BBA (B&I) 302: Retail Management and Retail Banking

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UNIT-1

Retail Management– An Introduction

The process of bringing the ultimate user to the main producer, through a series of stages, where retailing is the last one. It is not limited to quantities, but limited to the exact requirement of the ultimate user. Therefore, bringing about operational efficiency at this last stage, and creating an environment so compelling that he looks nowhere else, is "Retail Management". RM- is an art, and necessitates employing several tools of logistics management for a complete end user satisfaction. RM - is getting to know the final user on behalf of the producer. RM - is a process of facilitation.

Functions of Retailing

Functions of retailing from the customer point of view, the retailer serves him by providing the goods that he needs in the required assortment, at the required place and time.

1. Arranging Assortment: manufacturers usually make one or a variety of products and would like to sell their entire inventory to few buyers to reduce costs. Final consumers in contrast prefer a large variety of goods and services to choose from and usually buy them in small units.

2. Breaking Bulk: To reduce transportation costs, manufacturer and wholesalers typically ship large cartons of the products, which are then tailored by the retailers into smaller quantities to meet individual consumption needs.

3**. Holding stock:** Retailers maintain an inventory that allows for instant availability of the product to the consumers. It helps to keep prices stable and enables the manufacture to regulate production.

4. **Promotional support:** small manufacturers can use retailers to provide assistance with transport, storage, advertising, and pre- payment of merchandise. The Retailer also serves the manufacturers by

1. Accomplishing the function of distributing the goods to the end users

2. Creating and managing a channel of information from manufacturer to the consumer

3. Act as a final link in the distribution chain

4. Recommending products where brand loyalty is not strong or for unbranded products.

Types of Retailers

There are 7 main types of retailers which can be defined by the size of their business and the way they in which they sell their products.

1. **Department Store** – This type of retailer is often the most complex offering a wide range of products and can appear as a collection of smaller retail stores managed by one company. The department store retailers offer products at various pricing levels. This type of retailer adds high levels of customer service by adding convenience enabling a large variety of products to be purchased from one retailer.

2. **Supermarkets** – Generally this type of retailer concentrates in supplying a range of food and beverage products. However many have now diversified and supply products from

the home, fashion and electrical products markets too. Supermarkets have significant buying power and therefore often retail goods at low prices.

3. **Warehouse retailers** – This type of retailer is usually situated in retail or Business Park and where premises rents are lower. This enables this type of retailer to stock, display and retail a large variety of good at very competitive prices.

4. **Specialty Retailers** – Specialising in specific industries or products, this type of retailer is able to offer the customer expert knowledge and a high level of service. They also add value by offering accessories and additional related products at the same outlet.

5. **E-tailer** – This type of retailer enables customers to shop on-line via the internet and buy products which are then delivered. This type of retailer is highly convenient and is able to supply a wider geographic customer base. E-tailers often have lower rent and overheads so offer very competitive pricing.

6. **Convenience Retailer** – Usually located in residential areas this type of retailer offers a limited range of products at premium prices due to the added value of convenience.

7. **Discount Retailer** – This type of retailer offers a variety of discounted products. They offer low prices on less fashionable branded products from a range of suppliers by reselling end of line and returned goods at discounted prices.

Organized Retail Formats In India

Key Points of Indian Organized Retail Industry

1. Potential to be the third largest economy in terms of GDP in next few years.

2. It ranks high amongst the top 10 FDI destinations of the world.

3. Fastest growing tourist market in Asia.

4. World bank states, India to be world's second largest economy after China by the year 2050.

5. Stable and investor friendly Central Government at the helm of affairs.

6. Introduction of Value Added Tax or VAT and tax reforms.

7. High degree of professionalism and corporate ethics.

8. Excellent Investment opportunities in Indian retail sector and in allied sectors; sure and high returns on investments.

9. To invest US $130 billion for the development of infrastructure, by year 2010.

10. Bullish stock markets.

11. Hordes of foreign investors are thronging in to invest in Indian retail markets.

12. Highly educated English speaking young workforce.

13. Vibrant and multi cultured cities.

14. Huge opportunity exists, especially in semi-rural and rural areas.

15. Till date the second largest employer after agriculture sector, for the huge semi-skilled Indian population.

16. Offers highest shop density in the whole world.

17. Having almost 1,20,000 shops, across the length and breadth of the country.

Formats in Indian Organized Retail Sector

1. **Supermarkets:** A supermarket, also called a grocery store is a self- service store offering a wide variety of food and household merchandise, organized into departments. It is larger in size and has a wider selection than a traditional grocery store and it is smaller than a hypermarket or superstore.

