



Introduction to Bancassurance



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Banks selling insurance? There's a word for that: "bancassurance".

A classical definition of bancassurance is the "process of using a bank's branches, sales network, and customer relationships to develop sales of insurance products" (Gonulal, Goulder, & Lester, 2012, p. 8). Its basic sales model is logical and intuitive: a customer goes to a bank for a loan or other form of financial service, and the bank's customer advisor offers, in addition to what the customer requests, one or more insurance products to ease the loan transaction or otherwise improve the consumer's financial position (Gonulal et al., 2012, p. 8).

As banks have financially literate staff, and the customer already frequents the bank to conduct financial business, bancassurance may create a synergy and opportunity between industries that have traditionally operated separately (Elkington, 1993, p. 2). Basic philosophic and cultural differences – premised on the fact that insurance is mostly designed for the long term, whereas the banking sector counts on short-term liquidity¹ – in one shape or form are bridged through bancassurance.

Bancassurance: A Brief History

Compared to the marine insurance market which emerged in the eighteenth century, and life insurance market in the century thereafter, bancassurance is a newcomer (Gonulal et al., 2012, p. 5). Its etymology "Banque et Assurance" suggests French origins, where a banking law was passed in 1984 (La loi bancaire, l'article 5, n° 84-46, 24 janvier 1984), enabling credit institutions to widen their business activities (Bonnet & Arnal, 1990). In fact, its roots reach even deeper: the creation of Barclays Life in September of 1965 is probably the first such bank-insurance fusion.²

In its infancy, bancassurance simply involved the distribution of insurance products by bank branches, predominantly focusing on life insurance policies, since they often involve a substantial saving component and exhibit many similarities as well as a complementary nature with asset management (Starita, 2011a, p. 26). Meanwhile, bancassurers have branched out to include also non-life business offerings.

The evolution of bancassurance has been aided by megatrends including deregulation, globalization and the meteoric expansion of information and communication technologies (ICT) (Ricci & Fiordelisi, 2011, p. 7). With some notable exceptions, up to the 1990s banking markets were mainly domestically oriented, characterized by strict regulation and low competitiveness. The landscape significantly changed with the EU's Second Banking Coordination Directive (89/646/EEC) in 1989, which universally allowed banks to engage directly in a large set of financial activities, such as the trading and underwriting of securities or asset management.

Ten years later the U.S. followed. In 1999 the Gramm–Leach–Bliley Act allowed banks to engage in the securities and the insurance business (Peng, Jeng, Wang, & Chen, 2017, p. 3). Before that, ever since the 1933 Glass-Steagall Act, they had been prohibited even from entering into business with firms that

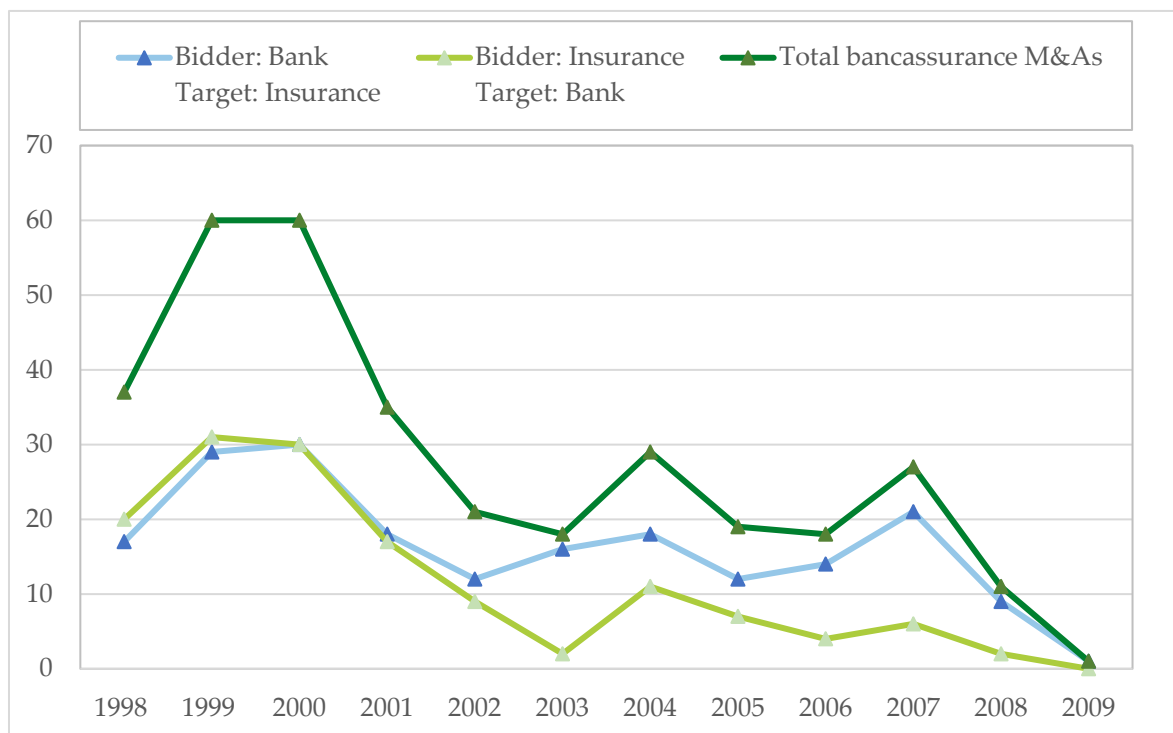
¹ Based on Interview with Wolfgang Prasser (April 2018).

² Bergaoui Houda, "Bancassurance: Commercialisation des produits assurantiels", 2006, <https://www.memoireonline.com/07/08/1279/bancassurance-commercialisation-des-produits-assurantiels.html>, accessed May 2018.

provided another type of financial service. With a ten-year head start, it is not surprising that European banks dominate the global bancassurance market. In recent years, regulators around the world have been generally favorable to bancassurance, noticing that the business model propels competition among insurance companies and increases coverage rates among consumers (Teunissen, 2008, pp. 412–413).

In most bancassurance cases, the bank and the insurer are distinct legal entities: sometimes a bank owns an insurer, and sometimes, albeit only rarely, it is the other way around. Most often however, banks and insurers keep each other at arm's length for the sake of risk diversification (Ricci & Fiordelisi, 2011, p. 18). Yet before, during and after the overturn of the Glass-Steagall Act, the two markets observed a flurry of M&A activities, predominantly led by banks, as Figure 1 illustrates. This movement represents a decade-long experimentation, which ended with the global financial crisis between 2007 and 2009.

Figure 1 Bancassurance M&A from 1998-2009



Source: Ricci & Fiordelisi (2011, p. 18)

Bancassurance Models

The trend in the bancassurance market has gone from simple combination to complex integration (Dominion Bond Rating Service (DBRS), 2006, p. 3). The more complex forms of bancassurance entail variations on all aspects of its delivery, including the company structure, sales and marketing, product design, and sales remuneration. The main bancassurance systems fall broadly into three categories (Bonnet & Arnal, 1990; Ricci & Fiordelisi, 2011, p. 21):

1. Cross-selling, integrated models (where the bancassurance activity is closely tied to the banking business, e.g. through a distribution agreement);
2. Cooperation models (where there is less integration, and the distribution is based on using professional insurance advisers to sell to the clients of the bank); and
3. Control by ownership (the bank owns the insurer).

Table 1 details the advantages and disadvantages of each model.

Table 1 Comparison of different Bancassurance models

Model	Advantages	Disadvantages
Cross-selling agreement	<ul style="list-style-type: none"> • quick and simple • reversible • partners remain independent 	<ul style="list-style-type: none"> • provision of basic products • limited exploitation of synergies • possible conflict of interest
Cooperation between independent partners	<ul style="list-style-type: none"> • enhancement of specific competences • partners remain independent 	<ul style="list-style-type: none"> • possibly clashing cultures • problems of coordination and value sharing
Control by ownership	<ul style="list-style-type: none"> • unique strategic design • maximum potential for synergies 	<ul style="list-style-type: none"> • long term capital commitment • complexity and agency problems

The system in which the insurance arm is a subsidiary of the bank is especially common in France. Where separate ownership remains, creating win-win scenarios proves to be a more promising strategy than re-splitting the customer-deposit pie. To sustainably increase the size of the overall profit pool through long-term cooperation with banks, insurers do well to focus on eliciting customer demand in risk management instead of trying to redirect demand from deposits to deposit-alternative products (Binder, Shi, Wu, Ngaio, & Fei, 2012, p. 23).

In sum, bancassurance now encompasses all sorts of bank/insurance mashups (Ricci & Fiordelisi, 2011, p. 17). Swiss Re (1992, p. 4) showed much foresight when in 1992 it defined the term as a “strategy adopted by banks or insurance companies aiming to operate in a more or less integrated manner in the financial market.” The most effective governance for captive/exclusive bancassurance models is the joint

venture, as it is a good indicator that the cooperation between two partners is intended for long-term. It is furthermore the most stable form of collaboration, since conflicts of interest between a bank and an insurance company are not easily solvable – not even in a digital world. In a joint venture, everyone invests into resources and business returns are shared in a fair manner predefined through equity stakes.³

It is also worth noting that the more complex the business model gets (and alliances are complex) the bigger the risk of operative failure becomes. For this reason, almost only big companies engage in bancassurance. They have the necessary resources, a good IT infrastructure and experience. However, large operations also involve more risk. Banks and insurers are IT-intensive industries where problems arise regularly⁴ (e.g., Raiffeisen recently sent out the wrong bank account statements to customers⁵).

