

# Nepalese Journal of Insurance and Social Security

# NJISS

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# Perception among the Employees of Bank towards the Bancassurance in Nepal

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## Abstract

The study aims to explore the perception of employees working in banking industry and investigates the problems and prospects of bancassurance in Nepal. Quantitative data have been collected from 100 employees working in 20 commercial banks using structured questionnaire. Product design, customer awareness, brand name, distribution channel and awareness of retail banks are considered as independent variables whereas present status of bancassurance is taken as dependent variable in the study. Both descriptive and inferential statistical tools have been applied to analyse the data. The result reveals that there is a positive relation between product design and brand name with present status of bancassurance in Nepal. This means that better the products lead to success of Bancassurance. The results also reveal negative relationship between present status of Bancassurance and consumer awareness, awareness of retail banks and distribution channel. The study concludes that product design and brand name are the major factors affecting current bancassurance status whereas consumer awareness, awareness of retail banks and distribution channel do not affect on current status of bancassurance.

**Keyword:** *Bancassurance, customer awareness, distribution channel*

## 1. Introduction

Bancassurance concept is the selling of insurance and banking products through the same channel, most commonly through bank branches. Selling insurance means distribution of insurance through Bank, Bancassurance concept originated in France and soon became a success story even in other European countries (Lockett et al, 2002).

The strategy for using the established, entrenched distribution network for one product to market other new products has long existed in the consumer sector. The basic premise for this kind of cross selling is the fact that companies keep diversifying their products portfolios, using established 'incumbent' networks to promote and distribute new product lines. Banks also adopted this strategy in the recent past worldwide. Banks have moved away from the classical model of deposit taking and credit disbursement through their branch networks and have begun to offer a wide range of products and services like security broking facilities and mutual funds (Penda and Bande, 2019). In some countries, bancassurance is still largely prohibited, but it was recently legalized in

countries like USA when the Glass Steagall Act was repealed after the passage of the Gramm Leach Bliley Act (Staikouras, 2006).

The evolution of bancassurance products is divided into three periods. In the first period, prior to 1980, banks sold insurance guarantees that were a direct extension of their banking activities, but were not associated with life insurance. For example, credit insurance was regarded as bancassurance. After 1980, saving products that benefited from advantageous tax regimes associated with life insurance flourished in the banking markets. Around 1990, the supply of insurance products by banks became much more diversified in both life and general insurance categories (Genetay & Molyneux, 1998).

Bancassurance has been a successful model in the European countries contributing 35% of premium income in the European life insurance market. It contributes over 65% of the life insurance premium income in Spain, 60% in France, 50% in Belgium and Italy (Nurullah, 2000). In the US, the banks were earlier not allowed to sell insurance due to the restriction imposed by Glass-Steagall Act of 1933, which acted as a Chinese wall between banking and insurance (Marjorie & Berangere, 2005).

The introduction of Bancassurance in Nepal appears logical as the insurance regulatory body i.e. Beema Samiti claims to be following international trends in insurance industry. Bancassurance simply refers distribution of insurance product through banks and is successful business strategy in Europe, Singapore, and Taiwan, in particular. In Nepal, both awareness and penetration of the insurance industry remains dreadfully low.

There is a huge untapped insurance market in Nepal. Many experts point out that there is immense scope for the insurance sector in Nepal. Since major challenge today is to be on a constant lookout for niche markets, Bancassurance seem as to be lucrative area. Bancassurance can implement effectively if entire bank and financial institution jointly move ahead with strategic decisions.

The objective of the study is to explore the perception of the bank employees towards the bancassurance practices in Nepal. Remaining of the paper has been divided in four chapters. Second chapter review the previous studies while third chapter discusses about the methodology of the study. Fourth chapter includes data analysis and major findings and final chapter concludes the study.

## **2. Literature Review**

Popli and Rao (2009) argued that opportunities exists for banks to cross-sell insurance, these opportunities are based on customer's high usage rate of insurance, the low penetration of banks to insurance programs and customer's willingness to buy insurance from bank and the identification of specific insurance products and certain customer segments enhance the bank's efforts to cross-sell insurance product.

Lee and Marlowe (2003) investigated that the most important criterion that consumers use in selecting a financial institution is convenience in terms of location of office and/or other convenience features. Retail fees are the second most frequent reported decision-making criterion followed by the range of services offered and the existing personal relationships. Boyed et al. (1994) found that factors such as reputation, interest charged

on loans and interest paid for saving accounts were critical, while less important were friendliness of employees and the modern facilities.

Karunakaran (2006) found that success of bancassurance greatly hinges on banks ensuring excellent customers relationship; therefore, banks need to strive towards that direction. Black et al. (2002) analysed that consumer confidence, lifestyle factors, motivation and emotional responses influence the customer's choice, while product, channel and organizational factors such as image and reputations are also significant. Chen et al. (2008) found that size of the national banking industry, the level of financial deregulation within a country, and the national inflation rate play significant role as determinants of Bancassurance.

