Bancassurance

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Seminar – Karachi

November 15th 2006

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Watson Wyatt Worldwide

Agenda

- Overview of Regional Bancassurance in Asia
- Primary bancassurance structures and models
- Financial Considerations
- Case Studies – Successes and Failures

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Overview of Regional Bancassurance

A rapidly growing business in Asia Pacific



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Regional bancassurance developments

- **Main drivers include:**
  - The squeeze on Asian banks' profit margins
  - The attractiveness of banks to insurance companies (competition, diversification, developing business channels, market share etc)
  - Financial deregulation throughout the region
  - Balance sheet pressure of Asian insurers
  - Increasing sophistication of Asian consumers
  - Market competition
- Based on research conducted by Swiss Re Sigma report (2002) "***…by 2006, bancassurance could potentially account for 13% of total premiums collected in Asia's life insurance sector and 6% in the non-life sector".***

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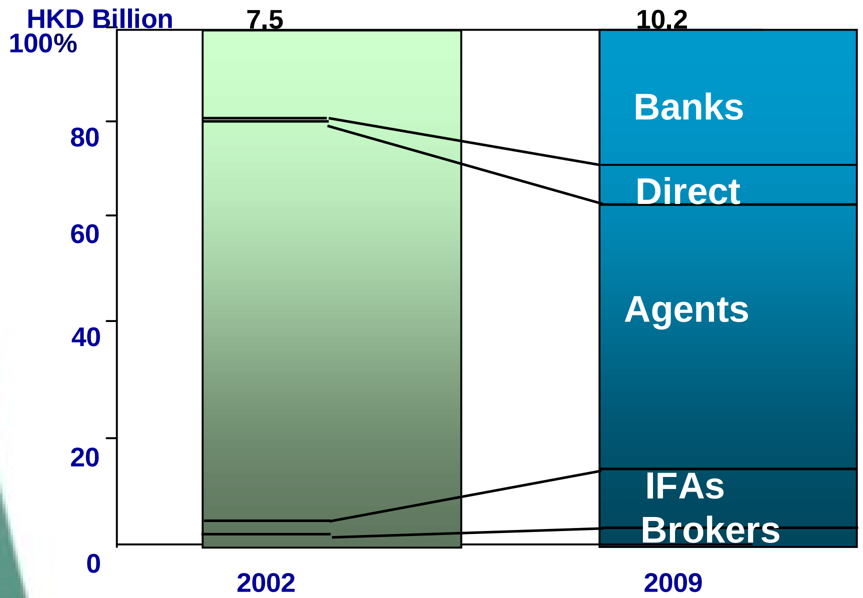
Regional bancassurance developments

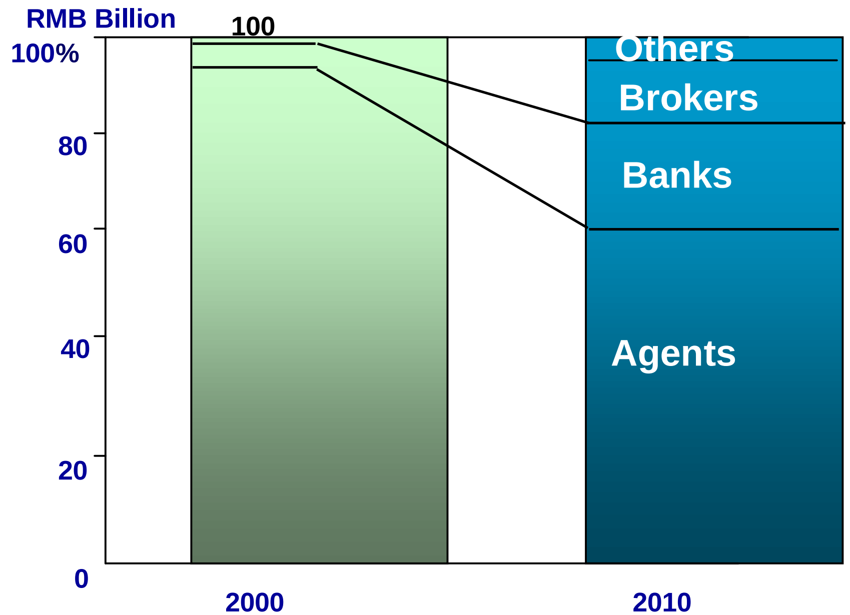
- In Asia Pacific, bancassurance continues to steal market share from the traditional agency companies. Traditional "Agency only" companies such as AIG and Manulife are actively seeking bank relationships to catch up on lost ground
- Penetration of bancassurance ranges from around 20% in some countries such as Thailand and Korea, to as high as 40 to 50% of new business in countries such as Taiwan, Hong Kong and Singapore (and recently Malaysia)

Growth Market Illustration
- Hong Kong Individual Life Market



Source: Bain & Company's "Future Agency Model: Channel Evolution", April 2001

Emerging Market Illustration
- China Individual Life Market



Source: McKinsey report, Access Asia 2000, CIRC statistics, March 2001 Chinainfobank

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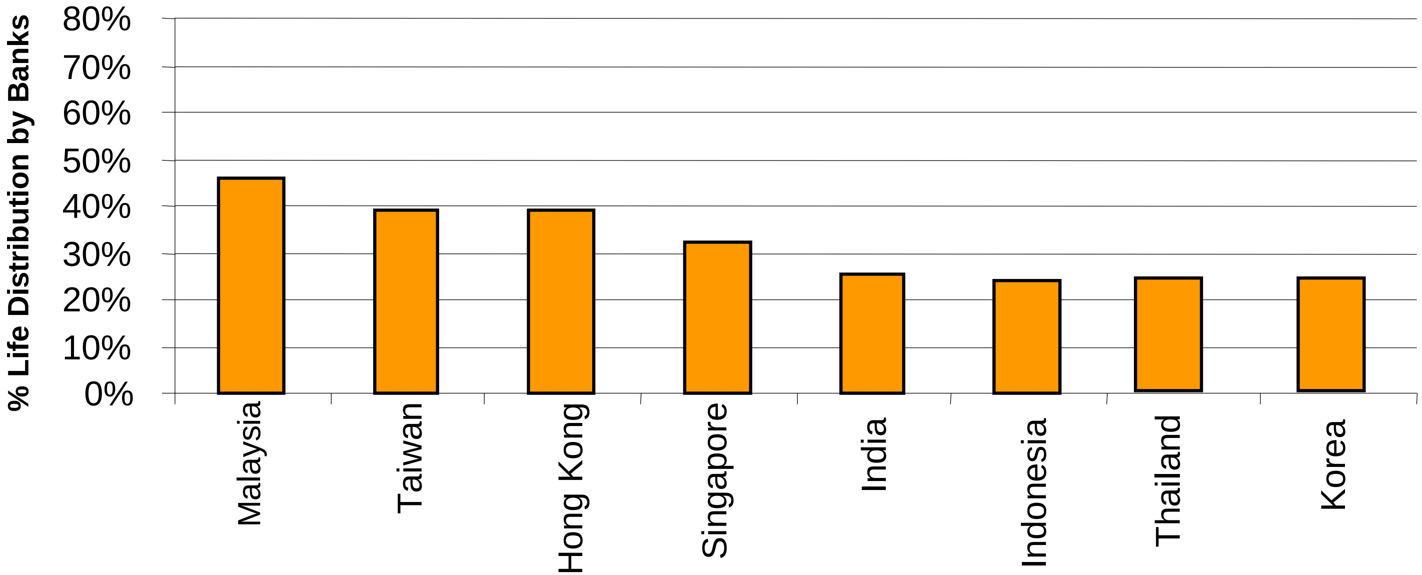
Bancassurance developments in Asia Pacific

- In Asian markets, there was relatively low penetration until the last 4 - 5 years, with some small exceptions
- Some key drivers have been a longer term low interest environment, an aftermath of the 1997 Asian economic crisis enabling increasingly stronger local banks and the 'weakness' of agency proposition some key drivers

Asian Life Distribution by Banks, 2005 (estimated)



Source: LIMRA

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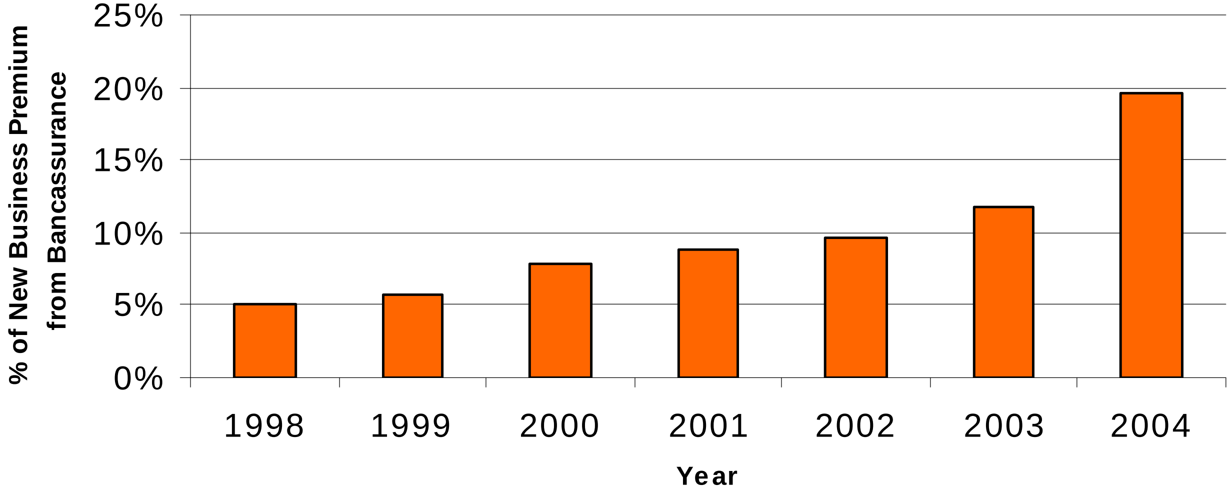
Indonesia

- Based on DAI statistics and Watson Wyatt estimates, new business premium income contributed by the bancassurance channel has been increasing significantly over recent years.
- In 2005, new business premiums from bancassurance channels accounted for Rp900 billion. Reports suggest that the Indonesian authority AAJI believes bancassurance sales could sustain an annual growth of 10%.

