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Case Study Open Access

Contribution of Bancassurance on the Performance of Bank: A Case Study of Acquisition of Shares in Max New York Life Insurance by Axis Bank

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Abstract

Bancassurance is a new concept where bank and insurance company collaborate to sell insurance through bank's distribution networks. After liberalization, the financial industry has used this growth strategy to best utilize their same channels to sell multiple financial products. In India, a number of banks have joined hands with insurance companies and vice versa to use this bancassurance model to sell selected products. It has become a win-win strategy for bank and insurance companies both. The purpose of the study is to understand and analyze the benefit of Bancassurance to Axis bank because of acquiring stack in the Max New York Life Insurance Co. Ltd. It is a case study method of research. It is found that after acquiring the stake in Max New York Life Insurance, the financial performance of Axis Bank has improved. However, in the short term there is no impact visible in the stock market due this acquisition.

Keywords: Merger; Bancassurance; Bank; Insurance; Performance

Introduction

Bancassurance refers to the selling of insurance policies through a bank. In this process, the bank and insurance company collaborate to provide insurance in the market through bank's distribution networks. Due to increase in competition after liberalization, the financial industry has used this growth strategy to best utilize their same channels to sell multiple financial products. Bancassurance has become significant around the world, specifically in European countries. It has got its importance in Indian market too. In India a number of banks have joined hands with insurance companies and vice versa to use this Bancassurance model to sell selected products. It has become a win-win strategy because banks earn commission by selling insurance products through low cost of infrastructure and better prices of products. Insurance companies get the benefit of distribution channels through bank branches. It helps them to sell their products in a convenient way. The success of this model mostly depends on banker-customers relationship over a period of time. This relationship motivates them to purchase insurance products apart from banking products and services.

The rest of the paper is organized as follows: Section 2 provides background of the topic, definition and concepts relating to various aspects of the study. This Section also discusses the empirical literature on mergers and acquisitions and Bancassurance and closes with the rationale of study. Section 3 provides the overview of research methodology focusing on the Objective of Study, Period of Study, Data and Sample for Analysis, Tools and Variables for Analysis and Sample Characteristics. Summary of empirical results and conclusion is shown in Section 4 and 5, respectively.

Background

The performance of the company plays a leading role towards the growth of the industry. It ultimately leads to the overall success of the economy. This section discusses on the scenario of banking and insurance industry, their characteristics, meaning and benefits of Bancassurance, relationship between bank and insurance company through Bancassurance, factors affecting the performance of banking and insurance industry, reasons for partnership through Bancassurance (and M&A) between bank and insurance company.

Banking and insurance industry

India became the 10th largest insurance market in the world in 2013, rising from the 15th rank in 2011. At a total market size of US$66.4 billion in 2013, it remains small compared to world's major economies. Indian insurance market accounts for 2% of world's annual insurance business. India's life and non-life insurance industry has been growing at double digit growth rates and this growth is expected to continue through 2021. The banking industry is characterized by (a) government's involvement and interference (b) restrictions on amounts of borrowing and deposits (c) government role influence bank's profitability. Today the insurance industry is characterized by (a) differentiated products/ standardized life insurance products (b) flexible premium (c) high coverage rates in all business lines. The Overview of Banking and Insurance Industry in India is depicted in Table 1.

Definition of bancassurance: Bancassurance is the marketing of retail insurance products to a commercial bank's client base. Bancassurance is a simple method of banks' distributing insurance products. Thus, many financial products and services are provided in the same platform [1-3].

Benefits of bancassurance: The benefits of Bancassurance are shown in Table 2.

***Mergers and acquisitions in financial service industry*:** Banks and insurance companies come under the broader Financial Service Industry and related issues are discussed in this section (Figures 1 and 2).

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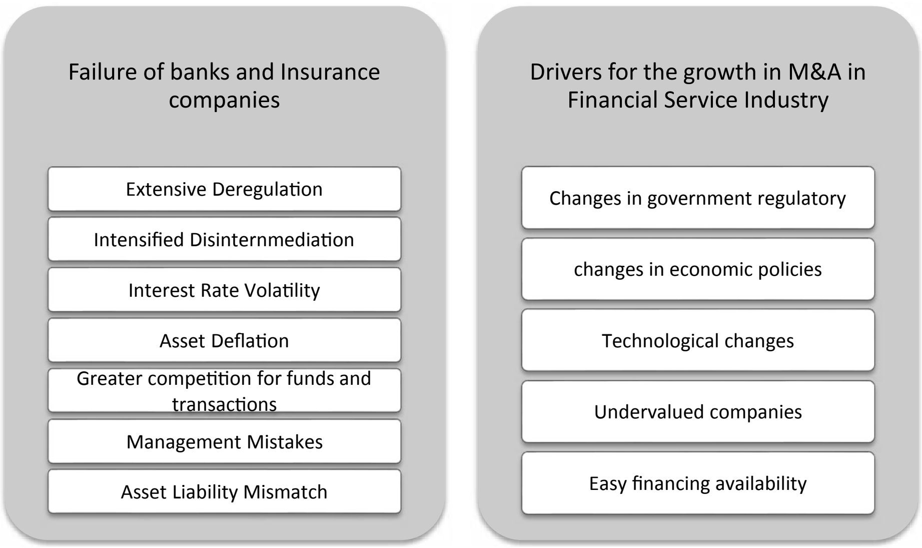
Criteria	Banking Industry	Insurance Industry
Regulators	Reserve Bank of India (RBI)	Insurance Regulatory and Development Authority (IRDA)
Number	All Scheduled Commercial Banks: 89 (2012-13) Public Sector Banks: 26 SBI and its Associates: 6 Nationalised Banks: 20 Private Sector Banks: 20 Old Private Sector Banks: 13 New Private Sector Banks: 7 Foreign Banks: 43	General insurance companies: 28 Life insurance companies: 24
FDI limit	Public Sector Banks: 20% of equity Private Sector Banks: 74% of equity	49% (26% earlier)
Largest player	SBI and its Associates	Life Insurance Corporation of India
Listing on Indian Stock Exchange	Banks are listed in Bombay Stock Exchange (BSE), National Stock Exchange (NSE)	None of the insurance companies are listed on Indian stock exchange as of now
Relevant Stock Indices	S & P BSE BANKEX Nifty Bank index, CNX Bank Index	N/A
Relevant Acts	Reserve Bank of India Act, 1934 Banking Regulation Act, 1949	Insurance Act, 1938 Insurance Regulatory Development Authority Act, 1999
Source: Author's Compilation from various online sources.		

