BANCASSURANCE – MAIN INSURANCE DISTRIBUTION AND SALE CHANNEL IN EUROPE

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***Abstract**: Before the emergence of the crisis, banks' incomes were preponderantly oriented towards the lending activity, which activity is unsustainable in these circumstances. With the financial crisis, banks have diversified revenues and identified the benefits of sustainable partnerships with insurance institutions (the bancassurance), achieving convergence towards common platforms. The driving factor of the bancassurance system must also be sought in the common need of banks and insurance companies to optimize the structure and efficiency of the distribution channels. Thus, if credit institutions seek to obtain additional revenue by capitalizing the potential of regional networks, initially configured based on own marketing policies, insurance companies are interested in diversifying without significant capital investment, the traditional distribution methods, so that the products and services offered have access to a large number of potential customers.*

***Keywords**: bancassurance, credit institution, insurance company*

JEL Classification codes: G220, E500

INTRODUCTION

The term *bancassurance* was use, for the firt time, in France (its universal use reflects the fact that this business model is most developed in France) and indicate the simple distribution of insurance products by bank branches. Now constitutes the dominant model in a number of European and other countries. During the time, bancassurance definitions are becoming more and more general, as in the following examples:

Bancassurance is the process of using a bank's customer relationships to sell life and non-life insurance products and it is is emerging as a natural pathway for the effective development of insurance. (Gonulal S., Lester R., Goulder N., 2012)

Bancassurance is basically the provision of and selling of banking and insurance products by the same organisation under the same roof. (Elkington W., 1993)

Bancassurance can be described as a strategy adopted by banks or insurance companies aiming to operate the financial market in a more or less integrated manner. (Swiss RE, 1992)

According to the definition of the Center for Insurance & Financial planning, "Bancassurance assume a wide range of detailed arrangements between banks and insurance companies, but in all cases it includes the provision of insurance and banking products or services from the same sources or to the same customer base".

Bancassurance is a system in which a bank has a corporate agency agreement with one insurance company to sell its product (life and general insurance) and by selling insurance products bank earns a revenue stream apart from interest. (Shah H. A., Salim M., 2011)

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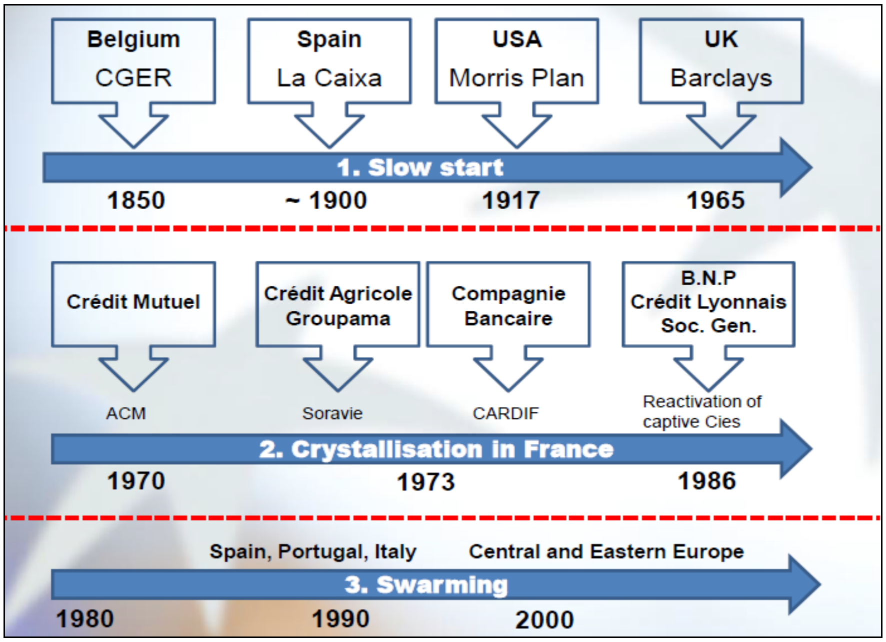

Figure nr. 1. Historical roots and main drivers of development phase of bancassurance

Source: Binet G., Bancassurance Past and current trends, Bancassurance - quo vadis? IVth Bancassurance Congress, Warsaw, October 25th 2012

