2020 Foresight: Bancassurance

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1 Executive Summary

In the consolidating world of financial services, the concept of bancassurance has taken a central role in the strategy of a growing number of financial institutions. Insurance products distributed through the banking channel have become a natural choice for mass-market clients looking for simple and low-cost products available from a trusted financial institution. Globally, bancassurance has emerged as an important insurance distribution channel that has not only allowed insurance companies to expand their geographical presence but also enabled banks to expand their overall product portfolio.

Bancassurance models differ between markets and are still evolving

Bancassurance – the sale of retail insurance products to a commercial bank’s client base – has evolved different models since its origins in the European Union (EU) in the mid-1980s. The different models drive profitability, product design and operational challenges. The classic European model is an integrated one, with common ownership or some form of exclusive commitment between the insurance provider and bank distributor. In the US, the model involves almost total separation between the two, while in many emerging markets in Asia-Pacific, where foreign insurers compete for shelf space on the limited number of domestic bank distribution platforms, a third structure is evolving.

Bancassurance growth differs significantly between geographical regions

In the US, despite early indications that bancassurance might achieve market penetration levels in life insurance comparable to the one-third share it has in Europe, US banks have struggled to achieve a market share of 2% and essentially offer a range of third-party insurance products to provide choice to their clients. In contrast, in the booming markets of Asia-Pacific and Latin America, the market shares of the bank channel are rapidly approaching European levels. In Latin America, the demand for pension products and simple savings oriented life insurance products are the main drivers, whereas in Asia-Pacific, growth is fostered by life insurance, protection, endowment, health and pension products.

Financial crisis creates disparate impact on bancassurers

The recent financial crisis of 2007-9 has had a traumatic impact on global bancassurance. Sales of life and other long-term investment products have collapsed as banks prioritize deposits to replenish their liquidity, and clients flee the equity market in favor of liquidity and cash. Lower sales of non-life products reflect reduced volumes of consumer loans as clients deleverage. Besides this, the long-term durability of bancassurance links has also been affected. While the overall durability of joint ventures and ownership links has historically been quite positive, the crisis has not only seriously damaged leading bancassurance competitors such as Fortis, KBC and ING, who have been forced to retrench by massive asset losses, but has also driven many to divest themselves of banking or insurance affiliates because of a need for capital in the downturn. The recent EU decision to order the divestiture of ING’s insurance businesses is a good example of this. At the time, ING’s Chairman acknowledged that bancassurance diversification did not mitigate the negative impact of the crisis.

Bancassurance product selection dependent on a host of factors

The bancassurance product portfolio is designed by taking into account various factors such as the fiscal treatment of insurance, customer preferences and macro economic variables. The core product grouping in the mature European market has been life and other long-term savings products, but banks have become increasingly aware of the high margins available in non-life products sold in connection with a retail loan or even independently of the lending function. At the same time, across the world, lower cost and simpler tax-advantaged investment products, such as mutual funds and variable annuities, are playing an increasing role in the overall product offering, at the expense of life insurance products. Life insurance is understandably a more expensive product because of the medical process and regulatory framework involved, but such a complex product is also more difficult for a bank platform’s staff to sell alongside their other responsibilities.
2 Global Snapshot of Bancassurance

Globally, bancassurance has emerged as an important insurance distribution channel that has not only allowed insurance companies to expand their geographical presence but also enabled banks to expand their overall product portfolio. In the Americas, bancassurance occupies XX% market share in term of gross written premium whereas in Europe and the Asia-Pacific bancassurance occupies XX% and XX% respectively.

In the Americas, Mexico and Brazil had the largest bancassurance market share owing to the strategic role played by banks in the initiation of pension reforms and creation of pension funds. Other markets such as Chile, the United States and Canada were dominated by traditional distribution channels such as agencies and brokers.

In Europe, Portugal and Spain were the largest markets for bancassurance in terms of market share. In most other markets such as Turkey, France and Italy, bancassurance was the prime channel of distribution, accounting for a market share of over 50%. In these markets, bancassurance evolution dates back to the late 1970s and banks are fully equipped and experienced to sell insurance products. The demand for alternate investment options and the reduction of social security spending by governments as part of fiscal consolidation is expected to foster bancassurance growth in Europe over the forecast period.

In Asia-Pacific, bancassurance is still an emerging distribution channel. Most markets are dominated by traditional distribution channels such as agencies and direct marketing. Bancassurance had the largest market share in South Korea, where it the channel accounted for XX% of all distribution channels. The growth of bancassurance in Asia-Pacific is fostered by numerous factors such as the presence of foreign insurance players, the availability of capital and demand for unsophisticated savings-oriented insurance policies.

Emergence of Bancassurance

2.1.1 Evolution of insurance distribution and bancassurance business model

The evolution of insurance distribution can be categorized into four distinct stages. After the advent of traditional distribution channels such as direct selling, agents and brokers, the scope of insurance distribution was further widened by the liaison of banks with insurance companies. With the onset of technology revolution, webassurance then mobile insurance also emerged as important distribution channels. It should however be noted that the functioning of these channels are not always mutually exclusive. Despite its antecedence, traditional distribution channels continue to exist as the main distribution channels in numerous countries such as the United States, Germany and Japan. Distribution channels also tend to be intra-dependent, such as in cases where bancassurance products are endorsed by agents or through web or mobile marketing. Bancassurance has emerged as an important distribution channel in most countries and has expanded the scope of the insurance business to broader customer segments which are otherwise not covered by traditional agents.

