# IMPACT OF BANCASSURANCE ON THE FINANCIAL PERFORMANCE OF LIFE INSURANCE COMPANIES IN NEPAL

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**Master of Business Studies (MBS)**

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# CERTIFICATE OF AUTHORSHIP

I hereby certify that I am the author of this document and that any assistance I received in its preparation is fully acknowledged and disclosed in the document. I have also cited all sources from which I obtained data, ideas or words that are copied directly or paraphrased in the document. Sources are properly credited according to accepted standards for professional publications.

I also certify that this research project report was prepared by me for the purpose of partial fulfillment of requirements for the MBS degree of Faculty of Management, Tribhuvan University.

Kanchana Shapkota

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Date

Ref: …………                                                                                    Date: …………

# RECOMMENDATION FOR APPROVAL

The Research Project Report (RPR) prepared and submitted by Ms. Kanchana Shapkota in the partial fulfilment of the requirements for the degree of Master of Business Studies (MBS) has been supervised me and recommended it for acceptance.

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# APPROVAL-SHEET

We, the undersigned, have examined the thesis entitled IMPACT OF BANCASSURANCE ON THE FINANCIAL PERFORMANCE OF LIFE INSURANCE COMPANIES IN NEPAL presented by KANCHANA SHAPKOTA, a candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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# ABBREVIATIONS

| | |
|---|---|
| BIM | Bank Insurance Model |
| BFI | Bank and Financial Institutions |
| USA | United States of America |
| SFDP | Small Farmers Development Project |
| EPS | Earning Per Share |
| ANOVA | Analysis of Variance |
| ROE | Return on Equity |
| ROA | Return on Assets |
| SPSS | Statistical Package for Social Science |
| MBS | Master of Business Studies |

## ABSTRACT

Bancassurance is the distribution of insurance companies' products through the banking channel. Bancassurance has brought the new distribution channel in the insurance sectors leading to enhance the insurance business with the partnership with the banks in order to increase the client base and the profit of both insurance companies and banks. Though the concept of bancassurance started from France in 1970s, it is a new phenomenon for Nepal. It was introduced by Laxmi Bank Limited in 2006.Currently all the commercial banks and the insurance companies has entered into the bancassurance agreement. This new phenomenon (bancassurance) has provide the Nepalese insurance companies a new opportunity to sell their products through banking channels in each and every corner of the country as there will be at least a branch of commercial bank will be in each local level under federal system.

This study is a perceptual study on the impact of bancassurance on the financial performance of insurance companies in Nepal. With the use of variables such as cost reduction, market shares and liquidity this study tries to find out the impact of bancassurance on the financial performance (profitability) of life insurance companies of Nepal.

In this study, descriptive research design was adopted. The target population of the study was the life insurance companies of Nepal. The total sample of 105 was taken to perform the research. The questionnaire was used as an instruments to collect the data form the respondents. The convenience sampling method was used to collect the data. The data was analyzed using Statistical Package for Social Science (SPSS) 20. The various statistical tools such as frequency & percentage, descriptive analysis, correlation analysis, regression analysis, ANOVA test and
reliability test were used in the research study.

This study revealed that the insurance companies are able to reduce their cost since the adaptation of the bancassurance. On liquidity, the life insurance are able to realize the increase in premium amount since the adaptation of the bancassurance. Additionally, the

life insurance companies are able to increase their market shares and the market coverage by selling their products through the banking channels. The positive impact of bancassurance on cost, liquidity and the market shares can be replicated form the increased profitability. From this research study it can be concluded that the bancassurance has impact on the financial performance of the life insurance companies of Nepal. Hence, it is recommended for insurance companies to enter the bancassurance agreement with the banks for achieving the countrywide customer access, increase premium and ultimately enhance the profitability of the company.

# CHAPTER I
# INTRODUCTION

## 1.1 Background of Study

Over the past few decades, financial sectors has experienced several fundamental changes including but not limited deregulations and advances in technology which has a visible impact on the provision of financial services. Deregulations in the various parts of the world had make flexible the provision of financial services and promoted competition among the financial institutions. This is mainly due to the removal of significant restrictions that have previously hampered the horizontal and to the greater extent the vertical expansion of the firms. Technological progress has increased profitability and facilitated faster processing and monitoring of multiple activities at even lower cost (Berger 2003). This far, one of the most prominent transformation undergone by the financial service industry has been the emergence and expansion of combined offering of bank and insurance known as bancassurance (Berger & Young 2006).

Bancassurance as stated by Yuan (2011) is the process of selling insurance products manufactured by insurance subsidiaries that are owned by bank either through its own distribution channel or through the outside agents. The term Bancassurance is the combination of two words “banc” and “assurance” which refers to the bank selling the insurance products. Bancassurance, also known as “Allfinanza” describes the package of financial services that can fulfill consumers banking and insurance needs. In fact, financial institutions can offer a combination of both banking and insurance services at the same time.

Bancassurance also regularly known as Bank Insurance Model (BIM) is the term used to describe the partnership between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell the insurance products (Ngaru, 2004). It describes a parcel of financial services that can fulfill consumers’ banking and the insurance services at the same time. Bancassurance allows the insurance company to maintain smaller direct sales teams as their products are sold through the bank to the bank customer (Jongeneeel, 2011).

Bancassurance is a term which first appeared in France after 1980s, to define the sale of insurance products through bank branches. The Bancassurance catchword has been the topic of interest for the analyst of the financial service industry in recent years. The financial liberation and the financial innovations have drawn the worlds of banking and insurance together, DE segmenting the financial industry and spurring competition (Knight, 2000). Therefore, Bancassurance has increasingly become an accepted norm rather than exception for the bank dealing in insurance products.

As deregulation of the financial services industry intensified, Asian countries such as China, India, Japan etc. have allowed Bancassurance to be practiced. Similarly, in a number of European countries, one can note a significant portion of life insurance business is handled by banks. The emergence of the Bancassurance contributed to overall efficiency, increase in economies of scale and increase in productivity of both banks and insurance companies.

Since banks are dealing with the millions of customers, they can easily know about their saving pattern and can reach insurance buyers. Distribution of insurance through banks is growing fast in Europe where banks sell around half of the total life insurance products. The practice of Bancassurance within the life insurance industry is most prevalent in Latin America. In 2013, the share of life insurance policies sold through commercial bank was 44% in Colombia, 50% in Chile and 80% in Brazil. In Asia, Singapore and Malaysia have shown that how Bancassurance can build value for the insurance companies. In China 30% of the new insurance policies sold in China were sold by the banking firms in 2016.

In Nepal, introduced in 2006 Bancassurance remained a low profile insurance services due to the lack of interest among the bank and the insurance companies. However, with the bank and insurance companies joining the hands to provide insurance services to their clients' Bancassurance has been speeding up over the last few years in Nepal. Regulators has allowed banks to cross sell insurance products to bank customers yet there is no regulations and procedures yet formulated. With a network of over 3400 branches( "A" class, "B" class and "C" class BFIs) spread across the length and the breadth of the country, banks are having necessary potential to make Bancassurance the most efficient way to achieve financial inclusion in the industrial sector also.

## 1.2 Statement of the Problem

Most of the banking organizations and the insurance companies have established Bancassurance to be an attractive and often gainful commendation to their core business (Kirui, 2009). In Nepal, all 28 commercial bank have become the registered agents and taken up the Bancassurance. Similarly at present there are 19 life insurance companies, 21 non-life insurance companies and a reinsurance company in Nepal.

In Nepal, several studies have been carried out on the banks and many on the insurance companies too, very minimal has been carried out on the Bancassurance. Ghimire (2013) explored the practices of Bancassurance in Nepalese insurance industries. Based on the analysis of secondary data, it has been found that the bank has been dealing effectively with insurance selling companies, though the effectiveness has been more in case of non-life insurance products rather than the life insurance products. Huge potential in the insurance markets and large networks of bank branches in Nepal has been found out as favoring factors for bancassurance. Nyaupane (2017) conducted a study on the impact of bancassurance on the financial performance of the commercial bank. He found the bancassurance is directly related to the components of financial performance of commercial bank in Nepal such as liquidity, capital adequacy and assets quality. He also found bancassurance gaining popularity and increasingly used by the banks to impress and attract their customers. Customers were also interested to purchase the insurance policies from the banks because of their trust towards banks. To the best of the researcher knowledge, very little study has been done on the effect of bancassurance on the financial performance of insurance firms in Nepal. Hence this study aims to fill this research gap by looking at the effects of bancassurance on the financial performance of the Nepalese life insurance companies.

### 1.3 Research Questions and Hypothesis

This research aims to answer the following research questions.

1) How does bancassurance affect the cost reduction of insurance companies in

Nepal?

2) What is the impact of bancassurance on the liquidity of the insurance companies in Nepal?
3) What is the impact of bancassurance on themarket shares of insurance companies in Nepal?
4) What is the overall impact of bancassurance on the financial performance (profitability) of the insurance companies?

Keeping in view of the above purpose of the study, it is proposed to formulate certain hypothesis and test them by making use of the relevant data.

H1: Cost reduction due to bancassurance has significant impact on the financial performance of the insurance companies.

H2: Liquidity from bancassurance has significant impact on the financial performance (Profitability) of the insurance companies.

H3: Market shares has significant impact on the financial performance (Profitability) of the insurance companies.

**1.4 Purpose of the Study**

The purpose of this study is to establish the effect of bancassurance on the financial performance of life insurance companies in Nepal.

1) To analyze the effect of bancassurance on reducing the cost of insurance companies in Nepal.
2) To analyze the effect of bancassurance in the liquidity of the insurance companies in Nepal.
3) To examine the impact of bancassurance on the market shares of the insurance companies in Nepal.
4) To analyze the overall impact of bancassurance on the financial performance which is measured by profitability of the insurance companies in Nepal.

## 1.5 Scope of the Study

Bancassurance, which basically involves banks acting as corporate agents for insurer to distribute insurance products, has evolved as a strong distribution channel in many countries. Following the deregulation of the Nepalese insurance industry and amendent of the insurance law , Nepalese banks have been looking forward as a logical step in the expansion of their business and have planned into this lucratic segment which has dominated by few public sector companies. Thus bancassurance attempts to integrate banking with insurance with the objective of promoting cross marketing in operations and synergy in financial dealings. The study also examines the performance of insurance companies are affected by the adaptation of bancassurance.

## 1.6 Limitations of the Study

The following are the limitations that has been identified for this research work.

1) Only the primary sources of data has been used under this study. Secondary data has not been used.
2) The impact of bancassurance on bank has not been studied under this study.
3) Convenience sampling techniques has been used under this study.
4) Only three independent variables (liquidity, market shares and cost reduction) had been analyzed under this study as the measure of the financial performance of insurance companies.

## 1.7 Definition of Terms

### 1.7.1 Bancassurance

Bancassurance is the agreement between bank and the insurance company allowing the insurance companies to sell their products to the bank's client base.

### 1.7.2 Agents

An agent is a person who has been legally empowered to act on the behalf of others. Insurance agents sells the products offered by the insurance companies. They take into the account different coverage needs of the clients and selects the policy that provide the necessary coverage at the reasonable price.

### 1.7.2 Financial Performance

Financial performance is the subjective measure of how well a firm can use assets from its primary mode of business and generates revenues. Profitability is the yardstick for measuring the financial performance of the firm.

## 1.8 Organization of the Report

This study is categorized into five chapters as: Introduction, Review of Literature, Research Methodology, Data analysis and result, conclusions and implications.

**Chapter 1: Introduction**

This chapter gives the brief outline on the topic of the study. It describes what the project work is about and why the project is worth doing. It provides the general general introduction to the research which covers a research background, statement of the problem, purpose of the research, research questions and hypothesis, scope of the study and the limitations of the study.

