BANCASSURANCE A BANE OR A BLESSING FOR THE DIRECT INSURER

The African continent's generally low insurance penetration of about 3% compared to a global average of 8% presents one of the market's largest opportunities. As economies rebound and economic growth improves, insurers have increased their activities in the areas of product offering and distribution. Technology provides new avenues for innovation both in commercial and personal lines in helping to bridge the geographical distances, increase scale and improve efficiency.

There is no doubt that one of the main channels of distribution for insurance whether life or general is Bancassurance, and the insurer's bancassurance channel management if handled proficiently and strategically generates the efficiencies and sustainable benefits desired by the insurer. Just like the traditional distribution channels, made up of Direct Marketing, E-commerce, Brokers, Individual or Tied agents and increasingly Telcos or Mobile Network operators (MNOs), require a specific approach and strategy to manage and operate the bancassurance distribution channel has its own execution dynamics and management challenges for the insurer which need to be overcome. The insurer in a bancassurance relationship must thus be cognizant of the specific execution activities to ensure it can derive the desired growth and profitability in the long term.

Bancassurance is described variously as the distribution of insurance products through a bank's channels or an arrangement in which a bank and an insurance company form a partnership to sell the insurer's products to the bank's client base and more so lately new-to-bank customers. It offers the opportunity to the insurer to reduce the cost of deploying and managing its own sales and direct marketing, while have unfettered access to a large customer base who will buy insurance from bank branches, channels and staff.

It is imperative therefore that the bank staff receive the necessary information, training in product knowledge and insurance sales, IT systems, incentives and motivation and marketing promotions among others which will enable them to make the desired changes required to effectively sell insurance products. The levels of partnership and integration agreed between the bank and the insurer is influenced largely by the model of Bancassurance deployed which in turn is a function of the level of regulation in the country. The extent of limitations imposed by the regulation on types of products, who can sell and where they can sell, among others, influences the Bancassurance operating model and this influence is seen in the widely varied model is operation across Su-Saharan Africa.

Regardless of model used however, the insurer can drive scale and operational efficiencies, reduce costs and in turn grow their profits. A discussion of the advantages and disadvantages of each of the models is thus required to inform the strategic choices of the insurer and these are listed below.

A. Strategic Alliance:

This is where the insurer has exclusive access to the bank's customer base without having to make a major investment in capital for distribution, and the banks sells the products of just that one company. The bank gains product development capability without having to invest to develop products in-house. The drawback is that the lack of competitive choice in product and pricing could limit uptake of the policies on offer, leading to sub-optimal sales into the bank's customer base.

B. Joint Venture

The bank and the insurer establish a jointly owned insurance agency or distribution business with either usually balanced shareholdings. The joint venture is completely distinct and separate legal entity from the insurer and the bank, but distributes insurance and investments products through the channel and distribution network of the banking parent. In some cases, the relationship between the bank and insurer is reinforced by an external strategic shareholding.

C. Integrated Bancassurance

Here, the bank owns the insurer or vice versa either directly or through a shareholding company or a group or parent structure. Davis, (2007) indicates that while comparable profit data across a range of bancassurers are fragmentary at best, it appears the integrated model, which is favored in European countries, not only combines both the substantial manufacturing and distribution margins in insurance products but also offers significant operational economies in both the back and front office.

The available data indicates impressive return on equity, and client penetration for the experienced integrated European bancassurers, like Fortis in its home markets and Aviva in markets where it has integrated with a local bank distributor. The market share of bancassurance for distribution of life insurance was in the range of 55% to 85% for European countries by 2017 and is reported to be between the 25% and 54% in the leading economies of Asia which are strongly exploiting bancassurance as a model for insurance distribution.

D. Distribution Model

It is by far the commonest model operated across Africa and especially in Ghana. Bancassurance operation ranges across many models which include mainly the following:

i. A distribution agreement covering a referral model with a limited product range, and inadequate training for bank employees,
ii. An arrangement with insurance agents and licensed advisors selling high complexity products within the banks,
iii. Full time selling model with trained and supported bank staff selling nearly most products across a range of both simple and complex insurance products
iv. The classical fully integrated distribution model where all products are sold by the bank, there is the advisory-based product offering, a central bancassurance unit offering support services and it is fully integrated into the wealth management framework of the bank.

