Department of Information and Service Management

Bancassurance: What has been written since 2006?

Raimo Voutilainen

Aalto University

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Abstract

Bancassurance is internationally the dominating cooperation model between a bank and an insurance company. In this paper I study Bancassurance literature written since my dissertation (2006). The papers are partly my own and partly from others. Most papers consider various Bancassurance operating models and recommend those which they consider best. Also, model transition has been seen lately. I study transition mostly from two points of view: from customer perspective and the tightening solvency regulation’s point of view. Also, other recently published literature is considered.

Keywords

Bancassurance, banks, insurance companies, bancassurance operating model, regulation, model transition

BANCASSURANCE: WHAT HAS BEEN WRITTEN SINCE 2006?

1 Introduction

I wrote my PhD dissertation on a Bancassurance topic, more precisely on selecting the best alliance model between a bank and an insurance company in 2006. Now that fifteen years have passed, I decided to find out what has been written after that on the Bancassurance topic and especially from the point view of the alliance problem I studied. I have written on the topic myself, but I found a considerable amount of other researchers' studies around the world. It was a pleasure to notice that many of them refer to my works, above all to my dissertation.

When surveying others' papers, I have had two sources: The excellent research database of Aalto University Library and the working paper written by Raija Järvinen and myself (2015), for which we gathered a great amount of Bancassurance papers published until that year.

2 My own papers

For a start, I present briefly my own dissertation together with its background articles.

Voutilainen (2005): I define six alternative alliance models between a bank and an insurance company. The models differ from each other according to the tightness of the mutual ownership of the members of the alliance and the overlapping/separateness of the service channels. In the article I present interviews of executives of Finnish banks and insurance companies to find out their important criteria to select the best alliance model.

Korhonen-Voutilainen (2006): Executives of Finnish banks and insurance companies are gathered as an expert panel to prioritize the alliance models defined in the previous study according to the criteria derived there. Analytical Hierarchy Process (AHP) is adopted as a group decision model. Ownership-based model i.e., financial conglomerate becomes the most preferred model.

Korhonen-Koskinen-Voutilainen (2006a): Executives of the Finnish finance and insurance supervisory authority are interviewed to find out their important alliance model selection criteria. They are gathered as an expert panel to prioritize the models defined in the first study above according to the criteria achieved now. Cross-selling agreement which is the loosest available choice becomes the best alternative. It turns out that financial conglomerate qualifies as a compromise, if supervisability and system risk management are at an acceptable level.

Korhonen-Koskinen-Voutilainen (2006b): Executives of Finnish labour organizations are interviewed as representatives of customers to find out their important alliance model selection criteria. They are gathered as an expert panel to prioritize the models defined in the first study above according to the criteria achieved now. Also, in this case cross-selling agreement which is the loosest available choice becomes the best alternative. It turns out that financial conglomerate qualifies as a compromise, if transparency and comparability of the products are at an acceptable level. Additionally, customer representatives were asked to prioritize the alliance models using the criteria of the business executives and the supervisors.

Voutilainen (2006): My doctoral thesis consists of four articles (above) and an extensive foreword discussing the changing operating environment of banks and insurance companies as various alliances emerge. The merit of the dissertation is the solution of the problem of selecting the best alliance model between a bank and an insurance company which is important in practical strategic work with a help of the tools of modern decision science. The decisions of three decision groups – executives, supervisors and customer representatives – are compared and even a compromise is found on certain conditions. Additionally, actions of customer representatives in the role of other decision groups are analyzed.

My studies after the dissertation

Voutilainen (2007): I wrote articles and gave lectures on the subject of my dissertation for numerous forums both in Finland and abroad. This article is written for readers of Nordic insurance companies and it is a summary of the results of my dissertation.

Ilvessalo-Voutilainen (2009): The Finnish Finance and Insurance Publishing asked the authors to write a book like this, because there were not any strategy books for insurance business in the market and there was demand for such a book. The result was this textbook and manual. Ilvessalo writes about strategic management in general, strategic management in Finnish insurance companies and examples of the contents of strategic analyses and analysis tools. I write about the location of insurance companies in the enterprise universe, structural change of insurance business, networking of insurance companies, result formation and division of an insurance company and an introduction to Solvency II. The book has been widely used in the seminars and management education events of the Finnish Finance and Insurance Education (FINVA).