Forms of Bancassurance Arrangements are:

a. *Strategic Alliance*

Under a strategic alliance, there is a tie-up between a bank and an insurance company. The bank only markets the products of the insurance company. Except for marketing the products, no other insurance functions are carried out by the bank.

b. *Full Integration*

This arrangement entails a full integration of banking and insurance services. The bank sells the insurance products under its brand acting as a provider of financial solutions matching customer needs. Bank controls sales and insurer service levels including approach to claims. Under such an arrangement the Bank has an additional core activity almost similar to that of an insurance company.

c. *Mixed Models*

Under this approach, the marketing is done by the insurer's staff and the bank is responsible for generating leads only. In other words, the database of the bank is sold to the insurance company. The approach requires very little technical investment.

1. THE DEFINITIONS AND THE FORMS OF BANCASSURANCE

In the context of globalization of the economy, of the overlap and integration of international capital markets, of information and technologies, the insurance market has become one of the most promising options to expand the banking business. Bankers' interest in insurance capital is also determined by significant incomes from insurance activities, obtained by domestic insurers, which is confirmed, at the payment level constituted on most insurance branches.

If, at the emergence of the bancassurance model, its definition referred to the distribution - through credit institutions – of the insurance products attached to loans and of other banking products, currently the concept has a much wider sense, including both the sale of the products in question through the distribution networks of non-bank financial institutions (NBFIs) and providing complex products / services distributed through a common distribution channel and/or using the same portfolio of clients.

Beyond these definitions, bancassurance is a concept of operating in financial markets, which provide opportunities for an intensive use of the purchasing power of the portfolio of clients of the banks through a substantial improvement of the financial service offer, obtained with a minimum administrative and, implicitly, financial effort (Ghețu D., Popescu M., 2003).

The historical evolution of bancassurance partnerships took place in different periods and countries with significant features regarding: the legal framework, the market conditions, the level of development of the partner entities, the degree of internationalization of the operations and other factors that generated a wide variety of models through which the concept in question was institutionalized, from bilateral agreements regarding the (paid) distribution of insurance policies through the network of a bank to strategic partnerships, with property or brand assignments and transfers.

From simple distribution contracts and continuing with complex processes, such as acquisitions or mergers, the diversity of the bancassurance models is marked even by the cultural environment and by the regulatory and supervisory systems, especially for multinational organizations. Thus, **distribution protocols** can take several forms:

The distribution agreement a formal or informal agreement or one through which a bank recommends clients to an insurer. The agreement is characterized by a single product or a limited relationship. Two different forms of agreement are known:
- In a non-exclusive distribution agreement, the bank basically has the role of a broker, selling the products of the associated company, together with the products of other insurance companies;
- In a limited distribution agreement, the insurance company provides one or more products or types of products exclusively for the associated credit institution; both sides may have different contracts with different partners only for products not covered by the bilateral agreement.

The exclusive distribution agreement is a formal and exclusive relationship in which the bank sells only the insurance products of its partner through its channels; so the credit institution acts as a designated representative of the insurer.

The strategic partnership emerges when between the two parties there are common ownership and / or a consistent strategic objective and preserves the exclusiveness relationship between bank and insurer.

Joint Venture systems involve the creation of a new company by an insurer and a bank. Both parties have a well-defined economic interest, while the structure of such business, the equity contributions, the goodwill used, the business longevity, may vary considerably.

The integrated operations systems, known under the name **M&A** (mergers and acquisitions), are established by securities transactions of banks and insurance companies, through which the redistribution between the participants of the ownership and control rights on such entities takes place. The object of such transactions may be the takeover of a significant stock of the agreed partner (*acquisition*), or the reunion of two associates in the distribution process into a new company *(merger).*

The role of the bancassurance partnership in the quality of the insurance product distribution

A. At the insurance product supplier, the quality increase is manifested on several levels:

1. The expansion of the potential market by expanding the distribution network through the access to the client portfolio of the bank or the access on new market segments through its network, while the traditional distribution channels indicates a relative saturation of the clients with the traditional products (liability insurance and property insurance), and the process of liberalization and deregulation of financial markets determines an increase in the competitive pressure. Following the concluded distribution protocol, the insurer benefits from the *brand* (brand and confidence image) of the credit institution and, moreover, there is a reduction of dependence on intermediaries involved in conventional distribution systems (agents, brokers). The partnership provides the possibility of designing more sophisticated and more adequate products for potential customers.

