

INSURANCE
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R e p u b l i c o f M a c e d o n i a

Bancassurance- factor for the development of life insurance market

First International Conference:

“DEVELOPMENT OF LIFE INSURANCE MARKET: OPPORTUNITIES AND CHALLENGES”

17.10.2012, Budva, Montenegro

Distribution channels in South East Europe (life)

Country		Direct writing	Intermediaries		Bancassu- rance	Other
			Agents	Brokers		
BG**	Bulgaria	15.40%	62.00%	22.60%	0.00%	0.00%
HR***	Croatia	39.30%	34.30%	2.50%	19.30%	4.60%
RO*	Romania	7.00%	65.10%	15.30%	12.60%	0.00%
SI*	Slovenia	3.90%	81.30%	3.50%	11.20%	0.10%
TR**	Turkey	18.90%	23.80%	0.90%	56.40%	0.00%
MN***	Montenegro	9.80%	53.70%	36.50%	0.00%	0.00%
MK***	Macedonia	9.50%	22.40%	68.10%	0.00%	0.00%
SR***	Serbia	40.20%	50.30%		9.50%	0.00%

*Data for 2009

** Data for 2010

*** Data for 2011

Overview of the presentation

- > Definition and explanation of the bancassurance sales model
- > Drivers for bancassurance
- > Development models
- > How the participants benefit from the success of the model?
- > Main characteristics of bancassurance products and risk assessment in bancassurance
- > Development of bancassurance in SEE countries

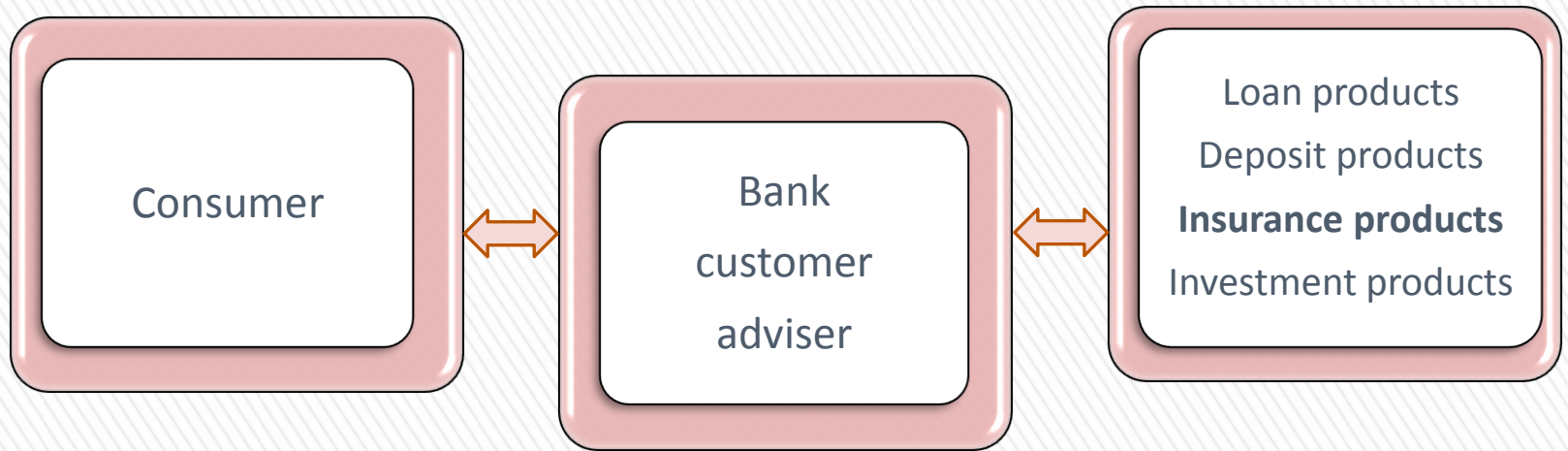


The definition of bancassurance

- > "partnership between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products"
- > "a strategy adopted by banks or insurance companies aiming to operate in the financial market in a more or less integrated manner"
- > "the joint efforts of banks and insurers to provide insurance services to the bank's customer base"



