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Bancassurance – Business and Operational Models

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Bancassurance

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- Mechanisms for provision of insurance services through banks
- Usually assumes that insurance company and bank are separate legal entities (even if part of same owner group)
- For the purpose of this presentation I am excluding captive business from the scope of bancassurance
  - Captive business means business passed on by an entity to a related insurance company, but without any detailed involvement by the bank
- Implemented using various models/ structures, which vary with respect to
  - Product structure
  - Financial arrangements between bank and insurance company
  - Administrative responsibility

Potential Benefits

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- Bank
  - Fee Income
  - Strengthen long term client relationship
  - Competitive pressures

- Insurance Company
  - Leverage on bank customer relationship
  - Higher “hit rate” and therefore lower acquisition cost
  - Low cost collection mechanism

- Customer
  - Better Value Products
  - “One Stop Shop”

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Business Models / Product Structures

Business Arrangements

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- Business arrangements revolve around:
  - The nature of the products and especially the extent of relative involvement of the insurer and the bank in the business.
  - The nature of the relationship and relative long term rights
    - Especially relevant in the case of long term business (life insurance)
  - Key success factors

Business Models

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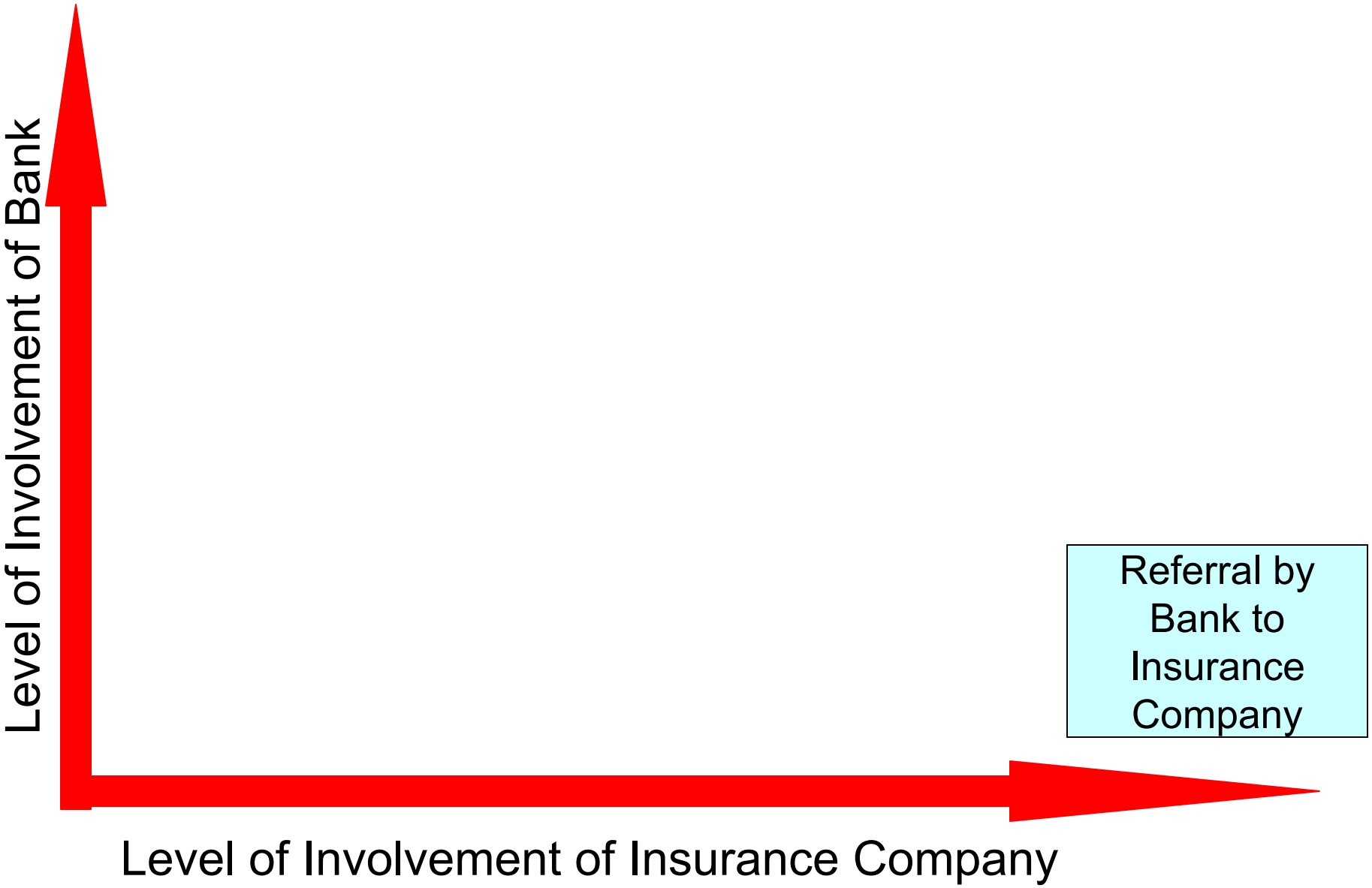

