



BANCASSURANCE: A BANE OR A BLESSING FOR THE DIRECT INSURER?

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Highlights



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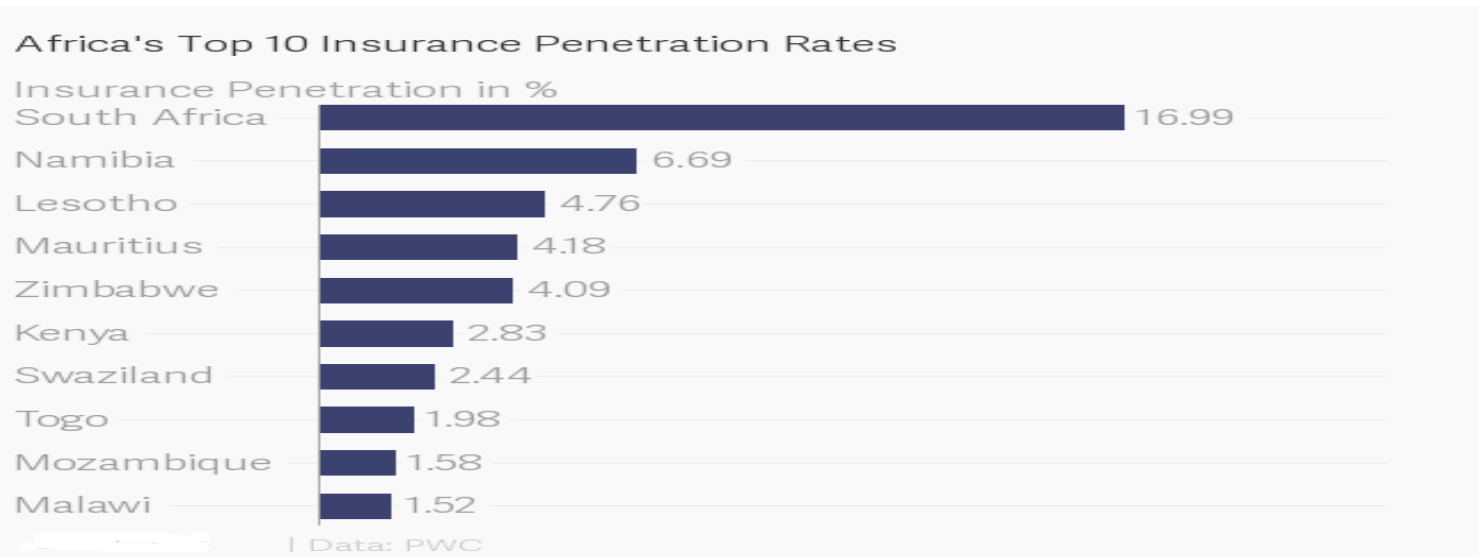
- ❑ The insurance penetration levels in Africa is an impediment to the growth of the insurance industry and to the drive for global financial inclusion. The figures are abysmally low when it comes to insured Africans.
- ❑ From the recent 2017/2018 PwC Africa Insurance Survey, Africa's insurance industry is largely underdeveloped, and insurance penetration levels are very low by global standards. In the latest survey (figure 1), South Africa, which accounts for almost 70 percent of all insured individuals across the continent, has a penetration rate of 16.99 percent, followed by Namibia (6.69%), Lesotho (4.76%), Mauritius (4.18%) and Zimbabwe (4.09%) making them the top five. Surprisingly countries with larger populations like Nigeria with over 190million population and Egypt with over 94million population have meager insurance penetration level of less than one percent suggesting to a large extent, the untapped potential of the rest of the African market.
- ❑ In recent times, Africa banking sector has grown tremendously. It has achieved a high penetration in most of the African countries including rural areas. With integration of Banks and insurance companies simply referred to as Bancassurance, insurers have the opportunity to leverage on the banks' customers and improve its penetration level and premium turnover.

Introduction (Contd.)

Figure 1 : Insurance penetration rate in Africa

The table shows the African insurance market as at 2017.

