

Financial Performance Of Banks In Bancassurance : A Study With Special Reference To State Bank Of India

* Sreesha C. H.
** Dr. M. A. Joseph

INTRODUCTION

The emerging new opportunity for banks in India to sell insurance products is part of the global trend towards integration of the financial services industry. The financial sector is witnessing a rapid convergence of banking, securities dealing and insurance business worldwide. Banks are strongly feeling the need to provide a host of financial services as one-stop shopping to customers to retain their hold on them and bring new clients into their fold. Bank's entry into the insurance sector in India provides a great opportunity in this direction. The new entrants in insurance sector in India are also looking for cost effective channels of distribution that will provide larger presence. Because of the extensive branch network and client base, the banks are emerging as a major distribution channel.

BANCASSURANCE

Bancassurance is derived from the combination of French word Banque (i.e. Bank) & Assurance (i.e. Insurance). It is also an amalgamation of "Banking" and "Assurance" business within a "Financial" environment in India, it means selling of Insurance products using the banking outlets to the customers of the bank. There is a wide diversity of models / strategies available - like Corporate Agency Model. Referral Agreement etc. In case of SBI Life, Bancassurance is defined as, "By the Bank staff, for the Bank Customers, in the bank premises, to supplement the profit of the bank."

REASON FOR BANKS TO ENTER INTO BANCASSURANCE

Intense competition between banks, against a background of shrinking interest margins, has led to an increase in the administrative and marketing cost and limited the profit margins of the traditional banking products. New products could substantially enhance the profitability and increase productivity.

Financial benefits to a bank's performance can flow in a number of ways, as briefly outlined below:

- ✿ **Increased income generation**, in the form of commissions and/or profits from the business (depending upon the models of bancassurance).

- ✿ Reduction of the effect of the **bank fixed costs**, as they are now also spread over the life insurance relationship.

- ✿ Almost all the domestic players in the banking field perceive an urgent need for augmenting **Return On Assets** by increasing their fee based income.

- ✿ Indian banks have excess human resources as a consequence of automation. Bancassurance provides them the opportunity to redeploy these resources profitably.

Opportunity to increase the **productivity of staff**, as they now have the chance to offer a wider range of services to clients.

- ✿ **Customer preferences** regarding investments are **changing**. For medium-term and long-term investments, there is a trend away from deposits and towards insurance products and mutual funds, where the return is usually higher than the return on traditional deposit accounts. This shift in investment presences has led to a reduction in the share of personal savings held as deposits, traditionally, the core element of profitability for a bank which manages clients' money. Banks have sought to offset some of the losses by entering the life insurance business. Life insurance is also frequently supported by favorable tax treatment to encourage private provision for protection or retirement planning.

* Junior Research Fellow, Department Of Commerce & Management Studies, Calicut University, Kerala.

E-mail: sreesha.dcms@gmail.com

** Reader, Department Of Commerce & Management Studies, Calicut University, Kerala. E-mail: sph_ma@yahoo.com

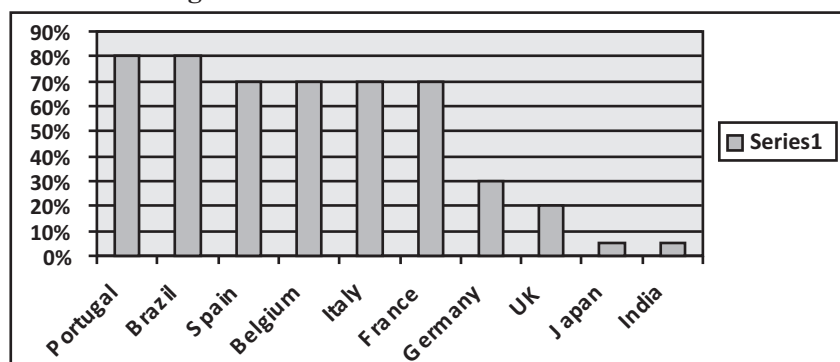
This preferential treatment makes insurance products more attractive to customers and banks see an opportunity for profitable sales of such products.