There are three distinct models of bancassurance: the distribution agreement model, intermediate model and integrated model. Under the distribution agreement model, simple insurance products are sold by the bank through trained staff, direct marketing or telesales. The model has distinct advantages such as low risk and a high commission and fee income.
2.2 Global Market Size and Outlook

In the consolidating world of financial services, the concept of bancassurance has taken a central role in the strategy of a growing number of financial institutions. Distribution of insurance products through the banking channel has become a natural choice for mass-market clients looking for simple and low-cost products from a trusted financial institution.

Banking and insurance firms have discovered that the sale of insurance products to a retail banking client base is not as straightforward as originally hoped. As clients become more demanding in terms of product choice and experience-based advice, the broker or financial adviser channel has become increasingly competitive.

The market size of bancassurance products increased significantly during the review period, as a result of the ease at which it makes insurance products available to customers as well as the scope it provides to both insurers and banks.

2.3 Regulatory developments in the bancassurance sector

Financial services in general are a closely regulated sector, and regulation is a critical driver of the profile and outcome of bancassurance business in markets across the world. Regulation in its various forms impacts bancassurance in several dimensions. One of the major outcomes of the 2008-9 financial crises, in the light of the large losses suffered by ordinary investors and the resulting anger with the financial system, will be a surge in customer protection legislation in key markets like the UK and US.

The impact of regulation on bancassurance can be broken down into the following areas:

2.3.1 Permitted ownership and products

The ownership of insurance companies, as well as the links between banks and insurers, has shaped bancassurance in the key markets under review. At one extreme is the European Union, whose liberal financial service directives place no significant barriers on ownership links between banks and insurers, limitations on who can sell products, nor prohibitions for foreign as opposed to domestic ownership.

Until 1999 and the passage of the Gramm-Leach-Bliley legislation, banks in the US were largely unable to acquire insurers. The result of this deregulation has been a wave insurance broker acquisition by banks, in contrast to Europe where banks have largely acquired insurance underwriters.

At the other extreme are many markets in Asia-Pacific and other developing markets, where regulations prohibit or severely limit the ownership of domestic insurers by banks. Others limit the foreign ownership of an insurer or bank, and several countries place major barriers to the sale of insurance products by banks. In many cases these barriers, usually designed to protect domestic competitors in the early stage of bancassurance development, are gradually lifted over time. Thus Japan has permitted the phased introduction of bancassurance products over a period of years to 2007, while the same date for foreign entry of bancassurers has been targeted by the Korean authorities. In many markets, the politically sensitive price of auto insurance is controlled. In a relatively unique instance for a major country, Canada prohibits banks from selling most bancassurance products to their retail clients.
2.3.2 Capital adequacy regulation

One of the features of many national financial service sectors is the separate regulation of banks and insurers. Out of 27 members of the EU, for example, there are some XX national regulators of financial institutions. The Financial Services Authority (FSA) in the UK is thus a rare example of a single regulator for all financial institutions that is able to set consistent regulatory standards across the sector. As political barriers to the merger of different regulatory agencies are removed, however, other jurisdictions have adopted the FSA’s unitary structure.

One consequence of these differential regulatory regimes has been the opportunity for a bank or insurer to avoid the full capital weighting of a given risk by placing it in the more lenient jurisdiction. A study by Standard & Poor’s therefore points out that, ‘insurance capital needs are not represented in regulatory capital’. For banks, this possibility has been effectively eliminated by the Basel I and Basel 2 regimes, which oblige banks to take the full capital weighting for their insurance operations. The proposed Solvency II norms in the EU will do the same for insurers, thus effectively ending most regulatory arbitrage. The target date for the implementation of Solvency II was 2012, which many observers regarded as unrealistic considering the eight years it took for the EU to obtain acceptance of the Basel II accord in banking.

Until such arbitrage is eliminated, however, an integrated bancassurer may have the opportunity to make a lower capital charge by utilising the more lenient jurisdiction. The extent of this arbitrage cannot be quantified, but conversations with interviewees indicate that it has been widely practiced.

2.3.3 Basel III to redefine business structure of bancassurers

The Basel III capital adequacy standards are expected to redefine the industry structure of all bancassurance ventures, especially those in Europe. Under the Basel III regime, banks will be required to hold a substantial amount of Tier I capital. The fundamental challenge will be to mobilize additional capital at a time when the cost of capital is on the rise.

The new capital adequacy standards may pose greater challenge for banks with insurance subsidiaries, as the capital requirements and book value of investments of the subsidiary will be deducted from Tier I capital. Bancassurance ventures in countries where the deduction is taken from total capital rather than Tier I capital will experience a greater impact if they hold business subsidiaries.

The extent of deductions from overall capital will also correspondingly reduce the amount of capital required for other businesses managed by the banks. The implications of the Basel III regime are expected to be greater for banks based in UK, France, Ireland, Denmark, Finland, Iceland, Norway and Sweden. The new requirements are expected to force banks to reassess their investments in insurance assets, which might even force them to divest. Spanish Santander group for example divested its operations in South America and redeployed the capital saved through divesting. Banking groups such as Lloyds TSB and Barclays have also revealed their intention to divest their bancassurance business.
3 The Americas

3.1 Introduction
Bancassurance has seen rapid development in the Americas during the review period, mainly driven by deregulation in many key markets. It has risen in importance since its introduction to become a significant distribution channel. The main business model has also diversified from simple distribution agreements to joint ventures and integrated financial services provisions. Countries such as Brazil, Mexico and Chile witnessed the highest growth in the value of commission earned through bancassurance while countries such as the US and Canada recorded moderate growth, due to the high level of maturity of their bancassurance markets.

