

New Service Development and Diversification  
Strategy : Particularities of Insurance  
Marketing and Bancassurance/Assurbanque in  
France

著者	Kamei Katsuyuki
journal or publication title	情報研究 : 関西大学総合情報学部紀要
volume	27
page range	1-25
year	2007-07-20
URL	<a href="http://hdl.handle.net/10112/11879">http://hdl.handle.net/10112/11879</a>

# **New Service Development and Diversification Strategy – Particularities of Insurance Marketing and Bancassurance/Assurbanque in France**

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## **Abstract**

New services are often the result of an innovation introduced by a diversification strategy. In this study, key factors for the success of the diversification strategy are identified through case studies of diversification between the insurance services industry and the banking services industry in France. Preceding the case studies, this study points out the particularities of insurance marketing and the French insurance market. Insurance marketing has a duality involving a subscription stage and one of claims servicing. The French insurance market is particular, given its variety of distribution channels. Case studies of Crédit Agricole and AGF identify the key factors (appeal, brand, concept, consistency, credibility, differentiation, and education) of new service management based on the diversification strategy. In conclusion, this study clarifies the significance of service innovation, which lies in the promotion of value for customers in the market as a whole.

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## INTRODUCTION

The objective of this study is to clarify the problem of new service management and innovation based on a diversification strategy.

First, this study tries to set a framework including the following key factors for the success of the diversification strategy: appeal, brand, concept, consistency, credibility, differentiation, and education.

Second, it examines the specificity of insurance marketing and the French insurance market, since it has chosen a specific field to examine in case studies, i.e., diversification between the insurance services industry and the banking services industry in France.

Third, through the case studies of (1) the diversification of a bank into property and casualty insurance services, and (2) the diversification of an insurance company into banking services, this study tries to identify and confirm the key factors of success in new service management and innovation based on the diversification strategy.

Finally, as a conclusion, this study tries to identify the significance of service innovation as a result of diversification strategy from the viewpoint of value for the customers.

### 1. THEORITICAL FRAMEWORK:

#### DIVERSIFICATION STRATEGY AND NEW SERVICE DEVELOPMENT

##### 1.1. New service development and innovation

Innovations often accompany diversification. According to the theory of Servuction (Eiglier and Langeard 1987; Eiglier 2004), which means production of service, five key

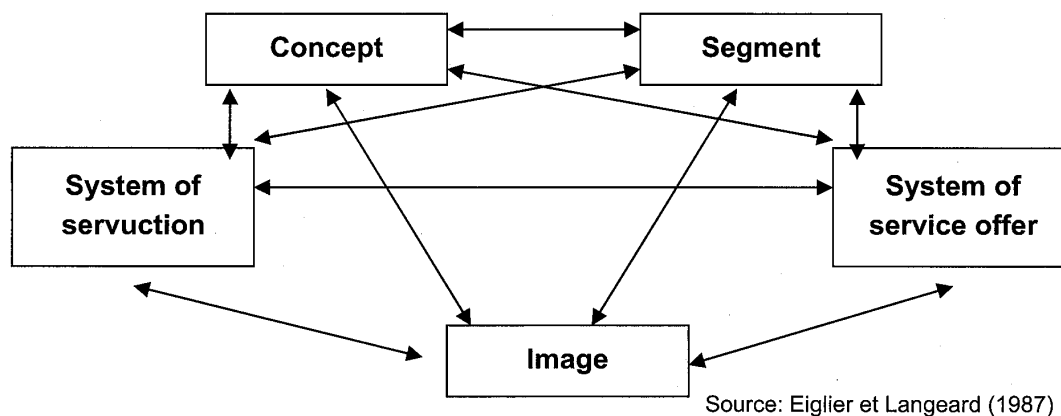


Figure 1: Five key points of decision-making in new service development and innovation

points for decision-making in new service development and innovation can be identified, as shown in Figure 1: concept, segment, system of servuction, system of service offer, and image.

### 1.2. Diversification and the three axes of innovation

In the theory of *Defining the Business*, Abell (1980) proposed three dimensions for defining a business: customer functions, customer groups, and alternative technologies. Based on this theory, diversification can be identified using three axes of innovation (Figure 2): (1) innovation in customer needs (“what do you offer?”), (2) innovation in the target customer segment (“to whom do you offer?”), and (3) innovation in the alternative proposals of the marketing mix (“how do you offer?”).

In this study, “diversification” is generally defined as “an advance to a new strategic business domain through innovation based on three axes: products and services (what), customer segment (to whom), and marketing system (how).”

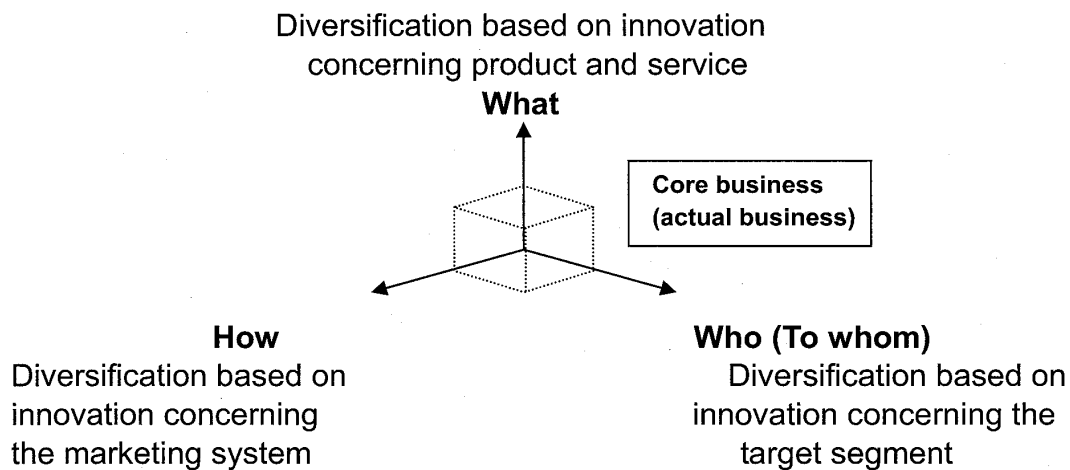


Figure 2: Three axes of innovation in diversification strategy

### 1.3. Key factors for success and failure in diversification strategy

Among numerous studies concerning diversification strategy, this study refers to the theory of Véry (1991). Based on his theory, the key factors of success and failure in diversification are explained as follows.

