



IJMIRD 2015; 2(2): 495-498  
www.allsubjectjournal.com  
Impact factor: 3.672  
Received: 03-02-2015  
Accepted: 17-02-2015  
E-ISSN: 2349-4182  
P-ISSN: 2349-5979

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## Efficiency of bancassurance channels – An evaluation of the performance of public sector banks in India

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### Abstract

This paper investigates efficiency of Bancassurance channel of State Bank of India, the public sector giant Indian banking sector, aiming to assess the changes in the financial performance of the bank after adopting bancassurance channels along with their banking activities. The study provides a comprehensive view of the impact of bancassurance on the financial performance of State bank of India. Capital Adequacy Ratio, Return on Asset, Level of NPA, Staff Cost, Profit Per Employee, Business Per Employee, Operating Expenses and Staff cost are the variables used for measuring the performance of bancassurance channels. The changes in these variables after initiating the bancassurance channels are also identified. The effect of bancassurance is measured by analyzing the financial performance of the bank before (1998-2002) and after (2008-2012) the commencement of bancassurance channels. The relationship between volume of cross selling percentage and performance measurement variables are also analyzed for measuring the effectiveness.

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

### Introduction

#### Bancassurance- Meaning

'Bancassurance', the term itself tells what does it mean. It is a combination of the term 'Bank' and 'Insurance'. It means that insurance have started selling their products through banks. It is a new concept to Indian market but it is very widely used in western and developed countries. It is profitable both to banks and insurance companies and has a very bright future.

Insurance company can sell both life and non-life policies through banks. The share of premium collected by banks is increasing in a decent manner from the time it was introduced to the Indian market. In India Bancassurance is guided by Insurance Regulatory and Development Authority (IRDA) and Reserve Bank of India. All banks and insurance company have to meet particular requirement to get into bancassurance business.

**Table 1:** Volume of Cross selling of SBI from 2008-2012

Year	Cross selling Percentage
2008	26
2009	29
2010	33
2011	37
2012	35

Source: Annual report of IRDA

### Objectives of the study

1. To identify the performance of SBI before and after the commencement of bancassurance channels
2. To measure the effectiveness of bancassurance business of SBI

### Methodology

Bancassurance provides win win situation for both banks and insurance companies. This study aims to find out the effects of bancassurance business on the performance of banks. SBI has the largest market share in bancassurance business among public sector banks. The study measures the performance of bancassurance of State Bank of India.

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In India bancassurance was started only after 2001 and it flourishes after 2002. So the data from the period 1998 to 2002 were taken for measuring the performance before the commencement of bancassurance and the data from the period of 2008 to 2012 were taken as after the flourishing the bancassurance business.

### **Literature related with performance of bancassurance in banks perspective**

Linda Allen and Julapa Jagtiani (2000) tries to examine the impact of securities and insurance activities on the banking firms risk. Its to be found that these nonbanking activities reduce the overall risk to the firm but increase systematic market risk thus reducing the firms ability to diversify more over the unit price of risk does not appear to contain a risk premium to price the enhanced systemic risk exposure that might be reduced by greater convergence across financial firms. The findings suggest that if there are gains to universal banking, potential gains from synergies and demand effects must be powerful enough to overcome the disadvantages of increased systemic risk exposure. The results suggest that diversification benefits, when considered in isolation from the other implications of expanded bank powers, are not sufficiently large to justify expanding bank powers into non bank securities and insurance underwriting activities.

P.S Shenoy (2002) share views on universal banking which is the latest event happening on the sub-continent. It states that universal banking is the only logical step in the journey towards globalization, liberalization and deregulation, the issue of universal banking need to be seen from a broader and deeper perspective of financial sector reforms. Universal banking is the issue of the integration of the various segments of the financial markets, removal of rigidities and arbitrage opportunities between them and fostering stability of the total financial system which is so central to the health of the economy. Equally important is the efficiency of the regulatory system to monitor the affairs of such large conglomerates. Transparency and disclosure norms coupled with good corporate governance must go hand in hand with any new steps towards liberalization and universalisation of the Indian banking industry.

R. Krishnamurthy (2003) seeks to review the factors driving the convergence of banking and insurance. The paper tries to raise the awareness of banking and finance professional about the global phenomenon of convergence in the financial sector and certain unique issues in the Indian context due to ownership and aspects that underline the need for a careful treading of the path. It also tries to find out the ideal bancassurance model suitable for Indian. It was found out that the ideal bancassurance model will depend upon the vision of the bank board, the size of the bank, its geographical reach and the client mix and the capability of the bank management to successfully manage the integration

process. The major policy issues and risks related with convergence of banking and insurance also comes under the scope of the study.

