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Topic: Implementing Bancassurance for Competitive Advantage

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Objectives

At the end of this course delegate will be able to understand the following:

- You will have good working knowledge of the business model (bancassurance) and the opportunities therein.
- You will know the different partnership arrangements within the model that will best suit your organisation and business environment.
- You would have acquired the requisite knowledge for detail analysis and implementation of the business model to the advantage of your organization.

This course consists of three modules.

Module One - Consists of the introduction, concept of bancassurance, bancassurance across the world, motivation and trend in financial services industry

Module Two – Evolution/Historical development of Bancassurance, Guidelines on Bancassurance products, referral model of Banking and Supervision Department of CBN.

Module Three

Bancassurance as agent of change from bank and insurance perspective and the Bancassurance Business model.

Module Four -

Strategic alliances, Product development and effective remuneration and incentive scheme design

Module Five –

Benefit to all Stakeholders – bank, insurer, customer and government

Module Six

Critical success factor – legal framework, distribution channel, Brand IT etc

Essential Reading:

Pre-reading:

Further Reading:

MODULE ONE

1.1 Introduction

With the liberalization of the insurance sector, the insurance distribution system itself has undergone a major transition. The agency system which dominated traditional insurance distribution is facing stiff competition from the new distribution channels in insurance, such as bancassurance and brokers.

Bancassurance or Bank Insurance Model refers to the distribution of the insurance and related financial products by the Banks whose main business is NOT insurance. So, simply Bancassurance, i.e., banc + assurance, refers to banks selling the insurance products. Bancassurance term first appeared in France in 1980, to define the sale of insurance products through banks' distribution channels.

In 2010, the CBN Regulation on the Scope of Banking Activities and Ancillary Matters No. 3, 2010 was issued to repeal the Universal Banking Model, which hitherto permitted banks to engage in non-core banking financial activities either directly or indirectly through designated subsidiaries.

In the light of developments and the need to ensure synergy in the financial system, the Central Bank of Nigeria (CBN) in exercise of its power under Section 33(1)(b) of the CBN Act 2007 and the provision of Part 2, Section 3, Item (l) of the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 01, 2010 has considered it necessary to issue guidelines on Bancassurance.

The guidelines set out the regulatory framework for the offering of bancassurance products through the non-integrated referral model. The choice of this model is premised on the fact that it does not preclude banks from focusing on their core banking businesses and does not undermine the essence of the CBN's New Banking Model.

OR

Bancassurance - An arrangement in which insurance companies leverage on the customer base of banks to sell insurance products to banks' customers. Bancassurance is Insurance provided by a bank. For example, a bank could offer life insurance in addition to its savings, loans, and investment services. Proponents argue that bancassurance can streamline internal and government regulations. For example, a bank offering a mortgage may require borrowers to buy homeowners insurance; if bancassurance is available, the borrower may require borrowers could purchase a policy directly from the bank without needing to shop around. However, banassurance is somewhat controversial; critics contend that allowing banks to sell insurance gives them too much control over financial services sector. As a result some countries prohibit it.

Bancassurance Across the World

Bancassurance has grown at different places and taken shapes and forms in different countries depending upon demography, economic and legislative prescriptions in that country. It is most successful in Europe, especially in France, from where it started, Italy, Belgium and Luxembourg. The concept of bancassurance is relatively new in the USA. Bancassurance growth is different with different countries.

The Glass-Steagall Act of 1933 prevented the banks of the USA from entering into alliance with different financial services providers, thereby putting a barrier on bancassurance. As a result of this life insurance was primarily sold through individual agents, who focused on wealthier individuals, leading to a majority of the American middle class households being under-insured. With the US Government repealing the Act in 1999, the concept of bancassurance started gaining grounds in the USA also.

Motivation For Bancassurance

The need and subsequent development of bancassurance in India began for the following reasons:

• To improve the channels through which insurance policies are sold/marketed so as to make them reach the hands of common man

• To widen the area of working of banking sector having a network that is spread widely in every part of the nation

• To improve the services of insurance by creating a competitive atmosphere among private insurance companies in the market

1.2 - TREND IN FINANCIAL SERVICES INDUSTRY

Globally, one of the most significant changes in the financial services sector over the past few years has been the appearance and development of bancassurance.

Banking institutions and insurance companies have found bancassurance to be an attractive – and often profitable – complement to their existing activities. The successes demonstrated by various bancassurance operations, although not all of them have been successful, have attracted the attention of the financial services sector, and new operations continue to be set up regularly.

Most developments in bancassurance up to the mid-1990s took place in Europe. However, banks and insurers in other parts of the world, e.g. the USA, Canada, Asia and many countries in Africa have developed bancassurance operations. In doing so, they seek to learn from the experiences of European bancassurers.

In Nigeria, especially during the post universal banking era, banks were constantly looking for ways to supplement their core earnings. Bancassurance, the provision of insurance services excluding risk underwriting by banks, is one way.

Banks also see this as a sure step in the financial markets where one institution serves all the financial needs of its customers. This naturally was a positive development for insurers as they see Bancassurance as a strategic distribution channel that will increase both their premium volume as well as insurance penetration in Nigeria.

As the government seeks to create vibrancy in insurance sector in post universal banking era, the move by Central Bank of Nigeria (CBN) to reconsider bancassurance is a welcome development.