**Chapter 2: Literature review**

This chapters includes the review of the previous writing and the studies that are relevant to this study. It also leads to build the conceptual framework and identify the problem statement for the research study.

**Chapter 3: Research Methodology**

This chapters includes the various techniques and the method used while conducting the research. It describes about the several aspects of the research such as research approach, subjects, instruments as well as the data analysis and the procedure method.

**Chapter 4: Result**

This chapter defines the types of analysis used to process the data collected from the study. The most important part is that this chapter also shows the relationship between the several independent and the dependent variables. Basically this chapters analyze the various data collected and shows the relationship between them and shows them.

**Chapter 5: Conclusion and Implication**

This chapter summarizes the whole research findings and the appropriate recommendations are forwarded on the basis of the conclusion of the research. This chapter also determines the implications of the findings and analysis through the various research questions and the research objectives.

# CHAPTER II

# LITERATURE REVIEW

## 2.1 Literature Review

The review of literature is most for a researcher to identify the research gap, sources of data available, and different methodologies used in the field. No empirical research is completed if the previous work has not been analyzed properly by the researcher. The idea behind this chapter is to identify the areas where work has not been done previously or may be the work has been done but some of the areas may not has been touched properly. Moreover, the review is necessary to know about the extent of exploration in the selected area of research. Thus, the literature review emphasize upon the contribution made by bancassurance in the financial performance of insurance companies citing the works of different authors outlining arguments for and against in relation to the study.

## 2.2 Insurance and Banking

Insurance and banking and both seen to overlap as both entail fiscal transaction and individuals would opt to interact with institution which they've had provide experience in. taking consideration to these cover firms has been affected by beginning of the cover in the banking industry. They has resulted in a decrease in the productivity of these insurance firms .Bancassurance initiation in the banking industry is indirectly relative to the return on assets of the insurance firms (Staikouras, 2006).

The advent of the e-economy has also radically defiled traditional ethics of corporate policy, including how value is created and the basic of struggle. Today, creating value is about scale in the establishment and organization of tactical alliances. A bundle of cost-effective financial services from a fiscal multinational, for example, is likely to advantage small and middle-market business maximum. Large corporations previously enjoy hung buying power and can afford at least some internal staff who is experts is each of the complex areas of fiscal services.

The products that are likely to sell through bancassurance are modest vanilla products. There is a component of complementarity in investment and insurance products. The various schemes for paying credit are likely to generate a demand for assurance cover, and obtainability of insurance cover in turn will ease disbursement of credit in hazard prone undertaking. The insurances companies need to present simple products that can be sold over- the- counter at banks and insurance firms have rural and social commitments to meet as prescribed by their relevant regulators. The banks and cover firms can work together in this area and it is probable that the banks while meeting their commitments in terms of loaning supplies to the rural and social divisions can accompaniment the efforts of the underwriters in meeting that latter's obligations too. Such relations will also help in synergizing the strengths and capabilities or every insurer and the banks, who with their grid in the rural areas offer a flawless occasion.

Selling insurance products indicates that the own client base of each bank will be better dwindling against completion from other banks. Certain bancassurance services are joint products and cannot be obtained noticeable. In other urgings they from 'tie-in sales'. However to be sold in banks, most cover products have to have their own payments. They have to be standardized and thus at low outlays. They may be produced by a minor to be bank and thus taken as in –house product. This makes it easier for them to be traded through ordinary supply channels (OECD, 1992).

The bank often expects to increase the overall effectiveness of its client association, including its branch system lucrativeness, better influence its positive appearance fiscal services; situation itself as a one stop obtaining source for the client , increasing client devotion and preservation and diversify its product base by making insurance products available to its consumer base (OECD, 1993). According to Nicholson (1990), the client hopes to pay a lower prices because gaining costs are lower have the convenience of one stop shopping for fiscal services products and an easier way to make costs (through the bank) and enjoy better client amenities because of the bank expanded relationship with the client .this ratio is calculated judge the output of the banks.

### 2.3 Pillars of Bancassurance

All the bancassurance models rests on the three pillars, viz bank, customers and insurance company. Each of them has their own goals and objectives. Banks may be interested in maximizing their fee income while the insurance companies may be looking at the volume expansion so as to reach the critical mass. Similarly, customers obviously looks at convenience and cost reduction. Similarly, at other times banks may look at product diversification but the insurance company may look at customer acquisition. Therefore, unless there is good congruence amongst all the partners in bancassurance, it cannot succeed. The three pillars in bancassurance are as follows.


Figure 2.3.1 Three Pillars in Bancassurance

**2.4 Conceptual Review**

The insurance and banking theories contain a number of similarities that oppose the traditional differences between the two businesses. Luis (1990) clarified that banks take the advantage of economies of scale in the management of collection, which arises from the law of large numbers. Insurance fiscal side depends on the law of large numbers, which states that the expected loss distribution methods the true loss distribution as the sample develops. This allows to cover companies to pool separate reserves to protect in ambiguity of adversity. Similarly, banks give to cover the fiscal security for their clients; the insurance finest is reflected in service charges and the extent between interest tariffs on loans and payments. Levy-Lang (1990) argued that cover firms assume some form of endowment management through the investment of their practical reserves. This function brings them closer to investment.

Bancassurance refers to the act of selling the insurance products through the banking channels. Both bank and insurance companies can earn more profit since the banks gets commission based income for selling the insurance policies and in the similar way insurance companies get the wide spread networking of the bank branches. Bancassurance is a subject of continuing interest to the financial service industry worldwide. Over the years, regulatory barriers between banking and insurance have decreased by creating a climate friendly to bancassurance. (Ghimire, 2014)

The term bancassurance was used in France for the first time, where the corporation between the banks and insurance companies started earlier the in other countries. This word was originally coined to indicate simple distribution of insurance products by bank branches, while at present it is used to describe all kinds of relationship between the banking and the insurance industries. The convergence between different sectors of financial intermediation has been encouraged by the deregulation process started at the ends of 1980s. In Europe the 1989 directives allowed universal banking and unlimited reciprocal participations with investment and insurance firms. In USA regulatory hedges between the financial institutions has been removed, by 1999 Gramm-Leach-Bailey Act; nowadays financial conglomerates are present in all the developed as well as the developing and under developed countries. Bancassurance however, cannot be view simply as a result of deregulation process. As pointed by Locatellit al. (2003) changes in financial services needs have been particularly determinant. Household saving has moved deposits to more remunerative investment determining a dramatic drop in traditional banking profitability. Banks have tried to compensate the decrease in their interest margin by entering investment banking or insurance. Life business has appeared as particularly interesting opportunity for various reasons as the progressive ageing of population in all developed countries and the decrease in welfare state protection offered by governments, other than the existence of some similarities and the complementariness between the banking and the insurance activities, especially for life insurance products. The cooperation between banks and insurance companies, initially limited to the distribution of life insurance products through bank branches, has gradually become a more strict relationship aiming to operate the financial market in more integrated way; despite the existence of some differences between the countries, it is possible to sustain that simple distribution agreements during the 1970s and 1980s become a mix of partnership and share exchanges in the early 1990s. (Frordelisi & Ricci).

In this conjoining world of financial services, the concept of bancassurance has taken a fundamental ole in the plan of a growing numbers of fiscal institutions. Insurance products distributed through the banking networks have become a usual choice for mass-market clients observing for simple and low cost products available in their trusted financial institutions. Globally, bancassurance has appeared as an important cover rotation channel that has not only permissible cover firms to enlarge their topographical presence but also allowed banks to expand their overall products assessments.

AKI (2010) examined that bancassurance is a way of increasing market infiltration and premium turnover for the insurance companies. Through this new distribution system the cover firm meaningfully extends its clients base and enjoys entrance to the clients who were earlier problematic to reach. The insurance companies have the chance to vary its distribution method in order to avoid the excessive dependence on single network. Change reduces danger. The insurance firms benefit from the dependable image and reliability that the public are most likely to distinctive to banks. The insurance firms also benefits from the reduction in the distribution charges relative to the cost characteristics in traditional sales legislatures since the same network is generally the same for investment products. With such cost investment, products can be sold more cheaply.

### 2.5 Historical Development of Bancassurance

The first recorded settlement of bancassurance was in 1960s, when the CGER saving bank from Belgium started to sell mortgage-linked insurances. Bancassurance as a term firs appeared in France in 1980s, to define the sale of insurance products through banks' distributions channels. It is an arrangement whereby branches of a bank distribute products developed by other insurance companies with which the banks have entered into the selling arrangements.

The form of complete financial conglomeration has rapidly grown since 1980s when the interest margins on the loans decreased steady and bank started exploring the new sources of revenue. A from the early 1990s, bancassurance has become a major distribution channels in many insurance markets.

Europe is the epicenter of bancassurance practices. It has been a successful model in European countries contributing of 35% of the premium in European life-insurance market. It contributes about 63% of the life insurance premium income in Spain, 60% in France, 50% in Belgium and Italy. In Asian countries, bancassurance has limited shares of the total sales primarily because of near monopoly of life agents in Japan the biggest life market. The development of bancassurance is closely related to the regulatory climate of a country, helping to explain differences in its importance across different countries. (Cummins et al, 2006)

In some countries, bank insurance is still largely prohibited. In USA, it was legalized when the Glass- Steagall Act was repealed after the passage of the Gramm-Leach-Bliley Act. But revenues have been modest and flat and most insurance sales in US banks are for mortgage insurance, life insurance and property insurance related to loans. But in China recently allowed banks to buy insurers and vice-versa, stimulating the bancassurance products and some major global insurers have seen the bancassurance products greatly expand sales to individuals across several products lines.

**2.6 Background of Insurance Companies in Nepal**

The history of Nepalese non-life insurance companies is seventy years and life insurance companies is forty five years old. The first general insurance company of Nepal is “Nepal Insurance and Transport Company” established in 1947 which is currently known as Nepal Insurance company.

Before the establishment of Nepal Insurance Company, Indian insurance companies were allowed to conduct the insurance business in Nepal. The flight of capital in term of non- life insurance premium was stopped after 1947 but life insurance premium still had been flight in the absence of life insurance Company in Nepal. After the establishment of Rastriya Beema Sansthan in 1968 and operating life insurance business from 1973, Indian insurance companies stopped to collect their premium and phased out their business in Nepal.

Before the restoration of democracy in 1990s, there were only five insurance companies existed. During 1990s, Nepalese government adopted economic liberalization policy. The policy result in the rapid expansion of insurance business in terms of number of company working in the field of insurance.

In the meantime existing Insurance Act, 1968 and Insurance Rules 1969, was repealed by Insurance Act, 1992 and Insurance Regulation 1993 respectively. It was considered as the golden period in the insurance business in the history of Nepal. The main aim of the Insurance Act, 1992 is to regulate, systematize, develop and regularize the insurance business in Nepal.

The number of insurance companies by mid-march 2017 were 27 including 9 life-insurance companies, 17 non-life insurance companies and 1 re-insurance company. Now in the year 2017/18(i.e. 2074/75) insurance board has given license to 10 life-insurance companies and further 4 non-life insurance companies. Now there are altogether 41 insurance companies operating or in the process of operating insurance business in Nepal.

**2.7 Bancassurance in Nepal**

History of bancassurance in Nepal is as old as the Europe. Agriculture development bank lunched a project “Small Farmers Development Project” (SFDP) since 1970 targeting to uplift small and low income farmers. Most of the farmers used the loan to purchase the cow and buffalo. Insurance against the risk of livestock was provided to farmers since 1987. However, the insurance scheme was initiated by the project implemented by bank but there was no link with the insurance companies.