Table 1: Overview of banking and insurance industry in India.

Particulars	Benefits
Benefits to banks	• Cost effective use of premises • Greater customer lifecycle management • Increase percentage of non-interest fee income • Increased return on assets (ROA) • Profitability to banks with minimum capital investment
Benefits to insurance	• Better Management, underwriting, fund management, actuarial efficiency, and the end-to-end service delivery process through new technology from banks • Better quality of manpower for investment research • Improved disclosure to the policy holder as well as the regulators • Increase their geographical reach, products' range, scale economies and financial synergies
Benefits to customers	• Availability of wide range of financial products in one basket • Investment in products as per their preferences • Customers to stay connected with banks • Sophisticated product offerings
Source: Author's Compilations from various Literature.	

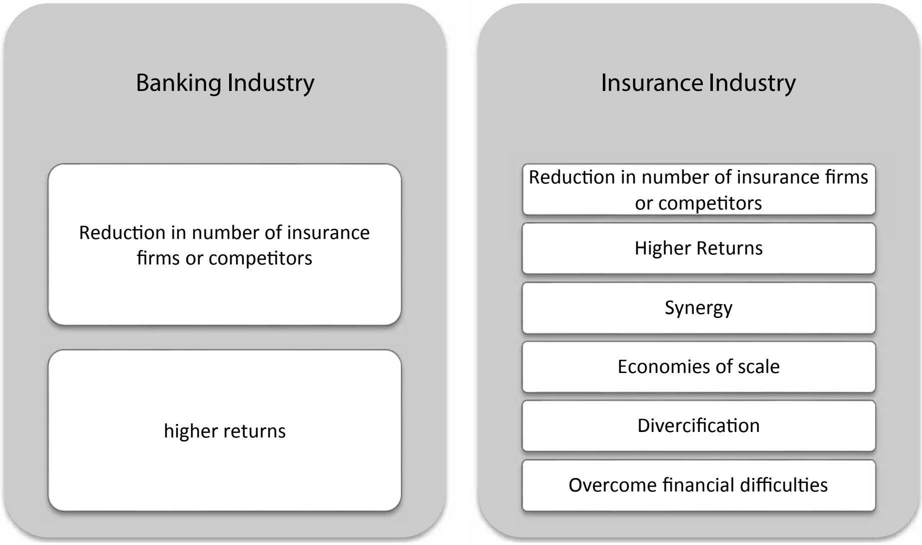
Table 2: Benefits of bancassurance.



Source: Author's Compilation from various Literatures.

Figure 1: Factors lead to Growth of M&A in Financial Service Industry.

From 1999 to 2000 till 2013-14, a number of acquisition of shares of banks in India is done by the insurance companies. Table 3 shows the Acquisition of Shares of Banks in India by various Insurance Companies:



Source: Meador, Madden, and Johnston (1986); Madura and Picou (1993); Marshall (1972).

Figure 2: Reasons for M&As in the banking and insurance industry.

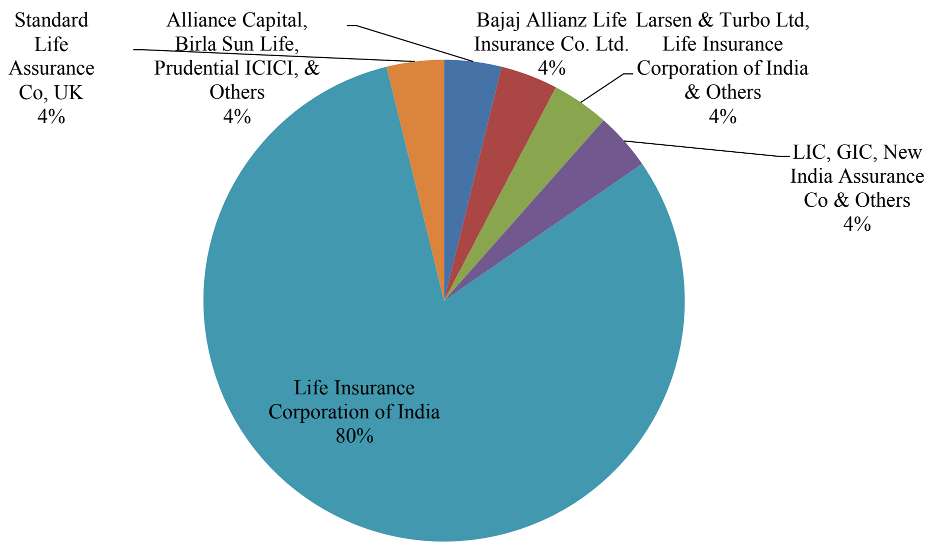


Figure 3: Acquisition of shares of banks by insurance companies.

Among them the largest insurance company, Life Insurance Corporation of India have made the highest number of acquisitions of bank shares as depicted in Figure 3. Life Insurance Corporation has solely made around 21 deals out of 26 deals. The cost of all these 26 deals is 10,355 crores.

Background of axis bank: Axis Bank was promoted in December 1993 in the post liberalization and theprivatization period in India. The Indian government allowed private companies to do banking business. The bank's stake are Administrator of the specified undertaking of the Unit Trust of India (Axis-I), Life Insurance Corporation of India (LIC) and General Insurance Corporation and other four PSU companies, i.e. National Insurance Company, The New India Assurance Company, The Oriental Insurance Corporation and United Insurance Company. Axis Bank made its first public issue in September 1998. On March 2005, Axis Bank was listed on the London Stock Exchange, raising US $ 239.3 million through Global Depositary Receipts (GDRs). The bank's broad products and services include consumer banking, NRI business, retail loans, corporate banking, treasury, capital markets and financial advisory services. It divides its business into five segments viz. large corporates, SMEs, agri-business, channel financing and structured products. With a share capital of Rs. 357.7 crore, the bank has a net worth of Rs. 8,771 crore and a book value of Rs. 244.6 per share (Table 4).

