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REVIEW ARTICLE

Bancassurance Development in Europe

Oaca Sorina C*

Bucharest University of Economic Studies, Romania.

Correspondence Email:* ***oacasorina@yahoo.com*

Abstract

The aim of this article is to analyse different aspects of the bancassurance phenomenon that is unquestionably one of the most important trend in the evolution of the European financial services industry. The first part of the article provides a short description of the phenomenon, examining its main drivers of development.The second part is devoted to more specific issues of the bancassurance phenomenon in the European market.

Keywords: *Bancassurance, CEE bancasurance market, Life insurance products, Non-life insurance products.*

Introduction

Bancassurance can be considered as a consequence of the progressive relaxation of regulatory barriers to financial conglomerates. A crucial role has been played by the increasing investor demand for long term savings products fostered by the growth in income and life expectancy accompanied by the crisis of social security and medical systems. In this context, the cooperation between banks and insurance companies has evolved starting from simple cross-selling agreements to strategic alliances and ownership links. Because of the financial crisis, many banks are rethinking their strategy sometimes deciding to refocus on their core business. The financial crisis has outlined the important role played by insurance profits which were able to partially offset the slowdown in credit-based products. The fundamental question is whether it is preferable to act as a simple distributor of insurance products, gaining commissions free of capital and risk implications, or to be directly involved in the underwriting activity in order to access potential grater synergies and returns. There is no correct answer to this question because of the many factors that may contribute to the success or failure of bancassurance. The first use of the term bancassurance was in France, where the cooperation between banks and insurance companies started earlier than in other European countries. This word was originally invented to indicate the simple distribution of insurance products by banks branches, while now it is used to describe all kinds of relationships between the banking and insurance industries. The growth of bancasurance has been particularly impressive where the financial services industry is characterized by a strong orientation to the relationship banking model and lower penetration of insurance products. In many countries like France, Italy, Spain, Portugal and Romania bank branches have become the main distribution channel for life policies while in others like United Kingdom and Germany insurance agents and brokers have retained the majority of the market.

Along with the development of the phenomenon, bancassurance definitions are becoming more and more general as it is shown in the following examples: Bancassurance is basically the provision of selling of banking and insurance products by the same organization, under the same roof [1]. As a rule, bancassurance can be described as a strategy adopted by banks or insurance companies aiming to operate the financial services market in a more or less integrated manner [2].In practice, the term 'bancassurance' is consistently used to describe a new strategic orientation of financial institutions in private customer business" [3].The bancassurance strategy is aimed at cross-selling insurance products to bank customers and can be realized in a number of different ways: the bank can play a simple brokerage role, participate in a strategic alliance or a joint venture with an insurance partner or bear the underwriting risk of the policy through its own captive company.

In this case, as outlined in *Van den Berghe* and Verweire it is important to distinguish bancassurance from different concepts, such as *assurfinance* and *all finance* [4]. Assurfinance is the provision of financial/banking products by insurers.

Even though there is no conclusive evidence it seems to be a less successful trend with respect to bancassurance, probably because the banks are in a better position to be considered by customers as a unique intermediary able to satisfy all their financial needs.

The term 'all finance' is quite a general one, indicating the bundling of different products to offer integrated and personalized financial solutions to customers.

Institutions involved in all finance are generally referred to as financial conglomerates.

It is difficult to find a single generally accepted definition of financial conglomerates in the economic literature. For example, in *Vander Vennet* [5] they are defined as 'financial institutions that offer the entire range of financial services '. In general, from an economic perspective, a financial conglomerate is an institution operation in more than one of the following businesses: banking, securities and insurance. The concept has been delimited by EU regulation: the Directive 87/2002/CE classifies a group as a financial conglomerate if engaged in both banking and insurance activities in a significant way (with reference to total assets or capital requirements), while the mix of commercial banking and underwriting securities is not identified as a conglomerate. As a result it is possible to affirm that regulators are more concerned about financial conglomeration when assuming the form of bancassurance.

