

Bancassurance – Modern Style of Banking

Hanna Kociemska Pocięcha

University of Economics

The beginnings of co-operation between banks and insurance companies are in the 1970. Together with changes in the world financial market a new formula of provision of financial services was forming determined by the name “bancassurance”. In broad formulation bancassurance service comprises products and activities tied with them which an individual or institutional customer needs in order to create, utilise, protect one’s property, health or life. To point a more full presentation of the term states and that banks are becoming involved into creation and sale of insurance products in:

insurance companies being the property of banks; in this case the bank has majority share in the company which the bank assumed or seized the already existing one or is linked to the bank – insurance captive: products of such a company are being the property of the bank and offered chiefly at banks, banks as insurance agents: the bank is entering a smaller capital involvement into distribution alliances with insurance companies and operating as an insurance agent selling products of a single or a few companies¹.

Every of the enumerated forms of co-operation of banks and insurance companies is guaranteeing comprehensive financial service for customers. That complexity is posing the foreground benefit justifying the existence of bancassurance service to the clients. The customer of a modern financial institution is searching for products that will in the quickest and most comfortable method satisfy it financial needs completely. It is obvious that merging banking facilities with insurance and along with active financial consulting are offering the comprehensive financial service for customer.

The basic factor conditioning bancassurance development is the state of legal adjustment referring to the distribution of insurance through banks. One of co-operation models between banks and insurance companies is informing the bank’s customer of the chance to contract the compensation with the concrete insurer. This form is setting up the advertisement of the chosen insurance company in the bank, by putting the insurer’s advertising booklets. Such an activity of the bank rests on

promoting agreement: sale of insurance policies through the bank perhaps. However, this procedure is arousing reliable provisions, particularly in bringing back to the act from 22 May, 2003² about insurance intermediation in accordance the agency activities are also those activities that are relying on acquiring customers and on executing preparation actions for concluding the insurance contract. With reference to such a broad concept of insurance intermediation as not set in this term, there must be accepted such activities of the bank, which consist of simple promotional actions, deprived of informing elements on compensation conditions and putting customers of the bank in touch with the agent of the insurance company. It appears that the concept of insurance intermediation is defined more accurately in the European Parliament’s instruction³. Because it isn’t an insurance mediation activity relying on casual supply of information within the confines of other ordinary activities, if this purpose ful action helps the customer to conclude or execute the insurance contract, professional management of damages of the insurance office, valuation and liquidation of damage.

However experiences of the banks in the Polish financial market are pointing that such casual links of with’ bank to the insurance company is transitory and giving the beginning of the development of more durable links of the both firms. According to the Polish banking law⁴, banks are able to fulfil the functions of the insurance agent serving and consulting on money matters and other financial services. So the bank is acting as the agent here. Basic legal aspects of such a form of co-operation are regulated by the act on insurance intermediation and the Civil Code⁵. So the agency activities are those activities relying on acquiring customers and executing preparation actions for concluding the insurance contract. New regulations included in the Civil Code are protecting business of the insurance agent in a clear way. It is highly

¹ M. Śliperski, *Bancassurance w Unii Europejskiej i w Polsce*, Biblioteka Menedżera i Bankowca Warszawa 2001r, s. 8.jnjjj

² Ustawa z dnia 22 maja 2003 r o pośrednictwie ubezpieczeniowym, Dz. U. Nr 124 poz. 1151.

³ Dyrektywa Parlamentu Europejskiego i Rady 2002/92/WE z 09.12.2002r o pośrednictwie ubezpieczeniowym.

⁴ Ustawa prawo bankowe z dnia 29.08.1997 r. Dz. U. 2002r, Nr. 72, poz. 665, art. 6.