New Business Premium Contribution from Bancassurance (Estimated)



Source: Based on DAI Statistics and Watson Wyatt Estimates. The calculation is based on all life insurance companies operating in the bancassurance space and an estimation of what percentage of their new business premiums comes from bancassurance

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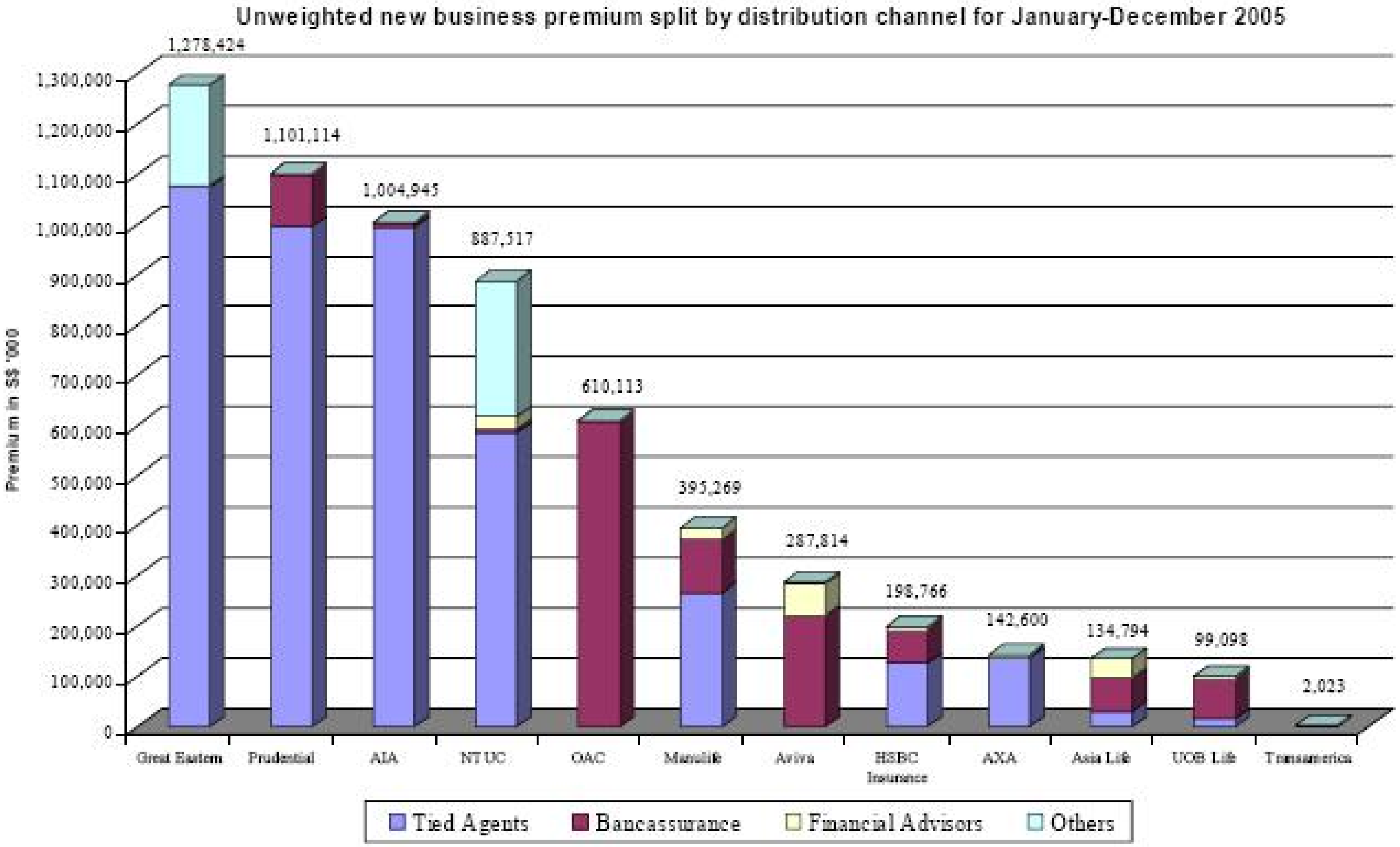
Singapore

- **After adjusting for the privatisation of Dependent Protection Scheme by the CPF Board, bancassurance market share comprised about 25% of the weighted new business premium income in 2005.**



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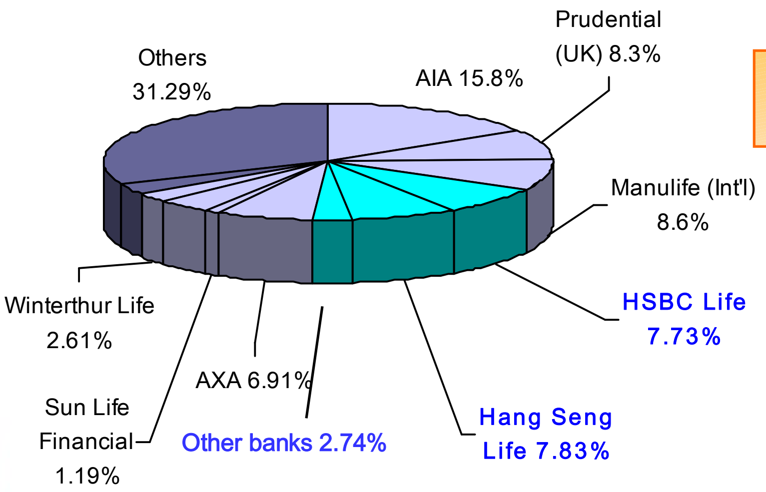
HK bancassurance development

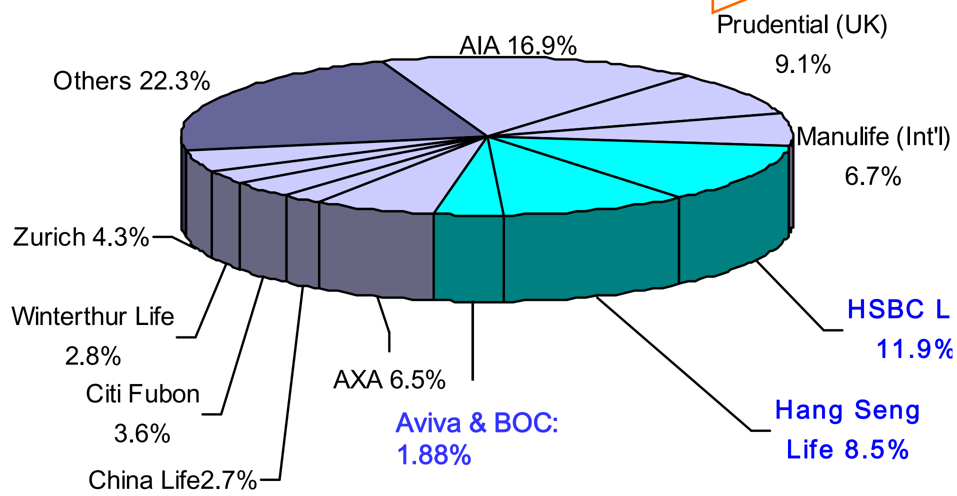
Top 10 Hong Kong Life Insurers by First Year Premium in 2005

Market Share in 2001
(Total Market: HK$8.69 billion* FYP)



Market Share in 2005
(Total Market: HK$17.35 billion* FYP)

Banc sales accounts for 22.8% of total market share in 2005, up from 18.3% in 2001 and 5.3% in 1998



- Bancassurance wholly owned
- Insurers in the top 10 with agency forces as the primary distribution channel
- Other insurers

*First year regular premium plus 10% of single premium

Source: Office of the Commissioner of Insurance 1998 Annual Statistics and 2002 Provisional Statistics, Hong Kong