Evolution of Gramm-Leach-Bliley (GLB) legislation supported the growth of bancassurance in the US
In the US, banks have not historically played a large role in the insurance sector, but the success of bancassurance in Europe gave added impetus to the long-awaited deregulation of the US financial structure in 1999 through the passage of the Gramm-Leach-Bliley (GLB) legislation. Until then, the Glass-Steagall Act had blocked most ownership ties between banks, insurers and securities firms, as well as the sale of most insurance products through bank channels.

During the 1990s, however, banks gradually won the right first to sell, and later to manufacture, annuities and life insurance. On the other hand, the banks’ strategic focus has traditionally been on selling investment products such as mutual funds and annuities. The passage of the GLB landmark legislation, in the view of many experts, was destined to transform the banking and insurance landscapes. Many consultant studies were published which gave an opinion on the right combination of mergers and alliances, along the lines of those established in Europe.

The passage of the GLB legislation coincided with the merger between two leaders in their respective sectors – Citigroup and Travelers. Sandy Weill, who had a track record of success in both the insurance and banking sectors, ultimately took over the CEO slot.

A decade after the GLB legislation was passed, the view on bancassurance is a muted one. On the one hand, M&A activity has been significant – but not in the form predicted by the experts. By 2004, banks owned XX% of the top XX insurance brokers, with BB & T in North Carolina alone having acquired XX of them. A total of X,XXX bank holding companies, including industry leaders such as Citibank and Wells Fargo, now sell insurance.

On the other hand, the banks’ current estimated life insurance market share is modest X%, in contrast to the XX-XX% predicted by leading consulting firms. Insurance accounts for only X.X% of the non-interest income of US banks that sell insurance, and growth is tapering off.

Interestingly, the dominant product sold by US bancassurers is annuities. In the US, this is a tax-advantaged investment instrument that is not dissimilar to the classic European product sold successfully in France and similar markets, and is therefore well suited to marketing by a generalist banks sales force.
Several countries in the Americas have witnessed a dramatic shift in the bancassurance market
With the evolution of bancassurance as a distribution channel in the Americas, the kind of product being offered and its share in the overall premium earned changed significantly to products with a high complexity and high margin.

In countries such as Brazil, Mexico, Chile and Canada the combined average premium earned by bancassurance accounted for more than XX% in 2012 and the complexity of products offered also increased. In the US however, product complexity has been decreasing, although the level of bancassurance activity has remained almost the same.

Figure 1: Shift in Bancassurance Market in The Americas
3.2 Market sizing and Analysis of Bancassurance

3.2.1 Overview

Bancassurance is an important distribution channel in the life insurance segment in most countries considered in the Americas. The market share of the bancassurance distribution channel was highest in Mexico and Brazil. The strategic role played by banks in the creation of pension funds and the initiation of pension reforms have resulted in the emergence of bancassurance as a key insurance distribution channel in both of these countries. The share of gross written premiums generated through bancassurance in the Mexican life insurance segment is expected to increase from XX.X% in 2012 to XX.X% in 2016, whereas in the Brazilian life segment it is expected to rise from XX.X% in 2012 to XX.X% in 2016.

Bancassurance was not a very active distribution channel in the Chilean life insurance segment during the review period. The market share of gross written premiums generated in the life insurance segment through the bancassurance channel increased marginally from XX% in 2006 to XX.X% in 2012. By 2016, this share is expected to remain XX%. Large foreign insurance players who engage in direct marketing are expected to pose stiff competition to growth of bancassurance during the forecast period. However, the same period will also see domestic commercial banks intensify their efforts to retain their market share through aggressive marketing and attractive product offerings.

Bancassurance was also not a dominant distribution channel in the US. Prior to liberalization in 1999, US bancassurance growth was stunted due to the provisions of the Glass Steagall Act of 1933. Growth was also slow as a result of the concentration of bancassurance ventures in high net-worth segments.

Number of new policies/ schemes sold through bancassurance

In terms of policy sales, Chile led its Latin American peers with XX.X million policy sales through bancassurance in 2012 alone. Over the forecast period, the growth of new policies will be facilitated by the expansion of the insurance products portfolio and aggressive marketing by foreign insurance players in partnership with domestic banks.

Policy sales also grew at a positive rate in markets such as the US, Brazil and Mexico. The lowest number of policy sales was reported in Canada, where the number of new policies written in the life insurance segment was just XXX,XXX in 2012. As mentioned above, the restrictions placed on banks against leveraging customer databases for cross-selling insurance products adversely affected the growth of bancassurance in the country.
Non-Life Insurance Segment

Value of Commissions

In the non-life insurance segment, the US and Brazil led the Americas in terms of the value of commissions earned. The value of commissions in the non-life insurance segment earned by the US and Brazil through bancassurance in 2012 was US$XXX.X million and US$XXX,XXX.X respectively.

The value of commissions earned through bancassurance in the non-life insurance segment of all countries was low compared to that earned in the life insurance segment. This is mainly because banks are not as well positioned as insurance companies to sell and service insurance products. In Brazil, growth in the value of commissions in the non-life segment during the forecast period will be fostered by the demand for pension products, while in the US it will be fostered by the demand for mortgage and property insurance products. The value of commissions earned through bancassurance was lowest in Canada, whose commissions through this channel valued only US$XX,XXX.X. The inability of banks to engage in non-life product sales and the restrictions imposed on banks against leveraging customer databases acted as major deterrents to commission growth in the country.