Analysis of available information about the customer's financial and social situation can be of great help in discovering customer needs and promoting or manufacturing new products or services. Banks believe that the quality of their client information gives them an advantage in distributing products profitably, compared with other distributors (eg. insurance companies) . The realization of joint bank and insurance products can be better for the customer as they provide more complete solutions than traditional standalone banking or insurance products.

✿ Banks are experiencing increased mobility of their customers, who to a great extent tend to have accounts with more than one bank. Therefore, there is a strong need for customer loyalty to an organization to be enhanced. Client relationship management has become a key strategy. To build and maintain client relationships, banks and insurers are forming partnerships to provide their clients with a wide range of bank and insurance products from one source.

✿ It is believed that as the number of products that a customer purchases from an organization increases, the chance of losing that specific customer to a competitor decreases.

Figure 1 : Market Share Of Bancassurance



(Source: Swiss Re, Sigma, 7/2002)

An example for the calculation of fee based income for banks over the next 5 years in India:

- ✿ Number of bank accounts- Around 32 crores in India.
- ✿ Average premium amount of policy for 1 account during 5 years -2000.
- ✿ Commission rate is between 15% to 25%.
- ✿ The bank would be able to get the fee based income in between ₹ 9600 crores and ₹ 16000 crores.

Calculation:

Minimum fee income - $320000000 \times 2000 \times 15 = ₹ 9600 \text{ crores}$

Maximum fee income - $320000000 \times 2000 \times 25 = ₹ 16000 \text{ crores}$

Table 1: Major Insurance Companies In India And Their Share Of Business Through Bancassurance

Insurance companies	Business through bancassurance
Tata AIG Life	35%
Aviva Life	80%
ICICI Prudential	20%
Birla Sun Life	45%
Bajaj Allianz life	22%
HDFC Standard Life	45%
Kotak OM Mahindra	22%
SBI Life	44%

(Source: Business Line Feb.27,2009)

STATEMENT OF THE PROBLEM

Today's banking business is not the one we have seen in the past. It has become much more diversified. With the shift in

the customer preferences from deposits to investments, intense competition etc. there is a tendency that the profit margin of the banks are declining. Now-a-days, most of the banks in India are engaged in selling insurance products along with their traditional banking products. It has become imperative for the banks to retain the customer by providing more value added services under one roof as well as to find alternative ways to generate more income. Most of the banks are engaged in cross selling as a best possible solution to all these problems. State bank, the public sector giant of India, is the first Indian bank who started bancassurance business. In this context, it is very essential to find out whether the bank benefited out of bancassurance by way of financial analysis or not.

OBJECTIVES OF THE STUDY

The primary objectives of the study is to make analysis on the financial performance of State Bank of India in bancassurance with specific reference to life insurance. This study also aims to find out the contribution of bancassurance to the overall progress of the bank.

SOURCES OF DATA

This study is mainly based on secondary data. For this study, the State bank of India, the public sector giant in Indian banking industry was taken as a sample. The annual report of State Bank of India has been used for making an analysis on the financial performance of the Bank in bancassurance and the data pertinent to bancassurance has been collected from journals & magazines as well as the internet.

TOOLS USED FOR ANALYSIS

CAMEL model, a recognized model for measuring the financial performance of a bank is used in this study to analyze the performance of SBI in bancassurance. Ratio analysis, one of the most important techniques of financial statement analysis is generally used to find out the financial performance in CAMEL model. With the help of ratios, one can pinpoint improvements in performance or developing business areas.

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 are designed to reflect a bank's financial performance.

The Table 2 presents the selected financial indicators for each of these selected modules and its expected effects on the likelihood of the improvements of bank's performance.