About the deal: The details of the deal are given as below:

- Acquirer Company: Axis Bank
- Target Company: Max India in its joint venture Max New York Life Insurance Company
- Percentage of Stake has acquired: 4% stake
- Deal Value: Rs 72 crore

Target	Date	Acquirer	Cost of Deal (In Rs Crore)
Allahabad Bank	22-Feb-12	Life Insurance Corporation of India	459.4
Axis Bank Ltd.	21-Mar-14	Life Insurance Corporation of India	1,122.37
Axis Bank Ltd.	4-Mar-03	Life Insurance Corporation of India	78.66
Axis Bank Ltd.	1-Mar-02	LIC, GIC, New India Assurance Co & Others	45.2
Bank of Baroda	27-Feb-12	Life Insurance Corporation of India	1,644.68
Bank of India	21-Feb-12	Life Insurance Corporation of India	1,037.45
Bank of Maharashtra	27-Feb-12	Life Insurance Corporation of India	135.09
Central Bank of India	12-Jun-14	Life Insurance Corporation of India	581.61
Central Bank of India	1-Mar-12	Life Insurance Corporation of India	269.3
City Union Bank Ltd.	8-Oct-07	Larsen & Turbo Ltd, Life Insurance Corporation of India & Others	125.44
Corporation Bank	7-Jun-01	Life Insurance Corporation of India	459.42
Dena Bank	7-Feb-12	Life Insurance Corporation of India	0
HDFC Bank Ltd.	3-Dec-99	Standard Life Assurance Co, UK	0
IDBI Bank Ltd.	2-Mar-12	Life Insurance Corporation of India	378.51
ING Vysya Bank Ltd.	14-Aug-02	Alliance Capital, Birla Sun Life, Prudential ICICI, & Others	29.38
Indian Overseas Bank	12-Nov-13	Life Insurance Corporation of India	398.04
Oriental Bank of Commerce	2-Aug-01	Life Insurance Corporation of India	0
Punjab & Sind Bank	16-Feb-12	Life Insurance Corporation of India	95.3
Punjab National Bank	22-Feb-12	Life Insurance Corporation of India	1,589.90
Syndicate Bank	21-Feb-12	Life Insurance Corporation of India	327.2
UCO Bank	21-Feb-12	Life Insurance Corporation of India	258.81
United Bank of India	15-Feb-12	Life Insurance Corporation of India	650.3
United Bank of India	20-May-13	Life Insurance Corporation of India	300
United Bank of India	24-Feb-12	Life Insurance Corporation of India	132.19
Vijaya Bank	23-Feb-12	Life Insurance Corporation of India	147
Yes Bank Ltd.	26-Apr-12	Bajaj Allianz Life Insurance Co. Ltd.	89.99
Source: Author's Compilation from CMIE Prowess Database.			

Table 3: Acquisition of shares of banks in India by insurance companies.

Sr. No.	Nature of Income*	For year Ending 31 March (Rs. in crores)				
		2014	2013	2012	2011	2010
1.	For selling life insurance policies	468.11	336.76	258.62	133.27	94.89
2.	For selling non-life insurance policies	18.16	19.41	31.33	23.04	30.2
3.	For selling mutual fund products	149.43	79.99	57.66	44.34	40.12
4.	Others **	26.27	74.45	24.67	28.72	19.48
5.	Total	661.97	510.61	372.28	229.37	184.69

*Includes receipts on account of marketing activities undertaken on behalf of Bancassurance partners.
**Selling of online trading accounts, gold coins, wealth advisory, RBI and other bonds.
Source: Annual Reports of Axis bank.

Table 4: Details of income earned from bancassurance business of axis bank.

- Joint Venture Duration: 10-year strategic bancassurance deal with an option to review equity after three years (As per Dilution Agreement).
- Partnership Axis Bank has picked up the stake at par value.
- Regulatory approval for the investment.
- Max New York Life Insurance Company Insurance from Regulatory and Development Authority.
- Axis Bank from Reserve bank of India.
- Motive for deal for Max India: To strengthen the private insurer's strategy of multi-channel distribution and presence across the nation.
- Motive for deal for Axis Bank: It does not have an insurance subsidiary. It wants to expand its business like its competitors ICICI Bank and HDFC bank. This will help Axis bank to get a major part of its fee income (around 80%) by selling third party insurance products.
- Motives for both: Axis Bank and Max New York Life Insurance expect to collect an additional customer reference of 20 lakh customers in the post five years after the deal.
- Funding: Max India did not organize the initial public offering to bring capital as it has enough capital to run its business i.e. 322% capital against the mandatory requirement of 150%. Max New York Life has a share base of 180 crore with a paid-up capital worth Rs. 1,976 crore as on end-March, 2011.
- Key observations from Analysts:
- Axis Bank contributed 20-25% of the company's business since June 2010 that is nearly 400 crore. The decision to sell stake is to compensate Axis Bank for the business it has been generating for the insurer. Since the Bancassurance partnership is not on a large scale, the deal is to compensate them by selling them a part of their stake.
- Axis Bank's fee based income increased by 30% to Rs 3,790 crore in 2010-11

- Max New York Life's new business income from Bancassurance increased to 25% in 2010-11 from less than 5% in 2009-10. It reported 11% growth in new business income and 25% rise in renewal income in 2010-11.
- Max New York Life cut its employee strength to 7,000 in 2010-11 from 10,000 in 2009-10 and shut down 140 offices.
- Max New York Life have consolidated 60 branches and closed down 140 to increase efficiency and bring down cost.

Empirical literature

Mergers and Acquisitions in the financial service industry are more active around the world. Financial service industries have adopted the M&A strategy to cope with regulatory changes, competition in market, and to achieve specific management objectives such as achieving operational efficiency through economies of scale and scope and greater markets share. This has led to creation of shareholder's value and improved performance (Smith and Walter, 1996). Among the financial industry, banking and insurance industry are significant part in financial service industry. If looked at some statistical facts, Insurance sector is growing at speed of 15%-20%. Together with banking services insurance add about 7% to India's GDP. Hence, it aroused interest to probe into the literature to observe the performance of banks using insurance in their business model, specifically through Bancassurance. Thus, review of some relevant literature on M&A, banks, insurance industry and Bancassurance is done to see how they have managed their business and grown. Study of both Indian and international papers are done to critically analyze the pre and post M&A performance of banks doing deals with insurance companies. Tables 5-7 reflect the summary of the literature review done. The literature review is done in three