Honestly speaking, it's unthinkable that Nigeria as huge as she is can do without Bancassurance given that global financial impact on insurance penetration and financial inclusion, which it will make with rapid progress in the country with Bancassurance**.**

MODULE TWO

1.3 EVOLUTION OF BANCASSURANCE

In term of marketing perspectives, insurance business is quite different from other types of business like hotel, retail shop or transportation business. Customer goes to shop or in hotel to purchase their required goods and services but merely, customers goes to office of the insurance companies to purchase insurance policies especially life insurance products. Insurer need to visit potential customers and try to convince them. So,insurance companies have a team of insurance agents.

The term bancassurance is a combination of two words „banc‟ and „assurance‟ which refers to banks sellinginsurance products. Bancassurance, also known as „allfinanz‟ describes a package of financial services that can fulfill consumers banking and insurance needs. In fact, financial institutions can offer a combination of both banking and insurance services at the same time. Bancassurance as a way of financial conglomeration has received widespread attention in the world of academics. It offers consumers a "one-stop" option for a larger range of financial product. It is at present used to describe all kinds of relationship between the banking and the insurance industries. Bancassurance‟ refers to banks acting as corporate agents for insurers to distribute insurance products.

Bank and insurance companies both can earn more profit since the banks get their commission for selling the insurance products and in the same way the insurance companies get the wide spread networking of their branches. Bancassurance is a subject of continuing interest to the financial services industry worldwide. Over the years, regulatory barriers between banking and insurance have diminished by creating a climate friendly to bancassurance. A broader "Bancassurance can be described as a strategy adopted by banks or insurance companies aiming to operate the financial services market in a more or less integrated manner. In practice, the term bancassurance‟ is consistently used to describe a new strategic orientation of financial institutions in private customer business”.

Bank mobilizes its staffs to sell the insurance policies since it has large number of customer network. Bank has more capital, more numbers of customers and more staffs than insurance company so that insurance companies can utilize the bank resources to promote insurance products. Attraction towards the Bancassurance is growing. There are several reasons behind the attraction.

First of all long term fund to bank is available from life insurance companies. Insurance premium is the sources of fund. So it is one of the methods to increase deposits of banks. Bank wants to generate additional revenue from the same customers utilizing the same customers through the same channel of distribution and with the same people.

Historical Development of Bancassurance

The first recorded settlement of bancassurance was in 1860, when the CGER savings bank from Belgium started to sell mortgage-linked insurances. Bancassurance as a term first appeared in France in 1980, to define the sale of insurance products through banks “distribution channels.

Bancassurance, a concept first introduced from Germany, was devised as a way for major insurance companies to enhance their efficiency and convenience in selling their products by securing bank sales channels. It was then spread throughout Europe and the United States and it has been a successful model especially in the European countries contributing 35% of premium income in the European life insurance market.

On the other hand, Korea first introduced bancassurance in August 2003 only in the form of saving insurance. Then in August 2007, it was completely open for the whole transaction areas. However, assure bank was allowed due to some considered negative impacts on the finance industry. In Korea, subsidiaries of major companies lead the insurance market, so if assure bank system is introduced, those major companies might encroach on the bank industry through insurance business. However, it has been a controversial issue since it is deemed unfair to the insurance companies; they cannot benefit from assure bank compared with banks benefiting from bancassurance.

It is the arrangement whereby branches of a bank distribute insurance products by insurance company owned wholly or partially by the bank, or the branches distribute products developed by other insurance companies with which the banks have entered into selling arrangement. This form of a complete financial conglomeration has rapidly grown since the 1980s when interest margins on loans decreased steadily and banks started exploring new sources of revenue.

As from the early 1990s, bancassurance has become a major distribution channel in many insurance markets. Europe is the epicenter of bancassurance practices. It has been a successful model in the European countries contributing 35% of premium income in the European life insurance market. It contributes over 65% of the life insurance premium income in Spain, 60% in France, 50% in Belgium and Italy. In the Asian markets, bancassurance has a limited share of the total sales primarily because of the near monopoly of the life agents in Japan, which is the largest life market.

The development of bancassurance is closely related to the regulatory climate of a country, helping to explain differences in its importance across different countries. (Cummins et al.,2006). In some countries, bank insurance is still largely prohibited, but it was recently legalized in countries such as the United States, when the Glass Steagall Act was repealed after the passage of the Gramm-Leach-Bliley Act.

But revenues have been modest and flat in recent years, and most insurance sales in U.S. banks are for mortgage insurance, life insurance or property insurance related to loans. But China recently allowed banks to buy insurers and vice versa, stimulating the bancassurance products and some major global insurers in China have seen the bancassurance product greatly expand sales to individuals across several product lines.

History of bancassurance in Nepal is as old as the Europe. Agriculture Development Bank launched a project"Small Farmers Development Project" (SFDP) since 1970 targeting to uplift small and low income farmers. Most of the farmers used the loan to purchase the cow and buffalo. Insurance against the risk of livestock was provided to farmers since 1987. However, the insurance scheme was initiated by the project implemented by bank but there was no link with insurance companies.
In the literature, Daniel evolution of bancassurance products is divided into three periods.

In the first period, prior to 1980, banks sold insurance guarantees that were a direct extension of their banking activities, but were not associated with life insurance. For example, credit insurance was not regarded as bancassurance.

After 1980, savings products that benefited from advantageous tax regimes associated with life insurance flourished in the banking markets.

Around 1990, the supply of insurance products by banks became much more diversified in both life and general insurance categories.

1.4 GUIDELINES ON BANCASSURANCE PRODUCTS - REFERRAL MODEL BANKING SUPERVISION DEPARTMENT CENTRAL BANK OF NIGERIA

Referral Model - In this model, a bank refers its customers to its partner insurance companies. In return, the bank receives a commission on each lead closed by the insurance company. The bank is not involved in marketing the products.