⁵ Ustawa kodeks cywilny z dnia 26.07.2000r, Dz. U. Nr 74 poz. 857.

profitable to locate the bank as an insurance agent who in this way is getting the privileged position with so far an equivalent partner, the insurance firm. According to the Civil Code not only consumers but also the bank are undergoing protection with the insurance office under unilaterally absolutely binding standards. As an argument the agent has a right to the compensatory provision if during the lapsed time of the agency agreement new customers are acquired, or lead to a significant increase in turnover with the existing customers, and the person who gave the request is deriving considerable benefits from agreements with these customers. The bank as an agent has a right to the commission from the agreement concluded and in obtaining premises, when the proposal for the conclusion of the contract with the agent was made under the agency agreement. Moreover, the agent is able to demand a commission from the agreement concluded after the agency's decision when this insurance for the most part was reached thanks to the bank's activity within a period of lapsed time of the agency's agreement, or in a reasonable time after its finished. Analysing the abovementioned examples a privileged position of the bank as an agent in this type relations between banks and insurance companies exists, resulting from law regulations in Poland.

A different situation is when the bank is taking out an insurance policy with the insurer in favour of the third party, of the bank's customer. The bank is obliged for paying premiums. This premium is however paid from bank client's account. Often the scheme refers to security of transaction payments made by the customer of the bank connected with credit card payments. This situation is conformed by Art. 808 § 1 Civil Code, and by the act on insurance activities which assume a chance to conclude the insurance contract in favour of the third party.

The development of bancassurance is also possible in Poland thanks to favourable legal regulations understood extensively and included in the consumer rights. It is betting inter alia in case of the insurance of the bank credit that the recession from the credit contract is also calling the same consequences towards insuring the agreement⁸. Bank agreements to grant the credit, the repayment of which is secured by the consurance agreement, included for the period equal to the credit period for insurance of the borrower's life, for whom the bank is salaried, should contain a statement that will make it possible to end the insurance contract in the situation of the end of the credit agreement for

example in the situation of an earlier repayment of the credit.

Bancassurance is also legal according to the regulations of the act on fighting against dishonest rivalry, the act on the protection of rivalry and consumers⁷. In accordance with first, there are prohibited deeds by other firms relying on the making market difficult for other entrepreneurs to access to the market. Banks very they often make the conclusion of the contract dependent on buying life insurance for the credit purpose in the pointed insurance company. However, in this case there are no infringing regulations of the noted act because banks are arguing, that they are pointing a company of good financial standing so that the insurance policy is guaranteeing effective security of the bank's business. Such action is also conforming with the act on the protection of rivalry and customers which bans agreements which aim at: eliminating, limiting or infringing rivalry on the proper market relying on the access restriction with for entrepreneurs on the market. However, this ban doesn't refer to entrepreneurs who are operating at various levels of participation in the market in the calendar year preceding the conclusion of the contract exceeding 10%. Recapitulation of bancassurance development is a state of various regulations favourable for the banks in Poland. Regulations referring directly to the bancassurance institution are missing and the pointed various forms of co-operation between banks and insurers are legal.

Two other factors are about the attractiveness the bancassurance service: simplicity and the low price. In accordance with the English saying-to keep it simple is to keep it cheap. Offering banking services to the customer along with insurance products, is profitable both for the bank and its customer. The client is saving time for the search and purchase of the insurance product from the outside insurance firm. He will be encouraged by being offered a chance to obtain all financial services "under one ceiling". The proposed insurance product in the the bank also turns out to be cheaper for the customer than the identical product offered to him by an other mediator the financial insurance agent, who is usually taking a bigger commission for service. It is not without importance to the bank the factor of the customer's trust. It turns out that this trust is much higher in relation to the bank than to the insurance company, agent or insurance broker. However, the customer of the bank usually loses chance of choice of the

⁶ Ustawa z dnia 20.07.2001r o kredycie konsumenckim, Dz. U. Nr 100 poz. 1081, art. 11.