Mäenpää-Voutilainen (2011): The article examines cross-selling of bank and insurance products for SME clients. Combination products consisting of a bank product and an insurance product and one stop shopping are drivers of cross-selling for private customers, but it turns out that the same does not hold in the case of SME clients. The reason is that financial enterprises do not actively offer, if they have developed in the first place, combination products for enterprises. Furthermore, corporate clients are not interested in one stop shopping, because it does not include concentration benefits. In all, preconditions for cross-selling for SME clients are totally different from those for cross-selling for private customers.

Voutilainen-Ruuskanen (2015): The tightening EU insurance company regulation and especially the inception of Solvency II solvency system in 2016 forced insurance companies to update their product strategies. This study surveys the anticipation of the biggest Nordic life insurance companies towards strengthening regulation. Nearly all interviewed companies have moved or are moving from actuarial interest based to unit linked insurance, but otherwise the companies seem to have a relatively indifferent attitude towards their own risk management with the help of e.g. reinsurance. As premiums grow, a change can be expected here.

This study examines how recent changes in regulation have affected the product strategies of Nordic life insurance companies. Insufficient anticipation tends to weaken the solvency status of the companies in the long run and therefore also the position of the companies in alliances with banks.

Voutilainen-Järvinen (2015): The article discusses different operating models of Bancassurance which differ from an insurance company totally owned by a bank to owner wise completely different partners. Solvency II and Basel 3 systems increase capital requirements of insurance companies and make their ownership even more expensive than before for banks. That is why banks especially in Southern Europe have given up their insurance ownerships either concerning products demanding much solvency capital or completely. In this article the viewpoints are that of a bank adopting the transfer of Bancassurance operating model and its insurance customer and a question is asked how the transfer has been experienced in view of several criteria. The criteria have been gathered by an outstanding literature study. The actual questionnaire remains to be carried out as a separate project.

This study examines the reasons for the change of Bancassurance operating model in certain European countries and gathers a great number of criteria with the help of which the consequences of operation model change (transition) on the banks and their insurance customers which have experienced it can be studied.

Voutilainen (2018): In my memoirs I tell the story of my life emphasizing working career but not forgetting hobbies. The book is self-financed and I have distributed it to friends and business partners.

Voutilainen (2019): In this article I present different ways which banks and insurance companies have adopted to act as each other’s competitors and allies from 1980’s until present. I also discuss trends which have affected or will affect the operation environment of financial enterprises. The article has been sent to nine executives of Finnish banks and insurance companies for commenting. I present here their comments and my counter comments to them. The comments reflect the professional backgrounds of the respondents. They deepen especially the recent discussion about the regulation of banks and insurance companies.

According to many comments the ownership of a product company (most often an insurance company) should be given careful consideration. One reason for this is the capital cost associated to the ownership. Another reason is that new regulation demands higher transparency and comparability of products, and tightening competition sets pressure on prices. However, many commentators point out that new rules are not only a threat but also an opportunity.

Voutilainen-Koskinen (2019): The insurance and banking sector has experienced big structural changes during the last decades. First banks performed offensive actions and established or acquired insurance companies. Later on, banks and insurance companies have started businesses outside the financial sector. At the same time enterprises outside the financial sector have penetrated into the insurance and financial sector. In this article we describe structural changes of the insurance and financial sector and current dominating trends which have changed the landscape of the industry.

3 Others’ papers

Bancassurance is in the following denoted by BA. In addition to others’ papers I have referred to my own studies when relevant.

What is the best BA operating model?

In the literature there are differing opinions about if BA should be arranged by an ownership model or by a loose alliance. Korhonen and Voutilainen (2006) study the matter from Finnish and Kalotychou and Staikouras (2007) from Greek executive point of view. Fields et al. (2007a, 2007b) study actualized American and European ownership transactions. They conclude that the positive wealth effects of a BA merger are linked with scale benefits and potential scope benefits, which were also identified in my dissertation (2006) as important criteria for the selection of a BA model. All the above-mentioned scholars recommend the captive model (the bank owns one or more insurance companies) for a BA operating model.