2. Financial benefits relate mainly, to cost-sharing - both the distribution ones by using the existing territorial structures (with implications aiming at reducing premium rates for clients), as well as the operational ones, as it is a well-known fact that insurance companies mobilize less own funds than banks to cover claims. If, in the process of globalization, risks often exceed the financial capacity of traditional insurers, their ability to obtain additional capital from partner banks in order to expand their business and improve solvency indicators is another significant benefit of the bancassurance system. The bancassurance partnership can also influence the value of the insurance company.

B. The quality increase for the business partner (**the involved credit institution**) can be structured according to several criteria.

1. In relation to bank customers, a first advantage is to offer an extensive and comprehensive range of products, as appropriate, as adequate as possible – by associating them – to customer requirements, able to contribute to the increase of their loyalty. Moreover, we are witnessing a resizing (growing) of the clients, by mixing the databases of the bank and of the insurer, in addition to the progress of information technologies that allow for the management of a much more structured portfolio of clients oriented towards the target categories. The bank counter is therefore a first step towards the operationalization of the concept of "financial supermarket", and the common offer of products and services (“one stop access point”) is likely to contribute to scale and purpose economies, both for the customer and for the credit institution.

2. The financial advantages of the bank are also significant: the diversification of the profit sources – by including incomes from the insurance product distribution, but also by the implication in bancassurance activities that decrease the dependence of profitability indicators on the management of interest margins. The distribution costs can be considered to be marginal, if insurance products sale is performed by the existing employees of banks. Moreover, the capital requirements (compared to the undertaken risks) are significantly lower for, for the same level of income, under a partnership of this kind.

Another potential benefit is related to reduction of the volatility concerning the return on capital, based on the synchronization between banking and insurance products in relation to cycles of profitability. The access to the funds owned by life insurance companies, including for reasons of a fiscal nature, may be likely to increase – in terms of volume of liquidities available – the level of competitiveness of credit institutions, compared to captive banks (*in house banking*), dedicated to the preferential (cost) refinancing of large corporations.

3. The operational arguments refer to providing continuity in the activity if the bank network, by providing integrated services tailored to consumer lifecycle. Basically, we are talking about optimizing the use of the existing network, to increase its usability and profitability. In addition, over time, insurance companies have developed advanced risk management techniques that can be exploited by partner banks. It is easy to see that due to synergy system, o part of the advantages mentioned concern both partners. Moreover, as we will see below, they also reverberate - favorably, of course - on the consumer of financial services.

The practical level capitalization of the aforementioned potential benefits depends on a number of factors, among which we mention: the size of the partners, the applicable law, the level of market development, cultural factors, and in particular, the institutional model through which the partnership is made. (Table 1.1)

Table 1. Comparative advantages of the bancassurance system

Advantages for banks	*Contractual*	*Joint-Venture*	*M & A*	*Advantages for insurers*	*Contractual*	*Joint-Venture*	*M & A*
Additional and stable source of incomes, reducing their dependence on the interest margin	X	X	X	Access to the bank's client database, usually more consistent	X	X	X
Expanding potential client portfolio	X	X	X	Reducing dependence on agents/brokers	X	X	X
Diversifying the range of products and services as a manner of increasing clients' loyalty		X	X	Sharing certain categories of services with the bank		X	X
Reducing the capital requirement (compared to the undertaken risks) at the same level of incomes	X			Increased efficiency in the development of new products in partnership with the bank		X	X
Continuity of the activity by providing integrated services tailored to consumer lifecycle		X	X	Quick access to new markets without being necessary to have a an own (distribution) network	X	X	X
Access to the funds of the life insurers, including for reasons of a fiscal nature		X	X	Obtaining capital to increase solvency and to develop the business		X	X

Source: Wong, C., Cheung, L., Bancassurance developments in Asia - shifting into a higher gear, in „Sigma" no. 7/2002, Swiss Re, p. 3-38

C. At the consumer level the additional quality induced by the quality bancassurance system ultimately determines the level of the demand for products and services and, implicitly, the volume of transactions carried out by the distribution channel in question.

