Analysis of Bancassurance and its status around the world

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Bancassurance

focus

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Vie

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Editorial

As a leader in life & accident reinsurance products in one of the markets where bancassurance first emerged, SCOR VIE was quick to set up a team specializing in this sector of the French market. In response to many questions from its foreign customers on the feasibility, the different products, the successes and failures of this model, three market managers working in different countries have set out to analyze the status of bancassurance around the world and to share their conclusions with our readers.

Some of our bancassurance customers helped them by providing examples from their own experience. We would particularly like to thank:

- Mr Denis WALLERICH, Head of Marketing and Development in the World Savings Department at BNP Paribas Assurance (France)
- Mr Jean-Patrick SIMON, Director of SH&C (Korea)
- Mr Edouard de BONNAFOS, Technical Director of PREDICA (France)
- Mr Luis ARAYA, Technical Director of Altavida Seguros de Vida (Chile)

Not forgetting, of course, our Information Management Centre and all our people based in SCOR VIE’s head office, subsidiaries and branches.

We hope you have an interesting read.

| Romain DURAND, Managing Director SCOR Vie |

A few words about the authors

Marjorie Chevalier graduated from the Nancy Institute of Business Administration (Masters degree in business administration) in 1994. In parallel, as part of her studies, she worked at the Crédit Lyonnais. She joined SCOR in 1995 as a substandard risks underwriter. Since 1999, she has been working as an underwriter on foreign markets, operating in different countries such as Spain, Portugal, Italy, Korea, Japan and countries in the Near East.

Carole Launay graduated from the Reims Management School in 1998. She joined SCOR VIE in 2000, after two years in the oil industry. She began her underwriting career on the French market in the bancassurance sector. In 2005, she joined the Strategy & Investment Department as Marketing Manager.

Bérangère Mainguy graduated from the Ecole Supérieure du Commerce Extérieur (Paris) and from ESMA in Barcelona in 1996. She began as an underwriter specializing in Latin America, Spain and Portugal in 1997. After a spell at SOREMA, she moved to SCOR VIE and, since 2002, has been specializing in Greece, South Korea, Japan and Thailand.
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The fantastic success of bancassurance in certain Southern European countries is increasing by the year, with bancassurance premium income in France up more than 10% in 2004. The same is true in Spain and Portugal, where it is the dominant distribution channel and is becoming a strategic factor for life insurance operators; life bancassurance continues to nibble market share and is reaping the full benefits of the upturn in life insurance. Everyone involved now agrees that the process is irreversible and will continue to develop.

In many countries, it has become an essential issue for bankers and insurers, who want to reproduce existing successes.

Given the solid and lasting evidence that bancassurance has become an established distribution channel, we felt that the subject deserved further analysis.

Indeed, a new phenomenon has emerged in recent years: insurance companies creating their own banking subsidiaries. The term coined for this new phenomenon is “assurbanque”.

Two models, two centuries: bancassurance emerged in the 20th century, assurbanque in the 21st. The first is already a standard in most developed countries; the second is in its infancy. This is why, in this edition of Focus, we will not talk about assurbanque but about bancassurance, i.e. essentially the distribution of life insurance products via banking networks.

There have been numerous publications on the growth of bancassurance in Europe, Asia and the US, notably SCOR VIE’s February 2003 Newsletter. But it is now 10 years since SCOR VIE published its “SCOR Notes” on the subject. What has happened over these past 10 years? Are the factors for success the same now as they were then? Are the companies that emerged then still players in today’s market?

After a quick look at the history of bancassurance, and at its definition – still a source of debate – we will try to answer certain questions that often arise: Why did bancassurance develop in certain countries and why are other countries seeking to reproduce this model? What products do bancassurance companies sell and why? How big is the network and what is the best way to manage it? In which countries has bancassurance succeeded/failed and why? What further developments are still possible?
History and definitions

The first countries to venture into the field were Spain and France.

In the early 70s, ACM (Assurances du Crédit Mutuel) Vie et IARD (life and general insurance) were officially authorized to start operations, a watershed event in the history of insurance. It was their idea to bypass the middleman for loan protection insurance and to insure their own banking customers themselves. They thus became the precursors of what – 15 years later – would become “bancassurance”.

For their part, the Spanish began their adventure in the early 1980s, when the BANCO DE BILBAO Group acquired a majority stake in EUROSEGUROS SA (originally LA VASCA ASEGURADORA SA, incorporated in 1968). However, their control was initially only financial, since Spanish law prohibited banks from selling life insurance. This legal barrier was removed in 1991. Today, the top five Spanish bancassurance companies control one third of the market (Vida Caixa, BBVA, SHC Seguros, Aseval, Mapfre Vida).

However, from a purely historical point of view, the real pioneers were the British with the creation of Barclays Life in September 1965. This subsidiary was not a great success in the UK, and nor, for that matter, was the concept of bancassurance.

On the other hand, the bancassurance concept attracted more than one bank on the continent and the big players very quickly began to set up subsidiaries or joint ventures, thereby introducing the model into their respective countries:

- **France**: in 1971, Crédit Lyonnais acquired the Médicale de France Group and in 1993 signed an agreement giving the Union des Assurances Fédérales Group exclusive rights to sell life insurance through the Crédit Lyonnais network;

- **Spain**: in 1981, the Banco de Bilbao Group acquired a majority interest in EUROSEGUROS SA, an Insurance and Reinsurance company;

- **Belgium**: in 1989, AG – Belgium’s leading insurance company – and Générale de Banque, created Alpha Life. One year later, the big Dutch insurance company AMEV N.V., and VSB, a Dutch bank, went into business together. In the same year, they were joined in the first cross-border merger by AG Group, thereby creating the Fortis Group.

In Europe, Germany and Italy took much longer to get involved, as did Asia, where bancassurance only really began to attract existing Korean banks after government authorization in 2003.

In 2004, Fortis signed a contract in Thailand with Muang Thai Group for life and non-life policies, in the process taking a 25% stake in Muang Thai Life Insurance. Fortis, which was seeking to extend the bancassurance model to Asia, already had partnerships in Malaysia and China.

On markets where bancassurance is sufficiently developed, like France or Belgium, companies are now moving into a new phase of development:

- **Countries where bancassurance is only just beginning to emerge**: Fortis is a good example, as is Cardif, which is now present in 28 countries (including 6 in Asia);

- **Consortiums of big companies** such as Crédit Agricole and Crédit Lyonnais in France, which makes the new bancassurance operator a front-ranking player, with premium income in excess of €13 billion (special 2004 Argus de l’Assurance ranking, source Predica).

These examples can only become more common with time as companies build on other operators’ experience to introduce the concept of bancassurance into their own countries.

However, exporting the bancassurance concept is no easy matter. Setting up in places where markets are already fairly mature and highly competitive calls for significant competitive advantage. Apart from
this difficulty, potential exporters will need to be highly adaptable to adjust to local regulatory conditions and consumer habits. Not forgetting, of course, that all the bancassurance tools, e.g. its management systems, will need to be adjusted in line with local realities: IT harmonization can be complex when the newcomer is a company at the cutting edge of Customer Relation Management (CRM) while the local partner is only in possession of the most basic data (surname, first name, date of birth). “The system for selling insurance products in Korea, for example, produces very high wastage levels compared to European countries”, explains Denis Wallerich, Head of Marketing and Development in the World Savings Department at BNP Paribas Assurance. Knowledge of local conditions is essential when starting operations in a foreign country.

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<thead>
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<th>Start</th>
<th>Maturity</th>
<th>Diversification</th>
<th>Concentration</th>
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<tr>
<td>External partnerships/creation of subsidiaries (internal)</td>
<td>Takeovers/acquisition-driven growth</td>
<td>Alliances Partnerships</td>
<td>Acquisitions</td>
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<td>Distribution only</td>
<td>Service integration</td>
<td>Customized approach</td>
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A great many people have tried to come up with a comprehensive definition of the term “bancassurance”. It is often defined as the distribution of insurance products by banks but, in actual fact, it is much more than that, especially if we consider the history and practices of all the different bancassurance operators around the world.

Bancassurance is ordinary insurance with a more powerful distribution network that has a strong affinity with its private and business customers. In fact, at first sight, one might imagine that bancassurance would apply exclusively to individuals, but it is also on the rise in the SME-SMI sector. Products like “keyman” insurance, “investor insurance” or “partner insurance” are highly successful.

It is also a way of selling virtually any product – group/individual, savings/protection – with relatively low selling costs compared with traditional channels thanks to highly integrated information systems.

Bancassurance operators can be based on a combination of factors and take different forms.

Factors as diverse as the law, consumer habits, the size of banking and/or insurance networks, can result in bancassurance succeeding or failing to find a place in existing insurance markets.

When certain factors are lacking, bancassurance is slow to develop:

- In the USA, the absence of suitable products is an obstacle to expansion;
- In the UK, legislation (the 1986 Financial Services Act) put a complete stop to the development of bancassurance services.
Bancassurance takes different forms that vary from one country to the next. However, three primary models of bancassurance are emerging.

The models

As we will see in the chapter devoted to the key factors of success, there is no single pattern to follow in creating a bancassurance operation. There are different development models, which can be divided into 3 main categories. Below, we sum up their main criteria and their advantages and disadvantages.

The three development models

<table>
<thead>
<tr>
<th>Description</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Country where the model is most widespread</th>
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<tbody>
<tr>
<td>Distribution agreement</td>
<td>Bank acts as an intermediary for an insurance company</td>
<td>Operations start quickly, No capital investment (less costly)</td>
<td>Lack of flexibility to launch new products, Possibility of differences in corporate culture.</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>Bank in partnership with one or more insurance companies</td>
<td>Transfer of expertise</td>
<td>Difficult to manage in the long term</td>
</tr>
<tr>
<td>Ful Integration</td>
<td>Creation of a new subsidiary</td>
<td>Same corporate culture</td>
<td>Substantial investment</td>
</tr>
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</table>

Share of the different life insurance partnership models per European country in 2002

Source: based on an article published on May 5, 2003 in Actualidad Aseguradora
How the participants benefit from the success of this model

Why has bancassurance shown such strong growth in certain markets? It is surely no accident. This success can be seen as the effect of individual interests feeding into a partnership, and eventually benefiting all parties.

It must be to the advantage of each stakeholder in the model (bank, insurance company, consumer and legislator) for the bancassurance model to develop successfully. Without these advantages, it is obvious that no collaboration would be possible. The chosen model will then depend on each party’s situation, as well as the possibilities provided by the authorities in each country.

This element, essential to a proper understanding of the “why of bancassurance”, was examined in the July 1994 issue of SCOR NOTES.

Let us briefly summarize the essential points.

