

THE NEW ROLE OF THE BANCASSURANCE SYSTEM AND THE EFFECTS ON THE INSURANCE MARKET IN ROMANIA

Stefania-Sonia ZAMFIR

University of Craiova, Romania, zamfir_sonia@yahoo.com

***Abstract:** The current legal rigor in the definition of Bancassurance, namely their ability to sell insurance only as agents, determined the new direction of the legislator to regulate the right of banks to be direct intermediaries, just like brokerage companies. This new legislative change will immediately result in the exclusion from the insurance market of those brokers who will not be able to financially support the new costs of engaging in senior management positions of directors with a certain level of professional training, of the professional training of agents. These new financial costs of insurance are requirements imposed by the legislative amendments under public debate. The bancassurance system will become, in the short term, a basic distribution channel of insurance in Romania, especially in the case of life insurance products, supported by the new legislative amendments that will transpose the provisions of the EU Directive 97/2016 into Romania. But, at the same time, the balance on the insurance market must be found, so that it does not become a threat or even the end for many intermediaries.*

Keywords: Bancassurance, Insurance, Brokers, Banking system.

JEL Classification Codes: G18, G22, G23, G28, H25.

1. INTRODUCTION

The bancassurance system is mainly developed by banking institutions in Europe, while Romanian legislation defines and regulates the bancassurance system since 2000 as the intermediation of insurance products that are complementary to the products of credit institutions and non-bank financial institutions through the network of these institutions under the conditions stipulated by norms issued (Law on the activity and supervision of intermediaries in insurance and reinsurance no.32, 2000).

The existing data on the evolution of the bancassurance system in Romania since 2000 shows that it does not make a major contribution to the insurance market in the country. (Mititelu, 2016).

The new legislative regulations adopted by the Chamber of Deputies, the Law on the distribution of insurance adopted, establish a new role of credit institutions, that of direct insurance intermediary.

The banking system, much more rigorous, with an important network of service distribution systems and well placed in the market, and last but not least with the largest customer base, will undoubtedly fulfill its role as a more active and active insurance distributor than it has done so far, doubled by the legal base adopted. The conditions imposed by the new law that credit institutions have to meet to harness existing products already in their portfolios, their willingness to implement their legislative requirements, and their guidance to set up specialized departments to sell these "new products" is the basic elements of the major role currently being given to the banking system as an intermediary.



This is an open-access article distributed under the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>).

In this context, the present paper aims to demonstrate whether the activity carried out by credit institutions through the bancassurance channel will immediately lead to the exclusion from the insurance market of those brokers who will not be able to financially support the new legal requirements that involve significant costs, costs of engaging in management positions of directors with a certain level of professional training, as well as those with the continuing professional qualification and training of already existing agents.

2. EFFECTS OF THE NEW REGULATORY IN DEFINITION OF BANCASSURANCE

Bancassurance came from France in the mid-1980s. Its penetration rate, after strong growth between 1985 and 2000, has stabilized in most markets in recent years. Bancassurance for life insurance now accounts for more than half of premium income in many Western European countries.

Opportunities for insurers and banks allow for the perception of bancassurance permeability in local markets and business lines. By using banks' structures, insurance companies have access not only to well-established distribution networks and customer bases, but also to areas where they have not been present - for example, in Portugal and Turkey. (Caratelli, 2012).

Insurance distribution through bancassurance models around the world has three levels of integration, for example integrated, semi-integrated and non-integrated models. Integrated models are characterized by the incorporation of both insurance and wealth management into the bank processes. These types of models are Europe-specific, as well as Brazil and Hong Kong. Semi-integrated models require a partial incorporation, each of which maintains operational freedom. The un-integrated models, specific in Northern Europe and the United Kingdom, are those in which products are distributed exclusively through a network of financial advisers set up by the bank. (Marzai, 2017).

The emergence of bancassurance solutions in Romania is related to retail banking. Most consist of insurance attached to a bank loan for protection against the risk of default or death of the borrower. This kind of insurance often accompanies a home loan, which is of great value over a long period of time. The success of the system of selling insurance policies through the banking network depends on many factors. The most important are related to legislation and the tax system. Countries that allow banks to invest in insurance companies, such as Italy, have been able to stimulate the emergence of bancassurance products. The same thing happened in countries where the tax system encouraged saving. That is why France is today the largest European market of such products.