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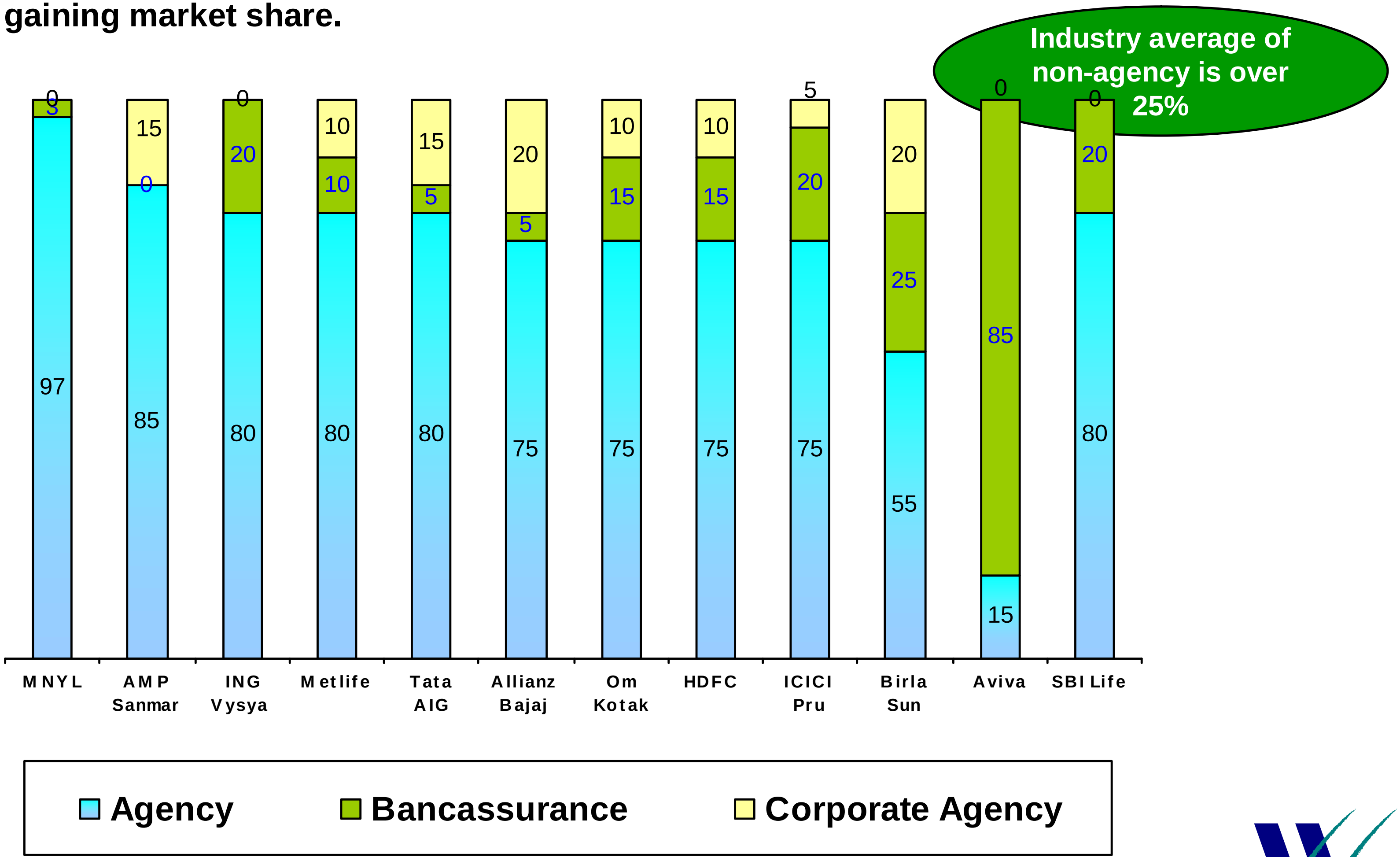
India

Despite being an emerging market, sales through Bancassurance in India is already significant and gaining market share.



Source : Press, interviews.

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Bancassurance - trends

- A large interest from insurers at this time as they seek to diversify from traditional and less productive agency channels.
- Distribution agreements appear to be increasingly common as a business model in Asia Pacific but increasing focus by major banks in JVs and ownership models.
- Most of the larger banks in each country have an interest in a bancassurance operation, or plans to enter the 'manufacturing' area – moving from 'fee income' to 'value creation'.
- Commentary on other channels
  - DM/TM still remains small in value and relatively untapped
  - Primarily retail based (as in Europe). Corporate bancassurance and worksite underdeveloped but an increasing focus, eg HSBC focussing on developing this channel.
  - Loan related still strong with some exceptions (Taiwan and Hong Kong)
- Each bank is unique, and market trends and successes are not necessarily easy to export or transfer, especially if the JV partner has limited experience outside of it's home market
- Each market is unique and different phases of market development require unique approaches
- The trend of insurers seeking more productive/lower cost distribution is clear. The financial and cost dynamics of bancassurance therefore becomes a clear focus of any transaction.

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Potential Bancassurance structures and models

A variety of options

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Structural Models

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Choosing the right model

- **The decision as to which model to adopt can be likened to the way a typical relationship might develop over time….**

Distribution Agreement	Strategic Alliance
"Playing the field" Model 1 can be likened to the early days of youth when it is normal to have a number of different partners and relationships. Loyalty is pretty low and long term commitment rarely a consideration. Temptation to switch partners for a "prettier" one	**"Going steady"** Having played the field for a while, it is likely that one partner will demonstrate the best 'fit" in terms of commitment, attention, behaviour and attitude. The relationship develops to a point where each understands the other a little better and both start to consider the others' needs and aspirations. Loyalty sets in and plans for the longer term begin.
Joint Venture **"Moving in"** Once "courting" has been going on for a while, it is natural to settle down with one partner and start enjoying an even closer relationship. Both partners get to know each other intimately and a relationship of mutual trust and respect develops. Any problems or difficulties are resolved jointly and amicably.	**100% Fully Owned Financial Services Group** **"Go alone"** Marriage brings about a whole raft of new responsibilities and a relationship that should be built on a secure foundation. Both partners look for ways to get more out of each other and to contribute to a long and prosperous relationship.

For a Bank is what model to adopt at what stage in development of the Bank

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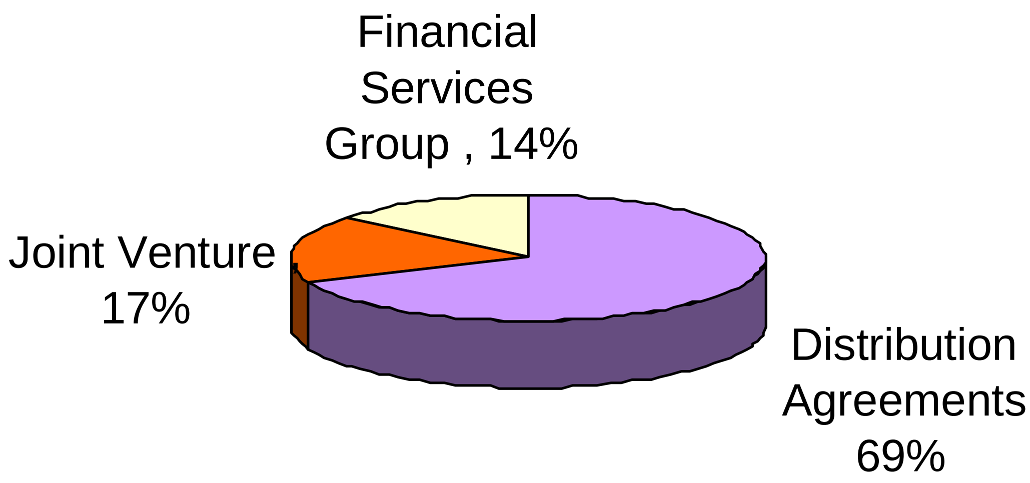
Bancassurance models in Asia Pacific

- **Distribution agreements form the largest group, however, there is a moving trend towards a JV arrangement representing the growing maturity and understanding of the various models**

Bancassurance Structural Models in Asia



Source: Swiss Re Economic Research & Consulting 2002

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Model 1: Distribution Agreement

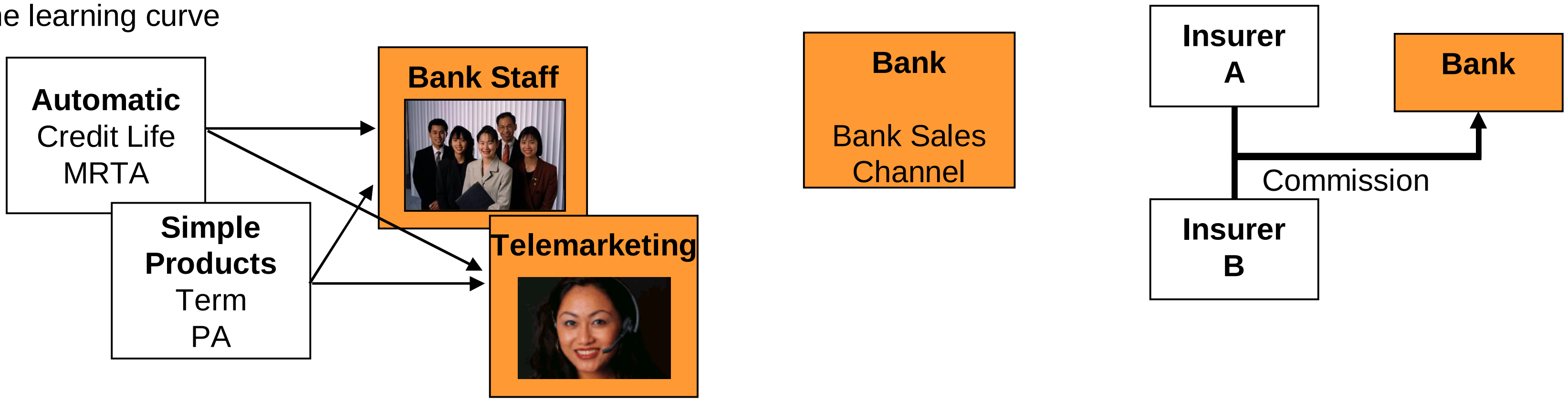
- Bancassurance model 1 is a product provider model where simple products are sold by the bank (either by bank/insurance staff in-branch or by Direct and Tele Marketing)
- Can be a single or multiple provider relationship. Can develop into a single Strategic Alliance and/or beyond
- This model is simple, low risk for the bank and creates value through commission/fee income on sales

Product Range
Ordinary products can be phased after the bank staff have been through the learning curve

Sales Channel

Corporate Structure & Ownership

Fees & Commissions



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Model 1: Value Chain Analysis

The bank will usually be responsible for all sales aspects

1. 2. 3. 4. 5.

