



Received: 03-08-2023
Accepted: 13-09-2023

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Service Quality of Bancassurance Channel in Life Insurance: Overview and Policy Implications for Vietnam Market

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Abstract

Bancassurance is the cooperation or cross-selling between a bank and an insurance company to distribute insurance products to the bank's customers. Bancassurance outperforms traditional marketing channels in saving costs and expanding customer segments thanks to the synergy of financial institutions. Studies have shown the economic benefits this distribution channel brings to banks and insurance companies. However, there still needs to be more research on insurance enterprises' customer benefits and

service quality in the underwriting process. Publishing is a recently discussed issue due to the shortcomings of this form. This article aims to review the current status of the Bancassurance distribution channel in the life insurance sector based on an overview of research and experiments in different countries, thereby providing some policy suggestions for insurance businesses in the current context in Vietnam.

Keywords: Bancassurance, Service Quality, Life Insurance, Vietnam

JEL Codes: G00, G02, G22

1. Introduction

In the context of market integration and globalization, financial institutions hope to improve their business efficiency by taking advantage of the ecosystem of partners, and one of them is product distribution. Products through cross-selling and Bancassurance in insurance are two of the prominent trends. Bancassurance is a term that refers to the sale of insurance policies through a bank (Leepsa and Singh, 2017) ^[6]. In this process, banks and insurance companies cooperate to provide insurance in the market through the bank's distribution network.

Singhal and Singh (2010) ^[8] argue that bancassurance can increase economies of scale by leveraging banks' existing networks to offer a broader range of products while increasing employee efficiency and skills as banks face new challenges.

According to Teunissen (2008) ^[9], bancassurance activities can be divided into four types: (1) pure distributors, (2) strategic alliances, (3) joint ventures, and (4) financial holding companies. Each category represents a different level of sharing customer information, product design, and investment capital. However, marketing is always one of the most important functions of bancassurance, regardless of its type. Accordingly, the impacts of the effectiveness of this distribution channel on the financial benefits of banking partners and insurance businesses have been discussed quite a lot. However, its implications on the quality of insurance services, underwriting, and customer benefits have not been mentioned by many studies.

2. Literature Review

Bancassurance

Bancassurance combines the services of two financial institutions: banks and insurance. It is a partnership in which a bank sells the products of its insurance company partner using its network channels. Through this partnership, insurance companies can tap into a broader customer base using banks' channels, banks earn more in non-interest income, and customers gain many service options under one roof (Genetay and Molyneux, 2016) ^[4]. Likewise, according to Rauch (2020) ^[7], bancassurance is the provision of insurance services to the same customer base of commercial banks. This linking activity uses the bank's customer base to offer and sell insurance products (Genetay and Molyneux, 2016) ^[4].

Bancassurance is an arrangement between banks and insurance companies to sell the latter's insurance products through the banks' distribution channels. Bancassurance is critical for insurance companies to expand their distribution channels in all

markets, especially those where establishing a qualified agency force is problematic. We suspect that Vietnam is very much in this category for foreign insurers (Yuanta, 2022) ^[12].

Accordingly, bancassurance is a business model in which banks and insurance companies cooperate to sell insurance contracts to customers. In this model, insurance policies are sold through the established distribution channels of the bank (Choudhury and Singh, 2021) ^[3]. Thus, the concept of selling insurance plans by banks and a full range of banking services and investment products and services (Venugopal, 2011) ^[10].

In the trend of financial liberalization, bancassurance was developed in the European market and quickly expanded to other regions in the past decades. Conceptually, bancassurance benefits both consumers and insurers. Previous literature indicates that bancassurance has the potential to expand the pool of potential insurance customers, reduce business costs, and increase the convenience of financial services for consumers. By selling insurance policies through this channel, the bank earns revenue and interest similar to the insurance agent's commission. It's called chargeable income. This income is entirely risk-free for the bank because the bank only acts as an intermediary sourcing business for the insurance company (Wu *et al.*, 2009) ^[11]. Even if previous literature confirms the advantages of bancassurance, however, the actual impact of bancassurance on businesses and customers needs to be considered comprehensively.

Bancassurance and Service Quality

Regarding the impact of bancassurance on the service quality of insurance business operations, previous literature shows that bancassurance can increase the operating efficiency of insurance companies by reducing acquisition costs. However, whether selling insurance through bank tellers ensures service quality is still controversial. While research shows that service quality is important for long-term customer relationships and trust (Chen, 2019) ^[2], leading to reduced service quality can negate the benefits of cost savings.