Advantages for the insurance company:

- Through this new distribution network, the insurance company significantly extends its customer base and enjoys access to customers who were previously difficult to reach. This is obviously a fundamental advantage, it is itself enough to convince an insurance company to ally itself with a bank;

- The insurance company has the opportunity to vary its distribution methods, in order to avoid excessive dependence on a single network. Diversification reduces risk;

- The insurance company often benefits from the trustworthy image and reliability that people are more likely to attribute to banks;

- The insurance company also benefits from the reduction in distribution costs relative to the costs inherent in traditional sales representatives, since the sales network is generally the same for banking products and insurance products. These cost savings have been recognized by many bancassurance operators around the world and are therefore carried over into the costs included in contracts. This means that products can be sold more cheaply;

- An insurance company can establish itself more quickly in a new market, using a local bank’s existing network.

Of course, not everybody in the market agrees. Mr Claude Tendil, Chairman of Generali France, expressed this in an article published by La Tribune on February 28, 2005, where he admitted that he was “still hostile to the bancassurance model” since, in his opinion, “it works in only one direction, to the benefit of the banks”.

Advantages for the bank:

- First of all, the bank sees bancassurance as a way of creating a new revenue flow and diversifying its business activities. This advantage was all the greater in the early 1990s, a period characterized by increased competition between financial institutions and a reduction in the banks’ profit margins and, therefore, the need to look for new business;

- The bank becomes a sort of “supermarket”, a “one-stop shop” for financial services, where all customers’ needs – whether financial or insurance-related – can be met. The broadening of its product range makes the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty;

- The distribution costs can be seen as marginal since, in most cases, it is the bank’s existing employees who sell the insurance products. Amongst other things, the one-stop shop model optimizes the use of the network and increases the profitability of the existing branch network.

Advantages for the consumer:

- As mentioned among the advantages for the bank, the consumer enjoys greater access to all financial services from a bank that offers both banking and insurance products;

- Since the distribution costs are lower than in a traditional distribution network, the consumer can usually get cheaper insurance products than through traditional channels. In addition, premium payment methods are simplified, since premiums are collected directly from bank accounts;
The special relationship between the customer and the bank means that there is a better match between what the customer needs and the solutions provided by the bank.

In summary, we would say that customers benefit from the opportunity to get simple, often inexpensive insurance products with a premium payment system adapted to their needs (usually monthly instalments) and with easy access, since the branch network is usually denser than the network of insurance outlets.

**Advantages for the legislator:**

The role of the oversight authorities or of the government itself is to make laws to ensure that the risks taken by their country’s financial institutions are actively managed and controlled in such a way as to maintain sound national finances. However, events may occur that are outside the control of individual and national managers, which may impact upon the whole financial system. These risks go under the name of “systemic risk”.

For financial institutions, bancassurance can be a means of limiting such systemic risk because it diversifies the bank’s sources of revenue, making its business more stable and thereby safer for its customers too.

On the other hand, certain authorities think that deregulating financial systems to excess can increase a country’s systemic risk. This is why, in many countries, banks are still unable to exercise activities outside their core business, in order to avoid additional sources of risk.

In addition, certain governments have decided to liberalize the financial system, but progressively, for a more controlled process of deregulation.

In other words, supervisory authorities may see bancassurance as an advantage or, on the contrary, as a potential risk to a country’s financial stability.
Case study:

France - BNP PARIBAS ASSURANCE

BNP Paribas Assurance encompasses three BNP Paribas insurance companies: Cardif, Natio Vie and Natio Assurance.

Created in 1973, Cardif began in France by selling life insurance via the Cetelem network, a company specializing in consumer credit for the Compagnie Bancaire Group, a founding shareholder of Cardif. Distribution agreements were very quickly signed with the other companies in the Compagnie Bancaire Group, then with Paribas and Crédit du Nord.

In 1983, Cardif decided to work with insurance providers, thereby diversifying its product distribution process.

Unlike Cardif, whose “bancassurance colour” comes essentially from its original shareholder, Natio Vie owes its very specific status to two factors: its distribution network, initially BNP then BNP Paribas, and its shareholder, still 100% BNP.

Today, BNP Paribas Assurance designs and sells savings, protection and personal injury products under two brands: BNP Paribas for products sold through the BNP Paribas branch network in France, and Cardif for other networks in France (partners, brokers, independent financial advisers) and abroad.

Key 2004 figures for BNP Paribas Assurance

• €11.4 billion in premium income
• €75.9 billion in funds under management
• €297.3 million net income
• Presence in 30 countries including two sales offices
• 29 million people insured around the world
• France’s 4th largest life insurance company (8.1% market share in 2004).
• The 3rd largest player in loan protection insurance.
• 4500 employees
The reality of bancassurance is multifaceted. A clear success in many markets such as France, Spain or Italy, it remains a marginal player in other countries. However, it is not so easy to understand why it fails to develop in the same way everywhere. Because the keys to success are numerous, variegated and sometimes surprising!

It is also difficult to establish priorities and identify determining factors, because each country’s situation, history and culture contributes, and sometimes runs counter, to the studies devoted to this question.

So, there appears to be no “miracle recipe” but a certain number of facts that we have been able to establish, after analyzing a number of cases of bancassurance around the world.

A favourable environment

The legal framework

The legal framework for bancassurance and the authorities’ attitude to its development are clearly essential and have a real influence on the model’s conditions for success in a given country.

Tax advantages can provide a strong incentive for consumers to invest in one life insurance or pension product rather than another. Changes in the law providing such incentives can have a positive, or negative, influence on the sales of a product.

Take the French example: the finance laws for 1998 and 1999 reformed the tax framework for life insurance, reducing tax advantages previously applicable to certain capital redemption contracts. The 1998 law restricted tax relief on capital gains to certain amounts for products with a term in excess of 8 years. The 1999 law changed the system of inheritance tax exemption applicable to certain life insurance contracts. This change in the tax regulations made these products less attractive and sales of this category of life insurance products was seen to fall by some 15% after 1998.

To take a wider example, it can be said that sales of life insurance policies by banks in France, Italy and Spain have increased significantly, largely as a result of tax breaks. This factor is a real driving force in the launch of bancassurance, still a relatively underused mechanism in most countries.

As regards legislation, it is obvious that favourable laws, which do not restrict banks’ options to acquire stakes in insurance companies or to set up their own insurance companies, and where there are no or few restrictions on the sale of insurance products by banking networks, will enable bancassurance to develop more easily and more quickly.

To give a few examples:

In Italy: It was the Amato law of July 30, 1990 and the directives that followed, which really enabled bancassurance to take off. Since that date, it has been able to adopt one of the following legal forms:

- A bank acquiring a stake in an insurance company, or vice versa;
- A bank and insurance company creating a joint subsidiary;
- A bank selling insurance policies provided by one or more partner insurance companies.

However, in order to protect the activities of banks and insurance companies, a so-called “exclusivity” principle governs the world of bancassurance. As a result, banks can only sell insurance policies under certain conditions, laid down in 1995 in directive No. 241 of the ISVAP (“Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo”):

- Insurance policies must be drawn up by the insurer and cannot be changed by the bank;
- If necessary, the insurance company must be prepared to change a customer’s insurance cover at the behest of its banking partner;
- Bank staff are trained by the insurance company;
- Insurance policies must be easily transmissible to the insurance company, which is directly responsible for the obligations listed in the original policies;
The bank’s insurance business must be monitored by the insurance company. These standards and directives regulate cross-holdings in the share capital of banks and insurance companies.

In the USA, the “Glass Steagall Act” (GSA) of 1933, one of the pillars of the banking laws, put something of a brake on the growth of bancassurance in that country. To begin with, this law built a wall between retail banks and investment banks. All American banks had to choose whether to specialize in commercial banking or investment banking. Next, in 1956, the “Glass Steagall Act” was followed by the “Bank Holding Company Act”, the purpose of which was to forestall and limit the power of the USA’s powerful financial conglomerates. This law created a clear barrier between banks and insurance companies, emphasizing the risks of having insurance companies underwritten by banks, which do not enjoy the necessary professional expertise in this area. These restrictions were removed in 1999 by the passing of a new law, which will undoubtedly facilitate relations between banks and insurance companies, although there has not so far been any significant move in this direction.

In South Korea: this country, the world’s 7th largest market in terms of life insurance premium volumes, was until recently completely excluded from the development of bancassurance. The reason is simple: it only became legal for banks to sell insurance products in 2003. However, deregulation will be gradual and introduced in several phases, with completion initially planned for April 2007. At present, few products are on sale and certain aspects of the law continue to inhibit smooth development: exclusive contracts between banks and insurance companies are prohibited. As a result, several provisional partnerships between banks and insurance companies have been abandoned.

The distribution network

A banking network with a dense and structured geographical presence is an essential factor for success. It is obvious that a large number of points of sale, able to offer customers or prospects geographical and human proximity, will facilitate contacts between banks and consumers and therefore increase sales opportunities. Proximity to the customer is a factor whose importance should not be underestimated. It is a fundamental factor in establishing a relationship and, therefore, a sense of trust and loyalty.

In Spain for example, although there is only a small number operating in the marketplace, the banks have a very large (probably the densest in Europe) and extremely effective network.

This latter point should also be emphasized, since it might be said that banking networks enjoy a “homogeneity” which makes it possible not just to harmonize products and sales processes but also to coordinate sales campaigns and to impose image-related standards. An additional asset for success in insurance...

Market image

The way consumers perceive banking in a given market and the role it plays in society are two essential factors. This image can be a direct consequence of the way the banking network is organized and how many branches it has in a country.

In countries like France, Spain, Italy or Belgium, perception of the banks is good: customers have a special relationship of trust with their bank or banker. Banks also benefit from the impression, justified or not, that they are better than insurance companies at handling financial issues. This trusting relationship is directly proportional to the power of the brand power and its true reputation.

Customers in the countries mentioned above believe in a face-to-face relationship with their banker. The Anglo-Saxon countries take a different approach and most banking transactions are conducted online or by phone. And it is precisely in these countries that bancassurance has made no significant inroads.

It is also worth noting the example of Germany, where the banking network is fragmented. Banks are often organized into small, more or less independent Savings Banks. In consequence, without banks that enjoy strong positions or a high-profile image in the market, bancassurance has failed to penetrate to any degree.
Exploiting these keys to success

**An integrated management model: a fundamental steppingstone to success**

There is absolutely no doubt that this integrated model has enabled bancassurance to establish a crucial competitive advantage.

Bancassurance is based on a particularly efficient management model that is totally integrated with the banking business. Thus, in certain parts of the world such as the Benelux countries, bancassurance operators have managed to integrate their activities completely, since every insurance policy is automatically processed through banking network IT systems.

In addition, this kind of integration gives the networks a comprehensive overview of their customers’ assets and requirements. The objective of joint management is also to pool information for all the bank’s sales channels (branches, telephone sales, etc), and to create a database that can be used by account managers and for different purposes by other bank departments, such as marketing surveys or new product launches.

The success of bancassurance lies in the quick sale, sometimes directly over the counter in the branch. For this, the sales forces need to have access to an effective IT and information retrieval system. Providing customers with real-time answers over the counter is a major asset in the selling process. Having fully integrated data processing systems within the banking network means that insurance premiums can be calculated on the spot and contracts issued immediately. This is an important advantage because it must be possible for the potential customer to receive a response, if not immediately at least within a few days.

