BENEFITS OF BANCASSURANCE

Bențe Corneliu

Universitatea din Oradea, Facultatea de Ştiințe Economice, Str. Carpați nr.1B, PB 36, ap. 9, Oradea , Bihor, România, Tel: +40-259-408.401, Email: corneliubente@gmail.com

Ghilimei Elena

Email: elena.ghilimei@yahoo.com

Abstract: Bancassurance, the provision of insurance services by bank, is an established and growing channel for insurance distribution. However, bancassurance is applied heterogeneously around the world. Regulatory considerations, as well as cultural and socio-demographic factors, could explain some of this variation. Despite this heterogeneity, overall bancassurance penetration has increased in recent years, particularly in emerging markets.

keys: distribution agreements, joint ventures, integrated operations

1. Introduction

Successful bancasurance models have thus far primarily involved selling simplified products over the counter to customers who make on-the-spot decisions. Bancassurance products tend to complement existing bank products, which can in turn lead to additional selling opportunities. Worldwide, insurers have been successfully leveraging bancassurance to gain a foothold in markets with low insurance penetration and a limited variety of distribution channels. It is believed that the ability to integrate banking and insurance can help to lower costs and maximize synergies.

The economics behind integrated operations, however are being increasingly challenged by regulatory changes. New regulations have eliminated many of the capital advantages previously enjoyed by bancassurance. At the same time, the quest for additional growth has led some bancassurance to explore alternative business models. Some, for example, are beginning to focus exclusively on distribution, and are employing multi-supplier and multi-channels strategies. The marketing of more complex products has also gained ground in certain countries, alongside a more dedicated focus on niche client segments and the distribution of non-life products. In many of these situations, significant re-engineering of existing marketing and back-office process is needed, particularly in areas such as claims management, due to higher claims frequency of non-life insurance products.

Over the last two decades, bancassurance has become a key distribution channel in many insurance markets. Its prevalence is most pronounced in Southern Europe, but its use has also spread to other regions, in particular emerging markets.

2. Determinants of bancassurance

Bancassurance has achieved remarkable success in some markets. In Europe, it is not uncommon to find over half of life insurance business being transacted by banks. For example, in France, Portugal and Spain, banks handle over 60% of life insurance business. Banks and insurers are attracted to the idea of bancassurance for different reasons, which also influence the way their cooperation takes place.

The following will briefly summaries the determinants of bancassurance from the perspective of various stakeholders- banks, insurers, consumers and regulators.

2.1. Banks

Retail banks earn their income from the spread between the rates they charge on lending and those they pay for deposits. Growing market competition, however, weighing down heavily on banks' interest margins while credit risk is always a headline concern. As a result, banks are increasingly looking to commissions and fees from selling insurance products to supplement their core earnings. Some banks are eying bancassurance as a step to the formation of financial supermarkets where one institution serves all the financial needs of its customers. A potential benefit is the reduction in the volatility of return on equity due to the lack of synchronization between insurance and banking profitability cycles[36].

From the perspective of banks, bancassurance is attractive because banks can>

- Secure an additional and more stable stream of income through diversification into insurance and reduce their reliance on interest spreads as the major source of income;
- Leverage on their extensive customer bases;
- Sell a whole range of financial services to clients and increase customer retention;
- Reduce risk-based capital requirement for the same level of revenue;
- Work towards the provision of integrated financial services tailored to the life-czcle of customers;
- Access funds that are otherwise kept with life insurers, who sometimes benefit from tax advantages.

2.2.Insurers

The benefits to the insurers are equally convincing. The ability to tap into banks' huge customer bases is a major incentive. The extensive customer base possessed by banks is considered to be ideal for the distribution of mass-market products. On the other hand, insurers can make use of the wide reach of bank customers to categorise potential clients in detail according to their needs and values. With increasing sophistication on bancassurance operations, some insurers can focus on the high-net-worth segment, which offers greater potential for wealth management business.