Referrals

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- Very low level of involvement by Bank
  - Bank basically provides insurer access to its customers
  - Suitable for products which are complex and need to be sold by full time insurance sales personnel
- Mechanisms
  - Mail shots designed by insurer sent out to bank customers and responses forwarded to insurance company
  - Insurance sales personnel given space at bank branches
  - Bank personnel receive initial queries and pass on to insurance company for follow up
- Bank usually compensated in the form of low level of commission
- Variable costs usually borne by Insurance company

Business Models

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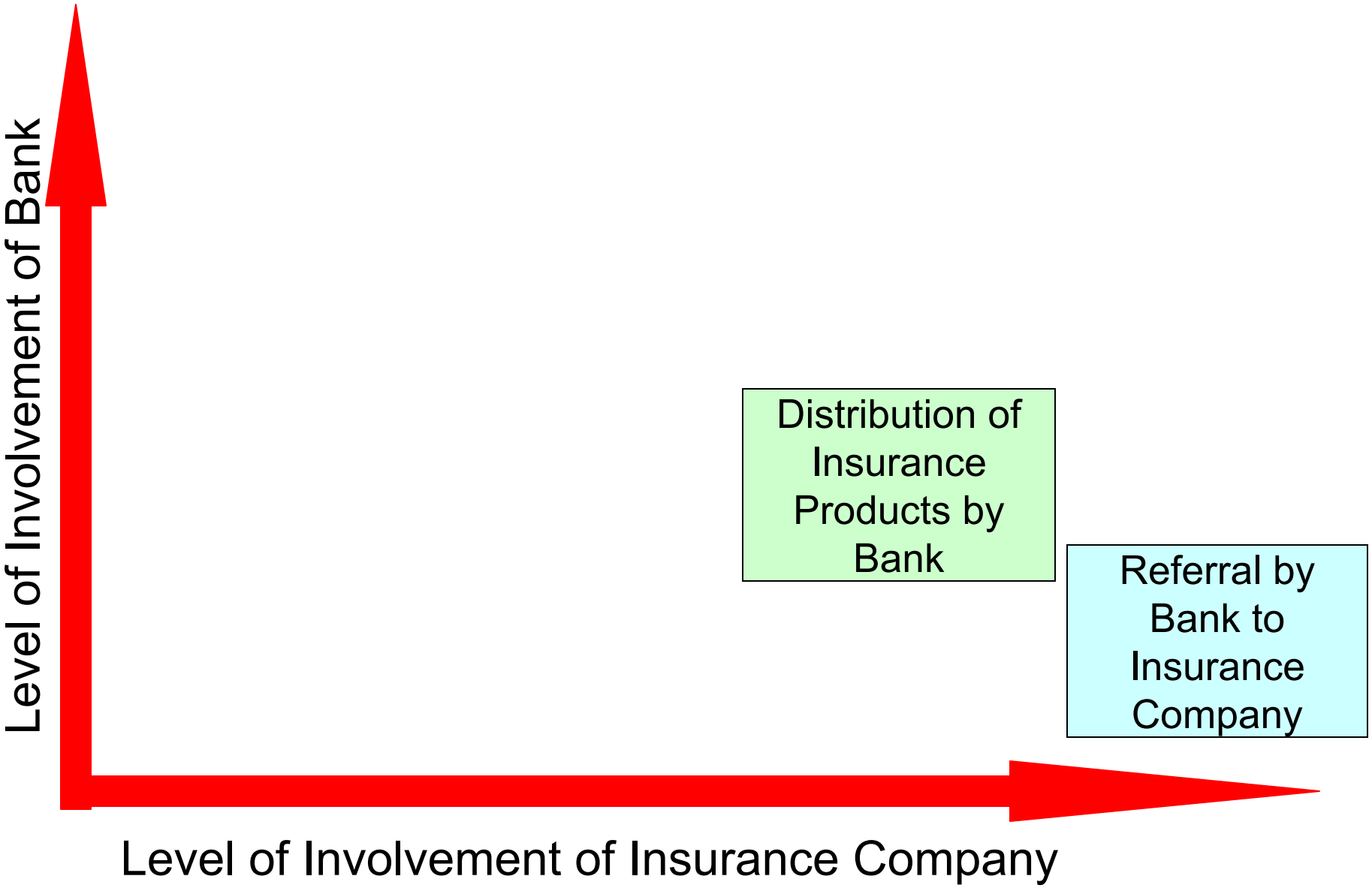

Distribution Arrangements

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- Bank responsible for sales of third party insurance products in return for commission
- Products tend to be either
  - simple products sold by bank personnel selling other consumer finance products; or
  - more complex products sold by dedicated insurance sales persons hired by bank