Banking networks are now seeking increasing decision-making autonomy from insurance company back offices, allowing them to respond instantly to potential customers. They seem to want to develop tools that enable sales personnel to handle the majority of situations and only to pass “non-standard” cases or cases requiring special expertise on to the insurance company. A large number of expert bancassurance software applications have emerged, which increasingly make it possible to decentralize acceptance decisions to branches and thereby speed up decision-making while reducing contract processing costs.

Nevertheless, in certain countries such as France, this process comes up against the law on the confidentiality of medical information, which may under no circumstances be known or handled by people other than doctors or approved insurance personnel.

**Management, training and remuneration: key factors in motivating the sales network!**

This subject, developed at greater length in another section, seems fundamental, not to say crucial, to the successful development of bancassurance.

The approach to the management of the network must be global, so that everyone knows their role in the organization and is fully aware of their responsibilities and objectives. These objectives must also be set in a joint “business plan” for both banking and insurance products.

The network is originally made up of bank employees whose primary role is to provide financial services and products. In order to develop their interest and desire to offer their customers insurance products, it is absolutely essential to set up appropriate training and to motivate the sales force, mainly through financial incentives. Training and remuneration policy tend to be specific to each bancassurance operator and correspond to each company’s own particular corporate culture and history.

**The features of the insurer’s products are essential**

We will look in greater detail at bancassurance products in the chapter devoted to products, but here we would like to emphasize the importance of this issue to the success of bancassurance.

A “novice” bancassurance operator usually starts by distributing simple, standardized products, which are sometimes even “packaged” with bank products.

These products have to be integrated into the bank’s sales procedures and into its management methods. Aligning them on banking products makes it easier for the banking networks to sell life insurance products.
However, because of the strong similarity between life insurance and savings products, care must be taken that these products do not replace bank products but genuinely complement the existing range. This is often a challenge both for banks and insurance companies.

It is entirely possible to diversify the product range sold by bancassurance operators, but this phase must come when the banking networks are already familiar with the concept of life insurance and when the market is sufficiently mature to accommodate more complex products.

However, the important thing is always to supply products that are easy to explain and to define and which have limited options for choice.

**The model chosen to create the bancassurance operator?**

We have been questioned numerous times on this point, which many consider to be a key to success or, at least, a crucial first step.

Is the model chosen when creating a bancassurance operator a determining factor in success? In reality, no model will help identify the strategic alliance and generate diversification because each insurance company and each bank must find the approach that matches its particular situation and its needs, but also its cultural and regulatory environment. True, certain models are more common in certain regions: In Europe, we generally find highly integrated business models, while in Asia the more widespread model is distribution and joint venture agreements. However, no single model dominates a whole market.

In a totally or partially integrated model, setting up single structures (IT system, sales networks, etc.) often generates increased efficiency and makes it possible to reduce distribution costs to an optimal minimum. However, certain players may prefer simple distribution agreements which offer greater flexibility and freedom in taking decisions and making choices about what products are distributed, about communication and advertising, about policy handling, etc.

**Consumer behaviour: a key success factor?**

One interesting factor that has been highlighted suggests a connection between consumer habits in a country and the success of bancassurance on that market: the more a population is familiar in the use of new technologies, particularly the Internet, the smaller the role of bancassurance.

What does this tell us? That it is extremely dependent on the country’s culture and consumer habits. As we saw above, certain populations prefer to go to their bank and discussing their financial needs face-to-face with their account manager. In other countries, consumers prefer to take the time and resources to compare products, for example on the Web; their consumer choices are entirely dictated by their research, which is completely anonymous.

This pattern of consumption runs entirely counter to the market development of bancassurance. Moreover, it is also a fact that household penetration of the Internet in so-called Latin countries such as Spain, Italy or France is markedly behind that of more northern countries such as the UK, the Netherlands and Scandinavia as well as the USA.

**Insurance penetration rate**

Another explanation for the runaway success of bancassurance in certain countries is that big banks or international insurance companies have sought to move into countries where the penetration rate enjoyed by insurance is still low. They successfully created alliances or partnerships with insurance companies that were familiar with the customs and needs of local consumers, or with local banks that already had dense and organized branch networks. Through these agreements, bancassurance was often able to set up at relatively low cost, yet very fast and effectively. The best example is undoubtedly that of Spain, but also certain countries in Latin America where foreign banks and insurance companies have a very high penetration rate. Many countries in Asia are also following this development pattern.
**CUSTOMER SATISFACTION IS THE BASIC RULE IN BANK ASSURANCE!**

Bancassurance operators have put the customer at the very heart of their thinking and development strategies. This means:

✔ Providing a full range of financial products and services (banking and insurance) through a single sales network;

✔ Offering high-quality advice through readiness to listen and accurate information;

✔ Quickly meeting customer needs by a branch-based IT system but also easy access to the service, sometimes 24/7, with telephone support centres or Internet platforms;

✔ Providing know-how and follow-up (especially claims management) as good as the best traditional insurance providers.

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**Key success factors**

- **Regulation/Tax**
  Banking law 1984 in France
  Amato Law of 1990 in Italy

- **The networks**
  Presence of banks on the market vs presence of insurance agents (national and regional network)

- **Consumer habits**
  Regarding financial and insurance services
  Relations with banks and insurance companies

- **IT management**
  Internet
  CRM
  Direct marketing
Bancassurance is a particular kind of selling method, which primarily succeeds because of the way its network functions and is managed.

The sales network

It is because banks often enjoy a very strong position in their respective markets (branch networks, independent sales representatives, Internet, telephone services, not forgetting customer databases) that it is easier for them to extend their range of services to include life insurance, than for life insurance companies to offer banking services.

If we take Spain as an example, in mid-2003 the country’s Central Bank (Banco de España) listed some 34,000 branches for a population of 40 million. With one branch per 1,156 people, Spain is one of the countries with the highest bank density in Europe.

Of course, it is not out of the question for an insurance company and a financial institution to join forces and each distribute its partner’s products. Thus, at the beginning of January 2005, Swiss Life France and Caixa Bank, two foreign companies based in France, decided to sign a two-way commercial partnership. This partnership is based on the sale of a full range of life insurance products in Caixa Bank branches. As for Swiss Life France, its representatives are to be trained to sell real-estate financing solutions.

In addition, banks generally enjoy a better customer image than insurance companies. In fact, according to a recent study by the “Observatoire de la distribution des services financiers aux particuliers” (market monitor of the distribution of financial services to private customers), 72% of French people would choose their bank for all banking and insurance products.

As Denis Wallerich, of BNP Paribas Assurance, observes: “in order to benefit fully from the bank’s customer base but also from its image”, bancassurance operators are taking advantage of their banking partner’s brand and distribution networks.

The sales forces’ training or experience are typically derived from the world of finance. In addition, depending on market practices and regulations, insurance advisers in bank branches can equally be employees of the bank, employees of the insurance company, or insurance agents.

If the latter are less likely to match the profile sought by bancassurance operators, it is because one of the keys to success in bancassurance is that the salespeople should take on board the concept and the reality of insurance products. And it is easier to achieve this objective with staff from a banking background (bankers, counter staff or wealth managers).

Management

The question of team management also needs to be raised because activities in the branch network are subject to rapid change. Certain bancassurance operators, such as SOGECAP, a Société Générale subsidiary, have reorganized many of their structures and created new professional activities in order to provide each outlet with local managers or supervisors to support them.

Training

Training is also an essential element in motivating a sales network whose background is in banking.

The diversity of profiles, combined with the rise of bancassurance, have obviously necessitated a massive training programme in the distribution networks to create an awareness of, and interest in, insurance, to build up expertise and thereby to reinforce the trust that customers feel for their bankers in their additional insurance role.

These courses can take various forms and be organized differently by different bancassurance operators and under different legislative frameworks.
Indeed, advisers sometimes need to hold a special qualification to be able to sell insurance policies.

For example, in France, you have to hold a national diploma awarded after a minimum of 135 hours of training, which entitles you to a card required to sell insurance. “Crédit Agricole has 18,000 cardholders in its 9,000 branches”, boasts Edouard de Bonnafos, Technical and Products Director at Predica.

This is also true in Asia and notably in South Korea where, as well as this diploma, the law restricts the number of people authorized to sell insurance policies to two per point of sale. Nonetheless, in bancassurance, there are many special arrangements: “a banker who sells financial products must be able to sell insurance policies”, as Mr Jean-Patrick Simon, Director of SH&C, points out.

Of course, the training pattern varies from one company to another. However, here we propose to cover the main factors common to most bancassurance operators:

- As a general, training is provided by product specialists chosen for their training and coaching skills. In addition, they may often have been involved in designing the new insurance product they are explaining;
- The programmes are either aimed at a small number of people trained at company or regional headquarters, who will then train the branch personnel, or targeted directly at the sales force in the field;
- As a rule, training focuses specifically on insurance products. Nevertheless, certain bancassurance operators prefer to integrate the training sessions with their partner bank’s total training programme. At Cardif, for example, training is not only about the product. For example, part of it will focus on insurance policies in a course devoted to life insurance products, partly in order to show how these policies work, but above all to show how they complement the bank’s other products (advantages compared with collective investment vehicles, etc);
- In order to achieve better results when launching new products, courses are scheduled for the weeks before these products are made commercially available. Nevertheless, changes to the characteristics of existing products do not necessarily result in a new training programme. However, it would be too reductive to restrict training plans to coincide with the launch of new products. That is why at Altavida Seguros de Vida, Groupe Santander’s Chilean subsidiary, courses are also provided at the request of the sales force or if regional managers perceive a need on their tours of bank branches;
- In order to give the sales force additional support, certain bancassurance operators (e.g. BNP Paribas Assurance) have even developed e-learning systems, which can be accessed at any time by the local network and sometimes in foreign subsidiaries.

Remuneration

Distributing these life insurance policies, whether through a joint venture or distribution agreements, has a cost for insurance companies. It is essential to heighten the awareness of sales forces of the need to sell insurance policies. As we have seen, this is done partly through training, but also by a new commission policy.

Whether in bancassurance or traditional networks, the products that are the easiest to sell and the most profitable for financial advisers, are the ones that have the most success. In order to motivate the teams to sell insurance products, it is therefore essential to offer them appropriate rewards.

However, rewarding sales forces within the framework of a multi-channel distribution process is not necessarily easy. Who should get the commission: the network sales personnel, the telephone advisers, the points of sale? Who can sell what and how do you set targets?

Under the Crédit Agricole system, Predica pays commission to the Caisses Régionales du Crédit Agricole Mutuel (CRCAM) and also adds a system.
of profit-sharing for insurance products (term insurance, disability/critical illness, health, etc.). But, as with the other products, the bank retains control over the motivation of its sales force. Each Caisse is free to redistribute this commission or not.

The way sales personnel are rewarded can also vary from one product to another. Variable remuneration does not seem to depend on the number of products sold; that would be too simple. The amount of the insured sum also counts, as can the performance of the product.