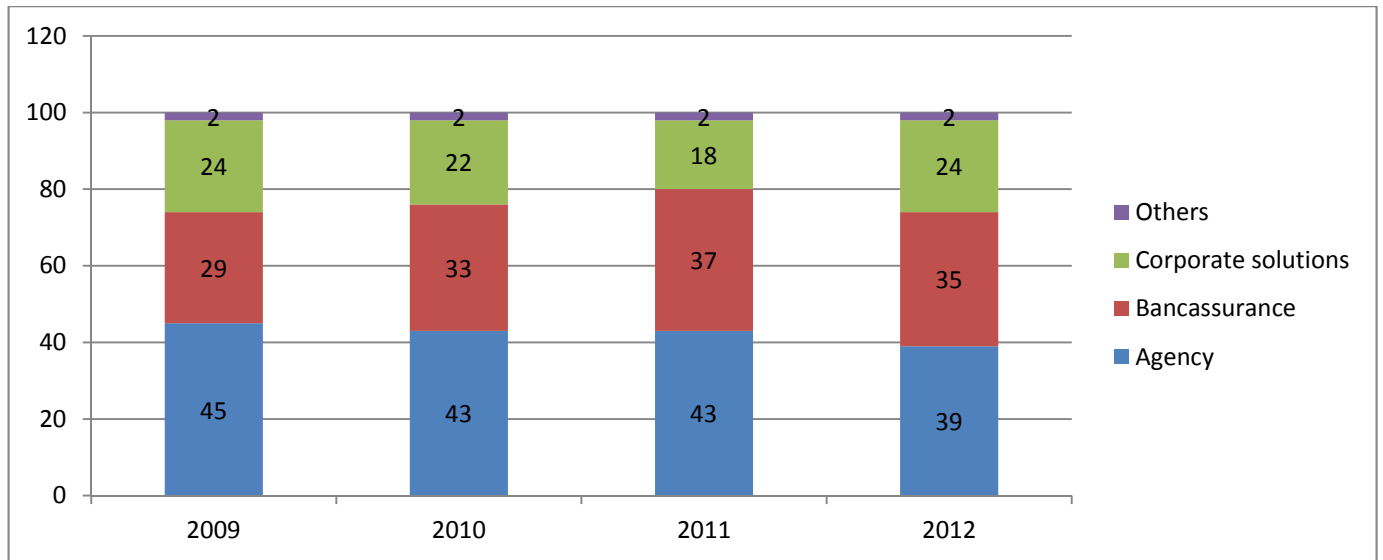
Ianthi Pilavakis (2005) made an attempt to concentrate on the Cyprus market and within the work limit. It had given a brief description of how bancassurance is implemented and how it will be affected by Cyprus accession to the European Union. Section two outlines the advantages and disadvantages which banks and insurance companies engaging in such activities face. Section three constantly gives an insight of the implications of the European directives will have on the industry and section four which forms the core substance of the work, express authors views on the issue and intrigues the reader to consider the future of bancassurance.

### **Effect of bancassurance on performance measurement Variables**

1. Bancassurance helps to increase the Capital Adequacy Ratio of banks
2. Bancassurance helps to improve Return on Asset
3. Bancassurance helps to reduce level of Non performing assets
4. Bancassurance helps to reduce staff cost by engaging the staff for insurance activities along with banking activities
5. Bancassurance helps to increase Business Per Employee
6. Bancassurance helps to increase the profit per employee
7. Bancassurance helps to increase the non interest income
8. Bancassurance helps to reduce operating expense
9. Bancassurance helps to increase Earning Per Share

### **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 Rs.400 Crores** by the sale of insurance policies. It could noted that the bank earned **24% of its net profit** through the commission on bancassurance. The insurance company SBI Life could also earn about 26% of its premium income through its bancassurance channel.



**Diagram 1:** Channel wise performance of SBI Life Insurance

**Table 2:** Performance of SBI from 1998 to 2002

Financial indicators of SBI	March 1998	March 1999	March 2000	March 2001	March 2002	Mean
Capital Adequacy Ratio	14.58	12.51	11.49	13.35	13.5	13.086
Non performing assets (NPA) as % to net advance.	7.31	7.18	6.41	5.63	4.5	6.206
Return On Networth	0.51	0.46	0.75	0.7	0.86	0.656
Business/employee	105.83	93.64	111.2	173.01	191	134.936
Profit per employee	0.78	0.43	0.87	1.16	1.47	0.942
Non interest income as a % of total funds	15.08	14.67	13.85	12.93	12.28	13.762
Staffcost(figures in lakhs)	5142.3	4556.25	4447.87	6011.65	5152.78	5062.17
Earning per share	44.08	42.65	38.98	30.48	46.2	40.478