Evidence	Country	Period	Research Focus	Research Findings
Mitema [4]	Kenya	2000-2014	To evaluate whether these mergers and acquisitions in insurance industry have created or destroyed value	There is value creation due to M&As in Insurance sector because through M&A there is inflow of capital which results increased stability in their financial resources that help them to take new investment projects under calculated risk, thus finally gaining more profits.
Cummins, et al. [5]	U.S. Europe	1990-2006	To examine whether global insurance mergers and acquisitions create value for shareholders	Insurance acquirers realized small positive cumulative average abnormal returns (CAARs), whereas targets realized substantial positive CAARs. Both cross-border and within-border transactions led to substantial value-creation.
Davutyan and Klumpes [6]	Europe	1999 - 2000	To examines the relationship between mergers and acquisitions, efficiency and scale economies in the major European insurance markets	In the post consolidation period, the technical efficiency of insurance firms improves but scale efficiency worsens. The non-life sector performs better the life sector. Mergers do not significantly impact acquirer behavior. The impact of consolidation in European insurance industry markets is different based on whether it is life insurance sector or non –life insurance sector.
Shim [7]	USA	1990-2003	To observe the relationship between the M&As activity and its effect on the prices of insurance in property liability insurance industry company.	Insurance industry engaged in M&A industry benefit from M&A because it lowers the price of insurance specifically of new insurers benefiting the consumers. M&A helps the acquiring insurers to reduce the underwriting risks and manage frictional cost of capital through diversification, thereby having competitive advantage over prices.
Akhigbe and Madura [8]	USA	1985-1995	To determine how the market revalues the Acquirer, target, and rival insurance companies in response to merger announcements	The acquirer and target insurance companies experience positive and significant wealth gain during merger announcements compared to Merger between manufacturing companies. It is also found that there is a positive and significant intra-industry effect in response to the announcements of insurance company mergers, supporting the signaling theory. Apart from it, it is observed that the extent of the intra-industry effects is influenced by various factors such as type, size, and location of the insurance companies.
Floreani and Rigamonti	USA UK	1996-2000	To examine the stock market valuation of mergers in the insurance industry	Insurance companies involved in mergers increases value for bidder shareholders. The abnormal returns for acquiring firms are larger the greater the relative size of deal value. Domestic mergers occurring between insurance companies located in the same European country are not valued positively by the market, while cross-border deals increase shareholder's wealth. The insurance company's mergers enhance value for bidder shareholders. The abnormal returns for acquiring firms are larger the greater the relative size of deal value. Mergers occurring between insurance companies located in the same European country are not valued positively by the market, while cross-border deals appear to increase shareholder's wealth. The analysis of a sub-sample of simultaneously listed bidders and targets reveals that the combined insurance companies experience significantly positive abnormal returns over the event window (-20, +2) shareholders gain 5.27% − and consistent with previous findings, target shareholders substantially increase their wealth.
Cummins, et al. [9]	USA	1988-1995	To examine the relationship between mergers and acquisitions, efficiency, and scale economies in the US life insurance industry.	Acquired firms achieve greater efficiency gains than firms that have not been involved in mergers or acquisitions. Firms operating with non-decreasing returns to scale and financially vulnerable firms are More likely to be acquisition targets. Overall, mergers and acquisitions in the life insurance industry have had beneficial effects on efficiency.
Chamberlain and Tennyson [10]	USA	1980-1990	To investigate if financial synergy is the primary motive of mergers in property liability insurance industry or not	Financial synergy is not always the motive for M&A deal and it differs based on industry situation. However, financial synergies are a motive for mergers following negative industry capital shocks.
BarNiv and Hathom [11]	USA	1984-1992	To examine the extent to which accounting and financial information can explain whether mergers are primarily a result of efforts to preserve financially distressed insurers.	Firms that acquire distressed insurers earn significant negative returns and earn significantly lower returns than investors in firms that sell distressed insurers.
Source: Author's Compilations from Various Literature.				

Table 5: Empirical literature on M&A in insurance industry.

Evidence	Country	Period	Research focus	Research findings
Dilshad [12]	Europe	2001-2010	To investigate the effect of M&A on the shareholders of acquirer and target firm after the announcement of M&A in the banking industry.	It was found that there the cumulative abnormal return for the acquirer after the announcement is for short period of time and it became zero. However the cumulative abnormal return for the target company is Present on the merger announcement date. There was excess return before the merger announcement leading to rise in stock prices because of leakage of information about the deal.
Oghojafor and Adebisi [13]	Nigeria	NA	To evaluate Merger/Acquisition as an intervention strategy.	There is significant difference between pre and post M&A performance.
Intrisano and Rossi [14]	Itlay	1994-2005	To verify if the M&As implemented in the past decade in the banking sector have created value for shareholders.	A creation of value for the target companies and a destruction of value for the bidders in all three cases. From the analysis of the combined values, on the other hand, a significant destruction of value is deduced in both mergers and in M&As.
Shobhana and Deepa	India	1991-2005	To study the Impact of Mergers and Acquisitions on the Shareholder Wealth of the Select Acquirer Banks in India.	There is a decline in the shareholder wealth when the securities of the select banks are more prone to market risk, while there is an increase in the shareholder wealth when the systematic risks (market risks) of the select public and private sector banks are the same as that of the market (benchmark) portfolio.
Jalandhar, et al. [16]	India	1996-2003	To evaluate performance of commercial banks in their post-merger period.	The performance of sample banks is amplified in the post-merger period over the pre-merger period.
Kaur and Kaur [17]	India	1990-2008	To examine the impact of mergers on the cost efficiency of Indian commercial banks.	To some extent merger programme has been successful in Indian banking sector. The Government and Policy makers should not promote merger between strong and distressed banks as a way to promote the interest of the depositors of distressed banks, as it will have adverse effect upon the asset quality of the stronger banks.
Uhde and Heimeshoff [18]	Europe	1997-2005	To study the Consolidation in banking and financial stability.	Eastern European banking markets exhibiting a lower level of competitive pressure, fewer diversification opportunities and a higher fraction of government-owned banks are more prone to financial Fragility whereas capital regulations have supported financial stability across the entire European Union.
Hankir, et al. [19]	North America and Europe	1995 -2008	To analyze the capital market perception of deal drivers of bank M&As.	Economies of scale reduce the number of market participants.
Kithinji and Waweru [20]	Kenya	1993-2000	To investigate the effects of merger restructuring on the financial performance of commercial banks.	The financial performance ratios that have legal implications (capital adequacy and solvency ratios) improved after the merger. However profitability ratios indicate that the majority of the merged banks reported a decline in financial performance.
Kakani and Mehta [21]	India	2000-2004	To understand the Motives for Mergers and Acquisitions in the Indian Banking Sector.	Stability, Returns and Risks to Shareholders, lowering in the intermediation costs, capabilities to improve the collections, service, processes, distribution, infrastructure and IT of the target bank; cross sell would enhance revenue; improve spread.
Chong, et al. [22]	Malaysia	1999	To examine the impact of forced bank mergers on the shareholders' wealth of Malaysian banks.	Forced merger scheme destroys economic value in aggregate and the acquiring banks tend to gain at the expense of the target banks.
Mainthia [23]	USA	1998-	To test whether a large regional bank merger has anti-competitive effects.	There are no significant abnormal returns to justify a conclusion that there is a competitive effect in regional areas in which banks merge.
DeLong [24]	USA	1988-1995	To explore if bank mergers lead to create value creation or not and examine the wealth effect of bank mergers by distinguishing between types of mergers.	Bank mergers that focus both geography and activity are value-increasing, whereas diversifying mergers do not create value.
Rhoades	USA	1990	To investigate the efficiency effects of bank mergers.	There is reduction in cost in post-merger period compared to the pre-merger period.
Source: Author's Compilations from Various Literature.				

