

### BANCASSURANCE

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“Bancassurance” in French means the selling of insurance products by banks through their own distribution channels. Although a not so familiar term in Pakistan, bancassurance has been well established in Europe and insurance companies and banks in Asia are now gearing for this inevitable linkup. As shown in figure 1, the percentage of new life and pensions premium sold via banks in Spain has been 73% of total new business sold in 1999. In France this percentage has been 60%. This shows the success of bancassurance in Europe and how the financial services industry is moving towards integration.

#### Why Bancassurance?

There have been a number of factors which have lead to the development and success of bancassurance. For Banks the driving factors have been

- Pressure on banks’ profit margins. Bancassurance offers another area of profitability to banks with little or no capital outlay. A small capital outlay in turn means a high return on equity.
- A desire to provide one-stop customer service. Today, convenience is a major issue in managing a person’s day to day activities. A bank, which is able to market insurance products, has a competitive edge over its competitors. It can provide complete financial planning services to its customers under one roof.
- Opportunities for sophisticated product offerings.
- Opportunities for greater customer lifecycle management.
- Diversify and grow revenue base from existing relationships.
- Diversify risks by tapping another area of profitability.
- The realisation that insurance is a necessary consumer need. Banks can use their large base of existing customers to sell insurance products.
- Bank aims to increase percentage of non-interest fee income
- Cost effective use of premises
- Enhance loyalty. Life insurance contracts are long term in nature with terms ranging from 10 years to 40 year and over. This allows life insurance companies to establish a long-term relationship with their clients. Banks can benefit from this relationship, and retain and increase their customer base by offering life insurance products. The product – loyalty relationship is shown graphically in figure 2. The loyalty of bank customer can be increased many fold by offering a diversity of financial products.

For insurance companies Banks offer an untapped and successful mode of distribution. Banks with their brand image and existing customer relationship offer a natural market for selling of insurance products. Analysis has shown that consumers trust banks more than insurance companies. Insurance companies with the cooperation of banks can leverage this “trust” factor.

Bancassurance also offers lower distribution costs and higher productivity. Traditionally, insurance products have been sold through full-time sales agents. The commissions paid to the sales agents and the international productivity standard of 4-6 sales per month made this distribution channel an expensive one. The reason the productivity is low in the traditional sales agent distribution system is the amount of time the agent has to spend on prospecting or trying to find the right customer. Almost 80% of a sales agent’s time goes towards prospecting. Banks on the other hand provide a cheaper and highly productive distribution system to insurance companies. The typical productivity per producer in bank sales is 20-30 per month. The reason being that no amount is spent on prospecting and a ready market is available with the cooperation of the bank.

Insurance companies also expect a greater quality of sale through bancassurance. With a debit arrangement with the bank, the insurance company can expect better persistency of its product through a bancassurance sale.

For customers, bancassurance offers convenience and a one-stop financial super market. The customer has the satisfaction of the brand strength of the bank, his/her existing relationship and trust on the bank. The products sold through bancassurance can give better value and offer cheaper premiums due to lower distribution costs.

**How does Bancassurance work?**

The success of bancassurance has been limited to life insurance mostly, primarily because of the matching of banking products with the personal financial needs of individuals and families. Bancassurance works through a process system that highlights consumer lifestyle changes. Traditionally, insurance products have been sold through a process called event-based selling. This process serves to identify individuals or families who require life insurance coverage due to the happening of certain events which tend to increase future liabilities. Many of these events can be easily matched with banking transactions as shown in the following table:

<b>Insurance Buyer Profiles</b>	<b>Transaction Links</b>
Started Work	New Account opened
Borrowed Money	Personal Lending
Got Married	Home Loan Application
Had a Child	Child Endowment Account
Gone into business	Business lending

Once a banking customer has entered into or completed a banking transaction indicative of a lifestyle change, he/she is referred to a Bancassurance Consultant. This person is responsible for

selling the product to the customer. The internationally accepted anticipated strike rates on event types resulting in leads are given in the following table:

<b>Anticipated Strike Rates</b>	
<b>% of event types resulting in leads</b>	
Lending Events	50%
Credit Card Applications	20%
Opening Cheque Accounts	15%
Opening Savings Accounts	5%
Personal Loan Enquiries	5%

### **Forms of Bancassurance Arrangements**

#### **Strategic Alliance**

Under a strategic alliance, there is a tie-up between a bank and an insurance company. The bank only markets the products of the insurance company. Except for marketing the products, no other insurance functions are carried out by the bank.

#### **Full Integration**

This arrangement entails a full integration of banking and insurance services. The bank sells the insurance products under its brand acting as a provider of financial solutions matching customer needs. Bank controls sales and insurer service levels including approach to claims. Under such an arrangement the Bank has an additional core activity almost similar to that of an insurance company.

#### **Mixed Models**

Under this approach, the marketing is done by the insurer's staff and the bank is responsible for generating leads only. In other words, the database of the bank is sold to the insurance company. The approach requires very little technical investment.

#### **Bancassurance in Pakistan**

Bancassurance in Pakistan is not completely non-existent. Life insurance companies have worked with banks on various insurance products, but all these arrangements have been short of a true bancassurance arrangement. EFU Life Assurance Ltd was the first company in Pakistan to introduce a product which provided insurance coverage to a bank's account holders. The Company has also worked with banks to design products specifically for the bank's customers such as products for bank's credit cardholders and loan protection products for the bank's borrowers. Marketing through banks is a strategy EFU Life is actively pursuing.

Another form of non-traditional marketing channel of insurance products existing in Pakistan is "*postassurance*". The term signifies insurance sold by post offices. Postal Life Assurance has been selling life insurance products through this channel.

## **Future Direction**

Bancassurance, e-commerce and all forms of non-traditional marketing channels are here to stay. All these developments are in response to customer needs and due to the advancement in technology. The rewards in bancassurance outweigh the risks and with its success in Europe and rapid development in South East Asia, we can foresee bancassurance capture a share of the insurance market in Pakistan. The bancassurance market in the country is untapped and the opportunities for both banks and insurance companies are immense. The first to enter into an alliance can tap the tremendous potential of bancassurance and find themselves at a competitive edge over their competitors.

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*Apart from his responsibilities with EFU Life, Mr. Jamshaid Islam is also a council member of the Pakistan Society of Actuaries, in which position he participated actively in the revamping of the Insurance Law in Pakistan, which culminated in the promulgation of the Insurance Ordinance 2000. The writer has also been a member of the Insurance Committee set up by the Institute of Chartered Accountants of Pakistan to develop format of financial statements for insurance companies.*