BANC ASSURANCE - BANKING AND INSURANCE COMPLEMENT. ROMANIAN RESULTS ON THE INTERNATIONAL BACKGROUND

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Abstract: The entering of the banking institutions on the insurance market can be seen as an effort of modernizing the sector of financial services, for satisfying the diversifying needs of the consumers. Asserted as a new strategic orientation for financial institutions related to their customers, the concept of banc assurance differs considerable from one country to another, especially regarding the way in which the banks and the insurance companies use each other's distribution channels.

Key words: banc assurance; partnership; market's overview; channels distribution.

1. Introduction

One of the most significant changes in the financial services sector over the past few years has been the appearance and development of banc assurance. Banking institutions and insurance companies have found banc assurance to be an attractive and profitable complement to their existing activities.

Banc assurance covers a wide range of detailed arrangements between banks and insurance companies, but in all cases it includes the provision of insurance and banking products or services from the same sources or to the same customer base. Because there is a wide diversity of strategies, there is no standard model for banc assurance, even within a country.

"Banc assurance is the provision of insurance and banking products and services through a common distribution channel and/or to the same client base."[11]

Thus, the concept of banc assurance differs considerable from one country to another, especially regarding the way in which the banks and the insurance companies use each other's distribution channels. The choice of banc assurance models depends on specific socio-economic, cultural and regulatory environment, the market infrastructure and consumer preferences.

There is some attributes which can define the variability of banc assurance models, such as: ownership, point of sales, products, client database, product suppliers and policy administration (see Table 1).

[11] Munich Re Group, brochure Bancassurance in practice, 2001, Munchen,pg. 2

Table no. 1. The attributes of the different banc assurance models

Attributes	Banc assurance Models
Ownership	• Independent operation • Joint venture • Subsidiary
Point of sales	• Insurance agents located in the bank's branches • The bank acts as a licensed broker • Bank staff are qualified insurance agents • sales through mixed channels: branches, direct mailing, Internet
Products	• Simple products sold on an opportunistic basis • Simple products that are bundled with existing bank offers (e.g. credit life) • Advice-intensive product tailored to customer needs • Integrated financial products geared towards life cycles/key events of customers
Client database	• Limited sharing of the bank's customer database • Bank actively shares database with insurance partners
Product supplier	• Products manufactured by the bancassurer • The bank is responsible for distribution only, products supplied by one or multi-supplier
Policy administration	• Done by the insurance partner • Done by the bank's insurance subsidiaries • Outsourced to third parties

Source: Swiss Re Sigma No 5/2007, „Banc assurance: emerging trends, opportunities and challenges", pg. 6

There is no single way of entering into banc assurance, which is best for every insurer and every bank. The best way of entering banc assurance depends on the strengths and weaknesses of the organization and on the availability of a suitable partner if the organization decides to involve a partner.

Whatever the form of ownership, a very important factor for the success of a banc assurance venture is the influence that one party's management has on that of the other. An empowered liaison between respective management, with regular senior management contacts, as well as sufficient authority to take operational and marketing decisions, is vital. Regular senior management meetings are also a vital element for a successful operation. There must be a strong commitment from the top management to achieving the aims in the business plan.

The main reasons why banks have decided to enter the insurance industry area are the following:

– *intense competition between* banks, against a background of shrinking interest margins, has led to an increase in the administrative and marketing costs and limited the profit margins of the traditional banking products. New products could substantially enhance the profitability and increase productivity;

– several European countries have made *considerable regulatory changes regarding the banking and insurance sectors*. Although regulatory changes vary from country to country there has been a pan-European trend towards the "universal bank" and the limitations of the past no longer exist. Banks are now able to operate across a broader range of activities, including insurance, via legally independent risk carriers. The insurance companies and banks are not competing within just the life insurance industry and banking industry respectively anymore but within the wider financial services marketplace;

– *customer preferences regarding investments are changing*. For medium-term and long-term investments there is a trend away from deposits and toward insurance products and mutual funds where the return is usually higher than the return on traditional deposit accounts. *Life insurance* is also frequently supported by *favorable tax treatment* to encourage private provision for protection or retirement planning. This preferential treatment makes insurance products more attractive to customers and banks see an opportunity for profitable sales of such products;