Table 6: Empirical literature on M&A in banking industry.

phases (a) M&A in Insurance Industry (b) M&A in banking Industry (c) Performance of firms due to Bancassurance.

From the literature discussed below, it is observed that most of the empirical research works relevant to the topic are done in the USA, the UK apart from Kenya, Nigeria, Malaysia, Australia, China, Italy and India. Though many studies have been done in M&A in banking sector in India but limited studies are conducted in M&A in insurance industry. Probably, in the past few years M&A in insurance has not grown due to regulatory approvals. Similarly, limited number of studies has been conducted in Bancassurance, specifically in India. In the recent years the M&A in banking and insurance industry have grown. Bancassurance is also visible in Indian market. Hence, to bridge the above research gaps, it is therefore needed to examine the impact of Bancassurance through a deal in India.

Research Methodology

Objective of study

The main aim of the study is to find out contribution of Bancassurance on financial performance of Axis bank after it acquires shares in the Max New York Life Insurance Company. The objective of the study is to analyze the pre and post deal performance of Axis bank and examine the factors that lead to changes in the performance.

Research hypotheses

H_o: There is no significant impact of acquisition of shares in Max Life Insurance Company by Axis Bank on the share prices of Axis Bank.

H_o: There is no significant impact of movement in banking stocks represented by BANKEX on the share prices of Axis Bank during one month prior and one month after the acquisition of shares in Max New York Life Insurance Company.

Evidence	Country	Period	Research Focus	Research Findings
Schneider [25]	Italy	1998-2012	To investigate the economies of scale of life insurers between those who adopt and do not adopt the Bancassurance.	Bancassurance groups are better able to exploit scale economies. Italian life insurers present a relatively prudent level of exposure, which is negatively correlated with firm factors influencing the overall risk profile. Stronger Bancassurance models confirm this relationship. Finally, asset risk exposure did not decrease significantly as a result of the financial crisis, pointing at the effectiveness of regulatory restrictions on investments or a contingent search for yields.
Arora and Jain [26]	India	2004-2012	To compare the fee Based income of banks before and after the adoption of Bancassurance.	There is favorable impact of Bancassurance on the financial performance of bank of India and the bank has also contributed to the overall performance of insurance company.
Dontis-Charitos, et al. [27]	Canada USA UK Australia	1990-2006	To observe of there is any excess returns on and around the deals' announcement date for firms going for M&A deals between bank and insurance companies.	There are positive returns around the announcement time. The factors such as bank driven mergers, deal's size and regional categorization are important for influencing market reactions while geographic focus and language are not significant factors. There is no impact in market when there is a bank withdrawal from the bank-insurance operations. Finally, Canadian, U.S. and European bank-insurance deals produce positive results, while Australasian bidders offer statistically insignificant equity returns.
Pinter [28]	Europe	2000-2010	To analyze the driving forces behind the combinations between banking and insurance companies in terms of strategic cross-sector and cross-border mergers and acquisitions.	The entry into insurance services industry is mostly driven by banks due to globalization, integration, disintermediation and deregulation and prudential reregulation and competition.
Fiordelisi and Ricci [29]	Italy	2005-2006	To assess Bancassurance performance gains (from both the banking and the insurance standpoints) by estimating cost and profit efficiency using stochastic frontier analysis.	With regard to the banking industry, we do not show any strong evidence in favor of entering the life insurance business. The investigation into the insurance industry highlights the competitive viability of Bancassurance as a distribution channel, especially in terms of cost efficiency. In terms of profitability, our findings suggest that the mix of products should be continuously revised to adapt to customer needs and the evolution of financial markets. As a consequence, ownership links are not necessarily the best Bancassurance strategy, and the parties involved should also consider more flexible forms of cooperation, such as cross-selling agreements and non-equity strategic alliances.
Chen and Tan [30]	USA	1998	To analyze whether deregulation have helped to contribute positive wealth effects or not for banking and insurance industry specifically after the merger of Citicorp and Travelers Group, first US merger between bank and insurance.	Analysis of abnormal returns surrounding the merger show that life insurance companies and large banks (excluding Citicorp and Travelers Group) have significant stock price increases, while the returns of small banks, health insurers, and property/casualty insurers are insignificantly different from 0. This analysis provides evidence that investors expect large banks and insurance companies to receive significant benefits from congressional legislation removing barriers to Bancassurance.
Xia [31]	China	1999-2006	To examine the effects of Bancassurance created by simulated merger on the profitability and risk of banks and insurance companies involved.	Insurers especially non-life insurance companies will benefit a lot from Bancassurance through capital convergence, while the banks can hardly have any improvement in risk and profitability.
Staikouras [32]	USA Europe Global	1990-2006	To examine the effects on shareholders wealth as a result of the bank–insurance interface.	There is a significant abnormal return surrounding the announcement of bank–insurance ventures. A control sample using financial institutions that do not pursue bank–insurance deals shows negative abnormal returns with much higher magnitude in absolute terms. When the sample is separated on the basis of the bidder's nature, then bank-bidders earn significant positive returns, while the insurance-bidders experience significant losses. The analysis further unveils either statistically significant negative returns or insignificant values for bank–insurance divestments. Finally, profitability, size and functional diversification are all found significant in determining abnormal returns over various intervals.
Artikis, et al. [33]	USA Europe	N.A.	To observe the bank-insurance trend and provides an insight into the underlying dynamics and corporate structures of financial conglomerates.	There is an uneven success of the Bancassurance phenomenon across the world. It is not clear whether re-regulation is the cause or response to globalization, and vice versa, which in turn both shape the Bancassurance arena. A number of incentives for the formation of financial conglomerates are identified. Finally, three modes of entry have been documented to reflect market realities.
Paige Fields, et al. [34]	USA	1997 - 2002	To observe the viability of Bancassurance combinations for U.S. and non-U.S. mergers.	There is a positive gain and no significant risk shifts for shareholders of bidding firms, and that higher CEO stock ownership results in less positive gains for shareholders. These and other results suggest that Bancassurance firms are viable entities that may play an important role in the future evolution of the U.S. financial system.
Fields, et al. [35]	USA	1997 - 2002	To examine bidder wealth gains in Bancassurance mergers and see if there are synergies between these two types of financial firms.	There are positive bidder wealth effects that are significantly related to economies of scale (as measured by the size of the target relative to the bidder), potential economies of scope, and the locations of the bidders and targets. These results suggest that the Bancassurance architectural structure for financial firms does offer some benefits and thus may become more prominent in future years.
Carow [36]	USA	1998	To find out if the intuitions have positive wealth effects from deregulation or not after the announcement of deal between Citicorp and Travelers group Merger.	There is significant stock price increase of the insurance companies and banks surrounding merger announcement date. This is because the investors predict that the insurance companies and banks are going to benefit from the new legislation as it removes the barriers to Bancassurance.
Choudhury and Singh [37-39]	India	2012-2015	To find out the reliability, responsiveness and experience of bancassurance customers.	Bancassurance is found to be reliable (Choudhury and Singh, 2015a), and responsive (Choudhury and Singh, 2015b). It is also found that customers have favourable experience from bancassurance channel (Choudhury and Singh, 2015c).
Singh, et al. [40,41]	India	2007	Impact of demerger on Shareholders' wealth.	There is positive impact of demerger on the shareholders' wealth
Source: Author's Compilations from Various Literature.				