The advantages and disadvantages of the distribution model include the following:

A. Advantages
   i. It is easy to adopt and roll out and quite popular with most regulators across Africa
   ii. It does not require insurance experts to adopt
   iii. The loss risk is borne solely by insurer with the bank responsible for distribution and premium collection.

iv. Offers a one-stop shop solution to bank clients by offering both bank services and an array of insurance products.

v. Banks have an edge over the other distribution channels for insurance as they only have the issue of selling insurance to an existing client base.

B. Disadvantages

i. There is a time lag to make available products when they are requested especially for complex products as policies must be procured at the insurers offices before being delivered to the bank. Simple products may be white-labelled or simply re-packaged and fulfilled on the bank premises.

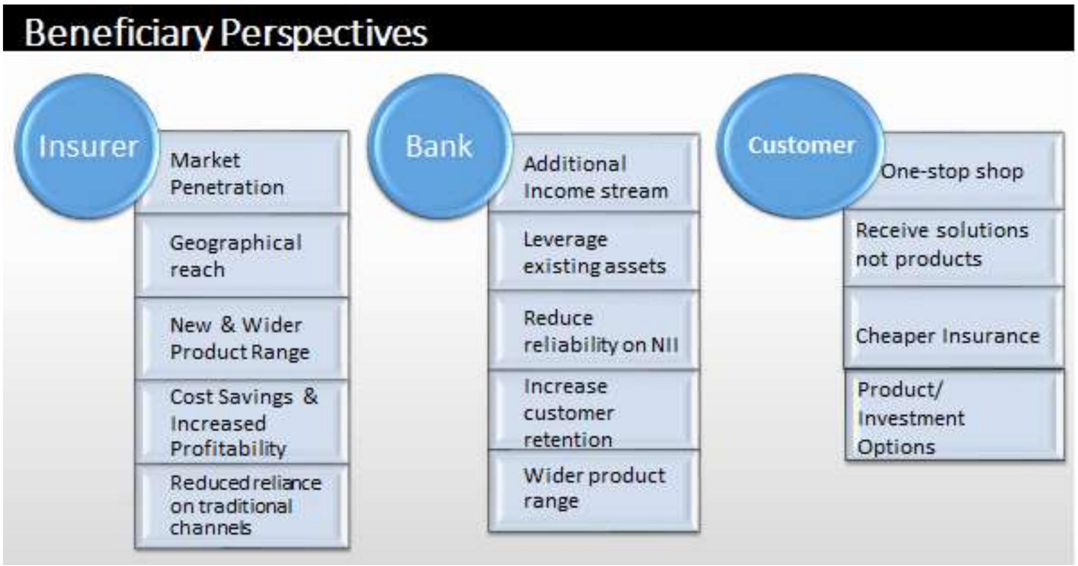
ii. Bancassurance products may not be diverse enough to cater for all customer segments

iii. Very often banks may not have enough skilled and highly-motivated manpower to drive sales across their entire branch network

iv. Top management commitment may be absent to incorporate the new sales culture required for insurance within the sales and distribution framework of the bank.

Why Bancassurance? Significance for Beneficiaries

Bancassurance offers distinct advantages and benefits to the principal stakeholders involved in its operation namely; the banks, insurers and customers.



<u>Customers</u>

For customers, in addition to their transactional and investment banking needs, they have access to protection services from the insurance offering, thus providing them a one-stop-shop financial services solution. In the main customers can access insurance solutions to expressed protection needs tied to bank credit products or standalone insurance products sold by banks staff with minimum fuss and at the same time they are interacting with the bank for their banking transaction. The convenience enjoyed by customers extends to the access to purpose-built bundled product options which combine investment products with the protection solutions offered by insurance products.

A great benefit for customers is cheaper insurance, the result of the reduced client acquisition and on-boarding costs in combination with the discounted pricing on portfolio or group products discounted portfolio or group pricing offered on insurance products sold through banks.

<u>Banks</u>

Banks derive additional fee income from fees and commissions incidental to the sale of insurance products. This contributes to the diversification of their revenue sources. The bank improves its return on assets – ROA – as it leverages existing assets and manpower to deliver the additional income.

Again, Bancassurance fee income improves non-interest revenue growth, providing a more stable source of revenue generation to smoothen the fluctuations and volatility in income resulting contributed by interest income. Net margins are getting tighter and tighter on interest -bearing bank products and therefore banks are looking to alternative sources of fee income to provide the certainty and predictability in revenue growth.

