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Latin America Bancassurance

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The lure of high growth and profit potential of a region that is both under-banked and under-insured is naturally attracting investors. At the core of financial services in Latin America are banking and insurance. There are clear synergies between these core businesses, and effectively implementing strategies that take advantage of those synergies will be key to the long-term success of financial services conglomerates in the region.

Regulations in many Latin American countries allow banks to underwrite and distribute insurance products through their networks, either directly or indirectly. Most major banks in the region are in the process of implementing or refining their insurance strategy. At the same time, many foreign insurers who want to enter these markets see an opportunity in forming an alliance with a bank. In addition to boosting the bank's income, bancassurance has the potential of re-defining the economics of traditional insurance as well as increasing the size of the potential market[1] :

- Acquisition and ongoing operating expense benchmarks of traditional insurance businesses are not applicable to a bancassurance setting because:
  - Banks have captive client bases. They can use demographic and financial information about their clients to generate warm leads for insurance sales, resulting in significant distribution efficiencies. Productivity four or five times greater than for typical career agents is not uncommon for bancassurance sales people. Typically, bancassurance sales people do not get a commission for sales; instead, they are paid a salary plus an incentive based on achieving sales targets of banking and insurance products. Increased productivity and lower sales compensation costs result in lower acquisition expenses.
  - Banks can leverage their infrastructure to give rise to significant savings in administrative and overhead costs. Bancassurers can experience operating costs as low as 25% to 50% of those of a traditional insurance company.
- Expense savings mean that banks can profitably serve market segments that traditional insurance agent networks generally ignore.

As a result of the opportunities that the region and the synergies of these businesses offer, we are seeing more and more bancassurance transactions where a foreign insurer acquires a stake in a start-up bancassurance venture. Naturally, the valuation of these start-ups is heavily weighed on the promise of the future business potential. How can banks and their insurer/partners transform this potential into a business reality and reap the profits? What are the key ingredients of a winning strategy?

- *A strong level of management commitment to bancassurance.* Bancassurance must rank high on the bank's agenda and aggressive targets must be set for insurance sales penetration of the client base.
- *A good knowledge of the bank's customer base.* Client demographic and socio-economic profiles are critical to developing a segmentation strategy that can be used to design products and time the pitch. Because of the relative frequency of contact with their customers, banks can time their insurance product offerings with a client's life events (e.g., change in marital status, purchase of a home) to achieve higher closing ratios.
- *Simple and easy to understand products aimed at satisfying clients' needs.* Products must add value to customers to create a competitive advantage. The marketing strategy should aim to capitalize on the bank's image and take advantage of the natural extension of existing banking relationships. Packaging with existing banking products can make offerings unique and enhance the customer value chain.
- *An effective training and incentive strategy for staff.* To be successful, banks must properly train their staff and set clear and meaningful incentive targets for insurance sales. Sales objectives for insurance must be set just as for other banking products.
- *Business processes and systems platforms that fully integrate bancassurance within the bank and leverage the bank's resources.* The aim is to develop processes that are seamless and efficient to minimize staff intervention and knowledge requirements. The role of the systems platforms is to support these processes end-to-end.
- *A detailed business plan that defines goals and the steps to achieve them.* Financial projections are the core of the business plan and integrate all elements of the bancassurance strategy, reflecting their financial impact. They provide a benchmark against which to measure the success of the operation. Financial projections should be built using a "bottom-up" approach, reflecting year-by-year sales of all insurance products in the planning period as well as best-estimate experience, economic, and product-specific assumptions.

As banks take advantage of the bancassurance opportunities that the Latin America region offers, they will need expertise in product design, underwriting, administration and claims handling. Many Latin American banks are selling stakes in their bancassurance ventures to foreign insurers. This innovative approach to insurance development allows banks to realize some of the inherent value of their customer bases and to fill expertise gaps quickly, and it allows insurers access to clients that would not be otherwise available. Together with a commitment to adopting the elements of a winning strategy, this can translate the potential into a business reality and allow both partners to reap the resulting profits.

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[1] *Bancassurance refers to the distribution of insurance products through bank networks, fully integrating insurance as a core bank product.*