Table 7: Empirical literature on bancassurance.

H_o: There is no significant difference in the long term operating performance of Axis bank due to acquisition of shares in Max New York Life Insurance Company.

H_o: There is no significant difference in the long term financial performance of Axis bank due to acquisition of shares in Max New York Life Insurance Company.

Period of study

The present study will be carried out to examine the financial performance of bank three years before opting for Bancassurance and three years after opting for Bancassurance though the deal with Max New York Life Insurance Company in the year 2011-12. i.e. pre- deal period 2008-09 to 2010-11 and post deal period of 2012-13 to 2014-15. To understand the short term impact of acquisition of stock in Max New York life Insurance by Axis Bank, the data is taken for one month before the acquisition of shares and one month after the acquisition of shares by Axis bank in Mas New York Life Insurance, i.e., from 12th April, 2012 to 12th June 2012 as the deal date is 11th May, 2012.

Data collection and sample and characteristics selection for analysis

The entire banking industry is not selected for the current study because most of the banks have not gone for such deals with insurance and few of them have taken such strategy. Again availability of data for all banks is beyond resource and time constraint. Hence, the present study is an attempt to observe the Bancassurance scenario on the micro rather than macro-level. Data regarding the share prices of Axis bank has been collected from the official website of Bombay Stock Exchange. Data are collected from secondary sources taken from the annual reports of Axis bank and Max New York Life Insurance Company relating to its background, history, financial parameters. Various published paper, report, and article and from the various newspapers, bulletins and other various research reports published by bank and various websites. CMIE prowess has been used to collect the information relating to the deal details and also company financial and non-financial details. The details of acquirer and target companies are shown in Table 8.

Parameters/variables for analysis

The parameters and variables used in the study are shown in Table 9 with their interpretation as below.

Statistical tools for analysis

Vanitha and Selvam; Mantravadi and Reddy; Kumar; Saboo and, Gopi and Usman et al. have used average three years to judge the performance of companies due to M&A [2]. Following them, In the light of the objective of the study to find out if there is any difference between the pre and post M&A financial performance of Axis Bank after going for deal with Max Life Insurance Company, three year average pre and post M&A financial ratios are compared. To know the immediate short term impact, one year pre and one year post M&A are also compared. The difference in financial performance in terms of traditional ratios is as per the CAMEL Model.

To understand the short term impact of acquisition of stock in Max New York life Insurance by Axis Bank, regression is used. The fluctuations in the share price data may be due to merger or it may be due to general trend in the banking industry. Therefore, BSE banking index BANKEX is taken as independent variable and Axis bank share prices are taken as dependent variable. The share prices before and after merger is also considered as one of the factor and taken as independent variable.

Estimation Results

Long term impact of acquisition of shares in max New York life insurance company by axis bank

The performance of Axis bank in terms of Capital Adequacy Parameters is shown in Table 10.

The negative CAR in the first year after deal indicates that bank was not able to maintain capital in relation to its risk adjusted assets. Axis bank has been able to keep minimum CAR of 9% over the sample period. Taking the two year and three year average of pre and post M&A period, it shows that the bank has able to expand its business with sufficient capital.

The Debt to Equity Ratio indicates the degree of leverage of a bank to know proportion of the bank business is funded through debt and equity. It is the ratio between the total borrowings of bank with shareholders' net worth. The bank would prefer to keep a lower ratio which will have image that the depositors and creditors are protected. The D/E ratio of Axis bank has been increased. It shows that bank have some debt burden.