Banks are also afforded the opportunity to increase their product and solution range thus increasing their relevance to their customers and where customers are cross-sold insurance products, their stickiness is enhanced thus creating affinity for banks with their customers for sustained revenue generation.

<u>Insurers</u>

The core benefits to insurers in pursuing the bancassurance model include the following:

i. A dilution of the distribution concentration with, and reduced reliance on the more traditional channels of distribution which may be limited in the scale achievable.
ii. An extended geographical reach offered through the bank's points of sale representation, made up of branches, sales centers, digital channels, Telesales centers and mobile channels. Banks tend to have more outlets and branches and reach farther into the hinterland than insurers.

iii. Access to a captive bank customer base, providing opportunities for rapid growth and market penetration
iv. Improved new product development and wider or diverse product range to match the needs of the captive customers.
v. Economies of scale and cost savings for the insurer leading to higher profit growth and more efficiency as shown in return on capital employed, and return on investment.

A discussion on the points listed above will emphasize the benefits derived by insurer

i. <u>Reduced reliance on and concentration in traditional channels.</u>

The traditional channels have only reached so many customers overtime and the growth in life insurance GWP from Bancassurance in the more developed markets of Europe is indicative of the importance of bancassurance in providing market access and penetration. Since its initiation in France Bancassurance has seen a tremendous success in Europe with penetration in the life market ranging from 35% in Germany to over 85% in Spain in 2016.

In Ghana, the National Insurance Commission (NIC) reports that as at the close of 2017, Bancassurance collaborations had increased from 36 in 2016, to 41 partnerships across both life and non-life insurance classes. There was a corresponding increase in Bancassurance channel contribution to life premiums from 8% in 2016 to 13% in 2017.

Premium Income by Distribution Channel in Ghana

Distribution Channel	Life %			Non-Life %		
	2015	2016	2017	2015	2016	2017
1. Direct marketing	14	17	7	30	28	18
2. Brokers	9	7	7	36	35	40
3. Individual/Tied Agents	63	62	67	31	33	36
4. Bancassurance	7	8	13	1	2	3
5. Telecom Companies	2	2	2	0	0	0
6. Others	5	4	4	2	2	3

Source: NIC, 2017

ii. <u>Geographical reach</u>

Regardless of the model of bancassurance, the insurer on signing up a bank immediately adds to its branches number of branches, and outlets of the bank. Usually bank branches cover a wider geographical spread and thus extend the coverage of the insurance partner. For example, Aviva which has bancassurance as a key channel for fast global growth in Asia and Eastern Europe, extended its bancassurance relationship in 2013 to Santander, increasing its network from 500 to 900 branches overnight. In 2014 it immediately expanded into Indonesia through its partnership in the joint venture agreement with Astra International of Indonesia. Similar geographic spread examples abound in bancassurance relationships across Sub-Saharan Africa. Bancassurance is relatively new in Ghana having started in 2007. By 2015 there were some 16 banks in partnerships as 'Corporate Agents' of insurance companies, making available some 944 out of their 974 bank branches scattered across the length and breadth of the country for the distribution of insurance product.

iii. Captive bank customer base and market penetration

Simple, no-frills, low cost solutions are most attractive to the mass market and mass affluent segments of bank customers and with nearly all banks segmenting their customers to be able to serve them efficiently, a ready and available customer base is waiting to be tapped by an insurance partner. Banks generally engender more trust, dependability and reliability than insurance companies in the financial services world and their customers readily accept to purchase insurance products more easily from banks. Additionally, the protection solutions offered through insurance products are complimentary in reducing liquidity and credit risks attendant to bank products. Banks require their borrowers to take insurance against various risks e.g., insurance against death and permanent disability when taking unsecured personal loans or asset covers when purchasing property and assets, making insurance an inherent part of the loan.

The embedding of insurance covers with these products, usually on a portfolio or group basis provide a ready uptake of insurance at little to no operational costs on the operations of banks and thus they are willing to immediately sign-on and on-board large numbers of the customer base during each sales cycle. The problems of low penetration and poor persistency which continue to plague emerging market insurer not least those of West Africa, are thus minimized when an insurer has access to distribute its products through a bank.