However, it is possible to express a different opinion. Italy is one of those European countries where BA is a relatively dominating sales channel. Italians have published several studies about BA and its implementation.

Ricci (2009) and Fiordelisi and Ricci (2011) recommend looser operating models. Fiordelisi and Ricci conclude this by studying the efficiency development of Italian banking and insurance sectors in 2005 and 2006 by Stochastic Frontier Analysis (SFA). In the banking side there cannot be seen any efficiency benefits, but more in the insurance sector. Therefore, they end up recommending pure cross-selling agreements or non-ownership strategic alliances for BA operating models. The paper of Fiordelisi and Ricci is elegant i.e. thanks to the use of Stochastic Frontier Analysis, but one has to wonder how tight captive alliances have anyway been adopted in various parts of Europe, Finland being a good example. Even in Italy the captive model has been popular.

Dreassi and Schneider (2015) study BA scale benefits in Italy. In her dissertation Schneider (2014) considers widely scale benefits, concentration and risk profile of Italian life insurance companies. Ricci (2009) concludes in his own dissertation that BA is more beneficial for an insurance company than for a bank. Yildirim (2014) ends up to an opposite conclusion, and such is the case of the author of this text.

In spite of how BA is organized, it is according to common opinion an efficient way to sell i.e. various life insurances and credit protection insurances. (cf. Voutilainen, 2006).

There are more studies about the efficiency of Captive operating model: Chen and Tan (2011) study risk and wealth effects of mergers and acquisitions between European banks and insurance companies. Dontis-Charitos et al. (2011) monitor the reaction of share prices to bank-insurance transactions and showed that the shareholder value of banks grows when they have published an acquisition offer of an insurance company, but the value of insurance companies does not grow after they have offered to buy a bank. Chen et al. (2009) show that the decrease of risk of a company, the size of a company, the decrease of costs and the increase of revenues, the size of the national banking sector, the level of the national regulation and the level of inflation are all important factors when assessing the suitability of the BA model. Okeahalan (2008) states that BA decreases the prices of financial services mainly because of the coupling of products.

One of the few BA studies concerning corporate clients is Mäenpää and Voutilainen (2011). The authors conclude that one door principle and combinations of banking and insurance products are not very significant drivers for cross selling in the Finnish SME sector.

What about the customers?

Customers as an interest group are rather neglected especially in the European BA literature. As far as I know only a few studies have been published in the BA context, and those mostly outside Europe. Voutilainen (2006) studies the most preferred alliance model between a bank and an insurance company, and one of his three perspectives is that of a customer. Voutilainen states that the most important customer criteria when selecting an alliance model are the comparability and transparency of products. Customer representatives favour loose cross selling models but declare that the captive model could be possible if the above-mentioned product criteria were satisfied sufficiently strongly.

Wu et al. (2008) study the same problem in Taiwan. Their work has several common features with my dissertation (2006), but the references have been made appropriately. AHP is used like I did. The Captive model becomes customers' favourite without reservations, which is an interesting difference from my own work.

BA operating models

There are several models to organize BA operations. In my own article (2005) I classify the models as follows:

- Ownership control; a holding company owns banks and insurance companies
- Ownership control, a bank owns an insurance company or vice versa
- Alliance of independent partners, a cross selling agreement and cross ownership and/or joint ownership, overlapping service channels
- Like the third model, but no overlapping service channels
- Cross selling agreement, overlapping service channels
- Cross selling agreement, no overlapping service channels

There are also other BA model classifications. The following is used by van der Poel (2013) :

1. Captive (a bank owns one or more insurance companies)
2. Joint venture, a bank and an insurance company own jointly an insurance company which produces insurance services for the bank sales channel.
3. An exclusive sales agreement between a bank and an external insurance company.
4. A non-exclusive sales agreement between a bank and an external insurance company.