Products

In order to have a growing business and a win-win situation for both bank and insurer, the combination of products should be continuously revised in the light of customer needs and evolution of the financial market. This will imply a periodically revision of prices and a constant searching of the most flexible and reversible form of cooperation (such as cross-selling agreements and on-equity strategic alliances).Banks have the opportunity to cross-sell insurance products to each segment of their customer base.

Retail Customers

- Life insurances attached to current accounts, credit lines, personal loans and mortgage loans
- Non-life insurances attached to debit or credit cards
- Payment instrument protection - purchase protection, price protection, fraudulent use
- Keys and wallet protection
- ATM robbery
- Extended warranty
- Travel insurance
- Non-life insurances attached personal loans and/or mortgage loans
- Credit protection insurances – unemployment insurance, temporary disability insurance, permanent disability insurance, health insurance
- Property insurances attached to mortgage loans
- Motor insurances - attached to car loans

Corporate Customers

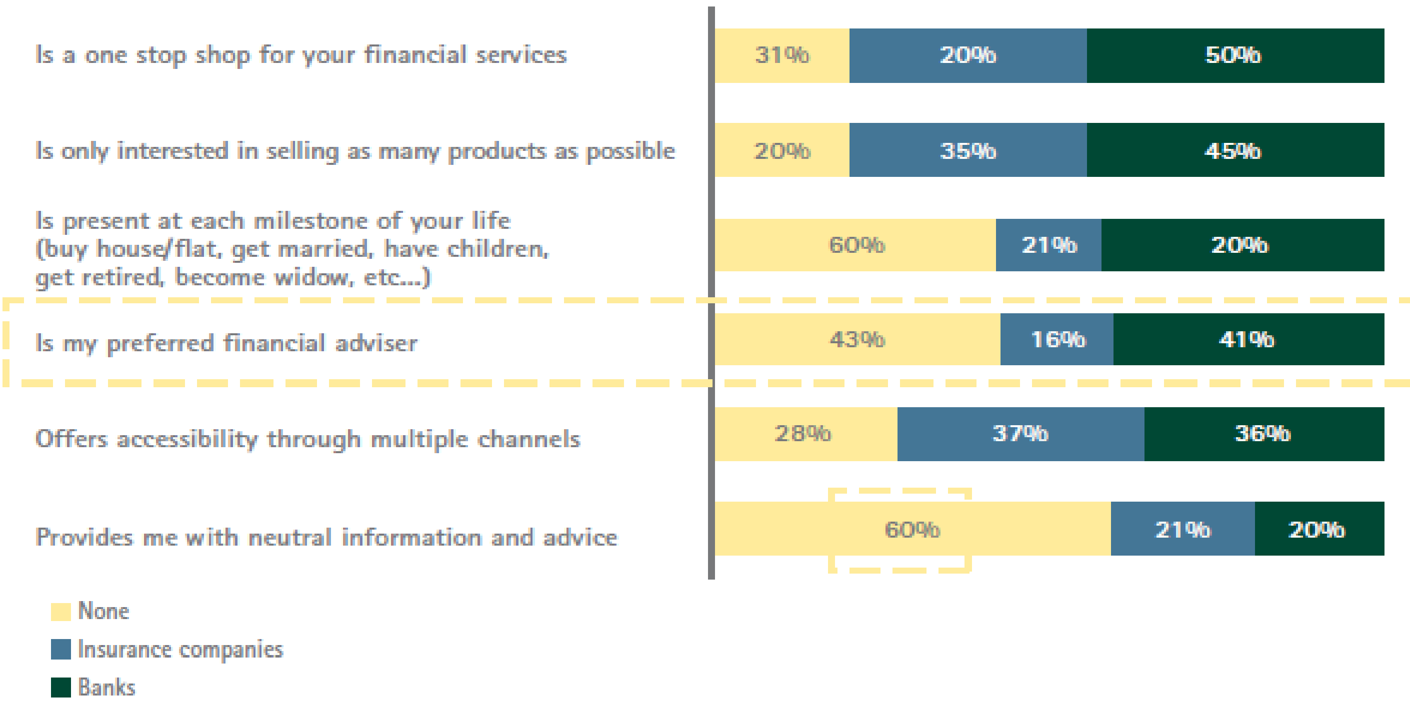
- Commercial Property insurance
- Commercial auto insurance
- Workers compensation
- General liability insurance
- Product liability insurance
- Professional liability insurance