Bancassurance Agreement – A contract duly executed between a bank and an insurance company to engage in the referral model of bancassurance.

Bancassurance Products – Insurance products which fall under the General and Life insurance business that are sold to banks' customers by the insurance company under a bancassurance referral model agreement. The product is distinct from insurance covers that serve as mitigants for losses against credit and other risks. Commission – Referral fee payable to the bank by the insurance company in line with the provisions of the Bancassurance Agreement.

Prohibited Business

1. Banks shall not engage in any other model of bancassurance other than that permitted under these guidelines and for which approval has been obtained from the CBN.

2. Banks shall not offer banking products that incorporate insurance features.

3. Banks shall not offer free premium payments as a feature of any of their products.

4. Banks shall not provide the bancassurance products in a manner that contravenes these guidelines or any other statutory provision or law that applies to insurance products and services.

Premium Collection

1. The premium paid, may be collected by banks as collecting agents for the insurance companies and paid into the company's account with the bank.

2. Banks shall not share in the premium paid by the insured/policy holder to the insurance company.

Referral Commission

1. Insurance companies shall pay to the banks all agreed commission(s) on consummated transactions as approved by NAICOM.

2. The applicable commission(s) shall be clearly stated in the Bancassurance Agreement.

Claims Handling and Settlement

1. Banks shall not be responsible for claims handling and settlement as these are the responsibilities of the insurance companies.

2. The insurance companies shall be solely responsible for the collection of necessary documents and information related to claims.

Consumer Protection Safeguards

1. The referral shall be based on the need of the customers as assessed by the banks and would be advisory in nature. This shall be made known to the customer.

2. Banks are prohibited from influencing or compelling customers in any way to take up insurance products from insurance companies they have bancassurance referral agreement with.

3. Banks shall not charge their customers service fee, processing fee, administration charge or any other fee for the referral.

4. Banks shall ensure the confidentiality of consumer data and information.

5. Banks shall ensure that the insurance company has in place an appropriate complaints redress mechanism.

Annual disclosure

Banks shall disclose in the notes to the annual financial statements referral commission earned from bancassurance products.

Sanction for Non-Compliance Banks should ensure compliance with these guidelines as any breach of the Guidelines shall attract sanctions in accordance with Section 64(1) of the BOFIA 2004. In addition, the bank may be prohibited from offering bancassurance products.

Bancassurance Arrangement between Banks and Insurance Companies

1. The referral model of bancassurance arrangement between a bank and an insurance company shall not be valid without an executed Bancassurance Agreement.

2. Banks shall not undertake any insurance marketing, underwriting or claim settlement. This must be clearly stated in the Bancassurance Agreement.

3. Banks shall ensure that no risks are transferred to it and shall not assume any fiduciary responsibility or liability for any consequences, financial or otherwise, arising from the subscription to insurance policies by customers.

4. Banks shall conduct a thorough due diligence/periodic assessment for the selection of partner insurance companies, which would be restricted to two insurance companies.

5. Banks shall ensure that only bancassurance products approved by relevant regulatory authority are offered to their customers by the insurance companies.

6 Banks shall not enter into bancassurance agreement with insurance companies who do not hold a valid operational license from National Insurance Commission (NAICOM).

Approval

The offering of bancassurance products by a bank is subject to the CBN's approval. A bank that intends to offer bancassurance products is required to submit the following alongside its application:

1. Extract of Board resolution approving the bancassurance product (approved by NAICOM) and the insurance companies it proposed to partner with.

2. Draft Bancassurance Agreement between the bank and the insurance company, which should at the minimum set out:

a. The bancassurance products to be offered;

b. The duties and responsibilities of each of the parties under the arrangement during and upon termination of the contract;

c. The conditions for the termination of the agreement;

d. Commissions and fees to be charged (as approved by NAICOM and CBN);

e. The duration of the contract and whether it is renewable;

f. Dispute resolution mechanism and measures to safeguard confidential information;

g. Disclaimer that the products shall be underwritten by the insurance company with no recourse to the bank in terms of claims or any legal proceedings between the insurance company and the bank's customer; and

h. Other relevant information.

3. The bank's assessment of risks and mitigants put in place.

4. The product brochure, stating features and benefits of the product.

5. The evidence of "no objection" obtained by the insurance companies from NAICOM.

6. The Referral Agent approval obtained by the bank from NAICOM.

Upon approval, the bank shall forward the signed copy of the bancassurance agreement to the CBN. Banks shall notify the CBN on renewal of the bancassurance agreement. Any amendment to the bancassurance agreement shall be subject to the approval of the CBN. Upon the termination of the contract, the bank shall notify the CBN stating the reason(s) for the termination.

MODULE THREE

1.5- BANCASSURANCE AS AGENT FOR CHANGE – FROM BANK AND INSURANCE PERSPECTIVE

Bancassurance has achieved remarkable success in some markets. In Europe, it is not uncommon to find over half of life insurance business being transacted by banks. For example, in France, Portugal and Spain, banks handle over 60% of life insurance business. Banks and insurers are attracted to the idea of bancassurance for different reasons, which also influence the way their cooperation takes place. The following will briefly summaries the determinants of bancassurance from the perspective of various stakeholders- banks, insurers, consumers and regulators.

Banks

Retail banks earn their income from the spread between the rates they charge on lending and those they pay for deposits. Growing market competition, however, weighing down heavily on banks' interest margins while credit risk is always a headline concern. As a result, banks are increasingly looking to commissions and fees from selling insurance products to supplement their core earnings.