However, today's technical possibilities will open up a new field of business opportunities and models in banking and insurance. With those technical possibilities at hand, the ultimate goal is to satisfy the customers' needs and it does not matter if this is achieved through a bank or an insurance product. There is a relatively large potential once the customers have changed their habits.⁶

Bancassurance Parties and Products

There are five main stakeholders in bancassurance:

1. **Bank** – the new venue and insurance salesman, whether offering its own bancassurance products or those of a 3rd party insurance provider
2. **Insurance provider** – the entity “outsourcing” its insurance sales to banks
3. **Consumers** – the target and ultimate beneficiary of the bancassurance products
4. **Traditional agents** – the traditional insurance middle-man that stands to lose from direct bank-consumer transactions for insurance products
5. **Digital brokers** – enablers for digital sales and service journeys who eventually provide a technical platform for digital bancassurance

Figure 2 depicts the various bancassurance products in the categories borrowing, investment, insurance, life, and pension, being sold in tandem with traditional insurance and bank offerings. Three products, each of which contains an investment component, are worth highlighting.

Unit-linked: an insurance product, commonly life insurance, which, apart from the risk coverage for the policyholder, includes an investment component. The latter can, among others, be allocated to stocks, bonds or mutual funds.

³ Based on interview with Christian Richter (April 2018).

⁴ Based on Interview with Martin Strobel (April 2018).

⁵ Thomas Schürpf, “Raiffeisen hat falsche Kontoauszüge verschickt”, NZZ, April 23, 2018, <https://www.nzz.ch/wirtschaft/raiffeisen-verschickt-falsche-kontoauszuege-an-kunden-ld.1379820>, accessed May 2018.

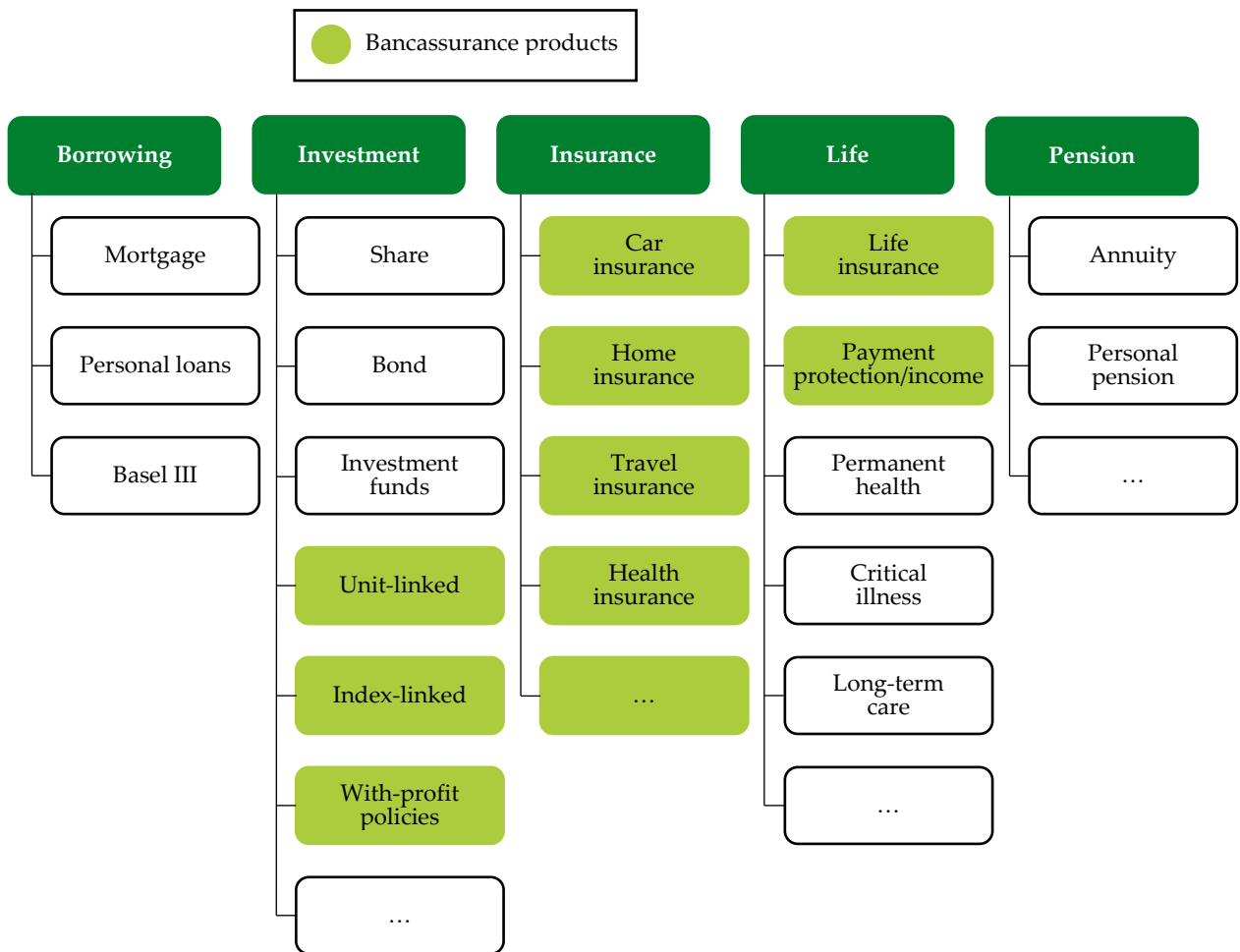
⁶ Based on Interview with Michael Müller (April 2018).

Index-linked: an insurance product, commonly life insurance, in which a portion of the premium is used for investments whose returns are linked to the performance of one or more capital market indices, such as the S&P 500.

With-profit policies: an insurance product that participates in the profits, distributed in the form of bonus or dividend, of the insurance company.

An example of an index-linked policy is provided in the Exhibits. This index-linked policy features a bonus, a guarantee, and a life insurance cover.

Figure 2 Bancassurance products

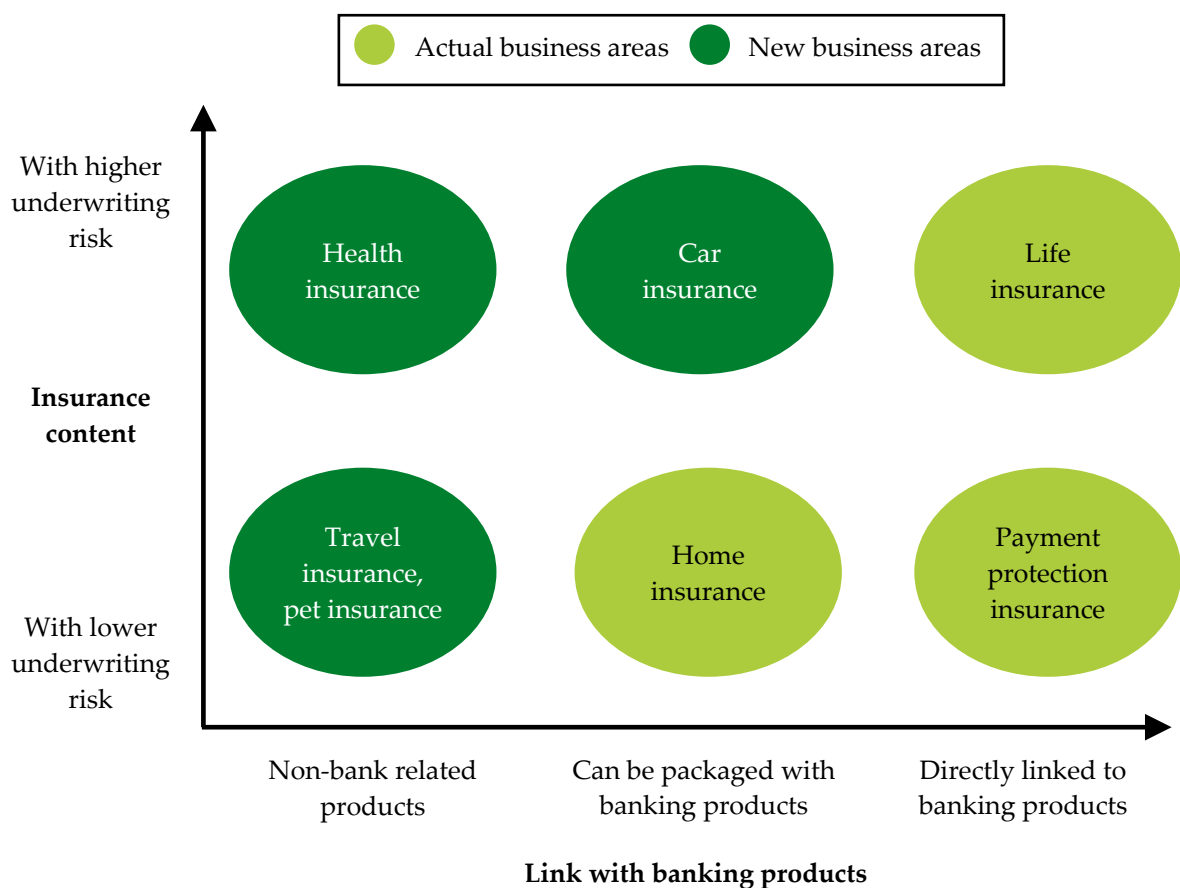


Source: Starita (2011a, p. 29)

With respect to relative importance and value, as of 2018, the biggest share of bancassurance is life insurance as an investment product. This is because it is very similar to banking investment products such as mutual funds or a savings plans. A logical next step, which many already have taken, is insurance for mortgages or consumer loans, where one insures the mortgage or a consumer loan against the loss of job or a death event. These types of coverages are closely linked to the banking product. Standalone insurance policies such as home insurance are less obvious candidates for bancassurance, although they sell quite well together with a mortgage. Other products, such as motor, travel or health insurance, are a rather new trend from the most developed bancassurance markets – for example France, Spain or Portugal. In countries such as Switzerland or Germany, the respective volumes are still comparatively small.⁷

Starita (2011a, p. 26) observes that, generally, “bancassurer products have a low insurance content if they belong to the life business, or a high degree of standardization, if they belong to the non-life business.” She furthermore argues that health, car, travel and pet insurances exhibit no natural link to banking products (see Figure 3).