Apart from the ability to tap into new customers groups, escaping from the high cost of captive agents is another reason prompting insurers to look into alternative channels. In some cases, teaming up with a strong bank can help to fund new business development and boster public confidence in the insurer.

In a nutshell, insurers are attracted to bancassurance because they can:

- Tap into a huge customer base of banks;
- Reduce their reliance on traditional agents by making use of the various channels owned by banks;
- Share services with banks;
- Develop new financial products more efficiently in collaboration with their bank partners;
- Establish market presence rapidly without the need to build up a network of agents;
- Obtain additional capital from banks to improve their solvency and expand business.

There are different organizational structures under which banks can work together with insurers, including distribution agreements, joint ventures ore some integrated operations. It is then only logical to presume that different motivations will drive the choice of different organizational models

[36] Swiss Re, Sigma No. 7/2001, "World financial centers: New horizons in insurance and banking ", p.25

Table 1: Benefits of bancassurance

Benefits to banks	Distribution	Joint ventures	Integrated operations	Benefits to insurers	Distribution	Joint ventures	Integrated operations
Secure an additional and more stable stream of income through diversification into insurance and reduce their reliance on interest spreads as a major source of income	x	x	x	Tap into the huge customer base of banks	x	x	x
Leverage on their extensive customer bases	x	x	x	Reduce their reliance on traditional agents by making use of the various channels owned by banks			
Sell a whole range of financial services to clients and increase customer retention		x	x	Share services with banks		x	x
Reduce risk-based capital requirement to the same level of revenue	x			Develop new financial products more efficiently in collaboration with their bank partners		x	x
Works towards the provision of integrated financial services tailored to the life cycle of customers		x	x	Establish market presence rapidly without the need to build up a network of agents			
Access funds that are otherwise kept with life insurers who sometimes benefits from tax advantages		x	x	Obtain additional capital of banks to improve their solvency and expand business		x	x

Source: Swiss Re, Sigma **No. 7/200***2, "Bancassurance developments in Asia-shifting into a higher gear ", p. 10*

2.3. Consumers

Unlike with banks and insurers, where benefits of bancassurance will have to be weighted against business risk, the positive impacts on consumers are unequivocal. Part of the lowering of distribution costs will be passed on to clients in the form of lower premium rates. In addition, it is likely that new products will be developed to better suit client needs, which otherwise may not be available if banks and insurers worked independently. Examples are overdraft insurance, depositors' insurance and other insurance covers sold in conjunction with existing bank services. The convenience offered by bancassurance should also increase customer satisfaction, for instance, when it is possible to pay premium as well as to withdraw and repay cash loans backed by life insurance policies through bank's ATM s. Just as important, is more than often a strategic step of financial service providers to shift from being product-oriented and to focus on distribution and customer relations.

2.4. Regulators

Bancassurance poses major challenges to regulators. The ability of financial institutions to diversify into others sectors should help to lower the level of latent systemic risk. Banks will benefit from lower income volatility while insurers could potentially obtain additional capital to bolster their solvency levels.

3. Overview – keeping up with the strong growth tempo

The popularity of banassurance remains strong although regional disparities persist as can be observed from table 2 bellow. Europe has the highest bancassurance penetration rate, with life bancassurance accounting for more than half of premium income in many markets. In North America, the penetration of bancassurance is much lower in both the US and Canada, partly reflecting the previously restricted regulations on banks' distribution of insurance. The market of bancassurance was fully liberalized in Japan by the end of 2007; therefore penetration has remained low.

In contrast, Australia has a high level of bancassurance penetration in the life sector, due to the acquisition of many life companies by banking groups. Emerging markets have very diverse bancassurance penetration rates depending on the local regulatory frameworks, the level of foreign participations and other social and cultural considerations. Bancassurers have generally made significant inroads in penetrating the Asian markets, many in the life insurance sector. At the same time, successes have also been reported in Central and Eastern Europe as well as in Latin America.