Even in France where the bancassurance market is mature, certain bancassurance operators have only recently introduced variable remuneration.

In Spain, to change habits and encourage bank personnel to offer customers insurance policies, Caja Madrid has established new targets, representing 45% of the branch staff’s overall sales targets, on top of which come the sales commissions and the management fees applicable to existing policies.

In Latin America, the bank and/or its employees or agents are paid a commission on new policies and policy renewals.

In Greece, as in certain Asian countries, the top sellers are rewarded with gifts: holidays, microwave ovens, telephones, etc.
Case study:

Italy – MONTEPASCHI VITA

Montepaschi Vita MPV was Italy’s first bancassurance operator.

It was jointly created in 1991 by the Monte dei Paschi di Siena banking group (known as the world’s oldest bank still in business – created in 1472!) and the SAI Company. Since January 1, 2001, it has been wholly owned by the Monte dei Paschi di Siena Group, which now boasts a network of 1,802 branches covering the whole country.

Its bancassurance business began with the sale of traditional products: mixed policies and life insurance primarily providing cover for families. Five years later, it extended its range to unit-linked and index-linked products and euro- or lire-denominated contracts.

Mortgage loan insurance in Italy only began in 2000. Because customer pressure on lending costs (interest rates and insurance premiums) is very strong, loan protection insurance continues to play a very minor role. As a result, Montepaschi Vita’s portfolio currently consists equally of so-called “risk” products and savings products.

Key figures for Montepaschi Vita:

• No.8 in the Italian life insurance market in 2003
• 3.78% market share
• Total premiums in 2003: €3.193 millions
• Net income from life insurance in 2003: €30.791 m
• 101,000 new policies in 2003
When asked, several experienced bancassurance operators constantly raised the subject of “products” in bancassurance. And that, of course, is no accident. It is a central theme, because it is crucial to success with customers but also to success with the sales network.

What are the features of a “good” bancassurance product? Are some products specific to this network? What can and can’t you sell in bancassurance?

Main characteristics of bancassurance products

Everyone in bancassurance knows that the key to success is above all to keep it simple!

To quote SH&C in South Korea, or Predica in France: “You have to offer simple products, without a host of different choices”.

However, certain bancassurance operators now market more “complex” products, such as a long-term care insurance; but the secret is the same: “To be able to explain the product’s purpose and concept in simple terms, even if its nature is complex”, as they put it at Predica.

First remark: the products distributed must be completely suited to the banking network, i.e. synchronized with the bank’s sales procedures, which include standardized application forms, the simplest possible medical and financial selection and standardization of all transactions. This often means relatively low sums insured to make selling easier, because lower protection levels mean smaller premiums, which customers are more likely to accept. Without this pursuit of simplicity, the networks would undoubtedly be very reluctant to offer their customers banking and/or insurance products indiscriminately.

It is in Southern Europe (Spain, Portugal, France) that we observe the extent to which banks have gone out of their way to “remodel” their life insurance offering, to make it very similar and completely integrated with the banking products range. By contrast, in Northern Europe (UK, Germany), the life insurance products sold by banks are essentially the same as those supplied by the so-called traditional networks (agents, brokers) and sold in banks by non-bank personnel.

“The salesperson needs to feel comfortable and the selling process must be quick”, they say at Cardif. “In a banking environment, a customer who is not ‘hooked’ first time round is lost”, concurs Predica.

We believe that this offering of simple, standardized products, sometimes even packaged with banking products, is of fundamental importance. Initially, bancassurance was a mass distribution product, specifically aimed at individual bank customers.

Luis Araya, Technical Director of the Altavida Seguros de Vida company in Chile, the local subsidiary of the Santander Group, makes it perfectly clear: “The success of bancassurance lies in mass selling. If you have large numbers of policyholders and you apply prices that offset the virtual non-existence of medical selection, you shouldn’t have wastage. The products must be easy for the public to understand in general and should focus on covering their most ordinary needs. In addition, the pricing structure should be simple, to facilitate the selling process.”

This idea no longer seems incompatible with a phased diversification towards more complex products, even extending to a genuinely customized offering. These made-to-measure products, which require greater expertise, are often the ones that the banking network finds hardest to sell, but they are also the ones where the margins are largest and which offer banks the highest returns and employees the most commission. This is a big incentive to banks and insurance companies to take on the new challenge.

However, to be successful, this process must follow certain rules: the guarantees proposed must always be easy for the customer and the seller to understand, with few options, and the selection and price structure must be as simple as possible.

The products sold by bancassurance operators need to be well-positioned and integrated into the range
of banking products. It is crucial to retain the complementarity between life insurance and savings products.

“You have to ensure that insurance products are perceived as complementing rather than competing with basic bank products” emphasizes Denis Wallerich, of BNP Paribas Assurances.

“It is crucial that new products should be well integrated into the existing range” in order to avoid “a proportion of bank savings being diverted into insurance vehicles” explains Edouard de Bonnafos, Technical Director of Predica.

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**RISK ASSESSMENT IN BANCASSURANCE**

When we asked several bancassurance operators (Cardif, SH&C, Predica, Altavida...): “Do you think that medical risk assessment is a hindrance to the growth of bancassurance?” we invariably got the same answer:

“Yes, without any doubt, since assessment significantly increases the time it takes to sell a product.”

And one of the secrets of success in bancassurance is undoubtedly the fast sale. It is nevertheless true that, while this selection process is seen as a significant difficulty, it is also indispensable for all protection products and can only rarely be completely bypassed.

Here are three categories of insurance products with different assessment methods:

✔ Accidental death (or disability) cover attached, for example, to debit cards or bank accounts: for these products, no medical selection is required;

✔ Cover for death, disability or incapacity, whatever the cause, either compulsory or with a very high penetration rate: this applies to loan protection insurance in certain countries (France, Spain, etc.). In this case, medical assessment is necessary but can be limited, since the anti-selection risk is deemed to be very low. Assessment often consists of a simple medical questionnaire (if the sum insured is below a certain ceiling). However, if the answer to any of the questions is yes, additional evidence may be required. If the sum borrowed is very large, full medical evidence will also be required at the first stage. In the very specific case of small consumer credit loans, medical assessment can consist of a simple Statement of Health;

✔ Cover for death, disability or incapacity, whatever the cause, provided on individual insurance products (term insurance, long-term care insurance, etc.): the medical assessment required by bancassurance operators is generally the same as that demanded by the traditional insurance providers. However, in order to simplify procedures to a maximum, bancassurance operators offer lower insured sums than traditional providers. Other methods can also be used to limit selection: introduction or extension of waiting periods and/or more exclusions.
Which life insurance products are sold by bancassurance specialists?

This is a question often asked by new bancassurance operators, especially in countries where this is an emerging model.

In short, there is only one answer: bancassurance operators supply the same products as so-called “traditional” providers or brokers, with a few small exceptions...

Products similar to the traditional networks...

It should be emphasized that for a long time life bancassurance focused on bank customers, i.e. individuals. This customer segment currently constitutes a large majority compared with professional or business customers (e.g. in France, individuals represent between 85% and 100% of life bancassurance business). However, the need to diversify is now gradually moving bancassurance operators towards other target groups.

Most of the products sold in bancassurance are not specific to the banking network: only the features referred to above (simplicity, limited cover and guarantees, etc) set them apart, and in fact the trend is for these differences to disappear on more mature bancassurance markets.

However, it is true that, because they are close to the banks’ core business activities, certain life insurance products have been extensively captured by the banks and can now easily be equated with bancassurance.

This is undoubtedly the case with Unit Linked and Index Linked products. The large majority of bancassurance operators began their business with ‘insurance if you live’ policies and/or capitalization bonds, and these products have sold fairly well.

The same is true of loan protection insurance: contrary to popular opinion, this is not a product specific to bancassurance, nor the core business in bancassurance, but the banks nevertheless tend to be the first institutions approached by borrowers looking for life insurance.

These products often represent the first step to success, especially if they enjoy tax advantages.

Description of the “French style” life insurance-linked savings product, 1st big success for bancassurance in France.

✔ This is a deferred capital product with guarantee in the event of death or incapacity, and with a guaranteed surrender or partial surrender value;
✔ Possibility of capital withdrawal or annuity, with variable amounts and durations;
✔ They can be single premium or by instalment;
✔ The costs and charges for the product are very low;
✔ The length of the contract varies from one product to another, but most bancassurance providers offer contracts in excess of 8 years, since the tax advantages become significant after that period;
✔ Several types of contract: capitalization bonds, “Euro-linked” contracts (safe investment) where the capital invested and the annual interest rate are guaranteed (in 2003, average interest rate of 4.5%) and “multi-fund” contracts (or Unit/Index Linked, risk investment) where performances can vary greatly and arbitrarily, since they are closely tied to the stock markets;
✔ Non-guaranteed interest rates over several years.
… and a few products specifically developed for the banking networks

This class of products is the most standardized and the easiest for banks to sell. These products usually form an integral part of bank offerings and not really seen by the customer as insurance products but more as an additional banking service.

They include, for example, the insurance attached to bank accounts or credit cards. In general, they are automatically activated with the opening of a new bank account or issue of a credit card, they are often integrated into the costs and the insurance premium is sometimes paid by the bank itself. This is more a marketing tool to encourage customers to open accounts or to apply for credit cards.

The risks covered are often accidental death or Permanent and Total Incapacity following an accident and the sum insured can be calculated in different ways:

- “X times” the amount on the bank account at the time of the insured person’s death or incapacity;
- The average amount charged to the credit card over the last 3 or 6 months;
- Simply an amount fixed when the insurance was taken out.

Generally, no assessment is required for this type of product since it provides protection against accident only.

Ongoing diversification: New products sold by the banking networks

The banks and insurance companies know that they need a full range of products to generate customer satisfaction and loyalty. Bancassurance operators are well aware that extending their offering will increase their market share, which means extra premium income without additional distribution costs.

The bancassurance operators, who began their charm offensive with the one-stop shop, have had to take the concept to its logical conclusion and are now really beginning to diversify.

First of all, it should be noted that this process of diversification often occurs when bancassurance reaches maturity in a country. The banking networks and sales personnel must be sufficiently prepared and experienced to deal with products that have even less connection with the primary banking business.

Thus, after ‘insurance if you live’ products, loan protection insurance and accident cover attached to banking services, life bancassurance is now focusing its growth plans on individual protection. This may begin with the gradual integration of insurance protection into existing contracts, then the sale of protection only contracts. And bancassurance operators are just as aware as insurance providers that it is this type of insurance that usually generates significant profits.

After a quick tour of the big bancassurance operators around the world, we have reached the conclusion that bancassurance “can sell anything”, that it is not limited to a certain type of product. And there is no lack of innovation: bancassurance operators have understood that to continue being successful they have to demonstrate a high capacity for innovation. This factor is essential if they are to attract new customers and maintain a certain competitive advantage.

It is also worth noting that the recent crisis in the financial markets hit the earnings of bancassurance operators, some of whom had specialized in Unit/Index-Linked contracts. Diversification sometimes prove necessary.