1. Product development
2. Sales & Marketing
3. New business
4. Client service
5. Support (HR/IT/Finance)

Insurer's Responsibilities

- The insurer purely acts as a product manufacturer
- Provides appropriate products to the bank
- Underwrites all life insurance products
- Manages ongoing customer and policy servicing as required
- Provides normal insurance manufacturing services i.e. product material, product training

Bank's responsibilities

- Develops and provides marketing material
- Undertakes sales of 'automatic' products i.e. insurance products that are automatic additions to standard bank products (credit life – attached to credit card, mortgage term assurance – attached to loans)
- Undertakes sales management and development of sales incentive programmes
- Recruits, trains and remunerates Bank Sales Staff and their managers
- Maintains records of bancassurance business

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Model 2: Strategic Alliance

- This is similar to model 1, but with greater commitment from the insurer e.g. special product development, customised service proposition (own helpline, documentation etc) and closer collaboration over areas such as sales management.
- Bank will have some involvement in channel management.
- Will usually relate to one exclusive arrangement. Term of alliance can be fixed.
- This model is also low risk and creates value for the bank through commission/fee income on sales and a potential "profit" share

Product Range

Ordinary products can be phased after the bank staff have been through the learning curve

Bundled Products
Automatic Products

Simple Products
Term
PA

Sales Channel

Bank Staff

Telemarketing

Corporate Structure & Ownership

Bank

Bank Sales Channel

Fees & Commissions

Insurer → **Bank**

Commission
plus profit share

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Model 2: Value Chain Analysis

The bank in most operational models will be responsible for all sales aspects, though it depends on the nature of the agreement (example referral model)

1. **2.** **3.** **4.** **5.**

1. Product development
2. Sales & Marketing
3. New business
4. Client service
5. Support (HR/IT/Finance)

Insurer's Responsibilities

- The insurer will work alongside the bank to create customised products
- Underwrites all life insurance products
- Provide training to the bank branch staff for the sale of customised products
- Manages ongoing customer and policy servicing as required
- Provides normal insurance manufacturing services i.e. product material, product training
- Provide a dedicated helpline for business sold via the bancassurance channel

Bank's responsibilities

- Develops and provides marketing material
- Undertakes sales of 'automatic' products i.e. life insurance products that are automatic additions to standard bank products (credit life – attached to credit card, mortgage term assurance – attached to loans) and bundled products
- Undertakes sales management and development of sales incentive programmes
- Recruits, trains and remunerates Bank Sales Staff and their managers
- Maintains records of bancassurance business

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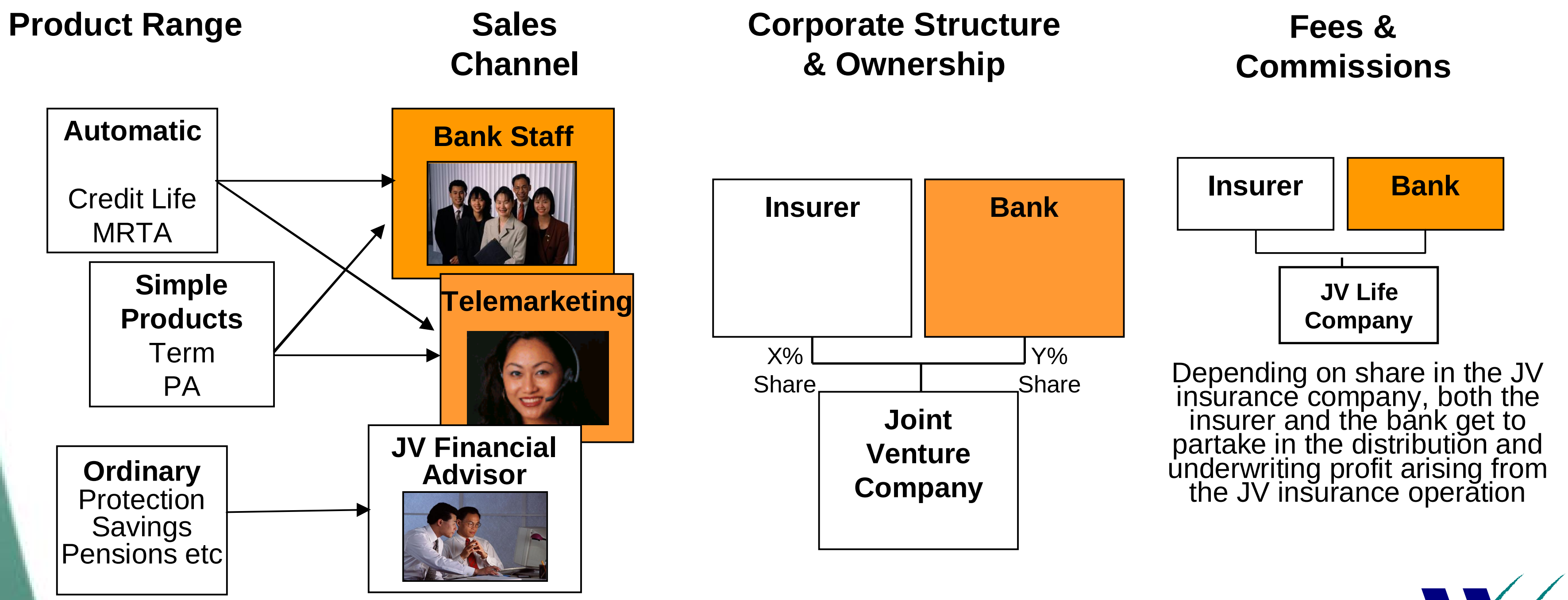
Model 3: Joint Venture Company

- **A Joint Venture company better aligns interest / commitment from both the bank and the insurer and hence can often provide more optimal returns.**
- **Favoured by major international insurers due to the level of commitment and control.**
- **The bank would have to bear some of the insurance risk, but will get a share of the embedded value arising from the business. This requires the injection of significant levels of capital**



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Model 3: Value Chain Analysis

- **Joint Venture Insurance companies will be managed by both the bank and the insurer, including product development, underwriting, claims etc**

1 2. 3 4. 5.

1. Product development
2. Sales & Marketing
3. New business
4. Client service
5. Support (HR/IT/Finance)

JV Insurance Companies

- Provides a complete range of life insurance products
- Develops and provides marketing material for FA service
- Underwrites all insurance products incl. credit life, MRTA, non-life etc
- Manages ongoing customer and policy servicing as required
- Provides normal insurance manufacturing services i.e. product material, product training
- Provides any necessary POS systems to FAs

- Financial Advisors (FAs) provides value added Financial Planning Service at bank branches
- Financial advisors (FAs) will be owned by the JV company
- Recruitment, training and remuneration of the FAs will be undertaken by the JV company
- Undertakes sales management and development of sales incentive programmes for FA channel
- Generates leads for bank sales staff for bank related products
- Maintains records of bancassurance business

Bank's responsibilities

- Provides access to the branch network for effective distribution
- Provides warm leads from the retail customer base
- Maintains records of Bank Sales Staff bancassurance business
- Could share in the control and management of the FA channel depending on the level of shareholding it holds in the JV insurance companies

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Model 4: Wholly-owned subsidiary

- **A more integrated model where the bank acquires/sets up an insurance company (or an insurance company acquires a bank).**
- **For maximum benefit (in terms of cross-customer access etc) this would often be established under a Financial Services Group – in theory should produce the most benefit and value for a bank.**

Product Range

Automatic
Credit Life
MRTA

Simple Products
Term
PA

Ordinary
Protection
Savings
Pensions etc

Sales Channel

Bank Staff

Telemarketing

JV Financial Advisor

Corporate Structure & Ownership

Bank

100% owned insurance subsidiary

Fees & Commissions

Bank

100% owned Life Company

Bank gets a full share of the distribution and underwriting profit (embedded value arising from the business).

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Model 4: Value Chain Analysis

- **A wholly owned insurance company would entail the bank to setup and manage an insurance company from start up**

1. 2. 3. 4. 5.