Figure 3 Bancassurance business areas: the link between banking products and insurance content



Source: Starita (2011a, p. 42)

⁷ Based on Interview with Christian Richter (April 2018).

Success Factors

The relative growth or decline of bancassurance has been linked to key endogenous and exogenous drivers.

ENDOGENOUS FACTORS:

1. Existing physical and human capital of banks

Bancassurance leverages the financially-literate staff of banks to also offer insurance products (Jain, 2011, p. 7). Generally speaking, the bancassurance channel has often proved to be less expensive than agents and brokers (Wong, Barnshaw, & Bevere, 2007). As they are already being compensated, branch employees could theoretically be rewarded with lower commissions than the traditional insurance sales force (Ricci & Fiordelisi, 2011, p. 15). Furthermore, bancassurance enables the employment of existing assets, which increases productivity and allows the provision of more price-competitive products (Munich Re, 2001; Teunissen, 2008, pp. 412–413). Relevant cost savings may also be gained by applying the bank's customer databases and IT systems for insurance purposes (Ricci & Fiordelisi, 2011, p. 15). In short, the marriage between the banking and the insurance industry has been encouraged by the potential exploitation of economies of scale and scope (Ricci & Fiordelisi, 2011, p. 15).

2. Access to new customers

Bancassurance affords insurers access to the customer base of banks, which is attractive due to its geographical spread. The goal of bancassurance is to become a one-stop shop for all kinds of financial solutions that covers banking services, insurance coverage, and retirement planning. Leveraging banks' strength provides insurers with the opportunity to increase their market penetration and enlarge their own customer base (Jain, 2011, p. 7). The provision of an entire range of investment and insurance products aims to improve the client's financial standing, and may therefore increase demand and customer loyalty. At the international level, bancassurance can also serve as a vehicle for foreign insurers to enter a local market via connections with domestic banks (Teunissen, 2008, pp. 412–413).

3. Synergies and overlapping goals

Through bank-insurance integration, synergies are unlocked. While banks largely focus on offering services related to a customer's savings, insurance products help the customer retain wealth. Consequently, both financial service providers are ultimately concerned with wealth management. The view that the insurance market complements the traditional bank services is a precondition for such fusion. Teunissen (2008, pp. 412–413) observes that the extent of integration between banks and insurers in key operational processes such as product development, sales, IT and remuneration is vital to the success of the bancassurance business.

4. Nature of products

Teunissen (2008, pp. 412–413) empirically shows that banks' insurance sales have a positive correlation with the extent of simplicity and standardization of the insurance products. The degree of product complexity acts as a constraint, and bancassurers tend to be less successful in selling complex products, for which expert advice is required.

EXOGENOUS FACTORS:

1. Diversification pressures

For banks, there are push and pull factors to diversify, also by branching into the realm of insurance. To answer to the question why bank-insurance integration is on the rise, one might think that the banks are now placing customer welfare in the foreground. However, the main catalyst results from the fact that all banks are exposed to changing market conditions. The core business of banks is facing notable margin pressure, forcing them to think about new revenue opportunities.⁸

2. Existing insurance penetration

Targeting countries with a high insurance penetration is a two-edged sword. On the one hand, a vibrant insurance market – with the middle and upper class sufficiently wealthy and educated to demand insurance products – promises recurrent and future business. On the other hand, the marginal gains can be much smaller in established markets than in frontier markets.

3. Policy environment

Another critical factor for the growth or decline of the industry is a supportive regulatory regime. Liberal regulations for the sale of insurance products through banking networks and for ownership of insurance companies by banks are a prerequisite for the development of bancassurance (Teunissen, 2008, pp. 412–413). In Europe, the U.S., China and India, deregulation of financial markets permitted partnerships between banks and insurers and thus increased bancassurance adoption (Jain, 2011, p. 7).

Certain policies, e.g. those that favor long-term savings products, also boost bancassurance indirectly. Bancassurers are capable of exploiting tax and other fiscal advantages by offering simple, low cost, long-term savings products, a superior alternative to the more complex conventional offerings of insurers (Teunissen, 2008, p. 413).

4. Competition by brokers

The relative strength of alternative distribution channels is another notable determinant for the success of bancassurance. In countries with strict regulatory requirements and a high product complexity, such as the Netherlands and the UK, we observe a strong independent broker sector that exerts adverse effects on the bancassurance model (Teunissen, 2008, p. 413).

⁸ Based on Interview with Nikolai Dördrechter (April 2018).

5. Economic environment

Finally, the basic economic environment is also an exogenous factor for the development of bancassurance, with strong regional variations being typical (Junker, Gerssen, & Jutte, 2014, p. 10). First, the overall economy must be able to create sufficient wealth for some to seek to secure their financial standing. Second, there is less demand during economic downturns. The global financial crisis starting in 2007/2008 also affected bancassurance, and was an important reason for declines witnessed in southern Europe. Asia was also affected: in the Philippines, for example, life companies registered declines of up to 70% in new business premiums in 2008. Similarly in nearby Indonesia, a drop in new business and a higher termination of existing bank-distributed policies occurred due to the financial crisis (Kalra & Futterknecht, 2011, p. 21). Yet by 2013, in most regions bancassurance had recovered (Junker et al., 2014, p. 10).

Bancassurance Markets

EUROPE

The European countries in which bancassurance is a dominant distribution channel are Spain, Portugal, France and Italy (see Figure 4 and Figure 6). A high bank density, as e.g. prevails in Spain is one reason for the strong uptake of the model (Teunissen, 2008, p. 411). The regulatory context is cited as another differentiator: in countries such as Italy, France and Spain, regulatory freedom and positive tax treatment encouraged the development of bancassurance products in the 1990s. However, the tax advantages have gradually diminished since then (Teunissen, 2008, p. 411).

In contrast, bank density in the UK is relatively low, resulting in fewer sales opportunities for insurance products. Another limiting factor in northern Europe is higher maturity of life insurance markets, which makes it harder for banks to capture insurance business in these countries (Jain, 2011, p. 7). The UK and the Netherlands represent countries with an established tradition of household investment in life policies and pension funds. Consequently, there is less need for the facilitation of insurance sales through banking networks (Ricci & Fiordelisi, 2011, p. 14). Yet, the digital transformation of bancassurance, led by online players such as N26, is starting change this. It provides an opportunity to those insurers who manage to digitize and simplify their processes.⁹

ASIA

In Asia, a major trigger for the rapid growth in bancassurance was the megatrend of regulatory reforms. The insurance reacted with cost cuts and tried to avoid agency distribution. At the same time, banks saw a chance to diversify and broaden their income base. Around the turn of the millennium, Asian bancassurance began to account for a significant proportion in insurance sales, especially for life products (Gonulal et al., 2012, p. 9). Bancassurance in Malaysia has existed since 1993, and by 2007 had evolved to become the country's major insurance distribution channel, completing 50% of new life business sales (Gonulal et al., 2012, p. 9). Hence, Malaysia exhibits the second-highest rate of

⁹ Based on Interview with Wolf Gerlach (April 2018).

bancassurance penetration, right after China (see Figure 5). China and Malaysia's have now surpassed that of the more mature bancassurance markets of Hong Kong, South Korea and Singapore.