1. The reduction of tariffs and fees is undoubtedly a positive aspect with maximum visibility. It is based on sharing the bank network, the lower distribution costs as compared to the traditional ones coming even from the increase of the level of usage of this network. Moreover, the methods of payment of the insurance premiums are simplified, the collection being made directly from customers' bank accounts.

2. Facilitating the access through an extensive network to a comprehensive range of financial products and services is another element of comfort, substantiated in the opportunity to use a single counter, or even an ATM, for payments and reimbursements of premiums, loan installments, benefits related to life insurances, establishment and liquidation of deposits.

3. The suitability of the products to the consumer's needs generates a special relationship between client and bank, within which the stimulation of the loyalty of the former is done by the reorientation of the services, from the emphasis on the product to focusing on the client and his needs: the (monthly) premium scheduling, the deposit insurance, including insurances in the mass of the loan guarantees and so on.

D. For the **supervisory authorities** the increase in the quality must be considered in relation to their essential mission, aiming at configuring and observing the legal framework, that regulates the fact that risks undertaken by financial institutions are constantly monitored and controlled in a manner appropriate to need of stability of the national finances.

2. THE EVOLUTION OF BANCASSURANCE IN EUROPE IN 2009

Bancassurance, which was introduced in Europe in the 1980s, is the main distribution channel for life insurance products in many European countries, with a market share ranging from 42% in Belgium to 87% in Portugal in 2009. Chart 24 shows that bancassurance is particularly dominant (ie accounting for more than 50%) in south European countries as well as in Austria. In most of these markets there were significant increases in the share of bancassurance in 2009, the highest being reported in Austria (from 52% to 65%), Turkey (from 46% to 56%) and Italy (from 62% to 74%). Most of these changes were to a large extent to the detriment of agents. In France, the market share of bancassurance remained stable at 60% in 2009. Among western European markets, in the UK, the largest European life insurance market, bancassurance only accounts for 15–20% of new business. In Eastern Europe, bancassurance is generally not common, with the notable exception of Poland, where life insurance products are evenly distributed between direct sales, intermediaries and bancassurance.

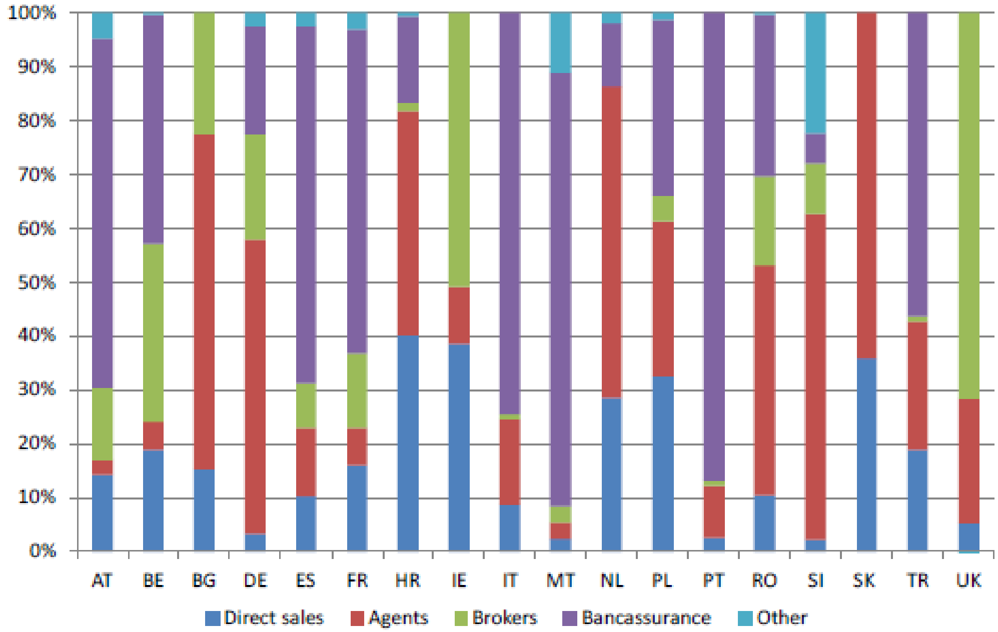

Figure 2. European life distribution channels — 2009

Notes: Data for Germany and the UK refers to new business only; For the UK, bancassurance is included in all other channels; For the Netherlands and Slovakia, brokers are included with agents; Data for Spain is from 2008