Business Models

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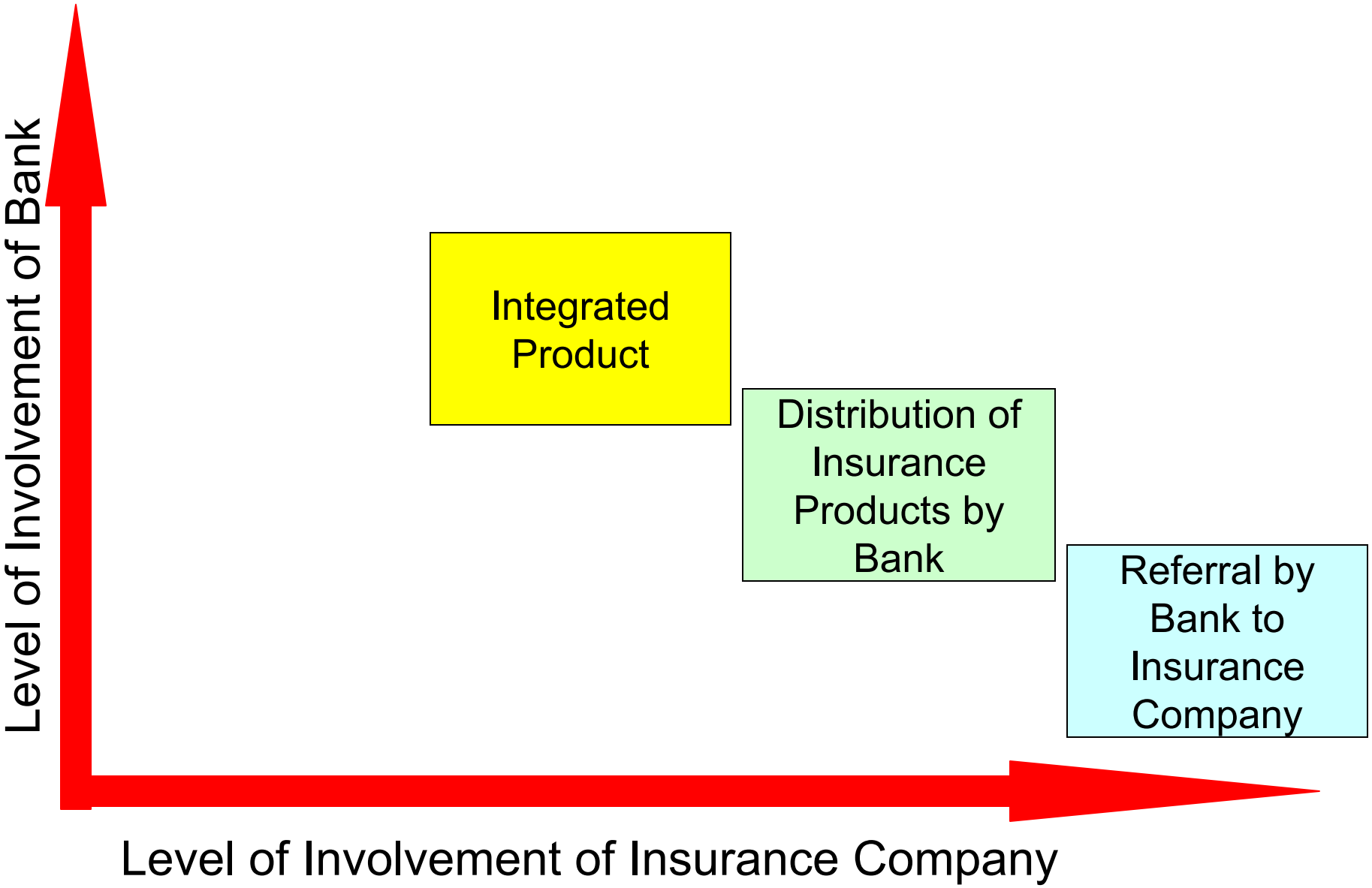

Integrated Product

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- From a customer perspective an integrated product, although in practice (due to regulatory constraints) could essentially be either
  - two products packaged together; or
  - a single product with a certain aspect being outsourced to the other party
- Common in the Middle East for life insurance savings products where the savings element is managed by the bank and the insurance element by the insurance company
- Products tend to be invest linked unbundled products
- Bank fee income partially from commission and partially from asset management charges

