

Bancassurance: Algerian Lessons from the Global Experience in Banking and Insurance Collaboration

Hamoul Tarik¹, Zair wafia², Mahfoud Mourad³

¹ University of Bechar, univbtarek@gmail.com

² University of Blida 2, marketingblida@gmail.com

³ University of Blida 2, mourad2075@yahoo.fr

Received: 09/09/2019

Accepted: 30/11/2019

Published:19/12/2019

Abstract:

The margin between the bank and insurance, who live together long, gradually disappeared with the emergence of the bancassurance. this strategy has been one of the most significant changes in the financial services sector over the past few years. In it's full holistic form it realises the full potential of the customer database of the bank to develop an excellent customer focused service for consumers, and the highest value and advantage on returns for the bank and insurer.

This has given rise to a new form of business wherein two big financial institutions have come together and have integrated all their strength and efforts and have created a new means of marketing and promoting their products and services.

On one hand it is the Banking sector which is very competitive and on the other hand is Insurance sector which has a lot of potential for growth. When these two join together, it gives to bancassurance strategy.

Keywords insurance, bank, strategy, financial services, Bancassurance, Algerian insurance.

JEL Classification codes: G220, E500

Corresponding author: Zair Wafia, e-mail: marketingblida@gmail.com

1-Introduction:

Primary Objective of our study on the topic “ Bancassurance” is that this is relatively a new concept in Algeria and thereby we would like to enhance our understanding and improve our knowledge regarding this topic and above all this study seek to answer and achieve the following objectives and questions:

- What is bancassurance strategy?
- what are the Advantageous of Bancassurance to banks, to insurance company and the customers?
- what are the weak point of the bancassurance experiences in Europe and Asia?
- what can the Algerian insurance sector benefit from the Global Experience in Banking and Insurance Collaboration experiences and Lessons?
- the factor for success of Algerian bancassurance and the challenges for Algerian companies in developing this new strategy.

2. Methodology Of The Study

2-1. Definition of the bancassurance strategy:

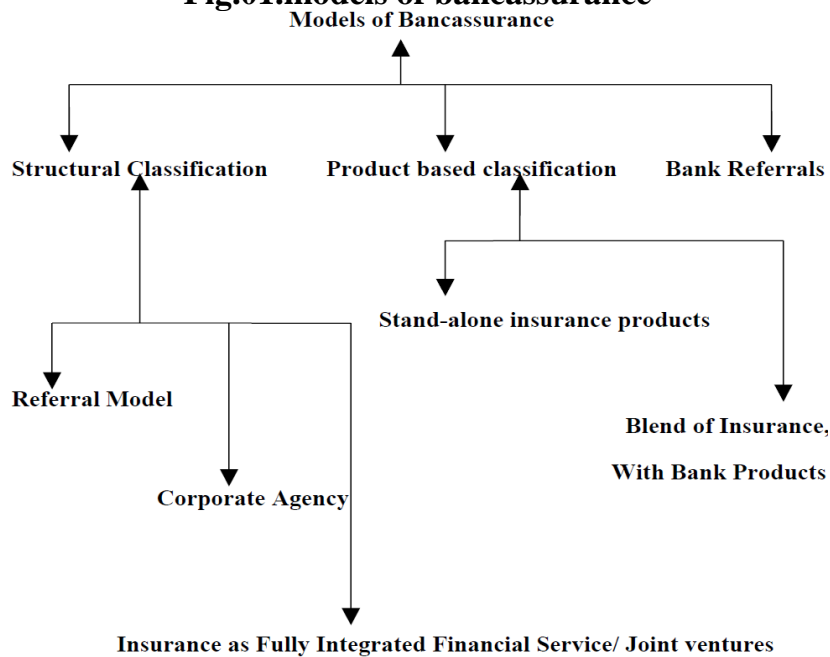
Bancassurance in its simplest form is distribution of insurance products through a banks distribution channel. It is a medium for the cost-effective distribution of insurance and pension products by penetrating diverse markets. There is no clash of interest between banks and insurance companies as bank deposits are for current consumption and they only market insurance services to their customers. It can be defined as one of the multiple distribution networks that create a range of opportunities for insurers and bankers to attract and serve customers in a differentiated way, keeping in mind the customer's preferred

combination of product, pricing, service and channel. It is a way to reach customers who could not be reached before, and to extract more value from existing customers.

