

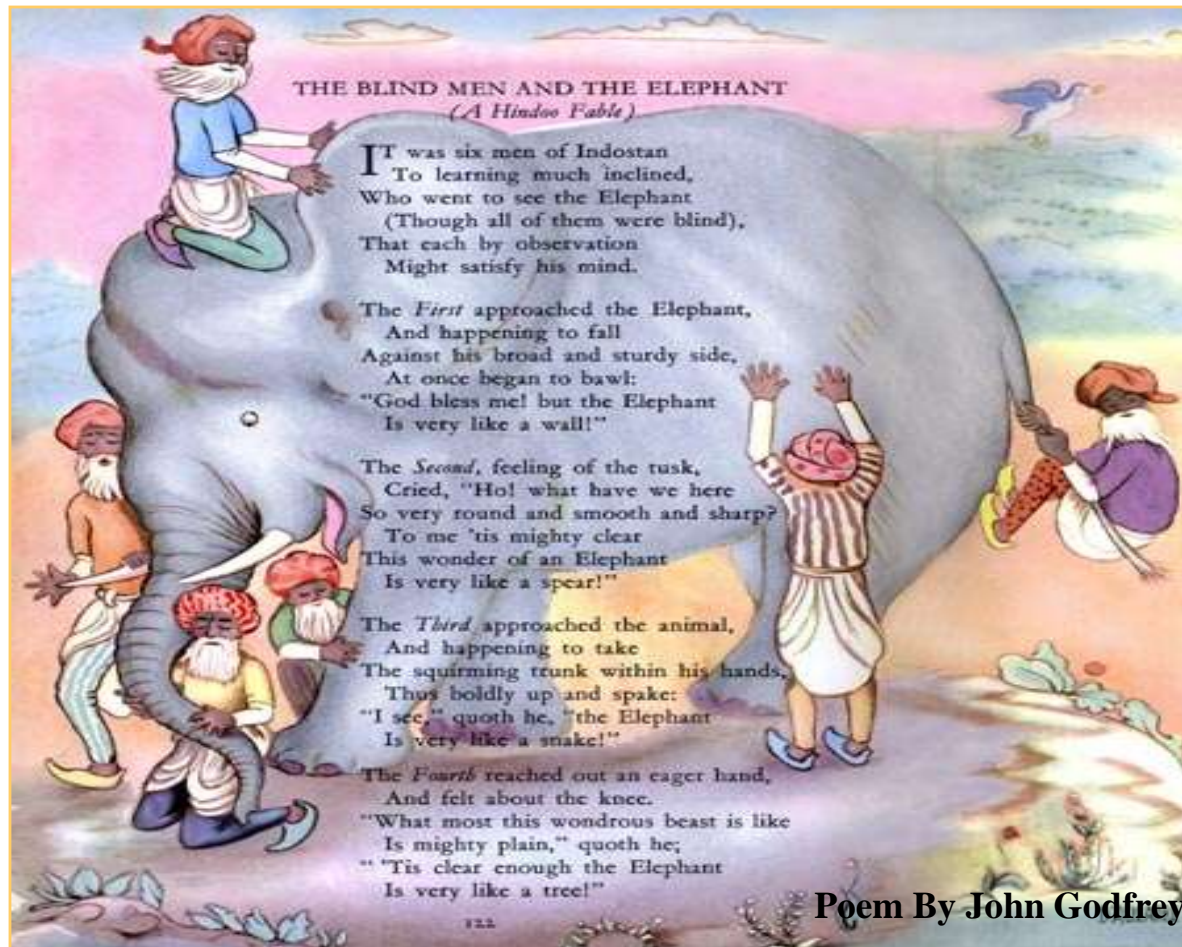
Development of Bancassurance in the Gulf Region

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Presentation made by Manoj Kumar
on 29/09/2003 at Dubai Conference