Some banks are eying bancassurance as a step to the formation of financial supermarkets where one institution serves all the financial needs of its customers. A potential benefit is the reduction in the volatility of return on equity due to the lack of synchronization between insurance and banking profitability cycles.

From the perspective of banks, bancassurance is attractive because banks can

− Secure an additional and more stable stream of income through diversification into insurance and reduce their reliance on interest spreads as the major source of income;

− Leverage on their extensive customer bases;

− Sell a whole range of financial services to clients and increase customer retention;

− Reduce risk-based capital requirement for the same level of revenue;

− Work towards the provision of integrated financial services tailored to the life-czcle of customers;

− Access funds that are otherwise kept with life insurers, who sometimes benefit from tax advantages.

Insurers

The benefits to the insurers are equally convincing. The ability to tap into banks' huge customer bases is a major incentive. The extensive customer base possessed by banks is considered to be ideal for the distribution of mass-market products. On the other hand, insurers can make use of the wide reach of bank customers to categorise potential clients in detail according to their needs and values. With increasing sophistication on bancassurance operations, some insurers can focus on the high-net-worth segment, which offers greater potential for wealth management business. Apart from the ability to tap into new customers groups, escaping from the high cost of captive agents is another reason prompting insurers to look into alternative channels. In some cases, teaming up with a strong bank can help to fund new business development and boster public confidence in the insurer.

In a nutshell, insurers are attracted to bancassurance because they can:

− Tap into a huge customer base of banks;

− Reduce their reliance on traditional agents by making use of the various channels owned by banks; − Share services with banks;

− Develop new financial products more efficiently in collaboration with their bank partners;

− Establish market presence rapidly without the need to build up a network of agents;

− Obtain additional capital from banks to improve their solvency and expand business.

There are different organizational structures under which banks can work together with insurers, including distribution agreements, joint ventures or some integrated operations. It is then only logical to presume that different motivations will drive the choice of different organizational models.

1.6 - THE BANCASSURANCE BUSINESS MODEL

Different Approaches of Bancassurance

Entry in to the insurance market by bank is a strategic decision. This is not only influence by the **internal environment**; it is influenced by so many **external factors** like: legal and political environment, technology and global factors. In Nepal, banks are free to sale insurance products as an agent.

Three primary models of bancassurance are in practices. These model may be slightly different from country to country due to cultural, legal and technological influences.

Distribution Agreement

Bank acts as an intermediary for an insurance company. The model is popular in USA, Germany, UK, Japan and South Korea.

Key types, features and modes of operation

(a). Referral Model

Banks intending not to take risk could adopt “referral model” wherein they purely part with their client data base for business lead for commission. The actual transaction with the prospective client in referral model is done by the staff of the insurance company either at the premise of the bank or somewhere else.

Referral model is nothing but a simple arrangement, wherein the bank, while schemeing access to the clients data base, parts with only the business leads to the agents/sales staff of insurance company for a ‘referral fee’ or commission for all business lead that was passed on.In fact a number of banks in Nigeria have already resorted to this approach to begin with.This model would be suitable for almost all types of banks including the Micro Finance banks.There is larger scope in the medium term for this model.For instance, banks begin with resorts to this model and then move on to the other models.

(b). Corporate Agency

The other form of non-risk participatory distribution channel is that of ‘corporate agency’, wherein the bank staff is trained to appraise and sell the products to the customers. Here the bank as an institution acts as corporate agent for the insurance products for a fee/commission. This seems to be more practical and appropriate for most of our deposit money banks as the rate of commission would be reasonably higher than the referral arrangement. This, however, is prone to reputational risk of the marketing bank. There are also realistic difficulties in the form of professional knowledge about the insurance products. Besides, confrontation from staff totally handle new service/product could not be ruled out. This could, however, be overcome by severe training to chosen staff packaged with proper incentives in the banks coupled with selling of simple insurance products in the initial stage. This model is best suitable for majority of banks because there neither there is sharing of risk nor does it involve huge investment in the form of infrastructure and yet could be a good source of income.

This model of bancassurance worked well in the US, because consumers generally prefer to purchase policies through broker banks that offer a wide variety of products from competing insurers (Sigma, 2006).

(c). Insurance as Fully Integrated Financial Service/Joint Venture

Apart from the above two, the fully integrated financial services involves much more inclusive and intricate relationship between insurer and the bank, where the bank functions as entirely collective in its operation and selling of insurance products is just one function within. Where banks will have a counter within sell/market the insurance products as an internal part of its rest of the actions. This includes banks having wholly owned insurance subsidiaries with or without foreign participation.

The great advantage of this approach being that the bank could make use of its full potential to reap the advantage of synergy and therefore the economies of scope. This may be suitable to comparatively larger banks with sound financials and has better infrastructure. International, the fully integrated bancassurance have demonstrated advanced performance (Krishnamurthy, 2003). Even if the banking company forms as a subsidiary company being a holding company, this could be classified under this category, so long as the bank is selling the insurance products alongside the normal banking services.

The foreign insurance company could enter the Nigerian insurance market in the form of joint venture,therefore, this type of bancassurance seems to have emerged out of necessity.

(d). Stand –Alone Insurance Products

In this case bancassurance involves marketing of the insurance products through either referral arrangement or corporate agency without mixing the insurance products with any of the banks' own products/services. Insurance is sold as one more item in the list of products offered to the bank's customer, however, the products of banks and insurance will have their relevant brands e.g Bank A Ltd selling of life insurance products of Sun Insurance or non-life insurance products of General Insurance Company.