All these types of insurances and much more can be easily sold to customers resulting in complete customer fulfillment and may prove to be a 'gold mine. The focus should be on establishing a one-stop-shop which ensures that retail or corporate customers will look no further for all or any of their financial requirements including but not limited to insurance and financial planning. Banks should ideally strive to take their fee income from Bancassurance to a level which is equivalent to nearly 50% of bank's overall fee income [6]. Banks should also strive to cross-sell at least one insurance policy to each of its customer whether individual or commercial. Bancassurance shall be the key differentiator to determine and influence a customer's choice of his preferred bank [7].

In UK was conducted a study to discover consumer perceptions of banks versus insurance companies.The question was: How do you feel insurance companies compare with banks on the following statements. Please indicate which of the following best applies.The results are revealed in the table 1 below.

The conclusion of this study is that banks have an opportunity to capitalize on the fact that for 41% of consumers, banks are their preferred financial adviser.Customers are satisfied and consider that neither banks nor insurance companies provide them with neutral information and advice (60%) and so there is positive view that can conduct to a growth of bancassurance business also.

Table 1: Results of study of discover consumer perceptions of banks versus insurance companies in UK

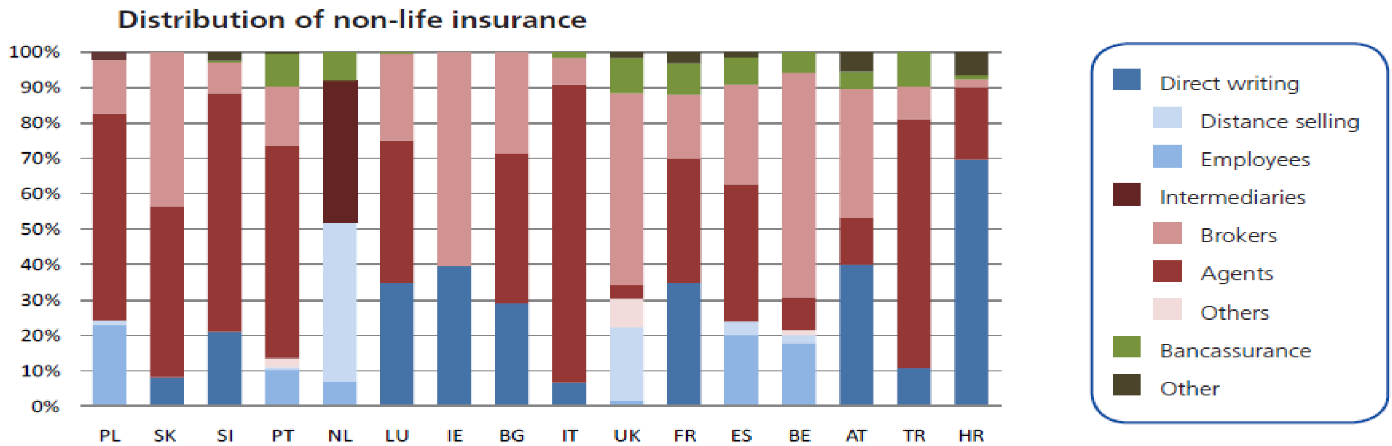


Source: Accenture Multi-Channel Distribution Consumer Survey, 2010
Base: UK Consumers

Bancassurance Development and Growth in Europe

Non Life Insurance Sector in Europe

As from CEA Statistics studies, in 2010 bancassurance was not very well developed in non-life insurance and represented less than 10% in all countries. The highest market shares were in Turkey (9.7%), Portugal (9.3%), the UK (9.9%), France (9.0%), the Netherlands (8%) and Spain (7.9%). The other countries had much lower market shares of below 5% except for Belgium (5.8%).Countries with high bancassurance rates, such as France, Portugal and Spain, also had high bancassurance penetration rates in life business. However, the development of bancassurance in life insurance does not guarantee the success of this channel in the non-life market, as can be seen in Italy, where more than 2/3 of life premiums were generated by the bancassurance network while in non-life insurance the market share was less than 2%.