Artikis et al. (2008) had identified profit potential, product expansion, wider customer base, lower distribution costs, stronger brand names, improved products and services, automated and simplified financial transactions affect the bank-insurance interface. Wever (2002) found that banks need expertise in product design, underwriting, administration and claims, Banks should use customer's data bases that could use demographic and financial information to generate warm leads for insurance sale, resulting in significant distribution efficiency.

Hwang and Goa (2005) analyzed life insurance companies operating in the Irish market, measuring cost efficiency with a stochastic frontier approach. The efficiency scores obtained are then regressed on a set of covariates in order to detect the main driver of performance. The authors concluded that size, market share and dummy indicating bancassurance companies are positively related to cost efficiency in a statistically significant way. The adopted operational definition of bancassurance in "the distribution of insurance product by banks" consequently bancassurance firms are those centered on selling insurance through the established distribution channels of their associated banks. The criterion used appears to be related only to the distribution system, while banks presence in the ownership structure of insurance companies is not explicitly considered.

Kumaraswamy (2012) analysed that insurance fulfills the requirements of banks like asset management, investment skills distribution and capital adequacy, competitive edge over competitors, greater life cycle management, diversification and growth of revenue, diversification of risks by tapping another area of profitability. And customers by the delivery of all financial services at the doorstep, advisory services under one roof, relief from efforts from search for person or service/products, benefits of choosing multiple products at one place, satisfaction of brand strength of banks, better value and cheaper premiums, reduced premium charges, high quality products and trust on banks.

Ghimire (2013) highlighted that there is huge network of banking industry in Nepal. Thus, banks can play effective role to promote the insurance industry market in future, if the regulatory and economic environment creates the conducive milieu and comfortable workable situation.

Bancassurance is the simplest way of distribution of insurance products through the bank distribution channel. It is process of selling insurance products and services by leveraging vast customer base of a bank and fulfills the banking and insurance needs of the customers at the same time (Chowdhary, 2006). Due to merging of global financial markets, development of new technologies, universalization of banking industries and with expansion of non-banking activities, the insurance industry has globally brought in new channels of distribution into existence (Alavudee & Rosa, 2015).

**3. Methodology**

**3.1 Study design:** This study has employed descriptive and causal comparative research designs to deal with the fundamental issues associated with various factors contributing problems and prospects of Bancassurance in Nepal and established cause and effect relationship between different variables influencing Bancassurance and its impact on success of Bancassurance model in Nepal.

**3.2 Population and sample:** There are 27 commercial banks in Nepal including public and private ownership. Out of 27, two third banks (18) have been selected for the study. Purposive sampling method has been used to select the employees from each bank. Total 100 respondents were selected from 18 banks ranges from minimum two to maximum 18 employees with the non-probability sampling method. The study is carried out only inside the Kathmandu valley.

Table 1 shows the number of commercial banks selected for the study along with number of observations.

**Table 1: List of commercial banks and number of respondents from each bank**

| Name of Bank                    | No | Name of Bank                       | No         |
|---------------------------------|----|------------------------------------|------------|
| Bank of Kathmandu Ltd.          | 2  |                                    |            |
| Century Commercial Bank Ltd.    | 5  | NIC Asia Ltd.                      | 5          |
| Citizen Bank International Ltd. | 5  | NMB Bank Ltd.                      | 3          |
| Global IME Bank Ltd.            | 5  | Prabhu Bank Ltd.                   | 18         |
| Himalayan Bank Ltd.             | 2  | Prime Commercial Bank Ltd.         | 5          |
| Laxmi Bank Ltd.                 | 3  | Rastriya Banijya Bank Ltd.         | 2          |
| Lumbini Bank Ltd.               | 5  | Sanima Bank Ltd.                   | 10         |
| Nabil Bank Ltd.                 | 5  | Siddhartha Bank Ltd                | 5          |
| Nepal Investment Bank Ltd.      | 5  | Standard Chartered Bank Nepal Ltd. | 10         |
| Nepal SBI Bank Ltd.             | 5  | <b>Total</b>                       | <b>100</b> |

Source: [www.nrb.org.np](http://www.nrb.org.np), 2018

**3.3 Data Collection Tool:** Primary data have been collected using structured questionnaire. Printed questionnaire were distributed to some respondents while some preferred the online questionnaire so that online questionnaire were also prepared and sent via their email.

**3.4 Data Analysis Tool:** The responses were received in varieties of scale while the perception and opinion toward the Bancassurance were received on five points likert scale. Descriptive as well as inferential statistic (Correlation, regression) have been applied while analysing the data.