Bancassurance, which basically involves banks acting as corporate agents for insurer to distribute insurance products, has evolved as a strong distribution channel in many countries. Following the deregulation of the Nepalese insurance industry and amendent of the insurance law , Nepalese banks have been looking forward as a logical step in the expansion of their business and have planned into this lucratic segment which has dominated by few public sector companies.

Laxmi Bank was the first bank to provide the service of bancassurance from 2006. So, we can say that bancassurance at Nepal is not old concept and it is developing stage. Following Laxmi Bank, Nabil Bank and Standard Chartered Bank were other to provide the service of bancassurance at its initial stage of development. But it has been found that most of the commercial banks and developments banks are providing service to its customer through bancassurance product. These banks are providing insurance product through corporate agency from various insurance company.

## 2.8 Models of Bancassurance

Wuetal (2010) identified the preferable distribution alliance structure from bank's executive management perspective in Taiwan. Fore criteria and ten sub criteria have been introduced to evaluate bancassurance alliance models. Then these criteria and sub criteria have been examined in context of different models namely financial holding company, holding shareholdings, joint venture, pre competitive alliances, insurance agent company and insurance broker company. Result of study declares that financial holding company was the alliance that was preferred by banks executives due to operating synergy, risk diversification and tax saving as the advantages associated with it.

Bancassurance can be generally defined as the joint efforts of banks and insurers' to provide the insurance products and services to the banks' customer base. Under this broad definition, a number of very diverse forms of bancassurance models are being practiced across the world. The choice of the specific bancassurance models depends on numerous fasters, including the socio-economic, cultural and regulatory environment of the market, the market infrastructure, as well as the customers' preferences. Also, although generally a certain model is predominant in a country, there is no country where bancassurance relies on a single bancassurance models.

Having said this, a general classification of bancassurance models can be made on the basis of the legal ownership structure, or in other words the level of integration between the insurer and the bank on the basis, the main bancassurance model are the pure distributor model, the strategic alliance model, the joint venture model and the financial holding company model.

### Pure Distributor

In this model, the banks acts as an intermediary offerings products of more than one insurance company. The insurance company usually pays distribution commission to the bank, which are in turn offset by entry and management fee charged to policyholder.

The relationship between the bank and the insurer may also be complemented by a more or less significant shareholding or cross-holdings. The business logic for such a model is the recognition by the bank of a real need to be a position to offer insurance products to its customers while being unable or unwilling to develop such expertise internally, also become this would entail significant upfront investment. It is generally perceived that this model works well in the markets where customers value advisor independence. At the same time, a potential disadvantages for insurers that they have little control over which customers the products are being sold to.

**Strategic alliance**

In case of a strategic alliance between a bank and an insurer, the bank sell the products of particular insurance company only. A main advantage for bank is that it is able to select the best insurance provider in terms of, for instance, quality of products offered and brand image. At the same time, the insurance company gains access to the bank's customers bas without having to make a major financial investment. A potential disadvantages is that low levels of integration between banks and the insurer remain, as both companies continue to operate as separate entities.

**Joint Venture**

In this business model, the bank and the insurer establish a jointly owned insurance company or distributor (through more or less balanced shareholdings), as such creating a new entity. The joint venture distributes its products only through the network of its banking parent. In addition, the relationship between banks and the insurer is sometimes reinforced by a strategic shareholding. An advantage of this model is that there are equal partnership and joint decision-making and the partners can leverage each other's strength as each one will be focusing on its line of business.

**Financial holding company**

In this business model, a holding company owns both an insurer and a bank- often referred to as a financial conglomerate. Potential advantages of this model are that operations and system can be fully integrated: there is high capability to leverage on the bank's customers; there is the possibility of one-stop shopping for the financial services for customers; and finally there is the potential for developing fully integrated products.

At the same time, the fact that conglomerate visibly run both banking and insurance activities with typically a common brand name does not necessarily mean that there is much interaction and integration between the two.

The above classification on the basis of legal criteria of course gives a generalization of reality. In practice, a wide range of hybrid bancassurance models exists and other classification can be easily made, for instance on the basis of the sources of income of bank participating in bancassurance. Next to the usual commission income, profit sharing agreements between the bank and the insurance company are in common in bancassurance. Following this classification, a 100 percent profit share for bank would imply that it owns the specific insurance company, while a 0 percent profit share implies that the bank acts only as a pure distributor.

In general, the most prevalent bancassurance model-in terms of legal ownership-throughout the U.S.A, Asia, and Latin America is the pure distributor model, while models in Europe tend to be more integrated, with strategic alliances and joint ventures being common? The types of insurance products sold through banks also are throughout the regions of the world. In Asia, the main products tend to be saving oriented, such as endowments and investment linked products. These are basically deposit replacement products and are popular because they earn a higher rates of interest than the bank deposit. In Latin America, pension products and individual life products are very popular. In southern Europe, bancassurance products are mainly medium and long-term tax advantaged investment products, while in other parts of Europe single premium unit-linked products are popular, as is term insurance because it is often tied to mortgages. In USA, investment products are in particular fixed annuities, are the main life insurance products sold through banks. In Nepal, bancassurance relies on pure distribution model only.

Different distribution channels work on different situations. The important thing is to see whether the particular model is compatible with the existing customer base and the insurance companies' strategic objectives. European bancassurance experience shows that the financial planning model is an extremely way to reach large number of bank customers.

## 2.9 Review of Distribution Channel

Kumar (2001) discussed various distributions channels in bancassurance namely career agents, special advisors, salaried agents, platform bankers, brokerage firms, direct response, internet and e-brokerage. Merits and demerits of all channels have been discussed and it has been suggested that (i) banks should go for the technological advancement so as to use the database of base of customers effectively (ii) cultural conflicts between both partners should be ironed out by ensuring full commitment from staff in selling insurance (iii) technology must be combined with fundamental knowledge of insurance to develop processes, unique to banking environment (iv) bancassurance strategies must be driven by customers and channels and emphasis should be upon leveraging the bank's competitive strengths (v) distribution channels should be integrated in accordance with the established model in order to ensure cost saving and increased productivity.

Traditionally, insurance were sold only trough agency system in most of the countries. With the new development in the consumer's behavior, evolution of technology and deregulation, new distribution channels have been developed successfully and rapidly in recent years.

Bancassures makes use of various distribution channels.

- Career agents
- Special advisers
- Salaried agents
- Bank employees
- Corporate agencies and brokerage firms
- Direct response
- Internet
- E-brokerage

**Career agents**

Career agents are full-time commissioned sales personnel holding an agency contract. Although some insurance companies offer such contracts to part-timers, within bancassurance operations such people are usually excluded. They are generally considered to be independent contractors. Consequently an insurance company can exercise control only over the activities of the agent which are specified in his contract. Despite this limitation on control, career agents with suitable training, supervision and motivation can be highly productive and cost effective. Moreover their level of customer service is usually very high due to the renewal commissions, policy persistency bonuses, or other customer service-related awards paid to them.

However, many bancassurers avoid this channel, believing that agents might oversell out of their interest in quantity and not quality. Such problems with career agents usually arise, not due to the nature of this channel, but rather due to the use of improperly designed remuneration and/or incentive packages.

**Special advisers**

They are highly trained employees usually belonging to the insurance partner, who distribute insurance products to the bank's corporate clients. Usually they are paid on a salary basis and they receive incentive compensation based on their sales. Otherwise they present the same characteristics as those of career agents, with the exception of their training which focuses on the group and business insurance sectors.

**Salaried agents**

Salaried agents have the same characteristics as career agents. The only difference in terms of their remuneration is that they are paid on a salary basis and they receive incentive compensation based on their sales.

**Bank employees**

Bank employees can usually sell simple products. However, the time which they can devote to insurance sales is limited, e.g. due to limited opening hours and to the need to perform other banking duties. A further restriction on the effectiveness of bank employees in generating insurance business is that they have a limited target market, i.e.

those customers who actually visit the branch during the opening hours.

**Set-up/acquisition of agencies or brokerage firms:**

In the US, quite a number of banks cooperate with independent agencies or brokerage firms whilst in Japan or South Korea banks have founded corporate agencies. The advantage of such arrangements is the availability of specialists needed for complex insurance matters and – in the case of brokerage firms – the opportunity for the bank clients to receive offers not only from one insurance company but from a variety of companies. In addition, these sales channels are more conceived to serve the affluent bank client.

**Direct response**

In this channel no salesperson visits the customer to induce a sale and no face-to-face contact between consumer and seller occurs. The consumer purchases products directly from the bancassurers by responding to the company's advertisement, mailing or telephone offers. This channel can be used for simple packaged products which can be easily understood by the consumer without explanation.

**Internet**

Internet banking is already successfully established as an effective and profitable basis for conducting banking operations. The reasonable expectations is that personal banking services will increasingly be delivered by internet banking. Bancassurars can also feel confident that internet banking will also prove an efficient vehicles for cross selling of its insurance savings and protection products. Is seems likely that a growing proportion of the affluent population, everyone's target market, will find banks with household name brand and proven skills in e-business a very acceptable source of non-banking products.

**E- Brokerage**

Banks can open or acquire an e-brokerage arm and sell insurance products from multiple insurers. The changed legislative climate across the world should help the migration of bancassurance in this direction. The advantage of this medium is the scale of operations, strong brands, easy distribution and excellent synergy with the internet capabilities.

Thus, it seems very difficult for a single distribution channel to successfully reach the bancassurer’s goals and specific target markets. Many bancassurers are using multiple distribution channels. This way they avoid becoming locked into one channel and they can offer services to a greater number of target markets.

**2.10 Advantages of Bancassurance**

Boal (2005) states that the development of bancassurance is expected within the context of efforts to promote a more well-organized fiscal system in Malaysia by improving the delivery and distribution system for financial services. With this in view, supervisory dealings in respect of bancassurance are aimed at achieving a cost-effective auxiliary channel for the delivery of insurance products to accompaniment investment products in meeting the fortune management needs of customers. This, in turn, is expected to contribute to the more expanded and well-organized distribution of savings across the fiscal sector.

Bancassurance will help cut overlapping expenses and try gain economics of scale and scope and, thereby, driving down unit costs. With a low-cost construction, the banks can leverage on cost effective bundle of business financial services, including management, lending, capital markets, risk management, retirement savings, and all types of profitable and personal lines of cover. Similarly, the distribution of insurance products through bank’s distribution channel brings diversification advantages by generating non-interest incomes.

Bancassurance has the probable to be an effective distribution in Nepal, especially because of wide network as Nepal Rastra bank has directed the commercial bank to all the local levels of the country. Hence, insurance firms can sell their products through the country without requiring to open their branches in the various locations. Insurance firms have to take advantage of the customers’ long-term trust and relationship with the bank. The association is equally lucrative one, where the bank can widen the range of products on offer to customers and earn more, while the insurance company gains by getting restless visibility at the bank’s branches, and also the security of receiving premium payments on time. Bancassurance benefits to customers in the form of convenient access to a wide range of integrated financial services from a single provider, and more competitively priced insurance products as a result of insurers' transient on cost saving arising from lower distribution cost.

**Bancassurance for insurance companies**

With the large distribution channel of the banking sector bancassurance helps the insurance companies to increase their market in the noop and corner of the countries. As the Nepal Rastra bank has directed to establish at least one bank in each local level bancassurance in Nepal could help insurance companies to sell their products in all the places of the country without needing to open their branches in each place. Bancassurance could help the insurance companies to increases the market shares, market coverage and premium (sales).