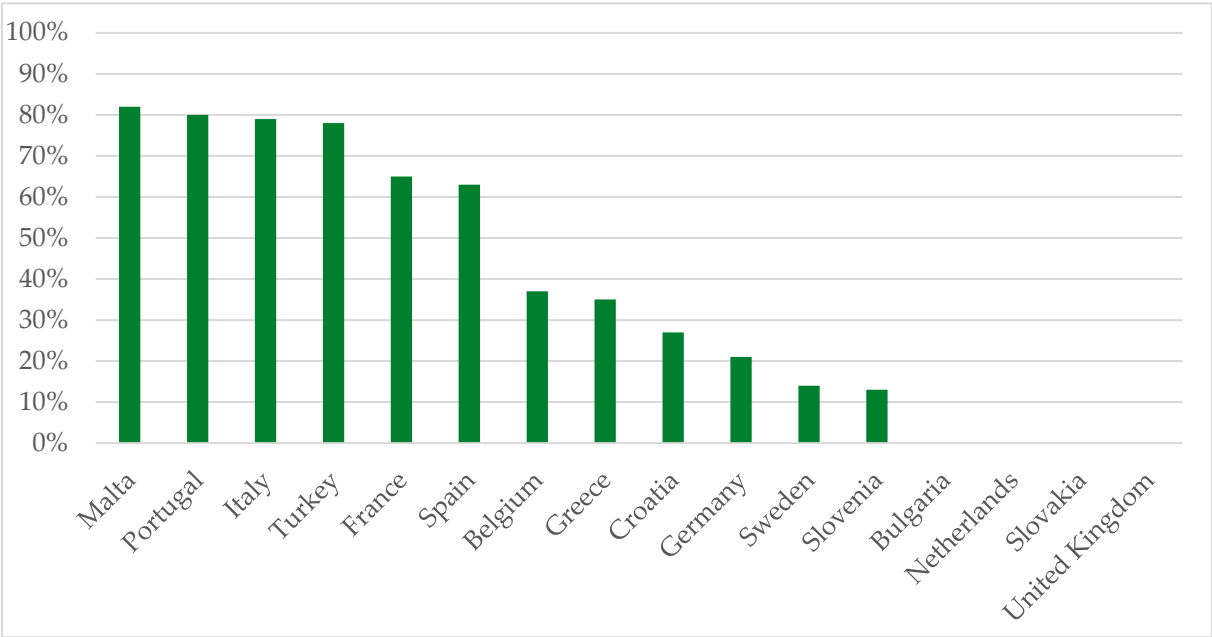
China experienced the biggest bancassurance boom. In 2003, the country relaxed the limitation on the number of insurance companies that a bank is allowed to represent (Kalra & Futterknecht, 2011, p. 16). The freedom for banks to operate as agents for multiple insurers allowed the industry to flourish: bancassurance premiums increased from USD 730 million in 2002 to USD 68 billion in 2010, accounting for 45% of total life premiums in China. Most small- and medium-sized insurance companies in China use banks as their primary channel to sell savings-type products (Kalra & Futterknecht, 2011, p. 19). In 2014, 54 of China's 108 largest banks offered some form of insurance, and as of June 2016, 30% of all new insurance policies in China were sold by banking firms.

Today, however, bancassurance growth in China is slowing. The industry is reportedly under pressure due to the high commissions demanded by banks, and the current low interest rate environment that makes it difficult to offer attractive products. Binder et. al. (2012, p. 3) go so far as to characterize China's bancassurance model as "unsustainable" due to its focus on rudimentary, low-margin products that do not match the demand for protection and long-term savings solutions, especially for mass affluent consumers and the segments above. In addition, malpractices in the bancassurance sales channel have drawn public scrutiny and tarnished the industry's image.

Beside high bank commissions, China's bancassurance landscape faces a number of other challenges. Lower persistency rates for bank-distributed policies and capable insurance brokers, who are able to sell complicated products with higher margins, are further factors that induce insurers to switch from bancassurance to other business models (Kalra & Futterknecht, 2011, p. 21).

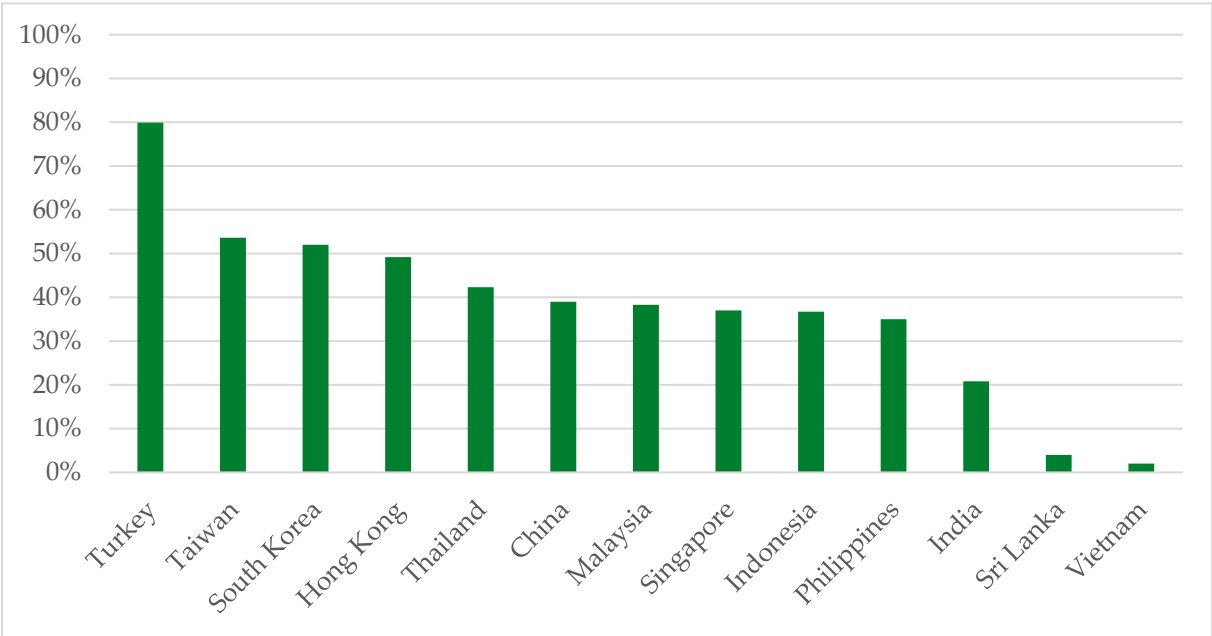
More recently, emerging economies with little to no penetration of insurance products are considered frontier markets. For example, Allianz SE, the world's 10th largest insurance and asset management company based in Munich, Germany (market cap of €77.33 billion as of July 18, 2018), initiated a joint venture with the Philippine National Bank (PNB) in December of 2015. Thereby, Allianz gained access to over 660 commercial bank branches and four million customers located in the Philippines. The upside potential is obvious: while insurance premiums in Western Europe account for 7.4% of GDP, the corresponding rate in the Philippines amounts to merely 1.7%.

Figure 4 Bancassurance market share for life insurance in Europe (2014)



Source: Insurance Europe (2016, p. 32)

Figure 5 Bancassurance market share for life insurance in Asia (2014)



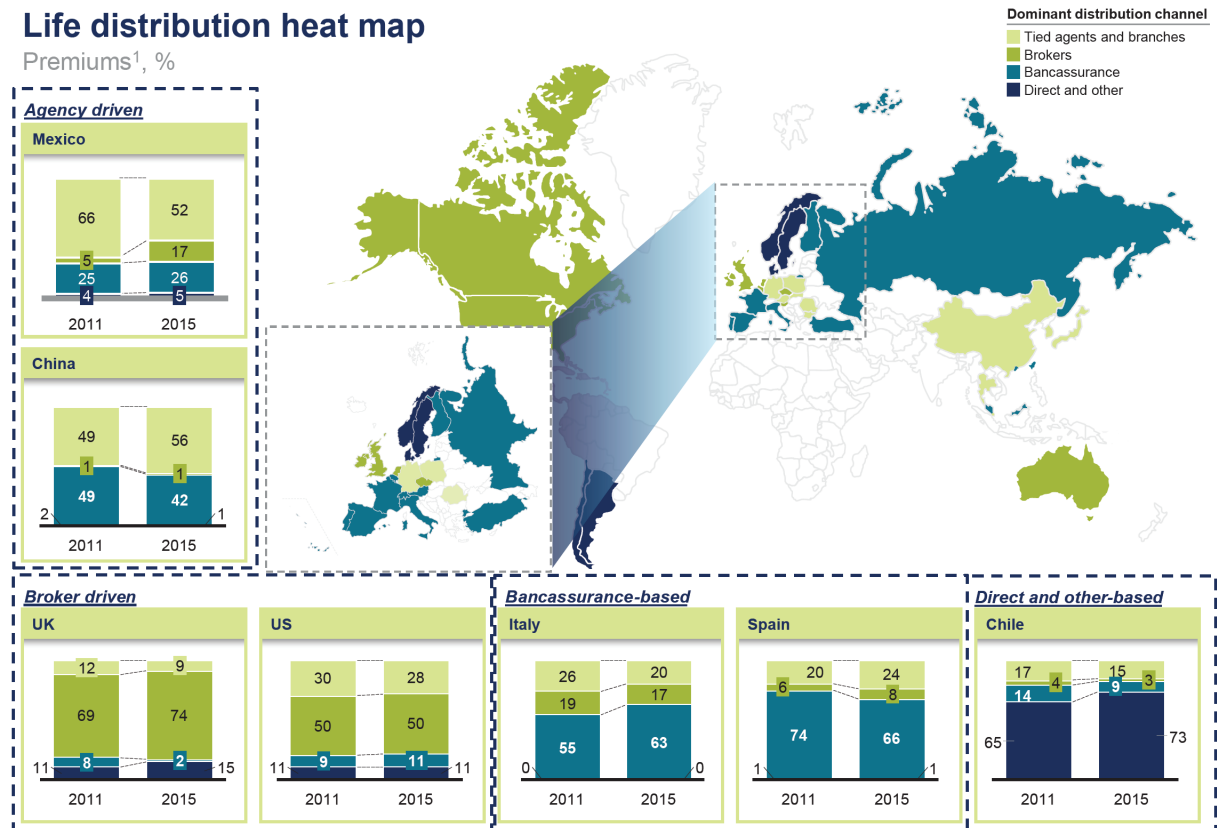
Source: Takeuchi (2016, p. 9)