3-Meaning of bancassurance

The word is a combination of “banque or bank” and “assurance” signifying that both banking and insurance is provided by the same corporate entity. Bancassurance is the distribution of insurance products through the bank’s distribution channel. It is a phenomenon wherein the insurance products are offered through the distribution channels of the banking services along with the complete range of banking and investment products and services (Lafitte, 2004).

Fig.01.models of bancassurance



source: Tarik hamoul and Others, **Bancassurance: the booster for the Insurance Development In Algeria case of Algerian insurance company**, IJMAS journal,p:02.

4-Advantageous of Bancassurance to banks, to insurance company and the customers

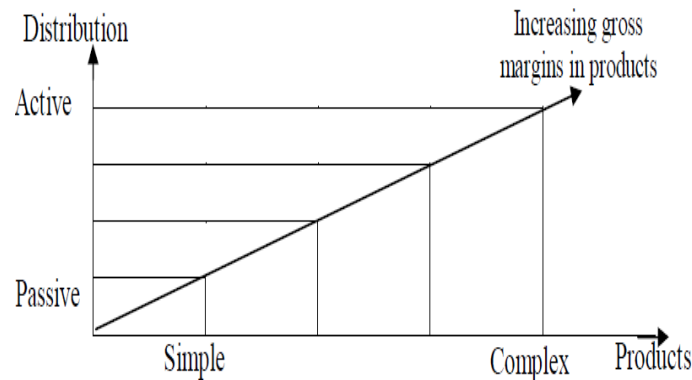
It must be to the advantage of each stakeholder in the model (bank, insurance company, consumer and legislator) for the bancassurance model to develop successfully. Without these advantages, it is obvious that no collaboration would be possible (Bancassurance: the booster for the Insurance Development In Algeria, 2017).

4-1 Advantages to banks

the Bancassurance business have definitely proved to be an advantage to the banking industry because it helps the bank in generating additional income thereby providing them with an edge over their competitors and improving their profit position (Adidravidar, 2009-2010). so for banks it is a means of product diversification and a source of additional fee income.

- Increasing gross margins in products (Alan, 2001).

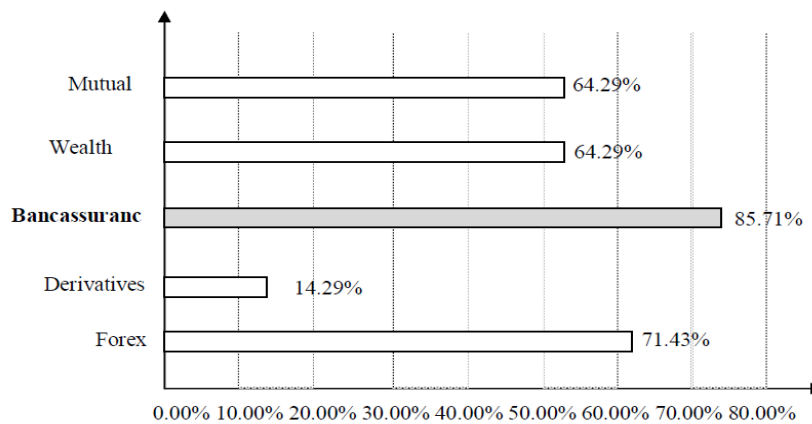
fig 02. Relationship between product complexity and required sales effort



Source: Munich Re Group, Bancassurance in Practice, p:09.

some studies as the FICCI survey of 2010 has found that Bancassurance is the most profitable non-interest income business opportunity for the banks (Fig04).

fig 03. Most Profitable Non-Interest income opportunities for Banks.



Source: FICCI (2010). Indian Banking system: Current state and road ahead.

First of all, the bank sees bancassurance as a way of creating a new revenue flow and diversifying its business activities. This advantage was all the greater in the early 1990s, a period characterized by increased competition between financial institutions and a reduction in the banks’ profit margins and, therefore, the need to look for new business;

- The bank becomes a sort of “supermarket”, a “one-stop shop” for financial services, where all customers’ needs - whether financial or insurance-related – can be met. The broadening of its product range makes the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty;

- The distribution costs can be seen as marginal since, in most cases, it is the bank’s existing employees who sell the insurance products. Amongst other things, the one-stop shop model optimizes the use of the network and increases the profitability of the existing branch network.

