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Perceived Benefits of Banc-Assurance in the West African Sub-Region: A Veritable Road to Insurance Inclusion in Nigeria

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ABSTRACT

The sub-sector of the Nigerian economy, the insurance industry has suffered abandonment by businesses and individuals in Nigeria owing to their preference to saving money in deposit money banks as a means of insurance over buying any insurance policy from the insurers. This has brought about a complete underperformance by this subsector. However, the new global financial trend – Banca-assurance adopted by the banks and insurers alike have swayed new opportunities for the insurers to make their products available to the common man at a win-win transaction between insurers and bankers as well. This study explored Bancassurance and its benefits to the various stakeholders in Nigeria.

Keywords: *Bancassurance; Insurance Premium; Insurance Products; Insurance Inclusion*

Introduction

The Nigerian insurance market is currently ranked 60th in the world. However, the Nigerian government envisions an insurance industry that can rank amongst the twenty largest markets in the world by the year 2020 (Finance Quest, 2017). Due to the ever-increasing competition and changing economic scenario across the globe, both banks and insurance sector has undergone rapid transformation in order to adapt to financial globalization. In the process of such changes, a new business concept called banc-assurance has been adopted by the financial subsectors (banking and insurance) of Nigerian economy, a practice that has its trace to France in which the banks through their wide network of branches sell the insurance product of a specific company. It establishes a win-win relationship between the banks and insurers for collaborative advantage (Mukka, 2001). It is true that the insurance market in Nigeria is currently still very small. It does offer the potential for growth in the medium to longer term and this growth story is very much linked to the greater macroeconomic events unfolding in Africa's largest economy. Nigeria has a diverse banking system with wide coverage and credibility but the insurance market is still underdeveloped judging from its penetration level. Banc-assurance is going to be a base for the all-round development engineering a sector-to-sector transformation.

Despite laying claim to being sub-Saharan Africa's largest and most prosperous economy, Nigeria's insurance penetration rate is an insignificant 0.3 percent, compared to South Africa's 16.9 percent, which is seen as one of the highest in the world. It accounts for three quarter of insurance uptake in the entire region (Omobola, 2017). Nigeria's poor performance in the penetration of insurance deepening can be traced back in time. For instance, the insurance penetration in the non-life insurance in 2015 was just 0.2 per cent which was rated among lowest in the world. This is irrespective of the fact that the country enjoys what industry experts would refer to as "the fundamentals for a thriving insurance industry" – which include a massive population of over 170 million, a well-capitalized industry as well as an active economy.

One of the major challenges facing the industry has been product distribution and the problem of deepening penetration specifically to the uninsured populace. Thus far, there seems to be only one sophisticated distribution channel, the broker channel, which controls about 70% of total premium generation in the insurance market. Over time, the focus of insurance firms and regulators in the country has been directed to this channel to the detriment of the insurance industry as a whole. The retail segment of the market has been left largely untapped hence the relevance of this study.

Concept of Banc-Assurance

Banc-assurance is a French word which means selling insurance products through banks. This concept originated in Europe in 1980 and now has become popular worldwide. According to IRDA (Insurance Regulatory and Development Authority), Banc assurance describes a situation where banks act as corporate agents for insurers to distribute insurance products. Banks and insurance companies engage in a partnership in which the bank sells the tied insurance company's products to its customers. This type of arrangement benefits both the partners i.e. bank and insurance company. Here, the bank earns non-interest income while the insurance company increases its market share as well as customer reach. Banc assurance results from amalgamation of a bank and an insurance company with the aim of reaching a wider customer base and achieving more penetration.

Banc assurance is prohibited in some countries on the plea that it could give unnecessary control to banks over financial industry whereas it has gained momentum in liberalized countries. Banks welcome banc assurance because it brings more income with less or no investment in infrastructure and customer generation. They can sell insurance at better prices and push products with risk to their customers relying on their relationship with the customers. The primary benefit that the banks bring to the insurance companies is the customers trust and reach. The insurance company benefits based on the fact that it needs to make limited investment which is offset to a large extent by high payouts necessitated by the partner banks in form of equity shares in insurance companies for extending reach to the customers and access to infrastructure and facilities.

Banc Assurance as Penetration Strategy

In the world of financial services, the concept of banc assurance has taken a dominant role in the strategy of a growing number of financial institutions. Insurance products which distributed through the banking channel have become an accepted choice for clients looking for simple and low-cost products made available by trusted financial institutions. Globally, banc assurance has evolved as an important insurance distribution channel which has allowed insurance companies to expand their geographical presence as well as enable banks to develop their overall product portfolio.