Regarding the cost bancassurance help in reducing staff expenses, marketing as well other operating expenses. As the bank staff will be selling the insurance products the insurance companies are required to hire less number of employees reducing the staff expenses. Similarly the bancassurance will also reduce the marketing cost of the insurance policies to some extend as the bank staff will be cross selling the products of the insurance. Finally, bancassurance also reduces the other operating cost of insurance companies such as rent, stationary, repair and maintenance and so on. Similarly it also helps to achieve the economies of scale of the insurance companies. The impact of bancassurance on the financial performance of insurance companies has been discussed later.

**Bancassurance for Banks**

Banks' traditional sources of fee income have been the fixed charges levied on loans and advances, fee on point of sale transactions for debit and credit cards, letter of credits and other operations. This kind of revenue stream has been more or less steady over a period of time and growth has been fairly predictable. However shrinking interest rate, growing competition and increased mobility of customers have forced bankers to look elsewhere to compensate for the declining profit margins and Bancassurance has come in handy for them. Fee income from the distribution of insurance products has opened new horizons for the banks.

In terms of products, there are endless opportunities for the banks. Simple term life insurance, endowment policies, annuities, education plans, depositors' insurance and credit shield are the policies conventionally sold through the Bancassurance channels. Medical insurance, car insurance, home and contents insurance and travel insurance are also the products which are being distributed by the banks. Similarly, lots of innovations have taken place in the insurance market recently to provide more and more Bancassurance-centric products to satisfy the increasing appetite of the banks for such products.

Increased competition also makes it difficult for banks to retain their customers. Bancassurance comes as a help in this direction also. Providing multiple services at one place to the customers means enhanced customer satisfaction. For example, through bancassurance a customer gets home loans along with insurance at one single place as a combined product.

**Bancassurance for customers**

Insurance is the business base on the trust. The most immediate advantage for the customer is that they are now going purchase insurance through the insurance policies through the professional bankers with whom they have very long term relationship, who can really understand the products (financial) needs and also income of their customers and offer the products accordingly that fits to their needs rather than from an agents who may not really understand the financial needs of the customers and is just motivated by selling the policies to the customer.

In Nepal, for decades, customers were used to the monopolistic attitude of public sector insurance companies, despite there were many drawbacks in their dealing, they enjoyed customer confidence, this trend continues even now mainly due to their government ownership. The customers to move over to private insurance companies that are collaborated with foreign companies which are less known to the Nepalese public would take little more time. The void between the less known newer private insurance companies and the prospective insured could be comfortably filled by the banks because of their well established and long cherished relationship. Under these circumstances, any new insurance products routed through the bancassurance channel would be well received by the customers.

Above all, in the emerging scenario, customers prefer to have a consolidation and delivery of all financial services at a single window in the form of ‘financial super market’, irrespective of whether financial or banking transactions, because such availability of wide range of financial/banking services and products relieves the customers from the painstaking efforts of scouting for a separate dealer for each service/product. Even internationally, the trend is towards the ‘one-stop-shop’. Customers could also get a share in the cost savings in the form of reduced premium rate because of economies of scope, besides getting better financial counseling at single point. Even in the case of developed countries the financial literacy and financial counseling has been increasingly stressed in recent years, these become essential especially when decision involves long term investments. Reddy (2006) has been emphasizing on the importance and necessity for financial counseling and financial literature. In that context too the bankers are better placed in extending such counseling or financial advisers to the customer because of their well-established long cherished relationship. The relationship between insurer and insured and bank and its client are different, the former involves taking decisions for long term parting of money, in such cases counseling is necessary, here too the bancassurance can be of reassuring for the customer.

The advantage of bancassurance to bank, insurance and customers can be summarized as follows.

**Bank**

Can earn more profit by selling new products from the existing strong organization’s resources and structure. The broadening of the product range make the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty will be increases. One-stop shop model optimizes the use of the network and increases the probability of existing branch Network. Increases the fee income, strengthen long term client relationship and competitiveness pressures.

**Insurance**

Can reach to more customer through the banking networks. Varieties of products reduce the risk and increases the opportunities. An insurance company can establish itself more quickly in a new market, using a local bank's existing market. Leverage on bank customer relationship, higher "hit rate " and therefore lower acquisition cost.

**Customers**

Can get better valued products. Save time while getting all financial services through single window or one stop shop.

## 2.10 Bancassurance and Financial Performance

Gumble (1990) summarizes that affinities that banking and insurance follows. Both operates with reserves, rely on the law of large numbers, use economies of scale and have expertise in administration and money management. They create liquidity and assume a risk-spreading function through reinsurance or refinancing.

Shreesh & Joshep (2011) analyzed the financial performance of SBI in bancassurance with reference to life insurance. To judge the financial viability of bank, CAMEL model and some selected indicators have been sued. Capital adequacy, gearing ratio, return on assets, business per employee, profit per employee, non-funded income as a percent to total income, earning per share, net profit ratio and credit deposit ratio were hypothesized to decrease. Analysis of the above indicator from 2006-2009 revel that SBI had performed well continuously from 2006 as capital adequacy, business per employee, profit per employee, non-net interest income and EPS had shown an increasing trends and staff cost, operating expenses had shown decreasing trends as it was hypothesized. Hence, it is concluded that financial performance of the SBI in bancassurance had been good and bancassurance had also contributed to the overall performance of the bank.

Swiss Re, (2007) provided an overview of bancassurance, benefits and pitfalls associated with it and its development around the world. Supportive regulatory environments, fiscal benefits, tax advantages, simplicity of the produces and the strength of alternative channels have been identified as drivers to initiate bancassurance. In addition to it, bancassurance has been considered to be most cost effective than traditional agency and broker channels. Better customer relations ability to leverage fixed costs, brand awareness, frequent interactions with clients and extensive use of technology associated with bancassurance, suggested its competitive advantage over other distribution channels. Comparing bancassurance penetration rates around the world Brazil has been reported to be at highest ranking followed by Malaysia, China, India, Columbia, Indonesia, Chile, Turkey and Mexico. It has been reported that bancassurance accounted for 28% of the life and 2% of the non-life distribution in 2005. Finally, trust of customers upon bank, various channels (direct marketing, telemarketing, and internet banking) and product diversification capability in accordance to client segmentation have been regarded as motivating factor for the development of bancassurance in India.

Shad (2008) mentioned that bank customers are highly favorable towards any kind of financial products offered through their respective banks branches and it is their expectations that in each and every cases bank should fulfil their all needs. The insurance which provides financial protection is also becoming popular among the bank customers. Their higher dependency on bank is certainly an advantage for both the players. For the proper implementation of this strategy what is required is to go for the proper segmentation of bank customers so that product offerings becomes acceptable to its customers. To do this, a branch based segmentation strategy need to be implemented and the same strategy should be based on income level of customers as well as amount of deposit kept in the bank by their customers. Under any circumstances there should not be any option for miss selling any kind of financial products which do not fulfill the financial requirements of the individual customers.

Constantinescu (2012) highlights on the influence of bancassurance system on the quality of insurance services. The bancassurance partnership focuses more on quality of distribution of insurance products and becomes a win-win situation for both of them. The kind of financial risk facing by these two industries are more or less similar and thus, sharing of that particular risk for gaining the much required profit is no more a problem. The proposition required a through change in legal and regulatory change in the country of operations for the betterment of the sector.

Hanna (2013) reveled that cooperation and collaboration is a necessary phenomenon which the banks and insurance companies are both trying to understand the same for the better utilization of existing resources. The benefit can be understandable in terms of increased cash flow of revenue and customer's loyalty. If both the firms are targeting the same consumers and able fulfill the most of the financial requirements of the customers then surely it will help expand the customer base.

Bhushan (2014) describes the trend of bancassurance in India. Initiated by the private life insurance companies, at present most of the insurance companies are in bancassurance business operations. The major reason behind this trend is the creation of a win-win situation for each of the stakeholders- the bank, the insurance and the customers. For a bank, a risk free fee based income is most welcome at a time when the financial conditions are very tight under present economic conditions of the country. For insurance companies this is beneficial as they are able to get the leverage of banks in the form of trust and brand name that they are enjoying. A readymade database along with a better customer service will obviously helpful for them to retain the existing customer base, which is very crucial under the present competitive market and last but not least it is the end customers, who will be able to get the service of all the financial products under one roof.

Scovier (2015) concluded that insurance firm that have merged with banks record high profitability since there is an apparent increase in the number of clients in each product bundled market. Tying up with the bank is the rational route for insurers to take for achieving extensive physical spread and countrywide customer access. Further, bancassurance adaptation result to reduced operational cost since it enhances an efficient sharing channel with higher productivity and lower cost than customary distribution channels. These cost advantages are particularly more important in more integrated models. Nevertheless, it is apparent that bancassurance enhances return on assets of insurance firms. On earning per share, it can be summed up that bancassurance is much beneficial to the insurance firms on issues pertaining adaptation and market share assessment. The result reveled that through adaptation of bancassurance, insurance firms had witnessed rise in market share hence more income. Finally, on liquidity, the connection between banks and insurance firms is a mutually profitable one, where the bank can widen its range of products on offer to customers and earn more, while the insurance company gains by getting constant visibility at the bank branches, and also security of getting payments of premium on time.

Nyaupane (2017) found bancassurance gaining popularity and increasingly used by the banks to impress and attract their customers. He also found customers more interested to purchase the insurance policies from the banks because of their trust towards banks in Nepal.

### 2.11.1 Bancassurance and cost efficiency

Bancassurance firms are more cost efficient than other types of insurers which offers new understanding in the cost efficacy of bancassurance. As the bank are able to provide a wide range of financial products under one roof by utilizing the same facilities they are able to improve the cost structure and performance. In bancassurance, economies of scale are dominant in the fact that banks and insurance companies operates in the similar manner. Both of them deal with reserve, have same expertise in administration and money management, they both create liquidity, assume a risk-spreading through re-insurance or re-financing and rely on the law of large numbers.

Hart (1996) stated that bank take the advantage of economies of scale arising from the law of large numbers. Similarly, insurance companies rely on the 19 law of large numbers. In insurance, this means that the expected loss distribution approaches the true loss as the sample grows. Additionally, they offer complimentary products. Bank require their borrowers to take insurance against various risk e.g., insurance against the death and permanent disability when taking personal loans making insurance an inherent part of the loan. In this regard, this integration can have a positive influence on their operations in the case of cost- saving.

Economies of scale emphasis most of its attention on the cost reduction through the increased productivity. The mechanism through which bancassurance is implemented is through the use of bank's distribution network, that is, its branch network. Through this, the bank acquires an additional income other than the interest income i.e. fee income at the reduced cost. This is because the insurance products are marketed through the already established bank branch networks rather than a bank forming a completely new wing with the same business.

Chenetal (2008) develop an econometric model to identify the relationship between economics of scope and bancassurance. The result show that higher the involvement of bancassurance better the cost economies of scale. As the banks are able to distribute a wide range of products under one roof utilizing the same facilities they are in a position to improve the cost structure and performance.

Mbuthia (2009) argued that bancassurance firms are more cost efficient than other types of insurer which provides new understanding into the cost efficiency of bancassurance. The insurance cost efficiency may be measured by the preceding variable: net danger margin, income price ratio and overhead cost. A higher efficiency provides to insurance new capital, encouragement the offer of saving and investment and rivalry with insurers. Opposition typically result in higher quality products and lower prices for insurance strategists. More resourceful cover can also offer better returns to savers.

Capgemini (2011) the paper focuses on the new operating model of bancassurance under the changing circumstances as it provides better cost efficiency and reach as compared to traditional agent based distribution channel. The focus should be shifted to better technology platform which can provide better customer access.