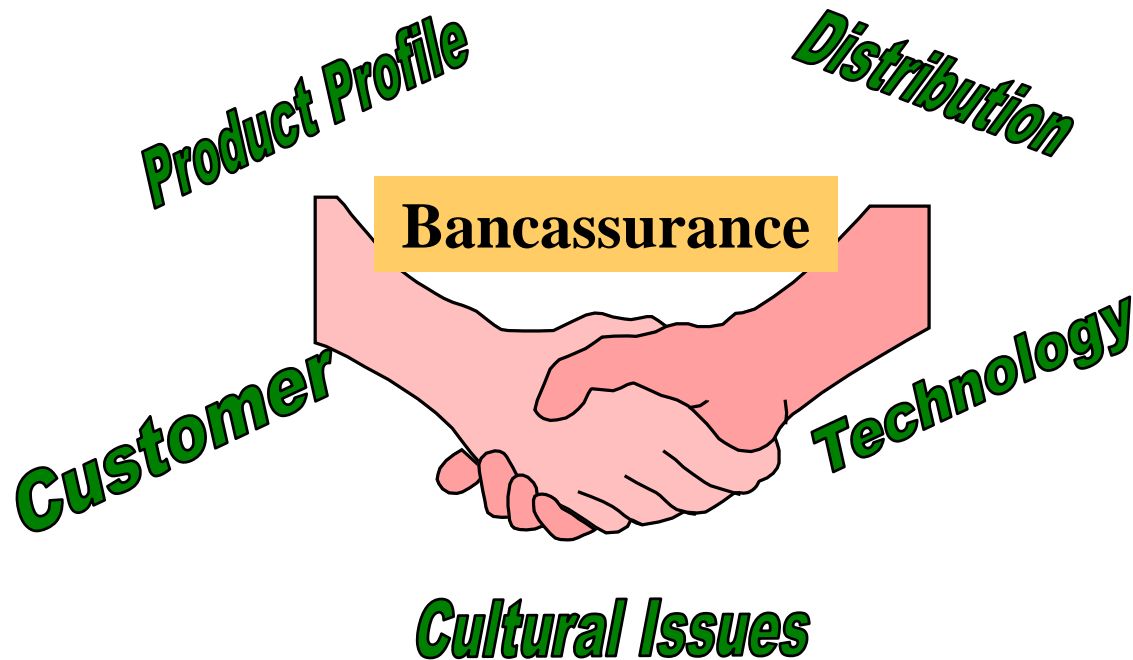
Bancassurance

A Question of Perception?



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Components of Bancassurance



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What is Bancassurance?

Investment

Life & Property Insurance

Estate Planning

Child Education

Long Term Care

Retirement

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Presentation Scheme

- Motives behind bancassurance with reference to Gulf market / Key Drivers
- Methods employed at Macro Level to achieve bancassurance
- Potential for bancassurance in Gulf
- Ground realities for bancassurance in the Gulf Region
- Bancassurance ventures in Gulf
- Bancassurance: A case study of UAE
- Trends and Directions

Motives behind Bancassurance

- Bank's desire for
 - Growth & profitability
 - To sustain
 - To increase
 - Portfolio diversification
 - Value addition
 - Spread of risk / Risk Management
 - One stop shop – customer loyalty
 - Competitive edge

Motives behind Bancassurance

- Insurer's desire for
 - Greater penetration
 - Cost cutting by reduced reliance on traditional sales force
 - Additional distribution channel
 - Co-branding of products and greater product appeal
 - Filtered data base
 - Develop new financial products more efficiently with the help of banks
 - Establish market presence rapidly

Methods Employed at Macro Level

- **Distribution Agreements**
 - Exclusive Agreement
 - Open Channels
- **Joint Venture / Mutual Ownership Model**
 - SBI Life (SBI & Cardiff)
 - Allianz Bajaj
 - ING Vysya
 - Arope Insurance, Lebanon -Blom Bank+SCOR

Methods Employed at Macro Level

- **M & A**
 - **Banks taking the lead (Citigroup - Travelers)**
 - **Insurance Cos taking the lead**
 - **Allianz – Dresdner Bank**
 - **ING Nationale-Nederlanden and the NMB Postbank Groep**
- **By Creating Subsidiaries**
 - **Credit Agricole – Predica & Pacifica**
 - **BNP Paribas – Natio Vie**
 - **Maybank – Mayban Life & Mayban Gen Assurance**