Business Models

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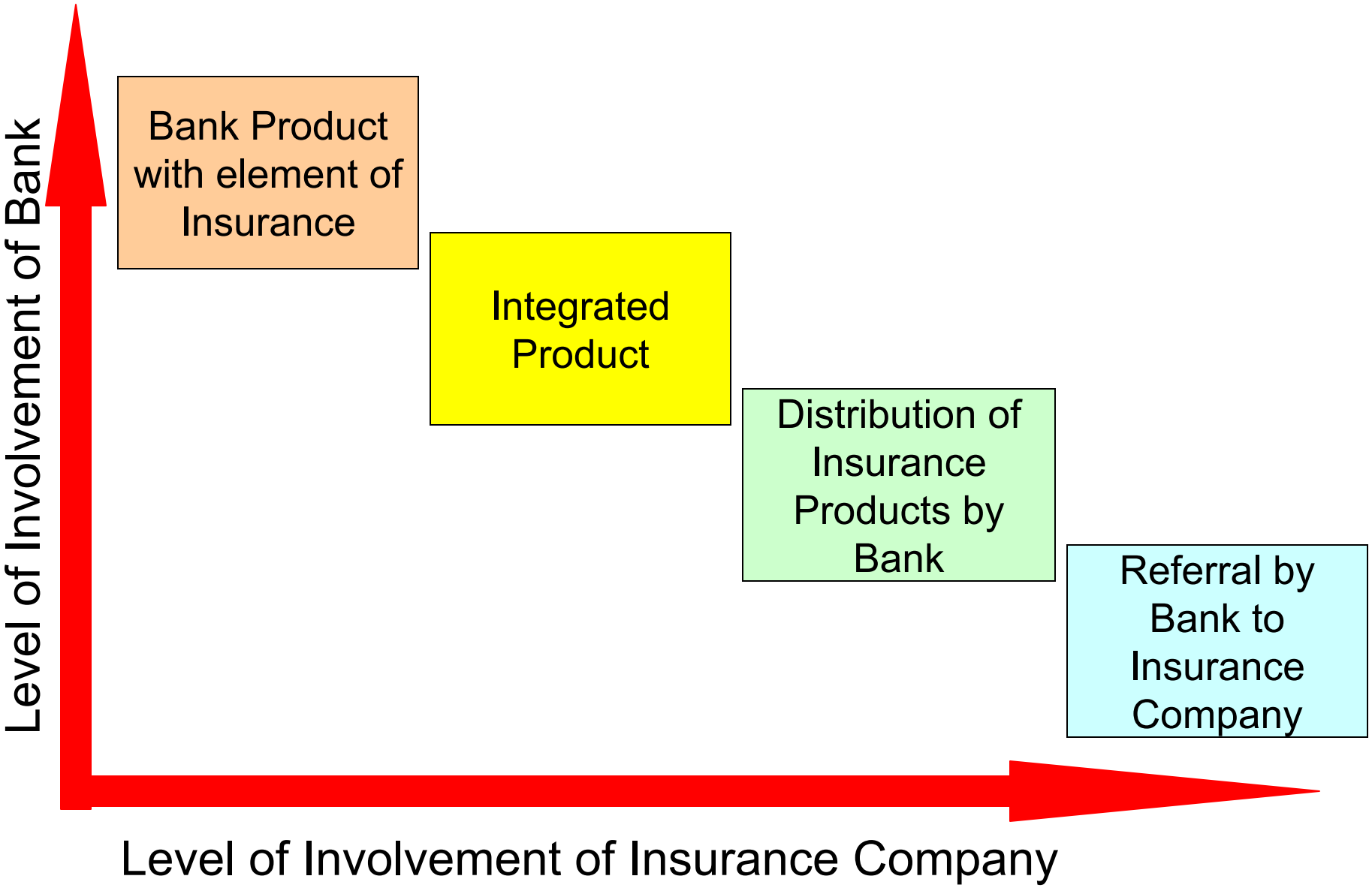

Bank Products with Element of Insurance

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- Very common with consumer credit products where life (and sometimes other) cover provided for the balance outstanding
- Sometimes independent insurance coverage provided (unrelated to any debt) to provide an additional benefit to customer on occurrence of a contingency
  - Accidental coverage quite common
- Role of insurance company usually limited to provision of cover on payment of premium
- Cost of cover sometimes borne by bank (out of interest rate margins) and sometimes charged across to customers
  - If the latter usually common for regulators to require customer consent prior to this being done

Business Models

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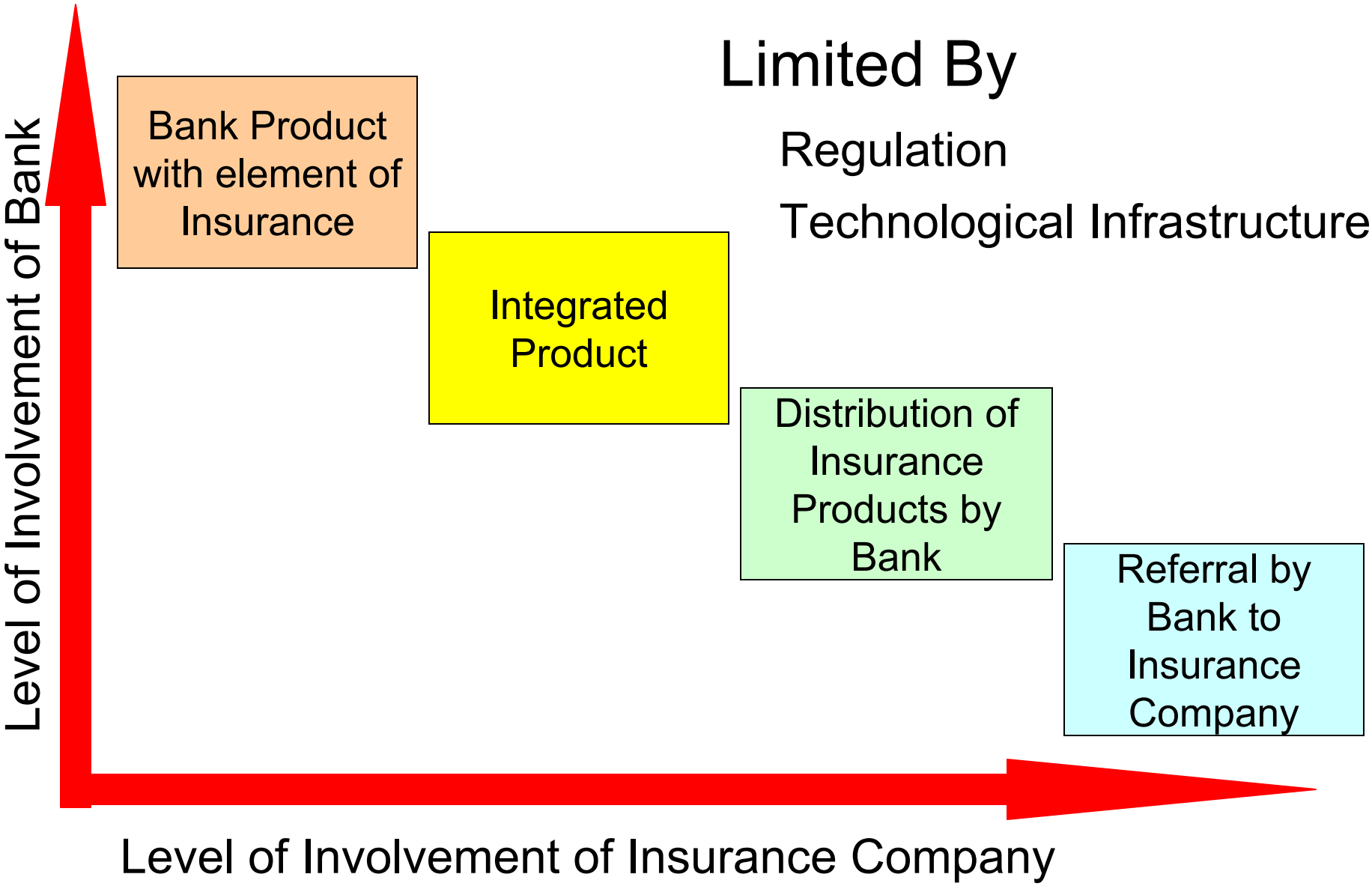
Limited By