Number of new policies/ schemes sold through bancassurance

Latin American markets lead the market during the review period in terms of the number of new policy sales through bancassurance. The highest number of policy sales through this channel was recorded in Brazil and Mexico, which recorded sales amounting to XX.X million and X.X million policies respectively in the year 2012. In Brazil, new policy sales are expected to increase with the rise in product offerings and commission rates offered to banks by foreign insurance companies. Meanwhile in Mexico, policy sales through bancassurance are expected to increase over the forecast period as a result of the extensive partnering of foreign insurance players with local banks and the demand for pension products.

Canada recorded the lowest number of policy sales through the bancassurance channel during the review period. As mentioned above, the limitations of bank-based non-life product servicing and the restrictions on leveraging customer information databases adversely affected non-life policy sales during the review period.
3.3 Key Trends and Drivers

The key business, consumer and infrastructure drivers of bancassurance in the Americas are detailed below:

**Figure 2: Key Drivers of Bancassurance in the Americas**

- **Business Drivers**
  - High bank penetration
  - Presence of large foreign players
  - Brand equity of banks
  - Savings in the economy
  - Financial de-regulation
  - Tax advantages
  - Domestic credit availability

- **Consumer Drivers**
  - Wealthy customer segments
  - Ageing population

- **Infrastructure Drivers**
  - Growth of internet banking
  - Customer information databases
  - Customer Service facility

Source: World Bank, Timetric analysis

### 3.3.1 Business Drivers

**High bank penetration**

Bancassurance has a high growth potential in markets with high banking penetration. Higher banking penetration allows banks to distribute insurance products to larger customer segments which are otherwise not covered by traditional distribution channels such as agencies and brokers. Most countries in the Americas have high banking penetration. Banking penetration represented by the number of commercial branches per thousand adults in the Americas is shown in the figure below; the US had the highest banking penetration in 2010 with XX commercial branches per thousand adults. The corresponding figures in Canada, Chile, Mexico and Brazil were XX, XX, XX and XX respectively. Banks have a huge scope for marketing insurance products in these countries as their insurance penetration rates are very low compared to their bank penetration rates.

**Presence of large foreign players**

The openness of the market to foreign players is a key factor influencing the growth of bancassurance. Foreign players see bancassurance as a quick way to access the market and capture large client bases. In this way bancassurance permits insurance companies to leverage the bank's goodwill and client base in the domestic market. Large foreign insurance players who tend to associate with banks to sell insurance products are present in the majority of countries in the Americas. Some of the foreign multinational insurance companies operating in the US include AIG, Prudential (UK) and ING.
Brand equity of banks
The brand equity of banks is a key driver of bancassurance. Insurance companies prefer banks with high brand equity when attempting to associate their insurance business. Banks also tend to market insurance products under their own brand name, owing to their superior brand recognition. Bancassurance has grown significantly in countries such as Argentina, Mexico, Chile and Brazil, where foreign insurers have chosen to partner with local banks which had well established domestic networks.

Tax advantages
The tax advantages offered by countries on insurance products help to drive the bancassurance business to a great extent. For instance, the US offers favorable treatment for annuities sold through banks. The pension system reform in Chile in 2008, where voluntary pensions savings (Ahorro Previsional Voluntario Colectivo or APVC) undertaken by low and medium income groups were provided tax concessions, also resulted in an increase in demand for pension products through bancassurance. Similarly in Mexico, the Savings Fund program, which allows employees and employers to invest nearly XX% of their income, offers tax advantages. The strategic role played by domestic banks in designing pension funds has increased their scope for conducting and expanding their bancassurance business.

3.3.2 Consumer Drivers

Wealthy customer segments
There is a high demand for bancassurance among private bank clients who require insurance products for succession planning and tax optimization related to wealth, inheritance and capital gains. The US had the highest number of high net-worth individuals in the Americas, with XX,XXX individuals in 2011. In Mexico, Chile and Brazil the corresponding figures were X,XXX,XXX and X,XXX.

Ageing population
Bancassurance has a large business opportunity in the pension plan segment. Bancassurance in Latin American markets such as Chile, Brazil and Argentina has thrived on pension products, and has a huge scope for growth mainly as a result of the high rate of population aging. In most countries of the Americas, population XX-XX% of the population is expected to be aged XX or over by 2050.
3.3.3 Infrastructure Drivers

Growth of internet banking

The penetration of internet banking serves as an important infrastructure driver of bancassurance. Internet banking enables the marketing and cross-selling of insurance products to a wider customer base. Banks are also attempting to design interactive sites which provide customers with facilities such as what-if calculations. Internet banking has also proven to be an important infrastructure driver on account of the high internet penetration in the Americas. Canada had the highest internet penetration with 83%, whereas the US, Chile, Brazil and Mexico recorded internet penetration of XX.X%, XX.X %, XX.X % and XX.X % respectively.

Customer information databases

Banks have wide variety of information about customers including their buying habits, level of income and wealth, and spending and saving practices. This information can be used to attain vital insights about the type of insurance product demanded and the scope of selling these products. In the ‘Mixed Model’ type of bancassurance, the database of the bank is sold to the insurance company. In the US, Citigroup, Bank of America, Wells Fargo and Merrill Lynch share their customer information with affiliates. In Argentina, Chile and Brazil banks are currently not permitted to share customer information. However, regulators are expected to ease these regulations as they attempt to promote the sale of insurance products.