The term "banc-assurance" was first used in France, where collaboration between banks and insurance companies started much earlier than in other European countries. The word was initially created to indicate the simple distribution of insurance products by banks, while it is presently used to describe various types of relationship between the banking and insurance industries (Quagliarello, 2004). The merging of different sectors of financial intermediation has been encouraged by the deregulation process started in the late 1980s.

Bancassurance refers to the distribution of insurance products through a bank's distribution channels. It is a package of financial services that can fulfil both insurance and banking needs simultaneously (Kumar, 2010). Therefore, banc-assurance requires the involvement of two institutions namely bank and insurance organization. This collaboration endeavors to ensure that insurance products reach the intended consumers or clients through the various bank's distribution channels available. These products will include commercial insurance business and personal lines business such domestic packages, personal accident, assets such as motor vehicles, machinery, employers' liability and credit life.

The banc assurance distribution model should achieve the following objectives: It should cater for all sectors of the banking populace. It should work as a single shop for all financial requirements for the bank customer. It should effectively utilize the existing branch banking platform. It should exploit the multiple sales opportunities made available by the bank's distribution channels. Finally, it should strive for congruence between product characteristics and channel. All these issues can ensure that there is proper insurance penetration.

Banks which generally enjoy wide branch network can therefore be used to bring insurance closer to the people. Some come from opportunities to sell insurance together with some banking products. Banks have become a major distribution channel for insurance companies. This is partly because banks can sell insurance at better prices (higher premiums) than other channels, and they are low cost because they make use of the banking infrastructure (branches and systems). The sales synergies available will probably be sufficient to be used to justify mergers and acquisitions. Other motives for banc assurance for banking institution is that it serves as a way of diversifying products and source of additional fee income.

For the insurance industry banc assurance is a way of increasing market penetration and premium turnover. The insurance company through this new distribution network, substantially extends its customer base by gaining access to customers who were formerly difficult to reach. The insurance company can also vary its distribution methods in order to avoid over dependence on a single network channel. Diversification reduces risk and helps the insurance company benefit from the reliability and trustworthiness is attributed to banks by the public. Also, the insurance company benefits from the discount in distribution costs comparative to the cost of traditional sales representatives since the same network is generally the same for banking products. With such cost savings, products can be sold more cheaply. (AKI, 2010).

A majority of authors have reiterated that banks and insurance companies as businesses provide services that are more similar than different, which favors their joint production. Both types of organizations are financial intermediaries that pool savings of persons and subsequently channel these funds to capital expenditures. The laws of large numbers, management of risk, liquidity creation and economies of scale are common to both institutions (Levy-Lang, 1990; Lewis, 1990; Voutilainen, 2004). It is not a surprise that they provide similar products to compete for public savings funds. In the United Kingdom for example, homeowners typically use endowment policies to repay principal. In France, companies of insurance have sold single- premium policies that have similarity with bank time deposits. Also, banks regularly give out loans and sell insurance to protect against property loss and default. According to history, banc-assurance was most developed in France and the Netherlands in the 1980s, due to the fact that tax-advantaged insurance products made available through banks, along with the public confidence advantages and distribution network for banks (Hoschka, 1994; Genetay & Molyneux, 1998; Staikouras & Nurullah, 2005).

In the European continent during the 1990s, the significant entry by banking firms into insurance activities was basically motivated by deregulation of the financial sector under the 1989 Second Banking Coordination Directive. This was effective in January 1993 and it allowed financial institutions in European Union (EU) countries to operate in member countries without having a license from the regulatory authorities in a guest country. EU competition among so-called universal banks and large retailers entering financial services has resulted to cross selling of multiple services. Banks have progressively used relationship pricing where customers who purchase certain financial services get better pricing than single-product customers. Consequently, banc assurance has grown more rapidly in Europe than banking securities combinations.

The explanation for the success of banc assurance is that bank-insurance combinations are mutually beneficial to both entities in terms of spanning both short and long-term liability/asset structures in the process of financial intermediation and better attraction and retention of retail customers and corporate clients (Diamond, 1984). In the past, as viewed by Carey, et al. (1993), a credit market hierarchy existed among private debt (inside bank loans), private placements (inside insurance company bonds), and the public debt market (outside debt). The legal barriers affecting the sources of funds among different financial institutions logically resulted to asset specialization of institutions (for example long-term vs. short-term lending) on the supply side of the credit market. For instance, due to the traditional legal separation of the banking and insurance underwriting, majority of bank credit is financed by short-term, floating-rate deposits, while life insurance companies acquire funds to invest in bonds from long-term, fixed-rate insurance contracts. In Europe, deregulation eliminated these legal barriers and permitted banks and insurance companies to exploit their joint advantages with respect to both short and long-term funds in the financial marketplace (Diamond, 1984).