The growing global insurance industry has brought new channels of distribution into existence, leading to a new concept called Bancassurance. Nowadays banks have started increasing their business to securities and insurance and other sectors by adding new range of products. Bancassurance, one such concept, has gained recognition in the recent years. The growth of bancassurance depends on how well banks and insurance companies are able to conquer the operational challenges that are frequently thrown at them. Banks aims at a comprehensive Bancassurance Management with Core Banking platform ie; ease of premium payments using Auto Debit Cards, Net Banking, collection agencies

MODULE FOUR

2.0 IMPLEMENTING BANCASSURANCE (THE PROCESS)

Strategic alliances, Product development and effective remuneration and incentive scheme design

2.1 Strategic Alliance

The Bancassurance alliances should be taken up at the top management level. Such strategic actions require the senior management support not only during the decision stage but also at the time of implementation. Their active participation in the process is very much necessary for the success of such initiatives. The employee base that would be interacting with the insurance customers should also be properly trained in order to equip themselves with the skills required in selling insurance products. The bank employees would not be aware of these selling skills if proper training is not given.

Bancassurance and pension sector: Pension sector is already deregulated. in Nigeria. What are the expectation?

Once this sector is deregulated, banks would get the dual benefits of managing these huge pension funds and the opportunity to sell mainly health insurance products to these pension sector customers. Low cost of collecting pension contributions is the key element in the success of developing the pension sector. Money transfer costs in Nigeria banking are low by international standards. Portability of pension accounts is a vital requirement which banks can fulfill in a credible framework.

Focus on Group insurance schemes: Considering the behavior of the Nigeria customers, group insurance is the way to go about. As joint accounts or individual accounts of families are very prominent, we will have to sell these insurance products to these members of the family as a group.

HR issues: Human Resource Management has experienced some difficulty due to such alliances in financial industry. Poaching for employees, increased workload, additional training, maintaining the motivation level are some issues that has cropped up quite occasionally. So, before entering into a Bancassurance alliance, just like any merger, cultural due diligence should be done and human resource issues should be adequately prioritized. Public and private divide:

Private sector insurance firms are finding ‘change management’ in the public sector a major challenge.

2.2 Effective Remuneration and Incentive Scheme Design

If Bancassurance was termed as marriage between banks and insurance, then the probability of divorces can’t be ruled out. Critics opine that Bancassurance is a controversial idea, and it gives banks too great a control over the financial industry. The challenge to sustain such alliances could be immensely daunting. The difference in regulation, not only across countries but between banks and insurance industry as well has been cited as the primary reason. The difference in trade customs, work culture in these industries is another impediment. Sales front: Bank employees are traditionally low on motivation. Lack of sales culture itself is bigger roadblock than the lack of sales skills in the employees.

Although such concrete numbers are not available industry-wide, there is general consensus that bancassurance is indeed bringing in customers of higher value. Why Banks are highly motivated to Enter in Insurance Business Now: Why banks have an incentive to promote Bancassurance in Nigeria?

(1) Overstaffing problem can mitigated without resorting to drastic and politically unacceptable solutions like large scale firing. (2) Banks seek to retain customer loyalty by offering them an expanded and more sophisticated range of products (than simple bank deposits of few varieties). (3) Insurance distribution will increase the fee-based earnings of banks. (4) Fee-based selling helps to enhance the levels of staff productivity in banks. This is a key driver for raising motivation among bank workers. Banks have some in-built advantages in some of these areas. (a) Banks can put their energies into the small-commission customers that

2.3 Product Development

Banks, in particular, stride into several new areas and offer innovative products, viz., merchant banking, lease and term finance, capital market / equity market related activities, hire purchase, real estate finance and so on. Thus, present-day banks have become far more diversified than ever before. Therefore, their entering into insurance business is only a natural corollary and is fully justified too as ‘Insurance’ is another financial product required by the bank customers. To streamline the saving into insurance, bancassurance is the best channel to tackle four challenges facing the industry: Product innovation, distribution, customer service and investments.

For banks, bancassurance would mean a major gain. Since interest rates have been falling and profit on off take of credit has been low all banks have been able to do is sustain them but not profit much. Enter bancassurance and fee based income through hawking of risk products would be guaranteed. Unique strategies: Before taking the plunge, banks as also insurers need to work hard on chalking out strategies to sell risk products through this channel especially in an emerging market as ours. Through tie-ups some insurers plan to buy shelf space in banks and sell insurance to those who volunteer to purchase them. But unless banks set up a trained task force that will focus on hard-selling risk products, making much headway is difficult especially with a financial product that is not so easily bought over the counter. Identifying Target audience: Besides, identifying the target audience is yet another important aspect. Banks have a large depositor base of corporate as well as retail clients they can tap. Talking of retail clients the lower end and middle-income group customers constitute a major chunk who have over a period of time built a good rapport with the bank staff and thus hold big potential for bancassurance. - Reduced costs

Bancassurance is a longstanding dream of offering a seamless service of banking, life & non-life products. Nigerua being the one of the most populous black country in the world with a huge potential for insurance companies, has an envious chain of bank branches as the lifeline of its financial system. Banks with over 4,800 branches & 65% of household investments are the backbone of the Nigeria financial market. Clearly, that's something insurance companies - both private and state-owned - would find nearly impossible to achieve on their own. Considering it as a channel for insurance gives insurance an unlimited exposure to Indian consumers. Banks have expertise on the financial needs, saving patterns and life stages of the customers they serve.