2**. Hypermarkets:** A hypermarket is a superstore which combines a supermarket and a department store. The result is a very large retail facility which carries an enormous range of products under one roof, including full lines of groceries and general merchandise. In theory, hypermarkets allow customers to satisfy all their routine weekly shopping needs in one trip.

3. Department Stores: A department store is a retail establishment which specializes in satisfying a wide range of the consumer's personal and residential durable goods product needs; and at the same time offering the consumer a choice multiple merchandise lines, at variable price points, in all product categories. Department stores usually sell products including apparel, furniture, appliances, electronics, and additionally select other lines of products such as paint, hardware, toiletries, cosmetics, photographic equipment, jewelery, toys, and sporting goods.

Certain department stores are further classified as discount department stores. Discount department stores commonly have central customer checkout areas, generally in the front area of the store. Department stores are usually part of a retail chain of many stores situated around a country or several countries.

4. Shopping malls: A shopping mall or shopping centre is a building or set of buildings which contain retail units, with interconnecting walkways enabling visitors to easily walk from unit to unit.

5. Specialty Chains: A Specialty Chains is numbers stores which are specialized in a specific range of merchandise and related items. Most stores have an extensive width and depth of stock in the item that they specify in and provide high levels of service and expertise. They differ from department stores and supermarkets which carry a wide range of merchandise.

Challenges ahead for Retailing

Challenges for retailing In India The organised retail sector in India has been witnessing various issues and challenges which are proving to be a hurdle for its fast-paced growth. Even though the organised retail sector is in a very nascent stage in India, it provides ample opportunities for retailers, and mitigation of a few challenges will help the sector attain higher economies of scale and growth. Elucidated below are the challenges and risks that the sector faces: Global economic slowdown Competition from the unorganised sector Retail sector has no recognition as an industry High real-estate costs Lack of basic infrastructure Supply-chain inefficiencies Challenges with respect to human resources Margin Pressure.

Global economic slowdown impacting consumer demand:

Global economic slowdown impacting consumer demand the current contraction in overall growth has not been so severe ever since the one witnessed during World War II. The sub prime-triggered crisis in the US during end of 2007 gradually spread across other parts of the world; as a the fallout of this crisis, credit availability dropped sharply in advanced economies and their GDP growth contracted incessantly during the last quarter of 2008. The financial crisis continued to trouble advanced and developing economies in spite of policymakers' attempts to replenish liquidity in these markets. The financial crisis and global economic slowdown resulted in job losses around the world, which weakened consumer demand.

Consumption declines in the advanced economies:

Consumption declines in the advanced economies Private consumption expenditure is an important indicator of overall economic growth. In the last couple of quarters, the decline in consumption has further affected the global economic downturn.

Competition from the unorganised sector:

Competition from the unorganised sector Organised retailers face immense competition from the unorganised retailers or kirana stores (mom-and-pop stores) that generally cater to the customers within their neighbourhood. The unorganised retail sector constitutes over 94% of India's total retail sector and thus, poses a serious hurdle for organised retailers. If put numerically, the organised retailers are facing stiff competition from over 13 million kirana stores that offer personalized services such as direct credit to customers, free home delivery services, apart from the loyalty benefits.

Retail sector yet to be recognized as an industry:

Retail sector yet to be recognized as an industry the retail sector is not recognized as an industry by the government even though it is the second-largest employer after agriculture. Lack of recognition as an industry affects the retail sector in the following ways: Due to the lack of established lending norms and consequent delay in financing activity, the existing and new players have lesser access to credit, which affects their growth and expansion plans The absence of a single nodal agency leads to chaos, as retailers have to oblige to multiple authorities to get clearances and for regular operations

High real estate costs :

High real estate costs Even though the real estate prices have subsided recently due to the slowdown in economies and the financial crises, these prices are expected to go up again in the near future. Presently the sector faces high stamp duties, pro-tenancy acts, the rigid Urban Land Ceiling Act and the Rent Control Act and time-consuming legal processes, which causes delays in opening stores.