Company Background	Axis Bank Ltd. (Acquirer)	Max New York Life Insurance (Target)
Industry group	Banking services (Financial Service Industry)	Insurance Services (Financial Service Industry)
Main product / service	Banking services: Credit cards, consumer banking, corporate banking, finance and insurance, investment banking, mortgage loans, private banking, private equity, wealth management	Insurance Services: Individual Insurance (23 products and 9 riders/options) and Group Insurance (4 products and 7 riders/options)
Entity type	Private Category: New Private Sector Banks	Private
Incorporation year	1993	2000
Headquarters	Mumbai, Maharashtra, India	New Delhi, India
First trading date on NSE	12/3/1998	N/A
First trading date on BSE	11/27/1998	N/A
NIC code	64191	N/A
About the firm	Axis Bank Ltd is the third largest of the private-sector banks in India offering a comprehensive suite of financial products. The bank has its head office in Mumbai and Registered office in Ahmedabad.	Max New York Life Insurance is a joint venture in the ratio of 74: 26 between Analjit Singh's Max India and US-based New York Life International
Max Life Insurance available from http://en.wikipedia.org/wiki/Max_Life_Insurance last retrieved on 8th October 2017 Axis Bank available from http://en.wikipedia.org/wiki/Axis_Bank. last retrieved on 8th October 2017		

Table 8: Sample companies background.

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Camel Model Parameters	Interpretation	Variables
Capital Adequacy	It indicates the financial soundness of bank that guides relating to stability and efficiency of financial system.	• Capital Adequacy Ratio (CAR) • Gearing Ratio (GR)
Asset Quality	It shows the overall financial health.	• Return on Assets (ROA) • Non-Performing Assets as % to Net Advances (NPANA)
Management Performance	It reflects the efficiency in operations due to efficient and sound management.	• Business Per Employee (BPE) • Profit Per Employee (PPE) • Non Fund Income as a % to Total Income (NFITI)
Earnings	It indicates about the both operating and non-operating profits of banks.	• Earnings Per Share (EPS) • Net profit as % to Total Income (NPTI) • Interest Spread as % to Total Income (STI)
Liquidity	It indicates how much current assets bank have to meet the short term obligations or current liabilities.	• Credit Deposit Ratio (CDR) • Time Deposit as % to Total Deposit (TDTD) • Liquid Asset as % to Short Term Liabilities (LASTL)
Source: Kumari and Dorthy (2014); Arora and Jain (2013) [26].		

Table 9: Variables used in the Study.

Parameters	Capital Adequacy Ratio (%)	Debt to Equity Ratio (times)
Three Year Average Before Deal	14.49	1.21
Three Year Average after Deal	15.55	1.38
Difference	**1.06**	**0.17**
Two Year Average Before Deal	14.75	1.30
Two Year Average after Deal	15.33	1.41
Difference	**0.58**	**0.12**
One year Before deal	15.80	1.07
One year after deal	13.66	1.49
Difference	**-2.14**	**0.42**
Source: Author's calculation.		

Table 10: Results on capital adequacy of axis bank.

Parameters	Return on Assets	Net Non-Performing Assets (NNPA) to Net Advances (In Per Cent)
Three Year Average Before Deal	1.45	0.41
Three Year Average after Deal	1.72	0.36
Difference	**0.27**	**-0.05**
Two Year Average Before Deal	1.56	0.40
Two Year Average after Deal	1.69	0.32
Difference	**0.14**	**-0.09**
One year Before deal	1.67	0.40
One year after deal	1.68	0.27
Difference	**0.01**	**-0.13**
Source: Author's calculation.		

Table 11: Results on asset quality of axis bank.

The performance of Axis bank in terms of Asset Quality is shown in Table 11. The ROA have increased in the sample period. It indicates that bank has generated sufficient earnings in comparison to its fixed assets. This has happened may be because of increase in fee based income that might have covered their operating expenses. Axis bank may have able to effectively cross-sell insurance products through its distribution and processing capabilities for better returns. The financial strength of Axis bank has improved.

The Net Non-Performing Assets (NNPA) To Net Advances (In Per Cent) is an indicator that judges the quality of the bank's loan or the quality of assets that a bank holds. Non-Performing Assets are those assets for which interest is unpaid for more than 90 days (or 3 months). The higher the ratio, the poor is the quality of bank loans. Axis bank has performed better in reducing the amount of Non-Performing Assets as indicated from the NNPA ratio. Even if it is a private bank with high rate of interest charged to customers, the customers have not defaulted in paying back to bank the amount of money it has lend. This can also be attributed to the deal done with max life that has helped to manage the interest rates.

The performance of Axis bank in terms of Management Performance is shown in Table 12. The profit per employee increased in first year, second year and third year after the deal by axis bank. It indicates that it has been able get its earnings by managing people also in the environment of different work culture of bank and insurance company. The business per employee have also enhanced over an average period of three and two years after the deal indicating that the partners are working with common business vision and moving towards growing business through achieving future objectives. The fee based income as the percentage of total income reduced. The efficiency of management of banks has improved as indicated from the profit per employee and business per employee. It means the employees of Axis bank have worked efficiently and productively over these years.

Parameters	Profit/ Loss Per Employee	Business (Deposits Plus Advances) Per Employee	Fee Based Income as A % to Total Income
Three Year Average Before Deal	0.10	10.96	15.73
Three Year Average after Deal	0.15	12.40	14.92
Difference	**0.05**	**1.44**	**-0.81**
Two Year Average Before Deal	0.11	10.86	16.08
Two Year Average after Deal	0.15	12.46	15.33
Difference	**0.04**	**1.60**	**-0.75**
One year Before deal	0.12	11.11	16.43
One year after deal	0.14	12.76	15.82
Difference	**0.02**	**1.65**	**-0.61**
Source: Author's calculation.			

Table 12: Results on management performance of axis bank.

The performance of Axis bank in terms of Earnings is shown in Table 13. The higher EPS shows that Axis bank is able to earn profits consistently over the period of time. It is also capable to earn even when dealing with a new environment of insurance industry. It gives a positive indication that in the risky environment also where the bank is new to a field it is capable to maintain quality which can lead to sustainable growth of its future earnings.

Net profit as % to Total Income has declined in the initial year indicating that the earning is affected. This could negatively influence

Parameters	EPS	Net Profit As % to Total Income (NPTI)	Interest Spread As % to Total Income (STI)
Three Year Average Before Deal	47.52	13.80	29.36
Three Year Average after Deal	115.23	15.67	29.66
Difference	**67.70**	**1.87**	**0.30**
Two Year Average Before Deal	56.32	14.62	29.37
Two Year Average after Deal	106.68	15.38	28.89
Difference	**50.36**	**0.76**	**-0.48**
One year Before deal	62.06	16.11	32.05
One year after deal	102.67	15.46	29.22
Difference	**40.61**	**-0.64**	**-2.83**
Source: Author's calculation.			