Source: European Insurence in figures http://www.insuranceeurope.eu/uploads/Modules/Publications/european-insurance-in-figures-2011.pdf

Bancassurance is generally not a common channel for non-life. As previously stated, and conversely to the sale of complex life products, direct sales through employees and distance-selling are relatively common in the distribution of non-life products. In two countries direct writing is even the main distribution channel; namely Croatia (market share 72%) and the Netherlands (49%). Direct writing also fares well in Ireland (42%) and in Austria and France, which both recorded a market share of 35%.

Whereas life insurance products are mainly purchased through bancassurance in most European countries, this channel generally plays a minor role in non-life insurance, and is still extremely rare in central and eastern European markets. Chart 25 shows that bancassurance accounts for a maximum of 14% of the total. This record level was reported in Portugal, where it grew almost 4.0pp over the previous year. Bancassurance is also the most popular distribution channel for life insurance policies in Portugal. With respective market shares of 12% and 10%, Turkey and France closely follow Portugal.

Figure 3. European non-life distribution channels — 2009

Notes: For the Netherlands, brokers are included with agents; Data for Spain and the Netherlands is from 2008

Source: European Insurence in figures http://www.insuranceeurope.eu/uploads/Modules/Publications/european-insurance-in-figures-2011.pdf

Global life insurance distribution life cycle can be described during the crises:

- Bancassurance momentum slowed down –but structurally remaining a growth engine gaining share
- Broker / IFA important –but often getting under control of manufacturers
- Tied agents professionalization is key for survival

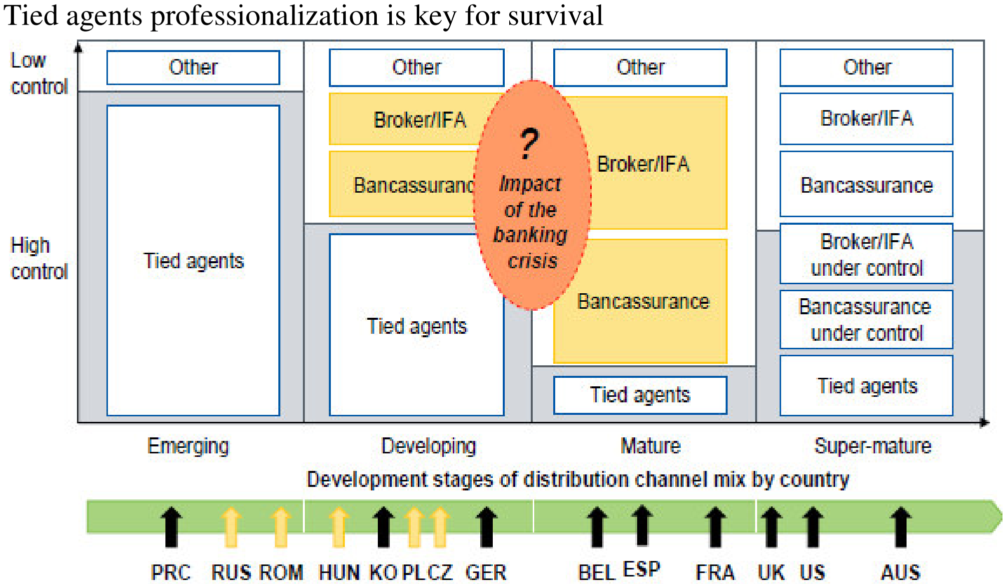

Figure 4. Global life insurance distribution life cycle

Source: Bancassurance in CEE: The Value Proposition – Vienna May 12th 2010, http://www.in-sure.ru/images/lib/files/Elisabeth_Stadler.pdf

Global P&C insurance distribution life cycle can be described during the crises:

- Tied agent model remains strong in Continental Europe
- Direct largely focused on Motor
- Bancassurance not consistently successful
- Independent platforms yet to be rolled out