Lack of basic infrastructure :

Lack of basic infrastructure Poor roads and lack of cold chain infrastructure hampers the development of food retail in India. The existing players have to invest substantial amounts of money and time in building a cold-chain network.

Supply-chain inefficiencies:

Supply-chain inefficiencies Supply chain needs to be efficiently-managed because it has a direct impact on the company's bottomlines. Presently the Indian organised retail has an efficient supply chain but it appears efficient only when compared with the unorganised sector. On an international level the Indian organised retailers fall short of international retailers like Wal-Mart and Carrefour in terms of efficiencies in supply chain. In the following paragraphs some key challenges that the retailers face during procuring goods from suppliers to delivering the same to end-customers are discussed. Inventory management is the first challenge that retailers face at the local store level as well as at the warehouse level.

Challenges with respect to human resources :

Challenges with respect to human resources The Indian organised retail players shell out more than 7% of sales towards personnel costs. The high HR costs are essentially the costs incurred on training employees as there is a severe scarcity for skilled labour in India. The retail industry faces attrition rates as high as 50%, which is high when compared to other sectors also. Changes in career path, employee benefits offered by competitors of similar industries, flexible and better working hours and conditions contribute to the high attrition.

Shrinkage :

Shrinkage Retail shrinkage is the difference between the book value of stock and the actual stock or the unaccounted loss of retail goods. These losses include theft by employees, administrative errors, shoplifting by customers or vendor fraud. According to industry estimates, nearly 3-4% of the Indian chain's turnover is lost on account of shrinkage. The organised industry players have invested IT, CCTV and antennas to overcome the problem of shrinkage.

