

Factors Affecting for Bank Customers Tend to Bancassurance Policy Instead of the Normal Life Insurance Policy (With Special Reference in Union Assurance PLC)

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Abstract: Life is full of risks and uncertainties since; people are social human beings, so they have to face these risks without discouraging. In this direction, life insurance serving as savings, investment and risk protection. It helps to safeguard the future while also ensure some savings that can be used in a later date. This research was accomplished with special reference to “Union Assurance PLC” which is one of Sri Lanka’s largest providers of life and general insurance solutions in the country. In present there is a concept of bancassurance, in insurance companies. So, Union Assurance PLC launched its Bancassurance operation together with Nation Trust Bank, Commercial Bank, DFCC Bank and Union Bank in order to provide life insurance solutions targeting the customer base of the those Banks. And also one of the most significant changes in the financial services sector over the past few years has been the appearance and development of bancassurance. As well now a day these bancassurance policies have higher progress in the Union Assurance PLC. Hence, this study was conducted to search why bank customers tend to bancassurance concept rather than normal insurance related to Union Assurance PLC. Applied the disproportionate simple random sampling technique and selected 100 Nation Trust Bank customers in Hikkaduwa division who were assured in Union Assurance PLC. To analyze data chi-square test and two sample t-test were used. Most of the married, higher educated and higher salaried people who were in mid-year age tend to bancassurance than normal insurance.

Keywords: Bancassurance, Life Insurance, Union Assurance PLC, Monthly Premium, Maturity.

I. INTRODUCTION

Insurance can be defined as a transfer of risk to another party in exchange for monetary compensation. And also risk is the probability of an event happening which result with a monetary loss. An insurer, or insurance carrier, is a company selling the insurance and the insured, or policyholder, is the person or entity buying the insurance policy. The amount of money to be charged for a certain amount of insurance coverage is called the premium. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

Generally, Insurance can be dividing as two categories such as Life Insurance (20%) and General Insurance (80%). Life insurance (or commonly life assurance, especially in the commonwealth) is a contract between an insured (insurance policy holder) and an insure or assurer where the insurer promises to pay a designated beneficiary a sum of money in exchange for a premium, upon the death of the insured person. Depending on the contract other events such as terminal

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illness or critical illness may also trigger payment. The policy holder typically pays a premium; either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the benefits.

Life policies are legal contracts and the term of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; common examples are claims relating to suicide, fraud, war, riot and civil commotion. The formation of a contract must fulfilled offer and acceptance, consideration and form. Insurable interest, ultimate good faith and proximity are principals of life insurance.

Life –based contracts tend to fall into two major categories:

- ✓ **Protection Policies:** designed to provide a benefit in the event of specified event, typically a lump sum payment. A common form of this design is term insurance.(family income benefit, pension, critical illness)
- ✓ **Investment Policies:** where the main objective is to facilitate the growth of capital by regular or single premiums.(higher education, savings)

Modern life insurance policies were established in the early 18th century. The first company to offer life insurance was the amicable society for a perpetual assurance office, founded in London in 1706 by William Talbot and Sir Thomas Allen. In present there is a concept of bancassurance, in insurance companies. The Bank Insurance Model (BIM), also sometimes known as bancassurance, is the partnership or relationship between a bank and an insurance company where by the insurance company uses the bank sales channel in order to sell insurance products, an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. The bank and the insurance company share the commission. Insurance policies are processed and administered by the insurance company.

Union Assurance is one of Sri Lanka’s largest providers of life and general insurance solutions in the country. Anchored by a team of experienced and dynamic professionals, a strong capital base and reinsurance partnerships with highly rated global reinsurers, Union Assurance offers a wide range of tailor-made insurance products and services that are of international standards. Their vision is to be the most sought after provider of insurance solutions. In order to live their vision they constantly review their product portfolio to meet the changing needs of their customers. The Union Assurance brand is positioned on the promise of “trust”. They strive to deliver this promise by being transparent in their dealings with their life insurance customers, offering convenience to their general insurance customers and being respectful in their dealings with all stakeholders.