Potential for bancassurance

$$\begin{aligned} & \text{Total Bancassurance Sales} \\ & = \\ & \text{Existing Customer base} \\ & + \\ & \text{Penetration in existing market} \\ & + \\ & \text{Creation of New Demand} \end{aligned}$$

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Potential for bancassurance in Gulf Countries

- Per capita Premium

- US: \$3266

- Europe: \$918.8 (Swiss – \$4343 / UK – \$3394)

- Gulf Countries: \$155 Average

- UAE: \$302 (Total Prem: \$801 Million)

- Bahrain: \$220 (Total Prem: \$156 Million)

- Kuwait: \$259 (Total Prem: \$259 Million)

- Oman: \$77 (Total Prem: \$201 Million)

- Saudi Arabia: \$47 (Total Prem: \$992 Million)

- » **Source: Swiss Re, sigma No. 6/2002**

Potential for bancassurance in Gulf Countries

- **Insurance Penetration** (i.e. premium in % of GDP)
 - US: 9% (Life – 4.4% / Non Life: 4.6%)
 - UK: 14% (Life – 10.5% / Non Life: 3.5%)
 - UAE: 1.25% (Life – 0.23% / Non Life: 1.02%)
 - OMAN: 0.96% (Life – 0.17% / Non Life: 0.80%)
 - KUWAIT: 0.79% (Life – 0.18% / Non Life: 0.61%)
 - SAUDI: 0.53% (Life – 0.01% / Non Life: 0.52%)

» **Source: Swiss Re, sigma No. 6/2002**

Ground Realities for Bancassurance in Gulf

- Banks in driver's seat in Gulf
 - Asset of ME's largest insurer NCCI is approx. \$436 Million which is less than the 99th ranked bank in the Arab world in terms of total assets
 - Shareholders' Equity of NCCI (\$460 Million) is less than 25th ranked bank (in terms of capital) in the Arab world.
 - CRM & Online banking
 - Data base
 - Good image and proximity with customers

Ground Realities

- Financial Performance of banks in Gulf
 - Average ROE of GCC banks in 2001 was 15.3% compared to average ROE of 12.5% by international top 10 banks.
 - » Source: GBC, UK Report
 - Reduced Reliance on Net Interest Income (NII)
 - Average Non-NII – 29%
 - Kuwait / UAE / Bahrain – 30-40% (M. Bank – 44%)
 - Saudi Arabia / Qatar – 16-25%

Ground Realities

- Financial Performance of banks in Gulf
 - Capital Adequacy Ratio set by Bank for International Settlement (BIS)
 - International Standard – 8%
 - UAE – 12.7%
 - Many banks in Gulf have 10 times higher C/A Ratio
- Declining interest rates
 - Lesser deposits

Ground Realities

- Legal framework for bancassurance in Gulf
 - No guidelines for cross-shareholding between banks and insurance companies
 - Easy product development cycle
 - No exclusive regulatory authority for insurance companies
 - Ambiguous at best
 - Good and conducive for bancassurance if taken up with right approach

Ground Realities

- Demographic Compulsions
 - Mobile workforce
 - High employee turnover
 - Higher % of younger work force
 - Insecure work atmosphere
 - Saving is the prime concern
 - Less scope for local investment

Ground Realities

- Social / Cultural issues
 - Religion factor
 - Islamic Banking
 - Forbidding of interest accrual or Riba
 - Islamic financial products
 - Islamic Insurance
 - Takaful products
 - Pension issues
 - Child education

Bancassurance Drivers in Gulf

- Favorable Legislative Climate
- Higher Per Capita Income
- Greater no. of HNWIs or Dollar Millionaire
 - 300,000 in Gulf
 - 7.3 million globally (0.36% of world population)
 - » 2002 Figures: Report by Merrill Lynch
- Demand for Insurance
- Increasing customer sophistication
- Decreasing Customer Loyalty
- Lack of govt. support for welfare schemes