Table 13: Results on earnings of axis bank.

Parameters	Current Asset as % to Current Liabilities	Liquid Assets to Current Liabilities	Time Deposit as % to Total Deposit (TDTD)
Three Year Average Before Deal	2.99	0.87	46.97
Three Year Average after Deal	7.78	1.05	52.84
Difference	**4.79**	**0.18**	**5.87**
Two Year Average Before Deal	3.50	0.91	49.75
Two Year Average after Deal	6.97	1.00	53.25
Difference	**3.48**	**0.10**	**3.50**
One year Before deal	3.78	0.98	50.25
One year after deal	6.49	0.98	51.63
Difference	**2.71**	**0.00**	**1.38**
Source: Author's calculation.			

Table 14: Results on liquidity of axis bank.

Axis bank's ability in paying dividends, maintaining adequate amount of capital, expanding in new business activities and retaining its competitive position. Interest spread is the difference between interests on loan what it receives and interest on deposits what it gets. The greater the amount of spread the better it is as it means more profits the bank is able to earn. The Interest Spread as % to Total Income (STI) has decreased in initial two years but later it has able to increase its interest spread.

The performance of Axis bank in terms of Liquidity is shown in Table 14. Liquidity in banks is vital to cope with competition. The Axis bank has been able to maintain liquidity over the sample period which is reflected from the Current Asset as % to Current Liabilities, Liquid Assets to Current Liabilities and Time Deposit as % to Total Deposit. It indicates that the proportion of outstanding loans to total assets is manageable and there is no liquidity crisis during the period ensuring that financial performance is not affected. Since axis bank have properly managed its liquidity position so it has not affected its cost of funds and these are not under unrated category.

Short term impact of acquisition of shares in max New York life insurance company by axis bank

To understand the impact of acquisition of stack in Max New York Life Insurance Company by Axis bank, multiple regression is used. The stock market before and after acquisition is taken as independent variable. The fluctuations in a particular bank's share price may be due to acquisition or it may be due to the general trend in the banking industry. To know if the general banking trend has influenced the share prices or the fluctuations are due to the acquisition, BANKEX has been taken as independent variable. The Share price of Axis bank is taken as dependent variable. It is found that the value of R-square is 0.91 an adjusted R-square is 0.90. The regression is significant at 5% level of significant.

It is seen in the Tables 15 and 16 that the relationship between

Parameters	Coefficients	Standard Error	P-value
Intercept	-637.43	124.86	0.00
BANKEX	0.15	0.01	0.00
Prices before and after acquisition	1.77	10.92	0.87
Source: Authors' Calculation from data derived from www.bseindia.com.			

Table 15: Regression coefficient.

the share prices of Axis bank and BANKEX is significant. It means that there is impact of BANKEX on the shares prices of Axis bank. However, there is no impact of market scenario, before the acquisition of shares in Max New York Life Insurance and after the acquisition of shares in Max New York Life Insurance on the share prices of Axis bank as reflected from the P-value which is less than 0.05 in case of BANKEX but more than 0.05 in case of share prices of axis bank before and after the acquisition of shares. Thus, it is inferred that there is no impact of acquisition of shares by Axis Bank in Max New York Life Insurance on its stock performance. The volatility in the share prices are due to the general trend in the banking industry which is reflected in the BANKEX.

Conclusion

This paper investigates the Long Run and Short Run Impact of Acquisition of Shares in Max New York Life Insurance by Axis Bank specifically to know the contribution of Bancassurance towards the performance of bank. From the statistical results using various financial ratios based on the different parameters of CAMEL Model, it is found that there is disparity in the long term impact of Bancassurance. However, in terms of short term impact, it is found that there is no impact of acquisition of shares by Axis Bank in Max New York Life Insurance on its stock performance.

Policy Implications

It is seen that after the acquisition of shares in the Max New York Life

Year→	**For year Ending 31st March**						
Axis Bank Ltd. Rs. Crore/	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Total Capital Adequacy Ratio of The Bank (%)	13.99	13.69	15.8	12.65	13.66	17	16
Debt To Equity Ratio (times)	1.03	1.52	1.07	1.38	1.49	1.33	1.32
Return on Assets	1.24	1.44	1.67	1.68	1.68	1.7	1.78
Net Non-Performing Assets (NNPA) To Net Advances (in per cent)	0.42	0.4	0.4	0.29	0.27	0.36	0.44
Profit/Loss Per Employee	0.08	0.1	0.12	0.14	0.14	0.15	0.15
Business (Deposits Plus Advances) Per Employee	11.17	10.6	11.11	13.66	12.76	12.15	12.3
Fee Based Income As a % to Total Income	15.03	15.73	16.43	16.96	15.82	14.84	14.08
EPS	29.94	50.57	62.06	82.54	102.67	110.68	132.33
Net Profit As % to Total Income (NPTI)	12.15	13.14	16.11	17.12	15.46	15.30	16.24
Interest Spread As % to Total Income (STI)	29.33	26.69	32.05	33.16	29.22	28.55	31.21
Current Asset As % to Current Liabilities	1.99	3.21	3.78	4.87	6.49	7.46	9.40
Liquid Assets to Current Liabilities	0.81	0.84	0.98	1.01	0.98	1.03	1.15
Source: Author's calculation.							

Table 16: Financial data based on camel model.

Insurance Company by Axis bank there is improvement in the financial performance of the bank. However, the short term fluctuations in the share market are not attributed to this acquisition rather it was due to the general trend in the banking industry. It means that the market is not considering this deal as significant. It may be due to the reason that only 4% stake is acquired by the bank in the insurance company which may not be considered significant by the market. But the analysis of the financial data for long period shows that banks performance has improved in terms of various financial parameters. It shows the inefficiency of the stock market to discount important information of acquisition of shares by the bank in the insurance company. The improvement in the financial performance in the long run is a positive sign for the acquisition. This shows the presence of synergy in the deal. However, in the short run, the indifferent behavior shown by the stock market is cause of concern for the bank. Bank should take appropriate measure to disseminate the information with respect to the acquisition to its investors.

Scope of Future Research

The limitation of the study is that it has not used the any control firms to show the impact of joint venture in relation to the industry performance. Future research can be focused on examining the relationship of merger and acquisition of banking and insurance at macro level taking more number of samples of M&A deals that would provide additional insights into the performance of acquirer and target.

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