ENTRY OF STATE BANK OF INDIA IN BANCASSURANCE

On December 28, 2000, the State Bank of India (SBI) announced a joint venture partnership with Cardif SA (the insurance arm of BNP Paribas Bank). The State Bank's entry into insurance sector is ground breaking for several reasons. This was the first for an Indian bank to enter the insurance market. Second, even though the regulators have said that banks would not (generally) be allowed to hold more than 50% of the share to form an insurance company, the SBI was allowed to do so. Ever since the entry of the SBI, a number of other insurance companies have declared their desired banking partners. In this process, both life and non life companies have tied up with banks. The company plans to explore insurance business with the potential of State Bank of India's 9,000 plus branches spread across the country and also the 4,000 branches of its associate banks. At the end of the financial year 2008-2009, SBI earned **a revenue of ₹ 400 Crores** by the sale of insurance policies. It is to be noted that the bank earned **24% of its net profit** through the commission on bancassurance. The insurance company SBI Life could also earn about 55% of its premium income through its bancassurance channel.

ANALYSIS OF BANCASSURANCE PERFORMANCE OF SBI BY USING CAMEL MODEL

For analyzing the performance in bancassurance, it is very essential to analyze the effect of some of the important

Table 2: Financial Indicators Of The Selected Modules And The Expected Improvement In The Bank's Performance

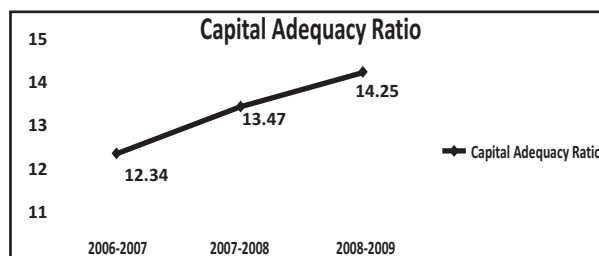
Financial indicators	Expected effect on the likelihood of improvement in the bank's performance
1) Capital Adequacy and Solvency	
a) Capital Adequacy Ratio (CAR)	Increase
b) Gearing ratio	Increase
2) Asset Quality	
a) Return On Asset (ROA)	Increase
b) Non performing assets (NPA) as % to net advances	Decrease
3) Management Performance	
a) Staff cost as % to net income	Decrease
b) staff cost as % to operating expense	Decrease
c) business per employee	Increase
d) profit per employee	Increase
e) Non fund income as a % to total income	Increase
f) operating cost as % to net income	Decrease
4) Earning Performance	
a) Earning per share	Increase
b) Net profit as % to total income	Increase
c) spread as % to total income	Increase
d) Burden as % to total income	Decrease
5) Liquidity management	
a) Credit Deposit Ratio(%)	Increase
b) Time deposit as % to total deposit	Decrease
c) Liquid asset as % to short term liabilities	Increase

variables (which have direct relationship with bancassurance performance) come under each category of CAMEL Model by using the ratios in different financial years. A brief description of the major ratios, which are essential for measuring the financial performance in bancassurance are given below.

1) Capital Adequacy Ratio : Capital Adequacy Ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. It is also called as Capital to Risk Weighted Asset Ratio (CAR). It determines the capacity of the bank in terms of meeting the time liabilities and other risk such as credit risk , operational risk, etc. 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 percent, and the level of non performing assets should be reasonable. Hence, the analysis of such ratio is very important. The formula for calculating CAR is given below:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital Funds}}{\text{Risk Weighted Assets And Contingents}}$$

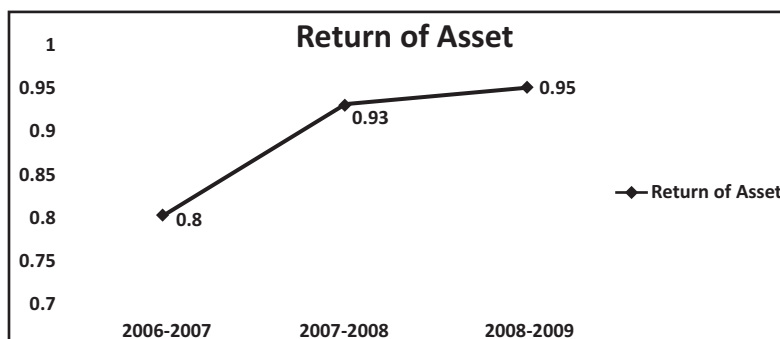
Figure 2 : Capital Adequacy Ratio Of State Bank Of India