Even insurers and banks that seem to be ideally suited for a Banc assurance partnership can often encounter challenges during implementation. Poor manpower management, insufficient product promotions, lack of a sales culture within the bank and lack of involvement by the branch manager are the most common obstacles to success. Also, failure to integrate proper marketing plans, marginal database expertise, inadequate incentives, poor sales channel linkages, unwieldy marketing strategy, resistance to change and negative attitudes toward insurance also contribute to the challenges (Kumar, 2010).

On the contrary, successful banc assurance ventures that tend to have certain elements in common. Factors that seem to be critical to the success of the venture include quality administration, strategies consistent with the bank's vision, strong service delivery mechanism, knowledge of the needs of target customers, simple and complete product offerings, synchronized planning across all business lines and subsidiaries, complete integration of insurance with other bank products and services, extensive and high-quality training, sales management tracking system for reporting on agents' time and results of bank referrals and relevant and flexible database systems (Kumar, 2010).

The insurance and banking theories contain a number of similarities that contradict the traditional distinctions between the two businesses. Lewis (1990) clarified that banks take advantage of economies of scale in the management of portfolio, which arises from the law of large numbers. Insurance economics depend on the law of large numbers, which states that the expected loss distribution approaches the true loss distribution as the sample grows. This enables insurance companies to pool individual reserves to protect against adversity. Similarly, banks give to the insurance the financial security for their clients; the insurance premium is reflected in service charges and the spread between interest rates on loans and deposits. Levy-Lang (1990), maintained that insurance companies accept some form of fund management through the investment of their technical reserves. This function brings them closer to banking. Few studies have examined the effects of the diversification achieved by banking and insurance company mergers per se. According to Boyd et al (1993), numerous studies have tried to determine the possible effects of expansion of bank holding companies into permissible nonbank activities and prohibited nonbank activities. However, these studies investigate different financial services firms separate from one another, rather than merger combinations of banks and nonbank firms. Most banc assurance studies conduct simulated mergers and generally find that banc assurance mergers tend to lower earnings volatility, stock return variance and risk of failure (Brewer, et al, 1988).

Bancassurance Models

1. Referral model/mixed model

Banks not aspiring to involve in any kind of risk could adopt referral/mixed model in which the bank just provides the insurance company access to their customer database for business lead and in return to which gets certain amount of income from the insurance company. The main transactions with prospective clients in case of referral model are executed by the personals of the insurance company at their office or in the bank vicinity. This type of arrangement would be suitable for all types of banks including the cooperative banks and even cooperative societies both in rural and urban. The main reason being that it is a risk-free income, so for a start they can implement this strategy and gradually shift to other models as time progresses.

2. Corporate Agency/Strategic Alliance

Corporate agency or strategic alliance is another form of risk-free distribution channel. Here, the bank executes the services of a corporate agent for the insurance company in return for a fee/commission which it receives. This arrangement is plausible for large and mid-sized banks in Nigeria which have large staff and caters to even greater number of clients than the banks involved in the referral model. Also, the rate of commission on case of strategic alliance is greater than that of the referral model. Some pragmatic difficulties related to the professional knowledge of the insurance products may also arise. Besides that, defiance from staff to handle totally new product/services can also become a matter of concern. This could however be remediated by giving rigorous training to chosen staff packaged with proper incentives in form of perks or allowances in the banks coupled with selling of simple insurance products in the initial stage. This type of model is appropriate for most of the banks including major urban cooperative banks because neither there is risk sharing nor does it require huge inputs in the form of infrastructure and yet could be an outstanding source of income.

3. Fully Integrated Financial Service/Joint ventures

Unlike the above two, fully integrated financial service involves much more labyrinthine and comprehensive conglomeration between the bank and the insurer where in bank functions universally and selling of insurance product is a just one more function within. Banks have a separate counter for the selling and marketing of these insurance products as an internal part of its rest of the activities and this entails banks wholly owning insurance subsidiary regardless of foreign participation.