Customer service facilities

The customer support facilities offered by banks are expected to be a major infrastructure driver of bancassurance in the Americas. Bancassurance has definite advantages over traditional insurance channels owing to the closer customer relationship that banks tend to maintain with their customers. Banks also tend to operate 24x7 customer service facilities to assist clients. For instance, US bancassurance player HSBC provides a ‘360° Customer Experience’ facility which offers pre-sale communications (including seminars and phone calls), comprehensive advice and after-sale service on insurance products.
3.4 Case Studies

3.4.1 Wells Fargo

In the US, Wells Fargo now leads its rivals in a number of key retail metrics: small business lending, mortgage origination, middle-market commercial lending, and the number of branches in its country-wide network. It is also the largest bank-owned insurance brokerage. The merged bank now has over XX million clients.

By increasing the sale of non-traditional products like insurance and fund management, the management's long term cross-selling target is eight products (of the possible 15) per retail client. Wells’ overall business strategy has been to ‘be the premier provider of financial services in all of our markets’ - hence its strategic commitment to a comprehensive range of retail products including investment funds, life and non-life products and mortgage servicing. In contrast, the bank is only marginally active in corporate banking and has virtually no presence in investment or international banking.

Bancassurance strategy:

Wells’ bancassurance strategy is driven by its management’s view that the bank should be able to cater to its priority client segments for all five major financial needs: transaction services, savings, short term and long-term credit, and protection. Bancassurance thus targets protection services, essentially non-life products, although investment needs are met by the sale of annuity products. Pre-merger, the bank earned roughly $X billion from insurance products, including annuities. Wells sees itself as a product provider rather than a manufacturer, and in this context is committed to offering choice to its priority segments. Apart from mass market retail, these include SME and mid-scale corporates, professionals and real estate developers. The bank has built by acquisition an impressive network of insurance providers across the US. Under the Wells Fargo Insurance Services (formerly Acordia) brand, this network now constitutes the largest bank-owned insurance brokerage business and the fifth largest in the US.

In recent years, the bank has moved from bank branch or broker-based selling of insurance to referrals to a call centre staffed by insurance specialists. Such specialists offer choice in the form of a range of products along with a recommended one; currently the products of XX insurance carriers are offered to over XXX,XXX call centre clients. Brokers with small accounts thus can devote more time to larger clients while still receiving credit for the sale. Unlike other competitors, brokers are not expected to cross-sell banking products but rather to focus on their professional specialties. Such an approach minimizes the traditional cultural split between bankers and insurance sales staff. In recent years it is estimated that roughly X% of the old Wells retail client base bought insurance from the bank, while XX-XX% of new insurance sales have been referrals from the banking network. The insurance unit has not yet reached the bank’s overall target of XX% of revenue derived from cross-selling. The most important insurance product before the merger was annuity, an investment product with death benefit.

Evaluation of bancassurance strategy:

The strategic contribution of bancassurance to Wells Fargo probably lies more in its contribution to the overall customer offering of choice and a broad product range rather than direct bottom line profits. Prior to the 2008 merger, it is understood that the target penetration of the old Wells client base was XX%, well above the estimated of X% achieved. The merger process with Wachovia, while on target, will naturally be a disruptive factor over the short term in bancassurance as well as the company’s other businesses, given the need to merge two roughly equal banks. Yet the strategy is a realistic one given the preference of US clients to look to brokers for advice on the choice of an insurance product. In addition, there is no reliance on brokers to sell banking products, which has proven less than totally satisfactory in similar acquisitions. Finally, the transition to the call centre servicing of retail customers would appear to be much more cost effective than branch-based selling, given the well-known limitations of branch staff in selling insurance products. Ultimately, bancassurance success will be driven by the merged bank’s strong culture of providing excellent client service and focus.
4 Europe

4.1 Introduction

The bancassurance model in Europe originated in the mid-1980s in France. Bancassurance accounts for over a quarter of the life insurance segment and nearly X-XX% of the non-life insurance segment in the majority of European countries, except the UK where agencies and other distribution channels are better positioned to distribute life and non-life insurance products.

The markets with highest growth prospects in the life insurance segment are Poland and Turkey, which are expected to post CAGRs of XX.XX% and XX.XX% respectively during the forecast period. The main drivers of these markets are investment related life insurance products and retirement savings product. The mature markets in Europe were France, Italy and Spain. Bancassurance growth in these markets is also driven by investment related life insurance products. These served as an alternative to bank savings, which are less remunerative owing to a general decline in interest rates in the European region.

Bancassurance is expected to see positive growth prospects in Eurozone countries were social security spending is on the decline. Reduction of social security spending is expected to trigger a huge demand for private insurance, which can be well met by bancassurance ventures.

Northern European markets such as the UK and Germany has seen rather slow development of bancassurance, mainly as a result of the unattractiveness of product offerings, which are not combined with banking products as they are in mature markets such as France, Portugal and Spain, and banks’ lack of full scale involvement in selling insurance products. In both Germany and the UK, bancassurance products are sold by non-bank personnel.
4.2 Key Trends and Drivers

The key business, consumer and infrastructure drivers of bancassurance in Europe are detailed below:

**Figure 3: Key Drivers of Bancassurance in Europe**

**Business Drivers**
- Lost cost involved
- Expected reduction in social service expenditure
- Growth of relationship banking
- Tax structure of countries
- Bank penetration in the country
- General decline in interest rates

**Consumer Drivers**
- Ageing population
- Wealthy customer segments

**Infrastructure Drivers**
- Customer Relationship Management (CRM)
  IT systems
- Training of bank personnel by insurance companies

Source: World Bank, Timetric analysis

4.2.1 Business Drivers

Lost cost involved

Bancassurance is considered to be less expensive than other distribution channels such as direct marketing, agencies and brokers. Through bancassurance it is possible to cross-sell insurance products, which results in a lower cost per sale than traditional distribution channels. Bancassurance also has a competitive advantage due to the ability of this channel to leverage fixed cost and to benefit from brand awareness. The cost advantage received through bancassurance in Italy compared to other distribution channels is shown in the figure below. As can be seen, the expense ratio as a percentage of gross premiums written in the life segment in 2006 was relatively lower for the bank channel than it was for traditional channels and financial advisors.

