Document généré le 9 avr. 2025 00:26

Assurances

Assurances

Bancassurance: A Risk Management Tool

Andrew Giffin

Volume 62, numéro 2, 1994

URI : https://id.erudit.org/iderudit/1106061ar
DOI : https://doi.org/10.7202/1106061ar

Aller au sommaire du numéro

Éditeur(s)

HEC Montréal

ISSN

0004-6027 (imprimé)
2817-3465 (numérique)

Découvrir la revue

Citer ce document

Giffin, A. (1994). Bancassurance: A Risk Management Tool. *Assurances*, *62*(2), 225–235. https://doi.org/10.7202/1106061ar

Résumé de l'article

L'auteur examine les retombées de la bancassurance, c'est-à-dire l'intégration des services financiers de la banque et de l'assurance, sur les activités modernes des assureurs vie. Alors qu'autrefois le rôle des assureurs était principalement de gérer la perte de vie, les modes de financement et d'investissement prennent de nos jours une importance accrue. Au plan de la gestion financière des risques (risk management), le phénomène nouveau de la bancassurance permet à l'auteur d'observer que l'analyse associés à la mortalité (tarification et souscription) a cédé le pas aux normes qualitatives de l'investissement, aux rapports qualité/coût des services (administration et gestion fondées sur la concurrence) et aux modes de distribution les plus performants, grâce à une meilleure intégration des produits et services financiers.

Tous droits réservés © Université Laval, 1994

Ce document est protégé par la loi sur le droit d'auteur. L'utilisation des services d'Érudit (y compris la reproduction) est assujettie à sa politique d'utilisation que vous pouvez consulter en ligne.

https://apropos.erudit.org/fr/usagers/politique-dutilisation/

érudit

Cet article est diffusé et préservé par Érudit.

Érudit est un consortium interuniversitaire sans but lucratif composé de l'Université de Montréal, l'Université Laval et l'Université du Québec à Montréal. Il a pour mission la promotion et la valorisation de la recherche.

https://www.erudit.org/fr/

Bancassurance: A Risk Management Tool*

by

Andrew Giffin**

L'auteur examine les retombées de la bancassurance, c'est-à-dire l'intégration des services financiers de la banque et de l'assurance, sur les activités modernes des assureurs vie. Alors qu'autrefois le rôle des assureurs était principalement de gérer la perte de vie, les modes de financement et d'investissement prennent de nos jours une importance accrue.

Au plan de la gestion financière des risques (risk management), le phénomène nouveau de la bancassurance permet à l'auteur d'observer que l'analyse associés à la mortalité (tarification et souscription) a cédé le pas aux normes qualitatives de l'investissement, aux rapports qualité/coût des services (administration et gestion fondées sur la concurrence) et aux modes de distribution les plus performants, grâce à une meilleure intégration des produits et services financiers.

Life insurance has long been viewed as the business of managing the risk of loss of life. Other functions within the business—investment, administration, marketing—have been viewed as means to delivery and management of an insurance risk product.

Today, life insurance risk, i.e., mortality, represents the least of the risks associated with the business. Cash values, once merely a method of financing the high cost of insurance protection at older ages, are now viewed by policyholders as

---

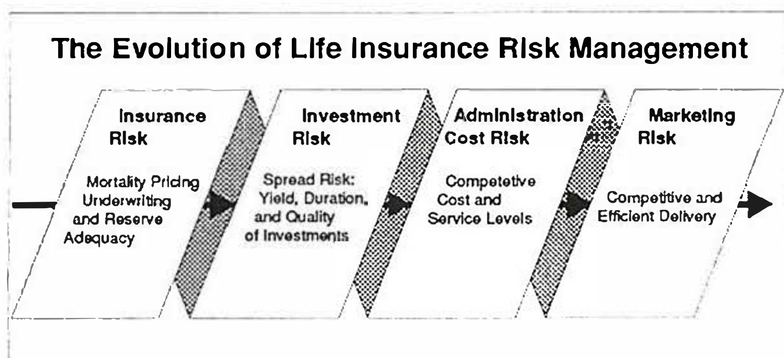
* Reprint from March/April 1994 issue of *BankRisk*.

** Andrew Giffin is a consultant in Towers Perrin's Boston office, specializing in multinational insurer issues.

important sources of investment return. Thus, investment risk has become very important as life insurers have taken on added risk to meet this demand. Competition with other financial services in the investment aspect of the business has led to more intense price competition, and thus to a concern for the cost of administration and servicing. Recently, life insurers have becomesensitive to the high cost of life insurance marketing and distribution, especially when compared with competing products from other financial services.

