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Insurance – The Banker's Perspective

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Bancassurance, at first sight, has various, even controversial aspects: The concept covers the strategic positioning or the share-holding structure between a bank and an insurance company. On the other side – for insurance companies in particular – bancassurance often indicates nothing else then an additional sales and distribution channel.

The aim of this article is to outline these different approaches. In addition, different insurance products, which are sold successfully in different markets, are discussed.

Strategic approach

Various banks run their own insurance company, or in some particular cases even launch(ed) a new insurance operation (very often a life insurance company). On the contrary, the opposite is usual as well, that is an insurance company holding or buying shares in a bank. Cross-shareholding - that is a bank holding an insurance company and the insurance company having shares in the bank vice versa at the same time, is a possible and common situation as well.

However, any co-operations between a bank and an insurance company have one central target in common: to create added value and revenues by expanding the opportunities to (cross-)sell products. For this purpose, an underlying shareholding structure is certainly not a precondition at all, but only facilitating additional sales initiatives and products on an expanded platform. Various banks and insurance companies thus co-operate via a co-operational agreement, or via a simple commission agreement.

Tailored Products

Clients are used to enter a bank for a banking product. This may be a usual current account with an overdraft facility, a credit card or a simple unsecured loan. In this situation, it is of course quite natural to offer the client an additional insurance product to make him feel protected in case he cannot afford the repayments: in case of unemployment or in case he meets with an accident for example. To protect his family – if he dies – will be a very natural client's wish as well. In general, to cross-sell such an easy insurance cover is not a big deal in this given situation, as the correspondent prices are comparably small and the client has some obvious benefits. The insurer has sold a policy with a certain margin, and the bank's benefit is additional commission income, which may be a significant contribution to the entire income.

To cross-sell an insurance policy to a mortgage loan is not as easy in general, because the client will judge his expenditures very thorough. Given his total expenditures, he probably will try to take out a higher loan by reducing his insurance premiums, which will impacts both, the insurer's and bank's margins. On the other hand it is possible to cross-sell even a non-life policy, for example a simple household insurance.

In another typical situation, the client does not ask the bank for money, but he intends to save, or to invest his savings. For tax reasons, for reasons to save money for the retirement and others, the bank needs to have insurance products in the financial product offer. Again, the bank's benefit is commission income, the insurance company has a new policy/ a new client to further cross-sell, and the client has chosen an investment or saving product with additional financial features.

Success across Europe

Bancassurance is not equally successful along European Countries. In Western European Countries, as in Spain, France, Portugal, Belgium and Italy for example, significantly more than 50 % of all new life policies are sold via banks. In Germany, UK and most Central and Eastern European Countries (CEE) on the contrary, only a minority of life policies is sold via banks. For non-life policies, however, the bank usually is not an appropriate distribution channel.

We believe that banks as distribution channels for life insurance products will be increasingly important in near future in a lot of countries. In CEE countries in particular, it is still time to develop this distribution channel. Together with the significantly growing insurance penetration and insurance density in general, it is necessary to be positioned in time. ✕

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