UNIT-2

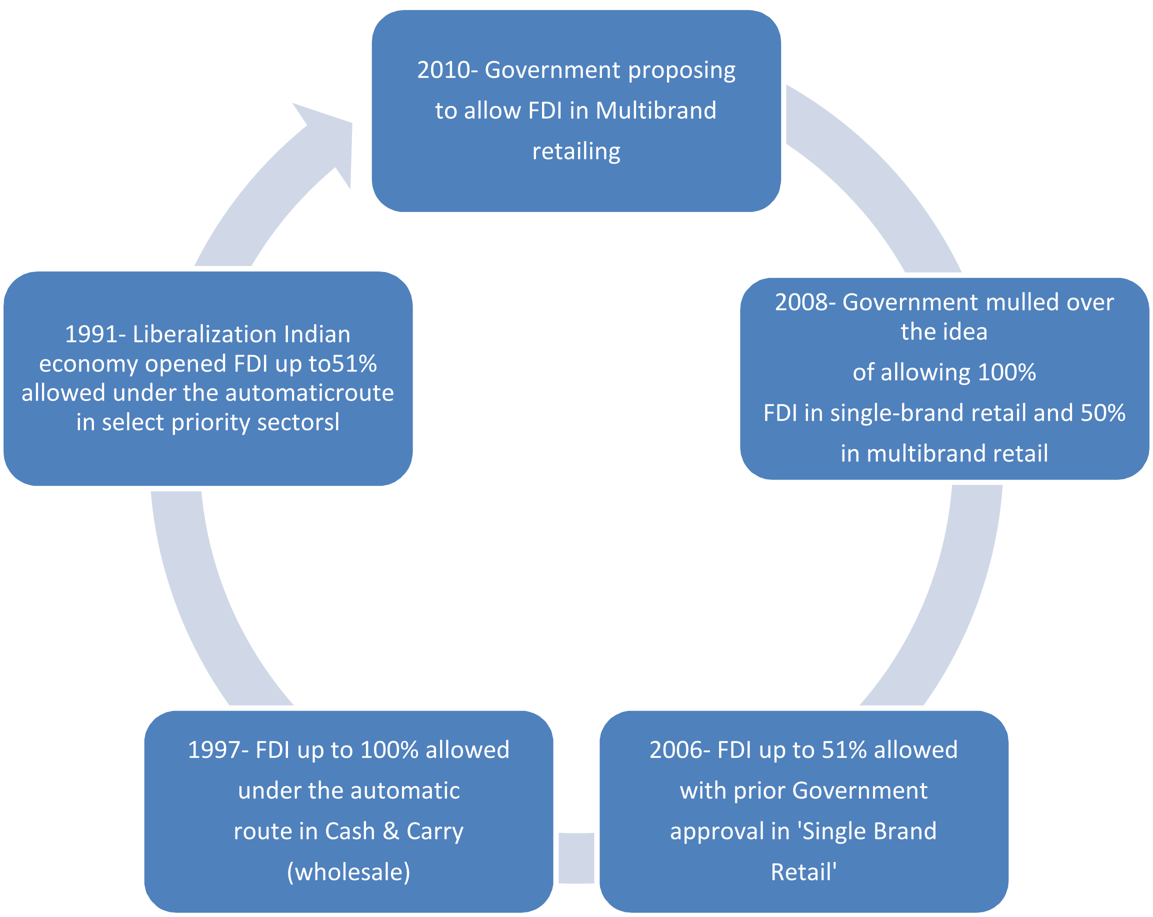
Changing Retail Environment

Evolution of Foreign Direct Investment (FDI) policy

The last two decades, have seen India open up its economy in a slow but steady fashion to private as well as foreign investment. The foreign investment is governed through the FDI policy which regulates industries open to foreign investment, and also the percentage that can be held by the foreign companies. Globalisation and liberalisation have immensely influenced the Indian economy and have gone a long way in making it a lucrative consumer market.

The government in a series of moves has opened up the retail sector slowly to FDI. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. To evaluate the impact of international players on domestic markets, in 1997 FDI in cash and carry (wholesale) with 100 percent ownership was allowed. In 2006, 51 percent investment in a single brand retail outlet was permitted. Since then retailing through franchisee route has been explored by several global brands.

Discussions were carried out by the government in 2008 to allow 100 percent FDI in single brand and 51 percent in multi brand retailing, but did not succeed due to fierce opposition from its then allies and Left (Communist) party and also from the local trade associations. The debate around opening up of the sector is expected to include among other the key points around:
• Entry in cities with population above one million
• Local sourcing requirements
• Mandatory investment in back-end operations Cash and carry model to support the local retailers to benefit from large scale sourcing
• Employment to rural youth to help spur employment growth for people who may be affected by this move. The push for proposed investment seems to be around creating an supply-chain infrastructure for agriculture to help alleviate the income levels of farmers and reduce wastage of crops which are currently pegged at about 30-40% of total produce.



Environmental Analysis

Rapid expansion

Retailers with an aim of having pan-India presence ramped up property at high rentals with low focus on demographic and consumer research and lack of sufficient back-end support. Economic slowdown/ tight liquidity position in the market impacted retailers ability to grow and expand. Retailers evaluated their store network and expansion strategy to adopt a more conservative approach and negotiated rents with property owners.

Mall mania

With the advent of modern retail, property developers and land owners in metro and tier- I cities started developing malls. As rentals increased, more malls were being built without much consideration given to customer catchment/ other malls in the vicinity. Retailers grabbed available stores in the boom period, but this has reversed with the slowdown in 2008 when mall mania started fading away. Property developers have since realised that success of a mall is not just in developing a property but also in being able to attract footfalls necessary to facilitate tenants' business.

Formats and sizes

In the early years, retailers experimented with multiple store formats and sizes followed by global peers. This has, however, not yielded the desired results leading to retailers streamlining their offerings, store formats, reduced store sizes, maintaining lesser SKU's and categories for better working capital management and improved profitability.

Managing shrinkage

Globally, retail dump and shrink is estimated to bearound c. 1 percent of the turnover. In India, this is estimated to be about c. 3 to 4 percent of the turnover. Lot of efforts and time have been channelized by retailers and their associates to streamline their processes and reduce wastage, especially for perishable products, but a significant breakthrough is yet to be achieved.

Talent management

Modern retailers are facing challenges to attract, recruit and retain skilled employees. Players face stiff competition not just from the other retailers but also from other service industries due to a huge gap between the demand and supply for skilled employees. Steps have been initiated by few large retailers for creating a skilled pool of resources by forming an alliance with educational institutes and designing courses for retail sector.