Update on some new products sold in bancassurance:

Long-Term Care Insurance: payment of a life annuity (possibly plus a lump sum) if the insured person loses his or her autonomy. This situation is defined as a total and permanent incapacity to carry out certain day-to-day activities (eating, washing, moving around, etc). The degree of dependence may be total or partial. This definition is the one used for products sold in France. Other products, also described as “long-term care”, take a totally different approach, since they reimburse medical costs following what may be a purely temporary inability to look after oneself.
Our reference here is the French bancassurance operator Predica, which already had a portfolio of 143,000 contracts at the end of February 2005.

GAV (Garantie des Accidents de la Vie – Life Accident Guarantee) product in France: GAV is a medical and health insurance product that carries the FFSA label (French Federation of Insurance Companies). To obtain this label, the product must fulfil a certain number of criteria described in the baseline contract. This product was launched to complete the protection available in France to cover the risks of private accident. In fact, most French people thought they were covered for everyday accidents by the Civil Liability component of their Comprehensive Household insurance: however, this component provides compensation for third parties only.

GAV covers physical injury resulting from accidental events (medical accidents, accidents resulting from terrorist attack or criminal acts or other accidents in the policyholder’s private life). It is an indemnity product where cover comes in at a threshold of 30% incapacity and the guarantee ceiling is €1 million. Injury compensation follows the rules laid down in common law.

So-called “intergenerational” products benefiting descendants: these contracts have particularly taken off in France in the last 10 years, since the introduction of a law allowing grandparents to give their grandchildren up to €30,000 free of inheritance tax every 10 years. The insurance companies quickly moved into this niche by offering products with tax advantages beyond €30,000. Children and grandchildren can receive all the advantages of a life insurance policy, paid for by their grandparents or parents. They are generally multi-fund contracts or more traditional Euro-linked contracts, into which the donor makes free payments in favour of the insured descendant.

Personal Pension Plans: in many countries, ageing populations have prompted governments to think about the issue of pensions. As a result, legislators have authorized insurance companies to sell private pension plans. These plans are used to save for a future pension, even when the insured person is very young.

Let us quote the example of Turkey, which regulated this sector in 2003: most life insurance operators, including a large number in bancassurance, moved successfully into this new niche, despite the very large number of rules that companies have to comply with when selling these products. The same is true in France, where in August 2003 a law was passed opening up private pensions to everyone, with the PERP (popular retirement savings plan), or in Chile where since August 2004 banks have been able to sell Life Annuity products. Not forgetting Germany with its “Riester” annuity, which came into force in 2002 with a relatively low level of success.

Property products: Automobile, comprehensive household insurance.

Bancassurance so far has only a small share in the property insurance market (about 8% in France), but its market share is growing by an average of 0.7% per year in this segment. Here again, it is because insurance is genuinely integrated into banking and through a constant search for innovation, that bancassurance is still growing at a modest but steady rate.

Bancassurance is developing what might be called a “global offering”, which combines finance and property insurance, especially for cars and accommodation.

An interesting example is the French bancassurance operator ACM (Assurances du Crédit Mutuel), which sells an “all in one” product: this product, aimed at real-estate investors, includes finance, insurance on rental arrears, comprehensive household insurance for buy-to-rent landlords, and loan protection insurance.

Some bancassurance operators have unquestionably been hugely successful in these new sectors: for example, at the end of the first half of 2004, French bancassurance accounted for 85% of popular retirement savings plan sales and 86% of GAV sales!

However, there is one caveat, because even in their diversification, bancassurance operators always focus on life insurance products. Development remains very uneven, depending on the operators.

According to a survey on life bancassurance in France carried out by Solving International at the end of 2000:

- Euro-denominated contracts totalled 55.7% of premium income and 82% of provisions;
- Unit/index-linked contracts totalled 40.4% of premium income and 17% of provisions;
- Individual protection and loan protection insurance accounted for only 3.9% of premium income and 1% of provisions.
WHY IS BANCASSURANCE MORE SUITED TO LIFE INSURANCE PRODUCTS?

Traditionally, much fewer non-life insurance products are distributed through bancassurance than life insurance products. There are several reasons for this:

✔ The main reason may be the complementary nature of life insurance and banking products: bank employees are already familiar with financial products and quickly adapt to selling insurance-based savings or pension products;

✔ On the other hand, the non-life market requires special management and selling skills, which are not necessarily prevalent in bancassurance. In addition, such competencies require significant investment in training and motivation, and therefore additional costs;

✔ Life insurance products are generally long-term products, which require customers to have complete confidence in the institution that invests their money. And we now know that, in many countries, banks have a better image and are more trusted than insurance companies;

✔ Bank advisers can use their knowledge of their customers’ finances to target their advice towards specific needs. This is a major advantage in life insurance and less important in personal injury insurance;

✔ Some professionals also refer to the claims management aspect of personal injury insurance, which could have a negative impact on brand image. This would seem to explain why for a long time bancassurance operators hesitated to offer these types of product.

THE BELORGEY AGREEMENT: a French particularity

Obtaining loans is difficult for people whose health makes them a “substandard risk”. Loan protection insurance is often a necessary condition for obtaining a loan (especially in France). If this insurance is refused or subject to a very high additional premium for medical reasons, the loan may not be possible. This situation has long preoccupied the French authorities and patients’ associations, who instituted legal proceedings against the insurance companies in the late 1980s on behalf of HIV-positive patients.

An agreement was drawn up in 1991 offering HIV-positive people life insurance covering loans taken out to acquire accommodation.

At the beginning of 1999, the authorities instituted a new study, based on this agreement, reflecting changes in the situation of HIV-positive individuals.

Begun by the National AIDS Council, the study was taken over by a commission headed by the prime ministerial appointee, State Councillor Mr Bélorgey. He decided that the analysis should be extended to the insurance of all substandard risks, within the framework of loan protection insurance.

The result is what is now commonly known as “the Belorgey agreement”, an arrangement specific to France.

The work of the Belorgey Committee focused on:

● The status of epidemiological and medical knowledge about HIV;

● The mechanisms of loan protection insurance (respective roles of the bank and insurance company);

● The different types of guarantees in terms of purpose (death, incapacity) or duration (short term/long term);
The possibilities of extending insurability on the basis of existing guarantees for other diseases;
● Pricing structures;
● How to organize the collection and processing of medical data and how to maintain confidentiality.

The commission’s initial conclusions suggested various measures in the following areas:

● Confidentiality;
● Information initially given to loan applicants;
● Extension of the scope of insurance;
● Guarantees other than insurance;
● Reduction in the formalities governing the granting of consumer loans.

Initially, with the agreement of the insurance providers, the Commission proposed getting rid of the health questionnaire for insuring consumer loans of less than €10,000, with a duration of less than 4 years and for people aged less than 45.

In addition, for the insurance of housing and business loans of less than €200,000, for a maximum period of 12 years, taken out before the age of 60, the Commission asked for the following arrangements to be established:

● If an application is refused at the first level, i.e. existing group loan protection insurance contracts, it should be examined at a second level;
● This level consists of “open group” type loan protection insurance contracts. These contracts must be made available by all credit institutions;
● If the application is refused or adjourned at the “second level”, it is transferred to the “very substandard risks” pool, which is based on a co-reinsurance agreement administered by the BCAC (Bureau Commun des Assurances Collectives).

It should be noted that the system set up in 1991 for HIV-positive people has been extended for people who have been under it up to now, and is included in the new pool of “very substandard risks”.

The Agreement was signed in September 2001 and is renewed every year.

Certain improvement measures have already been adopted.

For example, all applications refused at the 1st level (group contract) are now automatically considered at the 2nd level, whatever the applicant’s age, the sum borrowed or the term of the loan.

Similarly, all applications refused at the 2nd level are considered by the pool.

The €200,000 ceiling has been increased to €250,000 for housing and business loans and the term increased to 15 years.

As of November 26, 2004, the 3rd level, i.e. the pool, had handled 2,419 cases since the start of the arrangement:

● 395 had been accepted
● 27 cancelled
● 1941 refused
● and 54 were pending.

Approximately 16% of cases are accepted by the pool. SCOR VIE received three times as many applications under the Belorgey Agreement in 2004 as in 2003. Of the 328 cases that went to the third level in 2004, 1 in 5 were accepted by our underwriting services.

However, it should not be forgotten that all these diseases change and that the corresponding treatments are also subject to change: in any event, the Belorgey Agreement will have to be adapted as progress is made in medical treatment.

Another very important aspect of the Agreement relates to the confidentiality of medical data. For example, an applicant must be able to complete the health questionnaire alone and without being overlooked.

According to a “60 million consumers” study in September 2002, almost none of the banks fully implement the code of conduct annexed to the Belorgey Agreement. It is to be hoped that in the last three years the banks have caught up with training and information in this respect.
**Typical Profile of the “Bancassurance Consumer”?**

In France, there are two types of customer profile, divided between life insurance and property and casualty insurance.

The “life bancassurance customer” is generally over 50, with a high proportion of people over 70 (15% as compared with 11% in the other distribution networks). They are better off than the national average with income between €37,000 and €46,000 per year. In addition, they are twice as likely to have savings of between €31,000 and €153,000. On average, they save between €8,000 and €30,500 per year, have a detached house, and are determined to “pass on assets to their children”.

In property and casualty, the average “bancassurance customer” is aged under 29. He or she lives in rented accommodation and is financially less stable than the life customer: because of existing debt, he or she has less money available for savings.
In previous chapters, we discussed the different legal forms of bancassurance, the factors of success and the main product characteristics. We now propose to take a quick world tour to look at where bancassurance stands now. As we shall see, it is a field where development is at different stages in different parts of the world, and in a state of constant flux.

The leading markets

It is in the so-called “Latin” Europe that bancassurance first took off and has enjoyed its greatest success initially because of a more favourable legal environment than in the rest of the world.

France is undoubtedly one of the countries where the breakthrough of bancassurance has been spectacular. In the space of just two years, Predica, Crédit Agricole’s life insurance subsidiary first set up in 1986, became France’s third biggest life insurance company in terms of premium income.

It should be noted that the effect of the rapid growth in bancassurance activities in France has been the creation of new market opportunities rather than a weakening of traditional insurance business.

Today, French bancassurance operators are doing better than insurance companies on individual risk. In 2003, the French Bancassurance Group (chaired by Michel Villatte, CEO of Predica), accounted for 60% of sales in life assurance, with premium income of €55 billion. At the end of 2003, five bancassurance operators were amongst the ten top life insurance companies (premium income): Predica at the top (Crédit Agricole), followed by Ecureuil Vie (Caisses d’Epargne), Sogecap (Société Générale), Natio Vie (BNP Paribas), Assurances Fédérales Vie (Crédit Lyonnais).

CNP is obviously in the top three, but its status sets it apart from the others. Its distribution strategy, based on partnerships with establishments such as La Poste, the Caisses d’Epargne but also the mutual insurance companies, financial institutions and even local authorities, makes it difficult to compare with the other bancassurance operators active in the French market.