Véry identifies the two pillars leading to success as “consistency and adaptability with the existing organization” and “competitiveness.” First, it is necessary to achieve “consistency and adaptability” regarding (1) top management’s ability, (2) the culture of the enterprise, and (3) a long-term strategic vision of the enterprise both in a new strategic business domain and an existing organization. Next,

“competitiveness” should be demonstrated in both (1) the performance of a new strategic business domain, and (2) that of the entire activity of the enterprise, which includes existing and new businesses. The realization of the success factors, “consistency and adaptability” and “competitiveness,” is supported by the removal of the factors leading to failure. According to Véry (1991, pp.87-89), it is possible to enumerate the following factors of failure:

- (1) The choice of an activity with a weak intrinsic value.
- (2) Diversification does not integrate into the strategic vision of the company.
- (3) There are cultural incompatibilities between the new activity and existing activities.
- (4) Leaders who manage the new activity do not possess the managerial expertise appropriate for this activity.
- (5) The company is not able to implement the division of resources and transfer of competences.
- (6) The division of resources weakens the competitive position of the company in certain activities.

#### 1.4. Key factors of success in general diversification strategy: ABCDE

Having developed the standpoint of the analysis by Véry, not only from a strategic viewpoint of the enterprise, but also from a consumer viewpoint, this study identifies five factors for success in general diversification strategy as ABCDE, according to their initials in English. These factors can also be applied to service management, since they are inspired by the above-mentioned five key points of decision-making in new service management and innovation and also by the theory of the three levels of decision-making in the service formula: the first level (concept of service – segment owner), the second level (servuction system – offer system), and the third level (cost structure – clear image). (Eiglier 2004, pp.169-172)

A	Appeal	Appeal to consumers in a new business field
B	Brand	Existing brand application or new brand construction in a new domain
C	Concept	Clear and strong concept as a basis for new business development
	Consistency	New business adapts to the organization, strategy, and culture of the existing business
	Confidence	Development in the new business domain provides confidence to the customers and employees
D	Differentiation	Differentiation from the strategy of existing players and the common approach within the market
E	Education	Employee education and information offered to the customers in the new business field

(A) Appeal:

When a company diversifies into a new business field other than its principal occupation, it is important that its existence should appeal. Its business accomplishment ability to offer products or services in the new field should also appeal. The features that appeal to the target segment are: (1) a clear and consistent concept that is easy for customers to understand, (2) a brand image with established reputation in the existing domain or a newly created brand in the new domain, and (3) an emphasis on a difference from the products or services offered by existing players in the new field.

(B) Brand:

Effective formation of a brand in diversification is realized through the establishment of (1) the consistency of a concept, (2) a system that is easy to understand, and (3) differentiation from the existing players. The formation of a strong and consistent brand image provides confidence and trust for both customers and employees. As for a brand strategy in diversification, (1) one way is to use an existing brand for the sake of the totality of the businesses, and (2) another is to build a new brand.

Based on Ogawa (2001), the three **conditions for developing a strong brand image** are:

1. “Consistency and continuance”: aspects of image are consistent.
2. “Original theme”: it has a particular, comprehensible theme.
3. “Proposal of a lifestyle”: a new lifestyle is proposed.

(C) Concept, Consistency, and Confidence:

A concept should have originality and consistency when advancing into a new business field based on the innovation. All marketing activities are easy to follow and imitate, but a strong and firm concept is not so, once it is established. The originality of a concept gives charm to a new business, and consistency gives infiltration power in the target market and segment. Based on the target segment, the system of marketing mix will be elaborated.

Consistency has another significance. It is an adjustment to the organization, strategy, and culture of the existing business. If the concept is contradictory to these, the new business seldom turns out to be effective. In a word, consistency with all the existing businesses must be maintained in the new strategic business field as a

result of the diversification. Based on a consistent concept, a brand image is formed to promote confidence among both consumers and employees.

In services marketing, the role of the person in contact with customers is very important. When staff feel confident because of the strong and consistent concept, their confidence is projected in their attitude toward customers. That is, under a firm concept, confidence is harmonized between a team of employees and the customers.

#### (D) Differentiation:

It is very difficult for newcomers in the market to have an initial competitive advantage against the existing players who have already acquired considerable market share and reputation. When entering a market, newcomers have to begin with a conceptualization of how they differentiate themselves from the system of existing players in the market. An effective differentiation is the driving force of an appeal.

#### (E) Education:

There exist two meanings of education. One is education and training for employees, and the other is communication and information diffusion to customers. Both are concerned with the new products or services in a new business field achieved through diversification. This factor applies essentially to the service industry. In the manufacturing industry, the quality of products determines the image of the company. On the other hand, in the service field, the image of persons in contact with customers might link directly to the image of the enterprise, and the participation of customers is necessary in the service offering. Thus, the education of staff and information diffusion to customers have much significance. Within such education, it is necessary to have a direction for establishing confidence toward the newly entered business domain.

## 2. PARTICULARITIES OF INSURANCE MARKETING AND THE FRENCH MARKET

### 2.1. Insurance marketing applied to the theory of servuction

In terms of marketing, insurance is a service particularly different from others. Four particularities can be distinguished.

- (1) Duality of servuction.
- (2) Complexity of customer satisfaction.

- (3) Dilemma of the person in contact with the customer (culture of refusal).
- (4) Customer participation in claims management (treatment of accidents).

2.1.1. Duality of servuction in insurance marketing

General insurance marketing has two stages of service, and its system is as shown in Figures 3 and 4. These stages are independent of and not peripheral to each other.

- (1) Underwriting stage:  
 sale of insurance policy (risk selection and cover/offer of guarantee).
- (2) Claim servicing stage in the case of the occurrence of the covered risk:  
 payment of the sum insured (claims payment/indemnification).

2.1.2. Complexity of customer satisfaction

In the first stage of general insurance service, customer satisfaction comprises the feeling of security through obtaining a guarantee in the case of the occurrence of the risk. No other service is as invisible and intangible as this feeling of security. Once an accident occurs, the second stage of service comes into play. Customers report the accident to their insurance company, and they ask about the procedure of obtaining the indemnification. If the claims are paid by the company as was asked, customers