THE AMERICAS

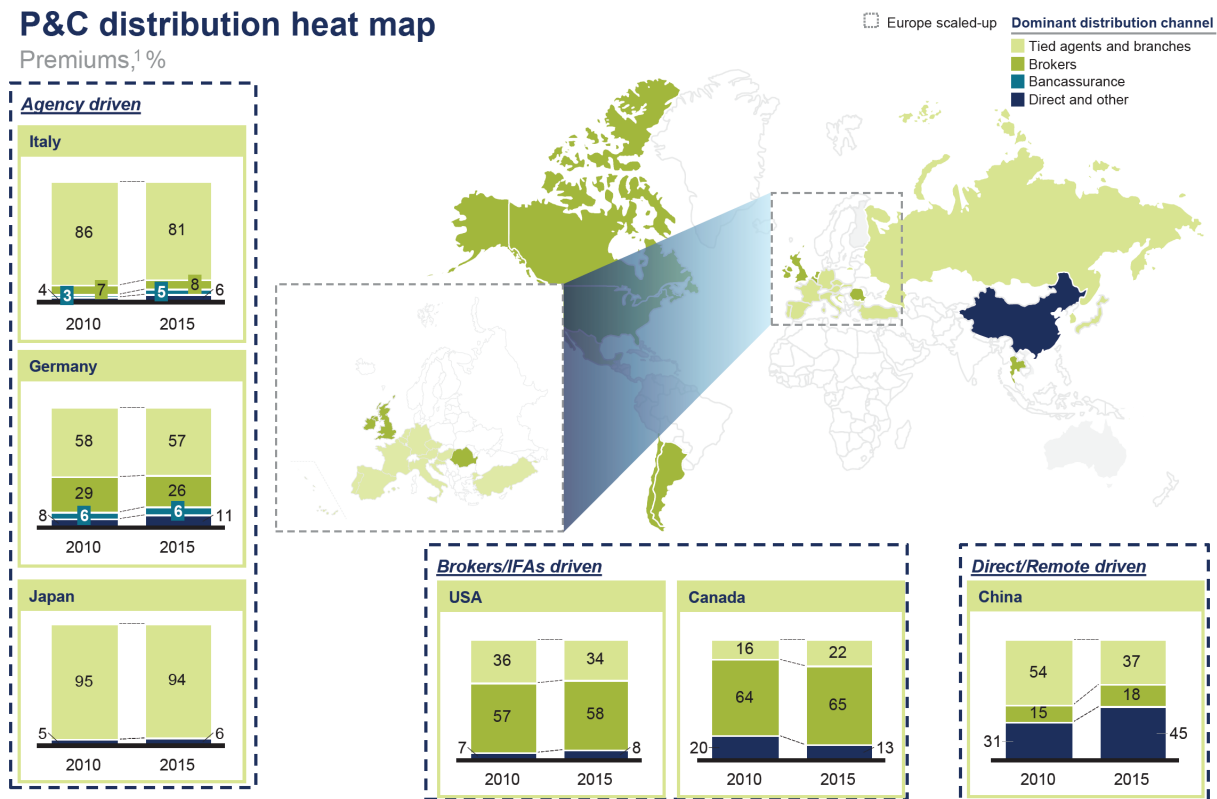
The North American region got off to a slower start than Europe. Regulatory restraints prohibited U.S. and Canadian banks from selling insurance products. “Although this prohibition was removed in the U.S. in 1999 and in Canada in 2006, customers continued to remain attached to traditional intermediaries such as agents and brokers.” Teunissen (2008, p. 412) puts it like this: “Customers in the U.S. are used to purchasing insurance from agents and many are even unaware that insurance is sold by banks.” Annuities are the main product sold through bancassurance in the U.S (Jain, 2011, p. 8). Another reason due to which bancassurance is less developed in North America is the “perceived low profit margin on insurance products versus banking products” (Teunissen, 2008, p. 412). Figure 6, depicting life insurance premiums and property and casualty distribution, illustrates that brokers remain the main dissemination channel in North America. Latin America, in contrast, exhibits a strong Bancassurance presence: the share of life insurance policies sold through banks in 2013 amounted to 44% in Colombia and Mexico and to 80% in Brazil. Only Chile is an exception with a 73% share of direct sales in life insurance distribution in the year 2015 (see Figure 6).

In sum, especially the non-insurance-saturated frontier markets herald much bancassurance growth, but due to their purchasing power and reoccurring demand, the established markets are not to be underestimated.

Figure 6 Heat Maps for life and property and casualty insurance distribution



¹ Distribution figures for Malaysia and South Korea are based on new business premium; Germany, the United Kingdom, and the United States are based on annual premium equivalent.



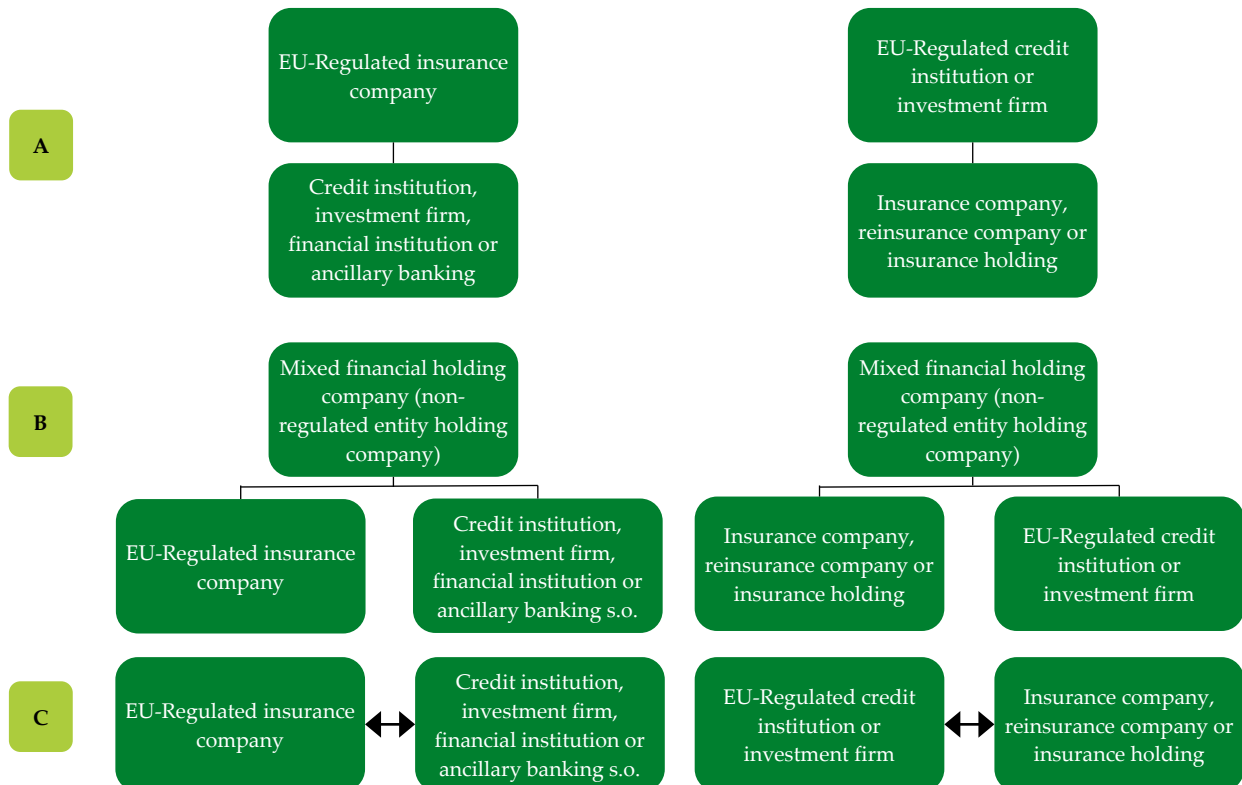
¹ Chile, China, Germany, Hungary, Japan, Luxembourg, Slovenia, South Korea, and United Kingdom are for nonlife.

Source: Binder & Musshoff (2018, pp. 30–31)

Bancassurance Regulation

Due to the potential for malfeasance or conflicts of interest in bancassurance, the intersection between insurance and banking is regulated through specific rules. Those, however, differ substantially between various jurisdictions. The European Union differentiates between three basic forms of financial conglomerates. In each scenario, at least one entity within the conglomerate subject to regulation and supervision (see Figure 7).