Bancassurance could create cross-selling business synergies for banks and insurance that could led to cost-saving through the economies of scale. To offer a wide range of services is beneficial to bank-assurers as this could bring comparative advantage over regular banks. Jongeneel (2011) stated that economies of scale are mentioned as pivotal argument to adopt bancassurance strategy.

### 2.11.2 Bancassurance and Market Share

Agrawal (2004) argues that the emerging trend of convergence towards to a better financial conglomerate, both banks and insurance companies are trying to operate together to create a platform where the existing customers of both the companies can be provided with the host of value added services. Since the bank customers are loyal a separate insurance products can be offered with the help of this ties ups. The vast branch networks basically helps the insurance companies to tap the untapped regions where the insurance sectors till date to make their footfalls. This is a phase where the insurance companies are able to reach the much needed rural areas where the problem of distribution is a concern. The high cost of distribution of primarily forcing most of the insurance players to ignore the rural market and sell only that much which is required as per the IRAD regulation as stipulated in their business operations. Thus, it becomes an obligation for the insurance companies to enter in the rural market, rather than looking this particular market as a new business opportunity. Considering this new and innovative model of bancassurance can play an important role so that each and every target consumers can get the true benefits of the same.

Sorina (2012) describes the bancassurance as a strategic orientation towards developing a financial conglomerate for the betterment of the each and every stakeholders. The financial crises of European nations surely impacted the business of the banks and this may be the way out to compensate the same. The insurance companies able to reach to a larger customers base at a lesser cost as they don't have to wait for the expansion of the business by establishing the branches. Sometimes, it may not be possible to enter in extremely backward areas by establishing a branch rather it is a wiser decision to depend on bank. The situation is extremely favorable in developing country where low penetration of insurance services creates financial insecurity. Thus, the association is surely profitable but the implementation of the same needs complete understanding of the business model. The implementation of the same model throughout the world may not be effective as the specific socio-economic conditions of people and society severely impact the business.

### 2.11.3 Bancassurance and liquidity

Liquidity is the ability to meet the financial obligations either by converting the assets or by borrowing. In other words, it is the ability to sells an assets without affecting its price in a short notice. Bancassurance and liquidity are interrelate to each other. When a bank sells an insurance policies to its customer the amount of premium increases rising the liquidity of the insurance companies.

Hana, Lib, Moshirian and Tian (2010) have stated that the increase in the level of bancassurance has impacted both bank and the insurance sector positively. This is because the increase in the premium received from bancassurance goes to the insurance company and the bank receives commission. As the bank sells more policies, it remits more premiums to Insurance Company which increase the liquidity holding of the company.

Scovier (2015) revealed that there was the impact on the liquidity to a greater extent in insurance firms since the adaptation of bancassurance. Further the study also indicated that the insurance firms meet its short term obligations through liquidity while a significant of respondents indicated that insurance firms enhances loan disbursement to customers through liquidity.

**2.12 Bancassurance and Profitability**

Profitability is the yardstick for measuring the overall the financial performance of the firm. Ability to make the maximum profit from the optimum utilization of resources by a business concerns is termed as profitability. The sustainability of the firm depends on the income earned. Moreover, a firm should earn sufficient profit to meet the operating expense and avail return to the owners. Taking into the consideration that the bancassurance is able to reduce cost, increase premium and increase the market shares and coverage it will definitely have positive impact on the profitability of the insurance companies.

Ngaru (2004) stated that the new venture the banking industry has taken prior to cover in addition to the banking services has resulted to increased rivalry to cover the firms that only offer the cover services only. Clients have opted to take their banking firms to offer the cover services as well. In addition to the competition offered by the other cover firms this new endeavor of the banks proves to be a hazard to productivity of the cover firms as most clients are opting to take their banks to offer indemnity covers. As the bank sales more cover products the marginal selling cost can decrease. This along with the increase in premium will have positive impact on the profitability of the bank.

Chepkocha & Omwenga (2016) found that since the adoption of bancassurance, there is rising in sales that facilitates profitability. This is a clear indication that bancassurance had a great impact on insurance profitability and therefore the insurance companies should full adopt the bancassurance as the means of profit making. The trend show that insurance firms have to take the advantage of customers' long term trust and relationship with the banks. The connection is a mutually profitable one, where bank can widen its range of products to customers and earn more, while the insurance companies gains by getting constant visibility at the bank branches, and also the security of getting premium payments on time.

## 2.13 Theoretical Framework

In this study, the dependent variables is the financial performance, measured by profitability of the insurance companies in Nepal as profitability is the yardstick for measuring the financial performance of the firm. The independent variables includes market shares, cost reduction, and liquidity. Basically this section tries to explain the different independent, dependent as well as the moderate variables that help to properly find out the influence of bancassurance on the financial performance of the insurance companies in Nepal.

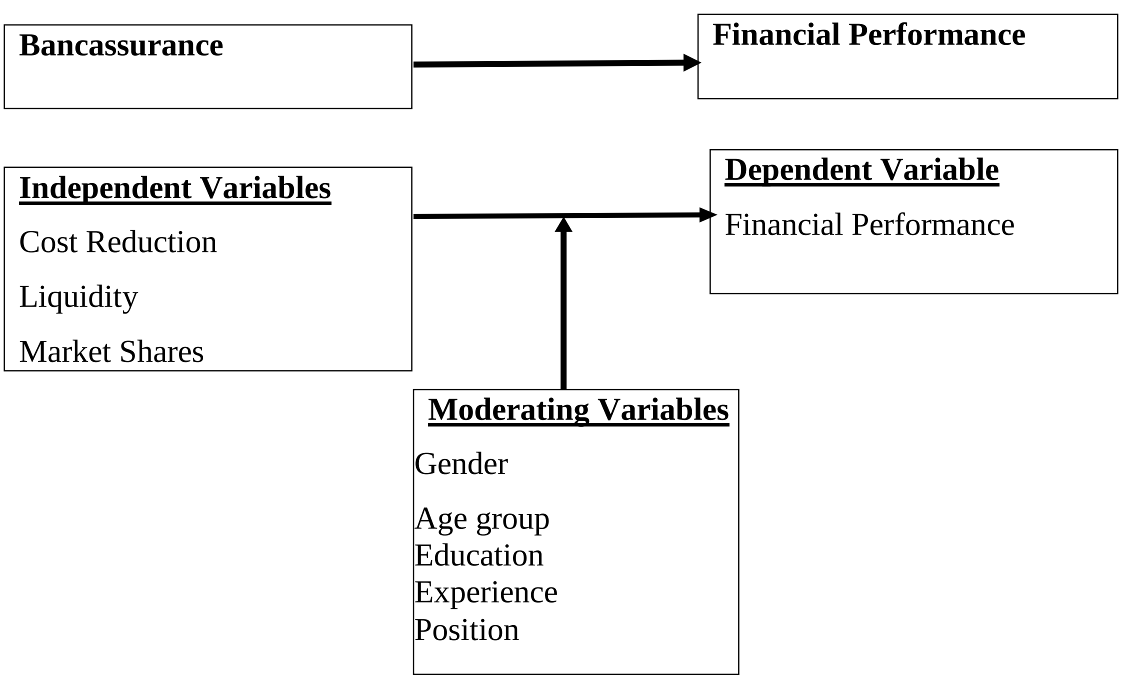


Figure 2.14.1 Theoretical Framework

## 2.14 Description of variables

**Cost**

Cost is the amount of money incurred in producing something or delivering the service. Bancassurance could reduce the amount of cost by reducing the staffs' expenses, operating expenses, marketing expenses and so on. Similarly, it can further reduces the overall cost of the insurance companies through economics of scale.

**Liquidity**

Liquidity is the ability to convert the assets quickly into cash without affecting the price. Bancassurance and liquidity are related to each other. Through bancassurance the insurance companies can sell its policies to the large number of customer thereby increasing the premium of the company. Bancassurance enables the insurance companies to increase the level of cash.

**Market Shares**

A company's market shares is its portion of total sales in relation to the market of industry it operates. Market shares increases can allow a company to achieve greater scale with its operations and improves profitability. Through a wide distribution channel of bank an insurance companies can sell its products to the large number of customers which could increase the market shares the company.

**Financial Performance (Profitability)**

The level of performance of the business over a specified period of time, expressed in terms of overall profits\losses during that time. Profitability is the most important measure for determining the financial performance of the business. It show the combined effects of liquidity, assets management and debt management on the operating results. Bancassurance by improving the liquidity, market shares and reducing the cost can enhance the financial performance (profitability) of the insurance companies.

## 2.15 Research Gap

Bancassurance in Nepal is completely new phenomenon and there are not many research conducted on the bancassurance issues previously. In the recent years, especially after the increment of the capital by both Nepal Rastra bank and the Insurance board there has been pressure to both the banking institutions and the insurance companies to increase the profitability. Hence, both the banks and insurance companies have joined their hand to work together to improve the profitability. Through bancassurance banks are able to increase their income in the form of the commission received from the insurance companies and the insurance companies are able to increase their premium as the bank can sell their products through their widely distributed channels (branches). Hence, the popularity of bancassurance has rapidly increased in the recent years. Almost all the bank and insurance companies have made the bancassurance agreement to sell the insurance products through the banks. Despite increase popularity of the bancassurance very few study has been carried in the country regarding the bancassurance issues. However lots of research has been carried internationally regarding the bancassurance. So the ongoing research at the foreign countries and the lack of research regarding the bancassurance in Nepal is identified as the major research gap. Therefore, the present research work is expected to be one of the major breakthrough to minimize the existing research gap in the Nepalese context. Hence this research attempts to fulfil the research gap by studying the impact of bancassurance on the financial performance of life insurance companies of Nepal.

# CHAPTER III

# RESEARCH METHODOLOGY

## 3.1 Introduction

The very basic purpose of designing a research methodology is to get an idea on the direction of the proposed research. The purpose is so important that without developing an appropriate methodology the future of the research may not be known. This process will help the researcher to get a probable way to conduct the research. Methodology becomes extremely important when the research deal with the real life data. The term research methodology is not a single process; rather it is the combination of various activities where each and every activity has its own role to help the researcher to complete the relevant task till the end of the process where a meaningful conclusion can be drawn based on the observations.

## 3.2 Research design

So this chapters will discuss the data collection and data analysis techniques that will be used in the in completing the study. This chapter provides the roadmap for finding the answer to the research questions. This chapter details the types of research to be used, sources of data, questionnaire design, measurement and scaling, sampling design, field management & data collection, data management & analysis and finally presentation of the report.

The purpose of this study is to study the impact of bancassurance on the financial performance of the insurance companies in Nepal. The present study attempts to find the impact of bancassurance on the financial performance of the insurance companies through the opinion of the officials of the insurance companies. As such, the present study has been designed as a descriptive study and survey method is used as the appropriate means for gathering the data essentials for the study. Hence, descriptive and analytical method used to quantify the data and generalize the result from the sample to the population of interest. The descriptive research design adopted in the study will help to determine the relationship between the financial performance and bancassurance among the major life insurance companies in Nepal.

In quantitative research, data collected through structured process needs to be quantified and proper mechanism needs to be developed so that we can generalize the findings to the population at large or to be able to quantify and explain and predict the occurrence of a certain phenomenon ( Chawla, Sodhi 2011). The technique therefore conventionally based on the approach which helps to run the required statistical model so that relevant hypothesized relationship either accepted or rejected. The design is therefore structured and has a measurable set of variables with a presumption about testing them (Chawal, Sodhi 2011). Unlike quantitative research where research design is loosely structured and opens to interpretation and presumptions, quantitative research approach has strong backing of statistical testing. Not only that the quantitative research approach can be generalized if applied in a similar context.