– *the high operating expenses of bank branches* have led many banks to decrease their branch network. The need for more efficient utilization of branches and bank employees is today as pressing as ever. However, in Italy the number of branches has increased due to the noticeable development in banc assurance. In the future, in view of ongoing consolidation, the bank branch networks will probably decrease as well;

– *analysis of available information* on the customer's financial and social situation can be of great help in discovering customer needs and promoting or manufacturing new products or services. Banks believe that the quality of their client information gives them an *advantage in distributing products profitably*, compared with other distributors (e.g. insurance companies).

– the realization that *joint bank and insurance products can be better for the customer* as they provide more complete solutions than traditional banking or insurance products. For example, a policyholder takes out a permanent assurance with the aim of funding future education costs. At the same time, the policyholder can take out a loan (mortgage) and assign the life policy to the bank as beneficiary. For the bank the benefits are increased sales and a more widely based relationship with the customer than would be possible with bank products only.

– *population growth rates have slowed* significantly during the last decades in the western industrialized countries and this decrease in birth rates in conjunction with increasing life span will have a significant impact on the age structure of the population in the future. As a result it is likely that there will be increasing pressure on public pension systems and an increasing need for additional retirement provisions or long-term investment products. Banks see an opportunity to meet clients' growing needs in this area while making a profit.

– banks are used to having long-term relationships with their customers. *Banks have developed skills in deepening the relationship with their customers* over time, for example by marketing extra services such as deposit funds or taxation advice. Life insurance operations are also used to managing a relationship over the long term with their customers. This allows similar skills to be practiced and the bancassurer can make use of the best that each partner has to offer.

– apart from the benefits that can be derived from the possible wide spread of branches across the country, bancassurers can have a competitive advantage over traditional insurers (non-bancassurers), derived from the *provision of customer service through automated teller machines (ATMs).* In particular the bancassurer can provide its customers with an ATM card that can be used to gain access to any ATM and request information such as cash values, unit price, policy status, next premium due date, loan accounts, surrender values, etc. This channel of customer service can easily be extended so that the customer can gain access to information regarding his bank accounts and insurance policies through his personal computer.

- finally, *the Internet can be considered as an additional customer service channel* since the customer can gain access to information regarding his bank accounts and insurance policies through this network as well.

2. Advantages of insurance to enter into banc assurance

Insurance companies have identified a number of advantages from involvement in banc assurance:

– *source of new business*, from these possible reasons:

• the bank's clients are in a territory where the insurer has only a limited presence (if any), e.g. because the insurer's agency structure there is limited;

• the *bank's clients may form a very different group* (e.g. by age, sex, purchasing habits) to the one which the insurer has previously courted. For example, an insurer who previously concentrated on high net worth individuals ("HNWIs") can now gain access to a wider range of customers who will not all be HNWIs;

– *wider range of products* (including banking products): the insurance company hopes to attract further business, from both existing and new policyholders, because of the fact that it can offer a wider range of services than before, i.e. it can give its customers access to banking as well as to insurance services;

– *products not otherwise feasible*: the economics of the banc assurance operation may allow the insurer to offer products which are not feasible through the insurer's existing channels. For example, sales costs incurred under existing channels may force premium rates for a product to be uncompetitive, so the product is not sold. The costs via the banc assurance channel may be low enough to make it feasible;

– *administration* – economies of scale: the insurance company can offer to carry out the administration activities of the bancassurer's business, if for example the bancassurer is a separate company. Combining the bancassurer's business with the other business of the insurer can produce economies of scale in administration costs (including capital expenditure). This in turn allows the insurer to improve profitability and to price future products with narrower margins, which helps to make the insurer's products more competitive.

3. Development of the banc assurance in the world: overview on different markets

Most developments on Europe in banc assurance was started to the mid-1990s, and banks and insurers in other parts of the world, e.g. the USA, Canada and Asia, are now developing banc assurance operations. In doing so, they seek to learn from the experiences of European bancassurers.