2) Return On Assets : This ratio is calculated to find out productivity of the assets. The ROA ratio reveals how much income management has been able to squeeze from each rupee's worth of a company's assets. The best opportunity for the banks, which undertakes bancassurance operation is that, it can increase its Return On Assets. The formula for calculating Return On Investment is:

$$\frac{\text{Net Income}}{\text{Average Total Assets}}$$

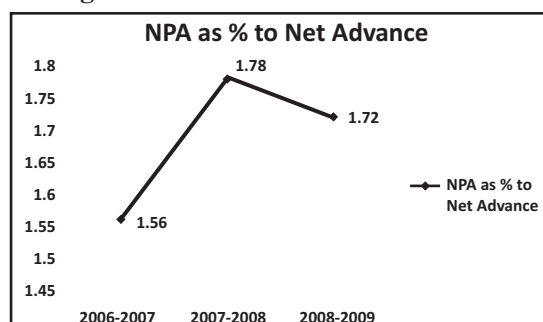
Figure 3: Return On Asset



3) Non Performing Assets (NPA) As % To Net Advances : This is used to find out the percentage of non performing assets to net advances. The other prescribed norm for bancassurance by RBI is that the reasonable level of Non-Performing Assets. For this, the bank can take steps to reduce the same as a % to net advance. This can be obtained by using the formula :

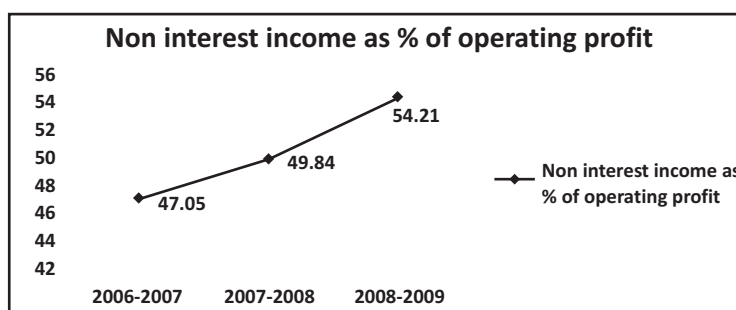
$$\frac{\text{Non Performing Assets}}{\text{Net Advance}}$$

Figure 4: NPA As % To Net Advance



4) Non Interest Income As A Percentage Of Operating Profit : This would reveal the percentage of non-interest income contribution to the operating profit. The bancassurance revenue mainly leads to an increase in the non-interest income.

Figure 5: Non-interest Income As % Of Operating Profit

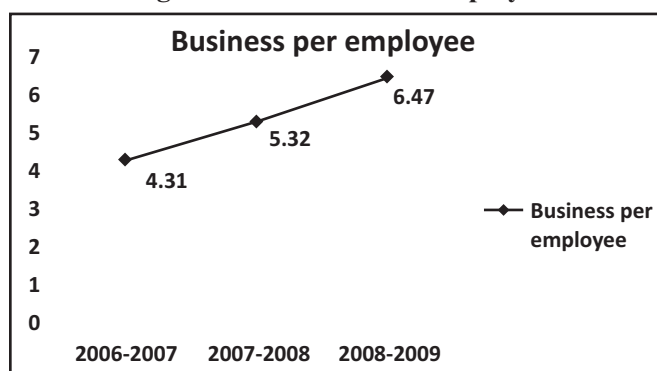


5) Business Per Employee: This is used to find out the productivity of the employees. The other benefits of bancassurance is the bank can improve its business per employee through bancassurance . The bank can be able to earn income through bancassurance business by using its existing employees. The formula for calculating business per

employee is given below:

Total Of Net Advance And Deposits
Average Employee Numbers

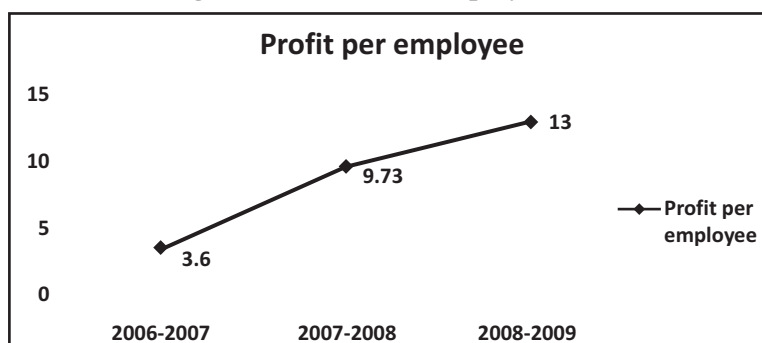
Figure 6 : Business Per Employee



6) Profit Per Employee : One of the major benefit of bancassurance is the bank is able to increase its profit per employee. The ratio of profit per employee helps to find out productivity of the employees in terms of profit. This is also calculated based on employee numbers.

Net Profit
No. of Employees

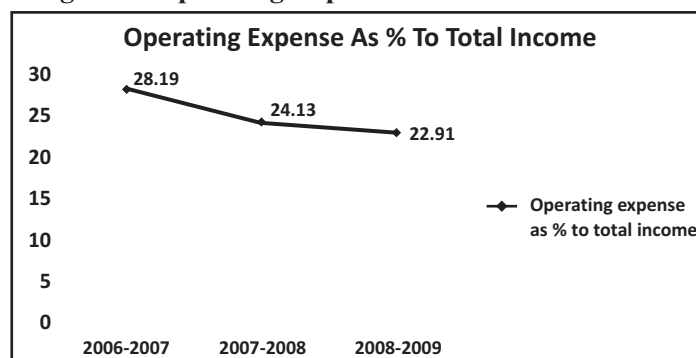
Figure 7 : Profit Per Employee



7) Operating Expense As Percentage To Total Income: Bancassurance will lead to a reduction in the operating expenses of the banks as it can have the opportunity of economies of scale.

8) Staff Cost As Percentage To Net Income : Indian banks have excess human resources as a consequence of

Figure 8: Operating Expense As % To Total Income



automation. Bancassurance provides them the opportunity to redeploy these resources profitably and thereby, bank can reduce the staff cost.

Figure 9: Staff Cost As % To Net Income

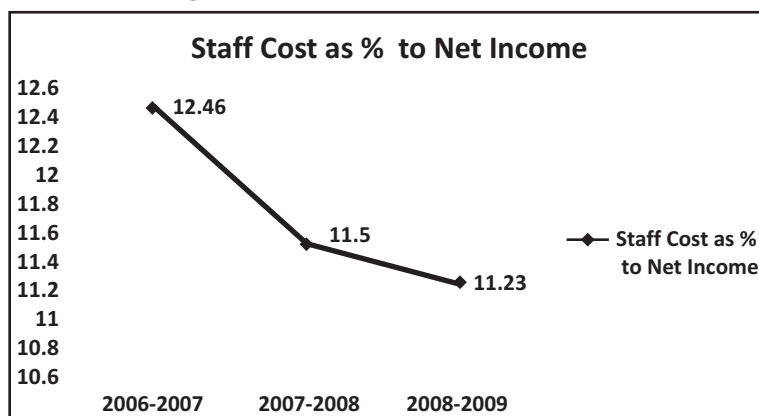


Table 3: Table Showing The Performance Of SBI In Bancassurance From 2006 To 2009

Financial indicators of SBI	2006-2007	2007-2008	2008-2009	Effect (increase/decrease)
Capital Adequacy Ratio	12.34	13.47	14.25	Increase
Return On Asset	0.80	0.93	0.95	Increase
Non performing assets (NPA) as % to net advances	1.56	1.78	1.72	First increase and later decrease
Staff cost as % to net income	12.46	11.50	11.23	Decrease
Business/employee	4.31	5.32	6.47	Increase
Profit per employee	3.6%	9.73%	13%	Increase
Non interest income as a % of operating profit	47.05	49.84	54.21	Increase
Operating expenses as % to total income	28.19	24.13	22.91	Decrease
Earning per share	86.29	106.56	143.67	Increase

OBSERVATIONS

As far as SBI is concerned, the above Table 3 itself indicates that the performance of SBI in bancassurance is not in its infancy, but in its developing stage. The bank can achieve almost all the advantages of cross selling through bancassurance.