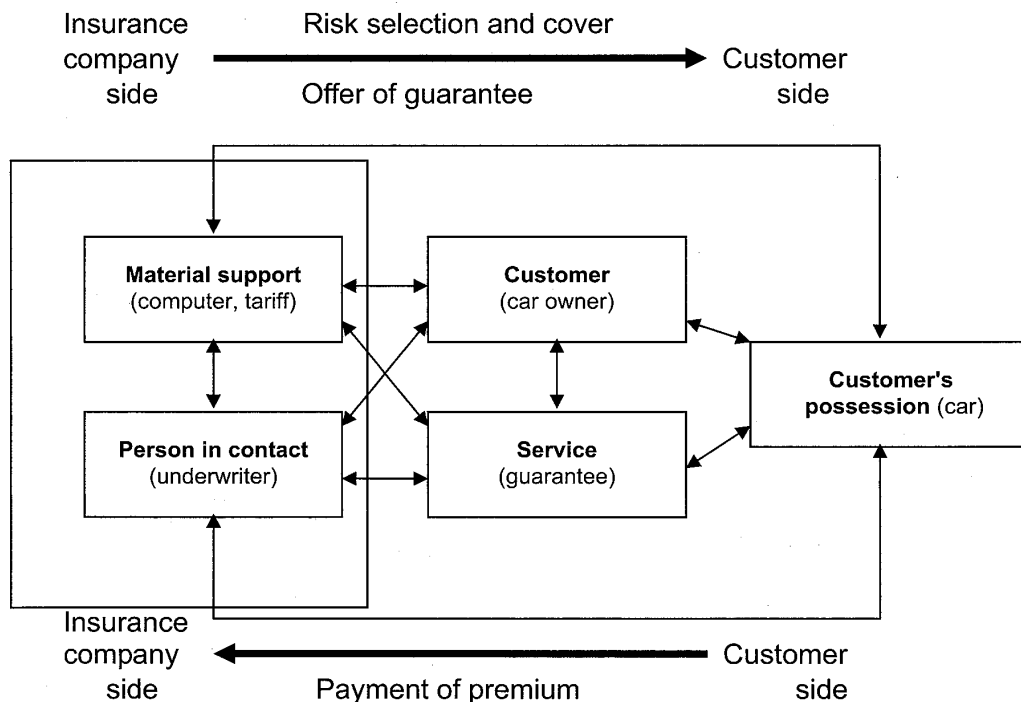


Figure 3: System of servuction in insurance marketing: the first stage  
 (example: car insurance)



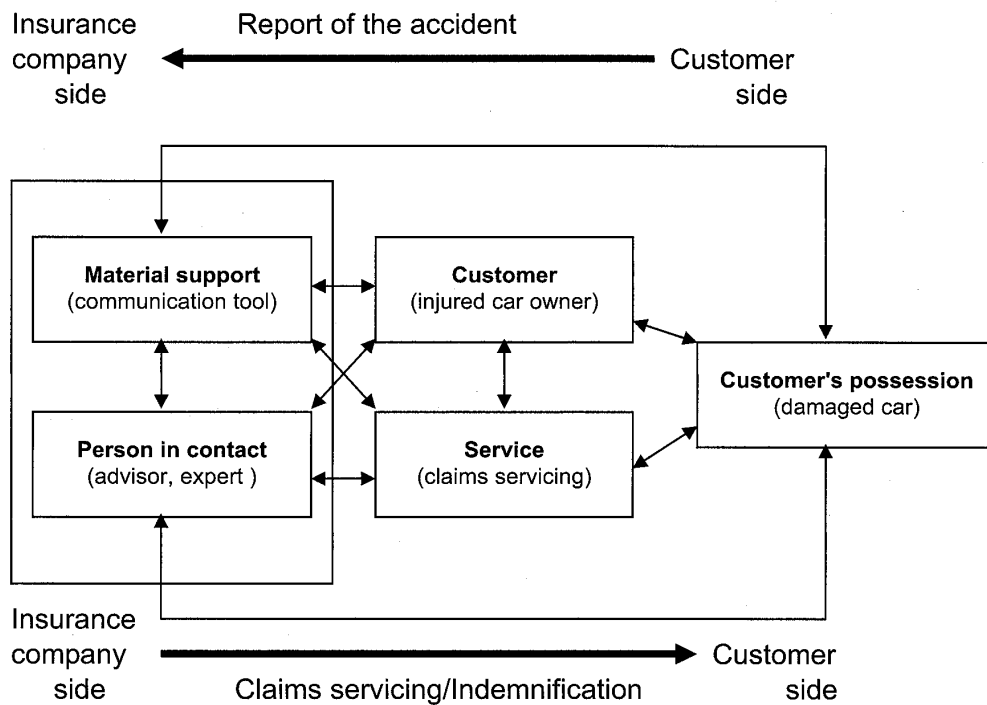


Figure 4: System of servuction in insurance marketing:  
the second stage in the case of an accident (example: car insurance)

are satisfied. This time, the service turns out to be visible in terms of the claims paid or the treatment of the damaged object or injured person. When the customer is responsible for the accident, the payment and the treatment are offered on behalf of the third party. It is complex in that customers obtain the totality of the service only through a misfortune such as an accident.

### 2.1.3. Dilemma of person in contact with customer (culture of refusal)

The situation of the person in contact with the customer in insurance services is really a dilemma between the economic interest of the insurance company and that of the customer. There exists a culture of refusal in insurance. At the first stage (underwriting), the principal role is to select some risks to cover and others to refuse. For example, in life insurance, people with serious diseases are refused. In car insurance, bad drivers are refused or accepted only with an increase in premium. In particular, during the second stage in the case of an accident, there are often conflicts with customers. The victims of an accident ask for rapid service or compensation, but it is obligatory to follow the procedure prescribed in the insurance policy. The person in contact with the customer usually feels sympathy for the

Table 1: Dilemma of person in contact at each stage of the insurance service

	Interest of insurance company	Interest of customers
First stage	Obtaining more premium	Paying less premium
Second stage	Paying less indemnification	Obtaining more indemnification

difficult situation following the accident, nonetheless his or her duty is to apply the insurance company's rules concerning the contract, thus limiting or refusing the indemnification according to the case in question.

#### 2.1.4. Customer participation in claims servicing (treatment of accidents)

In general, customers are subordinate in insurance services. During the first stage, the participation of customers is passive. They answer questions about their risk and fill in the form for a contract. However, in the case of an accident, customers are compelled to participate actively. The second stage of insurance service will never start unless the customers begin to act. They have to telephone a branch or an agent, go to the police for the certification, go to the hospital or to the garage in partnership with the insurance company, fill in the form and send it, etc. Everyone who has an experience of making a claim for payment from an insurance company finds this procedure long and complicated. In general, the instructions about what to do after an accident are sometimes written in small characters using special terminology, in a small booklet associated with the policy. Also, the form for the declaration of the accident is sometimes very thin. There still remains much room for improvement on this issue for the sake of customer satisfaction in insurance services and marketing. In fact, how a company can lighten the task of the customer after an accident is a strategic point of differentiation in insurance marketing based on the new technology of communication.

