

P E R S P E C T I V E

Leveraging IT to Win in Bancassurance Segment



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In pursuit of fee based income avenues, banks across geographies have joined the Bancassurance bandwagon. Various business models have been implemented by banks to leverage the bancassurance opportunity. Models like working as a pure distributor, setting up new insurance businesses, acquiring existing insurance firms and setting up joint ventures along with seasonal insurers have been observed across the globe. In certain cases, a reverse flow has also been witnessed whereby insurance companies have set up / acquired banking business to compete with the serious bancassurance players.

Among the various business models available, the pure distribution model, wherein a bank ties up with insurers to distribute insurance products to their customer, has been particularly popular. The reasons that work towards making this an attractive proposition are primarily low capital requirements, lesser time to market, simpler regulatory requirements and ability to generate considerable income streams without getting involved in core insurance processes like underwriting, risk management, claims and benefits processing, among others

Here we will take a brief view on the distribution based bancassurance model and highlight the technological solution required to harness the true benefits of bancassurance business

Current State

The current state of IT infrastructure deployed by most of the banks to manage this business is a far cry from the systems required to leverage the bancassurance opportunity efficiently. The existing set ups for bancassurance business generally varies from deploying specialized applications to managing operations without having proper integration with other banking systems like CRM, core banking and Internet banking. to using the core banking platforms to manage certain business requirements of bancassurance business while keeping a lot of processes for manual handling. In many cases, banks are even seen to be taking extreme strategies by depending completely on insurers system to manage operations without having any integration with the bank's internal systems.

These half hearted operational set ups have worked to certain extent due to insurers providing policy servicing to clients directly without banks playing active role in post issuance processes. However, these operational models pose serious threats to banks' ambitions of boosting their fee incomes significantly from their bancassurance operations. The factors like low automation, information residing in silos in various systems and reconciliation issues due to increased volumes have resulted into low productivity of staff, eventually leading to higher cost of operations. The situation becomes grimmer when we consider the loss to business due to poor customer service just because of the lack of desired system support. In reality, the onus of this situation does not completely rest with the banks operational architects. IT vendors have also been slow in providing the solutions in the bancassurance arena.

Operational Drivers	Business Drivers	Market Environment
<ul style="list-style-type: none"> • Low automation • Low productivity • Inability to manage large scale of operations • Customer servicing 	<ul style="list-style-type: none"> • Need to enhance fee income • Ensuring regular future income through commissions • Loss of income due to high policy lapse rate 	<ul style="list-style-type: none"> • Decreasing customer loyalty • High quality service expectation • Ever increasing competition from other banks, other financial institutions and individual agents

Figure – Key Drivers to Redefine the IT Strategy for Bancassurance Operations

You may find a lot of vendors providing banking and insurance solutions separately but few vendors have made serious efforts to address bancassurance business requirements. Put together, these issues do not allow banks to leverage the advantage they had over other traditional insurance distributors in terms of customer trust and access to their financial status.

Nevertheless, the business scenario has changed significantly in the recent years. Multiple operational, business and environmental drivers requires the banks to reassess their bancassurance strategy and streamline the IT infrastructure.

Implementing a Winning Bancassurance Solution

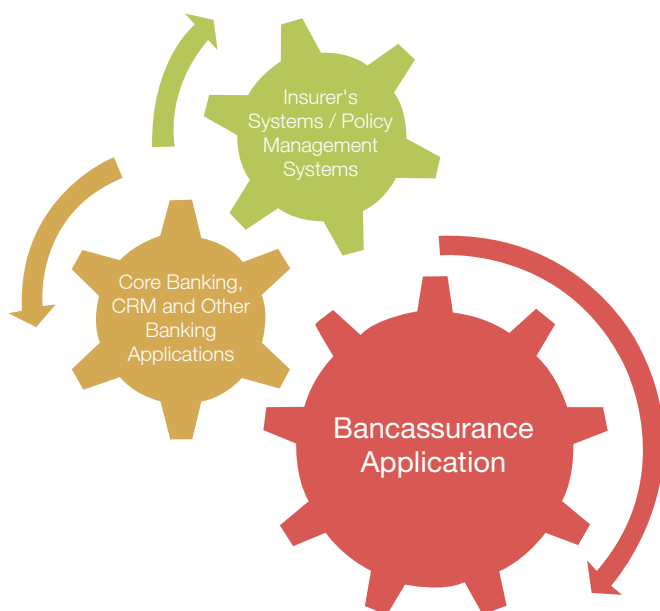


Figure – Bancassurance Ecosystem

Consider a case when a customer of a leading bank providing bancassurance services calls up the customer service representative at the bank to enquire about his forthcoming mortgage EMI and insurance premiums. After informing the customer about the mortgage EMI, customer care executive has to put him on hold before he can share information on his insurance policies. This is because the executive requires time to log into insurance system to check details of his customer.