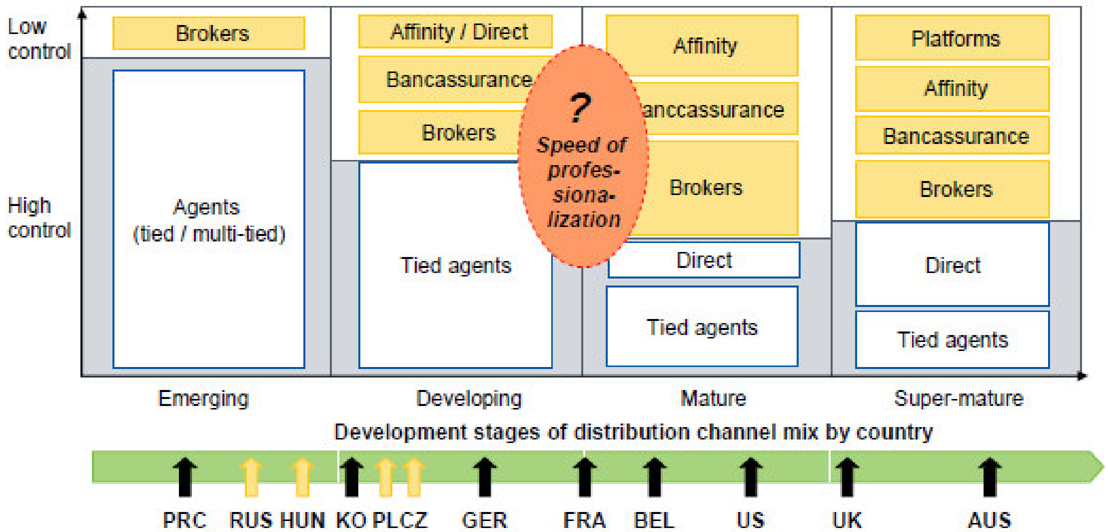

Figure 5. Global P&C insurance distribution life cycle

Source: Bancassurance in CEE: The Value Proposition – Vienna May 12th 2010, http://www.in-sure.ru/images/lib/files/Elisabeth_Stadler.pdf

In Romania, the evolution of bancassurance is:

Table 2. Breakdown of life insurance premiums by distribution channel 2009-2010

Direct writing	Agents	Brokers	Bancassurance	Other
10.6%	42.5%	16.6%	29.9%	0.4%
10.6%	55.0%	20.8%	13.6%	0.0%

Source: European Insurance in figures http://www.insuranceeurope.eu/uploads/Modules/Publications/european-insurance-in-figures-2011.pdf

Table 3. Breakdown of non-life insurance premiums by distribution channel 2009-2010

Direct writing	Agents	Brokers	Bancassurance	Other
25.8%	34.6%	33.1%	2.6%	3.9%
26.1%	36.4%	33.8%	0.4%	3.2%

Source: European Insurence in figures http://www.insuranceeurope.eu/uploads/Modules/Publications/european-insurance-in-figures-2011.pdf

CONCLUSIONS

At first glance, the ability of financial institutions to diversify their activities in related sectors should contribute to the reduction of systemic risk. Banks will be able to benefit from a reduction in the volatility and insurance companies could obtain additional capital in order to permanently cover the required solvency level. In addition, for the partners involved, the bancassurance system diversifies the income sources so that the business becomes more stable and implicitly, safer for both shareholders and customers.

On the other hand, the very increase of the level of complexity of the activity is likely to induce additional sources of risk, which is why in some countries, the authorities are reluctant to allow supervised financial institutions carry out other operations outside the core activity.

At the level of the European area we witness a trend of gradual and progressive liberalization of the financial system in this regard, i.e. the balance between risk and opportunity begins to tilt in favour of the bancassurance system.

The bancassurance phenomenon that is unquestionably one of the most important trend in the evolution of the European financial services industry and it can be considered as a consequence of the progressive relaxation of regulatory barriers to financial conglomerates.

Bancassurance brings many benefits in the times of increasing competition among participants in the financial market, both to banks and to insurance companies. Common benefits are reflected in: increasing sales/profits; expanding the base of clients; retaining the existing clients; improving the supply through a creation of new products according to the structure and needs of clients.

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