For the regression analysis, following model has been assumed and tested with multiple regression. It shows the theoretical relationship of factors influencing Bancassurance.

$$BA = \beta_0 + \beta_1DC + \beta_2CA + \beta_3PD + \beta_4BN + \beta_5AR + e \dots\dots\dots \text{Eq.(1)}$$

Where,

- BA = Present status of bancassurance
- DC = Distribution channel
- CA= Consumer awareness
- PD= Product design
- BN= Brand name
- AR= Awareness of retail bank
- e= error

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  are the beta coefficient of the explanatory variable to be estimated.

Following hypothesis has been formulated for this study:

**H<sub>1</sub>:** There is positive relationship between distribution channel (DC), consumer awareness (CA), product design (PD), brand name (BN), awareness of retail bank regarding the Bancassurance (AR) and present status of Bancassurance (BA) in Nepal

**4. Results and Discussion**

**4.1 Profile of the Respondents**

The demographic characteristics of respondents has been presented in Table 1.

**Table 1: Demographic Characteristics of Respondents**

| Gender                | Percentage | Variables                     | Percentage |
|-----------------------|------------|-------------------------------|------------|
| Male                  | 53         | <b>Academic Qualification</b> |            |
| Female                | 47         | Up to SLC                     | 1          |
| <b>Age</b>            |            | Intermediate                  | 4          |
| Up to 20 Years        | 3          | Bachelors                     | 21         |
| 21 - 30 years         | 37         | Masters and above             | 74         |
| 31-40 years           | 45         | <b>Annual Income (NRs.)</b>   |            |
| 41 -50 years          | 13         | Up to 0.4 million             | 35         |
| Above 50              | 2          | Above 0.4 to 0.6 million      | 27         |
| <b>Marital Status</b> |            | Above 0.6 to 0.8 million      | 25         |
| Married               | 50         | Above 0.8 million             | 13         |
| Unmarried             | 50         | <b>Total</b>                  | <b>100</b> |

Source: Field Survey, 2018

Table 1 shows that majority of the respondents of this study are male (53 percent), while equally number of respondents in terms of marital status, and highest number of respondents (45%) have age between 31-40 year. Almost three fourth respondents have master and above degree. The annual income of highest respondents (35%) is up to 0.4 million.

**4.2 Opinion towards the Bancassurance**

Opinion of respondents towards the bancassurance has been categorized under awareness on bancassurance, appropriate tool to make aware about Bancassurance, most contributing factor on success of bancassurance in Nepal and types of insurance products mostly purchased from banks.

4.2.1 Awareness towards the Bancassurance: Among 100 respondents, 18% respondents are completely, 46% mostly and 30% partially aware about Bancassurance while few (6%) are not aware about Bancassurance.

4.2.2 Appropriate tool to make aware on Bancassurance: Majority of respondents (51%) argued that electronic media is appropriate tool to inform about Bancassurance while 28% respondents opined that bank branches is suitable for while 11% respondents believe that friend and colleagues and 7% said that bank employees are appropriate means for the communicating about the Bancassurance. Very few (3%) agreed on that direct mail is appropriate tool to inform about Bancassurance.

4.2.3 Types of insurance products mostly sold by banks: According to the survey, most of the respondents (38%) suggested that property and casualty related policy are most suitable to sell through banks followed by life insurance (35%), fire (18%), and health insurance (6%). travel insurance (2%). Least number of respondents (1%) argued that motor insurance is most suitable to sell by banks.

4.2.4 Most contributing factor on success of Bancassurance in Nepal: Among five contributing factors to make success the Bancassurance, least preference is given to “consumer awareness” (i.e. mean = 2.12) while mean score 2.35 is obtained by “product design” “Distribution channel” (2.68), and “brand name” (3.6) and “awareness of retail banks” (4.25) are ranked third, second and first respectively. Therefore, it can be concluded that consumer awareness is most important factor contributing success of Bancassurance in Nepal and awareness of retail banks is least important.

**4.1 Correlation analysis**

The research has total six variables with one dependent and five independent variables which are determining their effect on the customer satisfaction. The dependent variable is present status of Bancassurance in Nepal and independent variables are distribution channel (DC), awareness of retail banks (AR), customer awareness (CA), product design (PD) and brand name (BN). The correlations are shown on table 2.