Table 2: Participation and dominance at each stage of the insurance service

	Passive participation	Active participation
Customer dominant	Luxury hotel	Guided visit to a museum
Customer subordinate	Hospital First stage (contract subscription)	Vacation village Second stage (declaration of the accident)

Adapted from Eiglier et Langeard (1987, p.38)

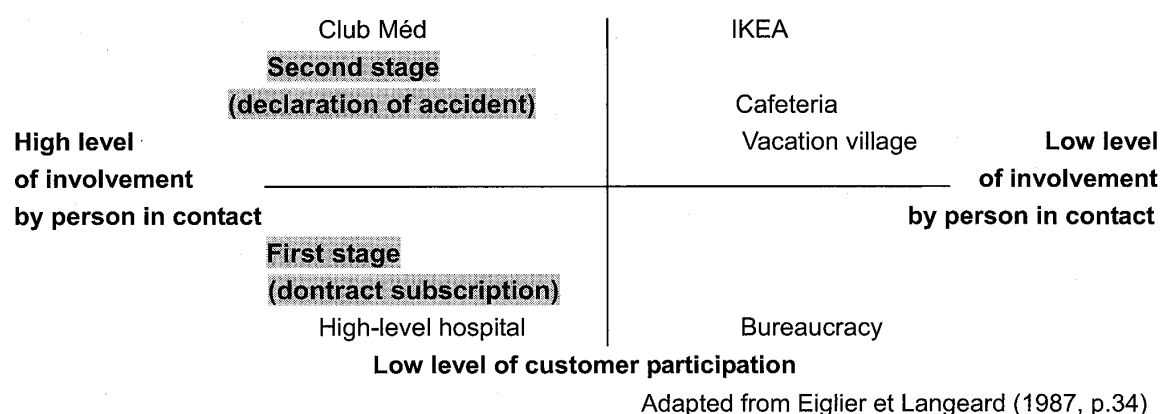


Figure 5: Level of customer participation at each stage of the insurance service

## 2.2. Particularities of insurance marketing in France

The French insurance market has the following particularities: (1) a variety of distribution channels, especially in the general insurance market, (2) the competitiveness of MSIs in the car insurance market, (3) the success of over-the-counter sales by banks (bancassurance), and (4) the recent approach by insurance companies to offer banking services through their traditional distribution channels (assurbanque).

### 2.2.1. Variety of distribution channels

One of the particular phenomena in the French insurance market lies in its variety of distribution channels, as shown in Table 3, which is marked by the dominance of banks that have succeeded in diversification into the life insurance market via (1) sales of investment-type policies and (2) the presence of MSIs in the property and casualty insurance market. There exist the traditional channels of insurance companies (tied agents, insurance brokers, salaried sales force, etc), direct underwriting mutuals (MSIs), direct marketing (internet, telephone), and branches of financial institutions such as banks.

Table 3: Share of premium income by distribution channel in 2004 (%) FFSA (2005)

	Life & Capital Insurance	Property & Casualty Insurance
Tied agents	8	35
Brokers	10	18
Salaried sales associates	15	2
Direct underwriting companies (MSIs)	–	33
Financial institutions (banks, etc.)	62	8
Direct marketing and alternative channels	5	3

### 2.2.2. Competitiveness of MSIs in the car insurance market

Direct underwriting mutuals, so-called MSI (Mutuelles Sans Intermédiaire), are very competitive within the car insurance market in France. Companies such as MACIF, MAIF, MAAF and Matmut belong to this category. Their competitive advantage is owed to the concept of innovation, which Jacques Vandier, founder of MACIF, introduced into the car insurance market during the 1960s. The concept is (1) the application of really low tariffs for good drivers, (2) severe selection of risk: refusal against bad drivers, (3) direct sales at their branches without the payment of any commission, (4) quick response in claims servicing through two innovative inventions: the “constat amiable” (agreed statement of facts) form and the system of Indemnisation Directe des Assurés (IDA—direct indemnification of policyholders), and (5) the promotion of membership and a feeling of being in communication. Most of these innovations, especially the risk segmentation method in sales and the IDA system with “constat amiable” forms in claims servicing, have become standard in Europe.

Having introduced innovations already in the 1960s, French car insurance is the most competitive and efficient one for customers in Europe (Daniel 2003). The reason why direct marketing (by telephone or over the internet) has not met with as much success as in the United Kingdom is the fact that in France, the possible tariff revolution based on risk segmentation had already been done by MSIs.

### 2.2.3. Success of bancassurance (banks' diversification into the insurance market)

Bancassurance is a word coined from two other French words, “banque” (bank) and “assurance” (insurance). In France, this means primarily a diversification by financial institutions into the insurance market based on over-the-counter sales of insurance policies in their branches. The four possible modes of diversification into insurance are (1) a 100% insurance subsidiary, (2) the acquisition of an insurance company, (3) a joint venture with an insurance company, and (4) a partnership with an insurance company (Hoschka 1994). In the life insurance market, most French banks chose the first method, setting up their own subsidiary independent of traditional insurance companies.

The life insurance subsidiaries of banks have grown since the late 1980s, having had a tremendous success with over-the-counter sales of investment-type products by adjusting to consumers' growing demands for saving plans as a supplement to their retirement pensions. These products have fiscal advantages. Their market share has

reached levels greater than 50% within life and health insurance. The key factor for their success in life insurance lies in the consistency with the culture of banking services by selling simple investment policies similar to bank products.

Then, in the 1990s, banks tried to diversify into the property and casualty insurance market. This time, considering the difficulty in fitting claims servicing, the second stage of insurance services, into the culture of banking services, some of them undertook a joint venture or a partnership with insurance companies. Others set up their own property and casualty insurance company. Since 2000, banks have begun to be aggressive in this market.

As a whole, France is the country where bancassurance has had the biggest success in the world in terms of over-the-counter sales and service at the branch level.

#### 2.2.4. Assurbanque (diversification of insurance companies into banking)

Having seen the banks erode their market, traditional insurance companies have begun to intensify their defensive practices since the beginning of this century. They had already begun to offer investment and loans through their distribution channels. This is called *assurfinance*, which is a word coined from “assurance” (insurance) and “finance.”

Then, in 2000, AGF created its bank subsidiary, Banque AGF, to offer general banking services including a bank account for its policy holders. This new attempt to focus on the offering of accounts is called “assurbanque” (“assurance” + “banque”). Other insurers are now following the example of Banque AGF.

### 3. CASE STUDIES

When talking about diversification in the financial services industry, the most difficult case is that between a bank and a non-life (property and casualty) insurance company. In general, these differ in the culture of service. The risk is not small in mutual diversification. Thus, the following two cases are to be examined here:

- (1) The diversification of a bank into property and casualty insurance (the case of *Crédit Agricole*).
- (2) The diversification of a general insurance company into a bank (the case of Banque AGF).