Figure 7 Structures of financial conglomerates subject to supplementary supervision



Source: Gruson (2004, p. 24)

In Switzerland, a strong emphasis is placed on trust, because market participants are generally reasonable. They have a strong focus on the customers' interests and aim to add value. For this reason, conduct regulation and requirements for customer outcomes are limited in Switzerland. In the UK, on the contrary, every financial institution (i.e., insurers, banks, asset managers etc.) and its products are strongly regulated with regard to "customer-oriented conduct and good customer outcomes", because the UK faced numerous cases of misconduct in the past.¹⁰

Despite the fact that China strongly deregulated bancassurance, it prohibits insurance company representatives to sell insurance products in banks. This reduced "bancassurance product sales capacity and capability" and made it "more challenging for insurers to distribute more complicated high-margin products through this channel" (Binder et al., 2012, p. 15).

¹⁰ Based on Interview with Martin Strobel (April 2018).

The retrospective focus of today's regulations can be harmful: existing regulation premised on old business models seeks to prevent past excesses that arose in the system.¹¹ This is, in part, a self-inflicted wound: the insurance industry in recent decades has failed to self-regulate and standardize, and has yet to take the issues of customer interests and customer experience more seriously.¹²

When companies are found to be non-compliant with the regulation on good customer outcomes, e.g. due to a misselling of insurance products for payment protection, as it has been the case in the UK recently, they are heavily fined. It is certainly a risk, when insurers and/or banks try to sell insurance for an unintended purpose.¹³

Yet too strict regulation does not necessarily favor holistic customer advice catering best for his/her current and future life situation. Such advice always consists of financial and insurance related aspects.¹⁴ In Germany, for example, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) is known to be rather conservative, which can be a competitive disadvantage.

However, exciting examples of regulatory innovation are on the horizon: supervisory authorities around the world are building so-called sandbox-models and adopt a more liberal stance towards new business models. Such experiments can mainly be found in the Anglo-Saxon countries and in Asian centers such as Singapore or Hong Kong.¹⁵ Going forward, there are various possibilities for creating and enforcing appropriate regulatory policies for the bancassurance market. Figure 8 shows key determinants of possible regulatory scenarios. One should strive for a clear assignment of responsibilities: the product provider needs to be subject to product-specific regulation and solvency requirements, while the bank in charge of the sales process faces customer advice and service regulation.¹⁶

¹¹ Based on Interview with Dietmar Kottmann (April 2018).

¹² Based on Interview with Wolf Gerlach (April 2018).

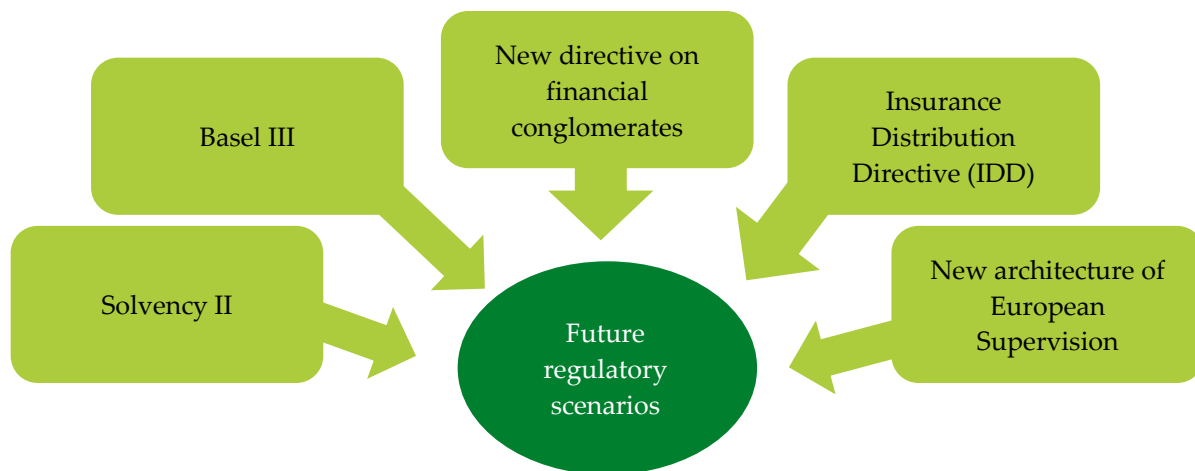
¹³ Based on Interview with Martin Strobel (April 2018).

¹⁴ Based on Interview with Nikolai Dörtrechter (April 2018).

¹⁵ Based on Interview with Dietmar Kottmann (April 2018).

¹⁶ Based on Interview with Stefan Loacker (April 2018).

Figure 8 Determinants of possible regulatory scenarios



Source: Starita (2011b, p. 106)

Challenges in the Bancassurance Industry

Bancassurance practitioners view the megatrend of digitization as a major opportunity, yet the path is fraught with obstacles.

1. Targeted marketing that enables a transition from bank floor to computer screen:

The bancassurance product family conventionally consists of push products sold through branches where a financial advisor sells the product to the consumer. The key question is how that can be done digitally. First, the consumer needs to be aware of a bank's insurance products that are purchasable via online banking or personal finance manager apps. In addition, bancassurers must understand the life situation of a customer and target those individuals who really need coverage, as insurance is not bought every day.¹⁷ Finally, the artificial separation between bank and insurance should be removed. In doing so, it is possible to get closer to the customers and to better understand their needs.¹⁸

2. Balancing the informed customer with a streamlined business:

Typically, insurance is an advice-intensive product, but one also needs to be able to underwrite it in an efficient manner, without answering many questions from the customer.¹⁹ Despite the manifold opportunities offered by digitization, personal advice remains very important as one will be held liable for a consultation carried out improperly. The larger the advisory liability, the more important the personal advice. This particularly holds for heavily regulated or highly complex products such as private health insurance, long-term retirement policies, or contracts related to larger real estate financings.²⁰ On the other hand, cost efficient processes are becoming more and more important. Those

¹⁷ Based on Interview with Christian Richter (April 2018).

¹⁸ Based on Interview with Nikolai Dördrechter & Dietmar Kottmann (April 2018).

¹⁹ Based on Interview with Christian Schmid (April 2018).

²⁰ Based on Interview with Christian Richter (April 2018).

are easier to implement along a digital value chain. Thus, bancassurers ultimately face a tradeoff between achieving operational excellence and maintaining the best possible personal advice.

3. Insurers' distance to customers:

Digitalization is associated with the danger of rather impersonal customer contacts. With a move to digital, the distance from insurance companies to the customer interface tends to become greater. To counter this, bank advisors branch should be well informed about insurance products. Being forced out of exclusive contracts and moving further away from the customer interface maybe detrimental to insurers.²¹

4. Banks' distance to customers:

As things stand, the physical banking business is shrinking. Yet, customers need to be attracted into the branches, despite the fact that they use a number of digital touchpoints.²² The move towards digital business models can also imply a disintermediation effect. There is a strong competition between incumbents banks, technology companies and startups for the control of the customer relationship. Cooperating with third parties is not free of risks for banks, since they could ultimately be crowded out of the customer relationship.²³

5. Data security and sharing:

Customers are the ultimate owners of their data,²⁴ and regulations such as GDPR reinforce data protection. Nevertheless, the right to use data needs to be defined between the cooperation partners.²⁵ Banks generally want to withhold the data generated by them from insurance partners and insurers who do not accept that might not be considered as a partner. Whether data sharing between insurer and bank can be resolved by market mechanisms or needs to be regulated remains debatable. Does one need permission to digitally transfer data beyond company boundaries, e.g. to calculate prices? How can data be used and protected and when is the consent of the customer needed?

6. Digital implementation:

The main risk lies in the poor implementation of a bancassurance model. A bad implementation can imply reputation and liability risks for the bank, if the customer feels improperly advised, e.g. due to a coverage gap hidden in the fine print. Simplicity and clarity are key factors for the successful implementation.²⁶

²¹ Based on Interview with Christian Schmid (April 2018).

²² Based on Interview with Christian Schmid (April 2018).

²³ Based on Interview with Dietmar Kottmann (April 2018).

²⁴ Based on Interview with Christian Richter (April 2018).

²⁵ Based on Interview with Nikolai Dörtrechter & Dietmar Kottmann (April 2018).

²⁶ Based on Interview with Nikolai Dörtrechter (April 2018).

7. Partner exclusivity between bank and insurance company:

It is becoming more difficult for individual insurers to secure exclusivity with the banks. If the insurer does not meet the bank's demands, the bank will be looking for a new partner. There is a clear trend towards an MGA broker model. Examples comprise the collaborations of Deutsche Bank with Friendsurance in Germany as well as Anivo and BLKB in Switzerland.²⁷

8. Generational limits to digital penetration

Neither banks nor insurers will effectively reach older generations through digital channels. In markets where digital behavior has not yet reached the older generations in need of bancassurance products, the customer interface will need to remain traditional to a certain extent. Thus, personal advice through physical branches will continue to be imperative for some time to come.²⁸

Summary

This *industry note* provides an introduction to the rapidly evolving field of bancassurance – a symbiosis between banking and insurance.

Bancassurance models enable customers to purchase their insurance covers where they regularly conduct their financial transactions: in banks. So far, the cooperation between banks and insurance companies mainly worked well in specific regions and frequently focused on insurance products with an investment component.

However, new chances evolve in the course of digitization. Due to modern technologies, customer-oriented products, and seamless processes, a bancassurance renaissance in the central European markets seems possible. In addition, emerging markets with a low insurance penetration offer substantial growth perspectives. It is now up to the key actors in banks and insurance companies to exploit the manifold win-win scenarios for their companies.²⁹

²⁷ Based on Interview with Christian Richter (April 2018).