⁷ Ustawa z dnia 15.12.2000r o ochronie konkurencji i konsumentów, Dz. U. Nr 122 poz. 1319, art.5 pkt. E. Nowińska, M. Du Vall: „Komentarz do ustawy o zwalczaniu nieuczciwej konkurencji”, Warszawa 2001r, s. 131.

insurance offer as now all insurance products are from the financial market. The bank is offering a concrete insurer. Certainly, the customer is free to choose: to use the bancassurance offer or to search on his own and negotiate insurance terms with the outside insurance firm. Risk occurs rejecting by the bank the insurance policy on the condition that the bank wouldn't protect in a situation of security of the repayment of the bank credit. For the customer it would mean that he will need to accept worse credit conditions or a generally total defect grant by the credit bank. A chance of the the insurance product offered along with the bank product is a matter of the package of financial services. It could turn out that the earlier resignation from the bought insurance is impossible, ineffective for the bank and involves high expenses. Outside insurance products, being an integral part of banking services, involve the need to update agreements and submit them for the acceptance in the bank. The presented advantages and inconveniences of using bancassurance service are similar in our country and abroad. However, the range, method and quality of the provision of these services. May differ in Poland this element of banking business is still relatively rarely used.

It is necessary to point out influence for the bank of taking up a decision to start insurance sale. In conditions of continuous changes in the financial market continuous drop of the interest profit margin and income of the bank and in order to ensure competitiveness it is necessary for the bank to take up actions in the control of expenses, diversification of sources of revenue, implementing modern tools in risk management. Bancassurance is a perfect tool and modern tool of the diversification of sources of revenue, in transferring the risk to the insurer. Because of the globalisation of financial markets dominating bank's dominating position among other financial institutions is reducing. In the face of strong rivalry between banks and non-bank institutions operating in the banking sector, the consolidation of banks and insurance companies guarantees a reliable competitive advantage and changes the existing image. Banks' co-operation with insurance companies in one of the enumerated forms:

- increasing capital potential;
- putting modern technologies into practice;
- increasing personnel's qualification;
- introducing innovative bancassurance services;
- obtaining subsidiary sources of income.

All this shows high ability to compete on the market. Moreover, an optimal level of risk is ensured thanks to the chance of transfer of this risk partly for the insurer or accepting the same range of risk but through a stronger capital bancassurance

group. A bancassurance institution is a banking and insurance group created with the purpose to offer comprehensive financial services called bancassurance services including fragmentary services typical for the bank of insurance and consulting character and performing as the products amalgam¹¹.

Risk covered by the bank does not increase in proportion to the size of the bank and the reached annual turnover. A big bancassurance institution is marked the lower risk of bankruptcy and possesses increased bargaining power on the financial market. It makes possible to reduce expense of capital acquisition in the form of the interest rate on the credit, loan to the customer or deposit. A big financial institution possessing a bigger credit wallet, reduces its losses by a significantly bigger number of transactions and, moreover, is capable of limiting them by applying insurance products or covering them with profits from extra insurance activity. Cooperation between banks and insurance companies cause that society perceives the bank as a developed financial institution which is directed to the customer's comprehensive service. Comprehensive financial services are comprised of financial consultations and modern bancassurance products, and have significant importance not only from the customer's points of view but also for strengthening their loyalty to the institution.

The starting point providing bancassurance services is active financial consulting¹². Information transmission and the bank recommending the customer to take a chance to use banking products and secure them with insurance products protection are an indispensable element of servicing the customer in the bancassurance institution. With regard to poor knowledge about bancassurance of local customers it is necessary to make them aware of chances to choose this type of service in banks. Mainly thanks to efficient and qualified consultation, the customer makes a decision about the purchase of the product in the bank, which so far has been little known for him. Consulting services in bancassurance will obviously differ in such a way as there are various areas of activities of the bank customers. Different problems are tackled by the bank occupied in consulting corporate bodies or local governments. Different proposals are directed to the individual customer.

Table 1 presents advisory services.

¹¹ Authors own theory.

¹² M. Swacha-Lech: *Związki bankowo-ubezpieczeniowe jako narzędzie podnoszące konkurencyjność banków polskich w obliczu otwarcia rynku na zagranicznych pośredników finansowych* Zamość 2004r.