Managing consumer expectation

Retailers have been expending a lot of their efforts towards generating footfalls with limited efforts to improve consumer conversion rate. With the global slowdown translating into declining footfalls, players started revisiting their strategies. Although, they have spent time and energy in creating an overall shopping experience for their consumer, there still exists a mismatch between expectancy and delivery. Structure of Retailers currently operating in Indian Global retailers can operate in India through a Cash and Carry (Wholesale) model where the retailer can sell to tax registered businesses. Some of the Cash and Carry operators were working in a JV arrangement with local businesses having a front end retailing. In view of the above the government has come out with a rule that Cash and Carry companies cannot have more than 25% of their turnover coming from group companies.

Retail Branding

We are living in the age of branding. Branding has developed from FMCGs to encompass services, non-profit organizations, and even places. Of all the market categories, retail offers the broadest canvas for any brand to show its true colors. From the understanding of a market that gives birth to a strategy, from the creation of environments, to the engagement of the people that bring the brand to life to the supply of product that puts the brand into the consumer's hand; ***Retail really does have it all.***

Retail selling

Retail selling is the sale of physical goods or merchandise that is done from a fixed location such as a boutique or kiosk, by mall, department store or through small individual outlets. It differs from wholesale selling in that wholesales deal with larger quantities obtained from manufacturers.

Relationship Marketing for Retailers

Relationship marketing was first defined as a form of marketing developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a dominant focus on sales transactions.

As a practice, relationship marketing differs from other forms of marketing in that it recognizes the long term value of customer relationships and extends communication beyond intrusive advertising and sales promotional messages.

With the growth of the internet and mobile platforms, relationship marketing has continued to evolve and move forward as technology opens more collaborative and social communication channels. This includes tools for managing relationships with customers that go beyond simple demographic and customer service data.

Relationship marketing extends to include inbound marketing efforts, (a combination of search optimization and strategic content), PR, social media and application development.

The primary focus of relationship marketing is towards building closer relationships with customers as a strategy to overcome problems such as obtaining global competitive advantage, coping with rapidly changing technologies and reducing ‘‘ time–to–market’’ of new products.

Relationship marketing is attracting, maintaining and –in multi service organizations- enlarging customer relationships. Servicing and selling existing customers is examined to be just as important to long-term marketing success as obtaining new customers. Good service is necessary to retain the relationship. Good selling is necessary to enhance it. The marketing mind–set is that the attraction of new customers is sorely the first step in the marketing process. Cementing the relationship, transforming indifferent customers into loyal ones, servicing customers as clients-this is marketing too.

Type of Merchandise

Retail Merchandising is the process of developing, securing, pricing, supporting and communicating the retailer's merchandise offering.
It means offering the right product at the right time at the right price with the right appeal.

UNIT-3

Retail Banking – An Introduction

“Retail banking is typical mass-market banking where individual customers use local branches of larger commercial banks. Services offered include: savings and checking accounts, mortgages, personal loans, debit cards, credit cards.

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet.

Fixed, current / savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services. Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions.

This is in contrast to wholesale banking where the customers are large, often multinational companies, governments and government enterprise, and the financial institution deal in small numbers of high value transactions.

The concept is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Retail banking and retail lending are often used as synonyms but in fact, the later is just the part of retail banking. In retail banking all the needs of individual customers are taken care of in a well-integrated manner.

Open market conditions and role of Banks

The buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases inject money into the banking system and stimulate growth while sales of securities do the opposite.

Retail Banking –Concept and Importance.

Retail banking is when a bank executes transactions directly with consumers, rather than corporations or other banks. Services offered include savings and accounts, mortgages, personal loans, debit cards, and credit cards. The term is generally used to distinguish these banking services from investment banking, commercial banking or wholesale banking. It may also be used to refer to a division of a bank dealing with retail customers and can also be termed as Personal Banking services.

ADVANTAGES

Retail banking has inherent advantages outweighing certain disadvantages. Advantages are analyzed from the resource angle and asset angle.