Bancassurance if taken in right spirit and implemented properly can be win-win situation for the all the participants' viz, banks, insurers and the customer.

4-2 Advantages to insurers

These advantages for insurers have been summarized as under:

- the insurance companies see Bancassurance as a tool for increasing their market penetration and premium turnover.
- Through this new distribution network, the insurance company significantly extends its customer base and enjoys access to customers who were previously difficult to reach. This is obviously a fundamental advantage, it is itself enough to convince an insurance company to consolidate with a bank;
- The insurance company has the opportunity to vary its distribution methods, in order to avoid excessive dependence on a single network (as a risk management strategy: Diversification reduces risk (rahman, february-march 2017);
- The insurance company often benefits from the trustworthy image and reliability that people are more likely to attribute to banks (bernier, 12 january 2006);
- The insurance company also benefits from the reduction of distribution costs relative to the costs inherent in traditional sales representatives, since the sales network is generally the same for banking products and insurance products. These cost savings have been recognized by many bancassurance operators around the world and are therefore carried over into the costs included in contracts. This means that products can be sold more cheaply;
- through the bancassurance , an insurance company can establish itself more quickly in a new market, using a local bank’s existing network.
- This contribution presents this new activity which seems to be an innovation in the financial system and recalls its vital interest in the development of insurance as well as its contribution to the banks.

4-3 Advantages to consumers

As mentioned among the advantages for the bank, the consumer enjoys greater access to all financial services from a bank that offers both banking and insurance products (unique box office);

- Since the distribution costs are lower than in a traditional distribution network, the consumer can usually get cheaper insurance products than through traditional channels. In addition, premium payment methods are simplified, since premiums are collected directly from bank accounts;
- The special relationship between the customer and the bank means that there is a better match between what the customer needs and the solutions provided by the bank. In summary, we would say that customers benefit from the opportunity to get simple, often inexpensive insurance products with a premium payment system adapted to their needs (usually monthly installments) and with easy access, since the branch network is usually denser than the network of insurance outlets (Milliman, 008).

5- Bancassurance in Algeria scenario and European & Asian scenario comparison of both.

5-1-Bancassurance in Algeria VS Bancassurance in Asia & Europe

- table 01: Bancassurance in Europe, Asia & Algeria

	Europe	Asia	Algeria
Bancassurance Model	Highly Integrated model	Distribution Alliances and Joint Ventures	Distribution convention
Models integration	More integrated bancassurance models	jv joint venture, distribution agreement and financial services group.	Models of bancassurance observed are Rather or mainly trade agreements

			(distribution agreement)
Regulation	Liberalized	Ranging from Liberalized to forbidden	Coherence between bank and insurance legislation
regulatory restrictions	No regulatory restrictions		Absence ou limitation of regulatory restrictions
Market Growth	Mature markets	High Growth Potential	High Growth Potential
Distribution	Multi – bank branches	Mainly Bank Branches	Bank Branches as a beginning
Major Players	Domestic banks and insurers	Foreign Co's	Foreign, Domestic banks and insurers
quality of services	High quality of services	High quality of services	Low quality of services
Banking density and banking rates	Banking density and relatively high banking rates	Banking density and relatively high banking rates	Banking density and relatively low banking rates
tax advantages	Significant tax advantages related to life insurance (Italy, Spain, France)	Significant tax advantages related to life insurance (Italy, Spain, France)	Absence or limitation of tax benefits (or enforcement problems)
Insurance awareness and its importance	Insurance awareness and its relatively high importance	Insurance awareness and its relatively high importance	Insurance awareness and its relatively low importance
channel approach to bancassurance	A multi-channel approach to bancassurance	A multi-channel approach to bancassurance based on jv, distribution agreement and financial services group.	An approach based mainly on the branch or agency of the bank
image of the insurer	positive image of the insurer	A good image of the insurer	negative image of the insurer (after-sales services)
insurance culture	High rates of financial and insurance culture	High rates of financial and insurance culture	Low rates or lack of financial and insurance culture

Source: Data collected from the Swiss Re, Sigma No.7/2002, Hamoul Tarik, the role of bancassurance in developing the Algerian insurance market, doctorate degree in management, Algerian university,2015-2016 and Convention on the distribution of insurance products and Prospects for bancassurance Developments and key success factors, www.pwc.com/middle-east, p: 08between the European model and the Algerian model.

