BANCASSURANCE – FINANCIAL MARKET FACTOR

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Abstract

This document aims to present Bancassurance, as well as ways to develop the banking system in general. Bancassurance is a process of using the bank's customer relationships to sell life and non-life insurance products. The reason for choosing this theme is to realize in the future the optimal bancassurance model, on a comparative basis of the relevant legislation in force and international best practices, including case studies and concrete solutions in the development and diversification of banking services. The implementation of bancassurance activity in the banking field contributes to the strengthening of the competitive environment, the development of new products in insurance and the higher satisfaction of the consumer's needs. The implications of banks, with their own peculiarities of insurance, are numerous and the hard work of regulatory bodies at the European and American level of harmonization at international level in these areas is welcoming. The distribution of insurance in the bancassurance system is a future solution and will continue to develop on the Romanian market as well. Bancassurance is the main distribution channel in many countries, accounting for more than 50% of life insurance products (e.g. France, Italy, Spain, Austria), and in Portugal the share goes up to 80%. The strategic priorities of banks are to increase business protection by adding new products to their portfolios. Among the aspects needed to develop this service, bank representatives propose both the diversification of types of insurance sold through banks, as well as the growth of consumer financial education development and digitalization.

Introduction

The development of financial markets and the increasing importance of banks in the economic and financial environment led to their specialization and the diversification of banking services and products. Thus, banks have also accessed capital markets in competition with securities, insurance, mutual funds and pension funds.

The competitive pressure from other financial market segments (such as insurance and capital markets) has prompted banks to initiate and develop new services such as Bancassurance. The banking services sector requires a specific approach to customer needs research and the establishment of the portfolio of services to be offered by the bank.

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This is due to the particularities of banking services: • the demand for banking services is heterogeneous and therefore the banking institution needs to analyze the needs of each category of clients and adapt them to the services they offer; • Atomicity of the demand for banking services (the large and scattered clientele) makes it more difficult for customers to contact, and they increasingly want customized services; • banking services have a long life cycle, not subject to physical (non-material) and moral wear.

The aging process is slow. Sometimes, banking products / services are as old as the bank. • banking services cannot be protected by patents, and as a result, immediately after the launch of a new service created by a bank, it can be taken over by other banks.

However, the implementation of new amendments and additions to the banking and insurance legislation aims to establish the requirements for licensed banks to carry out a new bancassurance activity in the context of alignment with international standards.

Definition and evolution of bancassurance

The emergence of insurance is related to the need to decrease the risks and the security of their coverage, and reinsurance to support those who manage funds and insurance activities. The need for insurance activity is related to the existence of possible events that represent a threat to the integrity of material goods or to people's lives: calamities, accidents, incidents, etc.

Faced with these dangers, people's need to protect has led to its solidarity in the process of preventing the effects of events (insurance risks). Over time, the company has tried to find effective ways of preventing and limiting the consequences of these events, but experience shows that their deployment cannot be fully predicted or stopped.

Therefore, there has been a need to take protective measures to cover material damage or to ensure decent living conditions for people who have lost their working capacity through the occurrence of disabilities.

The proper insurance, in the simplest, classic way, but also the most commonly encountered in practice, consists in financial protection for losses caused by a wide and varied range of risks.

The insurance is based on a will agreement (contract) concluded between the insurer and the insured, whereby the insurer provides the insured with protection against the risks he has assumed, obliging himself to cover the insured the value of the damages (ie the sum insured in the case of life insurance) in case of producing such events, in exchange for the insured's payment of an amount of money, called the "insurance premium". By paying the insurer the insurance premium, calculated by applying a small percentage to the insurable amount, the insured receives instead the indemnity guarantee against the possible and future loss for any of the risks included in the insurance conditions.

Insurance is a form of protection based on a contract whereby a natural or legal person called insured gives certain risks to an insurer, paying the insurer a sum of money called insurance premium. The Insurer undertakes under this contract to pay the insured the indemnity if one of the insured events takes place.

In order to hedge the risks related to the sale of financial banking products through the Bank, a new concept - Bancassurance was launched.

The emergence of the bancassurance phenomenon cannot be attributed primarily to banks or insurance institutions. The proximity of the two sectors has occurred as a result of the changes in demand and supply of financial services.

Bancassurance is an insurance brokerage activity that is complementary to the products of credit institutions and non-banking financial institutions through the network of these institutions (Article 2 of Law No. 32/2000). The specificity of this activity lies in the fact that the intermediation in insurance has only an accessory, complementary character.