In Ghana for example Bancassurance partnerships continue to facilitate market penetration and financial inclusion leading to about 30% insurance coverage. i.e. estimate of the proportion of Ghanaians with insurance cover of any kind as at 2017. (NIC, 2017).

iv. Diverse Product Range

The diverse nature of the customer profile, spanning across individual, small and medium enterprise, large corporate and commercial and public sector and government institutions lends it to a broader and more diverse segmentation of the customer base of banks.

The entire product suite available with an insurer will likely be required to satisfy the diverse protection needs across the entire spectrum of clients within the bancassurance scope and insurers should be ready to work with the banks to roll out covers to meet new and emerging risks related to for example terrorism, Green Finance, cyber-crime, changing demographics and new and emerging occupations and commercial enterprises.

That fact that some of these emerging risks may be of a specialized nature requiring specialist and rare expertise, means that the bancassurance model and relationship must incorporate the necessary referral arrangements and processes which allows for the provision of such specialized advise and technical support seamlessly and timeously when clients need them.

v. Economies of scale, cost savings and profitability

Economies of scale refer to the cost advantages that enterprises obtain due to size, output or scale of operations. Economies of scale are either internal, external, National, International, aggregative or dis-aggregative (Hart, 1996). In Bancassurance, economies of scale are dominant since banks and insurance companies both rely on the law of large numbers in their core business functions. Insurers rely even more so on the law of large numbers as the expected loss distribution approaches the true loss position as the population size grows. Bancassurance thus presents a greater measure of predictability of the expected losses and claim payments to be made improving strategic planning and forecasting for the insurer.

Between 2013 and 2016, life insurance from Bancassurance grew by an average of 36% each year. By 2016 Bancassurance accounted for 8% of the Ksh73 billion in GWP from the life industry in Kenya. The technical loss ratio for life from bancassurance was at an average of 32.4% for those four years, indicating that Bancassurance is a profitable channel for life insurance

Life Insurance Profitability in the Bancassurance Channel in Kenya

Year	Premium / Ksh 'Billion	Claims/ Ksh 'Billion	Technical Loss ratio	Increase
2013	2.05	0.59	28.9%	-
2014	2.81	0.94	33.4%	37%
2015	3.73	1.26	33.8%	33%
2016	5.19	1.67	32.2%	39%
	Average		32.4%	36%

Insight Wells Ltd. March 2018

Most products sold through the bancassurance channel are predominantly simple vanilla products which usually are offered as a corollary to bank transactional or investment products or as a cross-sell during customer interactions with a bank point of sale representation, whether its staff, online or through digital or mobile channels, and thus are sold in large volumes on a regular basis, leading to increase in market share.

Such scale is possible only because the bank leverages on existing infrastructure and personnel to generate additional revenue at marginally to no additional cost. Insurers would be saddled with the huge additional cost were they to deploy the other less efficient channels to drive that level of activity and policy sales a bank generates. Thus, the economies of scale which has as its focus cost savings through the increased productivity, leads to increased policy sales and GWP growth and subsequently profit growth for the insurer.

Scovier, J. (2015), noting that the independent variables of return on asset, cost reduction, market share, earnings per share and liquidity has a positive relationship with the dependent variables of financial performance of insurance, observed that bundling of bank and insurance products lead to operational cost reduction, and banks and insurers can pass such reductions on to customers without affecting their margins. It is also known that the costs of selling insurance product through direct sales agents can be twice as high as selling through bancassurance and that bancassurance provides an efficient channel with higher productivity and lower costs than the traditional channels. Insurers in Kenya have reported rising sales due to bancassurance and were able to meet claims when they were due as a result of rising liquidity resulting from bancassurance operations. They again reported seeing improved liquidity and profitability ratios following bancassurance adoption and that bancassurance has a positive impact on their firms profitability.

Risks to the Insurer: The 'Bane'