1. The Capital Adequacy Ratio (CAAR) has been found to be satisfactory, as it has been above the prescribed norms (should not be less than 10%) of RBI that it reveals the potentiality of SBI to perform bancassurance operations. The other prescribed norm for bancassurance by RBI is that the reasonable level of Non-Performing Assets. For this, the bank can take steps to reduce the same as a % to net advance. As SBI is concerned, it is to be noted the ratio of NPA to net advance increased to 1.78% in 2007-2008 as against 1.56% in 2006-2007. But it shows a decreasing trend that is 1.72% in 2008-2009 as against 1.78% in 2007-2008. So, the banks should take necessary steps to reduce its ratio of Non Performing Assets to net advances further.

2. The best opportunity for the banks, which undertakes bancassurance operation is that, it can increase its Return On Assets. From the Table 3, it is to be concluded that the bank can improve its existing performance to increase its Return On Assets. That is why the bank can achieve its cross selling benefits in terms of increased ROA.

3. Indian banks have excess human resources as a consequence of automation. Bancassurance provides them the opportunity to redeploy these resources profitably and thereby, the bank can reduce the staff cost. By analyzing the

financial data of SBI, it is to be found out that the bank can reduce its staff cost in the recent time.

4. The other benefits of bancassurance are that the bank can improve its business per employee and profit per employee through cross selling. From the financial data in the Table 3, it is clear that the business per employee and profit per employee of the bank over the years has been on the increasing trend.

5. As the bancassurance revenue leads to an increase in the non-interest income, the Table 3 show non interest income as a contribution of operating profit from 2006 to 2009. So, it can be observed that the non-interest income as a percentage of operating profit has been increasing.

6. Bancassurance will lead to a reduction in the operating expenses of the banks as it can have the opportunity of economies of scale. From the Table 3, we can observe that the ratio of operating expense as a % to total income has been decreasing. Thus, we can conclude that the bank can achieve the benefit of cross selling through the reduction of its operating expenses.

7. The variable Earning Per Share (EPS) is not directly related with bancassurance. But the result of any reforms in any industry will indirectly aim to increase its earning per share. In this sense, it is essential to take a look at the EPS of the company. The financial data of SBI for the past 3 years shows that the EPS of the bank is increasing.

CONCLUSION

The road to bancassurance has been laid. Like SBI Life in India, a few bancassurance vehicles have started their journey on the road. But they have miles to go further to make our country as a major player of bancassurance business like Italy, France etc. Through this study, the bank can know its performance in bancassurance and whether it is contributing to the overall progress of the bank or not. The increase in the non interest income, profit per employee, business per employee etc and decrease in the operating expense, staff cost, level of non performing assets by the bank for the last few years indicates that the financial performance of the State Bank in bancassurance has been good and bancassurance has also contributed well to the overall progress of the bank. So, there is every reason to be optimistic that bancassurance in India will play a long innings. Finally, success of the bancassurance would mostly depend on how well insurers and banks understand each other's businesses and seize the opportunities presented, weeding out differences that are likely to crop up.

BIBLIOGRAPHY

1. B. Balaji Sathya Narayanan (2010), "Bancassurance: Time to change Tack", Insurance Chronicle, February.
2. Banarjee T.K., (2004) 'Business Values in Bancassurance' The Journal of Indian Institute of Banking and Finance, April-June
3. K. Ravichandran, (2007) 'Recent Trends In Insurance Industry in India', Text Book Published by Abhijeet Publications, Delhi.
4. MOHD. Akbar Ali Khan & MOHD. Abdul Samad, (2007) 'Bancassurance An innovative service offered by banks in India', Asia Economic Review, Vol-49, No.1, April.
5. R. Venugopal (2010), "Bancassurance in India", Insurance Chronicle, January 2010.
6. Shri Vineet Aggarwal (2004), "Bancassurance: Concept, Framework & Implimentation", The Journal of Indian Institute of Banking and Finance, Vol.No.XXX, July-December.
7. T.K Banerjee, (2004) "Business Values In Bancassurance", Bank Quest Vol.75.No.2, April-June.
8. www.statebankofindia.com.