Capital should at no point of time be less than 50% of the total capital. This implies that Tier II cannot be more than 50% of the total capital.

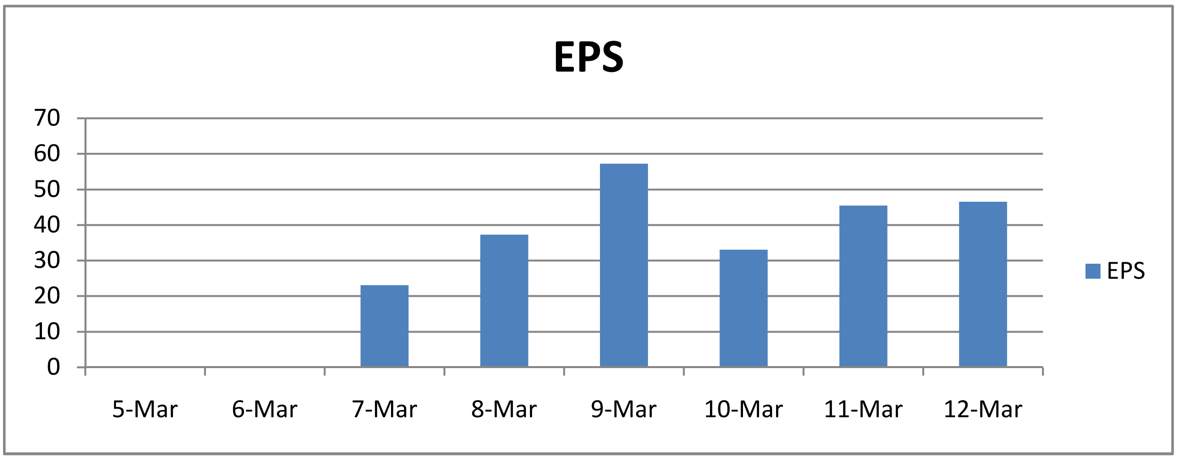


2. **RETURN ON ASSET:** It is calculated to know productivity of the assets. The return on assets formula, sometimes abbreviated as ROA, is a company's net income divided by its average of total assets. The return on assets formula looks at the ability of a company to utilize its assets to gain a net profit.
ROA= NET INCOME/ AVERAGE TOTAL ASSETS



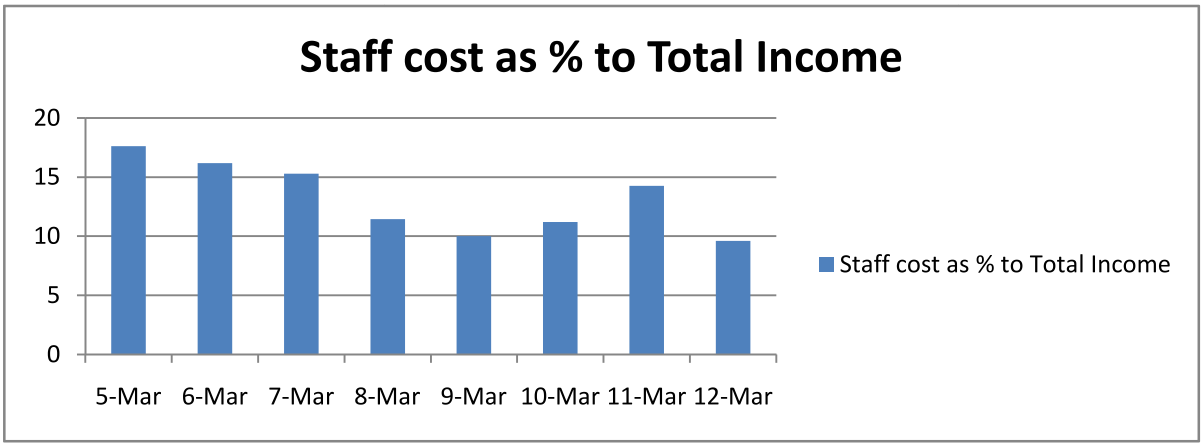
3. The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

$$\text{EPS} = \frac{\text{NET INCOME – DEVIDEND ON PREFERRED STOCK}}{\text{AVERAGE OUTSTANDING SHARES}}$$



