



# **BANCASSURANCE IN UK**

## ***KEY ISSUES & CHALLENGES***

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# AGENDA

- ❑ About BCWL
- ❑ Overview
- ❑ Experience So Far
- ❑ Models at Work
- ❑ Penetration
- ❑ Product Development
- ❑ Distribution
- ❑ Regulation
- ❑ Way Forward



# ABOUT BCWL

- ❑ Incorporated in 2003 in UK
- ❑ Branches in London, Dubai, Mumbai
- ❑ Lagos (Nigeria) Branch coming up
- ❑ Key Activities:
  - Setting up bancassurance agency or Division for the bank
  - Setting up JV or wholly owned insurance subsidiary for the bank
  - Takaful
  - Insurance Company Restructuring
  - Regulatory & Compliance matters
  - Training
  - Channel Management
  - Product Design
  - ISO
- ❑ Group Companies
  - MNK Re Limited – Reinsurance Brokers & Consultants based in London
  - Cruise Technologies – Publishing, Hardware & Software Company based in Dubai

# BANCASSURANCE IN UK: AN OVERVIEW

- ❑ Roller Coaster Ride
- ❑ No Early Mover Advantage - Barclays Life in 1965
- ❑ All Top Banks in Bancassurance business but only moderate success
- ❑ More than 50% banks not serious about bancassurance
- ❑ Retrograde Trend?
  - ❖ HSBC Bank – HSBC Insurance Management – Kane Consultants
  - ❖ HSBC Brokers - Marsh
  - ❖ Lloyds TSB - Scottish Widows – in search of buyer
  - ❖ Lloyds TSB – Abbey Life – Deutsche Bank
  - ❖ RBS - Churchill
- ❑ Poor Cousin of European Counterparts
  - ❖ Limited products
  - ❖ Lesser penetration
  - ❖ Lesser revenue

# BANCASSURANCE IN UK: EXPERIENCE SO FAR



Bank	Insurance Company
Deutsche Bank	Abbey Life
HBOS	Halifax Life
Lloyds TSB	Lloyds TSB Life, Scottish Widows
RBS	Royal Scottish Assurance, Churchill, Direct Line, Privilege, Green Flag, NIG
HSBC	HSBC Life
Barclays	Barclays Insurance (Dublin) Ltd.

# BANCASSURANCE IN UK: MODELS AT WORK



- ❑ Predominantly Integrated Model
  - ❖ HBOS, Lloyds TSB, RBS, HSBC
- ❑ Hardly any JV
- ❑ Distribution Model picking up
  - ❖ Barclays
  - ❖ Abbey
  - ❖ Alliance & Leicester – now part of Santander
  - ❖ Bradford & Bingley – Bingley is now part of Santander

# BANCASSURANCE IN UK: PENETRATION

## LIFE BUSINESS

- ❑ Average 15% penetration in the new life business split as follows:
  - ❑ Investment & Savings – 20%
  - ❑ Protection – 22%
  - ❑ Individual Pensions – 7%
- ❑ 2% penetration in total life portfolio (new + renewal)
- ❑ Compared to 80-90% in Portugal and 50-70% in France, Austria, Italy & Spain

## NON-LIFE BUSINESS

- ❑ About 10% to 12% of overall Non-Life Premiums
- ❑ Highest in Europe
- ❑ Competition catching up. Penetration likely to reduce due to online portals. E.g. confused.com, beatthatquote.com, etc.

# BANCASSURANCE IN UK: PRODUCT DEVELOPMENT



- ❑ Highly standardized products
  - ❖ Individual pensions
  - ❖ Level term life
  - ❖ Critical Illness
  - ❖ Credit Life & Mortgage Life
  - ❖ Non-Life: Home, Travel & Car Insurance
- ❑ No OTC Products
- ❑ Little or no innovation
- ❑ No differentiation – so critical to bancassurance
- ❑ Segmentation – almost non-existent (except HNWI)



# BANCASSURANCE IN UK: DISTRIBUTION



- ❑ Typical Branch Network
- ❑ Passive Marketing
- ❑ Absence of Direct Sales, Tele-Sales, Mailers – however E-Commerce being used
- ❑ No OTC Sales

# BANCASSURANCE IN UK: REGULATION



- ❑ Regulation is impeding the growth
- ❑ Only specialists can sell complex insurance products
- ❑ Too many interventions
- ❑ History lies in failure of Pension Funds in the 90s
- ❑ PPI is the recent issue where mis-selling has been reported. Resulting in greater controls

# BANCASSURANCE IN UK: WHAT'S THE DIFFERENCE



- ❑ History of deceit and failures
- ❑ Consumer confidence lacking
- ❑ Strict regulatory control – bancassurance was never allowed to walk free
- ❑ Less loyal to bank compared to European counterparts
- ❑ IFAs are widespread and key distribution channel for complex life & investment products
- ❑ Shift towards electronic banking
- ❑ Social security schemes makes it less attractive – however this applies only to lower middle class

# BANCASSURANCE IN UK: CURRENT ISSUES



- ❑ Product Tying / Bundling Banned
  - ❖ PPI - £9 Billion pay out by Lloyds TSB, Barclays, Santander & HSBC
  - ❖ Credit Life
- ❑ RDR – Retail Distribution Review 2012
  - ❖ End of commission based sales
  - ❖ Fee for advise
  - ❖ More transparency
  - ❖ Greater professional competence required
  - ❖ Greater capital requirement for IFAs
  - ❖ Likely to be a boon for bancassurance (or will they squander the opportunity once again?)

# BANCASSURANCE IN UK: CURRENT ISSUES



## ❑ Solvency II

- ❖ Risk Based Capital Requirement
- ❖ Applies to the Parent Insurer or Holding Company as well
- ❖ Linked to the type of assets and liabilities

## ❑ Basel III

- ❖ Increased capital requirement for Banks in bancassurance business
- ❖ Insurance company's capital to be deducted from Tier 1 capital
- ❖ Reduced ROE
- ❖ Strategy rethink by banks

# BANCASSURANCE IN UK: TRENDS

- ❑ Reduction in cross-sales at the point of sale
- ❑ Increased regulatory focus and increased capital commitment may force rethink on bancassurance strategy
- ❑ Move away from production to distribution
- ❑ Banks unlikely to take new risks or set up new insurance ventures in view of their own problems – recent financial crisis

# BANCASSURANCE IN UK: WAY FORWARD



- ❑ Big Potential
- ❑ Channel Management
  - ❖ Align products to distribution channel
  - ❖ Create more distribution channels
- ❑ Product development
  - ❖ Based on segmentation, i.e. age, income, ethnicity, etc.
- ❑ Train Bank Staff on insurance products – it is more cost effective
- ❑ Develop Compliance culture – it is an impediment only in the short run
- ❑ Reconnect with the customers – **REACH OUT !**



**THANK YOU!**