Regulation

Technological Infrastructure



Bancassurance in Pakistan (Life Insurance Only)

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Company	Group Credit Life	Individual Life
State Life	Yes	No
EFU Life	Yes	Yes
New Jubilee Life	Yes	Yes
ALICO	Yes	Yes

Relative Rights

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- Any arrangement needs to protect the two parties over the long term.
- Main risk for bank – long term legal contract usually with insurer. Hence danger that insurer will eventually cannibalize bancassurance business by selling other policies to bank customers
  - Protected by containing customer ownership clauses in agreement (with suitable caveats)
- Main risk for insurer – when volumes are sufficiently large bank can enter into another relationship or even float its own insurance company
  - Protected by clauses which require existing insurance policies to continue to their full term (especially for life insurance) and by preventing bank from such ventures for a defined period.
- Mechanism usually legal agreement between the insurance company and the bank

Key Success Factors

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- Commitment by top bank management
  - Cannot be driven by insurance company without this
- Well coordinated operations between bank and insurance company and between various functions in each entity
- Product design responsive to customer needs
  - Good value always helps
- Assigning proper incentives to key personnel in the bancassurance cycle

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Operational Models

Operating Models

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- Operational Models are closely related with the underlying business models
- For referrals on the one extreme and bank products with an insurance element on the other there is limited coordination required
- For all other models close coordination and a clear understanding of the responsibilities of each entity (and teams within each entity) is vital for success
- Various operating models are followed, varying with the extent of integration between the processes of the two entities

Business Cycles (Life Insurance)

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- Sales and Policy Issue
- Renewals (premium collection)
- Alterations
- Surrenders
- Claims
- Investment Returns

Sales and Policy Issue

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- Two possible approaches
  - Sales cycle on a stand alone basis with underwriting and policy issuance as a follow up back office activity
  - Sales cycle followed up with immediate underwriting and Policy Issue. Cases requiring underwriting referred to insurer – although even here immediate underwriting possible if supported by systems.
- Latter approach yields much higher success rates
  - Also much cheaper and hence allows offering better value
- Approach also drives product design
  - Automated underwriting means smaller Sums Assured and therefore a higher