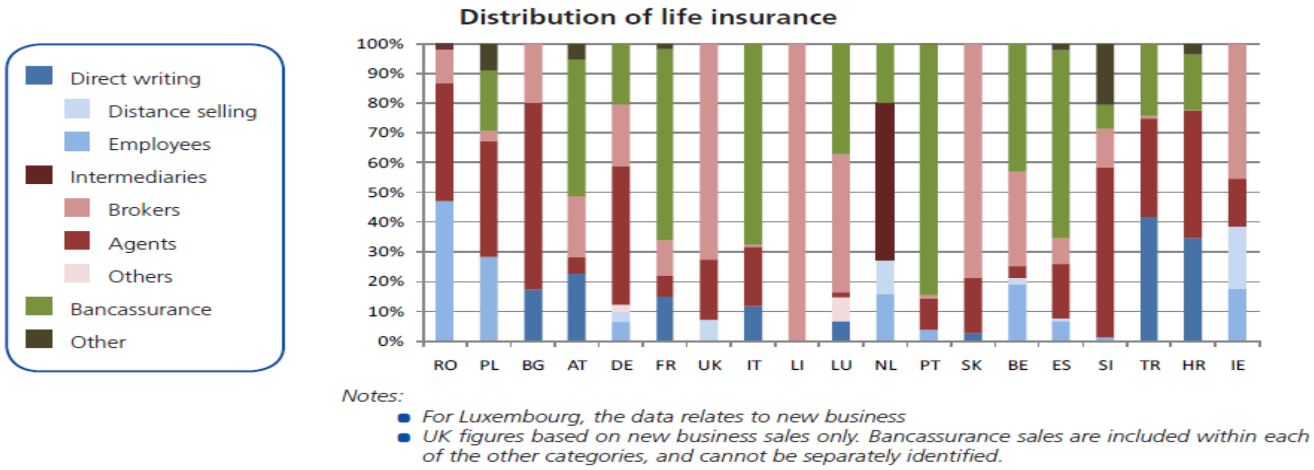


Source: CEA Statistics N°39 - Insurance Distribution Channels in Europe-2010

Fig.1 : Distribution of non life insurence

Life Insurance Sector in Europe

The same source reveals that in 2010 Bancassurance was the main distribution channel for life insurance products in many western European countries.In Portugal it represented up to 84.5% of the total life insurance business. The role of bancassurance remained, however, limited in two large western European markets: Germany and the UK.In Germany, this low penetration (20%) may be related to the large number of small and regional banks, which impedes the rapid and widespread distribution of standardized products throughout the whole country. In the UK, financial institutions accounted for about 17% of new individual sales and only 2% of new group sales. Low market shares of the bancassurance channel were observed in eastern European countries: Slovenia (8%), Poland (21%) and Croatia (19%).



Source: CEA Statistics N°39 - Insurance Distribution Channels in Europe -2010

Fig.2: **Distribution of life insurence**

Bancassurance Development and Growth in Central and Eastern Europe

Bancassurance can make the difference: there are evidences that support the fact that Central and Eastern Europe are behind Western Europe, but bancassurance could help to change this perspective.

The insurance market in Central and Eastern Europe has been in a continuous catching-up process with the rest of the Western European markets.

In the last 30 years, the number of life insurance policies sold by the banks in Europe has increased continuously. There are Western European countries, where more than 50% and up to 80% of new sales of life insurances are concluded through banks.

Unlike the Western European countries, the share of bancassurance in Eastern Europe countries is much lower, although banks already represent an important sales channel for life and non-life insurance products [8].