Bancassurance Sales Model



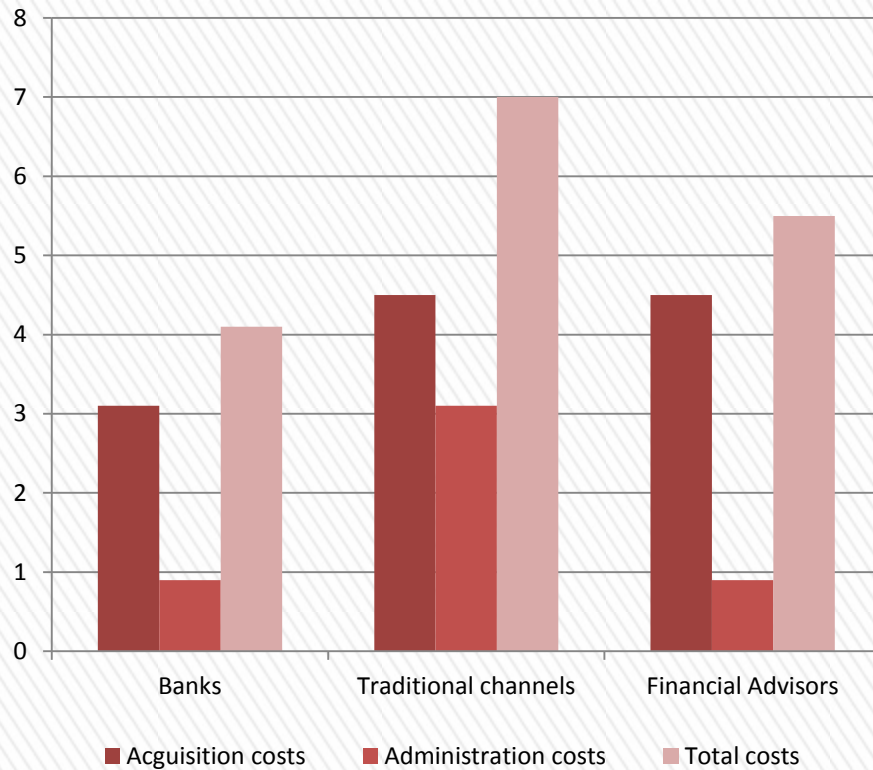
New business margin by distribution channels

	2006	2005
AVIVA: as % of PVNBP		
Bancassurance	2.7%	2.9%
Other channels	1.4%	1.6%
Total	1.7%	1.8%

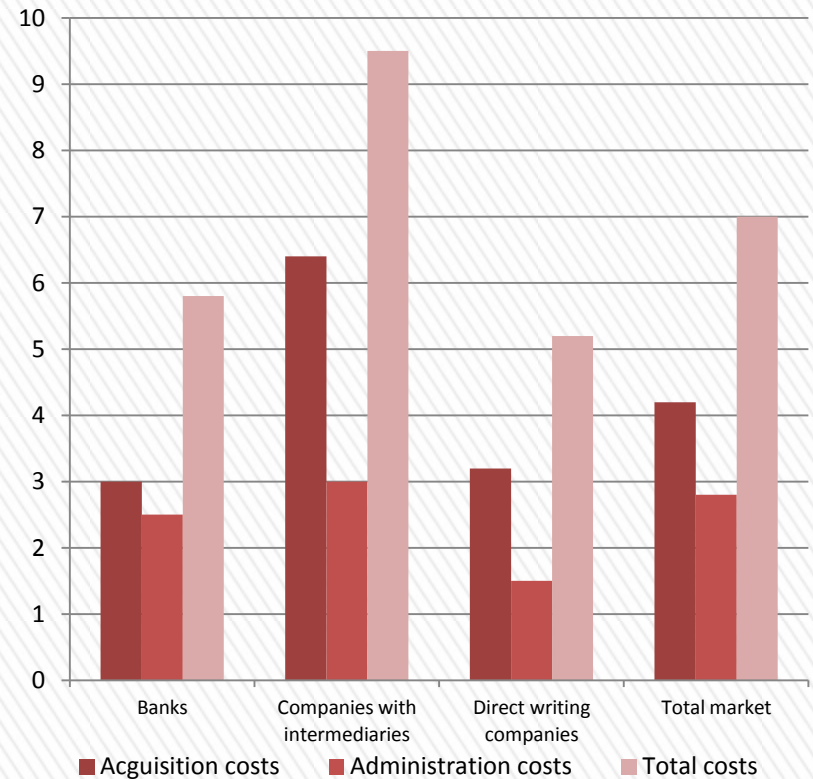


Life insurance expense ratios

» Italy



» France



Distribution channels in Europe (life)

Country		Direct writing	Intermediaries		Bancassu- rance	Other
			Agents	Brokers		
PT**	Portugal	2.9%	10.3%	0.2%	85.0%	1.6%
ES*	Spain	10.4%	12.7%	8.1%	66.2%	2.6%
FR*	France	16.0%	7.0%	14.0%	60.0%	3.0%
IT**	Italy	2.5%	12.0%	0.0%	85.4%	0.1%
AT*	Austria	14.3%	2.7%	13.4%	64.8%	4.8%
LU**	Luxembourg	0.0%	46.4%	3.7%	25.9%	24.0%
DE*	Germany	2.5%	53.5%	20.9%	20.6%	2.5%
NL**	Netherlands	14.1%	67.1%		15.6%	3.2%
UK**	United Kingdom	5.0%	12.3%	63.6%	19.1%	0.0%

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Drivers for bancassurance

» Regulatory regime

- France: Finance laws from 1998 and 1999;
- Italy: Amato law of July 30, 1990.