Banks also have much lower distribution costs than insurance companies and thus are the Bancassurance and as the fastest emerging distribution channel. For insurers, tying up with banks provides extensive geographical spread and countrywide customer access; it is the logical route for insurers to take.

A SWOT Analysis in Nigeria , as elsewhere, banks are seeing margins decline sharply in their core lending business. Consequently, banks are looking at other avenues, including the sale of insurance products, to augment their income. The sale of insurance products can earn banks very significant commissions (particularly for regular premium products). In addition, one of the major strategic gains from implementing Bancassurance successfully is the development of a sales culture within the bank. This can be used by the bank to promote traditional banking products and other financial services as well.

Strengths

• Huge number of people without life insurance

• Millions of people traveling in and out of Nigera.

- for Overseas Mediclaim and Travel Insurance policies

• million households waiting for householder’s insurance

• Good range of products from LIC/GIC

• Good amount of R&D into insurance Weaknesses

• Not much IT initiative from leading insurance players (LIC and GIC)

• Higher tax nets for the middle class • No Tax exemptions for products like householder, travel policies etc

• Inflexibility of the products

• Bank's database can help insurance companies devise policies

• Better IT infrastructure from the bank's side can help integrating

• Risks in integrating approach, thinking and work culture

• Non-response from target customers because banks are considered as insurance company agents by the customers

• Investors might

Banking does not have the same stigma that (life) insurance carries. This factor will diminish in importance over time as people become more educated.

(2) Banks can offer fee-based income for insurance sales. This can be attractive under current rigid structure of wage benefits.

At present, banks are prohibited from offering commission to the bank employees for selling insurance products. Banks have found ways to circumvent the problem. For example, they offer "car allowance" for the employees selling insurance.

(3) Narrowing bank margins are another key driver.

(4) Banks have complementary products with insurance products such as the auto insurance, home insurance or annuities.

(5) When the pension reform is undertaken (and it is in the works), banks can become natural institutional vehicles for private pension products. In some countries, banks are explicitly prohibited from selling pension products (e.g., Australia). In some other countries, banks are the leading private pension providers (e.g., Mexico).

(6) Healthcare insurance sector can also benefit from Bancassurance. In India, only about 40% million people have access to healthcare facilities.

MODULE FIVE

BENEFITS OF BANCASSURANCE TO BANKS AND INSURANCE COMPANIES

Introduction

Banks have been providing services to their customers directly and they have up to date information of their clients so the relationship between banker and customers is quite closer than the relationship between policy holders and insurers.

Credit provided by the bank is associated many kinds of risks among themdefault risk is one of the major risk. The default risk can be insured. To get protection from the default risk, banks themselves establish long term strategic alliance with insurance companies and do necessary pro cedure to issue credit insurance policy. Both bank and insurance company have been experiencin g the positive impact from bancassurance practices.

The distribution of insurance products through a bank's distribution channel brings diversification advantages, non-interest related income. Both insurers and banks are financial intermediaries that pool savings of individuals to channel these funds to the capital markets. The advantages to banks, insurance and customer can be summarized as follows:

2.4 Benefits to Insurance

(a) The insurance company hopes to attract further business, from both existing and new policyholders, because of the fact that it can offer a wider range of services than before, i.e. it can give its customers access to banking as well as to insurance services. It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank.

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

(c).The insurance company often benefits from the trust worthy image and reliability that people are more likely to attribute to banks;

(d). An insurance company can establish itself more quickly in a new market, using a local Bank's existing network.

(e).Leverage on bank customer relationship, higher "hit rate' and therefore lower acquisition cost

(f). Can get better Value Products, save time while the get all financial services through single window or one stop shop.

2.5 Benefits to Customers

(a). It encourages customers of banks to purchase insurance policies and further helps in building better relationship with the bank.

(b). The people who are unaware of and/or are not in reach of insurance policies can be benefitted through widely distributed banking networks and better marketing channels of banks.

(c). Increase in number of providers means increase in competition and hence people can expect better premium rates and better services from bancassurance as compared to traditional insurance companies.

(d). Unlike with banks and insurers, where benefits of bancassurance will have to be weighted against business risk, the positive impacts on consumers are unequivocal. Part of the lowering of distribution costs will be passed on to clients in the form of lower premium rates.

(e).In addition, it is likely that new products will be developed to better suit client needs, which otherwise may not be available if banks and insurers worked independently. Examples are overdraft insurance, depositors' insurance and other insurance covers sold in conjunction with existing bank services.

(f). The convenience offered by bancassurance should also increase customer satisfaction, for instance, when it is possible to pay premium as well as to withdraw and repay cash loans backed by life insurance policies through bank's ATM s.

Just as important, is more than often a strategic step of financial service providers to shift from being product-oriented and to focus on distribution and customer relations.

2.6 Benefits to Banks

(a). Can earn more profit by selling new products from the existing strong organisation's resources and structure.

(b). The broadening of its product range makes the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty will be increases.

(c). One-stop shop model optimizes the use of the network and increases the profitability of the existing branch network.

(d). Increases the fee Income, strengthen long term client relationship and competitive pressures

(e). Can reach to more customers through banking network.

(f). Varieties of products reduce the risk and increase the opportunities

2.7 Demerits of bancassurance:-

• Data management of an individual customer's identity and contact details may result in the insurance company utilizing the details to market their products, thus compromising on data security.

