



SOCIETY OF ACTUARIES

Article from:

# News Direct Newsletter

Winter 1999 – Issue No. 30

## ***Bancassurance, A Global Perspective***

**by Jeffrey A. Klanderma**

*The following is a synopsis of the presentation at the New York Annual Society of Actuaries Meeting in October 1998 on customers, products, and distribution methods.*

In these times of shrinking profit margins and increased levels of competition from other insurance companies and other financial institutions, insurers are seeking alternative methods of product delivery other than their traditional sales approaches. Bancassurance is providing just such an opportunity for many companies. Today, convenience has become a major issue in managing a person's day-to-day activities. The ability of a company to piggyback the insurance distribution function on a function that is as familiar and necessary to us as banking opens up tremendous marketing and sales opportunities. These opportunities can only increase as bancassurance gains in sophistication.

In a panel discussion at this year's annual SOA meeting, James B. Smith Jr., Jacquelyn Abdella, and John O. Nigh presented an overview of this exciting new insurance area. The three speakers provided a global view of the current state of bancassurance, surveyed the types of products the bancassurance industry is offering, and also shared some thoughts on what they saw as the future direction of bancassurance.

Smith focused primarily on the situation in the United States. He discussed the benefits to both insurance companies and banks of this approach to insurance sales. Common benefits to both parties included easier access to customers, lower distribution costs, and the more general benefits which come from diversification of product lines, such as retention of the existing customer base as a result of increased product offerings. Smith presented numerous statistics that showed the moderate

degree of market penetration made in bancassurance's infancy, as well as the significant opportunities available if anticipated growth takes place. One source he cited projected that, within five years, 75% of life insurance sales and almost 40% of property and casualty sales will be through banks.

Smith's presentation focused on various customer segments and how they are addressed by different banking channels, primarily using existing product designs. He presented several examples of situations in which customer market segments could not be or were not being reached by traditional insurance sales methods, but could be reached using bancassurance methods.

Smith concluded his presentation by extrapolating from the current state of bancassurance in the United States to the possibilities for the future. His assessment of potential market segments, possible product variations, and the numerous possible delivery mechanisms clearly demonstrated the vast untapped potential of bancassurance.

Jackie Abdella offered a view of bancassurance from the European perspective. The bancassurance industry in Europe is more mature than in the United States. In France, for example, bancassurance is the major conduit for life insurance premium with over 60% of life premium income coming through bancassurance sales.

One underlying theme of Abdella's presentation was the variety of forms that bancassurance has taken in the European market. She noted that the definition of bancassurance in Europe is much more broad than in the United States, including, for example, strategic alliances, bank ownership of life insurance companies, bank/insurance

company mergers, and fully integrated financial service providers. She also pointed out that the more relaxed regulatory environment in Europe with regard to bancassurance was a significant factor in the growth of bancassurance there.

One key difference between European markets and the U. S. market is the legal authority allowing banks and insurance companies to own one another. Abdella noted a series of both offensive and defensive motivations to bancassurance growth stemming from this fact. Economies of scale with regard to customer bases underscored most of the motivations.

Her presentation also focused on the evolution of bancassurance products in Europe. These products began as simple-to-understand savings products designed to fill sales niches. They have since evolved into a full range of savings and insurance products, including health insurance, property and casualty lines, retirement and savings products, and flexible and variable life products. The key to these sales has been to match the product with the appropriate distribution outlet. Additionally, less expensive distribution methods have led to more competitive rates and/or better service.

Abdella concluded her presentation with a more detailed look at specific countries' markets. These examples provided some insight into how the U.S. bancassurance industry may develop, as well as some areas where the European market may continue to evolve.

In his portion of the program, John Nigh explored how bancassurance is faring in South and Central America. Nigh reiterated several of the points about bancassurance that the previous speakers had made, including the advantages of increased



*(continued on page 10, column 1)*

## Bancassurance, A Global Perspective

(continued from page 9)

customer access, lower distribution costs, and diversification of product lines. He pointed out that in Latin America, banks can "force" credit insurance sales in conjunction with loans, and policyholders can pay premiums with monthly deductions from bank accounts. The traditional agency market in Latin America is the middle- to high-income group, whereas bancassurance allows access to the lower to middle-income groups previously not targeted for insurance products. Changes in the regulatory environment as well as reductions in inflation rates have made insurance savings products much more attractive to the consumer. Thus, companies distributing business in bancassurance form are in an enviable position.

He also identified a number of the business structures by which insurance companies could enter the bancassurance arena. The most popular arrangement between banks and insurance companies in Latin America has been a joint venture. Other arrangements have included distribution agreements of various forms between a bank and an unrelated insurance company, as well as a nonintegrated arrangement where both the bank and the insurance company are owned by a common holding company.

Nigh concluded with some examples of major multinational insurance companies who had entered the bancassurance market through joint venture arrangements with local banks. The majority of these arrangements involved 51%/49% participation structures with the insurance company assuming a 49% participation in the venture. The insurers



involved were all seeking to gain access to the Latin American markets, and the bancassurance mechanism provided a way to enter the market at a reasonable cost with an immediate significant market penetration.

In summary, the message of this presentation was that bancassurance provides an opportunity for insurance companies to reach customers in a new and cost-efficient manner. It creates a new path, and for some the only realistic path, to increase current sales. The bancassurance mechanism also provides advantages to the consumer in the forms of convenience and possibly more competitive rates. Each speaker cited statistics suggesting that more than half of insurance sales may come through the bancassurance mechanism during the next several years. With the U.S. regulatory environment moving towards reducing the barriers to bancassurance, the door is open for insurance companies to step through.

Many thanks to Jim Smith, Jackie Abdella, and John Nigh for their insights into this exciting new insurance area. For those interested in learning more about this subject, the Non-traditional Marketing Section and the Product Development Section are co-sponsoring a seminar on May 23 in Atlanta that will focus on bancassurance in the U.S. Information about that seminar can be found on page 9 in this newsletter.

*Jeffrey A. Klanderman, ASA, is a Consulting Actuary in the Atlanta office of KPMG Peat Marwick LLP.*

## Upcoming Meetings

(continued from page 8)

### Bank Customer Segmentation Practices

Customer segmentation approaches; determination of customer characteristics and financial needs; effective utilization of customer segmentation test.

### Bancassurance Products

Today's product offerings; banks' marketshare; special product features for bank customers.

### Bank Distribution Channels

Description of various bank channels; selecting the appropriate channel; advantages/disadvantages.

### Financial Issues

Compensation trends; profit sharing arrangements; pros and cons of profit-sharing; requirements for successful arrangements.

### Case Studies: Perspectives of Insurer and Banker

Interview with insurance and bank executives; program description; successes/failures; risks/rewards.

### Future Bancassurance

Forecasting changes in products, customers, distribution channels, and financial issues.



### PIMA's 25<sup>th</sup> Anniversary Meeting,

**Dana Point, California  
February 7-10, 1999**

The professional Insurance Marketing Association is the preeminent organization on marketing of insurance products. For its "Silver Celebration" PIMA will be assembling a panel of CEOs to answer questions on the future of insurance marketing. More information can be obtained from PIMA at 301-951-1260.