Sales and Policy Issue Non-Integrated

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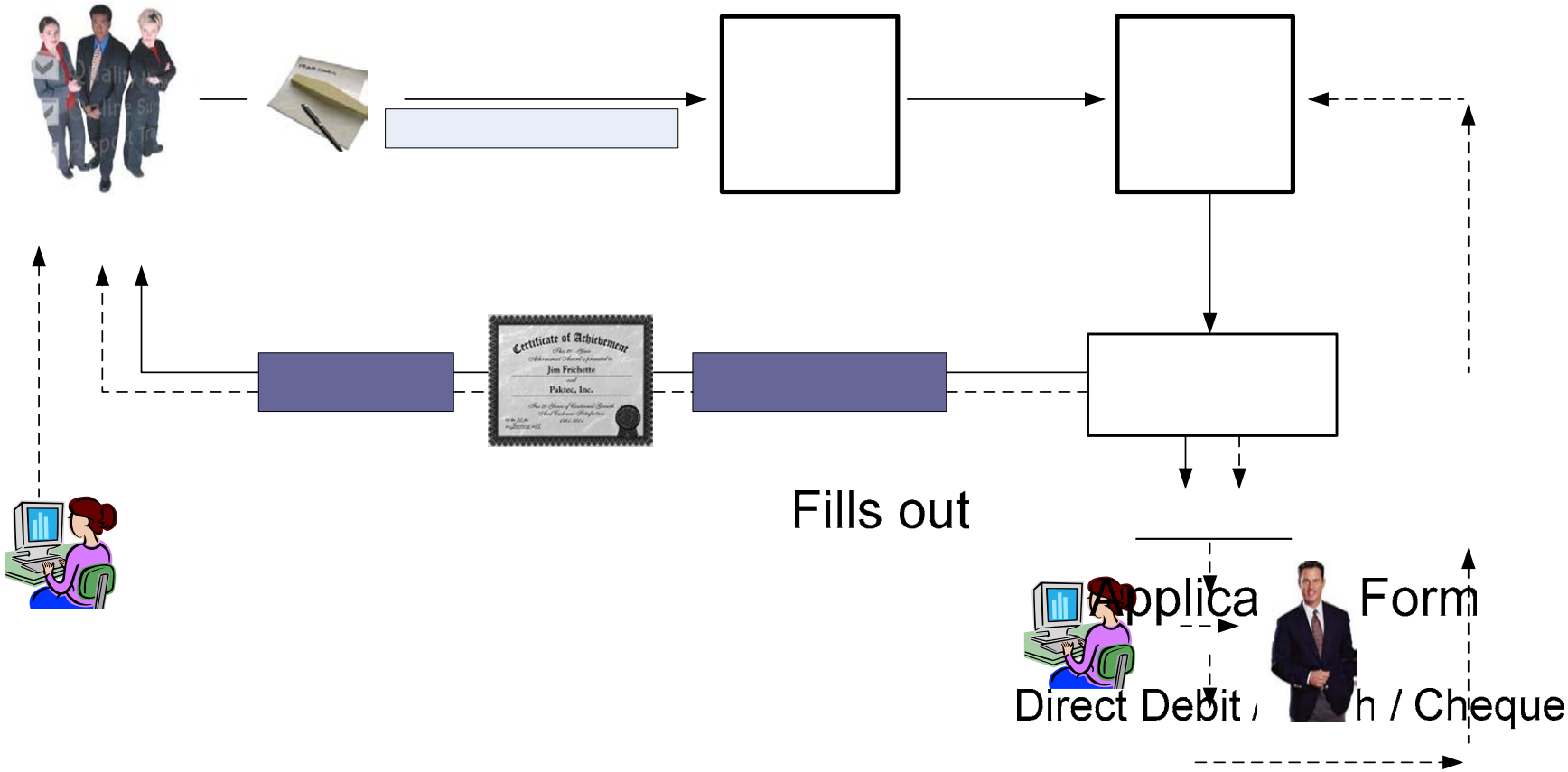

Bank Customers

Sales and Policy Issue Integrated

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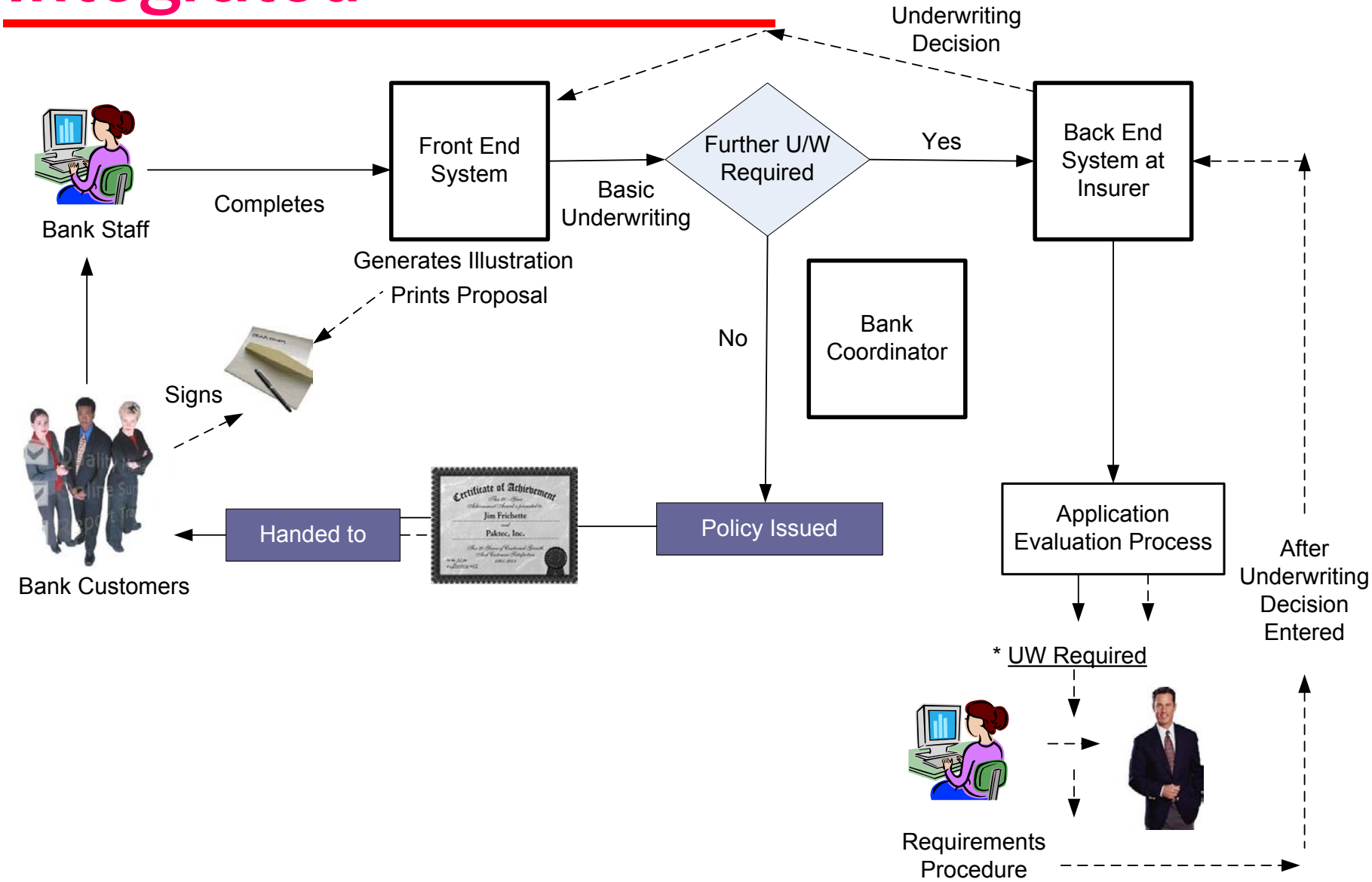