As the countries of the region evolve towards more mature markets, bancassurance is meant to play a strategic role to fulfill the demand for life and general insurance products.Due to loan and mortgage related protection business, the share of bancassurance has increased in most markets in the last few years.For example in Poland, recent statistics from the Polish Chamber of Insurance show that in Poland approximately 1/3 of individual policies and ½ of group policies are sold through banks.

Unfortunately, the current banking sector outlook seems to indicate that the loan growth in some CEE countries will continue to decrease due to reduced availability of external financing.

Compared to the most developed insurance markets in Europe, the insurance market in CEE has perspective for development and is expected to grow more rapidly than it has in Western Europe countries.

If we look in the euro zone markets, insurance penetration ranges from 5.4% to 12.4%, but if we look in CEE region, than in Poland, the largest insurance market of the region, the insurance penetration is about 3.8% while in Albania it is only 0.58%, the smallest value in Eastern Europe.According to a recent survey conducted by Oliver Wyman, the general consensus among insurers in the CEE region is that opportunities in the region will outweigh challenges.The level of development of the insurance market in CEE varies from a country to another. Macedonia, Croatia and Belarus are insurance markets that are considered to be still in course of development. On the other hand, insurance markets like Slovakia, Romania and Latvia are considered as 'emerging'. Therefore, the perspectives for growth are very different from country to country.Slovakia, Poland and Czech Republic are seen by some experts to have a positive development in contrast to Romania and Hungary, in which experts foresee a slower development due to these countries current tense economic situation. One of the opportunities for insurers in CEE is represented by channel and product innovation, as well as comprehensive product offering. In this respect, bancassurance is considered as the most suitable channel to drive and combine innovation with product offering [8].As in the majority of other domains, the recent global financial crisis has also had a significant impact on global bancassurance activities. Life and other long-term investment products sales have decreased and banks have prioritized deposits in order to increase liquidity.

The global economic crisis has also affected the concept of financial conglomerates combining insurance and banking under the same roof, and constrained many banks to divest themselves of their insurance affiliates. Currently banks are focusing more on their distribution role where insurers provide the insurance products, in most of the cases under strong and exclusive distribution agreements. Compared with other distribution channels, bancassurance maintains its importance among the most effective ones, despite the tough economic situation. Bancassurance is considered by the banks a means to diversify risk and earn fee income and so banks are interested in this profit centre now more than before. The global financial crisis has changed customer needs and way of thinking in consequence now customers are more inclined to save and invest their money securely. Romania, for example, has experienced a strong adjustment to the saving rate from about -5% in 2008 to over 20% in 2010.In most developed markets, some parts of the savings are directed towards insurance products, and other parts towards bank deposits. However, there are still countries, like Romania where bank deposits still represent the first customer's choice and, for some of them the most secure option.In this case, insurance products like life and health insurance will find their place in client's demand only if governments will offer fiscal incentives and insurance companies will do their best to prove that their products represent a viable and safe long-term savings alternative. In most of the countries of CEE region like Hungary, Poland, Slovakia and Czech Republic insurance products in general and life insurance in particular have already a significant role.In the majority of these countries the security provided by the state pension is lower than in Western Europe countries and in consequence the demand for life insurance and savings products is expected to grow.In this context, banks will have an important role in offering investment products such as unit-linked savings plans. Moreover, regulatory changes encouraging this type of individual pension saving are expected to come in the near future.

Bancassurance Development and Growth Worldwide

Extending the local image of Europe to a wider image, the bancassurance's world map looks like in the picture bellow.This map reveals where does European bancassurance related to life insurance products is situated compared with the one from other countries of the world.In some cases Europe's bancassurance is better situated (comparing by example with USA) but in other cases we can see that it is always place for improvement (in Taiwan bancassurance penetration in life insurance is 63%.

Conclusion

All economies, including the CEE region economies, are striving to recover from the financial crisis. However it is expected that most of the CEE developing economies to grow at a higher rate than the more mature Western economies, and the insurance sector to benefit also from this growth. As the wealth and prosperity of people increase, so do the need and demand for insurance products.Bancassurance and insurance industry can gain under these recessionary conditions. Banks which took to bancassurance in the proper way before the recession set in shall have advantage over their peers. Banks who thought bancassurance was unimportant to them, should rethink as fee income from insurance cross-sales can compensate at least in part the loss of income from the interest bearing banking products.