In considering the theoretical framework of diversification and new service management and also the particularities of insurance marketing and the French

insurance market, these two cases clarify the following questions:

How could they develop a new service whose culture is different from theirs?

How could they make a new service whose system of offer differs from theirs appealing?

How could the persons in contact with the customers accept the new service offer?

The case studies constitute data obtained from (1) public secondary sources such as FFSA and professional periodicals (*L'Argus de l'Assurance*, *Les Echos*), (2) private secondary sources (documents and archives of enterprises), and (3) interviews with the directors of insurance at banks, tied insurance agents, and staff at the branches.

### 3.1. Case Study: Crédit Agricole

#### 3.1.1. Structure of property and casualty insurance business at Crédit Agricole

Having achieved great success in diversification into the life insurance market with Prédica, a 100% subsidiary in this domain, Caisse Nationale du Crédit Agricole (National Agricultural Credit Union) decided to diversify into the property and casualty insurance market as well. Considering the necessity to build up a claims servicing network, most of the other banks, except Crédit Mutuel, chose a partnership with general insurance companies. Under these circumstances, Crédit Agricole chose to establish a 100% subsidiary, Pacifica. This was under the logic of better sales network management with an extension of the service offer (Eiglier 2004, pp.123-125).

Pacifica undertakes product development, the proposition of a standard tariff, and nationwide communication. The regional agricultural credit institutions forming the Crédit Agricole group adopt Pacifica's products and sell them at the counters of their branches through region-wide promotion. The center directly under the control of Pacifica takes charge of claims servicing. This is called Unité de Gestion des Sinistres (UGS), which means "Claims Management Unit." As for assistance services, Pacifica depends on its partnership with the Spanish company Multi Assistance (see Figure 5).

In 2001, all 50 regional agricultural credit institutions began selling Pacifica's products, mainly car insurance and general household insurance.

#### 3.1.2. (A) Appeal of the new service to customers

First, considering that among the existing Crédit Agricole account holders, about

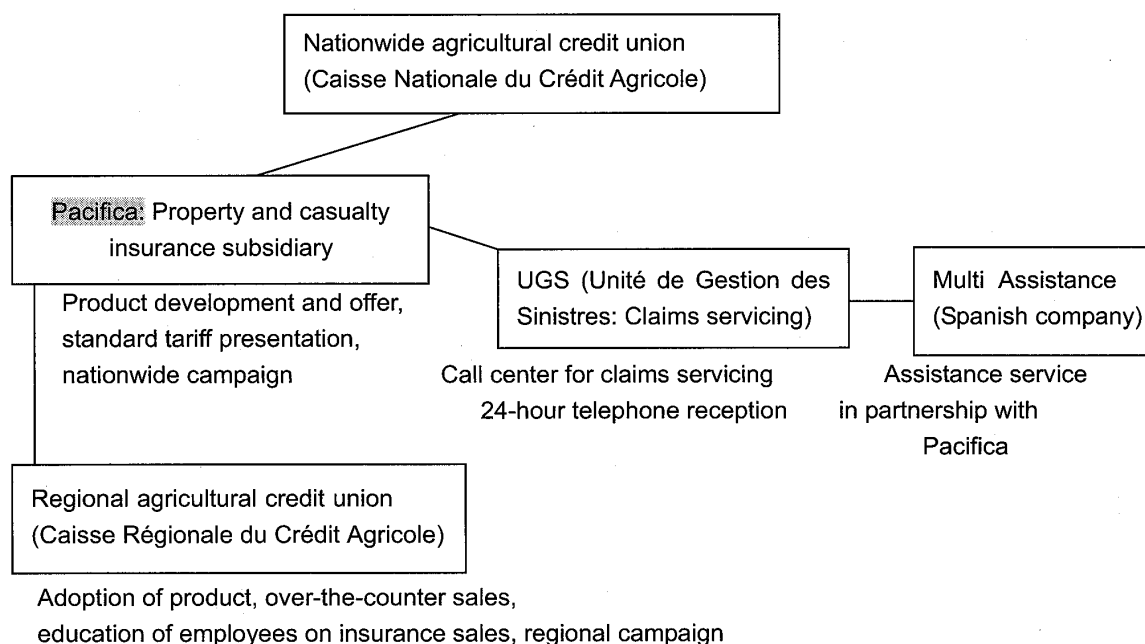


Figure 6: Organization of property and casualty insurance services at Crédit Agricole

80 percent had a housing loan and 20% had a car loan, the range of products was limited to general household insurance and car insurance. The approach was, “You trust our company, so we will offer services in all the areas of your daily life, including general insurance.”

Sales of car insurance were usually reinforced by a campaign in the fall. In France, in order to change their insurance company, customers have to give notice by registered mail two months before the expiry of the contract, otherwise it will automatically be renewed. Many contracts begin during the first trimester, namely from January to March. This is the reason why insurance sales promotion campaigns are often held in the fall in order to convert customers’ insurance policies to those of Pacifica. The catch-phrase used by Crédit Agricole du Midi (Languedoc Roussillon region) in fall 2000 was “Prêt-à-Rouler,” which means “Ready to Drive,” since customers have both the car loan and car insurance.

### 3.1.3. (B) Brand

In marketing general insurance services, the Crédit Agricole brand with the “CA” logo is shown in large type on posters or pamphlets. The Pacifica name is not very prominent. In France, drivers place stickers of their car insurance company in their front or rear windows. For these kinds of stickers, the Pacifica name is shown explicitly in combination with Crédit Agricole’s “CA” logo.

#### 3.1.4. (C) Consistency with the culture of banking services

In general, property and casualty insurance, especially at the second stage of service (claims servicing), does not have much consistency with the culture of banking services (Morgan 1994). Furthermore, there is the possibility of generating a conflict regarding whether or not claims are paid. It is necessary for banks to develop this kind of service by adjusting it to the culture of a bank. Considering this difficulty, many banks created a joint venture in partnership with a general insurance company, e.g., Banque Populaire with MAAF and BNP with AXA.

First, banks limit sales to their account holders, which is the first level of risk selection. Then, they limit the range of products to car insurance and general household insurance. Finally, they sell the former in combination with a car loan, and the latter with a housing loan. By this method, the banks adapt general insurance sales to their culture of banking services offered at the counters of their branches.

The particularity of Crédit Agricole begins with the following: the establishment of its own system of claims servicing. A call center specializing in claims servicing was created under the direct control of Pacifica. This is UGS, which is a “Claims Management Unit” that receives telephone calls from customers 24 hours a day, 365 days a year. Cards detailing the toll-free number are distributed to customers. When they meet with an accident, they telephone UGS exclusively. With this new service development, Crédit Agricole achieved a separation of claims servicing from the people in contact with the customers at the counters in the branches. Thus, the relationship of trust between financial advisors and customers is maintained without being affected by the possible crucial situation after an accident. To summarize, (1) the first stage of the service (advice and underwriting) at the branch counter is independent of (2) the second stage of the service (claims servicing) through the call center, i.e., UGS.