The most common bancassurance models implemented by the largest European banking groups are:

- Full ownership of an insurance subsidiary e.g. Crédit Agricole (France), Santander (Spain).
- Joint-venture with an insurance company e.g. Caisses d'Epargne (France), Banca Intesa (Italy), Banco Popular (Spain) or RBS Group (UK) (Alan, 2001).

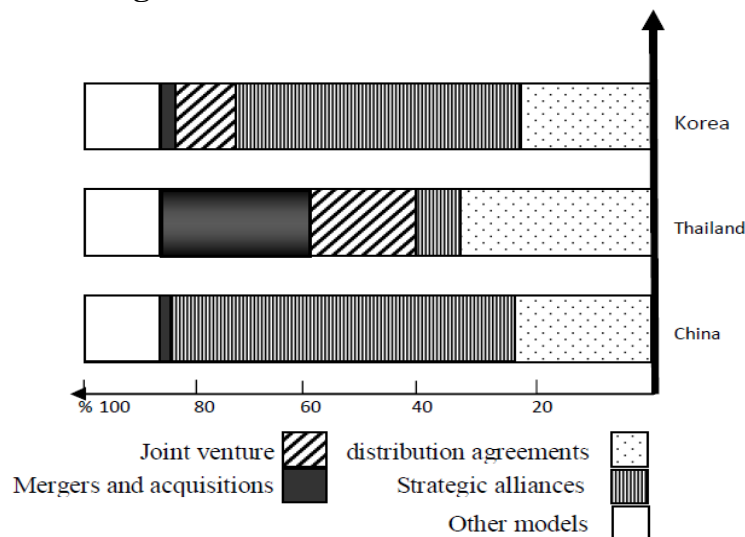
Table 03: bancassurance models in Europe

Bancassurance Business Model	% of banking groups
Full ownership	50%
Joint-venture	34%
Exclusive distribution agreement	11%
Non-exclusive distribution agreement	5%

Source: Milliman analysis of leading 50 banking groups in Europe, 2006.

There was great interest in the insurance industry by the banks in the Korean market due to the approval of the government in 2003 and giving the opportunities for Korean banks to carry out non-banking activities, mainly bancassurance. In Thailand, for example, in 2004, Fortis company signed a contract with Muang Thai Group for the sale of insurance products (life and non-life insurance) and thus received a 25% contribution to Muang Thai for life insurance. Fortis, which sought to develop an insurance banking model in Asia, had partnerships in Malaysia and China. What can be inferred from Figure 03 is that typical distribution agreements and strategic alliances are predominant in the above-mentioned experiments, particularly the model of distribution agreements and strategic alliances, especially in Korea and China. Thailand, as previously mentioned, relied on joint ventures, especially with foreign institutions (Fortis), and the expansion or consolidation and purchase operations pursued by local institutions to facing competition that was the result of joint ventures of foreign institutions and companies.

fig 06: Bancassurance models in Asia



source: Finaccord Global Bancassurance Reports, Bancassurance Models Around the World ,Presentation at the 14th Asia Conference on Bancassurance & Alternative Distribution Channels, Jakarta, May15th 2013.p:7.

As we demonstrate the concept bancassurance was unevenly developed in the world but growing everywhere;

- In Europe: France, Benelux and Spain are in the lead;
- Still limited in Germany, Italy and Great Britain but there is a marked expansion;
- The case of France:
- Very important in life insurance despite some stabilization in recent years;
- Slower and more modest breakthrough in P&C insurance bancassurance. Elsewhere:

- less developed in the United States but the removal of regulatory barriers and the creation of diversified financial conglomerates are increasingly favoring it:
- Thus, US banks have a significant share of the market for new insured annuities.
- Little developed in Japan but expansion (since October 2002) of the range of products that banks are allowed to distribute;
- Liberalized regulation of bancassurance in several Asian countries (Indonesia, Malaysia, Singapore and Hong Kong);
- Rapid growth also in Latin America following a pension reform and the development of private pensions.