In risk management terms, the focus has progressed from insurance risk (mortality pricing and underwriting and reserve adequacy) to investment risk (spread risk associated with yield, duration, and quality of investments) to administrative cost risks (meeting the competition in cost and service levels) and on to marketing risk (competition on efficient delivery).

In response to this hierarchy of risks, life insurers have continued to evaluate mortality risk, accounting for such special factors as AIDS. Recent development of risk-based capital measures have helped insurers to address the shift of emphasis from insurance risk to investment risk. Companies have developed asset/liability management systems to address investment risk, including sharing risks with policyholders through variable contracts. Much attention has also been paid to asset quality issues.



Companies have attacked administrative cost issues through cost reduction and re-engineering programs. These efforts have left acquisition cost—particularly field cost—issues as their most significant exposure in today's competitive markets.

Various Tillinghast analyses of life company expenses suggest that about two-thirds of operating costs arise from business acquisition activities. Two-thirds of that amount involve costs incurred in the field; the other one-third is for sales support in the home office. Also, whereas customers are required to spend from 3-6% of their contributions to mutual funds for sales costs, life policyholders spend 20-30% of premiums to cover acquisition expenses. Acquisition expenses represent a significant competitive—and in turn financial—problem for life insurers.

Fortunately, there are ways to address the problem. Bancassurance, which is the combination of bank and insurance marketing, and more broadly, integrated financial service marketing, offers significant opportunities. But the solutions require careful selection of the approaches to bancassurance used by the banks and insurers involved.

Bancassurance in Today's Markets

Despite all the debate, regulatory constraints, and litigation about banks selling insurance, literally thousands of U.S. banks and thrifts sell insurance in some form. In many other countries, bancassurance is a major factor in insurance markets. The non-U.S. experience sheds light on the potential for U.S. banks. It seems highly unlikely that the U.S. will remain one of the few developed countries that does not permit broad-based joint marketing of retail financial services.

France

Bancassurance rose to prominence in France in the late 1980s. By 1992, bank branch distribution of life and capitalization products (i.e., simple tax-advantaged accumulation

products) represented 46% of premium. Bancassurance has led the major growth of life insurance in France over the last several years, although the primary product has been a tax advantaged bond with no life contingency. Banks have begun to introduce protection products, but these products have been relatively slow to catch on. Although the experience in France may not be properly classified as a life insurance success story, it is still a success story in terms of capturing a major portion of long-term savings.

Spain

The experience in Spain is even more dramatic. When the tax authorities forced the banks to disclose depositors' interest income in order to increase tax collection in 1986-87, the sale of life products (primarily single-premium products sold through banks) grew rapidly and provided a new tax shelter. That growth was short-lived, since the tax authorities next went after the life insurers (in 1989-90). However, the experience stimulated a significant growth in annual premium products. In both France and Spain, all the major banks are involved in the insurance market, and continue to lead the growth there.

The U.K.

Bancassurance has been a part of the life insurance market in the U.K. for many years. Most of it has been the sale of mortgage-related endowment products, with the banks and building societies (i.e., thrifts) serving as brokers for insurance companies. With the passage of the Financial Services Act of 1986, the banks had to choose between serving as true brokers, meeting stringent standards of independence, or establishing an exclusive relationship with an insurance company. Nearly all the larger institutions chose the latter, with several acquiring or forming their own life companies.

Other European Countries

Bancassurance is currently on the rise in Italy and Germany. In the Netherlands, nearly all of the major banks and

insurance groups have combined in preparation for a more broadly based European market for financial services. And as banks and insurers in the Scandinavian countries recover from major financial problems, they are seeking retail market advantage through combinations.

What is particularly important about this broad-based movement is the experience bancassurers have had with distribution costs. One U.K. bank was able to maintain sales per salesperson at seven times the average for traditional life sales forces, whether independent or tied. Others have been able to achieve levels from three to five times traditional levels.

Given the proportion of life company costs related to acquisition (two-thirds) and the portion associated with field sales (two-thirds of acquisition costs) that is common in traditional life operations in various countries, significant increases in sales staff productivity have provided significant cost reductions for bancassurers, but has changed the competitive standard, increasing pressure on traditional insurers to reduce distribution costs.

Concern for Adequate Disclosure

A related phenomenon is the growing concern for adequate disclosure of the suitability of life insurance products for particular financial objectives and for disclosure of the costs and benefits of proposed contracts. The U.K.'s Financial Services Act of 1986 imposed an SEC-style suitability requirement on the sellers of life insurance, requiring them to "know your customer" and to give "best advice." In the U.K. this means that sellers of life insurance and other financial products must obtain enough information about a prospect's financial situation to be able to recommend an appropriate product. Then they must suggest the most appropriate product from among those offered by the company (for tied agents) or from those offered by the market (for independent intermediaries).

