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A Case Study: Australia

by Ian M. Robinson

At the SOA Spring Meeting in Hawaii in June, I presented a session, "A Case Study: Australia." at which I spoke on the evolution and success of bancassurance in Australia.

After providing an outline of the banking and insurance markets in Australian, I provided a definition of bancassurance, namely, "the manufacture and distribution of banking and insurance products cost effectively to a common customer base." More specifically it entails the bank proactively leveraging off its brand, customer base, branch network, and existing banking activities by seeking cross-selling opportunities in order to enhance corporate profits. While the aim is clearly to increase the value of the bank's franchise for the shareholder by releasing goodwill inherent in the franchise, the customer benefits by being offered a more comprehensive range of financial services from a single-service provider who should be in a position to better understand the needs of the customer.

In Australia, bancassurance commenced in the mid-1980s with the establishment of life office subsidiaries by all four of the major national banks. This was largely driven at the time by the deregulation of the banking industry and resulted in significant inroads into the traditional life insurance market. In more recent times, rapid technological advances combined with the constant threats from "new wave" competitors and cherry picking by specialist providers of the banks' most profitable lines are continuing to force further change and experimentation with different bancassurance models. Life insurance companies have responded by now attempting to play the banks at their own game.

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Banks in Australia have had the advantage of large, well-established, largely captive customer bases, strong brand reputation and recognition, as well as regular access to customer. They have been able to achieve higher levels of productivity than traditional life offices from the "warm" customer leads and lower marginal costs from their significant well-established infrastructures, which together have led to overall lower product margins but enhanced aggregate profits and value added.

The banks in Australia have come to realize that the components of their different businesses can be brought together, but the trick is knowing how to do so and in a way that is not easily replicable. For example, organizational structures are generally along functional lines in order to gain both the full advantages of economies of scale as well as to avoid each business unit from tripping over the other to reach the customer. Further, a common approach to training, sales culture, targets, compliance, product package, performance measurement, and so on is fundamental to this approach. Other key issues are to align competencies of front and back offices, being prepared to divest of nonvalue adding parts of the value chain, and managing multiple-channel conflicts.

In conclusion, the bancassurance model can be adopted by life insurers as well as banks. Both banks and life insurers consider themselves to be in the financial services industry by being focussed on the resolution of customer problems through matching tools and products to customers' needs. The distinction between the industries has now diminished in Australia. It could be said (although it is not proven) that bancassurers have raised the awareness of customers of the need for life insurance, retirement savings, and so on, so that all competitors benefits from a larger pie.

Finally, bancassurance in Australia is still a competitive formula but it is a moving target. The industry is rapidly reinventing itself at this very moment. The term "allfinanz" as used in Germany is now probably a better description.

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