What we can state today is that even in property insurance, where the French Bancassurance Group accounts for 6% in motor insurance and 11% in household insurance, bancassurance is progressing with 12.1% growth in subscriptions compared with 2004.

The panorama of French bancassurance has recently changed following mergers between certain banks:

- The merger of the BNP and Paribas networks produced BNP Paribas Assurance, which encompasses the activities of Cardif and Natio;
- The merger of Crédit Agricole and Crédit Lyonnais, which resulted in a “new version” Predica, combining the activities of Assurances Fédérales Vie and Médicale de France;
- Even more recently, the takeover of Crédit Maritime by Banques Populaires.

In France, bancassurance seems to be at the dawn of a fourth stage, that of concentration. It remains to be seen whether this process will be permanent or temporary.

Spain was somewhat behind other western European countries in terms of per capita life insurance rates. Since the 1980s, this market has seen the highest rates of insurance growth in Europe. Both banks and insurance companies have benefited: today, 9 bancassurance operators are amongst the top 10 insurance companies in Spain and bancassurance accounts for 74% of new contracts, 50% of which go to local savings banks.

One of the main reasons for this success may be the positive image enjoyed by banks in that country. Moreover, a dense banking network gives bancassurance a certain advantage. A number of reforms, for example in the pension system, have also contributed to the attractiveness of certain life insurance products sold in large numbers via the banking network.
At the top of the bancassurance ranking are:

- La Caixa, which in 1992 signed a 50/50 joint venture agreement with Fortis to create Caifor;
- BBVA, which bought Euroseguros in 1981, which has now become a fully integrated insurance subsidiary;
- SCH bank, operating with Santander Seguros and Banesto Seguros;
- And Mapfre, which in 2000 reached an alliance with CAJA Madrid, creating Mapfre Caja Madrid Holding, Spain’s 5th largest bancassurance operator in 2002.

Despite its small size, Portugal is highly attractive to bancassurance. Since 1995, the insurance sector, whether life or property, has been one of the fastest-growing markets in Europe. And there is still great potential for further development, given that insurance premiums per head are amongst the lowest in Europe.

In 2003, the entire insurance sector represented €9.4 billion, 57% of this in life premiums. If we look at the structure of the market, bancassurance dominates: more than 80% of new life insurance contracts came from the top five Portuguese banks.

As a result of the new joint venture between Fortis and Banco Commercial Portugues, completed in January 2005, the company “MilleniumBCP Fortis” has become the market leader in life insurance with a market share of 24% (21% of this from BCP’s banking network), closely followed by Fidelidade Mundial (CGD – 19%), Tranquilidade (Groupe Espirito Santo – 16%), BPI Vida (BPI Group – 11%) and Totta (Santander Portugal Group – 10%).

In Italy bancassurance has grown considerably in recent years, almost entirely driven by life insurance, and currently 70% of new life policies are sold in bank branches.

It was the 1990 Amato Law which made it possible for banks to invest in insurance companies and led to the takeoff of bancassurance activities in Italy. However, this market is characterized by the absence of big “bancassurance” groups. Its banking network is still fragmented and many banks remain regionally based. However, these small regional banks often boast efficient organizations, dense networks and a good image with consumers. All these different factors, combined with fairly aggressive marketing campaigns, have enabled the banks to make a rapid breakthrough. In addition, the growth of bancassurance in Italy seems to have been underpinned in particular by the sale of unit-linked and index-linked products.

Another feature worth noting is joint development with the creation of “insurance” subsidiaries by the banks, or with banks and insurance companies’ signing distribution agreements. For example, you can find Aviva life policies in branches of Unicredito Italia, Banca Popolare di Lodi, Banche Popolari Unite, not to mention Banca delle Marche, which is 8% owned by an English insurance company.

There are numerous bancassurance players and they are, of course, well represented amongst the top Italian insurers. As at December 31, 2003, seven of the top ten companies were bancassurance operators, including:

- CreditRas Vita, a 50/50 joint venture between Unicredito Italiano and the insurance company RAS;
- Sanpaolo Vita and Fideuram Vita, fully owned subsidiaries of Sanpaolo Imi (which are now a single company called Assicurazioni Internazionali di Previdenza);
- Banca Intesa, in a 50/50 joint venture with Generali Group (via Alleanza), created Intesa Vita in December 2003;
- Fineco Vita, 57.5% owned by CNP Assurances and 42.5% by Fineco Group, etc.

Despite this strong growth in recent years, the estimated potential for further growth in Italy remains strong because the penetration rate of insurance is still relatively low, despite annual growth levels of some 20% in the insurance market over the past five years. There is no doubt that bancassurance has a bright future ahead of it in Italy.

Belgium perhaps deserves to be described as a pioneer of bancassurance. In 1860, the CGER savings bank started insuring mortgage loans linked to real estate purchases. Since then, although insurance and banking have remained distinct activities, the big names in insurance have maintained close ties with banking conglomerates. However, it was above all in 1992, following a change in the law, that bancassurance really began its
offensive. The figures more than speak for themselves: in 1994, the banking sector distributed just 20% of life insurance. In 2004, more than 63% of life insurance went through the banks.

And what about property insurance, where the market share of bancassurance rose from 8% to 20% between 1994 and 2002?

Ireland is a prime example of how the insurance industry has been influenced by the bancassurance sector. In the bancassurance market, Ireland has been a dramatic and unambiguous success over the past 15 years. The phenomenal growth of the Irish economy since 1993/4 along with the young and educated population has led to a huge increase in demand for both banking and life and pension type products.

The two major banks in Ireland which control over 70% of the banking customer base between them (Allied Irish Bank and Bank of Ireland) each decided in the early to mid 90s to develop a bancassurance subsidiary (Ark Life and Bank of Ireland Life respectively). Along with the 3rd largest bancassurer (Irish life and permanent) they now control two-thirds of the insurance and investment market in Ireland.

The bancassurance in Ireland success has propelled the three Irish companies to the top of the league displacing the broker dependant companies who traditionally have had much larger market shares.

In brief...

On average across all European countries, the traditional insurance networks now account for less than 30% of contracts. For their part, the direct sales networks now control only 10% of the market.

One thing is clear today, whatever the country: the bancassurance landscape is changing fast.
The big players are merging:

- BBL Life is becoming ING Life in Belgium, the same name covering banking and insurance activities;
- Predica (Crédit Agricole) is combining with U.A.F (Crédit Lyonnais) in France;
- The name Fortis now encompasses Société Générale de Banque, Banque du Crédit de l’Industrie, and the insurance companies AG and FB Assurances (formerly CGER).

while certain insurance companies are withdrawing from the banking sector:

- Swiss Life has given up its stake in CIC.

The new bancassurance markets

**Latin America:**

Foreign insurance companies have largely relied on the local banking network – which already enjoys an extremely strong territorial presence – to create partnerships or sometimes simply to take over the partner bank.

This transfer of ownership is undoubtedly one of the main reasons for the success of bancassurance in Latin America. That is why, despite its status as a “developing market” in many spheres, despite the disparity observed from one country to the next and despite the continuing domination of traditional networks of brokers and agents, Latin America is now an area where bancassurance is in the process of becoming a major distribution system.

Following the deregulation of the financial services sector in most Latin American countries, the banks were authorized to sell insurance products directly. By contrast with the European experience, the first products sold were non-life policies (fire or motor insurance). In recent years, however, it is life insurance products that have had the wind in their sails.

In Brazil, the law makes it compulsory for an approved broker to be involved in all insurance sales. As a result, both insurance companies and banks sometimes have their own brokers. However, the banks have been active in the insurance market since the 1970s. This experience explains why they now play a dominant role in the distribution of insurance policies with almost one quarter of premiums being generated through this channel (including more than half of life premiums).

In Argentina, big international banks (Citigroup, HSBC, BBVA and Banco Santander) have acquired stakes in Argentinian life insurance companies and pension funds, and sales of life insurance products by the banks are starting to grow substantially. However, the traditional distribution channels continue to dominate the market.

In Chile, banks have been legally allowed to sell life insurance products since 1997. However, an authorized intermediary must be present for every insurance sale in a bank.

Between 1999 and 2003, bancassurance enjoyed an astonishing average annual growth rate of 29%, reaching 10.6% of total insurance premiums (life + property) in 2003.

Most life insurance products sold by the networks consist of group insurance (88.1% in 2003). Nevertheless, although individual life policies only represent 11.9% of total sales at the moment, growth in this sector has been extremely buoyant over the past 4 years with an average of 53.8% compared with 25.9% for group policies.

At the same time, the property market is still growing fast mainly as a result of growth in the sale of fire insurance policies in bank branches.

In Mexico, banks played an important role in the establishment of pension funds after the 1997 reform. Since then, many foreign insurance companies have gone into partnership with local banks. In 2001, between 10 and 15% of total life and annuity premiums came from bank sales.

According to Luis Araya, Technical Director of the Chilean firm Altavida Seguros de Vida, a local subsidiary of the Santander Group, the potential for growth in bancassurance in Latin America is still enormous, since “the penetration rate in these countries is very low. In addition, because GDP is low, we have to offer insurance with low sums assured” which are “attractive, if marketed on a large scale.”
Asia:

A promising start

The Asian financial crisis of 1997 became a driving force in the banking industry’s pursuit of diversification. Chiefly since 2000, bancassurance has consequently been at the heart of many discussions in Asia. Financial deregulation facilitated the introduction of bancassurance, notably with the penetration of foreign insurance companies seeking to establish agreements with local banks.

It was in Singapore that Asia’s first big experiment in bancassurance took place, following Development Bank of Singapore’s sale of its insurance operations to Aviva. In return for selling off its insurance arm, DBS became the exclusive distributor of insurance policies.

As a general rule, the operating methods are imposed by the banks, which are in a position of strength to get the type of structure they want. Frequently, the banks prefer to make a minimum commitment to this sector in order to monitor results before playing a more active role. Depending on the country’s legislative framework, the bank may simply act as a distributor for the insurance companies. It is therefore difficult to discern a “typical” bancassurance pattern.

But slow growth

This successful start seemed to promise bancassurance a brilliant future in Asia. However, it has not grown as quickly as originally hoped, and the market share of bancassurance still varies widely from one country to another.

Firstly, because the Asian banks tried to sell their customer databases at too high a price, which discouraged more than one insurance company from moving into the market.

Secondly, because the regulations governing bancassurance in Asia still contain many restrictive measures on cross-holdings between banks and insurance companies, on the qualities or quantities of the products distributed by the banks and other operational limitations.

And, finally, because the traditional insurers are doing what they can to prevent the creation of a more open market. They remain the dominant channel for the distribution of both life and non-life insurance products in Asia, and they are afraid that the growth of bancassurance will result in waves of redundancies.

Nonetheless, we have observed that the common factor for all the Asian countries is, without any doubt, an extremely strong interest in bancassurance, and penetration rates for this distribution channel should increase substantially in coming years.