Recent regulatory problems of some of the leading U.S. companies have resulted from accusations that inappropriate

products were sold or that products were sold through misrepresentation. As demand has shifted from death protection to retirement savings, agents have been aggressive about offering their life products as retirement vehicles, sometimes with in adequate disclosure of the nature of the product. A few celebrated cases are leading U.S. insurance regulators to consider more intensive disclosure requirements and standards.

In Australia, regulations will soon require "hard" disclosure, i.e., full disclosure of sales charges at the point of sale. Thus, traditional sales charges (similar in Australia to those in the U.S.), amounting to as much as 200% of the first year's premium, will have to be disclosed. Similar hard disclosure requirements are expected to be imposed in the U.K. Other countries (e.g., Singapore) are expected to follow the path toward more specific company responsibilities for determination of product suitability and disclosure of sales and other charges.

To comply with these new requirements, financial institutions must establish control over the behavior of those representing them at the point of sale, and they must be prepared to demonstrate compliance through maintenance of complete records of transactions. This expensive process requires a degree of control not commonly found in life insurance sales forces. Bancassurance and more broadly based integrated financial service programs can address both the competitive issue of lower distribution costs and the emerging requirements for compliance.

Bancassurance Models

To gain distribution cost advantages and to meet compliance requirements require more than the cross-selling of insurance products through banks, characteristic of many bancassurance models.

Distribution Agreements

The most common model still involves a distribution agreement between a bank and an insurance company. The bank may limit its involvement to authorization of the life insurer to

sell its products to customers through bank facilities, through the mail or through branches. Alternatively, the bank may be more involved by assuming some or all responsibility for distribution activities. Bank involvement may be limited by regulation.

Joint Ownership

A second model is a joint venture between the bank and the insurer, with joint ownership of an insurance company or a marketing company. In this model it is more likely that the marketing program will integrate bank and insurance marketing approaches to improve cross-selling performance and to reduce costs. Banks and insurers that have had distribution agreements tend to move to this model and to share profits more broadly.

Cross Ownership

A third model goes a step further, with cross-ownership of the bank and insurance company. This step further integrates the fortunes, if not the operations, of the two institutions. It normally leads to more integration as the combined organization begins to realize its potential.

Integrated Financial Services Organization

The fourth model is a significant departure from the first three. In the first three, insurance and banking are generally viewed as separate products provided through separate institutions, even if they are commonly owned. In the fourth model, both the bank and the insurance company give up their separate institutional identities and become a provider of financial services. These organizations tend to have the following characteristics:

- Customer needs and preferences, rather than continued reliance on traditional institutional definitions, define the products and delivery channels.

- Bank and insurance products are redefined in terms of the functions they serve (e.g., savings, income protection) in order to ht the customer view.
- Product lines and points of sale offer the full range of products.
- The bank and insurer maintain separate operations only as required to meet regulatory requirements; common functions (e.g., investment, marketing, systems) are combined for efficiency.

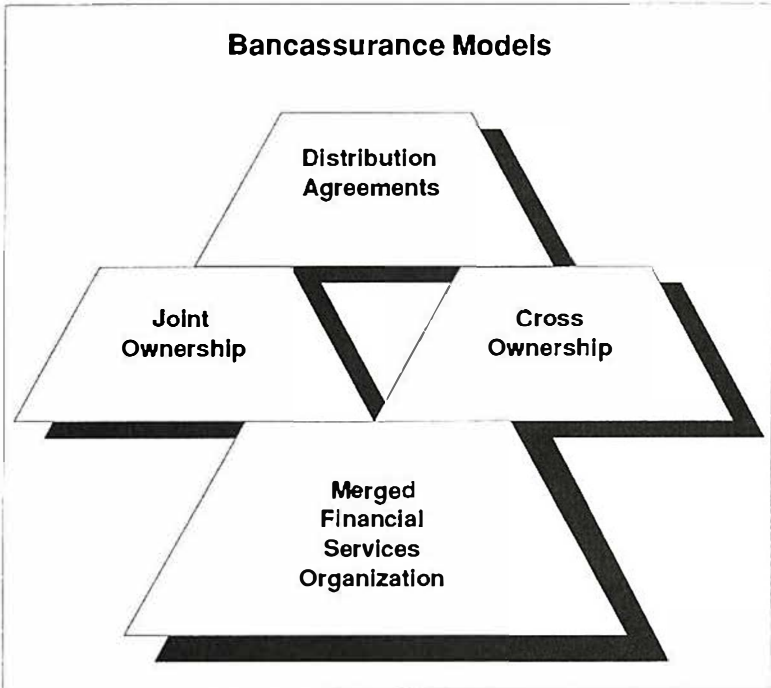
- Sales and service activities are combined and placed as close to the customer as possible.
- Primary reliance is on controlled distribution methods and employed sales staff, for cost control and improved regulatory compliance.