Union Assurance will offer life insurance products based on four main needs, education, investment, retirement and protection. In addition to bancassurance of Union Assurance there are several life insurance products Such as, Union Jayamaga Plus, Union Jayamaga, Union Sisumaga, Union Endowment, Union Suwamaga, Union Family Benefit and Union Loan Protector.

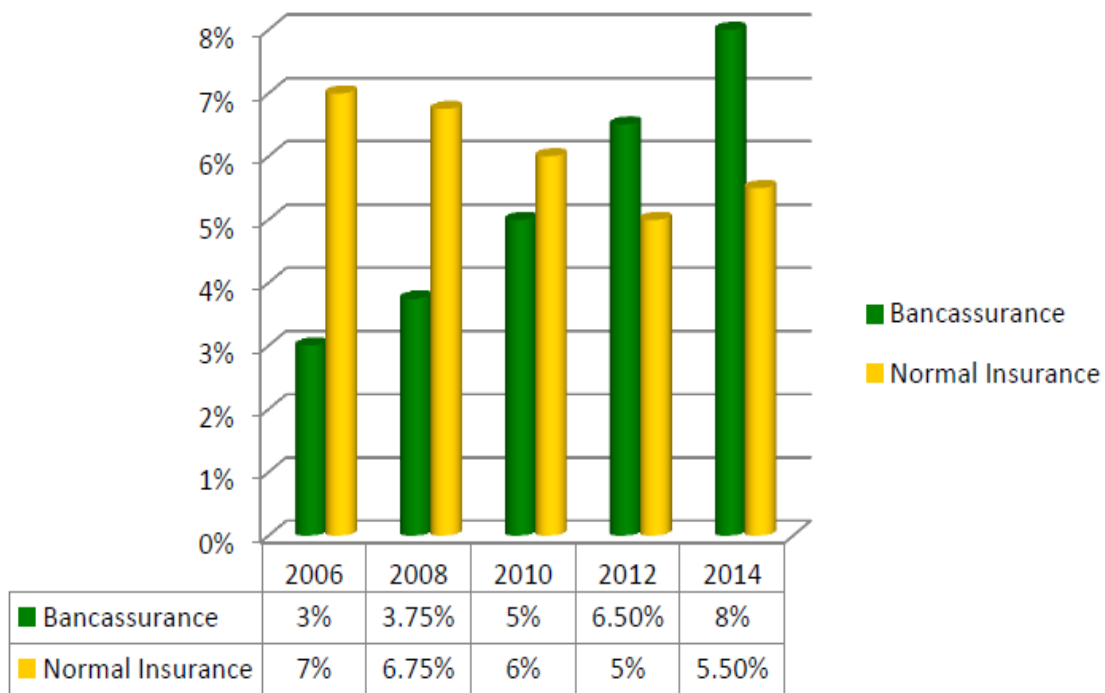
Union Assurance PLC launched its bancassurance operation together with Nation Trust, Commercial, DFCC and Union bank in order to provide life insurance solutions targeting the customer base of the those banks. Basically in Union Assurance, banassurance concept concentration three life policy products. They are:

- ✓ Union Life Advantage Policy
- ✓ Union Super Benefit Policy
- ✓ Union Super Investor Policy

But, In Nation Trust Bank is concentration only two bancassurance products. They are; Union Life Advantage Policy which is calling Nations Superior in Nation Trust Bank and Union Super Investor. In Union Assurance, insured can add 14 rider covers with those policies. They are; Level Term Assurance (LTA/LTB), Accidental Death Benefit (ADB), Total and Permanent Disability Due to an Accident or sickness (TPS), Total and Permanent Disability Due to an Accident only (TPA), Extended Partial Disability (EPD), Spouse Rider Cover Benefits (SPB), Suwamaga Critical Illness Benefit (SMB), Hospital cash Benefits (HCB),Family Income Benefit (FIB),Funeral Expenses Benefit (FEB),Child Health Benefit (CHB), Comprehensive Surgery Benefit (CSB), Waiver Of Premium (WP), Union Mediguard (UMG).