Growth of relationship banking

In countries such as France, Spain, Italy and Belgium, the existence of a strong relationship between banks and customers has resulted in expanding growth prospects for the bancassurance channel. In these countries customers have established a special relationship of trust with their banks and the customers tend to trust insurance companies better than banks. This enables them to design and sell specialized insurance products for customer segments.
Tax structure of countries

The tax structures of European countries favor the growth and expansion of bancassurance. Life insurance products and retirement plans are offered tax concessions, which make these products attractive to customers. Favorable tax treatment encouraging private provision for protection and retirement planning is expected over the forecast period as many European countries are attempting to reduce their social security spending.

General decline in interest rates

The general decline in interest rates across European countries is expected to favor bancassurance growth. A decline in interest rates tends to reduce the demand for bank savings as savers seek more remunerative options. Investors are therefore expected to find insurance products more attractive. The common insurance products that enable short-term savings include life, risk, accident and travel insurance. Insurance products that are suitable for long term investments include individual life insurance and accident insurance. The figure below shows the direction of change of central bank interest rates of various European countries.

4.2.2 Consumer Drivers

Ageing population

An important consumer driver of bancassurance in Europe is the aging population. The percentage of the population between XX and XX years of age is expected to increase from XX% in 2010 to XX% by 2040. Similarly the percentage of the population above 80 years of age is expected to increase from X% in 2010 to X% in 2040. This is expected to provide huge scope for the sale of retirement products through bancassurance.

Wealthy Customer Segments

Besides targeting the mass market, numerous bancassurance players have targeted affluent and high-net worth customers. Banks employ specialist advisers and design tailor-made products in order to do this.

4.2.3 Infrastructure Drivers

Customer Relationship Management (CRM) IT systems

An important infrastructure driver of bancassurance are the Customer Relationship Management IT systems maintained by banks and insurance companies. The CRM model helps manage a company's interactions with customers and customer data can be leveraged to cross-sell insurance products. A CRM database enables both insurance companies and banks to design bancassurance products in accordance with the need of its different customer segments. Banks and insurance companies can operate from the same platform and can engage in multi-distribution of bancassurance products to an extended customer base.

Training of bank personnel by insurance companies

In some European countries, bancassurance strategy benefits from the expertise of insurance companies. In Italy for example, the No.241 directive of the ISVAP (“Istituto per la Vigilanza Sulle Assicurazioni Private e di Interesse Collettivo”) requires insurance companies to provide sufficient training to bank staff before they engage in insurance sales.
4.3 Case Studies

4.3.1 ING Group

Dutch insurance company ING's hybrid bancassurance model had benefitted the company significantly in terms of economies of scale, capital efficiency and earnings stability. However, in 2009, the company announced that it would divest its insurance operations as part of its US$X.X trillion restructuring agreement with the Dutch government. ING's strategies took a hit post financial crisis after substantial losses were incurred in its US mortgage securities and real estate holdings.

ING's operations were mainly based in the EU, CEE, Benelux, US and Asia-Pacific. ING was the result of a major bancassurance merger in 1991. It was created by the fusion of Dutch insurer Nationale Nederland and NMB Postbank. ING adopted a multichannel distribution strategy with bancassurance as a key channel to expand its operations in Central and Eastern Europe. In the CEE the company specialized in life insurance and retirement services, whereas in Asia-Pacific the commonly adopted strategy was to form joint ventures and alliances.

Bancassurance strategy

ING's bancassurance strategy mainly revolved around sale of life insurance products in the Central and East European markets and in Asia-Pacific. ING targeted high growth markets and focused on bank acquisitions and alliances as well as green field operations based on agency networks. In Asia-Pacific alone ING had 100 banking alliances. The company did not confine its bancassurance operations to the provision of insurance products alone, but rather offered contributions such as IT support, training and compliance, and product development services.

Evaluation of its bancassurance strategy

Despite its focus on a bancassurance strategy, the bancassurance joint venture was threatened in regions such as China by compliance and pricing related issues. ING's bancassurance strategy suffered a significant hit during the financial crisis after the US real estate market suffered massive losses. Though the bancassurance hybrids themselves were not the cause of any concern, ING's decision to divest its insurance segment resulted in the wrap up of its bancassurance strategy as well.

4.3.2 BBVA Seguros

BBVA Seguros SA de Seguros y Reaseguros functions as an insurance and reinsurance company and deals in life, accident and healthcare related insurance products. The company was founded in 1968 and is based in Spain. It was towards the end of 1981 that the company explored the scope of bancassurance. The opportunity came after it was acquired by Banco de Bilbao banking group. After its acquisition, the company began providing financial services to the private clients of the bank. Later in 1988, the delivery of insurance products was extended to the customer networks of the Banco de Bilbao y Banco de Vizcaya. The insurance and banking operations of the entity are now consolidated and BBVA Seguros operates as the insurance department of the bank. The bank had over X.XX million policy holders in 2011 and had a XX.X% market share of premiums in September.
5 Asia Pacific

5.1 Introduction

Bancassurance is an important distribution channel for insurance products in most Asia-Pacific countries considered. The largest market in terms of bancassurance development was South Korea. The bancassurance channel accounted for XX% of gross written premiums in the life insurance segment and X% in the non-life segment in 2012. The growth of bancassurance in the country is favoured by the demand for savings oriented insurance policies and the prevalence of low interest rates, which has freed up a significant amount of capital in the economy. Although the share of gross written premiums generated through bancassurance was higher in the life insurance segment, the demand for property insurance and other non-life insurance products is expected to offer significant scope for raising the share of bancassurance in the non-life insurance segment over the forecast period.