• There is a possibility of conflict of interest between the other products of bank and insurance policies (like money back policy). This could confuse the customer regarding where he has to invest.

• Better approach and services provided by banks to customer is a hope rather than a fact. This is because many banks in India are known for their bad cusomer service and this fact turns worse when they are responsible to sell insurance products. Work nature to market insurance products require submissive attitude, which is a point that has to be worked on by many.

2.8 Regulators

Bancassurance poses major challenges to regulators. The ability of financial institutions to diversify into others sectors should help to lower the level of latent systemic risk. Banks will benefit from lower income volatility while insurers could potentially obtain additional capital to bolster their solvency level

MODULE SIX

CRITICAL SUCCESS FACTOR

2.9 LEGAL FRAME WORK

In 2010, the CBN Regulation on the Scope of Banking Activities and Ancillary Matters No. 3, 2010 was issued to repeal the Universal Banking Model, which hitherto permitted banks to engage in non-core banking financial activities either directly or indirectly through designated subsidiaries.

In the light of developments and the need to ensure synergy in the financial system, the Central Bank of Nigeria (CBN) in exercise of its power under Section 33(1)(b) of the CBN Act 2007 and the provision of Part 2, Section 3, Item (l) of the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 01, 2010 has considered it necessary to issue these guidelines on Bancassurance.

The guidelines set out the regulatory framework for the offering of bancassurance products through the non-integrated referral model. The choice of this model is premised on the fact that it does not preclude banks from focusing on their core banking businesses and does not undermine the essence of the CBN's New Banking Model.

2.10 DISTRIBUTION CHANNEL

The insurance products, by and large, have been dispensed mainly through the following traditional major channels: (1) Development officers, (2) Individual agents and (3) Direct sales staff. (4) Bancassurance (5) Corporate agent (6) Agency Office (7) Brokerage firms

The intermediaries in the insurance business and the distribution channels used by carriers will perhaps be the strongest drivers of growth in this sector.

Multi channel distribution and marketing of insurance products will be the smart strategy of continue to play an important role in distribution, alternative channels like corporate agents brokers and bancassurance will play a greater role in distribution.
The time has come for the industry to gradually move from traditional individual agents towards new distribution channels with a paradigm shift in creating awareness and not just selling products. The game is old but the rules are new and still developing.

Bancassurance is the selling of insurance and banking products through the same channel, most commonly through bank branches. Selling insurance means distribution of insurance and other financial products through banks. Bancassurance concept originated in France and soon became a success story even in other countries of Europe.In Nigeria a number of insurers have already tied up with banks and some have already flagged off bancassuance through select products.

Bancassurance has become significant. Banks are now major distributions channel for insurers and insurance sales a significant source of profits for banks. The latter partly being because banks can often sell insurance at better prices (i.e higher premiums) than many other channels, and they have low costs as they use the infrastructure (branches and systems) that they use for banking

Bancassurance primarily rests on the relationship the customer has developed over a period of time with the bank. And pushing risk product banks is a much more cost-effective affair for an insurance company compared to the agent route, while, for banks, considering the falling interest rates, fee based income coming in at a minimum cost is more than welcome.

2.11. Advantages of Bancassurance

The following factors have mainly led to success of bancassurance:

(i) The pressure on banks' outlay. Bancassurance offers another area of profitability to banks with little or no capital outlay. A small capital outlay in turns means a high return on equity.

(ii) A desire to provide one-stop customer service. Today, convenience is a major issue in managing a person's day to day activities, which is able to market insurance products, has a competitive edge over its competitors. It can provide complete financial planning services to its customers under one roof.

(iii). Opportunities for sophisticated product offerings.

(iv). Opportunities for greater customer lifecycle management

(v) . Diversify and grow revenue by tapping another area of profitability

(vi). The realization that insurance is a necessary consumer need. Banks can use their large base of existing customers to sell insurance products.

(vii) Banks aims to increase percentage of non-interest fee income

(viii) Cost effective use of premise.

2.12 Marketing/Distribution Channel of Bancassurance Products and Policy Documents

1. Banks shall only refer their customers to insurance companies. Thus, marketing of the insurance products shall be done by the staff of the insurance companies.

2. The referral document shall contain a disclaimer that the products shall be underwritten by the insurance company with no recourse to the bank in terms of claims or any legal proceedings between the insurance company and the bank's customer.

3. The insurance products to be sold shall be strictly the products of the insurance company.

4. The bank's name or logo shall not appear in any of the policy documents.

5. The Insurance marketers may be allowed to occupy a space in the banking hall.

6. Banks shall maintain adequate records of all transactions which will be reviewed during supervisory activities.

Premium Collection

1. The premium paid, may be collected by banks as collecting agents for the insurance companies and paid into the company's account with the bank.

2. Banks shall not share in the premium paid by the insured/policy holder to the insurance com

Claims Handling and Settlement

1. Banks shall not be responsible for claims handling and settlement as these are the responsibilities of the insurance companies.

2. The insurance companies shall be solely responsible for the collection of necessary documents and information related to claims.

2.13 CUSTOMER BEHAVIOUR

Behavioural pattern of customers to ban assurance varies according to his income

2.14 BRAND AND IT

Bancassurance as a Strategic Management Tool is to have a customer overview and, thus, a common database designed along customer, rather than product, lines. The future trends point towards the banks grappling with the task of bringing together the businesses of banking and insurance.

What will be crucial is the handling of the most important component the customer. As customers become more aware, demanding and sophisticated, with fast-changing lifestyles, they want greater convenience in financial services. The emergence of remote distribution channels, such as PC-banking and Internet-banking, was a response to just such a demand for quick service.