5-2- Algerian scenario

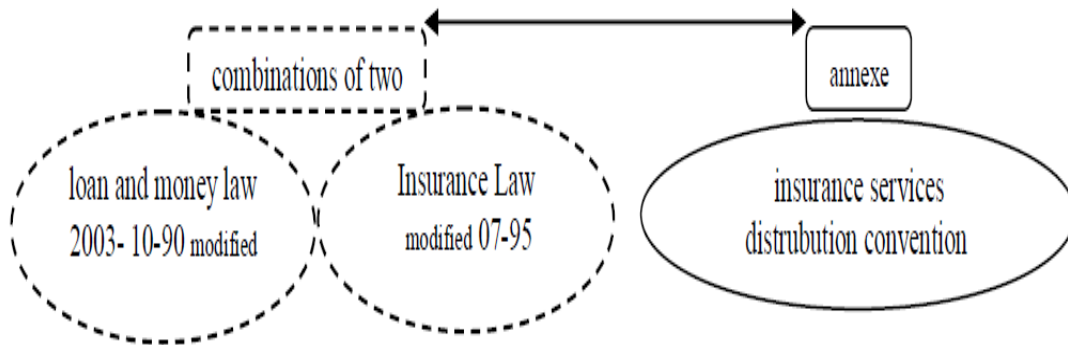
• Regulatory Framework in Algeria

In Algeria, the banking and insurance sectors are regulated by two different entities (banking by LML and insurance by IL of 2003 modified) and bancassurance being the combinations of two sectors comes under the purview of both the regulators (as its showed in figure 03). Each of the regulators has given out detailed guidelines for banks getting into insurance sector. The RBI requires any bank intending to undertake insurance business to obtain its prior approval. RBI guidelines for banks entering into insurance sector provide three options for banks. They are:

- Joint ventures will be allowed for financially strong banks wishing to undertake insurance business with risk participation.
 - Any commercial bank will be allowed to undertake insurance business as agent of insurance companies. This will be on a fee basis with no-risk participation. Banks are entitled to referral fee on the basis of premium collected.
 - The Monetary & Credit Policy of the RBI in October 2002 allowed banks to undertake referral business through their network of branches subject to certain restrictions.
- The Insurance Regulatory and Development Authority (IRDA) guidelines for the bancassurance are:
- Each bank that sells insurance must have a chief insurance executive to handle all insurance activities.
 - Banks are included within the IRDA's Licensing of Corporate Agents Regulation 2002. All the people involved in selling should undergo mandatory training at an institute accredited by IRDA and pass the examination conducted by the authority.
 - Commercial banks, including cooperative banks and regional rural banks, may become corporate agents for one insurance company.
 - Banks cannot become insurance brokers.

The whole aim of the present regulatory framework is to ensure that any risks that may arise from insurance business don't affect banking business. In essence there should be an "arms length" relationship between the bank and the insurance company. The Algerian legislator, conscious of the irreversibility of the progress of bancassurance in the world, has not failed to integrate it into law n° 06-04 of February 26, 2006 (art. 53), modifying and supplementing Ordinance 95-07 (art.252) (cna, 2007).

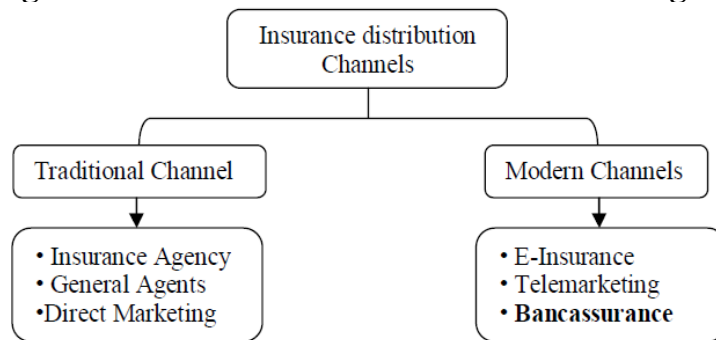
fig 04. the Bancassurance convention



Source: Prepared by the researchers based on a set of references

• **Insurance Distribution Channels in Algeria:** as its showed on Figure 05 can be divided into a several channels of distribution: the traditional one and the modern one where we found the bancassurance as an important modern channel of distribution.