South Africa remains the most dominant market with other large countries, such as Nigeria , Egypt and the likes remaining drastically underpenetrated. This demonstrates, to a large extent, the untapped potential of the rest of the African market.



| Country | Insurance Penetration |
|--------------|-----------------------|
| South Africa | 16.99% |
| Namibia | 6.69% |
| Lesotho | 4.76% |
| Mauritius | 4.18% |
| Zimbabwe | 4.09% |
| Kenya | 2.83% |
| Swaziland | 2.44% |
| Togo | 1.98% |
| Mozambique | 1.58% |
| Malawi | 1.52% |
| Senegal | 1.51% |
| Gabon | 1.38% |
| Zambia | 1.11% |
| Ghana | 1.10% |
| Cameroon | 1.05% |
| Congo | 1.05% |
| Benin | 0.85% |
| Burkina Faso | 0.78% |
| Uganda | 0.77% |
| Angola | 0.71% |
| Tanzania | 0.68% |
| Gambia | 0.67% |
| Madagascar | 0.67% |
| Niger | 0.65% |
| Sudan | 0.57% |
| Mali | 0.53% |
| Ethiopia | 0.43% |
| Sierra Leone | 0.41% |
| Eritrea | 0.38% |
| Burundi | 0.35% |
| Nigeria | 0.30% |
| Central A.R. | 0.29% |
| D.R. Congo | 0.29% |

Source: PwC Market Research Centre analysis 2017.

Note: The insurance penetration rate is calculated as the value of written premiums (life and non-life) as a percentage of GDP

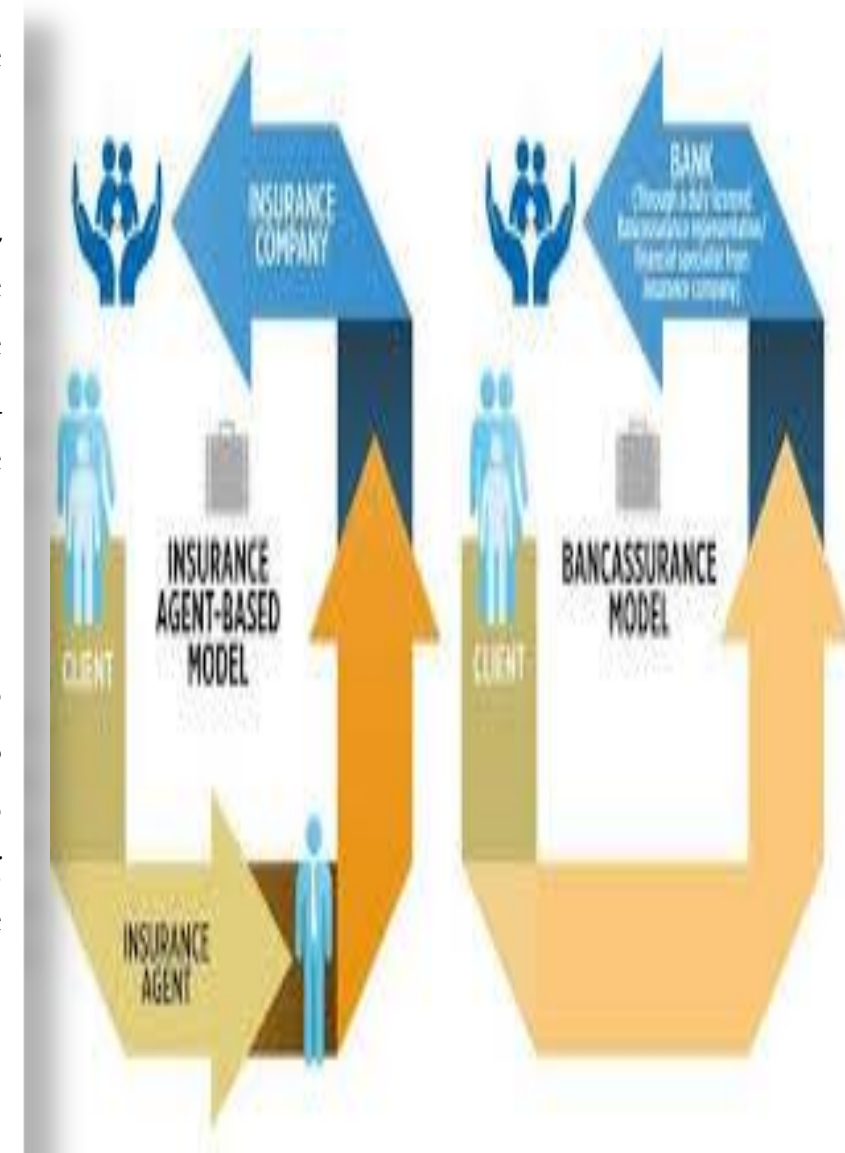
- ❑ Bancassurance in its simplest form is the distribution of insurance product through the bank's allocation channel. It is an arrangement between a bank and an insurance company allowing the insurance company to sell its products to the bank's client base.
- ❑ The concept of Bancassurance originated from France and soon became successful in other countries of Europe, Latin America, Asia and Australia. The starting point of the tremendous development of Bancassurance was due to the French law of 1984, which enabled credit institutions to widen their activities.
- ❑ Bancassurance has been identified as the fastest growing distribution channel and one of the strategic channel to drive penetration of insurance, gain more customers and achieve growth in premium.
- ❑ For Bancassurance to be successful, the model to be employed must have taken into consideration the product and solution strategies, customer experience, channel mix, governance between banks and insurance companies, technology and operational challenges, among other things