1. Product development
2. Sales & Marketing
3. New business
4. Client service
5. Support (HR/IT/Finance)

Wholly owned insurance company's responsibilities

- Provides a complete range of insurance products
- Financial Advisors (FAs) provide value added Financial Planning Service
- Undertakes sales management and development of sales incentive programmes for FA channel
- Develops and provides marketing material for FA service
- Underwrites all insurance products incl. credit life and MRTA
- Manages ongoing customer and policy servicing as required
- Provides normal insurance manufacturing services i.e. product material, product training
- Recruits, trains and remunerates Financial Advisors and their managers
- Provides any necessary POS systems to FAs

Bank's responsibilities

- Provides access to the branch network for effective distribution
- Provides warm leads from the retail customer base

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Operational Models

Considerations

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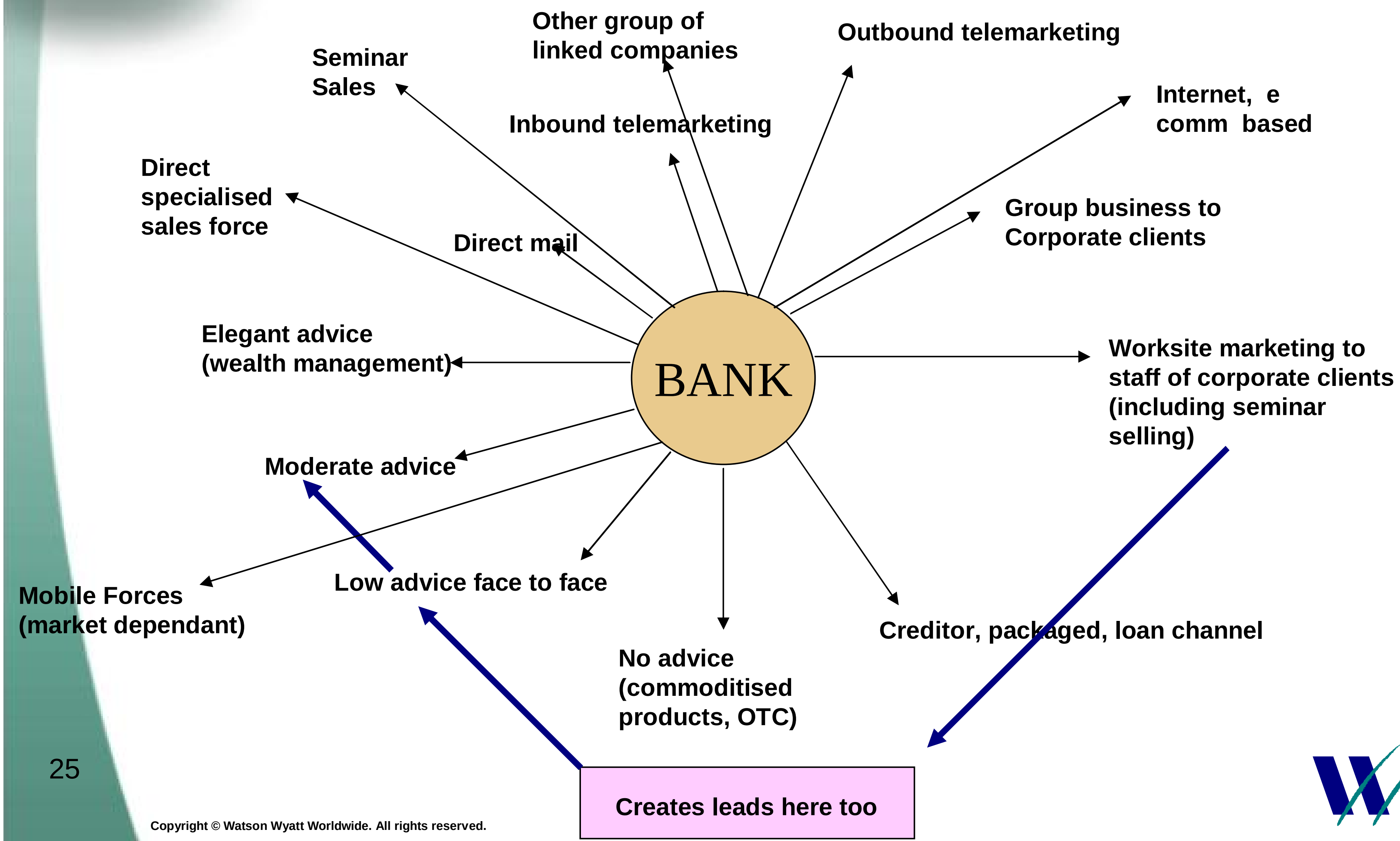
Multi Channel



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Roles and Responsibilities

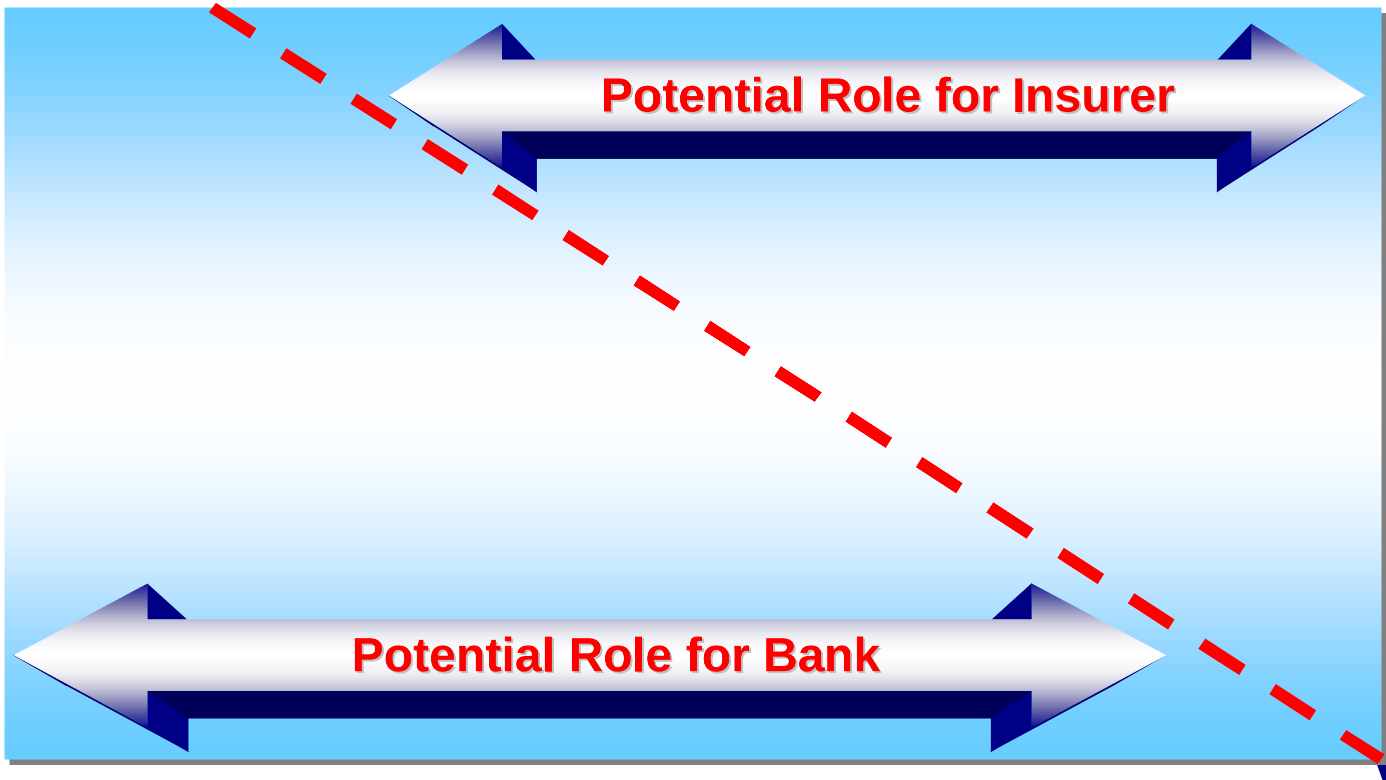
Banks becoming more independent, looking at manufacturing, driving for more profit share

Generate Referrals | Product Dev. & Man. | Sales Man. & selling | Administration & Claims | Customer Management

Distribution Alliance

Joint Venture

Bank Ownership Or full Integration (holding co.)



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Best Practice Operational Model

Bank Customers

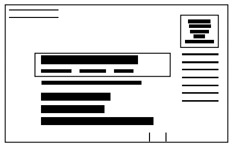
Channels

Financial Planners

In branch financial planners

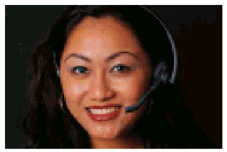
Creditor Business

Mortgage redemption and collateral insurance



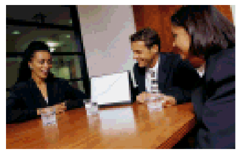
Direct Mail

Mail-shots to the bank's various databases



Telemarketing

Carefully planned telemarketing campaigns



Worksite Marketing

Marketing to the employees of the bank's corporate customers

Product Propositions

LIFE INSURANCE	HEALTH INSURANCE	NON-LIFE INSURANCE	PENSIONS / RETIREMENT	INVESTMENTS / MUTUAL FUNDS	SAVINGS / DEPOSITS	LOANS / MORTGAGES	CREDIT	CASH / CHECKING
Protection			*Asset Accumulation*			*Lending & Transactions*		