Fig 05: Insurance Distribution Channels in Algeria



Source: Prepared by the researchers based on a set of references

In Algeria, this new situation which is seen as a strategy that allow to creates new links between the two emerging activities, the establishment of a new dynamic, and even the emergence of win-win partnerships. By opting for this new mode of distribution, Algeria expects to realize the actual take-off of its bancassurance and thus catch up the cumulative delay. This desire for success is reflected in the announcement of important agreements between banks and insurance companies(table03), both national and foreign, for the sale of insurance products on the Algerian market.

Table 02: Bancassurance conventions in Algeria

Insurance Company	Bank
SAA	CNEP bank, BADR bank, BDL.
CAAR	CPA, BEA.
CAAT	BEA, BNA.
CARDIF EL-DJAZAIR	CNEP bank.
2 A	BADR bank, BDL.
Macif french	BADR bank, BDL.
AXA insurance	Al-Baraka bank, BEA.
Al-Salama insurance	Al-Baraka bank.

source: special review in bancassurance, cna, www.cna.dz

As the "life insurance" sector in Algeria is still underdeveloped (Assurances, Dossier De Presse Sur La Bancassurance 2009-2018, 2019), the concept of bancassurance has been introduced, with the aim of boosting this market, by diversifying the distribution network, especially as banks benefit from a good brand image, a higher frequency of customer contact and a better knowledge of the patrimonial situation of their clients. A promising start, and a positive impact on the evolution of results achieved by insurance companies (HAMOUL, 2017). For instance, in the framework of the national partnership between insurance and banking, bancassurance realized 15 million dinars in the first quarter of 2010 and an estimated turnover of 40 million dinars (cna.dz, 2010).

Although it is at an embryonic stage of its evolution, the partnership between Algerian insurance companies and national banks and foreign partners is more attractive than the direct installation of foreign companies, as technology transfer is assured. The management being granted to the foreign partner, it will undoubtedly act positively in the formation of the human resource and bring a more in marketing, as well as a capital contribution.

In short, it will raise the level of competition and competitiveness of insurance companies, as well as the quality of services (Tarik, 2015-2016).

6- the factor for success of Algerian bancassurance

- According to the European School of thought, "Bancassurance is the amalgamation of the insurance and banking business within a financial environment (pwc).
- According to the Algerian School of thought, it means selling insurance through bank staff, at bank counters, fully exploiting the synergies between banking and insurance, so as to develop and distribute cost effective banking products.
- the Algerian companies can choose the most used and successful model in the European and Asian experiences and studying the factors of its success and the possibilities of acclimatization of these models with the Algerian market and its specificities.

we can add some challenges for Algerian banks in developing this new strategy and its new products: Banks face a number of challenges in developing products which are further away from their core business. so they must develop technical skills and manufacturing capabilities in new or emerging product areas (Long term care, pensions), and give importance to underwriting and claims management. In addition of that, banks must develop sales skills for products with longer term horizons and it is possible for banks to acquire these skills and may be more effective to cooperate with insurance partners to help them realize the potential which exists and develop the strategy winner-winner (Paul Ernest, 14th November 2008).

- Many companies have succeeded in bancassurance strategy and few have failed while trying to implement a Bancassurance strategy in some countries . So Algerian company had to learn from these experiments and try to create and develop the successful strategy and eliminate the critical factors that contribute to the failure and benefit from profitable partnership.
- Today the customer is the king of the market and to satisfy his wants and needs the industry has to adopt many strategies. The customers want everything under, one roof, by thinking of this point the banking industry came up with BANCASSURANCE. Survey analysis of the customers should also be done.

- The following table shows the volume of production for the bancassurance of a group of Algerian insurance companies.

table 04: the volume of production for the bancassurance

	2013		2014		2014/2013	
	sum	part	sum	part	sum	%
SAA	285	17%	320	17%	35	12%
CAAR	4	0%	6	0%	2	50%
AXA	0	0%	5	0%	5	
Caarama assurance	166	10%	246	13%	80	48%
CARDIF EL-DJAZAIR	1 171	71%	1 331	69%	160	14%
AXA	5	0%	13	1%	8	160%
SUM	1 649	100%	1 927	100%	290	17%

Source: Press file :the Bancassurance, National insurance Concil, Avril 2015, Alger, Algerie.p:20.