Bancassurance provides intermediation for contracting insurance operations accompanying banking financial operations involving various types of loans (eg life insurance when a mortgage loan is contracted).

The implementation of bancassurance activity in the banking field contributes to strengthening the competitive environment, developing new products in insurance and meeting the needs of the consumer to a higher degree.

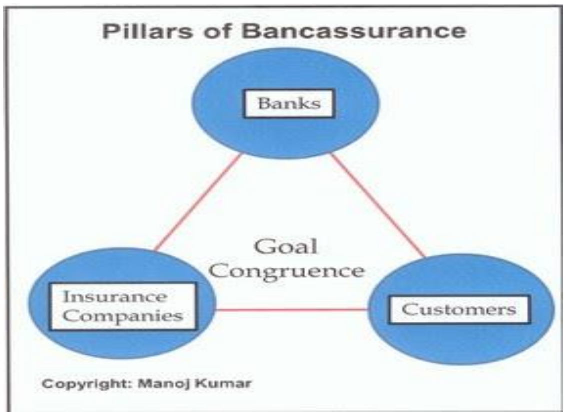


Figure no. 1. Bancassurance is based on 3 pillars: Banks, Insurance Companies, Customers

According to the financial dictionary of the prestigious online economic daily leTribune.fr, bancassurance is a development model for the financial sector in vogue in the 1990s. The model is based on the proximity between banks and insurance companies in order to create strong financial poles.

Defining the concept of bancassurance has a functional and institutional aspect. The first aspect defines the concept of bancassurance as a set of banking products and insurances.

The second concerns the way in which collaboration between banks and insurance companies is organized.

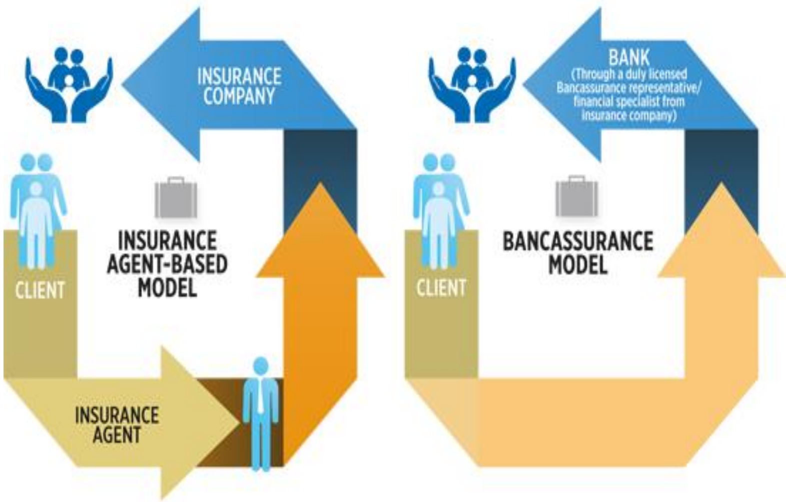


Figure no.2: Bancassurance Insurance Policy Conclusion Process

Source: http://www.bworldonline.com

The Bank-Insurer Partnership is win-win. First, Banks ensure themselves by decrease the risks associated with bank products sold. These will create new integrated insurance products to better meet customer requirements. By selling insurance, Banks can expand their portfolio of potential clients and obtain additional revenue sources. By selling insurance, Banks can expand their portfolio of potential clients and obtain additional revenue sources. The insurance companies also benefit from the partnership with the Banks, ie the expansion of the activity, having access to a wider portfolio of natural or legal clients, benefit from the bank's infrastructure and services, as well as a new distribution channel for selling insurance.

It is almost unanimous that bancassurance has emerged in the 12th century in the Republic of Venice. "Maritime lending" to merchants combines the features of current credit with insurance and forward-looking operations.

In 1863, the idea was resumed and put into practice in Switzerland when the Helvetia insurance company and Credit Suisse and Basler Handelbank founded Compagnie Suisse de Reassurance. After the Second World War, the bancassurance concept began to develop more and more. In 1965, the British bank Barclays created the life insurance division Barclays Life. In the United States, the deregulation process started in the 1990s allowed the merger between Citibank and Travelers Group in 1998, thus defending the largest group of integrated financial services globally.