There is no standard model for Bancassurance services as there are diverse strategies/models that are applied which also vary with countries.

The regulatory constraints are usually the ones that determine the choice of a business model in many countries. The regulatory constraints may include the minimum requirements to sell insurance products, the type of products that the banks are permitted to offer to its clients and the association between banks and insurance companies. Bancassurance models are usually categorized into three broad categories;

❑ Integrated model:

This is when insurance activity are deeply integrated with bank's processes. This model 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.

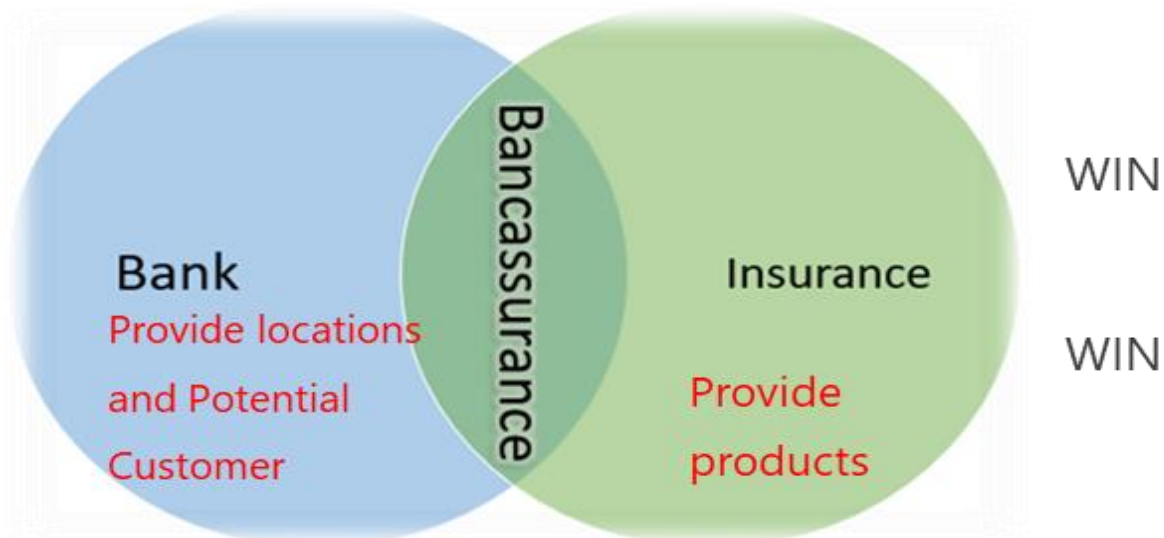


❑ Non-integrated Model:

Under this Model, 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.