The latter classification starts with the captive model (1). Its advantages compared to the other models are (cf. Voutilainen, 2006):

- Better management of earnings logics
- Better management of insurance product development
- Better synergies (the bank controls all parts of value chain)

- Nonlife insurance diversifies the business portfolio of the bank (Voutilainen, 2006)

Benefits of the Captive model for a bank are also studied by Dontis-Charitos (2011) and Chen and Tan (2011).

Disadvantages of the Captive model are i.e. the following:

- Life insurance amplifies the business cycle ups and downs of a bank (Voutilainen, 2006)
- It is not a feasible model for a weak bank
- It is not a feasible model, if the product portfolio of the insurance company requires high solvency capital

A CEO view to the new solvency requirements brought by Solvency II is presented by Kreutzer and Wagner (2013). In addition, the Basel 3 framework may force a bank to subtract its insurance company holdings from its own capital. In EU, banks have also other alternatives to take into account their insurance company holdings according to CRD 5 directive. See Basel 3 (2011) and CRD 5 (2019).

Because of the above-mentioned disadvantages there has been a transition from the Captive model to other BA operating models (2-4) in various parts of Europe. For example, Credit Suisse sold Winterthur to AXA, and Allianz sold Dresdner Bank to Commerzbank. In fact, the latter example was an “Assurfinans” model, where an insurance company owns a bank. Santander has sold its holdings of life insurance demanding much capital and retained only unit linked insurance and risk insurance (van der Poel, 2013, and Navarro, 2014). There is also a Nordic example of transition: Nordea sold in 2016 a part of the ownership of its Danish life insurance company to its customers (Kauppalehti 17.11.2016).

Benefits of the Joint Venture model are the bank’s direct possibility to influence in the board of directors of the common company, and less restrictions from Basel 3 and CRD 5 than in the Captive model, but the disadvantage is that it allows less influence in managing the insurance company than the Captive model. The benefit of the exclusive sales agreement is that the rules of Basel 3 and CRD 5 disappear completely, and the disadvantage is only modest possibility to influence on the management of the insurance company. The benefits of the nonexclusive sales agreement are also the absence of the requirements of Basel 3 and CRD 5 and the ease to terminate the cooperation, and the disadvantage a very modest possibility to influence on the management of the insurance company.

As I stated earlier, Ricci (2009) and Fiordelisi and Ricci (2011) analyze the BA operating models used in Italy using Stochastic Frontier Analysis. They conclude that instead of the Captive model more recommendable models would be Joint Venture or the exclusive sales agreement. They do not use the capital cost criteria which I presented above, but various efficiency meters. In any case, their conclusions must be considered early warnings.

Artikis et al. (2008a) present an interesting review on the rise of BA in different geographical regions. They analyse thoroughly the features of different BA alternatives using only three models and combining sales agreements into one model. According to Norman (2007) international experience shows that there are many ways to build a successful BA business. In other words, there is not one size for all. So, different success factors can be recognised in different markets (cf. also Fan and Cheng, 2011).

Questions on BA model transition

Previously I have discussed BA operating model transition and reasons thereto. Voutilainen and Järvinen (2015) present the following questions related to the transformed situation of a customer and a bank, whose background is the transition of the BA model.

Customer view

1. How does the transition affect the realisation of the one door principle in bank branches (Mäenpää, 2012, Mäenpää and Voutilainen, 2011)?
2. How does the transition affect the development of service packages and service offerings?
3. How does the transition affect the customer trust in service and the service provider?
4. How does the transition affect the transparency of products and services (cf. Voutilainen, 2006, Korhonen et al., 2006b)?
5. How does the transition affect the comparability of products and services (cf. Voutilainen, 2006, Korhonen et al., 2006b)?
6. How do customers cope with the continuing progress of technology and e-services?
7. How does the transition affect the consistence of service and the service provider? (Consistence can be defined to be the long-term stability of the service provider and the continuity of service, cf. Korhonen et al., 2006b).
8. How does the transition affect the risk of fall of the service provider? (The risk of fall is affected by both the probability of the fall and its monetary consequences, cf. Korhonen et al., 2006b and Kantsberger and Kuntz, 2010.)