Quick summary:

In Japan, the market was partially opened up to Japanese banks in April 2001: there is very strong pressure from local insurance companies to block liberalization, which would inevitably threaten their market share. Despite this reluctance, however, the financial authorities (the Financial Services Agency, FSA, and the Financial System Council) have been moving towards a gradual deregulation that has successfully removed certain barriers between banks and insurance companies:

- Since 1998, insurance companies have been able to create a banking subsidiary;
- Since 2000, life insurance companies have been able to sell non-life products and vice-versa;
- Since 2001, banks have been authorized to sell non-life insurance products.

However, the new system, scheduled and expected for introduction in the spring of 2005, under which banks would be allowed to sell new insurance products, has been postponed to a later date. The FSA and the Life Insurance Association of Japan are in discussions to find new points of agreement on the phasing-in of this deregulation, which was initially scheduled for the summer of 2007. The eventual goal was to allow all insurance products to be sold through the banking networks.

The Japanese financial authorities are afraid that liberalizing bancassurance too rapidly would give the banks power that might result in abuses such as forced sales.

It is estimated that approximately 400,000 bank employees will be licensed to sell insurance policies. Foreign insurance companies are in favour of this measure, which should reduce prices and make a wider range of products available to consumers.
Strong potential to be exploited

In Singapore, the role of bancassurance is growing continually and is changing traditional distribution patterns. The number of traditional agents has been falling for several years: 12,000 in 2004 compared with 20,000 in 1998. The reasons? Stricter conditions for obtaining a licence, reduced commission rates and above all the growing role of bancassurance. According to the Life Insurance Association of Singapore, in 2004 bancassurance accounted for 30% of new policies.

For a long time, the insurance market in South Korea, the world’s 7th biggest, remained traditional. Until recently resistant to any reform, the Korean insurance industry then developed rapidly with the country’s entry into the OECD in 1996. Financial deregulation then began, allowing new players – and especially foreign companies – to come in. The financial crisis of 1997 then forced the country to restructure its financial organization and to eliminate certain barriers between banks and insurance companies.

Thus, having been long considered a threat to the traditional insurance market, bancassurance was officially authorized in South Korea on August 30, 2003, to come into effect on April 1, 2004. Nevertheless, due to pressure from the traditional insurers, the pace of this deregulation – initially scheduled to be a three-stage process chiefly affecting the range of policies authorized within the banking network – was slowed down by government decision in January 2005:

- Initially, only pure savings products and loan protection insurance were authorized;
- In the second stage scheduled for April 2005 banks will be authorized to sell Accident products and Health products containing a so-called "maturity repayment" clause (up to 80% of premiums reimbursed if no claims after 8 years);
- In the third phase in October 2006, government authorization will be extended to all Accident and Health policies;
- At the end of the process and total deregulation in April 2008 (instead of 2007), the banks will be permitted to sell all life insurance products, including Group policies.

However, so far, the supervisory authorities (Financial Supervisory Service – FSS) and the Ministry of Finance and Economy are continuing to impose numerous limitations and restrictions, which are putting a brake on growth:

- Policies from a single insurance company cannot represent more than 49% of a bank’s total insurance sales. According to a plan referred to by these authorities in January 2005, this proportion will soon be restricted to 25% (33% if two insurance companies have the same majority stake in the bank’s capital); this will put paid to any exclusivity agreements;
- Insurance products can only be sold in a specifically assigned area within the bank branch; telephone selling, door-to-door selling, etc, are prohibited;
- The personnel approved to sell insurance products must be qualified for this job and hold a special diploma. There must be at least one (maximum two) insurance product sellers in each bank branch;
- Since 1987, local insurance companies have only been able to create subsidiaries within the same sector as the parent company; a life insurance company will only be able to create a life insurance company. Nonetheless, the FSS is hoping to lift this restriction and move towards a more flexible position.

Within the framework of these strict regulations, the market is being structured and distribution agreements, joint ventures and other groupings are being formed all over the place. For example:

- Kookmin Bank, South Korea’s leading bank in terms of receipts, has created its bancassurance subsidiary KB LIFE as a joint venture with ING. In addition to this joint venture, Kookmin Bank also has a distribution partnerships with four other insurance companies: Samsung Life Insurance Co., Kyobo Life Insurance Co., Tong Yang Life insurance Co. and Korea Life Insurance Co;
- Woori Bank, the country’s second largest banking network, is currently negotiating a joint venture with the powerful Samsung Life;
- Shinhan Financial Group and Cardif Life Insurance have created SH&C Life Insurance Company, a bancassurance joint venture.

Three months after the opening up of the market, new contract insurance premiums have grown three times as fast as those generated in the other
distribution networks. In the space of nine months, bancassurance has grown to represent some 4% of new life insurance business.

In **Taiwan**, the adoption of the “Financial Holding Company Act” in 2002 removed certain obstacles to the development of integrated bancassurance models. Nonetheless, other restrictions on cross-holdings between banks and insurance companies still represent a significant obstacle to the expansion of bancassurance in Taiwan.

There also exists strong potential in **Thailand** where only 16% of the population (62 million people) have life insurance. Although the market is mainly in the hands of traditional agents and brokers, a certain number of agreements are being set up between banks and insurance companies. For example:

- Bank of Asia and American International Insurance, whose new Managing Director predicts annual growth of 20% over the next five years, largely from bancassurance;
- Siam Commercial Bank and Siam Commercial New York Life Insurance, which joined forces in June 2003. The first results were released in January 2005 and are impressive: first-year premiums up by 145% at a time when the Thai market shrunk by 8%!

**India**, a promising market given the size of its population, is in its life insurance infancy. However, bancassurance has grown very strongly since the signature of the “IRDA Bill” in 2000.

Since 2002, two thirds of the twelve foreign insurance companies authorized to work in India have already developed strong partnerships with banks. The Association of Insurers of India has signed a “bancassurance” agreement with Corporation Bank. Other agreements have also been signed with South Indian Bank, Lord Krishna Bank, ICICI Bank, etc.

For **Bajaj Allianz**, for example, a joint venture between Baja Auto Ltd, the country’s second largest motorcycle manufacturer, and the German insurance company Allianz AG, bancassurance represented some 27% of its total new insurance business at the end of October 2004, compared with 17-18% in 2002. This figure is likely to grow further, following the launch of specific products by Centurion Bank and its agreements with banks such as Standard Chartered Bank and Syndicate Bank. **Aviva** has signed a new bancassurance partnership with Punjab and Sind Bank in pursuit of its ambition to grow on the Indian market. In 2003, Aviva Life generated 73% of its new business through the banking network.

When the International Director of BNP Paribas Assurance is asked in which countries Cardif wants to expand, China is in the forefront.

Indeed, **China**, an inevitably topic in every discussion about the potential afforded by many services and industries in general, is also a central preoccupation for international banks and insurance companies. As with India, the local insurance market is still in its infancy but the growth figures are already impressive: from $60 million in 1979, insurance premiums on the Chinese market rose to $47 billion in 2003; life insurance may be seen as the driving force of this growth and attained a volume of $32 billion in 2003 (i.e. more than two-thirds of the aggregate insurance business).

For the moment, the market is entirely, or almost entirely, in the hands of local insurance companies and foreign companies only account for 2% of premiums. However, a large number of international players are already trying to move into this very promising market: more than 100 foreign companies from 17 different countries have already opened sales offices all over China and some of them have managed to open subsidiaries or branches, mostly through joint ventures: examples include Aviva, CNP (in partnership with the Chinese Post Office), Generali, Allianz, AXA, ING, etc. It would seem that partnerships with local networks represent the easiest route into the Chinese market.

Foreign banks are also trying their hand: HSBC, for example, has become the biggest shareholder in Ping An Life, the second largest insurance company in the Chinese market.

These two-way agreements between banks and insurance companies have been made possible by a recent, very gradual opening up of China’s insurance market. It was only in 2001 that the banks were authorized to sell life insurance products.

However, for bancassurance really to take off in China, certain restrictions will have to be lifted: currently, the authorities impose a maximum
commission level of 8% between banks and insurance companies; foreign operators cannot operate across the whole country or in all areas of insurance; foreign holdings in Chinese companies are restricted. The future will soon tell us which way the Chinese authorities want to move in developing their insurance and bancassurance market.

Markets where bancassurance is slow to develop

In the Anglo-Saxon, Germanic or Scandinavian markets, the rise of bancassurance is so far less apparent, and the insurance and brokerage networks still dominate. Gradually, however, the status quo in life insurance distribution is changing.

In the United Kingdom, while brokers (Independent Financial Advisers, or IFAs) retain a majority of the life insurance market, the number of distribution agreements between banks and insurance companies is continuing to grow. It should be mentioned that the regulatory framework, with the Financial Services Act (1986), encourages the banks to create their own insurance subsidiaries.

One of the reasons given for the slow development of bancassurance in the UK is that the products are not suited to the banking networks: they are frequently too complex and hard to understand, which makes them difficult for bank branches to sell. However, efforts have also been made on this issue.

And things are going fairly well: in 2003, life and annuity products sold by the banks grew by 14.4%, in comparison with a 6.3% growth rate for the market as a whole. In other words, almost 20% of total life insurance premiums are currently distributed by the banks, and two bancassurance operators feature in the Top 10 of UK life insurance companies (Lloyds TSB and HBOS).

The market is made up of banks which, in the late 80’s, almost all created their own life insurance subsidiaries. Some subsidiaries, unable to make their mark and grow, finally gave up and pulled out of the market. Today, however, three of the big five UK banks (HBOS, Lloyds TSB and HSBC) have their own insurance subsidiaries. RBOS has created a joint venture with AVIVA and Barclays Bank has signed distribution agreements with Legal & General, among others. The big players have all taken up the challenge of bancassurance.

Bancassurance has also made inroads in Scandinavia. In 2002, less than 20% of the life market was handled by banks, which had a smaller presence than in other countries. The past few years, however, have seen the formation of transnational financial groups (Nordic Baltic Holding, Seb, Den Danske Bank), which should somewhat alter the distribution landscape. According to reports, Swedish banks currently take 73.3% of new life business.

As regards the German market, the initial winner was “assurbanque”, and when this strategy failed, relations between the banks and insurance companies cooled. Attempts at cooperation between banks and insurance companies began in the early 90s, but in most cases only resulted in distribution agreements; joint ventures are exceptional (other than Commerzbank and AMB/Generali), as is bank ownership of insurance companies (or vice versa: one notable exception is Allianz, which bought Dresdner Bank).

It is also worth noting that the German retail banks are highly fragmented. Their small size is a disadvantage when it comes to the insurance sector. In addition, exclusive agents continue to hold a dominant position in Germany. Not forgetting, of course, the existence of long-established, world-renowned, historic insurance companies, with Allianz in the lead. That is why German bancassurance operators currently only control 19% of the market (in 2002, and less than in 2000) compared with 51% for exclusive agents and approximately 20% for brokers.

Despite its proximity to Belgium, bancassurance has been slower to take off in the Netherlands. Individual life insurance is very underdeveloped and highly competitive in this market, while the pension funds meet the organizational needs of employee pensions. Nonetheless, bancassurance is seen as offering competitive prices and a comprehensive service from a single point of sale. However, although bancassurance is gradually gaining market share (18% in 2003), brokers are still the traditional port of call for real estate purchase. Currently, they sell 60% of these products.