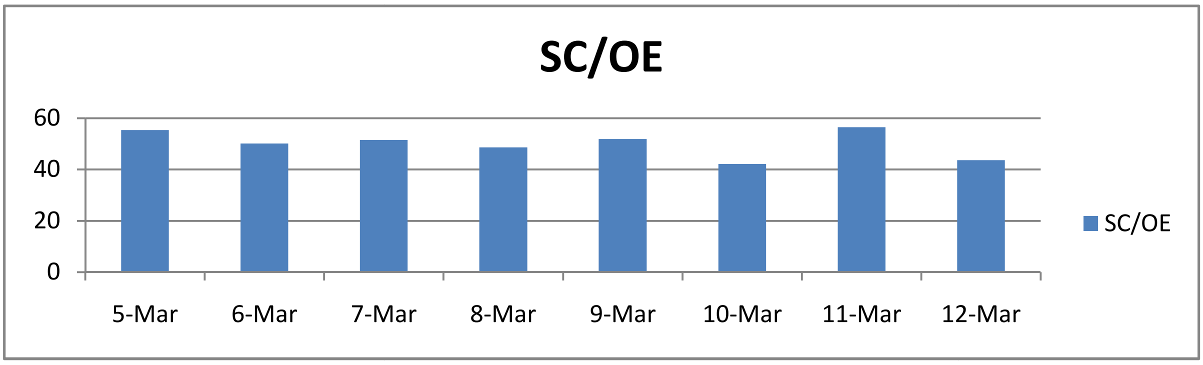
4. **STAFF COST AS % TO TOTAL INCOME:** It is the amount spent by an organization, towards its employees which includes salary, wages, and perks, etc. out of its total income earned. It helps the company to use the opportunity to divide the resources in order to reduce the cost

It is calculated as $= \frac{\textbf{Total Staff Cost * 100}}{\textbf{Total Income}}$



5. **STAFF COST AS % TO OPERATING EXPENSES:** It is the amount spent by an organization, towards its employees which includes salary, wages, perks, etc. as % to operating expenses.

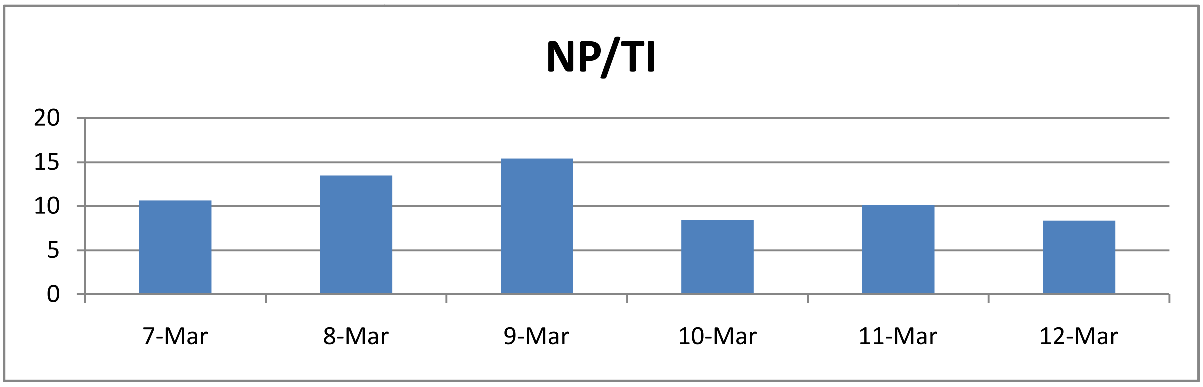
It is calculated as $= \dfrac{\textbf{Total Staff Cost * 100}}{\textbf{Total Income}}$