#### 3.1.5. (D) Differentiation based on innovation

When diversifying into the property and casualty insurance market, Crédit Agricole tried to differentiate itself from traditional insurers by achieving (1) lower tariffs for small sized old cars, (2) simplification and standardization of the product content, and (3) innovation in service.

In particular, for innovation in service, the centralized claims management through the establishment of a call center (UGS) was the first such attempt in the



market. This system was soon called “Plate-forme téléphonique” (telephone platform) by specialists. Traditional insurers with existing claims servicing systems have had difficulty in following this innovation by Crédit Agricole completely, although they recognize the importance and necessity of introducing new technology in claims servicing. In any case, this innovation by a newcomer in the market is now considered to be the standard for claims servicing.

In addition, a service called “rééquipement à neuf” (exchanging new for old) in general household insurance policies was also a first in the market. This service means that if policy holders face a disaster such as a flood and their furniture or electrical goods are completely ruined, new products are provided regardless of the age of the old ones, and within 48 hours of the reception of the phone call reporting the incident (with 900 francs as a deductible amount).

### 3.1.6. (E) Education

The factors of success for Credit Agricole in adjusting its culture of service marketing to the sale of property and casualty insurance products are: (1) communication, (2) education of personnel, (3) regular sales rhythm, and (4) simple and concise product content. First, continuous direct communication with customers at the branch counter is considered very important. Then, word-of-mouth communication stimulated by publicity, such as posters and pamphlets at the branch, and supported by the nationwide campaign, is encouraged. This

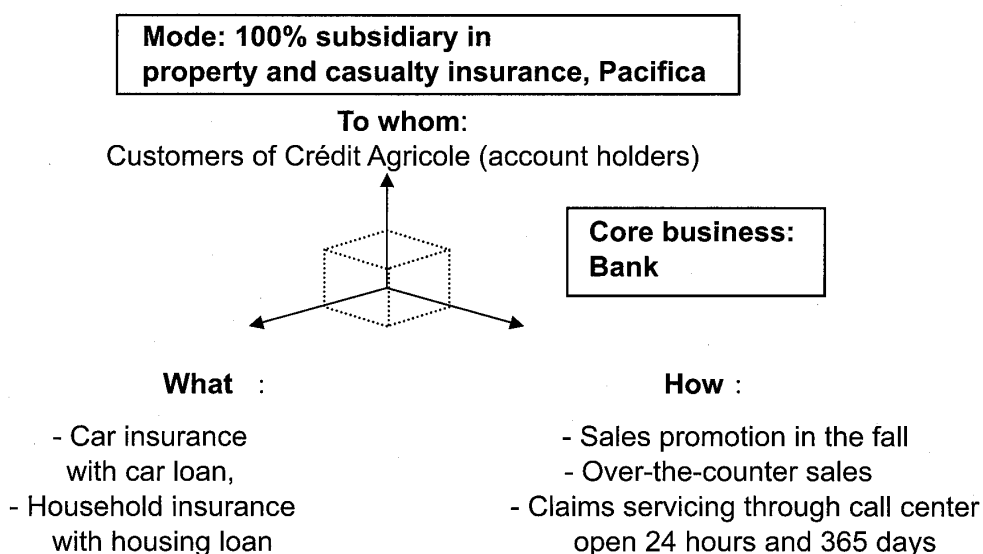


Figure 7: Three axes of diversification into property and casualty insurance by Crédit Agricole

**Table 4: Key factors of success in diversification into property and casualty insurance and new service management by Crédit Agricole**

A	Appeal	Sales promotion by campaign. Simplification of products. Appeal of discount on premium for contract in combination with loan.
B	Brand	Brand of Crédit Agricole prominently displayed.
C	Concept	Offer the service for all areas of customers' daily lives. Separation of sales and claims servicing: contract sales at the branch counter and claims servicing at the call center (UGS).
	Consistency	Consistency with banking culture through selling insurance policy in combination with loan. Separation and independence of claims servicing, which has no consistency with banking services culture.
	Confidence	Promotion of membership feeling and trust through new service
D	Differentiation	Innovation of telephone platform (call center) for claims servicing. "Exchanging new for old" service within household insurance.
E	Education	Information diffusion among customers based on word-of-mouth communication. In-house training for advisors.

communication is a means of information diffusion, an "education" for customers on the new service for property and casualty insurance. Second, all the advisors at the branch attend a training program lasting 10 to 15 days. Third, a regular sales rhythm is necessary for the advisors to maintain their knowledge on products and services. Fourth, simplification and standardization of products is very important so that customers can understand the information about new services at the bank without difficulty and advisors can promote the sales of the products in a way that is different from the culture of banking services.

The new service management based on diversification is summarized below.

### 3.2. Case Study: Banque AGF

#### 3.2.1. New mode of diversification into the banking business by an insurance company

Before the creation of Banque AGF, diversification into the banking business by insurance companies was limited to the offering of loan and investment products through their traditional distribution channels. This was called "assurfinance." Given the necessity to react to the progression of "bancassurance" and to survive in the competition solely among insurers, a traditional insurance company, AGF, set up Banque AGF in October 2000. Banque AGF is a direct bank without a sales network. With the creation of Banque AGF, universal banking services including deposit accounts are offered to AGF policy holders. This attempt to offer the whole range of banking services was the first by an insurance company in France. This new method of diversification into banking services by an insurance company is called "assurbanque," as explained above. Initially supported by a large-scale campaign,

Banque AGF succeeded in acquiring 40,000 deposit accounts in three months from the start of its service. The first year's objective of 200,000 account holders at Banque AGF was also achieved.

### 3.2.2. (A) Initial appeal

A large-scale campaign based on elaborate media planning (publicity at the point of sale, in newspapers and magazines, commercials on radio and TV) began on October 13, three days before service inauguration. The catch-phrase was "Ma nouvelle banque" (My new bank). Appeal was placed on several innovations and their differences from traditional bank services. The biggest point of appeal was a "multiservice account with 5% interest."

### 3.2.3. (B) Brand renovation as a background to diversification

Under the competitive circumstances of globalization and reorganization in the financial and insurance services industries in Europe, nowadays, brand strategy has great importance. In insurance, it is now difficult to differentiate oneself from competitors on aspects such as premium rate or claims servicing. Instead of attempts at technical competition, brand strategy is becoming reinforced as a new source of differentiation. In insurance, brand strategy has the meaning of reaction against banks diversifying into the insurers' market. Communication based on brand strategy is not only with customers but also with employees and tied agents. When a strong brand image is established, credibility and trust concerning the company are generated among customers, employees, and distribution channels.