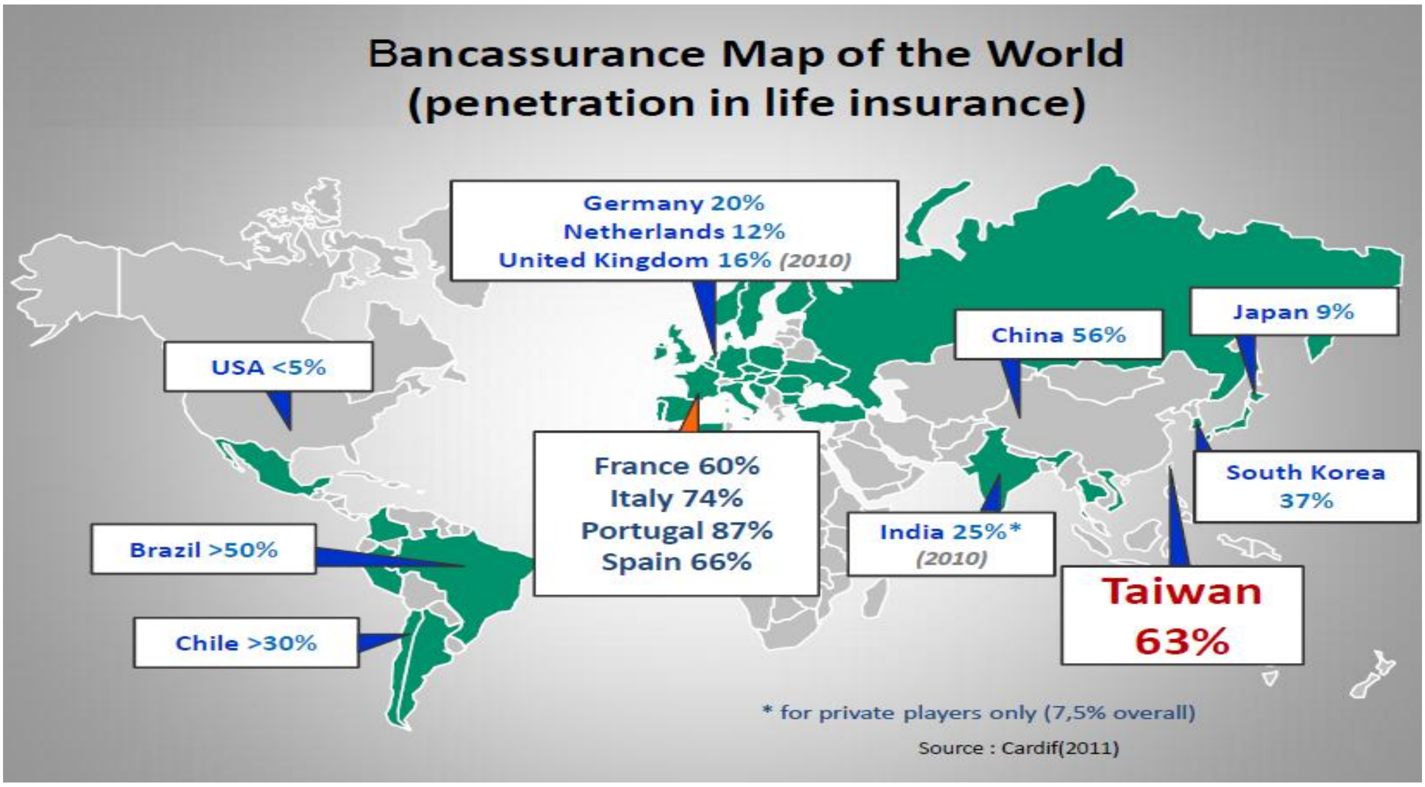


Fig.3: Extending the local image of Europe to a wider image, the bancassurance's world map looks like in the picture.

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