In mainland Europe, bancassurance expansion was favored by the EC Directive92 which provided for the formation of the single market, and legislation allows alliances between banks and insurance companies. Bancassurance development has three important stages. In the first stage, until 1980, banks sold security collateral as a direct extension of their banking activity. During this time, bankers did not sell insurance but gained experience in this area. The second phase of development began after 1980, when banks began to offer insurance services to their clients. In the third phase, which started in 1990, banks included non-life and life insurance products (Krsticet al., 2011).

The first sale of life insurance through the bank distribution channel took place in France.
The two Bancassurance models implemented in Europe are: Integrated Model and Non-Integrated Model. In the Integrated Model (predominantly in Southern Europe), banking and insurance are perfectly integrated, bank branch employees sell insurance products and these are created specifically on the bank's specific needs and customer needs. In the non-integrated module (predominantly in Germany and U.K), insurance products are sold by specialized insurance agents.

In Romania, the first product was launched in 2001. The emergence of bancassurance solutions in Romania is related to retail banking. This product consists of insurance attached to a bank loan to protect the risk of default or the death of the borrower. This type of insurance often accompanies a home loan, which is of great value over a long period of time.

In Asia, Bancassurance had a slow evolution. But after the financial crisis of 1997, the negative balance and fierce competition forced the banks to find new sources of income, and on the other hand, insurance companies needed new distribution channels for insurance sales. Thus, two types of partnerships have been concluded in Asia. At one extreme, the Bank acts as an agent for one or more insurers, based on an agreement, and at the other end, an integrated Bancassurance model focuses on customer relationship management, offering an intact process and keeping the opportunity in the financial group. Insurance specialists and banking professionals have concluded that bancassurance, the distribution channel for insurance products through banks, has a major contribution to the life insurance market, this type of distribution being less common in non-life insurance.

Bancassurance distribution represents a future solution and will continue to develop on the Romanian market. Bancassurance is the main distribution channel in many countries, accounting for more than 50% of life insurance products (e.g. France, Italy, Spain, Austria), and in Portugal the share rises even over 80%. For Romania, there are no accurate studies on bancassurance distribution, but ASF estimates that it has a share of about 30% of gross written premiums on the life insurance segment below the European average.

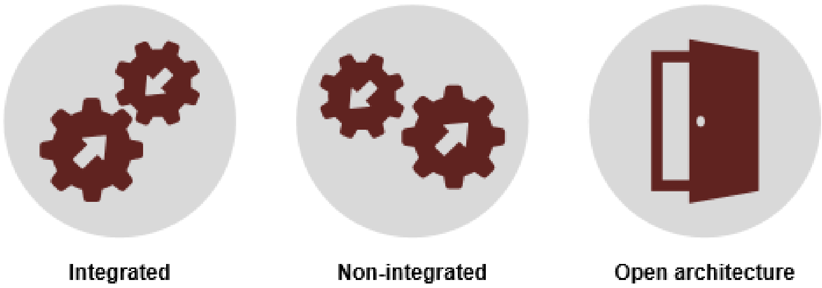
In the life insurance segment, the bancassurance perspective is good, but the distribution of the non-life insurance segment is low, below 10% at European level.
Bancassurance development will play a key role in regaining the trust of policyholders. It is essential that insurance is a business based entirely on trust and expectations. Trust in the person or institution selling the insurance must be lifted. The buyer must be confident that the product is sold at a fair price and that the insurer will remain solvent throughout the insurance period. Also, banking experience can bring added value and a higher level of counseling and financial education to consumers. Bancassurance activity should not only be

a simple sale of insurance policies, but requires the correct, complete and professional guidance of the client to a particular insurance product.

Trends in Bancassurance Development

Bancassurance insurance distribution will develop in the coming years on the Romanian market and will hold about 50% of the life insurance market in 2020, compared to about 30% today, according to the estimates of the company's representatives ERGO Romania. This distribution channel is the only driver of rapid growth in the insurance market and, in particular, life insurance. Growth prospects are atrophic, as traditional value sources are rapidly shrinking or disappearing entirely due to macroeconomic, regulatory and customer pressures. Financial services offerings have become more and more diversified, with costs being transferred continuously to the client. Most banks have actively engaged client-oriented strategies. The importance of customer relationships is essential for developing a competitive edge.

Bancassurance models around the world have three distinct levels of integration:



Integrated models are characterized by deep integration of insurance and wealth management activity with the bank's processes (either through fully owned share purchases or joint ventures) and involve cooperative product manufacturing and distribution. Financial products are distributed by bank employees and a premium is usually collected by the bank directly from customers' bank accounts. Such models are often seen in Europe, as well as Brazil and Hong Kong.