According to a study[12], out of 8593 commercial banks of the United States, over 4150, meaning almost 50%, have been involved in the insurance sector, gaining important amounts from commission. Banks considered as big dimensions - the ones with assets of over 10 billion USD - have had the biggest involvement in the insurance sector, of over 80%, and gather 60% of the total received commission.

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[12] National Underwriter Study, www.1asig.ro

Tabel no. 2. Share of banc assurance distribution for the non-life insurance markets (%)

Country	Bancassurers	Agents	Brokers	Others (include direct sales)
Americas				
United States	**n.a.**	n.a.	n.a.	n.a.
Canada	**negligible**	18,0	74,0	8,0
Brazil	**13,3**	n.a.	71,6	n.a.
Mexico	**10,0**	25,0	50,0	15,0
Chile	**18,8**	81,2		
Europe				
United Kingdom	**10,0**	4,0	54,0	32,0
France	**9,0**	35,0	18,0	38,0
Germany	**12,0**	57,0	22,0	9,0
Italy	**1,7**	84,2	7,6	6,5
Spain	**7,1**	39,5	28,3	25,2
Belgium	**6,1**	10,1	65,6	18,2
Portugal	**10,0**	60,7	16,7	12,6
Poland	**0,6**	58,2	15,7	25,5
Turkey	**10,0**	67,5	7,8	14,7
Asia				
Japan	**n.a.**	92,9	0,2	7,0
South Korea	**4,0**	49,7	0,9	45,4
PR China	**n.a.**	45,4	2,0	52,6
Taiwan	**n.a.**	62,0	30,0	8,0
Malaysia	**10,0**	40,0	23,0	27,0
Australia	**n.a.**	21,0	74,0	5,0

Note: Most of the figures shown above are 2005 figures except for France and Italy where 2006 data are used. The latest figures quoted for Japan, South Korea and Taiwan are for 2004, and 2003 for Chile's non-life.

Source: Swiss Re, Sigma No 5/2007, „Banc assurance: emerging trends, opportunities and challenges", pg. 11.

Tabel no. 3. Share of banc assurance distribution for the life insurance markets (%)

Country	Bancassurers	Agents	Brokers	Others (include direct sales)
Americas				
United States	**2,0**	n.a.	n.a.	n.a.
Canada	**1,0**	60,0	34,0	5,0

Country	Bancassurers	Agents	Brokers	Others (include direct sales)
Brazil	**55,0**	n.a.	30,0	n.a.
Mexico	**10,0**	90,0		
Chile	**13,0**	87,0		
Europe				
United Kingdom	**20,3**	~10.0	~65.0	~5.0
France	**64,0**	7,0	12,0	17,0
Germany	**24,8**	27,1	39,4	8,7
Italy	**59,0**	19,9	9,4	11,7
Spain	**71,8**	15,4	5,4	7,4
Belgium	**48,0**	3,2	26,5	22,3
Portugal	**88,3**	6,9	1,3	3,5
Poland	**14,4**	39,7	4,3	41,6
Turkey	**23,0**	30,1	0,8	46,2
Asia				
Japan	**n.a.**	n.a.	n.a.	n.a.
South Korea	**8,5**	91,5		
PR China	**16,3**	83,7		
Taiwan	**33,0**	11,7	6,6	48,7
Malaysia	**45,3**	49,4	2,4	2,9
Australia	**43,0**	57,0		

Source: Swiss Re, Sigma No 5/2007, „Banc assurance: emerging trends, opportunities and challenges", pg. 11.

As we can see in the Tables no. 2 and 3, Europe has the highest banc assurance penetration rate, with life banc assurance accounting for more than half of premium income in many markets. The banc assurance system presently has a determinant part on the life-insurance markets of Spain, Portugal, Italy, Belgium and France (between 60-88% of market share). Developed through alliances formed between insurance companies and commercial banks, this modern channel of distribution didn't, however, have the expected success in countries like Great Britain, in which the life insurance market is structured around the brokerage companies, or like in Germany, where the role of traditional distribution channels is still predominant, around 75% of premiums being earned through this channel.