Bank view

1. The questions 1-8 above.
2. How does the transition affect the quality of salesforce training?

3. How does the transition affect the innovations and the development of insurance services?
4. How were e-services and ICT arranged after transition and has it created synergies?
5. Has the bank after the transition experienced changes in capital requirements according to Basel 3 (2011) and CRD 5 (2019)?
6. Has the bank after the transition noticed that the business cycles of the bank have been amplified by life insurance and/or equalized by nonlife insurance?

Voutilainen and Järvinen (2015) present a research framework based on the above question patterns.

Other recent research

Brophy (2013) discusses the BA concept from the Irish viewpoint. The paper is a well written country report about the Irish situation and recent history, but it does not disclose anything new about BA.

Payment protection insurance (PPI) is one of the most important insurance products sold via BA. A couple of years ago The British Financial Supervisor banned the simultaneous offering of consumer credit and PPI because they had noticed cross subvention, i.e., PPI was overpriced and the interest of the customer credit subvented downwards to attract a customer. Ashton and Hudson (2014) study if this has really taken place in Britain in 1998-2011. The result: Yes, because the offering of PPI was noticed to be a significant explaining variable for the interest level of collateral-free consumer credits. PPI decreases, indeed, credit risk, but not so much as noticed here. When combining the credit and PPI the comparability and the transparency of both products suffer, cf. Korhonen et al. (2006b). This is more generally a problem in PPI. On the other hand, it is more tedious for a customer to get a corresponding separate cover. As a summary: Because PPI decreases the credit risk for the lender, it is reasonable to decrease the interest of the credit, but it is unfair if the price of PPI is at the same time increased.

Fortis, the leading financial group of the Benelux countries, had been a success story of consecutive bank and insurance mergers and a leading pioneer of corporate responsibility. A year after the takeover of the leading Dutch financial conglomerate ABN AMRO the global financial crises caused the fall of the Fortis group. Fassin and Gosselin (2011) discuss the fall from e.g., a shareholder and ethical points of view. Strong corporate responsibility and ethical principles did not help in risk management.

Artikis et al. (2008b) discuss BA structures in Greece in 2000’s. The presence of international financial enterprises has increased, and consequently there have been mergers between banks and insurance companies, as well as strategic alliances and Joint Ventures. Also, domestic ownership-based alliances and other alliances have emerged. BA has really been launched properly in Greece at that time.

BA has not progressed equally quickly in all countries. Bagmet et al. (2015) study the level of bank-insurance integration (is probably the same as BA) in Ukraine. The level turns out to be low in 2002-2013, and the authors present a set of methods to improve the situation.

Chang et al. (2011) compare the performance of the BA channel of an insurance company and a traditional sales channel in Taiwan. They use e.g., Data Envelopment Analysis (DEA). The bank channel turns out to be inefficient in view of 2006 figures, and the traditional channel is considerably more efficient. The authors give a straightforward recommendation for international companies to change their banking partner and for financial sector to implement mergers and acquisitions.

Elyasiani et al. (2016) study based on a very large international data set the risk and profit contagion of takeovers of an insurance company by a bank and takeovers of a bank by an insurance company. Contagion is considerable especially when a bank performs a takeover. On the other hand, banks receive greater profits than insurance companies in their own takeovers. Contagion represents systemic risk, cf. Korhonen and Voutilainen (2006).

Like I have said before, the Taiwanese Wu et al. (2008) consider the alliance model selection problem of a bank and an insurance company from a customer’s point of view. They return to the topic (Wu et al., 2010) this time from the bank management point of view. The similarity with my dissertation (2006) is again apparent, but now they use besides interviews the Delphi method and Analytical Network Process (ANP). ANP uses a network of compared quantities instead of a hierarchy of AHP. There are lots of references to my dissertation articles; especially in the descriptions of selection criteria there are long citations. The references are appropriate. As expected, the authors’ conclusion is that the finance holding company is the best alliance model according to bank and insurance managers.