In order to submit for approval the new regulations in the distribution of insurance, the legislator presents, in the explanatory memorandum, the reason that led to the modification of the regulation in the insurance distribution. Thus, it mentions that "the objectives of Directive (EU) 2016/1997 were to harmonize the national provisions in the insurance and reinsurance distribution sector, as consumers should enjoy the same level of protection, irrespective of the distribution channel. In order to guarantee the same level of protection for consumers regardless of the distribution channel through which they purchase the insurance product, either directly from the insurance company or indirectly via the intermediary, the scope of Directive (EU) 2016/97 includes, besides insurance companies and intermediaries, other market participants selling insurance products as ancillary activity."

In other words, it encompasses in the range of insurers and intermediaries, and those less visible participants in the insurance market, such as credit institutions, in their role as insurance agents so far.

At the same time, in the same list of reasons, the legislator lists the most important of the changes envisaged by the new law, of which we present: "high level of protection that consumers benefit from, regardless of the sales channel through which they buy insurance products; introducing the general principle of fair competition between distribution channels; both insurance intermediaries and employees of insurers performing insurance distribution activities must constantly update their professional knowledge and skills; all insurance intermediaries are required to provide evidence of their professional training (qualification and continuing vocational training), and insurance companies must establish their own policies regarding the continuing professional training of their own distribution force; employers' responsibility to provide employees with access to training so that they can perform their tasks effectively;.....Also, the draft law takes over from the Directive the three categories of intermediaries depending on the type of activity they carry out: insurance brokerage activity, reinsurance intermediation activity or brokering activity complementary to the main activity performed, other than insurance intermediation insurance auxiliary insurance ... Given that consumer protection requires an extension of the requirements of directives, the main intermediaries are legal entities that can carry out distribution activity after the authorization of the Financial Supervisory Authority or the approval of the this authority in the case of credit institutions or investment firms as defined in Article 4 (1) (1) and (2) of Regulation (EU) No 575/2013 of the European Parliament and of the Council.... The draft law provides that credit institutions or investment firms that have carried out bancassurance, respectively an insurance agent or a brokerage assistant, under the terms of Law 32/2000, within 120 days from the date of entry into force of these laws opt for the distribution activity as a primary or secondary intermediary." (Dancila, 2018).

These few arguments were the basis for the approval of the Law No. 236/2018 on the distribution of insurance, which entered into force on 1 October 2018, the date from which Law no. 32/2000 on the activity and supervision of intermediaries in insurance and reinsurance is abrogated.

Through this paper I have attempted to present a comparative analysis by which we highlighted some of the factors that could determine, or not, the possible exclusion of brokers from the insurance market, as well as the identification by deductive reasoning of possible solutions.

The statistics made by the National Bank of Romania in 2017, based on the value of the assets held at that time by the top 10 banks in Romania, indicate the ranking of the first 10 banks according to the assets held in 2017.

The statistics made by the National Bank of Romania in 2017, based on the value of the assets held at that time by the top 10 banks in Romania, indicate the ranking of the first 10 banks according to the assets held in 2017 (table 1).

Table 1. Rankings of the first 10 banks by assets held in 2017

No.	The name of the credit institution	Net balance sheet asset		Own Funds	
		million lei	%	million lei	%
1	Romanian Commercial Bank	67 734.5	15.83	7 667.8	19.11
2	BRD-Groupe Société Générale	53 490.9	12.50	5 339.3	13.31
3	UniCredit Bank	37 548.5	8.78	3 895.6	9.71
4	Raiffeisen Bank	36 084.7	8.44	3 557.4	8.86
5	Alpha Bank	15 637.6	3.66	2 029.2	5.06
6	Bancpost Bank	10 923.1	2.55	1 171.4	2.92
7	Garanti Bank	9 985.4	2.33	1 042.2	2.60
8	OTP Bank	9 151.8	2.14	960.8	2.39

9	Piraeus Bank	6 447.0	1.51	815.7	2.03
10	Romanian Bank member of the Group National Bank of Greece	6 253.3	1.46	883.9	2.20

Source: National Bank of Romania

Romanian Commercial Bank, BRD-Groupe Société Générale, Unicredit, Alpha Bank, Piraeus Bank are some of the banks offering on the Romanian market squares ending through the bancassurance channel. According to the data presented at the Xprim-Time for Business Conference in Bucharest in April 2016, bancassurance accounts for only 31% of the total gross premiums written on life insurance.

In other words, the contribution of the bancassurance channel in Romania is represented only in the life insurance segment, which recorded a significant appreciation of 21% in the year 2017 compared to the previous year (Financial Supervisory Authority Report 2017 insurance market evolution, p.38).

Over time, there have been several ways of working together with banks and insurance companies to distribute bancassurance solutions. In most cases a jointventure is established, whereby bank products and insurance policies are distributed through channels common. In Europe, more than 80% of banks choose the solution of a joint venture or have their own insurance companies. In Romania, it has opted for strategic partnerships, whereby banks only sell the products of a single insurance company.

