

Bancassurance

Economics of Insurance Sales by Banks



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Agenda

- Economics of Bancassurance
- Stages in Bancassurance sales
- Need for Bancassurance
- Sources of income for Bancassurance
- Case Studies - Core banking products Vs Bancassurance products
- Goal Post for bankers
- Insurers' challenge
- The way ahead



Economics of Bancassurance

- “Economics is the social science that studies the production, distribution and consumption of goods and services”. -- Wikipedia
 - Bancassurance:
 - Production – product development, product procurement or product bundling
 - Distribution – marketing and distribution channels
 - Consumption – purchase of service (insurance) out of savings or borrowed funds. This leads to insurance sales by banks.
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Evolution of Insurance Sales in Banks

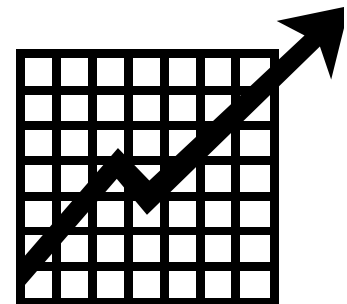
- **Passive Bancassurance**

Passive Bancassurance refers to the sale of insurance products bundled with other core banking products

- **Active Bancassurance**

Active Bancassurance refers to the active sale of insurance products by banks. Such products may not be linked to the sale of core banking products

- **Migration from Passive to Active Bancassurance**



Passive Bancassurance

- Key features:
 - Nil sales effort
 - No marketing cost
 - Mass distribution
 - Little or no choice
- Examples:
 - Depositors' Insurance
 - Credit Shield
 - Credit Life



Active Bancassurance



- Key Features:
 - Active Sale – Tele sales, meetings, Direct Mailers, etc.
 - Related as well as unrelated products
 - Related – car insurance with car loan
 - Unrelated – Travel Insurance or Life Insurance
 - Key Products:
 - Personal Line simple products – Term Life, Home, Car, Travel
 - Commercial Line Products
 - Personal Line complex products – unit linked investment products
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Migration to Active Bancassurance

- Requirements:
 - Must be part of bank's overall strategy
 - Integration with other departments, e.g. retail, corporate, trade finance, operations, investment etc.
 - Sales culture
 - Skill set
 - Medium to long term goal
 - Resource commitment



Need for Bancassurance

- Bank's dwindling core earnings
 - Interest income
 - Retail lending – personal loans, credit cards, housing loans
 - Commercial / Corporate lending – term lending, mortgage finance, equipment finance, etc.
 - Investment income
 - Fee income
 - Loans and advances
 - Letter of credit
 - Charges
- Spread of risk
- Other economic factors
 - Risk based capital
 - CRR / repo rate
 - Reducing margins over libor



Sources of Income for Bancassurance

- Retail
 - Car loan – Motor Insurance
 - Home Loan – Mortgage Life Insurance, Home Insurance
 - Personal Loans – Credit Life, Travel Insurance
 - Deposit / Savings – Investment and/or Unit linked Savings Products
- Corporate
 - Term lending – commercial line insurance, e.g. Fire, CAR, WC, etc.
- Trade Finance
 - Letter of Credit
 - Marine Insurance
 - Export Credit Insurance



Need for Bancassurance



Banks in UAE	Net Interest Income (%) Year 2006
Mashreqbank	71%
National Bank of Abu Dhabi	69%
National Bank of Dubai	64%
Bank of Sharjah	57%

Source: various websites

Core Banking Product Vs Insurance Products

- **Case Study 1 (Commercial Lending)**

- AED 100 Million real estate project is financed at libor plus 15 bps.
 - Interest income to bank – AED 150,000
 - Fee Income from CAR policy – AED 50,000 (assuming 20% commission on a premium rate of 0.25%)
 - Insurance income on such deals could be between 20 to 35% of the interest income.
 - This additional fee income can be used to offset declining interest income
 - Fee / commission income from the core lending is not considered for calculation
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Core Banking Product Vs Insurance Products

- **Case Study 2 (Deposit)**

- A deposit of AED 1 million is mobilized @6% p.a.
- Banks make approx 2-3% as interest on deposit in year 1. This translates into an income of AED 30,000
- If the same deposit is invested in a structured investment product, bank can easily make a fee income between 4 to 7%. This will translate into AED 70,000 fee income.
- In case the deposit is invested into a unit linked plan for over 5 years, the income could be between 15 to 30%.



Goal Post for Bankers

- To take the fee income from Bancassurance to 50% of bank's total commission income
- Cross-sell at least one insurance policy to each of its customers; be it motor, term life, home or investment
- To float an insurance arm to maximize profits
- Become one stop shop for all financial needs of all its customers whether retail or corporate



Insurers' Challenge

- To meet banks' income expectations
- Assist in product development
- Assist in sales process
- Agree to service standards
- Keep innovating
- Develop an enduring relationship



The Way ahead

- Middle East market is in its youthful stage for Bancassurance – immense scope
- Innovation in product development and sales techniques
- Creative tie-ups – based on commitment to the cause; not purely on commission structure
- Move towards risk taking
- Reverse architecture – insurance companies acquiring banks





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