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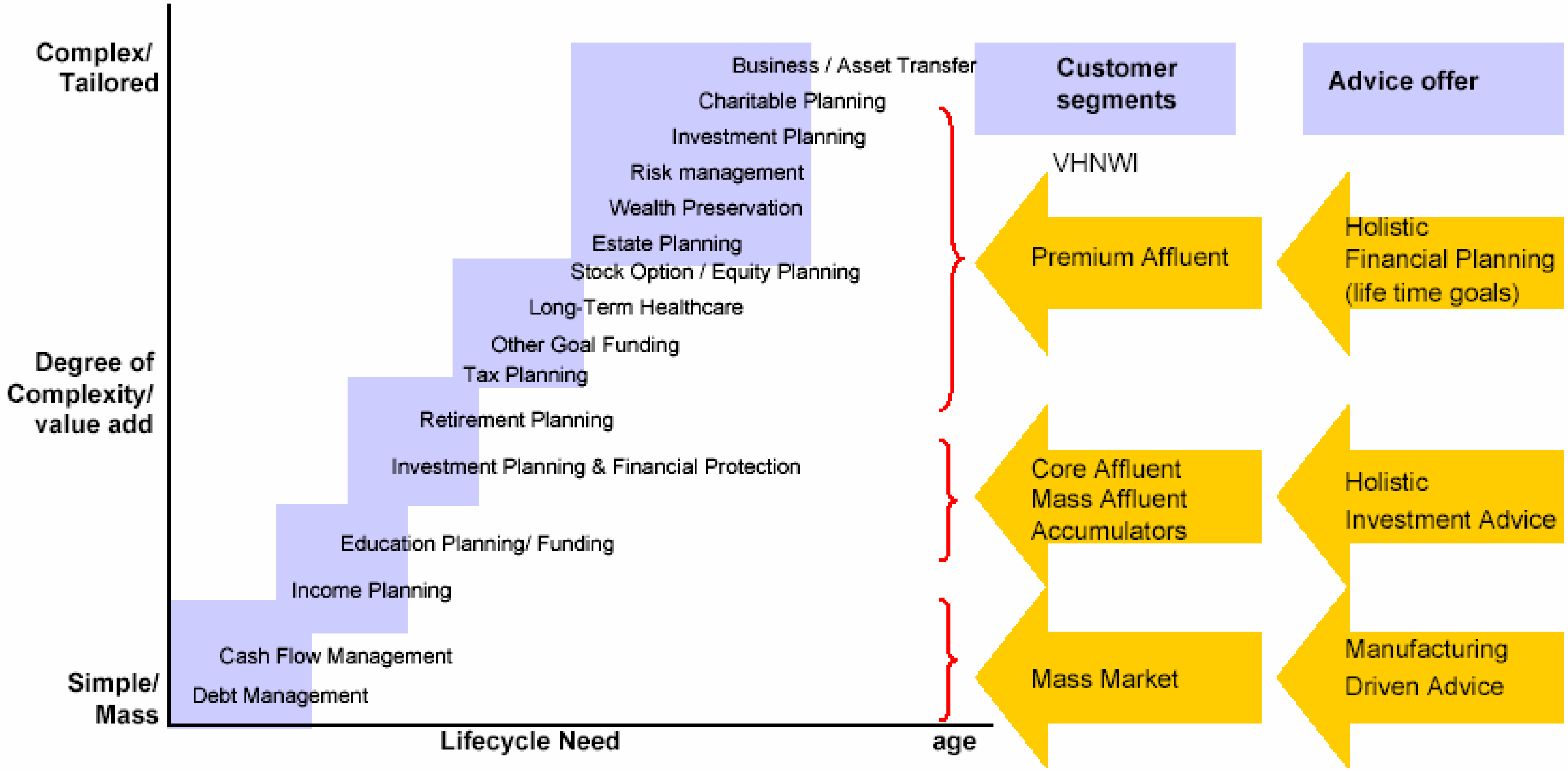
Product Continuum



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Matching Products to Channels

Complex products with channels that are designed for face-to-face interviews and simple products to channels that have limited time to explain and sell

	Annuity	Single VA	Endow-ment	WL/Term	Credit life	Accident	Cancer	Priority
PB	✓✓	✓✓	✓	✓	✓		✓	
Teller	✓		✓✓		✓✓	✓	✓	
FA	✓	✓	✓	✓✓				
Work site (FA)	✓			✓			✓	
Work site (Group)				✓			✓	
DM/TM						✓✓	✓✓	

Mainly considered

Optionally considered

Not considered at early stages

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Financial considerations

Understanding the source of profit and the likely financial impacts



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Financial considerations – Potential sources of profit to a Bank

- **Substantial contribution can be achieved from a bancassurance operation (focus on life insurance as this has greatest financial implications)**

Two main sources of profit

Distribution profit

Income
Commission/fees from the insurer

Outgo
Salaries and bonuses to sales specialists and managers
Training costs
Marketing costs
IT costs
Other administrative costs

Underwriting profit

Income
Premiums, investment income

Outgo
Surrenders, death claims maturities, etc
Commission and override
Other administration costs
Change in reserves
Taxes

A bank has the option to participate in both sources of profit; Underwriting profit involves taking more risk but provides the opportunity to achieve greater returns

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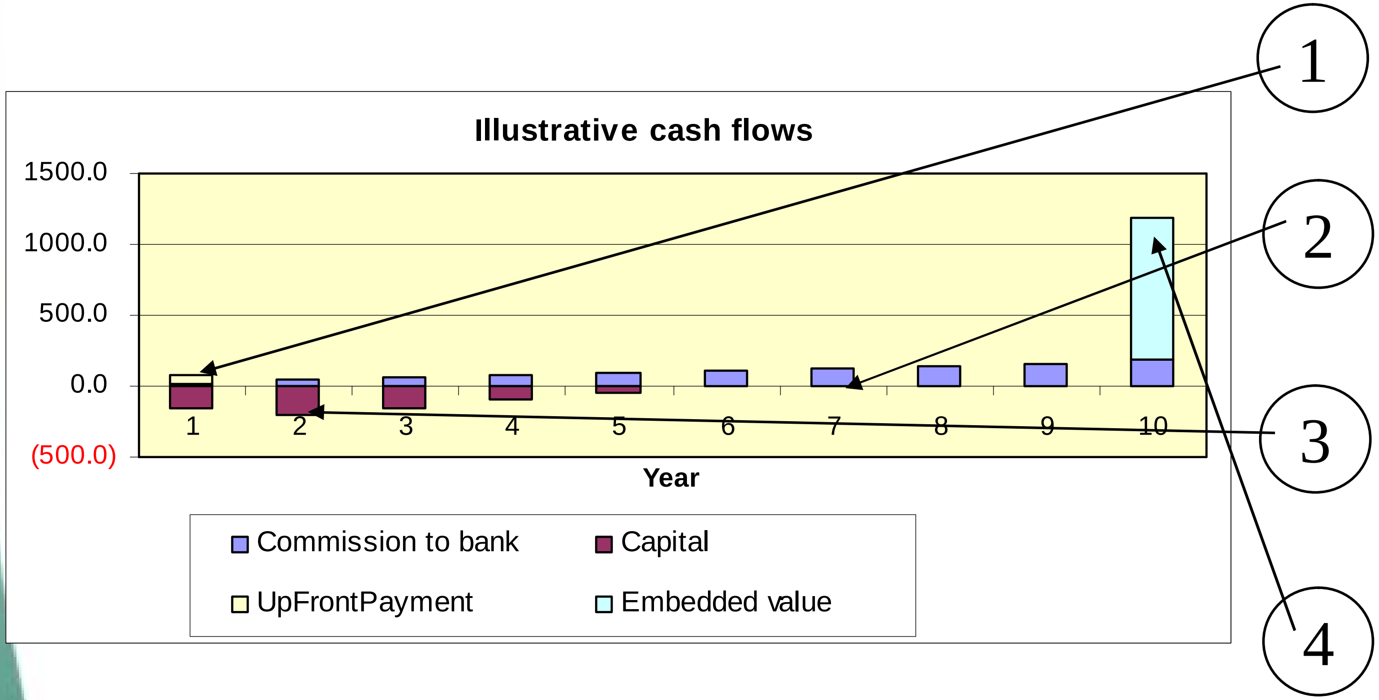
Important cash flows…….



An **UP FRONT PAYMENT** from insurer to enter into relationship – rarely received

A **COMMISSION STREAM** for distributing products

CAPITAL INJECTIONS to support the underwriting model

Growth in **EMBEDDED VALUE** OR PROFIT SHARE from participation in underwriting profit

Very important to have a good understanding of the magnitude of the cash flows that arise from the different models

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Illustration of the financial impact of different models

- Over the next few slides, we illustrate the difference between various models in terms of potential investment and returns.
- These have been based on a very high level modelling of a standard set of assumptions (in terms of branches/sales/premium size and commission/profit streams) for a life insurance entity.
- They should therefore be considered ***only*** as indicative of the difference between each model and used for comparative purposes only.
- A more detailed modelling exercise would be required for each individual circumstance.

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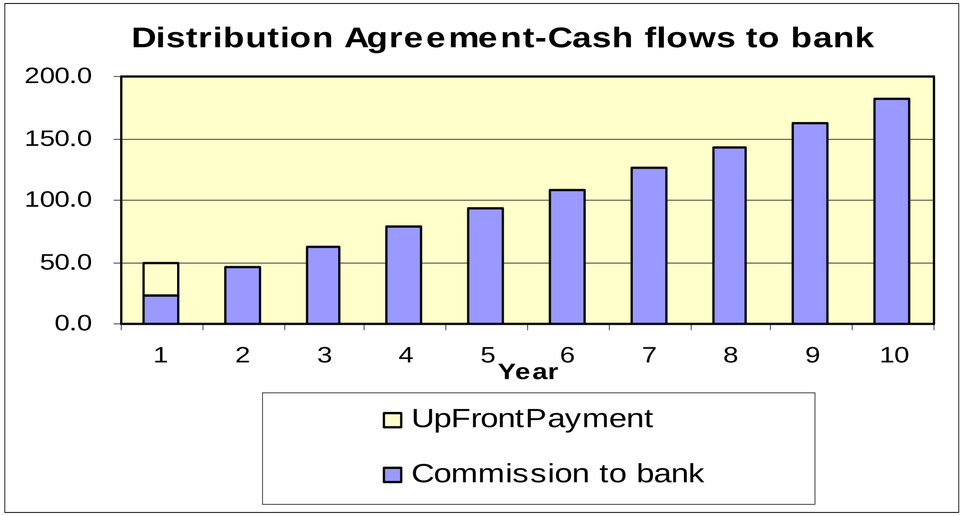
Example: Citibank, Singapore