II. RESEARCH PROBLEM

Since the very first beginning of the insurance, until now the insurance companies normally used the insurance agents for their insurance activities. These insurance agents created their custom base by visiting home to home and by improving the peoples’ awareness on insurance. But one of the most significant changes in the financial services sector over the past few years has been the appearance and development of bancassurance.



Source: Annual Report of Bancassurance Department of Union Assurance PLC, 2014

Figure 1: Tend of customers to life insurance products (2006-2014)

Banking Institution and companies have found bancassurance to be an attractive and often profitable complement to their existing activities. So there is a trend of the banking customers to assure with bancassurance rather than normal insurance agents concept. According to Union Assurance PLC, majority of the custom base of Nation Trust, Commercial, DFCC and Union bank has tended to the bancassurance concept. This trend has an adverse effect on other insurance policies except bancassurance in Union Assurance PLC. This research study why bank customers tend to the bancassurance sector and what are the benefits they can get rather than normal insurance concept.

III. OBJECTIVES OF THE STUDY

General objective of the study:

The General objective of the study is a statistically analysis of why banking customers tend to bancassurance concept rather than normal insurance concept in his/her day today life. (With special reference in union Assurance PLC)

Specific objectives of the study:

- ✓ Examine the life policy which has more demand out of the three policies, Union Life Advantage Policy, Union Super Benefit Policy and Union Super Investor Policy.
- ✓ Examine the relationship between the assure (Union Assurance PLC), Bank and the assured.
- ✓ To determine the new trends of the bancassurance concept.

IV. METHODOLOGY

In this study, a pre-structured questionnaire was used to collect primary data. And also used several research and site visits, annual report of Union Assurance PLC to collect secondary data. Nation Trust, Commercial, DFCC, Union bank customers, in Hikkaduwa division who are the assured in Union Assurance PLC as the population. Applied the disproportionate simple random sampling technique, selected 100 Nation Trust Bank customers in Hikkaduwa division who are assured in Union Assurance PLC.

Fieldwork and Data Collection:

Appropriate data on the study were collected from the Nation Trust Bank customers in Hikkaduwa division who are assured in Union Assurance. In this study, a pre-structured questionnaire was used to collect primary data in the interviews with the Nation Trust Bank customers in Hikkaduwa division who are assured in Union Assurance.

Bancassurance Questionnaire:

The questionnaire was prepared considering the identified why people tend to bancassurance concept and was sent to 100 Bank customers that are selected in Nation Trust Bank.

✓ **Background characteristics:** included respondent's age, marital status, educational status, occupation, monthly income and type of bank account

✓ **Information of Union Assurance life insurance type:**

- **Bancassurance:** included having bancassurance, type of bancassurance, main purpose for tend to bancassurance, method of payment premium, term, basic annual premium, basic sum assure, rider covers.

- **Normal Insurance:** included having bancassurance, type of bancassurance, main purpose for tend to bancassurance, method of payment premium, term, basic annual premium, basic sum assure, rider covers.

✓ **Reasons affecting tend to bancassurance concept compare with normal insurance:** Likert scale method will be done for this part. It is often used to measure respondents' attitudes by asking the extent to which they agree or disagree with a particular question or statement. A typical scale might be "strongly agree, agree, moderate, disagree, and strongly disagree. Included those statements to likert scale method; excellent financial plan of investment and protection, higher trust about insurance, become higher benefit from insurance, solution for financial problems, risk management, rules and regulation, minimum premium at considerable level, short maturity term, add higher dividends, excellent investment plan rather than saving account, higher maturity benefit and death benefit at considerable level.

Dependent variable:

Dependent variable in this study will be whether bank customers take or not bancassurance policy. Having bancassurance policy is categorized into two groups; Yes and No.

✓ **If Yes:** That mean the bank customer has bancassurance policy in Union Assurance PLC.