❑ Mixed/Advice-Based Model:

Under this Model, 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.



Expected Benefits of Bancassurance

- ❑ Bancassurance arrangement benefits both firms and the customers; On one hand, the bank earns fee amount (non-interest income) from the insurance company apart from the interest income. On the other hand, the insurance firm increases its market share/customers by having access to the bank's customer database and profiles. While customers have an opportunity to purchase a broader range of products and services to meet their demanding needs.

- ❑ Other Expected Benefits of Bancassurance to Insurers are;
 - It improve insurance penetration with additional premium.
(For instance, In Nigeria a single bank has 5.7million which is far higher than total customers of about 57 insurance companies in Nigeria)
 - It contribute to insurance brand awareness and visibility.
 - It enhance growth in customer acquisition and retention.
 - It reduces administrative/marketing expenses – insurance agent using bank premises for the businesses.
 - It promote sharing of idea and strategies



- ❑ Brazil has one of the world's highest rates of insurance sales through banking channels. About 15% to 30% of banks' net income is the result of their participation in the insurance business. Bancassurance accounts for 64% of all life insurance sales in Brazil.
- ❑ This level of success rate of Bancassurance is also similar in countries such as Spain, France, Singapore, etc where this distribution channel has been in use and shown stability over the years.
- ❑ Before 2001, there was no Bancassurance in Asia. However, regulatory changes in some markets facilitated the development of the sector, insurers saw it as a successful model and also an attractive entry strategy. Today, Bancassurance is now a proven model in Asia and there have been several successful partnerships such as
 - The region-wide partnership between Standard Chartered Bank and Prudential Insurance whereby the bank delivers the insurer's life products on a preferred basis and which was renewed in July 2014 for an additional 15 years.
 - The exclusive Bancassurance venture launched by AIA and Citibank in December 2013 that encompasses 11 markets in the Asia-Pacific region for a 15-year period and other Bancassurance partnership across the region.

- ❑ Presently, Bancassurance is gaining popularity in Africa as both banks and insurers recognize the need for partnerships in an increasingly competitive market. New business models, technology and customer dynamics are reshaping the ecosystem forcing players in the industry to reinvent themselves in order to thrive in the long-term.

- ❑ The Bancassurance model is seen as the key to generating dynamic growth and exploring new opportunities as well as addressing the low insurance penetration in the market. This is so as Bancassurance partnership in Africa has risen especially in South Africa, Kenya, Ghana, and Nigeria.

- ❑ Bancassurance partnership and model are determined and highly influenced by the regulators.
For instance:
 - Ghana's regulators released a guideline on Bancassurance in 2010.
 - In Kenya, up until recently, there was no regulatory framework in place to support Bancassurance. In May 2013, the central bank of Kenya issued guidelines for banks called "Guidelines for incidental business activities.
 - In Nigeria, with the repeal of the universal banking license, banks can no longer directly own insurance underwriting subsidiaries. So in 2017, the regulator (NAICOM) implemented the Bancassurance guideline in 2017 and over ten insurance companies secured approval to partner with banks under a mixed/advice-based or referral model.

Insurance Penetration and Bancassurance (The Nigeria Experience)



Insurance Penetration Rate and GPI per capita in Nigeria

Despite being the largest economy and Africa's most populous nation, the Nigerian insurance industry's contribution to the continent's GPI remains minimal. According to the Africa Insurance Association, Nigeria's insurance industry is the 6th largest in Africa but contributed meagre of 1.9% to the continent's GPI in 2017.