Example 1 – Distribution Agreement(s)

Financial impact



Note: Figures based on approximate projections for a Bank based on number of branches, industry productivity, typical product mix. Figures to be considered as illustrative and in $ millions

Financial features

⇨The Bank receives commissions from sales

⇨The Bank generates profit to the extent that commissions exceed expenses

⇨Need to decide who is responsible for certain expenses e.g. training, marketing etc

⇨May be able to negotiate a profit share (but unlikely)

⇨May be able to request an upfront payment - more likely if an exclusive partner

⇨No exposure to underwriting profits (unless through profit share - rare)

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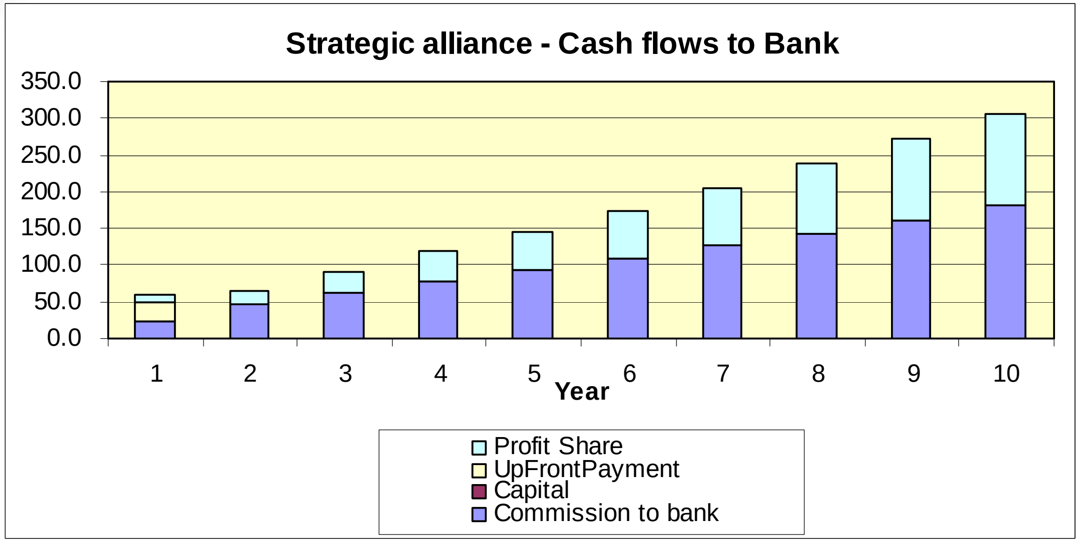
Example 2 – Strategic Alliance

Financial impact



Note: Figures based on approximate projections for a Bank based on number of branches, industry productivity, typical product mix. Figures to be considered as illustrative and in $ millions

- ⇨Financial features
- ⇨The Bank receives commissions from sales
- ⇨The Bank generates profit to the extent that commissions exceed expenses
- ⇨Need to decide who is responsible for certain expenses e.g. training, marketing etc
- ⇨Often exclusive and can be with a profit share (common)
- ⇨May be able to request an upfront payment - more likely if an exclusive partner
- ⇨Exposure to underwriting profits (through profit share)
- ⇨Less commitment that a joint venture

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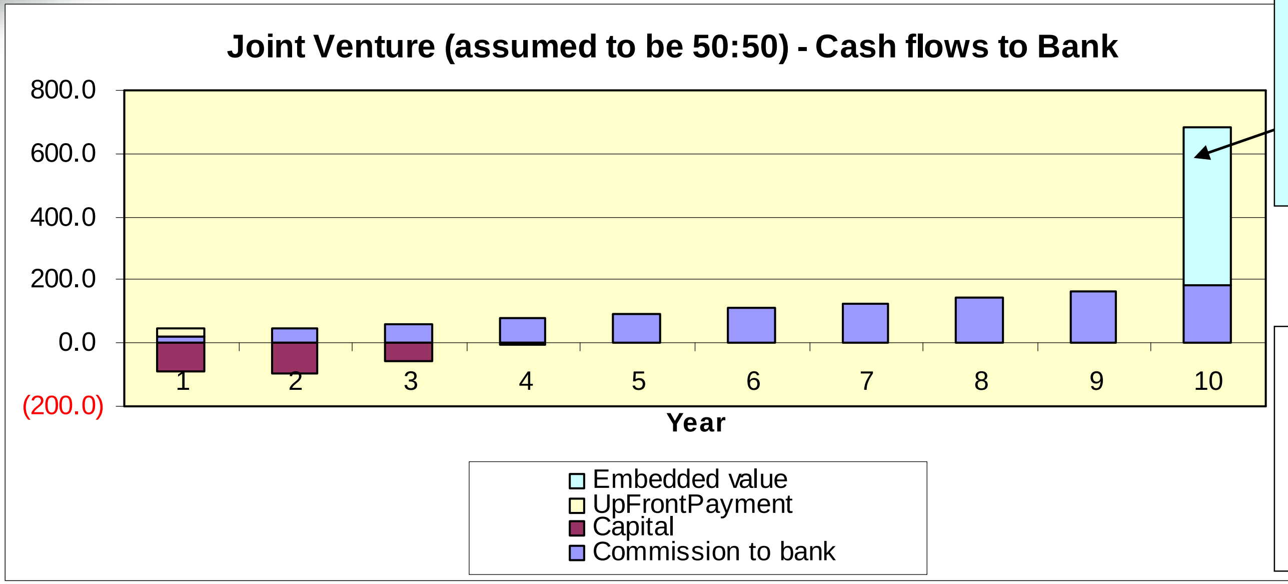
Example 3 – Joint venture or wholly owned insurance company

Example: Maybank, Malaysia

Financial impact



Note: **PLUS** the Bank has a 50% interest in the embedded value at the end of year ten – i.e. a future stream of cashflows.

Note: Figures based on approximate projections for a Bank based on number of branches, industry productivity, typical product mix. Figures to be considered as illustrative and in $ millions

Financial features

⇨The Bank is required to inject capital for several years to support initial capital strain of underwriting the business

⇨Period of capital support period could extend to 4 or 5 years, but will depend a lot on growth pattern and mix of business

⇨The Bank will receive a stream of commissions for distributing the business (but insufficient to cover total capital requirements in early years)

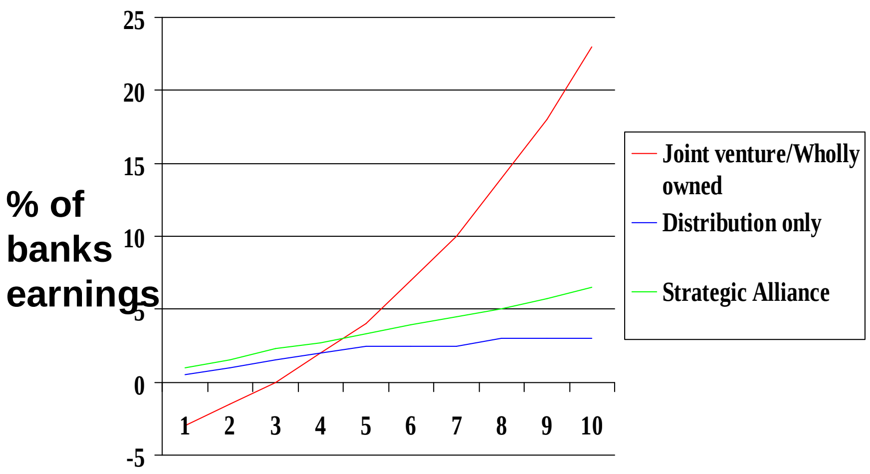
⇨The Bank will have a share in the growth in embedded (or appraisal) value of the business

⇨The Bank can again suggest an upfront payment – but insurers are not usually keen.

Financial considerations - Summary

- Understanding the source of profit and the likely financial impact on the Bank is very important.
- The greater the commitment, the greater the risk, but the greater the possible financial reward

- Need to consider:
  - The potential impact on the bottom line of the Bank
  - The likely capital requirements of various models
  - Whether the Bank would like to participate in both underwriting and distribution profits



If a Bank decides to move ahead with bancassurance the next steps are to involve the analysis of preferred strategic options in more detail, including a detailed analysis of the financial issues

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Case Studies – Successes and Failures

Some lessons learned

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Case studies

- Lessons to learn from case studies
- The following have been selected:
  - Distrbution agreements: Standard Chartered/Prudential
  - Strategic Alliances: DBS/Aviva (Singapore)
  - Joint ventures: AXA Mandiri (Indonesia)
  - “Going alone”: Mayban Life (Malaysia), UOB Life (Singapore), HSBC (Hong Kong, Regional)
- For each case study we discuss the background, the model and structure and some lessons to learn.