Table 2: Share of bancassurance distribution in selected markets

		Non-life				Life			
		Banc assurers	Agents	Brokers	Other-incl dir. sale	Banc assurers	Agents	Brokers	Other-incl dir. sale
AMERICA	United States	n.a.	n.a.	n.a.	n.a.	2,0	n.a.	n.a.	n.a.
	Canada	negligible	18,0	74,0	80	1,0	60,0	34,0	5,0
	Brazil	13,3	n.a	71,6	n.a.	55,0	n.a.	30,0	n.a.
	Mexico	10.0	25,0	50,0	15,0	10,0	←	90,0	→
	Chile	18,8		81,2		13,0	←	87,0	→
EUROPE	UK	10,0	4,0	54,0	32,0	20,3	10,0	65,0	5,0
	France	9,0	35,0	18,0	38,0	64,0	7,0	12,0	17,0
	Germany	12,0	75,0	22.0	9,0	24,8	27,1	39,4	8,7
	Italy	1,7	84,2	7,6	6,5	59,4	19,9	9,4	11,7
	Spain	7,1	39,5	28,3	25,2	71,8	15,4	5,4	7,4
	Belgium	6,1	10,1	65,6	18,2	48,0	3,2	26,5	22,3
	Portugal	10,0	60,7	26,7	12,6	88,3	6,9	1,3	3,5
	Poland	0,6	58,2	15,7	25,5	14,4	39,7	4,3	41,6
	Turkey	10,0	67,5	7,8	14,7	23,0	30,1	0,8	46,2
ASIA	Japan	n.a.	92,9	0,2	7,0	n.a.	n.a.	n.a.	n.a.
	South Korea	4,0	49,7	0,9	45,4	8,5	←	91,5	→
	P R China	n.a	45,4	2,0	52,6	16,3	←	83,7	→
	Taiwan	n.a.	62,0	30,0	8,0	3,0	11,7	6,6	48,7
	Malaysia	10	40,0	23,0	27,0	45,3	49,4	2,4	2,9
AUSTRALIA		n.a.	21,0	74,0	5,0	43,0	←	57,0	→

Source: Swiss Re, Sigma **No. 5/200***7, " Bancassurance: emerging trends, opportunities and challenges ", p. 11*

While the lack of consistent and comprehensive data have made it difficult to quantify how bancassurance penetration has developed in recent years, anecdotal information largely confirms that bancassurance has continued to gain importance in most regions.

In continental Europe and Oceania, bancassurance penetration in the life insurance sector has stabilized at a relatively high level with the exception of Germany since 2000. Non –life distribution is gaining in popularity, albeit from a low level. The US and Canda have yet to fully embrace bancassurance although some of regulatory hurdles have been removed. In Japan, bancassurance did not exist in 2000, but has since become a competitive channel. Further liberalization is likely to see bancassurance gaining market share.

Among emerging markets, bancassurance has a developed robustly in the life markets of Latin America, Central and Eastern Europe (CEE) and Asia, many from relatively low levels. Activities in the non-life sector generally remain limited. However, in Latin America, non-life distribution has actually preceded life distribution for bancassurers. In comparison, bancassurance has not flourished in the Middle East of Africa where penetration has remained low over the last few years.

We should be aware that the generalisation of regional trends could conceal significant developments in individual markets.

References:

1. Lazăr Dumitru D. – *“Bazele Marketingului“*, Editura Star Soft, Alba Iulia, 1999
2. Pop Nicolae Al. – *“Marketing“*, Editura Didactica şi Pedagogică, Bucureşti 2001
3. Swiss Re, “Bancassurance: emerging trends, opportunities and challenges”, Sigma No 5/2007.
4. Swiss Re, “Bancassurance developments in Asia-shifting into a higher gear ”, Sigma No 7/2002.