Increasing sales of non-life products, to the extent those risks are retained by the banks, require sophisticated products and risk management. The sale of non-life products should be weighed against the higher cost of servicing those policies. Banks will have to be prepared for possible disruptions to client relations arising from more frequent non-life insurance claims.

Bancassurance to Banc-sec-urance : A step towards Universal Banking Securities business seems an automatic extension to bank and insurance. This integration will be a step further towards universal banking and would leverage the efficiencies developed by alliance of banks and insurance companies. It will be for customers who want to get a one-stop shop for all financial products. So the banks should transform themselves to a wholesome entity.

This has to be integrated with the internet banking and other IT infrastructure, for e.g. customers should be able to pay insurance premium, margin money on security transaction via the Net-banking facility and the ATM network. a. Involvement of Co-operative banks:

2.15 Key success factors for bancassurance

	Developed markets	Nigeria

Commitment of banks to insurance	Developed	Developing
Large markets for investment-related		
Insurance	Developed	X
Large consumer lending market	Developed	Developing
Tight and cultivated bancassurance partnerships	Developed	Developing
Staff training	Developed	Underdeveloped
Tailor made products for the bank	Developed	Underdeveloped

ECOBANK

Ecobank Ghana Limited has ventured into the bancassurance business through a partnership with Africa's number one insurance company, Old Mutual Life Assurance Company (Ghana) Limited.

The partnership makes it possible for the Ghana unit of Old Mutual, a South African-based insurer, to sell its life assurance products to the Ghanaian public through the 78 branches of Ecobank, where the banking needs of over 800,000 customers are served on a daily basis.

The union between the two institutions was unveiled in Accra last Friday, bringing to an end six months of negotiations between the bank and the insurer to iron out the nitty-gritties of the agreement.

The Executive Director of Domestic Banking at Ecobank Ghana, Mr George Mensah Asante, said the partnership formed part of Ecobank's aim of becoming a one-stop shop for financial sector solutions in the country.

As a bank with a wider network nationwide, Mr Asante said Ecobank realised that it could leverage that platform to provide its customers with an added service in the form of bancassurance, a product that was fast gaining currency in the country.

He explained that the choice of Old Mutual over other insurance companies was informed by the similarities in the values and visions that the two institutions upheld.

"In things like this, you do not just partner with anybody. So we looked around and found Old Mutual, which is an African giant, a global name and well respected to bring insurance to the door-steps of Ecobank customers," he said after the launch in Accra.

Ultimately, Mr Asante said the bank would also be using the partnership to contribute its quota to the growth of insurance penetration in the country.

“We think that this is our contribution to the development of insurance penetration in the country. Because of our network and position as the biggest bank in Ghana, we realised that if we begin to sell insurance, then we can get many people to buy insurance and that goes beyond the revenues we will make and things like that,” he said.

“Our venture into the bancassurance business is not only the fact that it is lucrative. We are looking at helping to improve insurance penetration in Ghana,” he added.

2.16 CONCLUSION

The size of the country with a diverse set of people, combined with problems of lack of insurance education, particularly in rural areas, makes insurance penetration in Nigeria a very difficult task. Life insurance companies require good distribution strength, mobile communication-driven technology and tremendous manpower to reach out to such a huge customer base. While the government through the CBN is favourable to market expansion by allowing bancassurance to drive financial inclusion and increase insurance penetration, the market players should adhere to self-regulated market discipline.

Banks need to exercise due care as they bring a customer database, leverage their name, recognition and reputation for both local and international level transactions. Even at that, the proper implementation of bancassurance will still face many hurdles because of poor manpower management, lack of effective and efficient call centres, non-personal contact with customers, inadequate or non-availability of incentives to agents, and non-fulfilment of other essential requirements.

Finally, we can say that the success of bancassurance in Nigeria will mostly depend on a proper understanding between insurers and bankers, how they are capturing the opportunity, and how much better service they are providing to their customers. I believe that once the CBN and NAICOM jointly come out with the guidelines on bancassurance operations model and the players abide by the rules, bancassurance will succeed in Nigeria.

1.27 FINANCIAL SUPERMARKET

A financial supermarket is an organization is an organization, which provides various financial services under the same roof.

Features

i. Adoption of modern information technology**.**

ii. Provision of personal services e.g. home banking

iii. Extension of banking hour's e.g. weekend banking

i. Encouragement of cashless society
ii. Globalization financial services

Services Provided

Among the services a financial supermarket provide are:

Stockbroking; executorships/trust; tax advice; provision of cards; travel advice; hire purchase; equipment leasing; financial advice; estate management; factoring and invoice discounting e.t.c

Merits

i. It contributes to bank's dynamism.
ii. Customer's needs, which become more diverse by day, are met under the same roof.
iii. Customer's financial services receive greater satisfaction.
iv. Banks have more volume of business and there are improved returns on investor's capital
v. Increase in activities of bank may increase employment.
vi. The use of modern technology is enhanced
vii. Competitive strength of non-bank competitors, e.g. insurance company is weakened.

Demerits

i. Disharmony between bankers and other professional who will see the banks as snatching away their business.
ii. Use of modern technology will cause machine to take up some of the jobs performed by men thus leading to unemployment.
iii. Bank's resources are overstretched and may lead to frequent recapitalization.
iv. Operational control capacity becomes overstretched.
v. Customers may suffer from disadvantages of lack of specialization by banks.
vi. There will be difficulty in reaching potential customers due to lack of network of branches.