Since Bancassurance offers customer's convenience with one stop financial supermarket bringing in banking services and insurance policies on a common platform with a higher ease of customer protection and reduces distribution costs compared to traditional model, customers will get value for money as distribution costs tend to be lower in Bancassurance model than the traditional one. Financial planning and advice along with customized solutions based on their need can be fulfilled through Bancassurance that facilitates the clients with blended services of both banking and insurance companies. It should be noted that Algeria is looking forward in the next phase to the generalization of the insurance agreements through banks, having witnessed the conclusion of several agreements in this regard since the issuance of the Convention on the distribution of insurance services in 2007. Observers argue that the cooperation agreements in the field of insurance will lead to the generalization of the experience between banks and various insurance companies active in Algeria. Despite the absence or lack of insurance culture in the Algerian society and the counting of 700 thousand insured in a country that accommodates more than 38 million people, the number of all active insurance companies in Algeria is witnessing remarkable growth, reaching 125.5 billion dinars compared to 113.9 billion dinars a year 2013, an increase of 11.5 billion dinars, and a sector growth rate of 10% in 2014 compared to 2013. As shown in the table05, insurance companies achieved a turnover of 1.9 billion Algerian dinars in 2014 compared to 1.6 billion dinars in 2013, an increase of 17%. Although some believe that the insurance industry has a modest role in raising the number of insurance companies in Algeria, the latter has allowed insurance companies to diversify their distribution channels for insurance services (especially life insurance) (BANCASSURANCE, , , India, p-p:11,14.).

6- Results of the study:

- The concept of Bancassurance in Algeria is still in its nascent stage, but the remarkable growth and the potential reflects a very bright future for bancassurance in Algeria. With the

coming up of various products and services tailored as per the customer's needs there is every reason to be optimistic that bancassurance in Algeria will play a long inning.

Main reasons for the development gaps Bancassurance between the different countries (G. Benoist):

- Legislative and regulatory standards (this is not the case of Algeria);
- Significant differences in tax systems and in the structure of pension systems (for example, France);
- Differences in the role of banks in the financial system. When their role is important, bancassurance is developed (case of France, Belgium and the Netherlands);
- The very clear separation of the roles of the different modes of distribution hinders the development of bancassurance (the case of Germany, Japan and Italy);
- The entry of foreign insurers in countries where the national insurance market is not well developed promotes alliances with local banks (Spain, Latin America).

7- Recommendations of the study:

The insurance industry in Algeria has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector companies. Following the passage to the market economy, Algeria had made many changes, exclusivity in the insurance industry in favour of market-driven competition. This shift has brought a major changes to the finance industry. The banking and insurance industry have changed rapidly in the changing and challenging economic environment throughout the world. In the competitive and liberalized environment everyone is trying to do better than others and consequently survival of the fittest has come into effect. Insurance companies are also required to be competitive by way of cost cutting and serving customers in a better way. The time has come for the Algerian insurance industry to gradually move from the traditional individual agencies and agents towards new distribution channels with a paradigm shift in creating awareness and not just selling products. In addition of that the model of Algerian bancassurance must creat and develop a winner-winner strategy to promote the individual interests feeding into a partnership, and eventually benefiting all parties. It must be to the advantage of each stakeholder in the model (bank, insurance company, consumer and legislator) for the Bancassurance model to develop successfully. Without these advantages, it is obvious that no collaboration would be possible, because the other factors and principles of why it is a success elsewhere exist in Algeria, and there is no doubt that banks are set to become a significant distributor of insurance related products. so, bancassurance will definitely play a defining role as an alternative distribution channel and will change the way insurance is sold in Algeria. Then, the future bancassurance model in Algeria must be defined by a complex combination of strategic choices on each of the three axes (insurers, banks and customers). Algerian banking insurers must therefore define the most appropriate transformation strategy given their position and priorities, and identify, among the strategic priorities outlined in this report, which ones should be addressed first and at what pace.

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