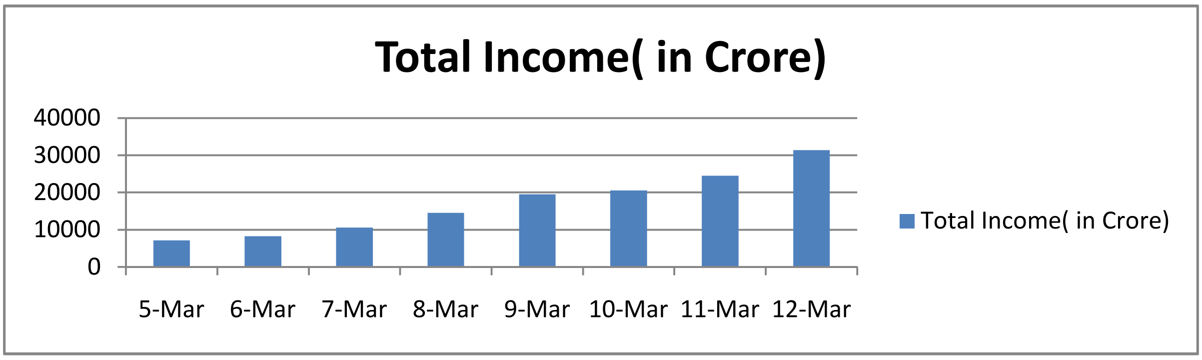
6. **NET PROFIT TO TOTAL INCOME:** It is the Net Income earned by the organization as % to its total income earned. It shows the tax liability of the firm.

It is calculated as $= \dfrac{\textbf{Net Profit}}{\textbf{Total Income}}$

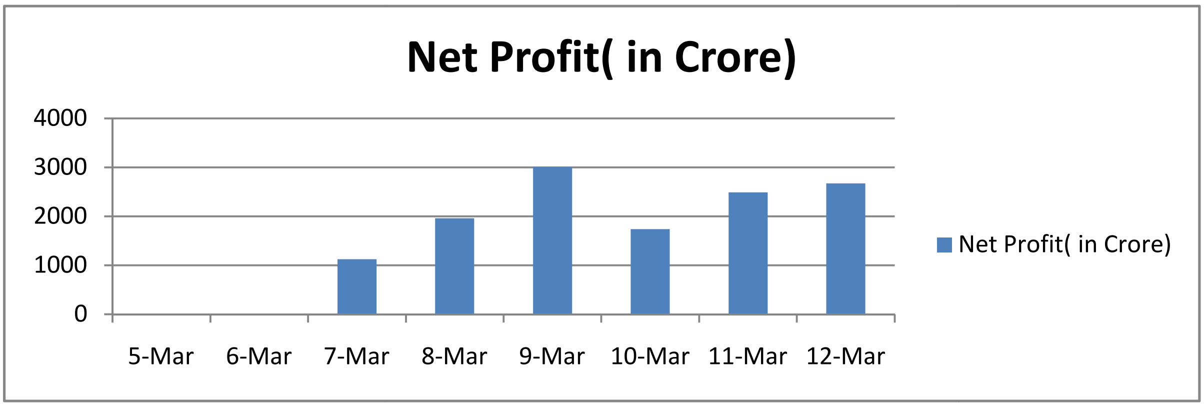
Particular	**05-Mar**	**06-Mar**	**07-Mar**	**08-Mar**	**09-Mar**	**10-Mar**	**11-Mar**	**12-Mar**
Total Income	7176.99	8219.96	10571.64	14528.41	19493.05	20596.91	24500.26	31930.19
Net Profit	-	-	1125.95	1960.28	3009.41	1738.56	2488.71	2674.62
Deposits	78821.44	93932.03	119881.74	150011.98	189708.48	229761.94	298885.81	318216.03
Operating Expense	2286.42	2654.08	3138.95	3420.13	3767.54	5474.03	6179.44	7036.64
Employee Cost	1265.15	1330.48	1616.62	1665.26	1953.75	2308.75	3492.01	3073.62



7. **TOTAL INCOME:** The sum of all money received by an organization from various sources including revenue from sales, income from dividends, interest income, etc..It is calculated to determine the total sources from where income is generated.



8. **NET PROFIT:** The income generated after deducting all liabilities & taxes. It is calculated in order to determine the net income received after fulfilling all the obligations.