Premium Collection

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- Insurance premiums are most conveniently paid monthly
  - Coincides with monthly earnings cycle for most customers
- Not possible in Pakistan and other regional countries without automated central clearing systems and therefore no ability to collect through direct debits
- Bancassurance enables banks to collect premiums using automated processes by simply accessing client accounts with bank
  - Needs a mandate from the customer as part of application process
  - Probably the most attractive feature of bancassurance for life insurers where collection of renewal premiums is a major issue

Automated Premium Collection

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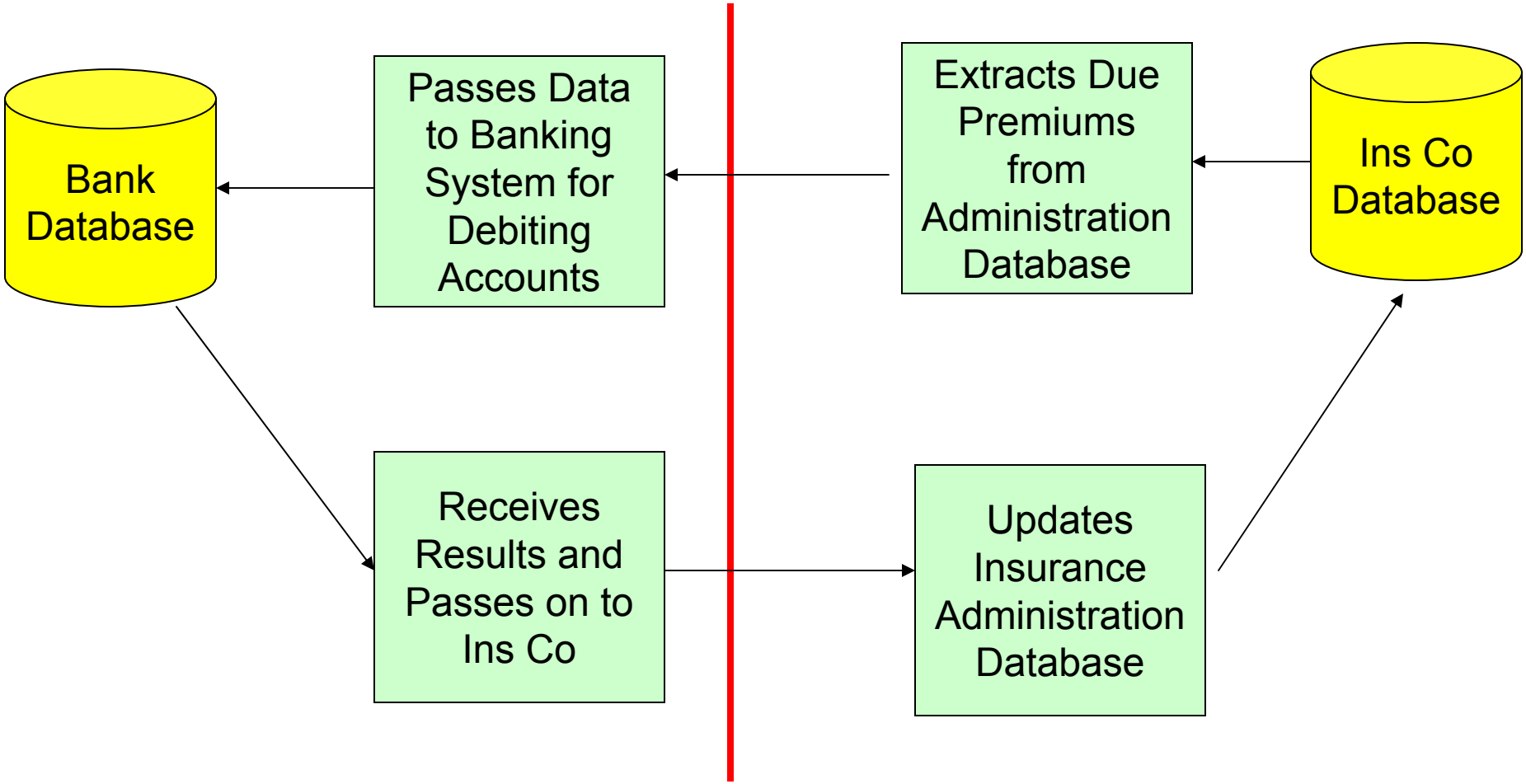

