At the crossroads

Banks and insurers – whether conventional or Islamic – are at the crossroads as they will need to improve their products and services to meet the needs of their markets in order to succeed, says **Mr Tamer Saher** of **RGA Reinsurance Company Middle East** in his overview of bancatakaful and bancassurance trends.

The GCC countries are still considered underpenetrated for life and living benefits insurance, which currently account for less than 15% of premium. However, given that life premium accounted for 58% of the world market's total premium in 2010, there is clearly room for growth.

And as banks are now a principal distribution channel for life and living benefits insurance in GCC countries, bancassurance (including bancatakaful) will most likely have the most sales growth potential for these products in the coming years.

Bancassurance has come a long way since its start in the late 1990s. Growth was steady for several years, but the 2008 financial crisis created several unexpected challenges.

The slowdown of the economy and of local property markets capped GCC banks' appetite and ability to advertise and sell conventional banking products such as loans or financing facilities. Banks sought to compensate for that drop in revenues by redirecting their sales forces to sell insurance products. The success of that strategy showed banks how important bancassurance is as a valuable income stream and as a way to strengthen existing customer relations.

As the region's economy has rebounded and strengthened, bancassurance has continued to grow. By 2010, around 40% of new life premium in certain GCC countries came from bancassurance, and in 2011, it had become acknowledged as a strong driver of growth in life insurance and living benefits sales.

Market structure

In the GCC, bancassurance follows one of three models:

- Bank and insurer form a joint venture with dual ownership, where the life insurer develops the product with the bank's input, and both participate in selling it;
- Pure distribution agreement, where the bank acts only as an intermediary selling the insurer's products; and finally
- Full integration, where the bank establishes an insurance company with full ownership.

The nature of the GCC's expatriate population segment also has a strong impact that sets the region apart from other life insurance markets. GCC countries have high percentages of expatriates in their populations – in some, up to 80%. While actively employed in the region, these individuals need targeted products that will enable them build long-term savings, secure protection for themselves and their families, and provide retirement solutions as well.

Finally, as none of the GCC countries have income or estate tax regimes, tax planning needs do not exist. In addition, the region's wealthy segment has more than sufficient assets to self-insure, and so are not likely to purchase life and living benefits products.

Evolving regulations

In the GCC, regulations governing insurance and takaful distribution through banks vary from country to country.

In Bahrain, banks cannot partner with more than one life and one non-life insurance company. In Saudi Arabia, regulations require banks to have an agency distribution

agreement with the insurance company covering also the group credit schemes, and Kuwait's Central Bank does not permit banks to impose compulsory group credit life schemes unless the bank pays 50% of the cost.

In recent years, several countries have also introduced their first bancassurance rules. In 2010, Oman's Capital Market Authority – the country's financial regulatory body – issued directives that permit Oman-licensed banks to sell life, endowment and medical plans, as well as household and motor insurance. Bancassurance regulation came to the UAE in 2011, when its Insurance Authority issued a circular setting out guiding rules for bancassurance by insurance and takaful companies.

And in Qatar, the local insurance authority asked all national companies in January 2013 to submit their current distribution agreements with the banks within six months. New bancassurance regulations are expected to be announced in the second half of 2013.

Increasingly popular products

Banks in the GCC currently sell a broad range of individual life insurance products, from traditional products such as variable universal life, unit-linked, level term, decreasing term and personal accident to family takaful plans. Group credit life also continues to be a strong business line, with good volumes.

A product gaining in importance in the GCC is individual involuntary loss of employment (ILOE) insurance, sold as an additional benefit. ILOE has been available as supplemental coverage for group credit life schemes, but now products meant for individuals are being created and sold. As none of the countries in this region have any form of government-sponsored unemployment insurance, this product is becoming increasingly necessary, and more widely sold.

Takaful products have a distribution edge over conventional ones, as conventional banks can sell family takaful products in the pure distribution agreement model, but Islamic banks cannot sell conventional insurance products.

Family takaful products are also fuelling bancassurance growth in the region. The popularity of takaful is linked to that of Shariah-compliant products becoming increasingly popular within non-Muslim markets. Takaful products have a distribution edge over conventional ones, as conventional banks can sell family takaful products in the pure distribution agreement model, but Islamic banks cannot sell conventional insurance products.

The strongest selling family takaful product is a Shariah-compliant unit-linked savings plan. The structure of the product and the underwriting are quite similar to traditional unit-linked products. However, the supporting investment portfolio is strictly Shariah-compliant, and the business model is the takaful model. Starting in 2012, demand has increased for pure protection family takaful plans to a remarkable degree; that increase has continued into 2013, and shows no signs of stopping.

Current trends

Bancassurers in the GCC are currently implementing strategic shifts in their sales and marketing strategies. Until recently, these banks sold life insurance primarily through customer relationship officers. These officers also sold the full range of banking products, and bancassurance was part of their sales goals.

Several banks, both Islamic and conventional, have recently begun to invest more in their life insurance sales efforts by hiring and training insurance-dedicated sales specialists. The banks anticipate completing this sales force shift by end-2014. This shift is fuelling substantial competition for bancassurance sales specialists, driving banks to charge higher distribution fees to their insurance providers.

Takaful catching up

The past decade's emergence and development of bancatakaful – the distribution of takaful products through Islamic and traditional banks – as an important, growing sales channel is continuing to strengthen. In the mid-2000s, many new takaful providers were launched in the GCC. The UAE only had three providers and now it has eight; in Kuwait, more than half a dozen new takaful providers were launched between 2004 and 2009.

This trend is in part due to takaful's increasing popularity among non-Muslims, which stems from the continuing development of Islamic finance. By 2007, non-Muslim clients in some Islamic institutions reached around 55% because of the product offerings, which effectively match market needs, and at the same time provide competitive profit-rates and ease of process. Takaful products are also becoming competitive with conventional insurance products, for similar reasons, and that market will clearly grow as well.

At this point, banks and insurers, whether conventional or Islamic, are at the crossroads: they will need to improve their products and supporting services in order to provide what their target markets will need. Banks need to put together long-term strategic plans for their bancassurance futures, which should incorporate strategic partnerships with insurers to help them improve their penetration by utilising technology, developing product offerings targeted for the needs of specific market segments, maintain persistency and sustain client loyalty.

Room for development

Bancassurance in the GCC, though growing fast, still has a great deal of room for development. Many multinational banks, national banks, insurers and reinsurers are active in the market, and their increasing presence is seeding innovative ideas from around the globe for product, underwriting and operational optimisation that will positively impact the region's bancassurance market's development.

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