***All the above mentioned ratios are calculated in terms of Rs. (crore)**

Particular	**05-Mar**	**06-Mar**	**07-Mar**	**08-Mar**	**09-Mar**	**10-Mar**	**11-Mar**	**12-Mar**
CAR	11.73	10.94	11.88	12.97	13.08	13.00	12.24	12.03
EPS	-	-	23.07	37.27	57.22	33.06	45.48	46.55
SC/TI	17.62	16.18	15.29	11.46	10.01	11.20	14.25	09.62
SC/OE	55.33	50.12	51.50	48.68	51.85	42.17	56.51	43.68
NP/TI	-	-	10.65	13.49	15.43	08.44	10.15	08.37
ROA(Revaluated)	94.14	105.27	123.65	203.19	260.04	275.05	322.72	373.21

***All the above mentioned ratios are calculated in terms of percentage**

Interpretation:

1. According to the norms of RBI, CAR of banks should not be less than 10% to perform bancassurance operations. The capital Adequacy Ratio (CAR) of Bank of India has been found to be satisfactory, since it is showing an increasing trend. Before opting for bancassurance (during the period of study) CAR had a maximum value of 11.88% & after opting bancassurance it went to maximum of 13.08% in the Financial year 08-09. In the year 11-12 it was recorded at 12.03%
2. Earning per share(EPS) also showed a mounting line (increasing) between pre & post adoption of bancassurance. Although it is important to note that EPS was not always increasing, as compared to its previous year but its percentage is greater than its pre era
3. When we look at the figures of SC/TI (Staff Cost to Total income), there is a noticeable decrease in the figures which is beneficial to bank. In the financial year 04-05, percentage of SC/TI was at 17.62% while in the year 11-12, its value is at 9.62% that is a net decrease of 8%
4. There was not much fluctuations observed in the figures of SC/OE (Staff Cost to Operating Expenses) however, there was a net decrease of 11.65%, during the period of study

5. In case of NP/TI (Net Profit to Total Income), a volatile trend is observed. In the year 06-07 the percentage of NP/TI stood at 10.65 % while in the year 11-12 it was at 8.37% that is, a net increase of 2.28% which reveals that the tax liability of firm has increased
6. Return on Assets showed a continues increase in its values during the period of study. In the financial year 04-05 its value was at 94.14% which increased to 373.21 % in the financial year 11-12 that is a net increase of 279.07 % in its value
7. Both Total Income & Net Profit has been found to be favorable. The net profit increased by 1548.67 crore & total income increased by 24,213.2 crore, during the period of study

Limitations:

Every live and non-live factor has its own limitations which restrict the usability of that factor. The same rule applies to this research work. The major limitations of this study are as under:

- This study is mainly based on secondary data derived from the annual reports of Bank. The reliability and the finding are contingent upon the data published in annual report
- The study is limited to four years before and four years after, going for Bancassurance
- Financial ratios have its own limitation, which also applied to the study
- This study is related with six units. Any generalization for universal application cannot be applied here
- Financial analysis do not depict those facts which cannot be expressed in terms of money, for example – efficiency of workers, reputation and prestige of the management
- Data for Net profit & EPS is not available for the financial year 04-05 & 06-07

Conclusion:

The performance of both insurance company and the bank depend on each other however, it is concluded from the above study that there is a favorable impact of bancassurance on the financial performance of bank of India and the bank has also contributed to the overall performance of insurance company. The figures of Net profit, Total income, CAR, EPS, ROA revealed that bancassurance has paved the way for bank to grow. Although there are a number of other factors which, contributed to the growth of banks but bancassurance is one of the important factor.

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Annexure:

Consolidated Balance Sheet Of Bank Of India After opting

	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Capital and Liabilities:					
Total share Capital	574.52	547.22	525.91	525.91	525.91
Equity Share Capital	574.52	547.22	525.91	525.91	525.91
Share Application Money	0	0	0	0	0
Preference Share Capital	0	0	0	0	0
Init. Contribution Settler	0	0	0	0	0
Preference Share Application Money	0	0	0	0	0
Employee Stock Opiton	0	0	0	0	0
Reserves	19,603.59	15,769.39	12,490.50	11,420.34	8,382.02
Revaluation Reserves	1,235.89	1,319.47	1,428.62	1,710.29	1,763.10
Net Worth	**21,414.00**	**17,636.08**	**14,445.03**	**13,656.54**	**10,671.03**
Deposits	319,412.53	299,559.40	230,408.21	190,176.67	150,405.32
Borrowings	32,118.95	22,021.38	22,399.90	9,492.58	7,172.45
Total Debt	**351,531.48**	**321,580.78**	**252,808.11**	**199,669.25**	**157,577.77**
Minority Interest	62.9	51.24	319.23	102.57	24.53
Policy Holders Funds	0	0	0	0	0
Group Share in Joint Venture	0	0	0	0	0
Other Liabilities & Provisions	14,580.87	13,057.32	8,687.20	12,619.30	11,069.06
Total Liabilities	**387,589.25**	**352,325.42**	**276,259.57**	**226,047.66**	**179,342.39**
	Mar '12	**Mar '11**	**Mar '10**	**Mar '09**	**Mar '08**
Cash & Balances with RBI	15,139.67	21,860.07	15,657.96	8,975.09	11,775.69
Balance with Banks, Money at Call	20,324.66	15,836.29	15,791.11	12,914.89	6,025.32
Advances	**249,733.44**	**213,708.36**	**169,031.01**	**143,322.61**	**113,764.69**
Investments	**88,056.87**	**86,676.59**	**68,112.69**	**52,871.81**	**41,924.58**
Gross Block	4,681.43	4,062.75	3,843.01	3,621.02	3,466.74
Accumulated Depreciation	1,941.72	1,679.00	1,529.18	1,170.13	1,060.33
Net Block	**2,739.71**	**2,383.75**	**2,313.83**	**2,450.89**	**2,406.41**
Capital Work In Progress	60.32	115.68	65.08	110.45	26.92
Other Assets	11,523.74	12,437.46	5,845.39	5,709.68	3,364.87
Minority Interest	0	0	0	0	0
Group Share in Joint Venture	0	0	0	0	0
Total Assets	**387,578.41**	**353,018.20**	**276,817.07**	**226,355.42**	**179,288.48**
Contingent Liabilities	165,287.79	143,756.10	118,582.71	107,192.27	137,379.16
Bills for collection	45,271.36	32,518.20	28,384.72	41,631.60	20,184.55
Book Value (Rs)	351.67	298.58	247.85	227.47	169.62

Annexure 2:

	Mar '07	Mar '06	Mar '05	Mar '04
Capital and Liabilities:				
Total share Capital	488.14	488.14	488.14	488.14
Equity Share Capital	488.14	488.14	488.14	488.14
Share Application Money	0	0	0	0
Preference Share Capital	0	0	0	0
Init. Contribution Settler	0	0	0	0
Preference Share Application Money	0	0	0	0
Employee Stock Opiton	0	0	0	0
Reserves	5,389.13	4,485.13	3,934.83	3,671.65
Revaluation Reserves	149.48	157.35	165.61	0
Net Worth	**6,026.75**	**5,130.62**	**4,588.58**	**4,159.79**
Deposits	119,876.82	93,927.71	78,818.88	71,479.75
Borrowings	6,620.83	5,893.91	5,961.95	4,041.47
Total Debt	**126,497.65**	**99,821.62**	**84,780.83**	**75,521.22**
Minority Interest	3.64	2.99	1.95	1.34
Policy Holders Funds	0	0	0	0
Group Share in Joint Venture	0	0	0	0
Other Liabilities & Provisions	9,423.59	7,466.17	5,730.77	5,329.77
Total Liabilities	**141,951.63**	**112,421.40**	**95,102.13**	**85,012.12**
	Mar '07	**Mar '06**	**Mar '05**	**Mar '04**
Assets				
	7,196.89	5,588.42	3,904.72	4,230.94
Balance with Banks, Money at Call	10,209.51	5,857.60	3,621.62	4,327.01
Advances	**85,115.89**	**65,173.74**	**55,528.89**	**45,855.90**
Investments	**35,620.35**	**31,925.38**	**28,808.00**	**27,311.61**
Gross Block	1,735.51	1,675.94	1,576.96	1,461.77
Accumulated Depreciation	957.37	876.54	785.21	688.85
Net Block	**778.14**	**799.4**	**791.75**	**772.92**
Capital Work In Progress	11.41	10.68	22.59	25.86
Other Assets	2,975.78	3,041.55	2,389.38	2,487.87
Minority Interest	0	0	0	0
Group Share in Joint Venture	0	0	0	0
	141,907.97	**112,396.77**	**95,066.95**	**85,012.11**
Contingent Liabilities	82,079.68	76,877.49	73,902.23	46,231.65
Bills for collection	17,116.16	12,086.74	11,142.30	6,860.22
Book Value (Rs)	120.58	102.04	90.75	85.35