As a brand strategy to improve credibility, brand renovations were carried out in France. For example, MMA renovated its brand in 1999 by adopting an outstanding new logo. This brand renovation was timed with a large-scale campaign using radio and TV commercials. The jingle "Zéro blabla, zéro tracas, MMA c'est le bonheur assuré" (no fear, no worry, with MMA happiness is assured) became popular. As a result, MMA has greatly improved its recognition among consumers. Another example is MAAF, whose investment in communication has been the highest in the market. MAAF has gained further recognition through the success of TV commercials since 2005 with the jingle "Référence qualité prix" (standard quality price).

Coming back to AGF, a drastic brand renovation was put into operation in March 2000. AGF became a subsidiary of leading German company Allianz in 1998. Since then, three brands had existed simultaneously in France: Allianz France, AGF, and

Athena, which was an affiliated company of AGF. Thus, the brand renovation was based on the unification of these three brands into one AGF brand. A renewal of the façade of the offices of all 3000 tied agents of the three brands was achieved with a new signboard and a new logo. This operation of a brand strategy was a prelude to the creation of Banque AGF six months later.

#### 3.2.4. (C) Concept of Banque AGF

The main concept of Banque AGF is a “package offer of banking services” and the “multi-relational approach” explained below. These elements are central to its differentiation from the existing services of traditional banks.

#### 3.2.5. (D) Differentiation through a “package offer”

Banque AGF achieved differentiation from the existing services of traditional banks in a number of ways. One of its innovations was the concept of a “package offer.” In concrete terms, this was the offer of the “compte multiservices” (multiservice account) product. Bank accounts in France consist mainly of “comptes à vue” (ordinary deposit accounts) and “comptes sur livret” (savings accounts). The former perform operations such as salary transfer, automatic payments, credit cards, and checks but without bearing any interest, and the latter are with interest. In general, when customers open an ordinary deposit account, they receive no interest. The multiservice account offered by Banque AGF is a combination of an ordinary deposit account and a savings account. This is based on the system that if the amount in the ordinary deposit account exceeds 500 euros, the difference will be automatically transferred into the savings account with interest. As a result, if customers open an account at Banque AGF, they appear to be automatically credited with interest. No case like this had been encountered in the services of traditional banks. Furthermore, Banque AGF initially set the interest rate on its savings account at 5%, which was higher than that of the traditional banks.

Another point of differentiation was the “clarification of tariffs for each service.” In general, there is a charge for each service offered by banks. The cost of each service was not high but it was not clearly explained how each service was charged or at what rate. Account holders tended to pay these costs unconsciously through their accounts. On this point, Banque AGF clarified the cost of each service by distributing a service tariffs booklet with an explanation. Moreover, all the service costs were set lower than those of the existing banks. This attempt at clarification of the cost of each

banking service has been followed by traditional banks and is becoming the standard.

### 3.2.6. (D) Consistency through a “multi-relational” approach

Another important concept of Banque AGF is “multi-relational.” The main difference between Banque AGF and other direct banks is that Banque AGF can depend on the traditional distribution channel as a place of support for customers. In general, direct banking account holders are limited to making transactions over the telephone or internet, but in the case of Banque AGF, those who want to open an account are able to consult the sales staff or tied agents of AGF. After opening their account, customers can consult the traditional distribution channels of AGF about their daily transactions or how to make transactions over the internet or telephone. Therefore, in Banque AGF, customers can make use of not only the direct banking channels such as telephone, fax, and the internet for transactions but also the traditional insurance distribution channels including sales staff, tied agents, and brokers for consultation about daily transactions. This is the reason why this concept is called “multi-relational.” Because of the introduction of this concept, AGF can maintain consistency between banking services and the insurance marketing culture via consultations at tied agents’ offices.

### 3.2.7. (C) Credibility

The traditional distribution channels of AGF can give advice about Banque AGF accounts to visitors who are interested in this bank’s offer. Through this consultation, they can propose other products such as investment-type life insurance. In any case, Banque AGF has given them another opportunity for face-to-face communication with customers. It has helped to develop customer loyalty and to promote credibility and trust among customers. This promotion of credibility and trust is of course reinforced by the brand strategy and various kinds of publicity campaigns.

### 3.2.8. Logic of Banque AGF

The main motive for the new attempt at diversification into banking services by AGF lays in the capture of information concerning the customer’s financial situation. Traditional banks can grasp a customer’s financial situation through their deposit account. Based on this information, bankers can propose investment-type products, mainly life insurance products, which are beneficial in terms of fiscal advantages. These are the products of their life insurance subsidiary. This flow is a main factor

behind the development of bancassurance within life insurance. In contrast, insurance companies do not have such a means of understanding a customer's daily financial situation. All they can do is to directly propose investment-type life insurance products. That is why AGF was interested in offering ordinary deposit accounts to their general insurance policy holders (see Figure 7). However, it is not easy to convince them to change their bank. Therefore, AGF prepared an attractive offer like the "multiservice account" with an initial 5% interest rate.

Given the above analysis, the new service development and innovation through AGF's diversification into the banking business are summarized below.

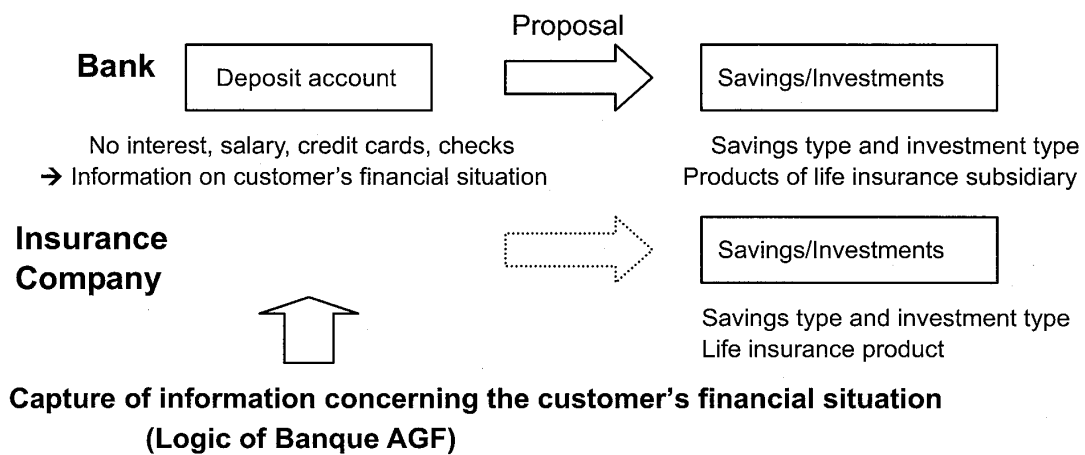


Figure 8: Logic of Banque AGF: Capture of information concerning the financial situation