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Successful joint venture

AXA Mandiri

Background	Type of Structure and Model
• **Bank Mandiri** – largest publicly listed bank in Indonesia by assets. Good local brand with strong desire to move towards a sales oriented environment. Possessed a Life license and many of the criteria required of a good bancassurance partner. Traditional bank with traditional branch network. • **AXA** – global insurer with substantial bancassurance experience internationally and in the Asia region. Desire to develop multi-distribution in Indonesia and had agency company. Had good foundation, infrastructure and service standards established but poorly performing local business.	• **Business Model** – JV in the form of an insurance company (AXA Mandiri Financial Services) between Bank Mandiri and AXA. • **Operational Sales Model** – dedicated in-branch bancassurance advisers (from AMFS) trained to provide financial planning service, address insurance needs and cross-sell banking products and services. • Implementation partnership with WW participated actively in the planning and establishment of the distribution network as well as setting up the sales and delivery infrastructure. The planning and implementation process took around 7 months to complete.
Situation	**Take outs**
• Sales force specialist with sales management within AXA Mandiri FS. The sales force expanded steadily from 40 to 600 in its first 18 months of operation. • New business income for 12 months period ending June 2005 also reached a high of Rph216 billion. Average productivity of sales adviser amount to 7.2 cases per adviser per month. • From start up to third in the market within 18 months. • Agency and bancassurance two separate licenses and companies, splitting off back office as a service company to both entities.	• Significant internal drive from within the bank – key strategic initiative – beauty parade. • The business JV created aligned interest from both sides in helping ensure business success • Early planning between the insurer and bank enabled alignment of vision and business strategy. Clear vision. • Used implementation to develop AXA Blueprint take elsewhere in the region. Even AXA required implementation support. • Focused management attention required even after a successful implementation and an outstanding start in order to maintain market share and position.

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Successful distribution agreement

DBS and Aviva

Background

- **DBS** – largest bank in Singapore. Possessed a subsidiary life company (Insurance Corporation of Singapore, ICS). Operated a non-exclusive bancassurance operation with ICS and maintained distribution agreements with other insurers.
- Cooperation between DBS and ICS was slow, many issues regarding abilities of insurer, product range, capabilities and capacity to cope with large volumes of business. Early bancassurance results slow.

Type of Structure and Model

- **Business Model** – distribution agreement exclusive with Aviva for at least 10 years. Profit share based on embedded value of business written each year and up front payment. ("Aligned interests")
- **Operational Sales Model** – dedicated in-branch sales force (bank staff) promoting a basket of financial products (mutual funds, structured products, insurance, etc). Small specialists Aviva led sales force being developed.

Situation

- In early 2000s, DBS sold its entire insurance unit (ICS) to Aviva in return for an exclusive long term distribution agreement – enabled Aviva to enter the market.
- Aviva's distribution strategy in Singapore is primarily "non-agency", focusing on bancassurance and broker intermediaries.
- The relationship showed results slowly in year one, and two, but increasing as the relationship and model developed. DBS/Aviva is currently the 2nd largest bancassurer in Singapore with around S$200 million new premium recorded in 2005 – forming c70% of Aviva's new business portfolio.

Take outs

- DBS decided ICS faced too many internal issues and would need a lot of capital, expertise and effort to revive it. They had tried several routes, but did not possess the expertise to develop themselves.
- Generally has worked well, though slow to take off. Control issues for the insurer – DBS driving primarily short term campaign products/initiatives.
- Relationship deepening, though HK operation (similar arrangement) seen to be doing better and frustrations at Aviva in Singapore that bancassurance is still not a primary focus and integrated enough in the bank – they fight for product shelf space.
- What happens after (before?) the 10 years?

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Successful financial services group ("go it alone")

HSBC and HSBC Life (and Hang Seng and Hang Seng Life)

Background	Type of Structure and Model
• **HSBC** – well-respected and well-established bank in HK. Possessed all the potential qualities of becoming a highly successful bancassurer. • **HSBC Life and General** – the bank's insurance partners • Bancassurance results were slow in the early 90's as there was little commitment and drive from the bank.	• **Business Model** – wholly owned insurers as part of financial services group • **Operational Sales Model** – started with OTC, smaller ticket products. • Expanded to develop a mobile sales force – specialist sitting with the insurer but all branded HSBC.
Situation	**Take outs**
• The Bank revised its sales strategy in the late 90s/2000 and began to inject more energy into its people and sales environment. Also increased sophistication in its product delivery. • A dedicated specialist (mobile) sales force was formed to focus on promoting insurance products to bank customers. Also expanded distribution to cover multi-channel using DM/TM and online delivery as well as non-life insurance. • An increasing focus on the corporate customers through bancassurance. • HSBC now the largest insurer in HK< overtaking the agency companies. Bancassurance 40-50% in HK overall of new premium income.	• Slow to start – commitment and drive from the bank to integrate insurance a main change factor • Mobile sales force gave focus (and developed abilities to sell) higher value products, and more sophisticated products. • Have overtaken agency companies – something thought impossible in HK in only recent years. • Still achieves around 8 policies per month, sub optimal and minimal spread across channels – loan related small/insignificant. • Expanding services now to include corporate and worksite in HK and regionally. • Hang Seng – similar story, different model.

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Successful financial services group ("go it alone")

Mayban Fortis

Background

- Maybank bought Safety Life in the early 90's
- Tried a variety of approaches including selling insurance with free gifts – nothing seemed to work
- Reasonable success with DM/TM and MRTA
- Ad hoc model – anyone could sell, no form of consistency, no structure
- First real 'European style bancassurance' model in Asia
- Fortis stake in 2001
- Acquisition of MNI 2005/6

Type of Structure and Model

- Mayban Life and General originally wholly owned, Mayban Takaful formed later.
- All bancassurance distribution until MNI integration
- Sales force recruited original, from within the banks – specialist insurance sales force selling a range of products

Situation

- Used input of experience through international consultants
- Started with a 'bang' – became the benchmark in Asia Pac – gained 7% market share within two years
- Plateaued after loss of focus, sales management, product ramge
- Hoped for Fortis injection of systems, multi channel expertise and bank expertise
- Still failing to develop multi channel capacity – still smaller part of bank income

Take outs

- Initial go it alone failed – lack of experience, structure, vision and commitment
- Despite lack of CRM, poor IT infrastructure and ability to incentivise they developed to 'benchmark level – without a foreign insurer.
- Brought in Fortis at a later stage once successful.
- Has Fortis JV added value?

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Financial services group that has ‘failed’(to “go it alone”)

UOB Bank and UOB Life

Background	Type of Structure and Model
• **UOB Bank** – one of the 3 largest banks in Singapore. Possess a large retail base especially after the takeover of OUB Bank in early 2000s. • **UOB Life** – a local life company, subsidiary of the bank – the smallest in the market before recent new entries. Possess a small tied agency with little production.	• **Business Model** – integrated financial services group, wholly owned life company. • **Operational Sales Model** – in-branch sales force (bank staff) promoting insurance products to bank customers among other banking products and services
Situation	**Take outs**
• UOB did not have a clear strategy with its bancassurance business. No focus or commitment or drive. • It was understood that the Bank had experimented with a different approach with varying success. They have talked to a variety of insurance companies, tried bringing in foreign partners, and tried doing themselves (and still is). • Even though premiums from bancassurance form over 80% of UOB Life’s business in 2005, the total did not even amount over S$100 million. Does not seem very impressive given the Bank’s large customer base • The situation could have been better if the Bank had put in more management focus and attention in developing its sales and bancassurance strategy to capitalise on its position.	• Unclear strategy with respect to its bancassurance development and overall sales strategy – internal personal issues also contributed. • Tried several times for a JV. • Haas written a large volume of unprofitable single premium business – rumoured to cause financial issues with introduction of risk based capital. • Clearly the business could have been much better if there were synergy between the bank and insurance company as well as well-thought out strategy addressing the bank’s sales and distribution issues.

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‘Successful’ distribution agreement

Stanchart and Prudential (HK)

Background	**Type of Structure and Model**
• Standard Chartered looking for a regional deal on bancassurance late 90’s • Chose the Prudential for Malaysia, HK and Singapore (since has chosen other partners for other markets) • Prudential an agency company – little bancassurance experience at all	• JV agreement long term, believed to be 12 years with options every three years to review – up front payment • Operational model a referral model – bank branches refer to specialist sales force developed by the Prudential (common to the model in Malaysia) • Primarily face to face distribution model
Situation	**Take outs**
• Initial large issues – financial pressures on the Pru to perform • Business cultures and business clash • Pru inexperience and lack of ability to integrate led to very slow start • Now an increasing business – Pru looking to expand the relationships to a full regional basis • Forms 50% (estimated) of the Pru HK new premium income • Always rumours of a split – senior management issues, lack of communications etc	• Perceived ‘greed’ and short term view of the bank initially, plus ‘big eyes’ of Prudential • Seeming success but took a long time to develop and still sub optimal considering the time taken • Still not multi channel, little loan related and not integrated • A win-win for both companies? Are interests aligned • Dangers for the bank the longer it goes on (cust base)? • Is it sustainable?

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Lessons to learn

- A need to align interests of both parties
- Commitment from the bank to drive the initiative has been a key driver for getting several relationships off the ground (eg Maybank and Mandiri)
- Implementation is complex and needs careful planning – Maybank and Mandiri both had dedicated teams working on implementation for close to a year, and beyond.
- Profitability of insurer driven by aligning interests and with bank and insurers both understanding the key financial drivers
- Focus on developing opportunities and channels systematically/phasing
- External assistance often required, but success has not always been driven by an international insurance partner
- A chef's signature dish – all the ingredients have to be there whatever the structure, model or country.
- Some companies success in some markets not replicated in others (eg AXA in Thailand)
- In all models a trend is for banks to increasingly become more independent after initial JV needing less and less support as they get better at distribution and sales – insurer becomes less significant with bank wanting to take greater control, and so often regretting giving so much away at the beginning!

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Bancassurance

Seminar – Karachi

November 15th 2006

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