Given the fact that the structure of the Romanian banking product portfolio is based on the highest proportion of credit, and the other products are found in most cases in the following order, accounts and cards, savings and investments, and last but not least insurance, it makes me say that no matter how important the bancassurance system will be, banks will not be reoriented too soon to give this importance. This also because, based on the provisions of Article 32 of the new regulation, "Financial Supervisory Authority approves and withdraws the approval of the significant and / or indirect significant shareholders or associates of the principal intermediaries authorized by Financial Supervisory Authority".

The data presented in the European Insurance - Key Facts October 2018 show that, indeed, in Europe, bancassurance is the main life insurance distribution channel but with a modest share in the distribution of non-life insurance (figure 1).

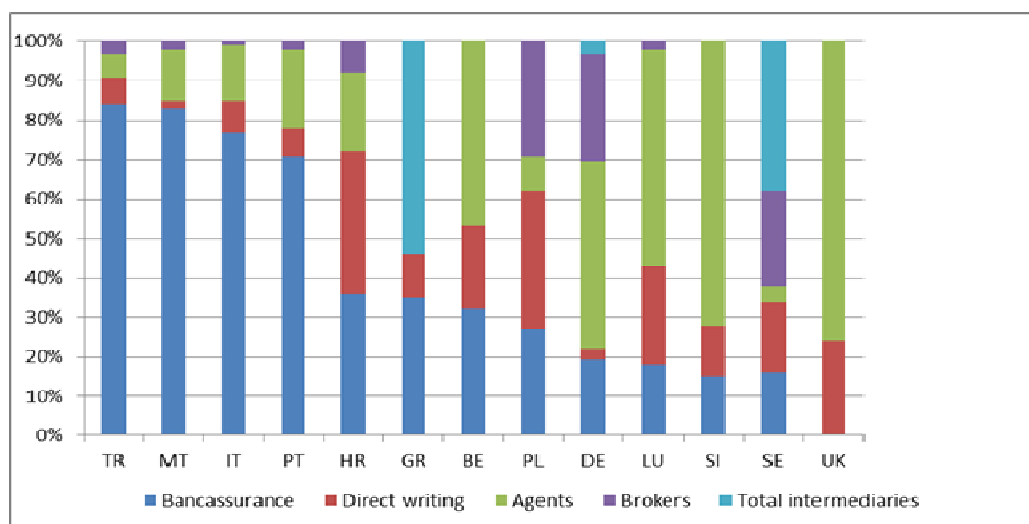


Figure 1. Life distribution channels by country (% of GWP) — 2016

Source: Publication European Insurance - Key Facts October 2018

But, however, the two systems can not be compared in size. The size of the banking system presented by Financial Supervisory Authority in the evolution of the insurance market 2017 as a number of 35 credit institutions can not be compared to the size of the brokerage system, with a number of 382 authorized insurance and / or reinsurance brokers.

However, each of the two systems has a distinct potential to increase the share of the total gross premiums written in the insurance segment. The same aspect is presented by Financial Supervisory Authority in the above-mentioned publication. She stressed, however, in the Report that although the volume of life insurance premiums written increased in 2017 compared to the previous year, the degree of intermediation has decreased, given that the insurance companies have boosted the sales process through their own forces, considered more efficient, including in terms of costs.

In other words, the degree of intermediation held by the insurance / reinsurance brokers, communicated by Financial Supervisory Authority at the end of 2017, is 63.41%, of which 77.41% in the general insurance segment and only 10.04% in life insurance.

Thus, the situation of the first 10 insurance and / or reinsurance brokers according to the value of the intermediate premiums in 2017 is presented in the table below:

Table 2- Situation of the first 10 insurance and / or reinsurance brokers according to the value of the intermediate premiums in 2017

No	Insurance Brokers	Market Share
1	Safety Insurance Broker SRL	7.42%
2	Marsh - Insurance Broker-Reinsurance SRL	6.90%
3	Transilvania Insurance Broker SA	5.52%
4	Destine Insurance Broker-Reinsurance SRL	5.05%
5	Inter Insurance Broker SRL	4.74%
6	Daw Management - Insurance Broker SRL	4.13%
7	Campion Insurance Broker SRL	3.69%
8	Unicredit Insurance Broker SRL	3.28%
9	Porsche Insurance Broker SRL	2.51%
10	Aon Romania Insurance Broker-Reinsurance SRL	2.15%
Total premiums intermediate for the top 10 brokers		45.39%

Source: The Financial Supervisory Authority, The Evolution of Non-Financial Markets in 2017, available at https://asfromania.ro/files/analize/20180425%20EVOLUTIA%20PIETELOR%20 FINANCIARE%20 NEBANCARE%202017_.pdf

The data in the table shows that the broker system represents only a proportion of approximately 45.39% of the total gross written subscriptions, a percentage that will have no prerequisites for growth under the conditions of applying the new regulations. Given that, as it is known, insurance brokers are for the most part limited liability companies or joint stock companies, which are oriented at least to maintaining the same profit.