RESOURCE SIDE

1. Retail deposits are stable and constitute core deposits.
2. They are interest insensitive and less bargaining for additional interest.
3. They constitute low cost funds for the banks.
4. Effective customer relationship management with the retail customers built a strong customer base

5. Retail banking increases the subsidiary business of the banks.

ASSETS SIDE

1. Retail banking results in better yield and improved bottom line for a bank.
2. Retail segment is a good avenue for funds deployment.
3. Consumer loans are presumed to be of lower risk and NPA perception.
4. Helps economic revival of the nation through increased production activity.
5. Improves lifestyle and fulfils aspirations of the people through affordable credit.
6. Innovative product development credit.
7. Retail banking involves minimum marketing efforts in a demand –driven economy.
8. Diversified portfolio due to huge customer base enables bank to reduce their dependence on few or single borrower
9. Banks can earn good profits by providing non fund based or fee based services without deploying their funds

DISADVANTAGES

1. Designing own and new financial products is very costly and time consuming for the bank.
2. Customers now-a-days prefer net banking to branch banking. The banks that are slow in introducing technology-based products, are finding it difficult to retain the customers who wish to opt for net banking.
3. Customers are attracted towards other financial products like mutual funds etc.
4. Though banks are investing heavily in technology, they are not able to exploit the same to the full extent.
5. A major disadvantage is monitoring and follows up of huge volume of loan accounts inducing banks to spend heavily inhuman resource department.
6. Long term loans like housing loan due to its long repayment term in the absence of proper follow-up, can become NPAs.

The volume of amount borrowed by a single customer is very low as compared to wholesale banking. This does not allow banks to exploit the advantage of earning huge profits from single customer as in case of wholesale banking

Retail Banking Products- Housing Loan, Conveyance Loan, Personal Loan, Educational Loan, Loan for Retail Traders, Plastic Money

Housing Loan

Home Loan is a Secured loan offered against the security of a house/property which is funded by the bank's loan, the property could be a personal property or a commercial one. The Home Loan is a loan taken by a borrower from the bank issued against the property/security intended to be bought on the part by the borrower giving the banker a conditional ownership over the property i.e. if the borrower is failed to pay back the loan, the banker can retrieve the lent money by selling the property.

Personal Loan

A personal loan is a type of debt which is made for personal, family, or household use, and which is neither a business loan nor a long-term mortgage loan. The lender loans money to the borrowers. The borrowers pay back this amount, usually but not always in regular instalments. This service is generally provided at a cost, which is referred to as interest on the debt.
With a personal loan one can meet his financial requirements. Be it any ceremony in the family, a surprise gift or a grand vacation, personal loans provide a helping hand. The personal loan helps to take care of all kinds of expenses in a short time period. This type of loan usually covers travel expenses, holiday expenses, medical expenses, marriage expenses, honeymoon expenses or any other personal type expenses.

Types of personal loans

There are basically Two Types of Personal Loans. They are:
1. Secured Loan
2. Unsecured Loan

Secured Loan: – Wherein the loan involves the attachment of collateral – say, your property or any fixed/movable asset- against the sum of money borrowed. You risk losing your home should you default on repayments.

Unsecured Loan: – Here the loan is not secured against the loan amount borrowed. But consequently the lender would be charging a higher rate of interest, taking into account the high risk involved in lending the sum. Here, failure to make regular payments would see the lender fall back on the credit agreement, and resort to legal claims to make good the loss incurred.

Educational Loan

A **student loan** is designed to help students pay for university tuition, books, and living expenses. It may differ from other types of loans in that the interest rate may be substantially lower and the repayment schedule may be deferred while the student is still in education. It also differs in many countries in the strict laws regulating renegotiating and bankruptcy.

Plastic Money

Plastic money is a term that is used predominantly in reference to the hard plastic cards we use everyday in place of actual bank notes. They can come in many different forms such as cash cards, credit cards, debit cards, pre-paid cash cards and store cards. Cash Cards - A card that will allow you to withdraw money directly from your bank via an Authorised Teller Machine (ATM) but it will not allow the holder to purchase anything directly with it. Credit Cards - Again this card will permit the card holder to withdraw cash from an ATM, and a credit card will allow the user to purchase goods and services directly, but unlike a Cash Card the money is basically a high interest loan to the card holder, although the card holder can avoid any interest charges by paying the balance off in full each month. Debit Cards - This type of card will directly debit money from your bank account, and can directly be used to purchase goods and services. While there is no official credit facility with debit cards per se, as it is linked to the bank account the limit is the limit of what is in the account, for instance if an overdraft facility is available then the limit will be the extent of the overdraft. Pre-paid Cash Cards - As the name suggests the user will add credit to the card themselves, and will not exceed that amount. These are usually re-useable in that they can be 'topped up' however some cards, usually marketed as Gift Cards are not re-useable and once the credit has been spent they are disposed of. Store Cards - These are similar in concept to the Credit Card model, in that the idea is to purchase something in store and be billed for it at the end of the month. These cards can be charged at a very high interest rate and can are limited in the places they can be used, sometimes as far as only the store brand that issued it.