Table 1

Information and consulting in bancassurance

Customer	Range of consulting	Product of bancassurance
Companies	identification of the customer's real needs Pointing of the most important kinds of risk to which the customer is exposed	Business credit + insurance of the business credit Factoring + insurance Leasing + insurance
Local government	Analysis of the customer's susceptibility for risk Adapting of the bank product to for needs the customer's Consulting on risk prevention	Investment credit + insurance of realised investment Bank accounts for workers + NNW insurance for Workers, or the group insurance of the life Leasing of property + insurance of this property Against all risks etc.
Individual customers		Personal account + NNW insurance or life insurance The housing, car credit and other + insurance of The repayment of the credit Payment cards + insurance of payment cards etc.

Source: own study

The demonstration on of the formulation of the mechanism of providing advisory services in bancassurance should be following. The adviser determines stand-bies and real needs of the customer in bank and insurance products. It is founded that the advice is taken absolutely because the customer's stand-bies and the product offered fit his capital structure. A reliable justification is to be stated by a qualified worker of the bank. His recommendation should combination a few elements:

- generalising of the customer's need,
- showing bancassurance products as solving a given financial problem
- choice of a concrete variation of the product
- explanation of the mechanism of such a product
- adjusting the chosen product to financial possibilities of the customer

- pointing at the advantages and benefit, inconvenience and expenses using a concrete bancassurance product

The method of the provision of consulting services will depend on formal, legal and organisational links between the bank and the insurance company.

In case the insurance company is fully possessed by the bank the bank sets it up or seizes, has a majority share and forms one organisation with it, a range of providing consulting services and information to the customer will be quite broad. The personnel of the bank is acquainted equally with bank and insurance products so the range of consulting is broad. Moreover the combination of the bank and the insurance company customers guarantees a chance of offer better adjustment of to the customer, fully acquainted the advisers are aware of customer's needs. In Poland such bancassurance institutions aren't existing so far, it is difficult to get developed consulting. It is possible, however, to notice that banks are more often opting for agreements and distribution alliances with insurance companies. They are operating as agents the insurance companies while offering insurance products of a single or a few companies. Unfortunately in such a case consulting in bancassurance will be limited to the presentation of the insurer's concrete offer. Advisers won't identify their customers's real needs but will offer products of a definite insurance company, as is a necessary condition to receive the chosen banking services. It is possible only to suppose, that such arrangements with insurance companies will evolve as it happens in Spain, Italy, France, Great Britain, developing bancassurance information of insurance companies created by banks exclusively. Bank revenues won't be limited to the commission for mediation on the contract conclusion and they will increase because of the profit from investment and insurance premiums through investment funds.

Concluding it is necessary to point out the benefits of the provision consulting services especially in the range bancassurance for both: clients and banks.

Table 2

Benefits from the provision of information and consulting on range bancassurance for the participants of the service

Benefits of consulting service to the bank customers	Benefits of consulting services the service to the bank
Obtaining information about bancassurance poorly known	Raising prestige and bank image as a bancassurance institution providing comprehensive financial services
Getting acquainted with comprehensive financial service provided by the bank which is trying hard to get to know the client's real financial requirements for bancassurance products	Chance for the bank to know the client because of a wide range of information about the customer offering insurance products
Utilising outside consulting firms' charged supplied information	Advertising the bank as innovative, developing bancassurance
Saving the customer's time, who having the customer may use advice on bancassurance, purchase a bank product and protect the risk tied with insurance products in one financial institution	Getting acquainted with the customer's needs for standard banking services and insurance products. That would give a chance of diversification of revenue sources and development of the bank

Source: own study

Hanna Kociemska Pociecha

Bankas ir draudimas – šiuolaikinė bankininkystė

Summary

Straipsnyje nagrinėjamas šiuolaikinės bankininkystės modelis, kuris jungia banko ir draudimo bendrovės teikiamas paslaugas. Taip pat pateikiami tokių paslaugų privalumai bankui ir klientui.