The second largest market in Asia-Pacific in terms of bancassurance development is China. In 2012, The bancassurance channel accounted for XX.X% of gross written life insurance premiums and XX.X% of gross written non-life insurance premiums in the country. The large networks of commercial bank branches and post offices which cater to huge client bases have significantly contributed to the growth of bancassurance as a distribution channel. Bancassurance is now the most widely used channel for the distribution of life insurance products. The ample availability of capital and demand for unsophisticated savings-oriented insurance policies also contributed to the growth of bancassurance in the country.

Bancassurance plays a significant role in both the life and non-life insurance segments in Japan. The bancassurance channel accounted for XX% of gross written life insurance premiums and X.X% of gross written non-life insurance premiums in the country in 2012. The bancassurance market was driven primarily by the demand for personal annuity and personal life insurance products. The deregulation of the bancassurance market in 2008 has also contributed to the positive growth of the business during the review period. The inflow of new technologies and attempts to automate the sales cycle is expected to significantly reduce cost and improve the prospects of bancassurance business during the forecast period.

Bancassurance has emerged as a key platform for the distribution of insurance products in India. The channel accounted for XX.X% of gross written life insurance premiums and XX.X% of gross written non-life insurance premiums in the country in 2012. India is one of the most vibrant markets in terms of the emergence of bancassurance. Growth is aided by the presence of large number of commercial banking networks. In 2011, nearly XX% of life insurance companies in the country used bancassurance as an important channel for the distribution of insurance products. Besides life insurance products, there is a high demand for health, endowment and pension products. Private insurers, who are actively seeking to expand their market share, have also significantly contributed to the development of bancassurance in India, by forging new partnerships with banks that have large client bases.
5.2 Key Trends and Drivers

The key business, consumer and infrastructure drivers of bancassurance in Asia-Pacific are detailed below:

Figure 4: Key Drivers of Bancassurance in Asia-Pacific

5.2.1 Business Drivers

Low Interest Rates

*Low interest rates to make savings oriented insurance products more attractive than bank savings*

Savings based insurance products are attractive alternatives to bank savings when interest rates are low. This has been the case in most Asia-Pacific economies such as South Korea, Japan and China. The decline of interest rates in South Korea increased the demand for savings oriented insurance policies. This was also the case in Japan where interest rates have come close to zero. In China and India insurance products that promise a greater rate of return than traditional savings products are in high demand. For instance, in China, there is a growing demand for investment-linked insurance policies, which derive their benefit rises in capital markets.
5.3 Regulatory Framework

The bancassurance regulatory framework differs from country to country in Asia-Pacific. While Chinese and Indian regulators have a strict code of conduct regarding bancassurance sales, Japan and South Korea have deregulated the business.

South Korea

The bancassurance regime was introduced in South Korea in August, 2003. De-regulation of the business was done phase by phase, and is now completely deregulated. Bancassurance based sales are monitored by the financial services regulator of the country, and banking auditing of the business at regular intervals is mandatory.

China

The bancassurance channel was introduced into the Chinese market in 2001. Two years after this, the insurance law of the country was revised and removed the earlier restriction that banks could only serve as the agents of a single insurance firm, which greatly helped the development of the bancassurance channel. By 2011 the bancassurance channel accounted for XX% of the total income garnered by insurance companies. On January 16, 2008, the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC) reached a consensus to permit investments between banks and insurance companies, provided they maintain appropriate risk buffers.

Japan

Bancassurance was introduced as a formal insurance distribution channel in 2001. The bancassurance market was fully deregulated in 2008. Banks are permitted to have non-exclusive insurance distribution businesses with multiple insurance companies. Regulations insist that banks must protect consumer interests by ensuring privacy and securing personal data.

India

Bancassurance in India is regulated by the Insurance Regulatory and Development Authority (IRDA). Bancassurance was approved as a formal insurance distribution channel through the Government of India notification to the Banking Regulation Act issued in August, 2000. An IRDA notification in 2002 further allowed banks to function as corporate agents for insurance distribution. According to the regulations issued by the central bank, a licensed bank can cooperate with an insurance agency as an agent with no-risk or as a joint venture, which involves a risk component.
6 Appendix

6.1 Methodology

All Timetric foresight reports are created by following a comprehensive, four-stage methodology. This includes market study, research, analysis and quality control.