UNIT-4

e- Banking – An Overview

E-banking systems, which provide electronic delivery of banking products to customers, include automated teller machine (ATM) transactions; online account opening; Internet banking transactions; and telephone banking. For example, credit cards, deposit accounts, mortgage loans, and funds transfers can all be initiated online, without face-to-face contact. Management needs to recognize this as a potentially higher-risk area and develop adequate policies, procedures, and processes for customer identification and monitoring for specific areas of banking.

Concept of ATMs

ATM is a computerized telecommunications device that enables the clients of a financial institution to perform financial transactions without the need for a cashier, human clerk or bank teller. ATMs are known by various other names including *ATM machine*, *automated banking machine*, "cash machine" and various regional variants derived from trademarks on ATM systems held by particular banks.

Online Banking and E-Banking

Online banking (or **Internet banking** or **E-banking**) allows customers of a financial institution to conduct financial transactions on a secure website operated by the institution, which can be a retail or virtual bank, credit union or building society.

To access a financial institution's online banking facility, a customer having personal Internet access must register with the institution for the service, and set up some password (under various names) for customer verification. The password for online banking is normally not the same as for telephone banking. Financial institutions now routinely allocate customer numbers (also under various names), whether or not customers intend to access their online banking facility. Customer numbers are normally not the same as account numbers, because a number of accounts can be linked to the one customer number. The customer will link to the customer number any of those accounts which the customer controls, which may be cheque, savings, loan, credit card and other accounts. Customer numbers will also not be the same as any debit or credit card issued by the financial institution to the customer.

To access online banking, the customer would go to the financial institution's website, and enter the online banking facility using the customer number and password. Some financial institutions have set up additional security steps for access, but there is no consistency to the approach adopted.

Banc assurance

Bancassurance is a French term referring to the selling of insurance through a bank's established distribution channels.In other words, we can say Bancassurance is the provision of insurance (*assurance*) products by a bank. The usage of the word picked up as banks and insurance companies merged and banks sought to provide insurance, especially in markets that have been liberalised recently. It is a controversial idea, and many feel it gives banks too great a control over the financial industry. In some countries, bancassurance is still largely prohibited, but it was recently legalized in countries like USA when the Glass Steagall Act was repealed after the passage of the Gramm Leach Bililey Act.

Bancassurance is the selling of insurance and banking products through the same channel, most commonly through bank branches. Selling insurance means distribution of insurance and other financial products through Banks. Bancassurance concept originated in France and soon became a success story even in other countries of Europe. In India a number of insurers have already tied up with banks and some banks have already flagged off bancassurance through select products.

Bancassurance has become significant. Banks are now a major distribution channels for insurers and insurance sales a significant source of profits for banks. The latter partly being because banks can often sell insurance at better prices (i.e., higher premiums) than many other channels, and they have low costs as they use the infrastructure (branches and systems) that they use for banking.

Bancassurance primarily rests on the relationship the customer has developed over a period of time with the bank. And pushing risk products through banks is a much more cost-effective affair for an insurance company compared to the agent route, while, for banks, considering the falling interest rates, fee based income coming in at a minimum cost is more than welcome.

Advantages of Bancassurance:

The following factors have mainly led to success of bancassurance

i. Pressure on banks' profit margins. Bancassurance offers another area of profitability to banks with little or no capital outlay. A small capital outlay in turn means a high return on equity.

ii. A desire to provide one-stop customer service. Today, convenience is a major issue in managing a person's day to day activities. A bank, which is able to market insurance products, has a competitive edge over its competitors. It can provide complete financial planning services to its customers under one roof.

iii. Opportunities for sophisticated product offerings.

iv. Opportunities for greater customer lifecycle management.

v. Diversify and grow revenue base from existing relationships.

vi. Diversify risks by tapping another area of profitability

vii. The realisation that insurance is a necessary consumer need. Banks can use their large base of existing customers to sell insurance products.

viii. Bank aims to increase percentage of non-interest fee income

ix. Cost effective use of premises

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