Potential Advantages of an Integrated Financial Services Group

In the integrated financial services (fourth) model, institutional definitions of product, distribution, operations, and public image are replaced by a combined financial services approach, defined through market research of customer needs and preferences. For example, the shift in demand from death protection to retirement savings is met by changes in product design and sales methods that help customers understand their situations. The company suggests products that best meet their customers' needs, whether the product is a savings account, a mutual fund, an annuity, or some combination of these.

Marketing programs are designed to fit particular segments of the market for marketing efficiency, replacing traditional bank and insurer tendencies to view the market as an undifferentiated whole. Sales productivity is increased by identifying patterns of needs that lead to multiple-product sales, through customer profiles and needs analysis. A multiple financial services approach permits various alternative sale opportunities from a range of products.

Not only are additional sales opportunities identified by linking points of sale and points of service, but compliance problems can also be addressed. If sales/service personnel are responsible for going back to customers to determine their changing needs, they can confirm satisfaction with the original sale, make any needed changes in products or features, address any complaints before they are registered with regulatory authorities, and help the company to retain existing business on the books.



Bancassurance examples have demonstrated significant improvements in sales productivity with the first three models described above. The potential for improved sales and retention of business and customers through the integrated financial services model permits even better financial results. Consider

one such example in which the primary product is a variable annuity, linked to a primary business in mutual fund retailing:

- Sales costs are about 2.5% of new premiums.
- Maintenance costs are about 31 basis points on assets under management.
- Insurance sales are only part of a range of products sold but average $2.7 million in premium (nearly all single-premium) sold per year per representative, requiring about 1-15% of their time.

In this example, the product is made a part of the company's overall marketing program. It is simply another option available to meet particular needs.

Another characteristic of the integrated financial services model is the cost structure. Many life insurers have tried to control distribution costs by making them primarily variable, which is to say that costs vary with sales (e.g., commission compensation). Although this reduces company costs for sales when they don't occur, it also eliminates the company's ability to reduce the largest element of sales costs per unit. When costs are variable, increases in volume have limited impact on unit cost levels. In the integrated financial services model, variable costs are replaced by fixed costs—the customer data base and employed sales staff. Efficient sales produce significant unit cost reduction.

Conclusion

Market forces have elevated marketing and sales costs as the primary battleground for financial services. When cross-selling in bancassurance models can achieve three to seven times the sales productivity of traditional life insurance sales systems, insurers need to take notice of the growing competition from and potential for cooperation with banks. Banks need to leverage their own high-cost distribution systems by adding insurance products.

The integrated financial services model raises the stakes even higher. If, compared with traditional life insurance costs of 20-30% of premiums, an integrated financial services organization can achieve levels of 2.5% of premiums, life companies must consider how they will compete with such institutions. With the opportunity to solve compliance problems along with sales costs problems through the same vehicle, life companies must take notice or face a future competitive environment with increasing disadvantage.

The integrated financial services model described here is not the same as the "one-stop- shopping" approaches to financial services attempted in the 1970s end 1980s, which have generally been discredited. These approaches sought to place different financial services side by side in retail stores or banks without integrating them or considering customer needs or preferences. The customer was left to make the connections between different institutions with little help from the provider.

The model suggested here begins with consideration of what the customer is looking for. Products, points of sale, points of service, and other aspects of the marketing program are designed to provide solutions to customer needs, not to push particular products financial institutions want to sell.

The integrated financial services model addresses all of the risks faced in life insurance. Mortality risk, the easiest to manage, can be handled through traditional pricing and underwriting techniques. Investment risk can be handled by integrating bank and other financial service demands for yield and liquidity, gaining advantage from volume asset purchases and covariance of ris k among liability pools (e.g., offsetting risks in deferred annuity and disability income insurance lines of business). The costs of administration can be reduced by combining like functions across various financial services.

Marketing and sales costs, the keys to differentiation in today's market, are reduced through integration of services, controlling selling activities, and combining sales and service activities close to the customer.