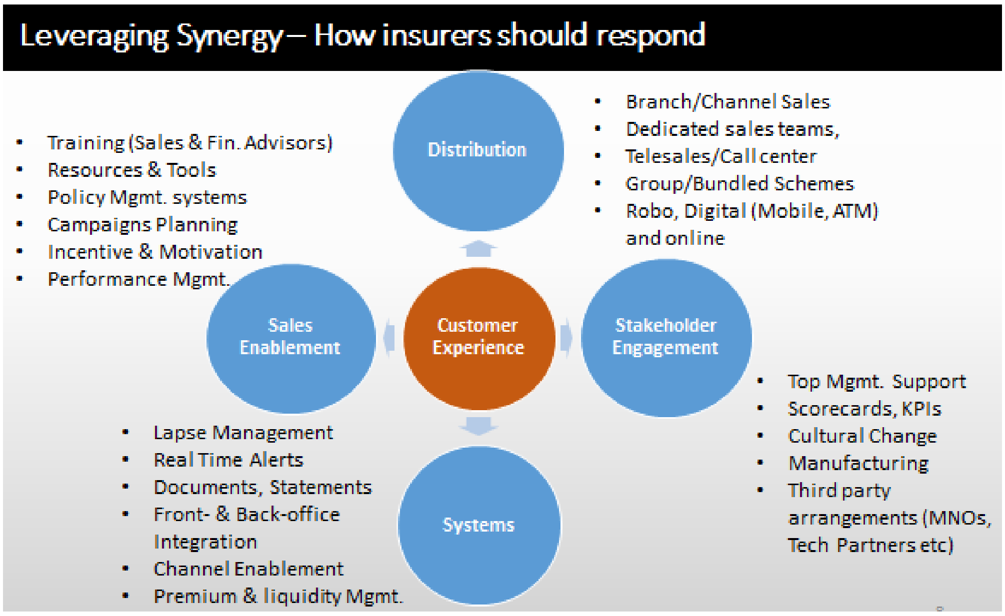
Despite the best of intentions, procedures and preparations there can be pitfalls and failures in the bancassurance operations and/or partnership giving rise to a combination of operational, legal and reputational risks starting from the bank and extending to negatively impact the insurer. These challenges could include the following:

i. Failure to properly account for some costs in the agreement such as administrative and shared services costs on the insurer side resulting in reduced profitability
ii. Operational failures with the bank that may lead to miss-selling and reconciliation challenges and failure. While the risk may lie principally with the bank its effects could be transferred or shared with the insurer at great costs if the partnership is to be preserved.
iii. Exposure to contingent liability that may arise from future legal costs e.g. arising from premium payment errors or misspelling and wrong products sold to customer
iv. Costs attendant to inability to meet any short-term financial obligations – Liquidity risk – on the back of operational challenges like reconciliation failures and attendant delays in crediting insurer's accounts with premium
v. Underwriting risk brought on through
    a. Inaccurate assessment of the risks inherent in a covered risk, leading to underpricing of the risk
    b. Poor product design on the back of the bank's influence in the design process
    c. Inadequate client information, where the bank and staff does not solicit and provide all the material information from a potential client but requests cover.
    d. Inadequate or underpricing
vi. Costs of dissolution of the partnership, at the time of separation

<u>Summary and Recommendations</u>

Bancassurance offers an opportunity to achieve the scale and premium persistency as well as commercial efficiency desired for sustained business growth while ensuring service excellence and delightful customer engagement if rightly executed. It is incumbent on the insurer to understand the pain-points for the bank which would include, deploying technology, processes and systems, and managing the risks inherent in the bancassurance proposition.

The advent of new technologies deployed in banking such as digital and mobile banking, Artificial intelligence, Robo-banking and virtual and Social media banking among others, require that insurers engage proactively with the bancassurance partner to be able to integrate into the new processes or take advantage of them. Being a mere 'insurance product' manufacturer will certainly be a sub-optimal approach to a bancassurance relationship.



A few points to focus on getting right are listed as follows

1. Making the right strategic choices in bank partner and bancassurance model deployed and reviewing the partnership agreements to capture synergies and align the company and bank partner goals for a sustained relationship and mutual benefit

2. Leveraging bank strength in omni-channel engagement, emerging technology trends, digitization capabilities, data analytics and customer engagement paradigm to develop purpose-built solutions for and create and affinity with customers. Given the usually differing technology architecture, the technological and operational models between insurers and banks are likely to be complex and varied. Add to that the pace of development with agile methodology and technology upgrades, which is quite prevalent in banks, and the insurer is presented with an even greater challenge to integrating systems.