Also, the activity of insurance brokers is mainly based on the civil liability insurance for vehicle in the category of general insurance, and on life insurance, annuities and additional life insurance.

In the same time, I agree with Marzai's opinion that digitization is the current trend of most banks, may be a threat or opportunity for bancassurance. „Crossing online sales activities could lead to greater absorption of product sales insurance and welfare, while increasing digitization of transactions will create opportunities for offering insurance and asset management products as a convenient addition to other online products and services.”

3. CONCLUSIONS

In this context, at first glance the data shows that the bancassurance distribution system in Romania will become a basic channel starting with the entry into force of the new regulations.

On the other hand, the bancassurance channel used by the banking system in Romania has a significant share only for life insurance, unlike the insurance / reinsurance brokers where the intermediation degree is concentrated in the proportion of 77.41% on the general insurance, and only 10.04% on life insurance.

The brokerage activity is concentrated on all types of insurance, unlike bancassurance, where due to the specificity of the core business of banks; intermediary insurance is only those that have a direct and / or indirect link to the loans. This is the major explanation of the intermediation by them in the significant percentage of life insurance.

The data used in the comparison are limited only to 2017. Only the organizational structure and the activity of the two systems (banking and insurance / reinsurance brokers) have been analyzed. Comparisons with the existing bancassurance system in Europe are not relevant in this case, given that the distribution channel in Romania is much younger. Legislation, taxes and investment remain the key factors that drive success, building on Europe's experience in this segment.

Surely, bancassurance is an important factor for global insurance, which holds market shares dominating the largest European markets. Also, its evolution has been gradual in most countries, and the choice of a business model in Romania is influenced by regulatory constraints (such as the minimum qualification required for the sale of insurance products, the type of products that banks are authorized to promote) (Marzai, 2017).

The study is an empirical analysis at the theoretical level, which requires testing but still implies that ASF issues the rules for the application of the new regulations.

Also, the banking system will strengthen the position of the bancassurance distribution channel in the life insurance segment. In the case of insurance / reinsurance brokers, they will be able to financially support the new costs imposed by the new legislation according to the business decision they adopt, keeping strictly the strategy of their activity and will want to do so in the future.

REFERENCES

1. Caratelli, M., 2012, Bancassurance in Europe, England: Palgrave Macmillan Studies in Banking and Financial Institutions book series.
2. Dancila, V., 2018, Statement of reasons, available at: <<http://www.cdep.ro/proiecte/2018/300/90/4/em517.pdf>> [Accessed 22 October 2018]
3. Fiordelisi, F. and Ricci, O., 2012, Bancassurance in Europe: Past, Present and Future, England: Palgrave Macmillan.
4. The Financial Supervisory Authority, 2017, Evolution of non-bank financial markets in 2017 available at: <<https://asfromania.ro/files/analize/20180425%20EVOLUTIA%20PIETELOR%20FINANCIARE%20NEBANCARE%202017.pdf>, p.55> [Accessed 24 October 2018]
5. Ioan, V., 2016, Connections between the banking and insurance industries, available at: <<https://biblioteca.regielive.ro/proiecte/asigurari/conexiuni-intre-sectorul-bancar-si-industria-asigurarilor-367623.html>> [Accessed 25 October 2018]
6. Insurance Europe aisbl., 2018, Insurance Europe's annual Key Facts publication 2018. Belgium: available at: <<https://www.insuranceeurope.eu/european-insurance-key-facts>> [Accessed 25 October 2018]
7. Law on the activity and supervision of intermediaries in insurance and reinsurance no.32 / 2000, Bucharest: Official Gazette of Romania, Part I, no. 148.
8. Marzai, E., 2017, Bancassurance-factor of financial market development, Bucharest: Review of Financial Studies, volume II, no.3.
9. Mititelu, S., 2016, Bancassurance in Romania, Xprimm Conference- Time for Business available at: <http://www.iasig.ro/documente/prezentari-XTB-aprilie/mititelu-bcr-Xprimm_time_for_business-SM.pdf> [Accessed 22 October 2018]
10. Petre, M., 2012, Bancassurance experience in the Romanian banking system available at:<http://www.academia.edu/7387773/Experien%C5%A3e_de_tip_bancassuarance_%C3%AEn_sistemul_bancar> [Accessed 25 October 2018]