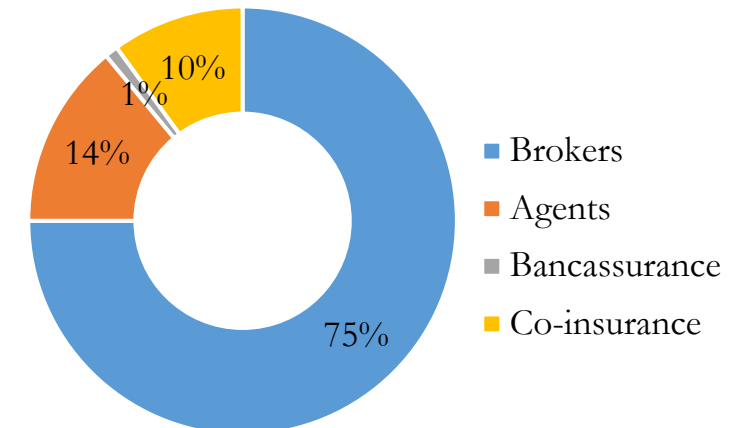
Bancassurance Milestone In Nigeria: The need for better insurance Penetration

- Regulator (NAICOM) release the Bancassurance Guideline in 2017 (Referral Model)
- About 11 out of the 57 insurance operators have Bancassurance approval.
- The Bancassurance market share is about 1%.
- The Bancassurance market share is projected to increase as the partnership deepens.
- The commission payable to the partnering bank in the market is up to 40%. of brokers commission.

Table Showing Contribution to Africa's GPI

| S/N | Country | % Contribution to Africa's GPI |
|-----|--------------|--------------------------------|
| 1 | South Africa | 69% |
| 2 | Morocco | 5.90% |
| 3 | Egypt | 3.40% |
| 4 | Kenya | 3.10% |
| 5 | Algeria | 2.20% |
| 6 | Nigeria | 1.90% |
| 7 | Angola | 1.20% |
| 8 | Namibia | 1.20% |
| 9 | Tunisia | 1.20% |
| 10 | Mauritius | 1.20% |

Percentage Per Distribution Channel



- ❑ Globally the insurance sector is under more pressure than ever before. The transformation happening is impacting all markets including most aspects of insurance at a high speed and this transformation is driven by several factors key of which are fintech, innovation, disruption, technology, convergence of sectors and new ecosystems.
- ❑ With the rise of fintech, smart phone penetration, technology growth and mobile payment platforms, Bancassurance becomes the most reliable channel insurers can leverage to sell to a large client base and grow insurance penetration/market share as seen in most part of Europe and Asia where it has recorded some level of success rate.
- ❑ Unfortunately in our own continent here in Africa we have not recorded a serious growth in its contribution to insurance industry except in South Africa where its usage is on the rise. It may however be too early to judge Bancassurance performance in Africa. For instance, Ghana released its guideline in 2010, Kenya released its first guidelines on Bancassurance in 2011, Nigeria released her guideline in 2017, while some have not even come-up with a guideline.

Bancassurance has thrived in operating environment such as Brazil, France, India and some part of Asia. No doubt, it can be a blessing here in Africa but we need to:

- Understand Our Own Peculiarity
- Our Business Terrain/Environment- Political, Social, Cultural and Demography
- Our Customers' Perception
- Our Customers Location
- Review Our Financial Implication
- Review Regulatory Process
- Partnership Conditions



The Regulators' Role

- Regulators must understand how all these factors affect our business when drafting or reviewing the guideline for this channel .
- After the piloting stage, regulator need to make a productive move base on the feedback received from the market performance during evaluation for better performance in next stage.

I believe Bancassurance is a vital distribution channel that can help Africa improve its insurance penetration level if the right strategic partnership and model is adopted and well implemented. Considering the untapped potential of African insurance market and its meagre insurance penetration rate, Bancassurance is key to generating dynamic growth and exploring new opportunity for insurers.

With current rates of insurance penetration across Africa, Bancassurance is a blessing to African insurers though both insurers and banks have fundamental roles to play for it to have a significant success rate. Choosing the right model, creating customer focused products and allowing ease of bank/insurance products synchronization are essential keynotes to discuss during the partnership agreement.

Finally, more essential to the success of Bancassurance is the operational guideline from the regulators as seen in most part of the countries where it worked. The review of the operational guideline and performance of Bancassurance should be a continuous exercise with the objective of achieving continuous improvement.

Thank
You!