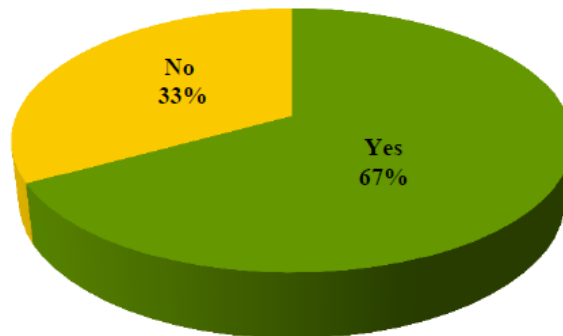
✓ **If No:** That mean the bank customer has not taken bancassurance policy, but he/she take normal life insurance policy in Union Assurance PLC.

Independent variables:

Several independent variables are taken for the study. Independent variables are the variables that the experimenter changes to test their dependent variable. According to this study the basic independent variables are premium, term, dividends, maturity and death cover, having normal insurance, type of bancassurance and normal insurance, and type of bank account, main purpose to tend insurance and rider covers. In addition main independent variables, the study taken essential demographic variables such as respondent's age, gender, marital status, educational status, occupation and monthly income.

V. RESULTS AND FINDINGS

Considering this sample, more than ½ bank customers had taken bancassurance policy and it was recorded as 67%. As well this proportion (67%) consisted on only bancassurance policy holders and both bancassurance and normal policy holders. And remaining 33% respondents had only normal insurance policy in Union Assurance PLC.



Source: Sample Survey, 2015.

Figure 2: Sample distribution according to the having bancassurance

Chi-square test was used for categorical data. According to the independent variables age, gender, marital status, educational level, occupation, monthly income, type of bank account, having normal insurance policy, type of normal and bancassurance products, main objective tend to insurance, payment type, rider covers were categorical variables.

Association between having bancassurance products and independent variables:

Chi-square test was used for identify the relationship between having bancassurance products and categorical independent variables (age, gender, marital status, educational level, occupation, monthly income, type of bank account, payment type, etc.)

Hypothesis:

H₁: There is an association between having bancassurance products and particular independent variable.

Decision rule:

If P-value < Significant level ($\alpha = 0.05$), then there is enough evidence to reject H₀ at α level significance.

Table 1: Association between having bancassurance products and independent variables

Variable	P-value	Decision	Conclusion
Age	0.018	H ₀ rejected	There is a significance association between having bancassurance products and age.
Gender	0.356	H ₀ do not rejected	There is a no significance association between having bancassurance products and gender.
Marital Status	0.000	H ₀ rejected	There is a significance association between having bancassurance products and marital status.
Educational Level	0.000	H ₀ rejected	There is a significance association between having bancassurance products and educational level.
Occupation	0.000	H ₀ rejected	There is a significance association between having bancassurance products and occupation.
Monthly Income	0.000	H ₀ rejected	There is a significance association between having

				bancassurance products and monthly income.
Type of bank account	0.095	H ₀ do not rejected		There is a no significance association between having bancassurance products and type of bank account.
Having normal insurance	0.000	H ₀ rejected		There is a significance association between having bancassurance products and having normal insurance.
Normal insurance type	0.000	H ₀ rejected		There is a significance association between having bancassurance products and normal insurance type.
Bancassurance type	0.000	H ₀ rejected		There is a significance association between having bancassurance products and bancassurance type.
Main purpose of insurance	0.039	H ₀ rejected		There is a significance association between having bancassurance products and main purpose of insurance.
Payment Type	0.074	H ₀ do not rejected		There is a no significance association between having bancassurance products and payment type.
Level Term Assured	0.721	H ₀ do not rejected		There is a no significance association between having bancassurance products and Level Term Assurance.
Accidental Death Benefit	0.110	H ₀ do not rejected		There is a no significance association between having bancassurance products and Accidental Death Benefit.
Hospital Cash Benefit	0.070	H ₀ do not rejected		There is a no significance association between having bancassurance products and Hospital Cash Benefit.
Funeral Expenses Benefit	0.068	H ₀ do not rejected		There is a no significance association between having bancassurance products and Funeral Expenses Benefit.
Waiver of Premium	0.719	H ₀ do not rejected		There is a no significance association between having bancassurance products and Waiver of Premium.
Union Mediguard	0.001	H ₀ rejected		There is a significance association between having bancassurance products and Union Mediguard.