This approach is not free from any kind of limitations. The main limitations that the quantitative research is that it entirely depends on quality of data we are using from the target study area. Similarly if the data is not representative enough about the populations the chances of deriving a misleading result will be very high. A cautious approach is needed while designing a research study based on quantitative research.

## 3.3 Sources of Data

In any research proper identification of data is very important as it plays most important role for smooth conduction of research. Wrong selection of data may lead to misleading result which ultimately may not lead to a meaningful conclusion. Normally, there are two types of data available in the field of research and depending on the requirement either the primary or secondary data is applied. Both the data have their own relevance. The data which has already been collected by someone else and which has already been passed through the statistical process is known as the secondary sources of data. Ideally, secondary sources of data are less costly and getting the same is less time consuming as the same is already available in a specific space. The only thing is that the purpose of the publication of data has something else and if the researcher is using this published data and authenticated data then it may serve the purpose of the conducted by the researcher. Similarly, the data that are collected for the first time and that happens to be original and first hand to the researcher is called the primary sources of data. The purpose of collecting primary data should directly deal with the purpose of the research and the same data should be aligned with the basic objectives of the research. In this research study the primary source of data will be used for the collection of the data from the officials of insurance companies.

## 3.4 Population and Sample

### 3.4.1 Population

The target population is the particular group of people under which the research project is based on. The population of the research was all the employees of life insurance companies.

### 3.4.2 Sample

Sampling is learning about the population on the basis of sample drawn from it. In sampling a part of population is studied and the conclusion are drawn on that for the entire population. There are two types of sampling techniques probability sampling and non- probability sampling. Under probability sampling, each population has equal chance of being included in the sample while under non-probability each population do not have equal chance of being selected. Under this study convenience techniques was applied to collect the information. The targeted population of the sample was the employees of National Life Insurance, Nepal Life Insurance, Asian Life Insurance, Guras Life Insurane, Surya Life Insurance and Prime Life Insurance.

## 3.5 Sample size

A sample size of 106 respondents has been chosen from the different insurance companies i.e. National Life Insurance, Nepal Life Insurance, Asian Life Insurance, Guras Life Insurance, Surya Life Insurance and Prime Life Insurance.

## 3.6 Questionnaire Design and Instruments

Questionnaire will be used as an instruments to collect the primary data from the respondents. Questionnaire is the formal list of structured questions designed to gather the response from the respondents on a given topic. While designing the questionnaire the sequence of questions, relevance of questions and wording of questions should be carefully designed. If a questionnaire is wrong it will leads to the misleading result and the entire purpose of the study will be violated. Hence it is important to determine well in advance regarding the type of questionnaire i.e. open ended and close ended and most importantly the type of scale is required to capture the data related to the research variables.

In the present research the questionnaire has been divided into two sections. "Section A" comprise with basic socio economic and demographic profile of the respondents and in "Section B" the research variables that have been identified through the review of literature. A Likert scale questionnaire is used in the Section B of the research where the respondents are asked to give their opinion on a five point scale against each of the variables.

**3.7 Data Collection**

The data was collected by making the self-visit of the life insurance companies. Structured questionnaire was used for the data collection. The data and the information collected from the survey are rearranged, tabulated, analyzed and interpreted according to the need of study for attaining the stated objectives. Data analysis was done by using analytical and inferential statistics.

**3.8 Method of Data Analysis**

**3.8.1 Reliability analysis**

Reliability analysis is a very popular and frequently used procedure in research. The SPSS software has been used to determine the reliability of the data in this research. Cronbacch's alpha (α) was used to determine the reliability of the variables. Gorge and Marlly (2009) stated the standard for measuring the reliability of the variables is as $\alpha > 0.9$- Excellent, $\alpha > 0.8$ –Good, $\alpha >0.7$- Acceptable, $\alpha > 0.6$-Questionable, $\alpha > 0.5$ Poor and $\alpha < 0.5$- Unacceptable.

All the questions of four variables that are sued for collecting data have been tested for the reliability using Cronbach's alpha. Questions with the alpha value less than 0.5 has been exclude.

### 3.8.2 Descriptive Variables

Descriptive analysis was used to utilize the data collected from the respondents that has been interpreted. Percentages, frequency, mean and standard deviation was computed for the analysis of the data used to describe the measurement of the data. Similarly, ANOVA test was also used to interpret the data.

### 3.8.3 Correlation Analysis

Correlation measures the strength of the linear relationship among the variables. It gives the extent to which the two variables are correlated and the direction along which the two variables move. Karl Pearson's coefficient has been used to find out the relationship between the dependent and independent variables. The method gives the magnitude and the direction of correlation between two or more variables. The formula to calculate correlation analysis is given below.

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$$

Where,

r = Correlation Coefficient

n= Number of observations

x and y are the variables

### 3.8.4 Multiple Regression Analysis

Regression is widely used tools to study the average relationship between two or more variables. Regression means the estimation of the unknown value of one variable with the help of known value of another variable. The unknown variable is known as the dependent variable and the known variable is known as independent variable.

Regression analysis is the statistical process of for examining the relationship among the variables. It includes many techniques for modeling and analyzing several variables, when focus on the relationship between a dependent and one or more independent variable. Relations can be nonlinear, independent variable may be quantitative or qualitative, one can examined the effect of a single variable or multiple variables either or without the effects of other variables taken into account (Cohen, Cohen, West & Aiken, 2003). The analysis used to describe the relationship between two variables is known as simple linear regression analysis. If the independent variables are more than one in a study, it is called multiple regression. Multiple regression analysis is used to explain the relationship between one dependent variable and two or more independent variable. In this study, multiple regression analysis has been used to predict the dependent variable.

The regression model is presented in the following way.

$P = \alpha + \beta 1C + \beta 2L + \beta 3MS + e_i$

Where

P = Profitability (Measure of Financial Performance)

$\alpha$ = Constant

$\beta$ = Coefficient or slope of Regression model

C = Cost Reduction

L = Liquidity

MS = Market shares

$e_i$ = Error term of Sample

# CHAPTER IV

# RESULT AND DISCUSSION

This chapter deals with the presentation, analysis, discussion and the interpretation of the result based on the data collected. This chapter is divided into four parts. The first part deals with the respondents' profiles. It gives the information regarding the respondents' gender, age, academic qualification, position and the experience. The second part analyses and interpret the collected data through descriptive analysis which includes the calculations of mean and standard deviation. The third sections interpret the collected data through correlation and regression analysis. And final part is the discussion of the result obtained through analysis.

## 4.1 Respondent Profile

The sections deals with the demographic analysis and the interpretation of data collected through the questionnaire. From the 105 questionnaire distributed to the employees who are working in life insurance companies of Nepal all the questionnaire were used for analysis. The below tables show the profile of respondents by gender, age group, education, experience and the position.

### 4.1.1 Respondent's Profile by Gender

The questionnaire was distributed to both male and female respondents. The frequency distribution and percent composition of the gender is shown in the table 4.1.1 as:

Table 4.1.1 Respondents Profile

| Gender | Frequency | Percent |
|---|---|---|
| Male | 54 | 51.43 |
| Female | 51 | 48.57 |
| Total | 105 | 100 |

(Source: Field Survey 2018)

The table 4.1.1 shows the gender distribution of the respondents. It shows that the male constitutes 51.45 percent of the total respondents and the female constitutes 48.57

percent of the total respondents.

### 4.1.2 Respondent's profile by Age Group

The age of respondents is categorized into four different groups as 16-24 years, 25-30 years, 31-40 years and above 40 years. The frequency composition and the percent composition of the different age group is shown in the table 4.1.2 as:

Table 4.1.2 Respondents Profile

| Age Group | Frequency | Percent |
|---|---|---|
| 16-24 Years | 29 | 27.62 |
| 25-30 Years | 44 | 41.90 |
| 31-40 Years | 29 | 27.62 |
| Above 40 Years | 3 | 2.86 |
| Total | 105 | 100.00 |

(Source: Field Survey 2018)

The table 4.1.2 shows the age classification of the respondents where by the majority of the respondents i.e. 41.90 percent lies in the age group 25-30 years. Similarly, the age group "16-24 years" and "31-40" years constitutes 27.62 percent of the total respondents each. The age group above 40 years embraces the least respondents i.e. 2.86 percent.

### 4.1.3 Respondent's Profile by Educational Background

The educational qualification of the respondents has been classified into four groups as Intermediate, Undergraduate, Postgraduate and others. The frequency distribution and the percent composition of different educational qualification of the respondents is shown in table 4.1.3 as:

Table 4.1.3 Respondent's Profile

| Education | Frequency | Percent |
|---|---|---|
| Intermediate | 5 | 4.76 |
| Undergraduate | 47 | 44.76 |
| Postgraduate | 52 | 49.52 |
| Others | 1 | 0.95 |

| | | |
|---|---|---|
| Total | 105 | 100.00 |

(Source: Field Survey 2018)

The table 4.1.3 shows that 4.76 percent of the respondents have the education qualification of Intermediate level while 44.76 percent have the education qualification of undergraduate level and 49.53 percent of the respondents have the education qualification of postgraduate level.

### 4.1.4 Respondent's Profile by Experience

The working experience of the respondents has been classified into four groups as Below 1 years, 1-5 years, 6-10 years and Above 10 years. Their frequency distribution and the percent composition has been shown in table 4.1.4 as:

Table 4.1.4 Respondent's Profile

| **Experience** | **Frequency** | **Percent** |
|---|---|---|
| Below 1 | 18 | 17.14 |
| 1-5 years | 55 | 52.38 |
| 6-10 years | 23 | 21.90 |
| Above 10 | 9 | 8.57 |
| Total | 105 | 100 |

(Source: Field Survey 2018)

The table 4.1.4 shows the working experience of the respondents where by the majority of respondents i.e. 52.38 percent have work experience of 1-5 years. Similarly 21.90 percent of the respondents have the working experience of 6-10 years. Likewise 17.14 percent of the respondents have experience of below 1 year and 8.57 percent respondents have an experience of above 10 year.

### 4.1.5 Respondent's Profile by Position

The questionnaire were distributed to the assistant level, officer level and managerial level employees. The frequency distribution and the percent composition based on position is shown in table 4.1.5 as:

Table 4.1.5 Respondent’s Profile

| **Position** | **Frequency** | **Percent** |
|---|---|---|
| Assistant | 61 | 58.10 |
| Officer | 30 | 28.57 |
| Managerial | 14 | 13.33 |
| Total | 105 | 100 |

(Source: Field Survey 2018)

The table 4.1.5 shows that the majority of the respondents i.e. 58.10 percent are the assistant level employees followed by officer level which comprise of 28.57 percent of respondents while the percentage of managerial level respondents is 13.33 percent.

## 4.2 Reliability Analysis

Result of Cronbach’s Alpha analysis was first examined for the sensible and theoretical assurance of each question in the data set Gliem and Gliem (2003) depicted that the value above 0.7 is considered as acceptable and reliable.

Cronbach’s Alpha has been used in this research to prove the internal consistency of the scale item used. Nunnally and Bernstein (1994) argued that a-score exceeding 0.7 indicate the high internal reliability of the scale item. Gorge and Mallery (2009) depicted there is no set of interpretation as to what is an acceptable value of alpha. A rule of thumb that applies in most of the situation is a>0.9 is excellent, a>0.8 is good, a> 0.7 is acceptable, a>0.6 is questionable, a>0.5 is poor and a<0.5 is unacceptable.