Why is it that, despite huge growth potential, and close relationships between customers and bank branches, bancassurance is taking so long to take off in the United States?
Twenty years ago, everyone agreed that the banks would have cornered 25% of the life insurance market. Belief in such levels of growth was underpinned by the signature in 1999 of the Gramm-Leach-Bliley Act, which finally removed the obstacles to the banks selling insurance products, initially put in place by the famous Glass Steagall Act of 1933.

However, the distribution of insurance products is still a marginal activity, with only 2.5% of market share in the first half of 2003. Nevertheless, insurance revenues grew between 2002 and 2003:

- Sales at Citigroup, the USA’s leading bancassurance operator, grew from $3.48 billion to $3.9 billion (up 1%);
- Countrywide, number 3 on the market, grew by 25.8% to $784 million;
- The highest rate of growth was recorded by US Bancorp, up 84.4% from $45 million to $83 million.

With its greater affinity with banking products, life insurance accounts for two-thirds of US banks’ insurance revenues. These financial institutions have taken advantage of growth in the annuity market. In the third quarter of 2003, banks held 43% of fixed annuity pension contracts and 14% of variable annuity contracts.

**What explains the slow growth of bancassurance in the USA?**

Numerous debates and an extensive literature have grown up around this subject; recent analyses have sought to identify the reasons for the delay in growth: for example, in 2003 the American Council of Life Insurers (ACLI) conducted a study on this topic.

**What conclusion can we draw from these analyses?**

That for a long time American law restricted the prospects for banks and insurance companies and put obstacles in the way of a rapprochement between them; and that since the relations between insurance companies and banks are currently confined to little more than distribution agreements, differences and misunderstandings continue to exist between the two sides and require concrete measures if common ground is to be established. It is in both sides’ interest to create a more integrated bancassurance model. That is a fundamental step.

In creating this bridge, it should be remembered that the main goal is customer satisfaction, the key factor in the success of bancassurance. In order to achieve this, US banks and insurance companies need:

- To adapt, train and motivate the banking network to sell insurance products;
- To redesign products, but also to do more to integrate them into existing bank offerings and into the networks’ sales targets, to make them simpler;
- To develop a joint IT and management system between the bank and insurance company, so that sales personnel have fast, easy access to information and harmonized procedures;
- So far, banks have targeted the wealthy, a difficult market to reach, rather than a mass market (working class); a change of target markets would seem to be essential;
- To limit the number of insurance companies the bank works with; in this way, the two players could develop a genuine partnership and create more links.
In **Canada**, current legislation is a real obstacle to the growth of bancassurance. The Canadian retail banking market is highly concentrated: fewer than 10 banks control most of the market. Most Canadian banks are under “federal charter”, i.e. controlled by the federal authorities. Federal charter banks can only sell loan protection insurance and travel insurance within their branch networks. They generally have a life insurance subsidiary, which offers a more traditional range of life insurance products – not necessarily linked with banking products – distributed through sales networks organized separately from the bank branches. These life insurance subsidiaries are usually small, with the notable exception of the Royal Bank of Canada, which has a very large life insurance subsidiary.

Desjardins is an exception to the different points referred to above. The cooperative movement of the Desjardins popular funds is subject to oversight provided by the provincial authorities. Desjardins, in both its banking and insurance role, is mainly present in Quebec. The laws controlling Desjardins allow it to supply all the life and property insurance products available on the Canadian insurance market – i.e. not only loan protection and travel insurance – through its branch network. It also uses more traditional distribution networks as well as the Desjardins branch network. The success of Desjardins insurance is undeniable, since its life insurance subsidiary is Number 1 in Quebec and its property subsidiary is Number 2.

In **Switzerland**, the growth of bancassurance is seriously hampered by the laws on banking secrecy, which prohibit the exchange of customer information between banks and insurance companies. The joint venture and merger models have failed completely in this country and Switzerland has now launched an investigation into the causes of the failure.

Cardif, which has obtained the necessary licences to sell life and non-life products, began trading in 2005 with loan protection insurance.

In the **Arab world**, insurance distribution traditionally remains in the hands of agents or independent brokers, and insurance companies are reluctant to come under the control of financial institutions. In addition, cultural factors play a significant role. The poor penetration rate of insurance in Muslim countries can be explained in both cultural and religious terms: family solidarity is strong, and Islamic law (sharia) is sometimes interpreted as prohibiting insurance just as it forbids usury.

As a result, the insurance sector is very small by comparison with overall economic activity. Insurance premiums, whether life or property, represented no more than 1% of the region’s GDP in 2003, as compared with 12% in industrialized countries.

In addition, it should not be forgotten that the law has often been a significant obstacle and remains so in certain countries.

Nevertheless, market structure is changing and some openings are appearing, such as recently in **Morocco** where the Insurance Law restricted bank holdings in insurance companies to 30%. An upcoming bill to remove the ceiling on investment would make this law redundant. Moroccan banks are actively preparing for this possibility and most of them have already invested significantly in training and motivation for their sales network.

**Lebanon**, **Morocco** and **Tunisia** were the first to go into the bancassurance market with the support of French bancassurance operators. Several major regional players have been operating for a number of years. By way of example:

- In 2003, in the United Arab Emirates, Standard Chartered Bank signed a co-operation agreement with Zurich International Life and ALICO (American Life Insurance Company); Likewise, in Dubai, National General Insurance moved into the life insurance market in 2003 in partnership with Emirates Bank International and Commercial Bank of Dubai;
- In January 2004, an Allianz Group company, Arab International Life Assurance Company, established a distribution partnership with Crédit Agricole Indosuez in Egypt;
- BankMuscat’s bancassurance business was launched in July 2004, in partnership with National Life Insurance, making it the first bank to offer insurance services in Oman.
In Israel, despite the legal prohibition on supplying life insurance through the banking network, Discount Bank moved into bancassurance by offering life insurance to customers who wanted it. Since the bank sells no policies and receives no commission, it is not infringing any laws.

There is a lot of interest in the development of bancassurance in Eastern European countries, especially those that joined the European Union on May 1, 2004.

The reason for this interest, first of all, is because the general environment is changing fast. These countries were all previously within the Communist sphere of influence, which had a considerable impact on the population's attitude to financial services and products. However, attitudes are changing at a phenomenal rate.

It is important to emphasize the small size of the current market. For example, 33% of Poles have bank accounts, compared with 98% of Belgians, an example of the very high growth potential for banking and insurance products.

In consequence, many insurance companies are seeking to establish links with local banks. Allianz, for example, has established relations in Poland, Bulgaria, Hungary and Croatia, on the assumption that bancassurance in Eastern Europe could account for up to 15% of its premiums in the next 10 to 15 years.

However, the development of bancassurance is only in its infancy; local governments are showing signs of nervousness about allowing foreign operators to control local banks. It is therefore too soon to know whether bancassurance will achieve the dominant status it has in France or Spain.
BBVA Seguros was created in 1968 as La Vasca Aseguradora, changing its name in 1973 to Euroseguros, an insurance and reinsurance company.

At the end of 1981, Euroseguros was taken over by the Banco de Bilbao banking group. From then on, Euroseguros became an insurance company providing financial services to the bank’s private customers and then, from 1988, to customers of Banco de Bilbao y Banco de Vizcaya.

Since March 2000, this company has been operating under the name of “BBVA Seguros SA de Seguros y Reaseguros”. As insurance and banking activities have become totally integrated, BBVA Seguros can now be considered to be a department of the bank.

Originally, its business focused on life, accident and hospitalization products. Today, BBVA Seguros is essentially involved in life insurance (lending insurance – a penetration rate of more than 60% in this field), savings products and traditional risks, but also health, accident and motor insurance, and with this property and casualty business comes an interest in working with other partners (AXA for DIRECT SEGUROS).

Key figures for BBVA Seguros:

- Total life premiums in 2001: €1,675 million
- Representing market share of 7.51% (11.20% for the bancassurance sector)
- Extremely strong international presence, mostly in Latin America.
It is difficult to draft an overall conclusion on “bancassurance around the world”, because as we have seen, the sector’s level of maturity differs from one country to the next. For this reason, each country needs to be looked at individually.

Now that we have shared our observations and thoughts on the emergence of bancassurance and its current status, it would seem reasonable to ask how bancassurance is likely to develop in the coming years.

Some countries, where bancassurance currently plays a relatively minor role, are trying to identify the reasons for this failure and would now like to develop these activities on a different basis. A process of rapprochement between banks and insurance companies was attempted by the so-called “Anglo-Saxon” countries such as the USA, the UK or Germany, where the bancassurance model never really took off. Through financial deregulation and/or an understanding of the reasons for this limited development, the two industries may perhaps be able to establish genuine alliances.

The high levels of recent economic growth in certain parts of the world (China, India, etc.) suggests the possibility that bancassurance may emerge in other countries. This emergence may take different forms: the integrated model, or simple cooperation. The degree of integration will depend above all on the local context in each market and the strategy adopted by the operators. However, these are not the only factors that will determine whether bancassurance succeeds. Many other elements and factors are required for a successful convergence.

As regards the countries where bank assurance is the dominant model, mainly the so-called “Latin” countries of Europe, banking and life assurance would now seem to be two intimately linked activities, sharing the primary goal of fulfilling a global customer need. The bancassurance model should therefore continue to gain market share, even if bancassurance operators have already begun thinking about a possible change of direction, or at least a shift to new objectives, products and customers.

Thus, after starting out with a mass distribution rationale and a strong focus on bank customers – i.e. on individuals – bancassurance operators are becoming increasingly innovative, and showing evidence of a willingness and ability to adjust and respond to their customers. This should enable them to maintain their position, and also to target new objectives, such as high-net-worth customers, business customers, professionals, young people, etc.

In terms of products too, bancassurance operators are diversifying and moving into a new era of more complex life insurance products, niches previously confined to the traditional channels. The goal of “mature” bancassurance operators is now to be able to fulfil even the most specific customer needs.

However, for some years it has also been clear that a new movement is emerging: bancassurance operators are looking at property and casualty injury products. In France, Solving International’s annual survey has shown that the market share of the banks in this segment, especially Crédit Agricole and Crédit Mutuel, grew between 2001 and 2003 by almost 1% a year. Just as with life products, and within the same perspective of success, personal injury products are now increasingly designed and sold to fit into an integrated banking approach.

However, the future of bancassurance is not predetermined, and operators will need to deal with increasingly tough competition. For example, to counter the rise in bancassurance, traditional insurance companies have responded with the invention of Assurbanque and the launch of their own range of banking products. For the moment, this offensive is too recent for predictions to be made about its future.

To sum up, in the countries where it is already well established, bancassurance can still grow in certain market sectors, while in other parts of the world, it is a matter of starting from scratch. Bancassurance still has a long way to go!
Analysis of Bancassurance and its status around the world

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Vie

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