**Table 2: Pearson correlation coefficient**

|    | Mean | BA     | DC    | AR    | CA    | PD    | BN |
|----|------|--------|-------|-------|-------|-------|----|
| BA | 3.44 | 1      |       |       |       |       |    |
| DC | 3.51 | 0.045  | 1     |       |       |       |    |
| AR | 3.28 | 0.023  | 0.067 | 1     |       |       |    |
| CA | 3.43 | -0.052 | 0.073 | 0.07  | 1     |       |    |
| PD | 3.9  | 0.014  | 0.077 | 0.26  | 0.071 | 1     |    |
| BN | 3.92 | 0.006  | 0.14  | 0.272 | 0.052 | 0.241 | 1  |

Table 2 reveals the correlation coefficients among independent and dependent variables which illustrates both positively and negatively significant relationship between dependent and independent variables that is present status of Bancassurance as dependent variable with other independent variables. By looking at the correlation

matrix between the variables, i.e. product design and brand name are positively correlated with the Bancassurance in Nepal whereas consumer awareness, awareness of retail banks and distribution channel are negatively correlated with customer satisfaction. It means that the product design and brand name are well established in Nepal i.e. they are positively influencing Bancassurance success in Nepal whereas there is lack of consumer awareness and retail banks awareness regarding Bancassurance. Similarly, the distribution channel for the insurance policy is not effectively regulated so that Bancassurance is not being success in Nepal.

**4.2 Regression Analysis**

Following 11 regression models have been estimated using regression equation and presented in Table 3.

**Table 3: Regression of dependent variables and independent variables**

| Model | Constant          | DC                   | AR                   | CA                   | PD             | BN           | Adj- R_sqr | s.e     | F     |
|-------|-------------------|----------------------|----------------------|----------------------|----------------|--------------|------------|---------|-------|
| 1     | 4.644***<br>6.593 | (-0.21)<br>(-1.044)  |                      |                      |                |              | 0.001      | 1.21793 | 1.09  |
| 2     | 4.796***<br>6.784 |                      | (-0.258)<br>(-1.258) |                      |                |              | 0.006      | 1.21491 | 1.582 |
| 3     | 4.368***<br>4.973 |                      |                      | 0.137)<br>(-0.515)   |                |              | (-0.007)   | 1.22303 | 0.266 |
| 4     | 3.817***<br>4.954 |                      |                      |                      | 0.03<br>0.135  |              | (-0.01)    | 1.22457 | 0.018 |
| 5     | 3.874***<br>5.275 |                      |                      |                      |                | 0.01<br>0.06 | (-0.01)    | 1.22466 | 0.004 |
| 6     | 5.242***<br>5.81  | (-0.164)<br>(-0.798) | (-0.215)<br>(-1.059) |                      |                |              | 0.002      | 1.21717 | 1.107 |
| 7     | 4.952***<br>4.594 | (-0.167)<br>(-0.806) | -0.242<br>-1.146     |                      | 0.114<br>0.497 |              | (-0.006)   | 1.22192 | 0.814 |
| 8     | 5.545***<br>4.611 | (-0.16)<br>(-0.077)  | -0.211<br>-1.031     | (-0.102)<br>(-0.383) |                |              | (-0.007)   | 1.22256 | 0.78  |
| 9     | 4.845***<br>3.806 | (-0.207)<br>(-1.015) | -0.122<br>-0.454     |                      | 0.055<br>0.245 |              | (-0.017)   | 1.22893 | 0.441 |
| 10    | 4.412***<br>3.951 | (-0.218)<br>(-1.06)  |                      |                      | 0.039<br>0.171 | 0.03<br>0.16 | (-0.019)   | 1.23008 | 0.381 |
| 11    | 5.101***<br>3.676 | (-0.169)<br>(-0.806) | (-0.256)<br>(-1.179) | (-0.112)<br>(-0.415) | 0.101<br>0.431 | 0.08<br>0.41 | (-0.023)   | 1.23266 | 0.547 |

\*\*\* significant in 1% level

Table 3 shows beta coefficients for distribution channel is negative. This indicates that the distribution channel is not significantly related with present status of Bancassurance. Similarly, beta coefficients are negative for awareness of retail banks. This indicates that retail banks are not significantly aware about Bancassurance. Likewise, negative beta coefficients for consumers are not significantly aware about Bancassurance. Similarly, positive beta coefficient for product design indicates that product design is significantly related with present status of Bancassurance. Likewise, study found that beta coefficient for brand name is positive, indicates brand name and present status of Bancassurance are positively correlated. Beta coefficients are significant at 1% level of significance.



## 5. Conclusion

Findings of the study concluded that success of bancassurance in Nepal is positively correlated to distribution channel, awareness of retail banks, product design and brand name, which indicates that the distribution channel, awareness of retail banks, product design and brand name are positively correlated with success of bancassurance in Nepal. However, awareness of consumer is negatively correlated with success of bancassurance. The beta coefficient for dependent variable (success of bancassurance) is positive with the independent variables (product design and brand name), which indicates that impact of product design and brand name is high on the success of bancassurance in Nepal. The beta coefficient for the dependent variable (success of bancassurance) is negative with independent variables (awareness of retail banks, consumer awareness and distribution channel) which indicates that impact of awareness of retail banks, consumer awareness and distribution channel on success of bancassurance is negative.

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