²⁸ Based on Interview with Christian Richter (April 2018).

²⁹ Based on Interview with Martin Strobel (April 2018).

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Exhibits

Example of an Index-linked policy (Starita, 2011b, p. 37)

Name of product: Programma Garantito Terra

Bancassurer: PosteVita

Premium: a lump sum equal to at least €1,500

Maturity: seven years (from 2010 until 2017)

Reference entity: Dow Jones EURO STOXX50

Investment strategy: the performance of the contract depends on the Dow Jones EURO STOXX50. The value of the index at the end of the contract is equal to the mean of the values reported at these reference dates: 10/07/2017; 11/07/2017; 12/07/2017; 13/07/2017. The 20.16 per cent increase in the index represents the bonus at the end of the contract if the policyholder is alive. If the performance of the index is negative, the final amount is equal to the premium paid at the start date. There are three intermediate bonuses if the policyholder is alive at each reference date: at 2011 the bonus is 4 per cent of the premium; at 2013 the bonus is equal to 4.5 per cent of the premium; at 2015 the bonus is equal to 5 per cent of the premium.

Final guarantee: the zero coupon bond guarantees the final amount is at least equal to the premium paid at the start date.

Asset manager: PosteVita

Guarantor: PosteVita

Life cover (insurance content): the cost of life cover is 0.50 per cent of the premium. In the case of death, the payment is equal to the best of: (1) the premium paid at the start date; (2) the surrender value at the date of death.

Fees and charges: bancassurer management charge is 5.70 per cent of the premium.

Surrender value: the surrender value is equal to the sum of the following elements: (1) the value of premium less the value of the time between the surrender date and the end date of the contract; (2) the intermediate bonus less the value of the time between the surrender date and the end date of the contract; (3) 15 per cent of the increase of the index from the start date until the surrender date.

Historical Bancassurance Cases

With longer existence comes more experience. Unsurprisingly, given their engagement spanning decades, European banks such as Credit Agricole and BNP Paribas in France, as well as ABN Amro and ING in the Netherlands are important players in the bancassurance business. Table 2 lists the leading banks and their main insurer in Europe.

Bank-insurer partnerships are the new norm. In one of the largest transactions of its kind signed in the UK, Aviva and HSBC recently committed themselves to a 10-year distribution partnership (Ralph, 2017).

Table 2 Top 3 banking groups and their main related insurer in Europe

Country	Country rank	Banking group name	Main related insurer	% Ownership
France	1	BNP Paribas	BNP Paribas Assurance	100
France	2	Credit Agricole	Predica	Majority
France	3	Societe Generale	Sogecap	100
Germany	1	Deutsche Bank	X	X
Germany	2	Commerzbank	X	X
Germany	3	DZ Bank	R+V Versicherung AG	>73
Italy	1	Unicredit	Creditras Vita Spa	50
Italy	2	Intesa Sanpaolo	Eurizon Spa	>50
Italy	3	Monte dei Paschi di Siena	Axa Mps Assicurazioni Vita	50
Spain	1	Banco Santander	Santander Seguros Y	100
Spain	2	BBVA	BBVA Seguros SA de Seguros	100
Spain	3	La Caixa	Vida-Caixa SA de Seguros	100
UK	1	Barclays Bank Plc	X	X
UK	2	Royal Bank of Scotland	RBS Insurance Group Limited	100
UK	3	HSBC	HSBC Life (UK)	100

Source: Ricci & Fiordelisi (2011, p. 23)

The following discussion focuses on two business cases involving leading bancassurance actors, highlighting their targets and strategies, as well as discussing the prospects of their ventures.

Case #1: Barclays & CNP (Caratelli, 2011, pp. 77–78).

Actor(s):

- (1) Barclays, a global bank headquartered in London; and
- (2) CNP Assurances, the leading personal insurer in France with operations in Europe and in South America.

Strategy: long-term life insurance joint venture

Year: 2009

Target countries: Spain, Portugal and Italy

Agreement:

- CNP acquired a 50 per cent shareholding in the life insurance company owned by Barclays Vida y Pensiones (BVP), which operates in Spain and Portugal;
- the life and pension products offered by the joint venture firm would be distributed exclusively through Barclays' retail network in Spain and Portugal, which included 1,000 branches at the end of 2008.

As a result of the agreement, CNP paid Barclays Bank an initial upfront consideration of EUR 140 million in cash. The parties agreed on additional fees over a period of 12 years according to achieved volumes and margins in order to maintain a balanced sharing of the value created through the joint venture between the two partners.

Prospects: A number of milestones were already reached during the first year of the cooperation. In 2010, CNP BVP gathered premiums of EUR 608 million, mainly from operations in Spain (70%) but also in Portugal (15%). The launch of the Italian operations was associated with 18 new products, including an innovative savings product with a unit-linked formula, which generated a new business volume of EUR 90 million.

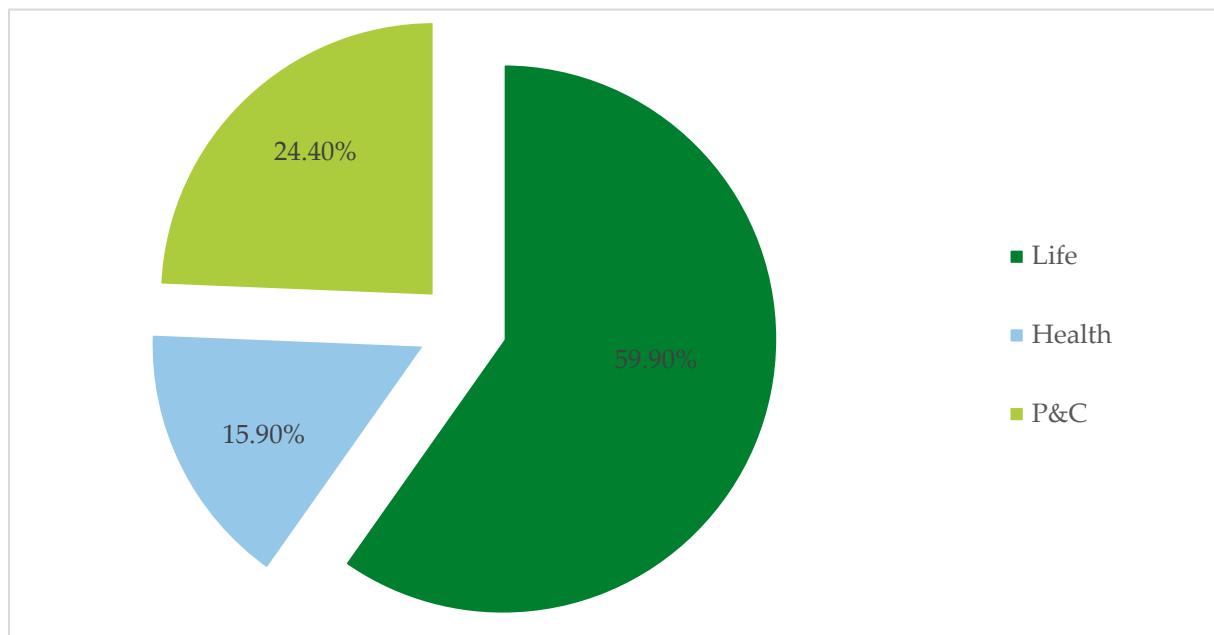
Case #2: Generali Deutschland & Commerzbank & DVAG (Caratelli, 2011, pp. 74–77).

Actor(s):

- (1) Generali Deutschland (GD), originally AMB Generali, is the management holding company of the second largest insurance group in Germany (after Allianz). The firm is 85% owned by the Italian group Assicurazioni Generali, which has worldwide activities. GD, with its headquarters in Cologne, now controls 22 financial intermediaries working in life, health, and property insurance (Figure 9). In December 2009, the Generali Deutschland Group originated a gross written premium of a12.4 billion, with net profits of a340.5 million. The number of employees amounted to 14,957 individuals; of these, 23 per cent worked in sales, and 77 per cent were engaged in administrative services. By means of the private insurance brand CosmosDirekt,³⁰ GD engages in direct selling.
- (2) Commerzbank is the second largest bank in Germany.
- (3) Deutsche Vermögensberatung (DVAG) is the biggest autonomous sales organization for financial services in Germany with 5.4 million customers and more than 37,000 financial advisors.

Strategy: Apart from direct selling, GD initiated exclusive strategic distribution partnerships with primary intermediaries such as Commerzbank and Deutsche Vermögensberatung.