1) Market Study
   A. Standardization
      Definitions are specified using recognized industry classifications. The same definition is used for every country.
      Annual average currency exchange rates are used for the latest completed year. These are then applied across both the Review and forecast data to remove exchange rate fluctuations.
   B. Internal audit
      Review of in-house databases to gather existing data:
      - Historic market databases and reports
      - Company database
   C. Trend monitoring
      Review of the latest companies and industry trends

2) Research
   A. Sources
      Collection of the latest market-specific data from a wide variety of industry sources:
      - Government statistics
      - Industry associations
      - Company filings
      - International organizations
      - Regulatory agencies
   B. Expert opinion
      Collation of opinion taken from leading industry experts
      Analysis of third-party opinion and forecasts:
      - Broker reports
      - Media
      - Official government sources
   C. Data consolidation and verification
      Consolidation of data and opinion to create Review datasets
      Creation of models to benchmark data across sectors and regions

3) Analysis
   A. Market forecasts
      Feeding forecast data into market models:
      - Macroeconomic indicators
      - Industry-specific drivers
      Analysis of industry database to identify trends:
      - Latest trends
      - Key drivers of the industry
   B. Report writing
      Analysis of market data
      Discussion of company and industry trends and issues
      Review of financial deals and trends

4) Quality Control
A. Templates
Detailed process manuals
Standardized report templates and accompanying style guides
Complex forecasting tool used to ensure forecast methodologies are consistently applied
Quality-control checklists

B. Quality control process
Peer review
Senior-level QC
Random spot checks on data integrity
Benchmark checks across databases
Market data cross-checked for consistency with accumulated data from:
- Company filings
- Government sources.

6.2 Definition

<table>
<thead>
<tr>
<th>Categories</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bancassurance</td>
<td>The partnership between a bank and an insurance company in which the insurance company uses the bank’s sales channel to sell insurance products.</td>
</tr>
<tr>
<td>Incurred loss</td>
<td>The sum of claims paid by an insurance company, and the change in the provision for outstanding claims, irrespective of whether or not they have been reported.</td>
</tr>
<tr>
<td>Claim ratio</td>
<td>Claims payable as a percentage of premium income.</td>
</tr>
<tr>
<td>Commission and expenses</td>
<td>The sum of acquisition cost and administrative cost. The acquisition cost is the percentage of a premium produced that is retained as compensation by insurance agents and brokers.</td>
</tr>
<tr>
<td>Earned premium</td>
<td>The amount of money considered to have been earned on a policy by an insurer. It is calculated by multiplying the original premium by the percentage of the policy’s term which has expired without a claim being made.</td>
</tr>
<tr>
<td>Gross claim</td>
<td>The amount payable by an insurance company before allowances is made for credits that may be due in the form of reinsurance, subrogation or salvage.</td>
</tr>
<tr>
<td>Gross written premium</td>
<td>The total amount of premiums (before deduction of reinsurance costs) customers are required to pay for insurance policies written during the year.</td>
</tr>
<tr>
<td>Insurance density and penetration</td>
<td>The percentage of total written premium to the country’s GDP.</td>
</tr>
<tr>
<td>Term insurance</td>
<td>A life insurance scheme that provides protection for a specified period, usually between five and twenty years. The policy expires without value if the insured survives the stated period.</td>
</tr>
<tr>
<td>Treaty reinsurance</td>
<td>A reinsurance agreement applying to the reinsurance of a class or some classes of business, instead of an individual risk.</td>
</tr>
</tbody>
</table>

Source: Timetric analysis

6.3 Background
Timetric’s dedicated research and analysis teams consist of experienced professionals with an industry background in marketing, market research, consulting and advanced statistical expertise.

Timetric adheres to the Codes of Practice of the Market Research Society (www.mrs.org.uk) and the Society of Competitive Intelligence Professionals (www.scip.org).

All Timetric databases are continuously updated and revised.

6.4 Contact Us
If you have any queries about this report, or would like any further information, please contact info@timetric.com.
6.5 About Timetric

Timetric is an independent economic and business research firm that provides critical intelligence on emerging economies and key global industries. The company offers detailed economic and sector intelligence, business insights and independent and authoritative commentary.

Underpinning all Timetric’s research services is a belief that data – if gained following the right technologies and analytic frameworks – can provide unique and powerful economic and business insights.

The Timetric economic and industry intelligence centers are premium decision tools that provide access to comprehensive research, data and expert analysis. They provide invaluable decision support, presented in an easily digestible format and grounded in rich, proprietary data and data analysis frameworks.

Each year, Timetric produces hundreds of high-quality research reports across countries, industries and companies. These reports draw on in-depth primary and secondary research, proprietary data and high-quality modeling and analysis to give its readers a deep insight into global market dynamics and economic trends.

Timetric helps its clients to:
- Gain an unbiased, expert insight from a genuinely independent and trusted source
- Save time in researching, visualizing and comparing economic and industry data
- Access the latest and most useful data sets, indices and forecasts
- Gain access to a unique methodology for understanding economic trends
- Forecast and predict trends more accurately

Economic Research Services

Timetric’s economic research services are founded on three key goals:

1. **To provide the strongest base data:**
   - The most accurate data
   - The most timely and frequently updated data sets
   - The best data curation methodologies and standardizations
   - Unique data sets and forward-looking indicators
   - Industry-specific, premium data sets

2. **To develop the best data analysis frameworks:**
   - Unique economic indices and data analysis frameworks
   - Forward-looking indicators
   - Proprietary indices and surveys
   - Data analysis frameworks, scorecards and models

3. **To provide authoritative independent economic insights:**
   - To give a uniquely local perspective on developing markets
   - Truly expert, independent economic analysis and commentary
   - Proprietary analysis techniques and frameworks
   - Unique forecasts

Timetric believes that world-class content delivery should be the enabling factor across all it does. All its research services follow the principle that data and research should be easy to access, visualize and consume.
All economic research products are built on the Timetric economic research software platform, which has four layers:

- Unique, proprietary aggregation and curation software for pulling together the world’s data
- A cloud time-series database filled with top-quality statistics from across the globe
- Web-delivered search, discovery and research software to allow customized data searches
- World-class browser-based display to visualize the data searched

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