Source: Prepared by using statistics of commercial banks published in RBI Annual report 2012

**Table 3:** The performance of SBI from March 2008 to March 2012

Financial indicators of SBI	March 2008	March 2009	March 2010	March 2011	March 2012
Capital Adequacy Ratio	13.47	14.25	13.39	11.98	13.86
Return On Net worth	0.93	0.95	0.88	0.71	0.88
Non performing assets (NPA) as percentage to net advances	1.43	1.47	1.50	1.49	1.76
Staff cost as a percentage to total expenses.	15.89	15.06	17.10	19.97	17.42
Business/employee	54.92	65.02	73.74	79.05	91.24
Profit per employee	0.36	0.44	0.47	0.42	0.55
Non interest income as a percentage of operating profit	32.29	26.45	33.67	37.81	38.73
Operating expenses as percentage to total income	49.03	46.62	52.59	47.60	45.23
Earning per share	126.62	143.77	144.37	130.16	184.31

Source: Prepared using Secondary data available in RBI Annual Reports from 2008 - 2012

**Table 4:** Mean score of the Performance of SBI before and after the commencement of bancassurance

CAMEL Variables	Mean score Before (1998-2002)	Mean score after (2008-2012)
CAR	13.086	13.39
NPA	6.206	1.53
ROA	0.656	0.87
Business per Employee	134.936	72.794
Profit per Employee	0.942	0.448
Non-Interest Income	13.762	33.79
Staff cost	5062.17	12494.7
EPS	40.478	145.846

Source: Prepared by using secondary data from the annual report of RBI

### Comparison of Mean score of SBI before and after the commencement of bancassurance

In order to make a comparison between mean score of bank to find out the difference in the mean score is statistically significant or not, statistical hypothesis is formulated. The paired sample t-test is used for comparing the difference in

the mean score. The result of the test is given in Table No.5. The table result shows that the p-value is higher than 0.05. So the hypothesis is accepted and conclude that there is no change in the mean score of the variables before and after commencement of bancassurance business of SBI.

**Table 5:** Result of paired sample t-test showing the difference in mean before and after the commencement of bancassurance

	Mean	Std. Deviation	t	df	Sig. (2-tailed)
Mean before and after the commencement of bancassurance of SBI	-936.39	2625.24	-1.009	7	.347

Source: Prepared using secondary data from the annual report of RBI

### Relationship between volume of cross selling and performance of bancassurance business of SBI

For measuring the effectiveness bancassurance, the relationship between volume of cross selling and variables showing cross selling benefit to bank are also taken into consideration. Correlation test to used to find out these variables are related directly or inversely with cross selling percentage. For applying the correlation, cross selling percentage of SBI for the five years (2008-2012) were taken as variable X and each attributes showing the cross selling

benefits are taken as separately as variable Y. For concluding the bancassurance is effective, the variables including CAR, ROA, Profit per Employee, Business per Employee, Non interest income and Earning per share of the banks should be positively correlated with cross selling percentages and the variables including NPA, Staff cost and Operating expenses should be negatively correlated with cross selling. The result of the correlation analysis of SBI is given in Table No. 6

**Table. 6** Relationship between Volume of Cross selling and attributes used for measuring the performance of bancassurance channels of SBI

SBI	CAR & Cross Selling	ROI & Cross Selling	NPA & Cross Selling	Staff Cost & Cross Selling	Business Per Employee & Cross Selling	Profit Per Employee & Cross Selling	Non Interest income & Cross Selling	Operating Expense & Cross Selling	EPS & Cross Selling
Pearson correlation	-.566	-.804	.528	.858	.885	.593	.748	-.154	.384

The Table No. 5 the capital adequacy ratio and ROI of SBI are negatively correlated with cross selling instead of positive correlation. In case of ICICI, CAR, ROI and EPS are positively correlated with cross selling. But business per employee is negatively correlated. Again, the NPA and staff cost of SBI are positively correlated with cross selling instead of negative correlation. So it can be concluded that bancassurance is not much effective in attaining its benefits to bank

### Conclusion

In India the growth of bancassurance business are very meager as compared to other parts of the world. A small portion of the banks in India including State bank of India, ICICI bank, HDFC bank etc are actively participating in bancassurance business. Another reason for the slow growth of bancassurance business in India are due to the non active participation of public sector insurance companies operating in India. This study reveals that the performance of State Bank of India in bancassurance are not up to the satisfactory level. The bank could not achieve most of the objectives of cross selling. Moreover the bancassurance channel does not help the bank to improve the financial performance.

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