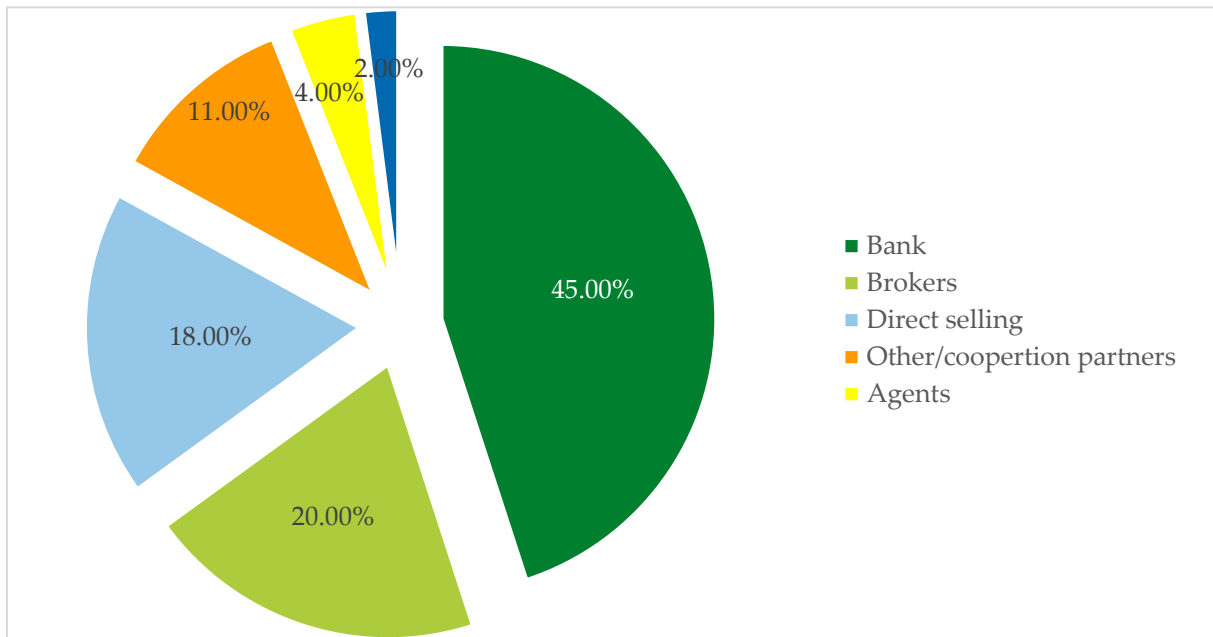
Figure 9 Total premium of GD by insurance business line for 2009



Source: Caratelli (2011, pp. 74–77)

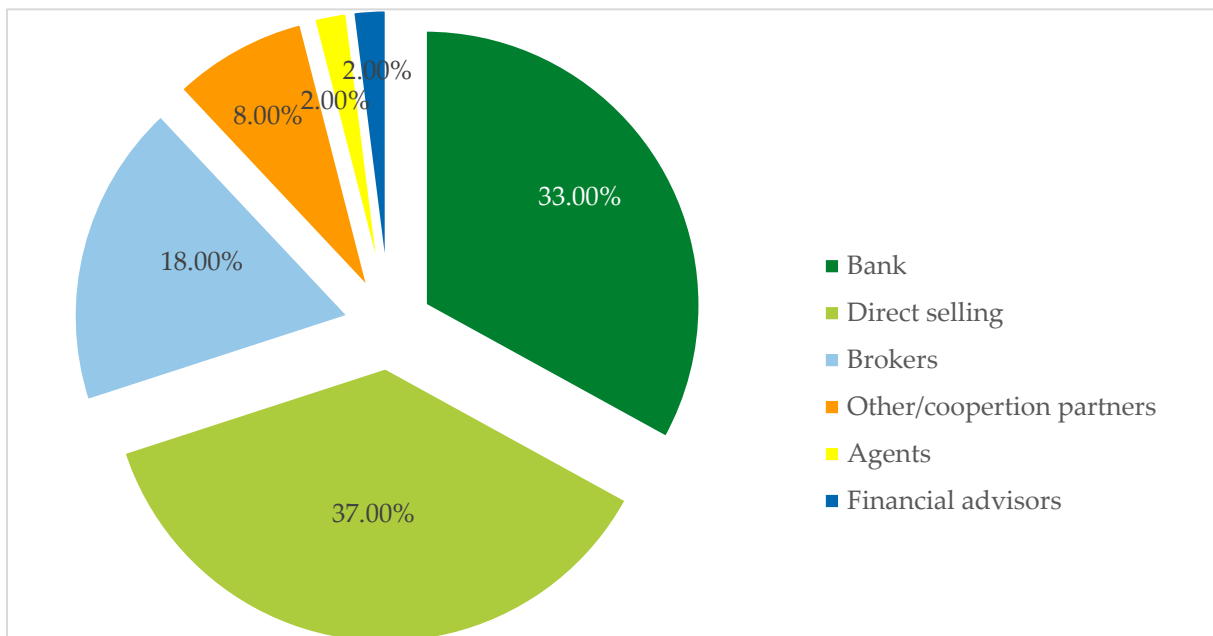
³⁰ CosmosDirekt is a one-stop shop for all private risk management instruments. With a premium income of 1.4 billion, it is the biggest direct-selling insurer in Germany and the European life sector. Its main focus is on providing covers for surviving dependents and occupational disability. CosmosDirekt also focuses on retirement provision.

Figure 10 GD's new business in the life sector by distribution channels for 2009



Source: Caratelli (2011, pp. 74–77)

Figure 11 GD's new business in the non-life sector by distribution channels for 2009



Source: Caratelli (2011, pp. 74–77)

Survey

This *industry note* investigates the past, present and future of bancassurance. Apart from painting the industry landscape in broad strokes, we provide an empirical perspective on the main players, power dynamics, and issues. Furthermore, we examine two cases of leading bancassurance actors, highlighting their targets and strategies, as well as discussing their prospects.

We wish to complement the existing knowledge in the literature with industry perspectives. The following survey, asking notable experts and practitioners for their insights, was meant to help us assess the outlook of the sector.

1. Multinational bancassurance companies are rapidly expanding into new markets. Where do you see the main risks and rewards?
2. Why does the bancassurance market prosper in some regions, but struggle in many others?
 - a. Regulation has held back the bancassurance industry in the past, and to this day there are manifold restrictions in certain countries. What would be a progressive and fair bancassurance regulation in your opinion? Which countries come closest to the ideal bancassurance regulation?
 - b. In terms of economic environment, on the one hand, in the established bancassurance markets often the middle and upper classes are sufficiently wealthy and educated to demand insurance products, which promises recurrent and future business. On the other hand, there is a lot of untapped potential in emerging markets. Where do you see greater chances: bancassurance in the mature markets or the emerging markets? Is there any particular promising country or region for bancassurance?
3. What other factors are critical for the success of the bancassurance industry in a certain region (e.g. culture)?
4. “Digital services, personal advising” is a current mantra. What are promising future development avenues for “BancassurTech” (potentially led by FinTech firms such as Revolut)?

Interview Partner Profiles

Christian Richter, Accenture:

Christian Richter is Managing Director with Accenture's Zurich Office, co-leading the Strategy Consulting Insurance Team for Austria, Switzerland and Germany. He has more than 17 years of management consulting experience in insurance and adjacent industries.

Christian Schmid, BCG:

Christian Schmid is a Partner in the Zurich office of The Boston Consulting Group, leading the Public Sector Practice in Switzerland, and additionally is a Member of BCG's Financial Institutions and Insurance Practice Group. He has been advising leading corporations for the last 18 years.

Martin Strobel, Former Baloise Group:

Martin Strobel is the former CEO of Baloise Group. He led the Swiss insurer for 7 years up until his resignation in 2016. He had been with Baloise for over 17 years. Currently, Mr. Strobel holds several board positions, including one at the Swiss InsurTech Anivo.

Michael Müller, Baloise Switzerland:

Michael Müller has been the CEO of Baloise Switzerland since March 2011. He also holds a seat in the executive board of the Baloise Group. Apart from his position with Baloise, Mr. Müller is a Member of the Board of Foundation of Stiftung Finanzplatz Basel, Vice President of the Swiss Insurance Association (SVV) and Member of the Executive Board of the Association of Basel Insurance Companies.

Dr. Nikolai Dördrechter, XTP:

Since 2018, Nikolai Dördrechter has been a Member of the Board at XTP. XTP is applying advanced analytics and a big data approach to capital investment processes. Prior to this, he was a co-founder and COO/CFO of Policen Direkt Group and a Partner at Oliver Wyman. He is a FinTech/InsurTech expert and co-author of the InsurTech Radar.

Stefan Loacker, Former Helvetia:

Stefan Loacker is the former CEO of Helvetia Group, having headed the insurance company for 9 years up until 2016. Since October 2016, Mr. Loacker has been owner and CEO of Delos Management GmbH. Furthermore, he holds board positions at Swiss Life and Vontobel.

Wolf Gerlach, UNIQA:

As COO, Wolf Gerlach is a Member of the Managing Board of UNIQA. With various positions in Eastern Europe, Gerlach has been putting a focus on the Bancassurance business since his start with UNIQA in 2008. Before that, he has been working for Allianz SE.

Wolfgang Prasser, Balaise Group:

Wolfgang Prasser is a Member of the Executive Board at Balaise Group, heading the Product Management Private Customers Division. In the more than 30 years of his career, he held different positions at various insurance companies.

Dr. Dietmar Kottman, Oliver Wyman:

Dietmar Kottman works as a Partner for Oliver Wyman, where he is responsible for digital transformation strategies in the European insurance sector. He has over 20 years of consulting experience with a focus on the digitalization of the insurance industry. Additionally, Kottman is a coauthor of the InsurTech Radar.

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