Semi-integrated models are those that involve integration with some but not all channels. A growing number of partnerships are looking for ways to provide customers with seamless transitions between providers – using an expanding digital backbone underpinning customer experience and multichannel environments – while still enabling each party to maintain operational freedom.

Non-integrated models involve separation of distribution and manufacturing functions and are often used in regulatory environments that do not allow integrated models. Products are typically exclusively distributed through a network of financial advisers set up by the bank. Non-integrated bancassurance models are typical for northern Europe and the UK. Open-architecture models are used when banks hold minor equity stakes in insurers and limit their role to distribution, but are not bound by exclusive distribution agreements, allowing them to offer multiple products from a range of providers. Such bancassurance models are common in Asia.

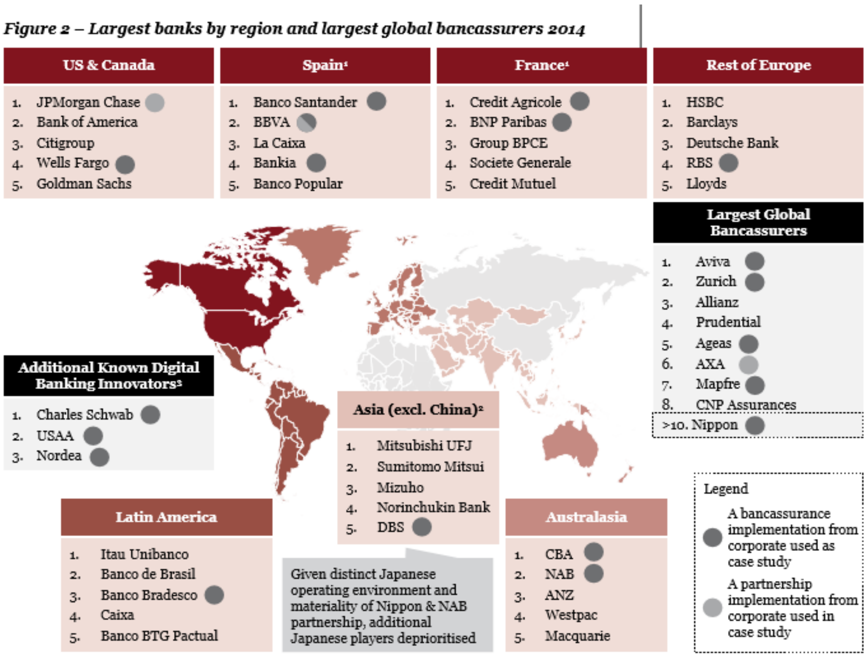


Figure no. 3: Largest banks by region and largest global bancassurers 2014

Source: The Banker, Finaccord, Strategy& analysis.

Notes: Banks as measured by Tier 1 capital. Bancassurers as measured by % share of bancassurance partnerships. 1 Spain and France separated from the rest of Europe due to the significant influence of their banking groups globally and high bancassurance penetration. 2 China excluded due to prevalence of disparate commoditized partnership models; transaction oriented and commoditized collaborations lead to price competition. 3 List of known digital banking innovators based on past Strategy& client work on customer-centric strategies.

The current trend in most banks is towards digitization, towards migration to the online environment. This tendency for Bancassurance can be a threat or an opportunity. On the one hand, a reduction in the number of branches creates revenue risks because players will continue to rely on access to branches as their first distribution channel and try to grow through their networks. On the other hand, a switch to online sales activities could lead to greater absorption of sales of insurance and welfare products, while increasing digitization of transactions will create opportunities for offering insurance and management products of wealth as a convenient addition to other products and services offered online. Globally, bancassurance is already working with banks to migrate their offers to the online environment.

Conclusion

Bancassurance plays a major role in global insurance and dominates several major European markets, such as France and Italy. Its market share is expected to come from the deregulation that takes place in several Asian countries and in the UK.

In most countries, bancassurance has had a gradual evolution of products offered by service protection, in close connection with the lending activity of banks in the general economy and, ultimately, with a wider range of protection products.

In many countries, the choice of a business model is influenced by regulatory constraints (for example, the minimum required qualification for the sale of insurance products, the type of products that banks are allowed to promote).

Bancassurance can be an efficient distribution mechanism with potentially higher sales and lower costs than traditional, segregated distribution channels, in other words, in additional cost and revenue synergies.

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