Source: Sample Survey, 2015.

According to the result shown in table 4.2.1.1 it can be illustrated that only 10 of explanatory variables are associated with the response variable at 5% significance level and the remaining variables are not show a considerable relationship with dependent variable, those are gender, type of bank account, types of payment of premium, Level Term Assurance, Accidental Death Benefit, Hospital Cash Benefit, Funeral Expenses Benefit, Waiver of Premium. And significance variables are age, educational level and occupation, monthly income, having normal insurance, normal insurance type, bancassurance type and main purpose of insurance, union mediguard. In this case, those independent variables were selected for chi-square analysis after check whether the association between having bancassurance products and other independent variables as the above table. Therefore those significance variables were directly related to the bank customers tend to bancassurance (having bancassurance products) and excluded variables were not association with having bancassurance products.

Mainly consider about rider covers, Union Assurance PLC offer 14 rider covers to the policy holders. However, selected sample of the study mainly consideration about specific rider cover among of them. According to this analyze, those specific rider covers were not association with having bancassurance products(dependent variable) excluding Union Mediguard. Union Mediguard (UMG) was associated with having bancassurance product, because these riders cover relevant with only Union Life Advantage Policy. All the other rider covers applicable with both bancassurance policies and normal insurance policies. As well, the bancassurance policy holders especially not refer their attention to the rider covers excluded UMG, because the beneficiaries are same in both insurance concept. However, policy holder must be adding at least two rider covers with insurance policy. But, Union Super Investor banassurance policy can add only waiver of premium as rider cover. Normally, majority bank customers relevant in this study added 3 rider covers (median) with their insurance policies.

Main reasons for bank customers tend to bancassurance rather than normal life insurance:

This was conducted to identify the socio-economic factors regarding the bank customers tend to bancassurance concept in Union Assurance PLC. It was analyzed by using likert scale; “strongly agree”, “agree”, “moderate”, “disagree” and “strongly disagree”.

Hypothesis:

H₁: There is an association between bancassurance and normal life insurance on particular variable.

Decision rule:

If P-value < Significant level ($\alpha = 0.05$), then there is enough evidence to reject H₀ at α level significance.

Table 2: Main reasons for bank customers tend to bancassurance rather than normal life insurance

Variable	P-value	Decision	Conclusion
Excellent financial plan of investment and protection	0.000	H ₀ rejected	There is a significance association between bancassurance and normal insurance on excellent financial plan of investment and protection.
Higher trust about insurance	0.000	H ₀ rejected	There is a significance association between bancassurance and normal insurance on higher trust about insurance.
Benefits of life insurance	0.000	H ₀ rejected	There is a significance association between bancassurance and normal insurance on become higher benefit from insurance.
Solution for financial problems	0.085	H ₀ do not rejected	There is a no significance association between bancassurance and normal insurance on solution for financial problems.
Risk management	0.093	H ₀ do not rejected	There is a no significance association between bancassurance and normal insurance on risk management.
Rules and regulation	0.065	H ₀ do not rejected	There is a no significance association between bancassurance and normal insurance on rules and regulation.
Minimum premium is profitability with good investment	0.000	H ₀ rejected	There is a significance association between bancassurance and normal insurance on minimum premium is profitability with good investment.
Short maturity terms	0.038	H ₀ rejected	There is a significance association between short maturity terms.
Higher dividends to investment account	0.000	H ₀ rejected	There is a significance association between bancassurance and normal insurance on add higher dividends to investment account.
Excellent investment plan rather than saving account	0.000	H ₀ rejected	There is a significance association between bancassurance and normal insurance on excellent investment plan rather than saving account.
Higher maturity benefit	0.000	H ₀ rejected	There is a significance association between bancassurance and normal insurance on higher maturity benefit.
Death benefit at considerable level	0.000	H ₀ rejected	There is a no significance association between bancassurance and normal insurance on death benefit at considerable level.