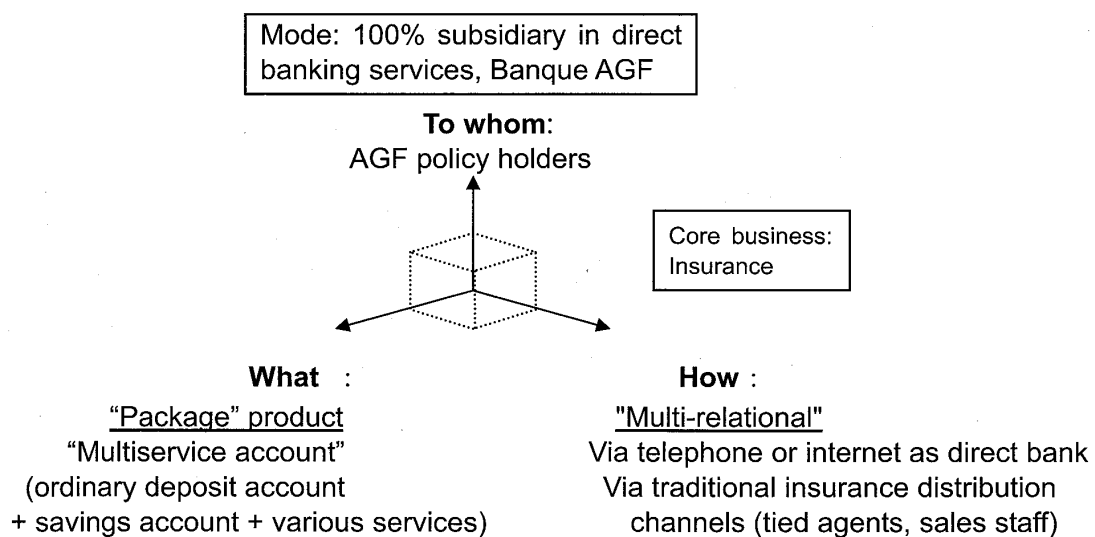


Figure 9: Three axes of diversification into banking services by AGF

Table 5: Key factors of success in diversification into banking services and new service management by AGF

A	Appeal	Innovations such as “multiservice account” and “5% interest rate” appeal through an opening campaign based on media planning and publicity at the point of sale. “My new bank” as a catch phrase.
B	Brand	Renovation of AGF brand six months before the opening of Banque AGF: Adoption of new logo, façade renewal of tied agents’ offices.
C	Concept	Concept of “package offer” with a multiservice account, concept of “multi-relational” with a combination of channels: (1) Direct banking channel (telephone, fax, and internet) for daily transactions, (2) traditional insurance distribution channel (sales staff, tied agents, and brokers) for consultation about transactions.
	Consistency	Consistency with direct banking services using traditional insurance distribution channels as a support for customers.
	Confidence	Feeling of trust and membership among customers, employees, and tied agents with an innovative new service development strategy.
D	Differentiation	Realization of what is lacking in traditional banks’ services. Development of package product “multiservice account” with a 5% interest rate. Clarification of tariffs for each service.
E	Education	Education of sales force on banking services, guidance for tied agents, information diffusion among customers.

## CONCLUSION

From the analysis of new service management and innovation based on diversification, this study has been able to identify their key factors of success as follows: appeal, brand, concept, consistency, credibility, differentiation, and education. In particular, the presence of consistency between the new service and the existing one was shown to be of importance. In contrast, the absence of consistency can be a risk and a factor in the failure of the new service management.

As future directions for research on the subject of this study, and with more precision in methodology, it might be possible to mention the following topics:

Brand management under M&A and diversification movement in the financial services industry.

Consistency between new technology-based financial services and traditional distribution channels.

As a conclusion to this study, the significance of innovation in services based on diversification can be described as follows. When diversifying into new services, it is necessary to differentiate oneself from the traditional players in the target market. Differentiation always accompanies innovation. Newcomers introduce innovative new services. Then, other new entrants and traditional players in the market follow and imitate this innovation. As a result, the innovative new service becomes the standard

in the market.

For example, claims servicing centered on a telephone platform was introduced by the insurance subsidiary of Crédit Agricole and is becoming the standard in the insurance market. The clarification of the cost of each banking service as well as a multi-channel approach was introduced by Banque AGF, the subsidiary of an insurance company, and are becoming the standards in the market.

Therefore, the significance of service innovation based on diversification lies in the promotion of value for consumers in the market as a whole.

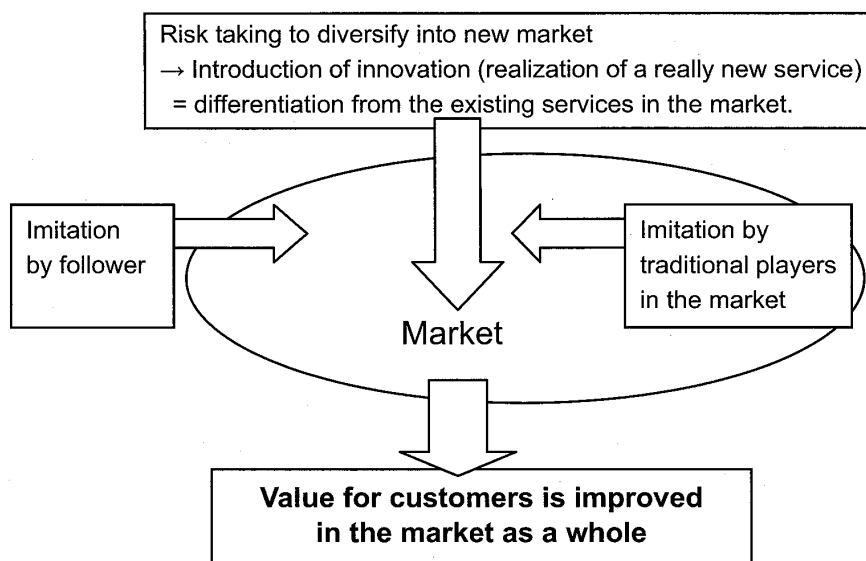


Figure 10: Significance of service innovation based on diversification



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This research was supported by Kansai University's Overseas Research Program for the year of 2005.