Bancassurance Ventures in Gulf

Some Examples

- **Kuwait**

- **NBK + ALICO**

- Distribution Agreement
 - College Education Plan
 - Term Life & Universal Life

- **Bahrain**

- **BBK + BKIC**

- Distribution through bank branches
 - Secura Products (motor, Home)

Bancassurance Ventures in Gulf

- **Oman**
 - OIB + MIC
 - Through bank branches
- **Lebanon**
 - Medgulf with Banque de la Mediterranee, Allied Bank & Saudi Lebanese Bank
 - Motor, Home, PA, Term Life
 - Blom Bank owns Arope Insurance (30%)

Bancassurance on Islamic Principles

- Saudi Arabia
 - Bank Alzazira has set up a dedicated Takaful Insurance Division in 2002
- UAE
 - Dubai Islamic Bank creates AMAN Insurance & Reinsurance to do insurance based on Takaful principles

Bancassurance in UAE: A Case Study

- Banks have stakes in insurance companies
 - Mashreqbank & Oman Insurance Company
 - Emirates Bank & NGI
 - Dubai Islamic Bank & Aman Insurance
- Bancassurance Tie-ups
 - Oman Insurance with Mashreqbank
 - Corporate banking, Branch staff
 - Non-Life, Life, Motor, Medical

Bancassurance in UAE: A Case Study

- Bancassurance Tie-ups
 - NGI with Emirates Bank
 - Highly integrated model
 - Mainly Life products
 - Customized software
 - NGI with Commercial Bank of Dubai
 - Standard Chartered with AIG & Zurich Financial
 - Investment products
 - HSBC Bank with HSBC Brokers

Bancassurance in UAE: A Case Study

- Insurance Products being sold
 - Mortgage Linked Insurance Products
 - Life, Fire, Motor
 - Purchase protection
 - Term Life
 - Investment plus protection
 - Car Insurance
 - Credit Shield

Bancassurance in UAE: A Case Study

- Competition
 - 21 local banks and 27 foreign banks
 - 60 insurance companies and 160 insurance brokers
 - Mutually beneficial to start bancassurance
- Distribution Channels
 - Bank's branch network
 - Bank's staff - Oman Insurance & NGI
 - Platform Bankers
 - Call Center
 - ATMs

Bancassurance in UAE: A Case Study

- **SWOT Analysis of Bancassurance in UAE**
 - **Strength**
 - Banks with high brand image
 - HNWI's - 45,000 in UAE (1.5% of UAE's population)
 - Developed data base
 - Availability of Islamic & Takaful (Shariah compliant) banking and insurance products
 - **Weaknesses**
 - Little product differentiation
 - Price undercutting due to extreme competition