In North America, the penetration of banc assurance is much lower in both the US and Canada. In Japan, the penetration rate of banc assurance is low, the market of banc assurance will only be fully liberalized by the end of 2007.

Australia has a high level of banc assurance penetration in the life sector, due to acquisition of many life companies by banking groups.

4. Banc assurance in Romania

The stimulation of insurance request in Romania by the banking networks can record some success, considering that the most actual clients of banks would accept taking out an insurance. Considering the number of banks from the whole Romanian banking system, still there are a few solutions of banc assurance on the Romanina market.

The first product was launched in June 2001, by the BRD - Group Société Générale in co-operation partnership with the insurance company Commercial Union - Life-Insurance, now being AVIVA. The clients have the possibility of save money through a financial product, which also brings the protection offered only by a long-term insurance, the minimum period of insurance being of five years. The insurance company offers the documentation for the agreements and for the on-going operations, and the bank administrates and manages the entire marketing activities that are meant to strengthen the fidelity of the present clientele.

At present, Aviva has partnerships also with ABN Amro and Credit Europe (former Finansbank). Last year (2006), for the first time on the Romanian market, Finansbank and Aviva had launched Vivace product, the first health insurance in the banc assurance system.

HVB Țiriac Bank has many banc assurance products realised together with Allianz Țiriac Insurance, while Raiffeisen co-operate with AIG Life on this segment.

Moreover, by 2007 year, these products won't be the exclusive appanage of the banks. Non-banking Financial Institutions (NFI) had received at the end of 2006 the right to sell insurance policies as the complement of the loans. The Insurance Supervisory Commission from Romania has authorized the NFI as banc assurance operators.

Table no. 4. Banc assurance products on the Romanian market

Partners	Product	Description
BRD - Group Société Générale - Aviva Insurance	Brad	Investment plan in EUR, which include also a life insurance component
	Stejar	Programmed saving product along with an additional guarantee of life insurance
ABN Amro - Aviva Insurance	Reward	Saving plan for the retired period
	Start Up	Saving plan for the children
Credit Europe Bank - Aviva Insurance	Vivace	Health insurance in the banc assurance system
Raiffeisen Bank - AIG Life	Your Insurance in case of accident	Product which offer to the current accounts holders in lei a life insurance
HVB Tiriac Bank - Allianz Țiriac	-	Loan products which include a life insurance
ING Bank - ING Life Insurance		Saving/investment plans which can include a life insurance component or saving for the children

Most of cases, it is established a joint-venture in which banking and insurance products are distributed through the common channels. In Europe, over 80% of banks make choice of joint-venture or hold the own insurance companies.

Generally, the insurance products are sold by banks at some credit agreements, being used as guarantees for these agreements. Thus, the insurance of the assets accepted as guarantees by the bank throughout the entire credit period or of the assets which are the credit subject for the specific risks of each assets categories, is required. A life-insurance policy is also required for the debtor throughout the credit period, the bank protecting itself for the risk of non-payment is case of the debtor's death. Also for protection against the risk of non-payment, but of all of the debtors, the banks can take out insurance policies for financial risks, the insurance companies taking over the risk of non-repayment in case of the debtors' non-solvability.

5. Conclusions

Finally, for both bank and insurer there is a great opportunity to learn and to make improvements in their own operation. Each gets exposure to the other's distinctive management styles, its objectives and measures and the pressures which it can exert and which it feels. The benefit comes when either company can implement changes as a result of the learning process.

In Romania, the share of insurance policies sold in banc assurance system is still low comparative with the European average. At the end of 2006, around 30% from the insurance policies were sold through banking system. If the rate of growth of the banking system and the insurance one will maintain, Romania has the chance as, in 3-4 years, to recover the difference between Western Europe, the Central and Eastern European region being considered with high potential of growth also for the banc assurance products.

The stimulation of the insurance demand through the banking networks would register some success, having as a premise the fact that most of the present clients of the banks that are not yet insurance owners would finally accept the taking out of the insurance policy. In addition, the clients of the Romanian banking system taken as a whole, represent just a part of the insurance market's potential. On the other hand, the saving capacity and the possibility of placing some amounts in insurance are limited by the continuous drop of the purchasing power of the population.

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