» Fiscal treatment of long- term savings products

» Product complexity

» Distribution network

- A banking network with a dense and structured geographical presence is an essential factor for success.

» Market image

- The way consumers perceive banking in a given market and the role it plays in society.



The three development models

	Description	Advantages	Disadvantages	Country where the model is most widespread
Distribution agreement	Bank acts as an intermediary for an insurance company	Operations start quickly. No capital investment (less costly)	Lack of flexibility to launch new products. Possibility of differences in corporate culture	USA, Germany, UK, Japan and South Korea
Joint Venture	Bank in partnership with one or more insurance companies	Transfer of expertise	Difficult to manage in the long term	Italy, Spain, Portugal, South Korea
Full Integration	Creation of a new subsidiary	Same corporate culture	Substantial investment	France, Spain, Belgium, UK, Ireland



How the participants benefit from the success of this model

Advantages for the insurance company

- Extends its customer base and enjoys access to customers who were previously difficult to reach;
- Has the opportunity to vary its distribution methods, in order to avoid excessive dependence on a single network;
- Benefits from the trustworthy image and reliability that people are more likely to attribute to banks ;
- Reduction of the distribution costs;
- Quickly entrance in a new market.

Advantages for the bank

- Bank sees bancassurance as a way of creating a new revenue flow and diversifying its business activities;
- Bank's strengths are their marketing and processing capabilities;
- Becomes a sort of "supermarket", a "one-stop shop" for financial services;
- Distribution costs can be seen as marginal since.

Advantages for the customer

- Enjoys greater access to all financial services from a bank that offers both banking and insurance products;
- Usually get cheaper insurance products than through traditional channels;
- There is a better match between what the customer needs and the solution provided by the bank.

Advantages for the legislator


- Excess deregulation of financial system can increase a country's "systematic risk". This way in many countries banks are still unable to exercise activities outside their core business, in order to avoid additional sources of risk ;
- Certain governments decided to liberalize the financial system;
- Supervisory authorities may see bancassurance as an advantage, or as a potential risk to a country's financial stability.

Bancassurance distribution- Disadvantage

- » Training of sales personnel is a complex and expensive process;
- » Motivation of sales personnel;
- » Key moment in bancassurance comes at the key moment when (for example) the loan is sold;
- » The cost ratio that counts over the long term.



Main characteristics of bancassurance products

- ✓ To be able to explain the product's purpose and concept in simple terms, even if its nature is complex;
- ✓ The products distributed must be completely suited to the banking network;
- ✓ Bancassurance is a mass distribution product;
- ✓ Insurance products are perceived as complementing rather than competing with basic bank products. 

Risk assessment in bancassurance

Accidental death (or disability) cover attached, to debit cards or bank accounts.

No

Cover for death, disability or incapacity, whatever the cause, either compulsory or with a very high penetration rate.

Limited

Cover for death, disability or incapacity, whatever the cause, provided on individual insurance products (term insurance, long-term care insurance, etc.).

Yes



Bancassurance development in SEE countries

» Legal framework

» Current trends



Legal framework in SEE countries

- » EC Directive 2002/92/EC on insurance mediation;
- » The provisions of the Directive on insurance mediation are fully transposed in the CSEE countries regulatory regimes;
- » Services related to insurance mediation may be performed only by insurance intermediaries which have obtained authorization to provide services related to insurance mediation and which have fulfilled the criteria set by the relevant national laws
- » **Insurance agency services may be performed by banks** which have obtained authorization from the relevant insurance and banking authority in the country of establishment of the bank
- » The insurance mediation activities in the banks may only be performed by licensed insurance agents.



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Future perspectives

- » Bancassurance operators are becoming increasingly innovative, and showing evidence of a willingness and ability to adjust and respond to their customers. This should enable them to maintain their position, and also to target new objectives, such as high-net-worth customers, business customers, professionals, young people, etc.
- » Bancassurance operators are diversifying and moving into a new era of more complex life insurance products, niches previously confined to the traditional channels.
- » The future of bancassurance is not predetermined, and operators will need to deal with increasingly tough competition.
- » To sum up, in the countries where it is already well established, bancassurance can still grow in certain market sectors, while in other parts of the world, it is a matter of starting from scratch. Bancassurance still has a long way to go!

Thank you!

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