Bancassurance in UAE: A Case Study

– Opportunities

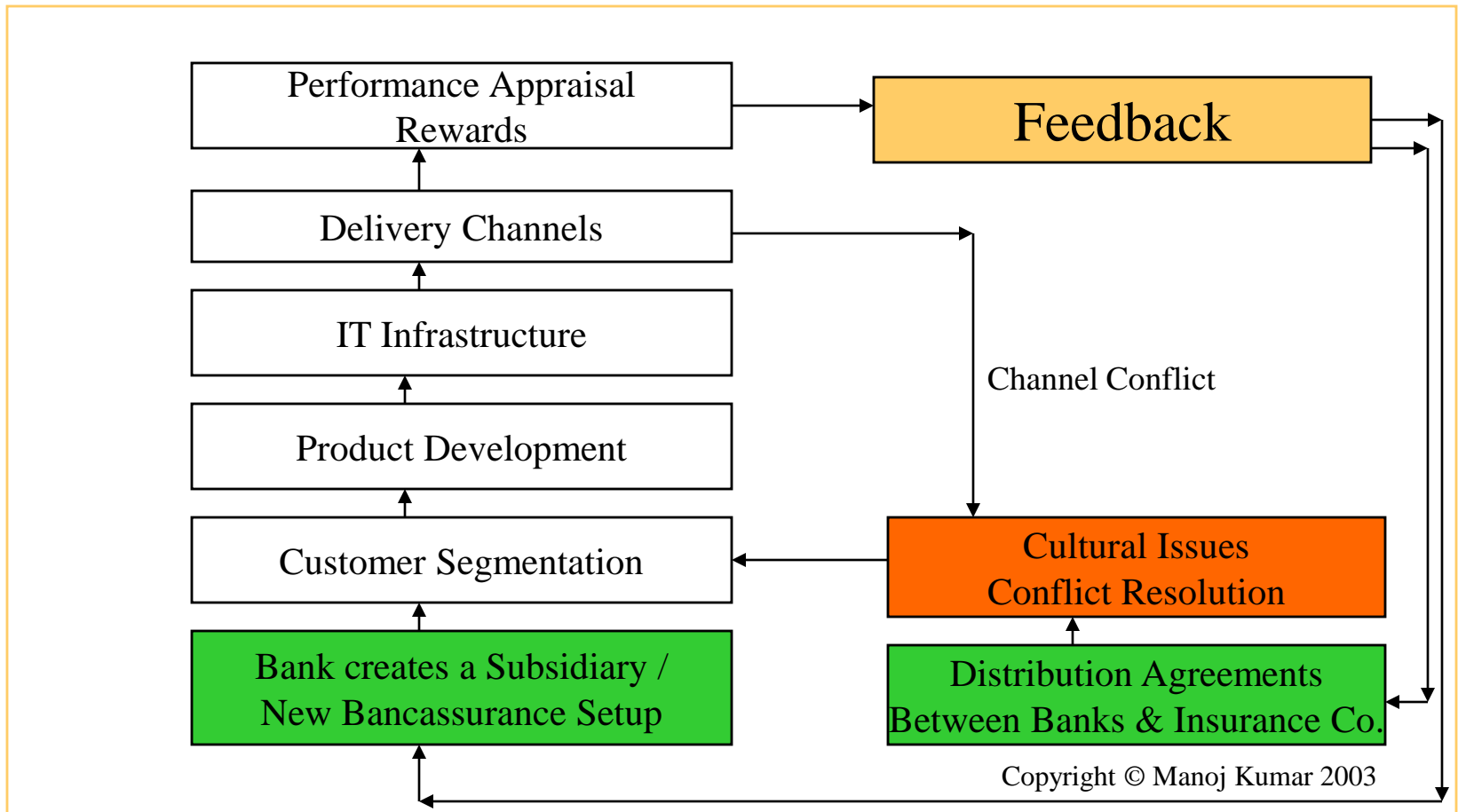
- Favourable legal & fiscal climate
- Life penetration only 0.23%
- Scope for Retirement Plan
- Pension Products
- Investment & Saving products with protection component
- Children's education plan
- Scope for development of new products

Bancassurance in UAE: A Case Study

– Threats

- Half hearted efforts
- Short term goals driven by desire for quick bucks
- Sectoral vision and lack of integrated approach
- Lack of commitment on either part
 - No long term agreement
 - Banks flirting with many ins Cos. and vice versa
- Customer service may suffer and banks may lose brand loyalty

Bancassurance Model for Gulf



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Lessons / Reminder

- Success in Europe is no guarantee
- More failures than success stories
- Bancassurance is dynamic in nature and no model is universally applicable - ING
- Need to shift from product-oriented cross-selling to customer-focused cross selling
- Invest in training and retraining
- Take a professional approach
 - Consulting firms are available
 - Be realistic
- It should be integrated with corporate strategy

Trends & Direction

- There is an awareness and the urge to use and try bancassurance
- Many banks in Middle east and Gulf region have seriously started evaluating and making blue print for bancassurance
- Focus should be more on Life rather than Non-Life as non-life is extremely competitive and little margin is left for insurers and banks
- New products must be developed to harness the real bancassurance potential in the Gulf Countries

Thank You!

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