In extreme cases, it may happen that customer service representative may inform the customer to get in touch with insurer to know his policy details as the bank's CRM system does not reflect the insurance details. Imagine what this can do to the bank's service quality reputation and its claim of one stop service provider for all financial needs. This situation is not merely a fictional creation but explains the reality of bancassurance business in practice today.

Considering the above, it is needless to say that an engaging bancassurance solution not only needs to provide comprehensive features to manage bancassurance business, but also needs to ensure a seamless flow of information with the bank's existing core, CRM, Internet banking, financial planning and other allied applications. System vendors have taken various approaches to provide solutions to these requirements. On one side we have universal banking systems having bancassurance solutions integrated with their core banking, CRM, Internet banking and other allied products. On the other hand, we have specialized bancassurance system providers marketing solutions which can be interfaced with banking and policy management systems.

While selecting the right system for the operations, banks need to look at their overall IT strategy and then choose the complementing bancassurance solution. Few attributes that banks need to keep in mind while selecting their bancassurance system are covered in Figure 3 - Key building blocks of bancassurance system.

Product Maintenance Capabilities
<ul style="list-style-type: none"> • Rule based infrastructure to setup life and non-life products • Ability to setup and distribute products manufactured by multiple insurers
Quotes Management
<ul style="list-style-type: none"> • Ability to create and maintain quotes based on client's insurance requirements • Capability to integrate with quotes engine provided by insurers

Comprehensive Transactions Processing Capabilities

- Ability to manage various transactions performed during life cycle of a policy like new policy request, policy renewal, recurring premium payments, cancellation, claims and endorsements
- Capability to support premium adjustment processes and rules to capture and process transactions done directly with insurers
- Capability to maintain and execute mandates to collect premium from customer operative accounts on premium due dates

Robust Interfacing Capabilities

- Ability to talk to policy management system to reconcile various transaction done by policy holders, obtain premium details, policy attributes, unit balances and NAV for ULIP etc. Standardized interfaces may not be available with all policy management systems deployed by insurers, hence solution must provide flexibility to talk to variety of applications while limiting the cost of integration
- Capability to communicate with bank's other system especially CRM, core banking, financial planning, e-banking application. This is important as there must be single customer definition and complete view of customer's insurance policies and transactions should be available across banking channels
- Interfacing capabilities with bank's incentive management system to enable bank reward highly performing staff effectively

Commission Income Management

- Ability to forecast and book income expected from different insurers and policies arising out of various business activities- like premium payments, AUM created for policies sourced by bank and production bonuses, among others
- Reconciliation of commission received from insurers
- Managing commission claw backs and appropriately making provisions from commission income

Reports and MIS

- Reports to manage back office, middle office and front office operations and MIS requirements

Figure 3 – Key Building Blocks of a Bancassurance Solution

The key to success in bancassurance segment is to differentiate the offerings to customers from rest of the insurance service providers. Banks have an advantage over traditional insurance distributors in terms of having greater trust of customer, knowing customer's financial situation and managing customer other assets. They can leverage this proposition to position themselves as financial planning advisors rather than behaving like regular insurance distributors. Enabling relationship managers to create and leverage this positioning require the support of an IT infrastructure with a single customer definition across banks applications, 360 degree view of customer holdings across products and securities including insurance and also tools to access the customer requirements that help in guiding them to select suitable products.

These investments in technology are bound to yield far reaching benefits to banks in terms of higher productivity per employee, better customer service, lower policy lapse rate, thus increasing overall profitability from bancassurance business.

Finacle and Bancassurance

Finacle from Infosys partners with banks to power-up their innovation agenda, enabling differentiated products and service, enhancing customer experience and improving operational efficiency at banks. Finacle solutions address the core banking, wealth management, CRM, Islamic banking, treasury, e-banking and mobile banking requirements of retail, corporate and universal banks worldwide and provide online marketing tools like Finacle finanz tools.

As part of WMS offering, Finacle provide solutions to meet middle and back office operational requirements of banks engaged in providing investment and insurance solutions to their clients.

The WMS offering include comprehensive features to manage operations for varied asset classes including mutual funds, structured products, equities and insurance.

Finacle insurance offerings enable banks to efficiently leverage the bancassurance opportunity by providing a robust operational platform to distribute life and non-life insurance products from multiple insurers. The solution provides comprehensive functionality to manage various insurance distribution processes like new policy proposal, premium adjustments, recurring premium payments, policy renewals, endorsements and cancellation. and provide a robust reconciliation platform to interface with policy management systems. The fully integrated system with Finacle core and CRM ensures a single and a unified view of customer across the bank's applications and seamless flow of transactions.

A comprehensive commission management module enables bank to book and realize commissions earned from various business activities like new policy issuance, recurring premium payments, renewals and AUM under policies across insurance products under various commission heads like basic commission, bonus commission and marketing expenses. The robust commission management functionality ensures that bank is always in control of the commission income and can manage commission clawbacks effectively. Features like auto premium collection from customer operative accounts on premium due dates help in reducing the lapse rate and therefore increasing the overall profitability from bancassurance operations.

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