The reliability of used measurement scales was tested using Cronbach’s Alpha coefficient as shown in the table 4.2.1 as:

Table 4.2.1 Summary of Reliability Analysis

| Code | Variables | Cronbach's Alpha |
|---|---|---|
| C | Cost Reduction | 0.719 |
| L | Liquidity | 0.738 |
| MS | Market Shares | 0.673 |
| P | Profitability | 0.645 |

The table 4.2.1 shows that the results of the reliability measurement scales used for measuring dependent variables exhibits satisfactory level of the reliability.

## 4.3 Descriptive Analysis

The section deals with the descriptive analysis of data collected through the questionnaire during the research process. Descriptive statistics summarizes the sample and observations that have been made. It involves the calculation of statistical measures such as mean standard deviation as well as maximum and the minimum values. In this study, descriptive analysis incorporates the calculation of statistical measures such as mean and standard deviation.

### 4.3.1 Bancassurance and Cost Reduction

To analyze the impact of bancassurance on the cost reduction of the life insurance companies, different five questions were provided to the respondents. The result of the impact of bancassurance on cost reduction is shown in the table 4.3.1 as:

Table 4.3.1 Descriptive analysis of bancassurance and cost reduction

| **Variables** | **Mean** | **Std. Deviation** |
|---|---|---|
| There is the reduction in the operational staffs due to bancassurance | 3.74 | 0.78 |
| There is the reduction on the office space and equipment | 3.77 | 0.68 |
| There is reduction in marketing staffs numbers. | 3.95 | 0.73 |
| There is the fall in the promotional expenses after the adoption of bancassurance. | 3.97 | 0.63 |
| There has been reduction in the overall operational cost of the company. | 4.11 | 0.70 |

(Source: Field Survey 2018)

The table 4.3.1 shows that actual response ranges from 1 to 5 scales: (1) indicates Strongly Disagree, (2) indicates Disagree, (3) indicates Neutral, (4) indicates Agree and (5) indicates strongly agree. Among the five variables overall reduction in the cost of company has the highest mean of 4.11 which proves the bancassurance impact on the financial performance.

### 4.3.2 Bancassurance and Liquidity

To analyze the impact of bancassurance on the liquidity five questionnaire were distributed to the respondents. The descriptive analysis of the bancassurance and liquidity is shown in the table 4.3.2 as:

Table 4.3.2 Descriptive analysis of Bancassurance and Liquidity

| **Variables** | **Mean** | **Std. Deviation** |
|---|---|---|
| Our organization has witnessed rise in premium from bancassurance | 3.96 | 0.65 |
| Our organization has improved liquidity position from bancassurance. | 4.12 | 0.47 |
| The improved liquidity form bancassurance has enhanced our ability to meet the claims. | 4.12 | 0.66 |
| Increases the security of getting payments of premium on time. | 4.00 | 0.65 |
| Higher level of liquidity arising through bancassurance has enhanced our level of financial performance. | 4.06 | 0.63 |

(Source: Field Survey 2018)

The table 4.3.2 shows that actual response ranges from 1 to 5 scales: (1) indicates Strongly Disagree, (2) indicates Disagree, (3) indicates Neutral, (4) indicates Agree and (5) indicates strongly agree. The second and third statement has the highest mean of 4.12 stating that the bancassurance has improved the liquidity of the insurance companies and enhanced the ability to meets the claims.

### 4.3.3 Bancassurance and Market Shares

To analyze the impact of bancassurance on the market shares of the insurance companies different five market shares related questionnaire we distributed to the respondents. The response form the employees (respondents) has been presented in table 4.3.3 as:

Table 4.3.3 Descriptive analysis of Bancassurance and Market Shares

| **Variables** | **Mean** | **Std. Deviation** |
|---|---|---|
| Customers are interested to purchase insurance policies through banks. | 3.96 | 0.69 |
| There has been rise in the number of clients since the adoption of bancassurance. | 4.17 | 0.53 |
| Banks effectively distribute the insurance policies than the agents. | 4.10 | 0.63 |
| Bancassurance has increased the market coverage of the company | 4.15 | 0.51 |
| There has been rise in market shares since the adaptation of bancassurance. | 4.15 | 0.60 |

(Source: Field Survey 2018)

The table 4.3.3 shows that the second statement has the highest mean of 4.17 showing that there has been increase in the number of clients since the adoption of the bancassurance. The first statement has the lowest mean of 3.96 which shows that the respondents less agreed by the statement “Customers are interested to purchase insurance policies through banks”. Though the first statement have the lowest mean it is well above the average indicating that the bancassurance has positive impact on the market shares and the financial performance of the insurance companies.

### 4.3.4 Bancassurance and Profitability

Profitability is the ultimate measure of the financial performance of any companies. Profitability is the yardstick for measuring the profitability of the firm. The descriptive analysis of the bancassurance impact on the profitability of the insurance companies has been shown on the table 4.3.4 as:

Table 4.3.4 Descriptive analysis of Bancassurance and Profitability

| **Variables** | **Mean** | **Std. Deviation** |
| --- | --- | --- |
| Rising Earning Per Shares since the adoption of bancassurance | 3.91 | .735 |
| Rising ROE since the adaptation of bancassurance. | 3.93 | .711 |
| Rising ROA since the adaptation of bancassurance. | 3.94 | .782 |
| Good profitability ratio since bancassurance adoption. | 4.03 | .612 |

(Source: Field Survey 2018)

The table 4.3.4 shows that the statement “Good profitability ratio since the bancassurance adoption” has the mean of 4.03 indicates the impact of bancassurance on the financial performance. The statement “Rising earning per shares since the adoption of bancassurance” has the lowest mean of 3.91 which indicates that the respondents are less agreed by this statement.

## 4.4 Inferential Analysis

Inferential statistics are procedures used that allow researchers to infer or generalize observations made with samples to the larger population from which they were selected. It enables the use of one or more samples of observations to infer values of a population. Inferential analysis test hypotheses to determine if observed differences between groups or variables are real or occur simply by chance. It produces new information by making predictions and generalizations based on samples. This sections consist of two analysis tools i.e correlation analysis and regression analysis.

### 4.4.1 Correlation Analysis

Pearson's correlation analysis is carried out in order to know to what extent variables under study are correlated to each other. The Pearson's coefficient, r, can take the range of values from +1 to -1. A value of 0 indicates there is no association between the variables. A positive correlation reveals that the direction of the relationship is positive with one increasing in reaction to the other's increase. Meanwhile a negative correlation reveals that an inverse of the above which is increase in one variable when there decrease in other. The table 4.4.1 shows the correlation coefficient matrix of the variables.

Table 4.4.1 Correlations Matrix

| | | (1) | (2) | (3) | (4) |
|---|---|---|---|---|---|
| Profitability (1) | Correlation | 1 | | | |
| | Sig. | | | | |
| Cost Reduction (2) | Correlation | .391** | 1 | | |
| | Sig. | .000 | | | |
| Liquidity (3) | Correlation | .458** | .424** | 1 | |
| | Sig. | .000 | .000 | | |
| Market shares (4) | Correlation | .365** | .223* | .403** | 1 |
| | Sig. | .000 | .022 | .000 | |

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

(Source: Field Survey 2018)

The table 4.4.1 shows the positive correlation between all the variables. The moderate correlation has been found between cost reduction and profitability as the correlation between them is 0.391 which is greater than 0.30 and less than 0.60. The correlation between liquidity and the profitability was also found moderate as their correlation coefficient was 0.458. The correlation coefficient between the market shares and the profitability is 0.365 which also shows the moderate level of association between the dependent and independent variable. The above table shows that all the predictor variables( Cost reduction, liquidity and market shares) have positive and the moderate correlation with the dependent variable (i.e. profitability).

The correlation between the cost reduction and liquidity is 0.424 which indicate the moderate level of positive correlation. Similarly, correlation between the market shares and cost reduction is 0.223 which is less than 0.30 indicates the weak correlation between them. Likewise the correlation between the liquidity and market shares was found to be moderate as their correlation was 0.403 which is greater than 0.30.

### 4.4.2 Regression Analysis

Regression analysis is the statistical process for estimating the relationship between the variables. It is used to ascertain the casual effect of one variable upon another variable. A multiple regression model was applied to determine the relationship between the dependent and independent variable. Table 4.4.2 shows the summary of the results.

Table 4.4.2 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .540[a] | .291 | .270 | 1.69549 |

Predictors: (Constant), Market shares, Cost Reduction, Liquidity

Dependent variable: Profitability (i.e. Financial performance of insurance companies)

^ (Source: Field Survey 2018)

The above table 4.4.3 shows the coefficient of determination. Adjusted $R^2$ is called the coefficient of determination which measures to what extend the change in independent variable (Profitability) is explained by the dependent variables (cost reduction, market shares and liquidity).

Form the regression model summary above the value of adjusted $R^2$ is 0.291 which indicated that the 29.1% change in the profitability is explained by cost reduction, liquidity and market.

Table 4.4.3 Analysis of Variance

| | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 119.220 | 3 | 39.740 | 13.824 | .000[b] |
| Residual | 290.342 | 101 | 2.875 | | |
| Total | 409.562 | 104 | | | |

Dependent Variable: Profitability

Predictors: (Constant), Market shares, Cost, Liquidity

(Source: Field Survey 2018)

The table 4.4.3 depicts that the p-value is less than 0.001. It indicates that the test is significant at 0.001. This means that the model has less than 0.001 probability of giving a wrong prediction. Hence the regression model has a confidence level of above 99% which confirms that the regression model was appropriate and the results reliable.

**Multiple Regression Results**

The multiple regression results are shown in table 4.4.4 as:

Table 4.4.4 Regression Coefficient

| Unstandardized Coefficients | | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 2.769 | 2.095 | | 1.322 | .189 |
| Cost | .186 | .076 | .227 | 2.451 | .016 |
| Liquidity | .258 | .091 | .280 | 2.841 | .005 |
| Market Shares | .204 | .093 | .202 | 2.200 | .030 |

(Source: Field Survey 2018)

**Model:** P = 2.769 + 0.186 C +0.25 L +0.204 MS

The multiple linear regression model indicates that all the independent variables have positive coefficient. The above table 4.4.4 shows that one unit change in cost results in 0.186 units increases in the financial performance of insurance companies. Similarly, one units change in liquidity is expected to increase the financial performance by 0.258 units. Likewise, one unit change in the market shares is expected to increase the financial performance by 0.204 units.

**Testing of Hypothesis**

**H1: Cost reduction due to bank based sales has significant impact on the financial performance of the insurance companies**.

P-value of cost reduction is 0.16 which is significant at 5% level of significant. So, hypothesis 1 is accepted.

**H2: Liquidity from bancassurance has significant impact on the financial performance (Profitability) of the insurance companies**.

P-value of liquidity is 0.05 which is significant at 5% level of significance. So, hypothesis 2 is accepted.

**H3: Market shares has significant impact on the financial performance (Profitability) of the insurance companies**.

P-value of market shares is 0.30 which is significant at 5% level of significance. So, hypothesis 3 is accepted.

**4.5 Result**

The study is the perceptual study on the impact of bancassurance on the financial performance of the insurance companies of Nepal. The study focus how the bank based sales affects cost, liquidity and the market shares of the insurance companies and ultimately the profitability (i.e. the financial performance) of the insurance companies. The research was done with the sample size of 105 representing the population size. Respondents were the employees of different 6 life insurance companies. The research is based on both descriptive and inferential analysis.

Regarding the various demographical profiles as a moderate variable of the study, the study focused on five major demographical components as age, gender, educational qualification working experience and position. Out of the 105 respondents 51.43 percent of the respondents were male and 48.57 percent of the respondents were female. Similarly, among the respondents in the survey 27.62% lies on the age group 16-24 years, 41.90% lies on the age group 25-30 years which constitutes of the largest number of respondents. Similarly, 27.62 percent of the respondent lies on the age group 30-40 years and the remaining 2.86% of the respondents above 40 years of age.

