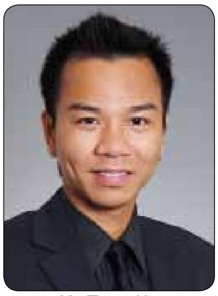
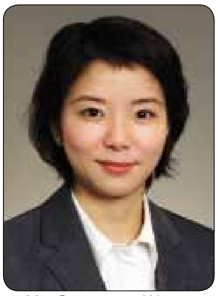
Bridging the cultural divide

When it comes to bancassurance, perhaps the greatest challenge to increasing market share and penetration rates is discovering how to bridge the cultural divide between banks and insurers. An RGA team of bancassurance experts – **Mr Tony Ho**, Chief Marketing Actuary, RGA Reinsurance Co Hong Kong Branch Office, **Ms Carmony Wong**, Chief Underwriter and Head of Claims, RGA Reinsurance Co Hong Kong Branch Office, and **Mr Andre Dreyer**, Director, Market Development, RGA International Corp – examine how opening up the lines of communication between banks and insurers can create a more efficient and profitable distribution channel.



Mr Tony Ho



Ms Carmony Wong

Mr Andre Dreyer

France first introduced the concept of bancassurance in the early 1970s and Spain followed suit with its own version of bancassurance a decade later.

Around the world, bancassurance was viewed as an interesting and promising "alternative distribution channel" and the concept slowly picked up steam in other markets worldwide. Today, bancassurance is considered a mainstream business for many banks and insurers and it has become the dominant channel for life insurance sales in many countries.

Varied success across the world

However, bancassurance success varies considerably worldwide depending on a country's demographics, economics, regulatory environment and distribution models, as well as consumer behaviour and culture.

Europe enjoys the highest bancassurance market share, particularly in Spain, Portugal, France and Italy, while the UK and Germany have opted for more traditional networks. In the US, bancassurance market share remains low, primarily because of regulatory restrictions.

Bancassurance is attractive to banks because it can be a profitable way to increase fee-based income. It also enables banks to enhance relationships with its clients by creating a one-stop shopping experience by offering a full range of banking, insurance, pension and investment products. For insurers, bancassurance opens the door to a new source of clients who were previously inaccessible through existing channels.

Bancassurance in Asia

In Asia, bancassurance is still relatively new, but several countries such as Malaysia, Hong Kong, Indonesia and Singapore have actively engaged in bancassurance for a number of years, while Korea, China, India and Japan have only recently entered the bancassurance market due to bancassurance deregulation in those countries.

According to LIMRA, bancassurance market share in Asia varies from a high of approximately 49% in Malaysia in 2007 to just 10% in India in 2008, although it is expected to grow rapidly in India given the country's 70,000 bank branches and a quickly growing middle class. Hong Kong's bancassurance market share was around 45% in 2009 and South Korea's was 31% in 2006.

In China, bancassurance accounted for about 48% of total life premiums in 2008, according to the China Banking Regulatory Committee. It, too, is an emerging bancassurance market with China's vast banking networks and high savings deposit rates, combined with the country's low penetration rate of insured individuals.

Bancassurance models

Bancassurance models generally fall into four common models: pure distributor (bank acts as an intermediary offering products from more than one insurance company); strategic alliance (bank sells the products of only one insurance company); financial holding company (holding company owns both the insurer and the bank); and joint venture (bank and insurer establish a jointly owned insurance company or distributor, creating a new entity).

According to a 2008 LIMRA report, "Study of Bancassurance Operations in Asia," most Asian companies prefer the pure distributor model and participating insurers work with an average of 33 banking organisations to sell their products. China is one example of an Asian country that has adopted a "many-to-many" bancassurance model where many insurers offer products through many banks. However, numerous experts believe that model is not sustainable because insurers have no incentive to offer innovative products and services, and instead compete aggressively against each other on price.

Most industry leaders agree banks that develop an exclusive partnership or strategic alliance with just one insurer tend to be the most successful because both parties are invested and committed to each other's success. In addition, with an exclusive partnership, there is likely to be increased efficiency and greater flexibility in making decisions about products, distribution, advertising and other operational issues.

Bridging the cultural divide

Regardless of which models are implemented, success depends on how well banks and insurers are integrated given their cultural differences in selling and remuneration. This presents perhaps the greatest challenge to increasing market share and penetration rates – how to bridge the cultural divide between banks and insurers. A world leader in life reinsurance, RGA has invested in several bancassurance research studies to better understand what the cultural differences are to help banks and insurers bridge the gaps.

RGA engaged C F Effron Company, LLC, to conduct several "Bridging the Cultural Divide Between Banks and Life Insurers™" studies around the world, including the U.S., South Africa and the Middle East. Additional research studies planned for this year will evaluate bancassurance markets in Australia and parts of Asia and Europe, as well as a follow-up study in South Africa. A positive finding of the completed studies to date is that bankers and insurers indicate they intend to increase the size and scope of their bancassurance offerings.

Yet the studies also found that bankers and insurers often have different and opposing views regarding the types of products that should be offered, level of consumer awareness, amount of training support provided by insurers and the bank's database management expertise.

Products must be simple and standardised - Banks

In the studies, bankers are sending a clear message that insurance products must be redesigned to enable the banks to integrate the products into the bank's existing sales procedures – in other words, the products must be simple and standardised for a quick sales process. This means the underwriting process itself must be simplified.

RGA is investing heavily in developing e-underwriting tools that will automate the process and allow banks to ask fewer and less intrusive questions. In Hong Kong, for example, RGA recently collaborated with a major bancassurance client to provide a competitively priced simplified-issue product based on only three questions.

RGA's commitment to simplifying the underwriting process also extends to financial underwriting on jumbo cases, not just medical underwriting. To illustrate, most, if not all, insurance companies would normally ask for a separate set of financial underwriting information and conduct a separate financial review for multi-million dollar universal life policies for high net worth clients and credit life policies for business owners when clients want to take out such a policy from the banks. This was a burden to the clients, not to mention it was awkward for the banks to ask long-standing, wealthy clients to complete more financial paperwork when the banks already had comprehensive financial data about their clients.

RGA spent time working with the banks in agreement with its partners to better understand how banks conduct financial reviews and assess the financial strength of clients. As a result, RGA Hong Kong and its banking partners no longer need to require a separate financial review in exchange for a letter from the bank verifying a client's financial worth up to a very significant amount of sum assured, creating a win-win-win situation for the bank's clients, the banks and RGA.

Banks and insurers must communicate openly and frequently

If there is one recurring and dominant theme to improve and enhance bancassurance markets around the world, it is this: Banks and insurers must engage in more open and frequent communication to reduce the number of disconnects, improve areas of concern and increase institutional trust and confidence, which ultimately will create a more efficient and profitable bancassurance distribution channel. This is true regardless of whether banks and insurers are operating in an emerging or mature market.

Despite the numerous challenges, all indications are that bancassurance penetration in Asia will continue to increase, especially in growth markets like China and India. The next few years promise to be quite interesting as the Asian bancassurance market continues to evolve, perhaps in ways we cannot even imagine today.