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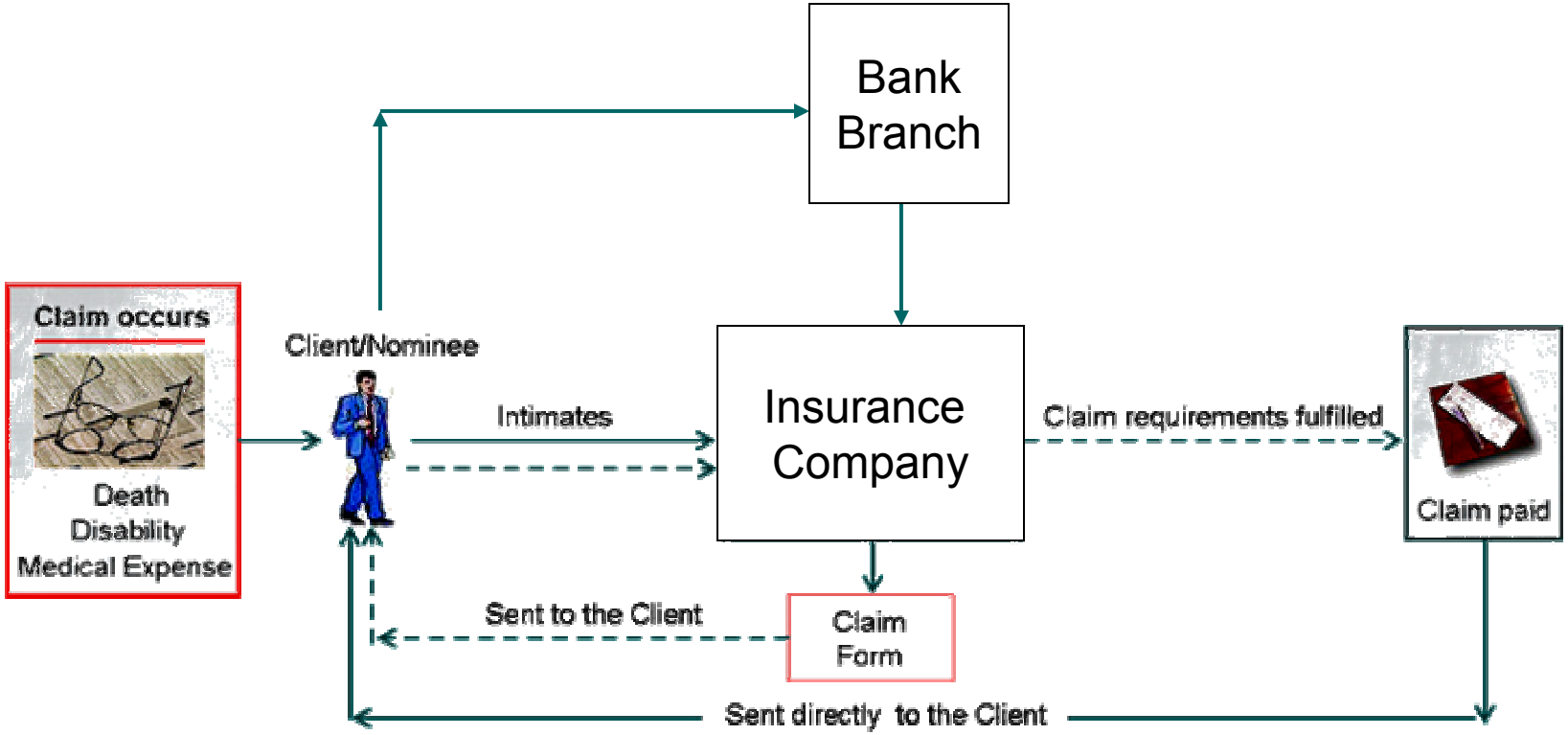
Claims

- Claims rarely tend to be automated – unless volumes large
- Death and disability claims usually require verification by a specialist capable of forming a view based on medical reports
- Hence cycle usually manual with Bank playing a coordinating role

Claims


Bank Branch
Claim occurs
Death
Disability
Medical Expense
Client/Nominee
Intimates
Insurance Company
Claim requirements fulfilled
Claim paid
Sent to the Client
Claim Form
Sent directly to the Client

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Other Issues

- Whereas there are pluses there are also some areas of potential concern
  - Mis-selling – insurance products often deliver less value than traditional bank savings products. Hence bank has to ensure that sales process robust.
  - Lack of specific regulation in Pakistan (apart from recent State Bank circular)

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Conclusion

- Area of enormous potential
  - Needs to be focussed on by both banks and insurers.
- Possibly the key to increasing insurance penetration in Pakistan.