Wu et al. recommend the use of fuzzy ANP. Lately all the time more complicated multicriteria optimization methods have appeared in the literature (fuzzy, neutrosophic et al.). Both fuzzy and neutrosophic sets have applications to decision making. A neutrosophic set is a generalization of a fuzzy set, see e.g. Alblowi et al. (2014) and El-Hefenawy et al. (2016).

The excellent article in The Economist (2006) predicts gloomy future for the alliance of Allianz and Dresdner Bank. That is what happened, because Allianz sold Dresdner to Commerzbank in 2008 and became at the same time the greatest shareholder of Commerzbank.

Teunissen (2008) has the same kind of division of BA models as above on page 6 (1-4). He discusses the appearance of models in different countries. The strong distribution channel of banks shall according to Teunissen increase the demand for bank driven BA models, when the aging of population increases the demand for products for the anticipation for high age.

Hong and Lee (2012) consider dominating factors for the cross-buying willingness of bank services in a collective culture (Korea and Taiwan). They present a research model to explain the question in a collective culture, and suggest that the model is applied to two or three other countries with different cultural backgrounds. The value attributes found in this study can differ in other markets and countries.

The rather recent essay of Letendre (2018) contains typical consult language and many self-evidences like ”good communication is needed between a bank and an insurance company”. Familiar truths are given, and the paper is good training material for juniors. Letendre states that good bancassurers benefit from comprehensive wellbeing offering i.e. life, accident, health, and home insurance. He is more reserved towards savings insurances. He recommends pension insurances and annuities, if sales speeches can be simplified. Europe and Africa are seen as mature markets for BA, Asia as a developing market and the Latin America as an emerging market.

Life Insurance International (2007) reports about a cross-border BA arrangement: Aviva started BA cooperation with a big Malesian bank CIMB Group with a Joint Venture arrangement. This is an example about the reporting of the start of BA activity. I do not include more here because a BA arrangement may in many cases have been already dismantled, cf. Allianz-Dresdner. On dismantling reporting, see e.g., Sanya (2010).

Leepsa et al. (2016) study the change of the key figures of Punjab National Bank after it acquired Metlife India. The key economic figures of the bank are calculated at the distance of +- one, +-two and +- three years from the transaction. At the distance of 1 and 2 years the results are declining, but at the distance of 3 years they are improving.

Harissis et al. (2009) derive from international data a result, according to which the merger of a bank and an insurance company results generally in a better ascent of the share value than other transactions in the financial sector,

The landscape has slightly changed

Let us return for a moment to the decision making of executives of banks and insurance companies. At the time of my dissertation in 2006 it was a common belief that executives want the model of fixed ownership, and that was also the conclusion of my research. Reasons were e.g., synergies, scale benefits and scope benefits. As I have mentioned, also differing opinions have appeared especially from the Italian school, but the actual big question mark for the hypothesis ”the alliance between a bank and an insurance company has to be based on tight ownership” was placed by Solvency II directive.

Solvency II has simply made ownership more expensive than earlier solvency frameworks. The new directive requires that a precise capital requirement is calculated for different customer options and guarantees, e.g., capital guarantees of traditional savings insurance. When insurance companies have noticed the huge rise of the capital requirements, they have often totally finished the offering of traditional life insurance, see Voutilainen and Ruuskanen (2015). It is rather slow to convert old insurance base into unit linked insurance with lighter capital requirement, if it succeeds at all.

In this circumstance some banks have started to act and began to look for a buyer for the capital heavy parts of their insurance holdings. This means an attempt to move backwords from the captive model to a direction of less capital consumption. A bank owning an insurance company/companies should perform once a year a profitability test where in one criterion in decision making there are all the benefits brought by insurance sales and in the other the capital cost caused by insurance company ownership. If the latter criterion weighs more, it is perhaps about time to start to look for a buyer for the insurance ownership.

In Finland this dismantling phase of ownership has at least not yet started. Nordea, Osuuspankki and Aktia seem to be very pleased with their life insurance subsidiaries and Osuuspankki has even a nonlife subsidiary to grace the finance group.

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