Similarly, regarding the education qualification of the respondents 4.76% have the minimum educational qualification of intermediate level, 44.76 % had undergraduate level education, and 49.52% had postgraduate qualification leave and 0.95% i.e. 1 respondent have other education qualification. Among the respondents 58.10% were assistant which comprise the maximum level of respondents, 28.57% were officer level employees and 13.33% managerial level employees. Likewise, 17.14 percent had the experience of below 1 year, 52.38% had the working experience of 1-5 years, 21.90 have 6-10 years of working experience and 8.57 has above 10 years of working experience.

Descriptive analysis of all dependent and independent variable was done. Majority of respondents agreed that the bancassurance reduces the cost, increase liquidity, increase market shares and the profitability of their company.

Reliability analysis was done by using the Cronbach’s alpha. Satisfactory level of reliability was found. Correlation analysis was done. All the variables were found to be positively correlated to each other. From multiple regression analysis it was found that all the variables have positive coefficient. Hypothesis was also tested in the study to analyze the relationship between the dependent and independent variables. The findings of the study are reported as below.

1) Cost reduction due to bancassurance has significant impact on the financial performance of the insurance companies. (Hypothesis: 1 accepted)

2) Liquidity from bancassurance has significant impact on the financial performance (Profitability) of the insurance companies. (Hypothesis: 2

accepted)

3) Market shares has significant impact on the financial performance (Profitability) of the insurance companies (Hypothesis: 3 accepted)

# CHAPTER V

# CONCLUSION AND IMPLICATIONS

## 5.1 Conclusion

The aim of this study is to understand the impact of bancassurance on the financial performance of the life insurance companies of Nepal. In order to study the impact of bancassurance the researcher first reviewed the multiple literature related to bancassurance in order to review the information on the topic. Similarly to collect the information needed for the study primary data collection method was used. Primary data were collected by distributing the questionnaire to 105 respondents (employees of 6 life insurance companies).

The findings reported in the study has shown that the bancassurance has impact on the financial performance (profitability) of the life insurance companies. Majority of the respondents supported with the ideas that bancassurance can reduce the overall cost by reducing the staffs expenses, office space and equipment’s, the promotional expenses. Similarly, the research findings also shows that through the bank based sales insurance companies are able to increase the liquidity (sales) and the market shares. This shows that the life insurance firms are taking the advantage of bank’s long term relationship with the customers and their wide distribution networks (branches).

Likewise correlation analysis shows that all the independent variables (cost reduction, market shares and liquidity) have the positive correlation between themselves and also with the dependent variables. Similarly, the regression analysis also shows that the all the independent variables has the positive coefficient. Hence, it can be justified that the bancassurance has positive impact on the financial performance (profitability) of the life insurance companies and the insurance companies should adopt bancassurance as for improving their financial performance.

## 5.2 Implications

The insurance sector of the country has been growing rapidly at present and it has become on the major financial sector of the country. Government of Nepal has also given so much priority for the development of the insurance sectors. At present there are 41 insurance companies in Nepal. Out of the 19 are life insurance companies, 21 non-life insurance companies and a reinsurance company. 10 life insurance and 4 non-life insurance companies were just given license for the operation of insurance business. Some of the have already started their business and other are in the process of commencing the insurance business.

Nepal is a rural based economy. Around 86% of the Nepalese are still residing in the rural areas. Due the geographical difficulty, lack of infrastructure it is difficult to run the insurance business in the rural parts of the country. On the other, with the adaptation of the federal system in the country Nepal Rastra Bank has directed the commercial bank to establish at least a branch in each local level for carrying the government transactions.. Most of the company banks have already established their branches in almost all the local levels. This has created the insurance companies to conduct the insurance business in the local level through banks.

Bancassurance is about selling the insurance products through the banking channels. In Nepalese context, bancassurance is a new phenomenon. This new phenomenon (bancassurance) has provide the insurance companies a new opportunity. Bancassurance has brought the new distribution channel in the insurance sectors leading to enhance the insurance business with the partnership with the banks in order to increase the client base and the profit of both insurance companies and banks.

From the research we have found that the bancassurance has increased the liquidity, market shares and has reduced the cost of the insurance companies helping to improve the financial performance. Hence the bank and the insurance companies should enter into the bancassurance agreement to enhance the sales and the profitability potential with the minimum investment. Though the banks has been allowed to sell the insurance products through banks no policies and procedures has yet been formulated regarding the bancassurance. Bank are working as the corporate agent of the insurance companies.

It is said that the bancassurance guidelines are in the process of formulation the insurance board. So the board should give priority for the formulation of the bancassurance guidelines. As the networks of the commercial banks are on almost local levels bancassurance could prove to be means for the insurance “financial” inclusion in the country.

### 5.3 Future Implications

This is the perceptual study on the impact of bancassurance on the financial performance of the insurance companies. Hence this study is based on the perception of the employees of the life insurance companies. So the further study can be carried by taking the secondary sources of data from the insurance companies which can provide the actual impact of bancassurance in numerical terms such as change in premium, market share, profitability ratio, cost etc.

Under this study only three independent variables (i.e. cost reduction, market shares and liquidity) were used to measure the financial performance of the insurance companies. Besides these there are many variables that affects the financial performance of the insurance companies. So other variables can be taken into consideration for the future research.

This research is an academic research. Due to the time, cost and the unwillingness the employees of insurance companies the sample size is small. So for the further research the sample size should be increased. Similarly, only six life insurance companies were chosen in this study. So both the life insurance companies and non -life insurance companies can be included in the further research study to make the research more comprehensive and more reliable.

Finally, this research generates the scope for the other researcher who want to do the research on bancassurance practices in Nepal. This research carried to study the impact of bancassurance on the financial performance of the life insurance companies. Hence further research can be carried on impact of bancassurance on the financial performance of banking institutions or impact of the bancassurance can be carried out in future.

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# APPENDIX 1

## Impact of Bancassurance on the Financial Performance of Insurance Companies in Nepal

**Section I: Personal Information**

Please tick for each criteria group.

| Gender | Age Group | Education | Experience | Position |
|---|---|---|---|---|
| a) Male<br>b) Female | a) 16-24<br>b) 25-30<br>c) 31-40<br>d) Above 40 | a) Intermediate<br>b) Undergraduate<br>c) Postgraduate<br>d) Others (Specify) …………………. | a) Below 1<br>b) 1- 5<br>c) 6-10<br>d) Above 10 | a) Assistant<br>b) Officer<br>c) Managerial |

**Section II: Information on impact of bancassurance on financial performance**

Please tick the extent to which you agree or disagree on the following statements.

1= Strongly Disagree (1), 2=Disagree (D), 3= Neutral (N), 4= Agree (A), 5= Strongly Agree (SA)

**1. Cost Reduction**

| Code | Statement | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| C1 | There is the reduction in the operational staffs due to bank based sales. | 1 | 2 | 3 | 4 | 5 |
| C2 | There is the reduction on the office space and equipment. | 1 | 2 | 3 | 4 | 5 |
| C3 | There is reduction in marketing staffs numbers. | 1 | 2 | 3 | 4 | 5 |
| C4 | There is the fall in the promotional expenses after the adoption of bancassurance. | 1 | 2 | 3 | 4 | 5 |
| C5 | There has been reduction in the overall operational cost of the company. | 1 | 2 | 3 | 4 | 5 |

**2. Liquidity**

| Code | Statement | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| L1 | The organization has witnessed rise in premium from bancassurance | 1 | 2 | 3 | 4 | 5 |
| L2 | The organization has improved liquidity position from bancassurance. | 1 | 2 | 3 | 4 | 5 |
| L3 | The improved liquidity from bancassurance has enhanced our ability to meet the claims. | 1 | 2 | 3 | 4 | 5 |
| L4 | Increases the security of getting payments of premium on time. | 1 | 2 | 3 | 4 | 5 |
| L5 | Higher level of liquidity arising through bancassurance has enhanced our level of financial performance. | 1 | 2 | 3 | 4 | 5 |

**3. Market Shares**

| Code | Statement | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| MS1 | Customers are interested to purchase insurance policies through banks. | 1 | 2 | 3 | 4 | 5 |
| MS2 | There has been rise in the number of clients since the adoption of bancassurance. | 1 | 2 | 3 | 4 | 5 |
| MS3 | Banks effectively distribute the insurance policies than the agents. | 1 | 2 | 3 | 4 | 5 |
| MS4 | Bancassurance has increased the market coverage of the company | 1 | 2 | 3 | 4 | 5 |
| MS5 | There has been rise in market shares since the adaptation of bancassurance. | 1 | 2 | 3 | 4 | 5 |

**4. Profitability**

| Code | Statement | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| P1 | Rising Earning Per Shares since the adoption of bancassurance | 1 | 2 | 3 | 4 | 5 |
| P2 | Rising ROE since the adoption of bancassurance. | 1 | 2 | 3 | 4 | 5 |
| P3 | Rising ROA since the adoption of bancassurance. | 1 | 2 | 3 | 4 | 5 |
| P4 | Good profitability ratio since bancassurance adoption | 1 | 2 | 3 | 4 | 5 |

# APPENDIX 2

## A. General Data

1) Name :……………….................................................

2 ) Age : 16-24 ☐ 25-30 ☐ 31-40 ☐ 40and above ☐

3 ) Gender : Male Female ☐ ☐

4) Qualification : Intermediate ☐ Undergraduate ☐

Postgraduate ☐ Others (Specify) ___________

**Survey Data**

**3.** Express your level of agreement with respect to the following factors that affect the cost reduction in insurance companies

| Statements | Level of Agreement | | | | |
|---|---|---|---|---|---|
| | **Strongly Disagree** | **Disagree** | **Neutral** | **Agree** | **Strongly Agree** |
| The operational staffs due to bank based sales | | | | | |
| The office space and equipment | | | | | |
| Marketing staff members | | | | | |
| Fall in promotional expenses | | | | | |
| Overall operational cost of the company | | | | | |

**4.** Express your level of agreement with respect to the following factors on liquidity from bancassurance.

| **Statements** | **Level of Agreement** | | | | |
|---|---|---|---|---|---|
| | **Strongly Disagree** | **Disagree** | **Neutral** | **Agree** | **Strongly Agree** |
| Witnessed rise in premium | | | | | |
| Improved liquidity position | | | | | |
| Improved liquidity from bancassurance enhanced abilities to meet the claims | | | | | |
| Increases the security of getting payments of premium on time. | | | | | |
| Higher liquidity arises through bancassurance enhanced the level of financial performance | | | | | |

8. Express your level of agreement with respect to the following factors on market shares.

| Statements | **Level of Agreement** | | | | |
|---|---|---|---|---|---|
| | **Strongly Disagree** | **Disagree** | **Neutral** | **Agree** | **Strongly Agree** |
| Customers are interested to purchase insurance policies through banks. | | | | | |
| Rise in the number of clients since the adoption of bancassurance | | | | | |
| Banks effectively distribute the insurance policies than the agents | | | | | |
| Bancassurance has increased the market coverage of the company | | | | | |
| There is rise in marketshares since the adaptation of bancassurance | | | | | |

9. Express your level of agreement with respect to the following factors on profitability since the adoption of bancassurance.

| Statements | Level of Agreement | | | | |
|---|---|---|---|---|---|
| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
| Rising Earning Per Shares | | | | | |
| Rising ROE | | | | | |
| Rising ROA | | | | | |
| Good profitability ratio | | | | | |

Thanking you

Kanchana Shapkota