Source: Sample Survey, 2015.

Considering the above table 4.6it explained association between bancassurance and normal insurance on different independent variables at 5% significance level. In this case, mainly consider about the main reasons affecting bank customers tend to bancassurance. So, used chi-square test and check whether the association between bancassurance and normal insurance on different independent variables as the above table. And select significance variables which were directly associated with tend to banassurance. So, excellent financial plan of investment and protection, higher trust, higher benefit, profitable premium, short term, higher dividends, higher maturity and considerable death benefit were main reasons affecting to tend bancassurance concept. As well, majority of respondents were agreed on above statements than normal insurance.

Basically, consider about higher dividends and higher maturity bancassurance products illustration of the three dividend rates give an indication of the maturity benefits to be expected (6%, 8%, and 10%). 100% of distributable investment yield of the Union Assurance life fund as dividend to insurer. At the beginning of the each calendar year declared guaranteed minimum dividend and individual investment account accumulating monthly with dividends to enhance returns. And also in the event of death during the term of the plan, guaranteed life cover or value of the investment account whichever is greater will be paid. Due to enhance returns, guaranteed protection and flexibility bancassurance concept has higher progress than normal insurance.

Table 3: Difference between bancassurance and normal life insurance

Variable	P-value	Confidence Interval	Decision	Conclusion
Term	0.000	(-13.7401, - 10.0913)	H ₀ rejected	Two means of bancassurance term and normal insurance term are not equal.
Monthly Premium	0.000	(2744.24, 3199.28)	H ₀ rejected	Two means of bancassurance monthly premium and normal insurance monthly premium are not equal.
Basic Sum Assured	0.045	(1730.6, 141024.3)	H ₀ rejected	Two means of bancassurance basic sum assured and normal insurance basic sum assured are not equal.

Source: Sample Survey, 2015.

According to the result shown in table 4.2.2 give idea about mean difference of two samples. In this case, all the three variables were significance and it means their means are not equal. So those two samples had outstanding distinction. Considering about insurance term, both of their upper limit and lower limit were minus value. It shows the means difference of both insurance term and bancassurance term is lower than normal insurance. It means bancassurance policies can take for short term. And also, monthly premium was significance and both upper limit and lower limit were plus values. It represent bancassurance monthly premium were higher than normal insurance. As well, both upper limit and lower limit of basic sum assured were recorded as plus value and it show basic sum assured of bancassurance higher than normal insurance. According to this two sample t-test, it proof bancassurance products have short term, higher monthly premium and higher basic sum assured.

VI. SUMMARY

The main objective of the study was to identify the factors for tend to bancassurance. According to chi-squire test results selection of the having bancassurance policy is depend upon the Policy owner’s age, educational level, occupation, monthly income, main purpose, having normal insurance, bancassurance type and union mediguard.

In additionally according to this analysis consideration about another special factors related to tend bancassurance. Those factors were mainly depending to bancassurance. It means bank customers were tending to bancassurance mainly due to those reasons.

- ✓ Bancassurance is an excellent financial plan about investment and protection.
- ✓ Those banassurance products have higher trust.

- ✓ Can get higher benefits from that bancassurance financial plan.
- ✓ Minimum premium of bancassurance policies is profitability with good investment.
- ✓ Bancassurance products have short maturity term.
- ✓ In bancassurance add higher dividends to investment account.
- ✓ Bancassurance is an excellent investment plan rather than saving account.
- ✓ Higher maturity benefits illustration of the three dividend rate (6%, 8% and 10%) .
- ✓ In the event of death during the term of the bancassurance plan, guaranteed life cover or value of the investment account whichever is greater will be paid.

So, due to those excellent beneficiaries bank customers tend to bancassurance concept rather than normal insurance.

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