It is worth noting that this type of strategy creates an opportunity for the bank to harness the energy to the highest level and to reap all the available benefits of synergy and therefore the economies of scope. This type of strategy may be favorable for banks having better infrastructure and sound financials. The results of this strategy have been the best globally. Even if the banking forms a subsidiary under an insurance company, then too it would be classified under this model. Moreover, for a foreign insurance company to enter the insurance market, it has to form a joint venture. This in turn increases the scope for further enhancement and growth both in life and non-life insurance segments

Benefits of Banc-Assurance

Banc assurance acts as a benefactor to all associated with it including the insurance sector, banking sector, as well as the clients or customers. It offers a pathway for banks to follow which when the diversify the range of products and services rendered by them could serve as a source of additional income which is totally risk free. The insurance companies exploit the confidence and trust already earned by the bank through its customers thereby entering into wide ranging partnerships in order to widen their purview. In return, the banks enjoy the appreciation from their customers for providing integrated financial services under a single roof which strengthens the customer relationship in the long run and builds better customer loyalty and retention. The motive of the Insurance company which is to increase their market penetration level and premium turnover is accomplished by making use of banc assurance as a ladder. Customers see banc assurance as a bonus in terms of reduced prices, high quality product, expert guidance and doorstep delivery. The Insurance Companies and Banks thus corporate together to provide a full-fledged package of financial services for the benefit of the customers as well as profit maximization.

Benefits to the Banks

1. Alternate way to earn fee-based income. To cover up the declining profits accruing due to traditional banking systems, the non-interest income thus earned helps them to achieve their profitability target. Moreover, this purely risks free income. In other words, increase in return to assets by vending insurance products and services.
2. Proximity to clients and huge database
3. Proper use of existing infrastructure
4. Optimizing the man power utilization in order to increase efficacy in productivity.
5. Gaining customer loyalty thereby strengthening the customer relationship. By providing all services under one roof they can improve customer satisfaction thereby leading to higher customer retention levels.
6. Gain Access to funds that are kept with life insurers, who occasionally benefit from tax advantages.

Benefits of Bancassurance to Insurers

1. The Insurers can exploit the hidden potential in banks' wide range of network of branches for effective distribution of products. The already existing outlets of banks in the rural can used to sell products in those areas.
2. Access to a vast customer base and knowledge to whole financial profiles through financial status, spending habits, investment and purchase capability. This information can be used to customize products in accordance with their suitability and sell accordingly.
3. Economy in distribution cost.
4. Using banks as a platform to increase the level of insurance penetration in the country
5. Using the already existent relationship between the bank and its customers to increase the conversation percentage of leads to sales.
6. Develop new financial products more efficiently in collaboration with their bank partners.
7. Speedily establishing market presence without the need to set up a network of agents.

Benefits to Customers

1. A consolidation of financial services under one roof i.e. along with banking facilities such as accounting, loans, mutual funds etc., insurance services are also provided.
2. Professional expertise and trained executives are there to give them proper advice.
3. They get risk coverage at bank itself.
4. Ease of renewal and other formalities.
5. Easy access for claims

Overview of Bancassurance and Insurance Inclusion in Nigeria

It is strategically relevant to deepen the penetration of insurance through Bancassurance because banks have wider distribution coverage and also have higher brand share of mind. Nigerian banks provide a vast customer base and a payment structure that empowers high persistence of premium payments. This is an opportunity which insurers can leverage over a period of time to grow their market share. Unfortunately, this opportunity has been suspended indefinitely by the CBN until modalities for such business transactions is resolved. This suspension according to (Hall Mark News, 2016) was caused because NAICOM does not have the provisional rights to issue license to insurers and bankers for Bancassurance as this is the sole duty of the CBN.

Conclusion and Recommendation

The triumph of banc assurance compels banks to fortify the customers' relationship, therefore the banks should endeavor towards it. The fact that the banking operations in Nigeria, unlike in other developing countries, are still branch oriented and manually operated vis-à-vis highly mechanized banking channels e.g. internet banking and ATMs. These channels are all the more conducive for the flourishing of Bancassurance. There should be a formulation of reforms which will allow banks to amalgamate with more than one insurance company thereby providing diverse choice for the customers. Owing to the contemporary pace of banc assurance, it would turn out to be a norm rather than an exception in future in Nigeria. Supervisory challenges as earlier pointed out could best be best tackled through systematized coordination between the corresponding supervisory authorities. Decent training coupled with adequate incentive structure could forestall the banks' staff resistance if any. Based on the current scenario of the emerging markets in which the penetration of banc assurance is low, it is further predicted and that the upcoming contemporary era will kickstart the evolution and success of banc assurance.

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