3. There is the need to have the information technology and systems agenda front and center in the partnership discussions so that a common vision and playbook is developed for IT governance, architecture, tools and priorities for an aligned vision and to drive efficiency in operations. Insurers must design mobile first principle application and prioritize mobile development to support the demands of availability and usability, if the banks are not doing so already. Such technology and others can be deployed successfully in their partner banks or integrated into the banks systems. This tends to be easier with the Joint Venture or Integrative Bancassurance models, to help reduce duplication and overlapping of efforts and tasks.
   Areas of technology to consider include; CRM databases, data capture and on-boarding (policy inception) and policy management systems, claims reporting and tracking systems, insurance and bancassurance applications and web-user interfaces to insurer systems that allow trained bank staff to issue simple covers, schedules, endorsements and policy documents. The elimination of duplicated front- and back-office roles within the insurer and the bank, as a result of the deployment of some of these systems, immediately leads to reduced costs per policy incepted, promotes economies of scale, enhances customer service and results in sustained increase in profitability.

4. There must be regular scheduled joint business and partnership review and governance meetings outside of regular performance management meetings to ensure traction in deliverables and sales of insurance products. The insurer must be interested in directly incentivizing and motivation sales according to agreed metrics especially because most bank sales covers a host of transactional and investment products which remain top-of-mind for sales staff as the primary products.

   In many bancassurance relationships across Africa for example, Travel insurance cover can be issued instantly from the bank's premises. The banks have remote access, to the insurer's systems to be able to capture particulars of the client and issue cover instantly. Increasingly, many insurers are installing leaner versions of their policy management systems as standalone systems on their partner bank premises to allow for a single point data capture and avoid duplication of insurance proposal or application forms processing. Technology must also be deployed to boost customer-centricity by developing products that can be sold end to end via mobile and online platforms. All these are possible regardless of the bancassurance model chosen, to drive down unit costs in operations for the benefit of both bank and insurer.

5. Being transparent and collaborative in product design and manufacturing as well, especially in pricing while maintaining the appropriate compliance rigor. The insurer needs to simply the product offering i.e. product benefits and parameters, terms and conditions and on-boarding requirements so it can be issued 'over-the-counter' and in a seamless manner. At the same time the insurer must be actively involved with and supportive of the bank in training and coaching, sales and marketing to build trust with the bank.

6. The insurer must have a customer-centric (to both the bank and its customers) approach towards product and process design. It is quite common in Ghana to find banks selling their insurance partners off-the-shelf products with all the 'bells and whistles' with hardly any differentiation to the bank customers. Studies in Kenya (Watson Macharia, 2015) have shown that whereas 83.3% of banks carry out customer segmentation of a kind, whether based on age, household income, living standards measures or credit rating, only 57% of insurers do. This means some 43% of insurers do not do any form of segmentation of their target customers. To drive differentiation, cheaper insurance, affinity for the products and rapid cross-sell and up-sell of insurance products within banks, the insurer must make the effort to glean insights from the banks data analytics and customers segmentation in order to be exact with initiatives to reach out to customers.

   The successful bancassurance markets of Europe in France, Spain and Italy provided simplified, over-the-counter solutions to customers who make on-the-spot decisions to sign-up. This is possible because of the effort the banks make to gather data on and understand their customers, to enable them identify life-cycle needs at any given time and present solutions to their customers.

7. A strong lobby to encourage regulators to pass regulations and guidelines which are more favourable to bancassurance growth and development. Such regulations must expand to cover how many insurers a bank can choose to engage, the range of customers to serve, who can sell to such customers, ownership and structure of bancassurance ventures, taxation on insurance products, and the range of products i.e. both personal and commercial

insurance, among others. Brokers and Tied agents usually pose a formidable challenge to bancassurance growth as they tend to be against the deployment of bancassurance to distribute commercial insurance products directly to customers and ways must be found overcome that challenge if the desired scale of insurance coverage and depth of insurance penetration of GDP is to be achieved across West African markets.

8. Assisting banks to attract and develop the right talent and skills to manage the bancassurance

9. Integrating insurance sales into banks sales goals through performance incentive schemes, referral fees, productivity credits, scorecards, gamification and/or other measures to help track and motivate productivity. It is very common to see insurers organize conferences and award schemes for their tied agents and brokers and conveniently ignore any such activity for their designated bancassurance sales persons, preferring to leave the cost of such incentives to the bank to carry.

10. Providing more training time and resources on insurance principles and the products with a mix of classroom-based and computer-based training and coaching on an on-going basis, whether on-site or on the bank premises or delivered directly by or with the active support of insurers to increase bank sales-persons' knowledge and skills for insurance selling.

11. Making available insurer resources such as business development staff, call centers, referral and customer service systems for use on their premises or as integration into the bank's processes and systems to engage with the banking customer base.

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