Based on the characteristics of insurance products, insurance demand depends above all on trust in insurance companies, and specialized service is often a requirement in insurance marketing. Therefore, when selling insurance products, especially life insurance products with complex terms and needs, the salesperson's capabilities and tactics can affect service quality and buyers' perception of trust in the product. Bala and Sandhu (2011) ^[1] evaluated customer assessments of life insurance service quality and found that proficiency, physical and moral excellence, and ability of salespersons

were essential determinants. Meanwhile, the quality of bancassurance services is a controversial issue.

Unlike conventional financial products, insurance products result from a reverse business cycle because the value of insurance products depends on the insurance company's promise to pay benefits. Consumer trust in warranties is an important determinant of insurance demand. Life insurance products have long-term characteristics, so insurance transactions always require in-depth service, and service quality is a decisive factor in the insurer's reputation. If the bancassurance channel has poor service quality due to little expertise in the insurance business, the business reputation of insurance companies will undoubtedly decline when depending on bancassurance. Guenzi and Georges (2010) show that positive trust in sales staff influences customer repurchase in the insurance sector.

For emerging markets, bancassurance mainly acts as a pure distributor, so the banker still needs to be fully trained like employees and agents of insurance companies. Generally, bankers need to know more about insurance products and sales tactics to retain customers. On the other hand, most insurance products are often sold with financial services such as credit, trust, or savings accumulation. Therefore, this is beneficial in terms of economic benefits for bank employees. The profit efficiency of this distribution channel may be higher than other distribution channels due to saving related costs to find potential customers or sales promotion costs, commissions for agents or brokers. However, if the quality of underwriting services is not guaranteed, it will affect customers' interests.

According to the results of Chen (2019) empirical research on the Taiwanese life insurance market, bancassurance significantly influences insurance activities. Comparisons between life insurance companies show that warranties with more bancassurance have higher complaint rates and lower policy retention times, which implies that bancassurance may reduce service quality and company reputation. On the other hand, bancassurance can reduce business costs, leading to better cost efficiency and higher profitability for insurance companies. In summary, the results indicate that bancassurance has an advantage in the financing structure but not in the underwriting structure of insurance operations.

3. Vietnam Bancassurance Overview

Bancassurance has existed in Vietnam since the 1990s, but this activity only started in 2001. Bancassurance activities have been deployed with 19 life insurance companies, more than 50 commercial banks, and credit institutions. The underwriting of the Bancassurance channel in life insurance is shown in the following table:

Table 1: Overview of life insurance business through Bancassurance channel in 2021

	Companies	New Policies 2021	FY Premium 2021 VND Mil	Total number of new policies 2021	Total premium VND Mil	Cancellation of policies in reported period
1	AIA	48,095	1,537,467	169,363	4,028,654	39,190
2	Aviva	16,182	290,265	220,933	1,581,873	5,704
3	Bảo Việt Life	3,259	39,363	17,208	207,482	21
4	BIDV Metlife	46,740	452,627	197,353	1,553,278	1,243
5	Cathay Life	58	29,531	243	31,824	0
6	Chubb Life	0	0	0	0	0
7	Daiichi	180,174	2,978,262	348,762	4,759,133	3,977
8	Fubon Life	0	0	0	0	0
9	FWD	81,972	1,101,773	116,332	1,655,923	4,745
10	Generali	25,859	651,076	66,388	1,355,380	7,037
11	Hanwha Life	647	7,641	1,094	9,511	34
12	Manulife	52,971	4,769,165	226,653	8,511,494	9,584
13	MB Ageas	533,762	2,671,094	891,239	4,271,920	0
14	MAP Life	424,429	337,426	506,262	526,348	0
15	Phu Hung Life	0	0	554	404	7
16	Prudential	80,882	3,700,211	191,922	6,292,126	5
17	Sun Life	81,047	1,907,794	89,960	2,038,141	9,333
18	FWD Assurance	10,820	3,264	57,181	424,123	16
19	Tông	1,586,897	20,476,959	3,101,447	37,247,613	80,896

Source: Reports of Insurance Association of Vietnam (IAV) 2021

The business results show that the rate of new policies and insurance premium revenue through the bancassurance channel is constantly growing. However, the reality of contract cancellation rates is also relatively high in some businesses. This result also reflects a similar situation in studies in some emerging insurance markets (Chen, 2019)^[2]. This is explained by the fact that most consumers are enticed to buy insurance products rather than taking the initiative themselves.

According to the Insurance Association of Vietnam (IAV), total gross written premiums were VND217 tn (+17% YoY) in 2021. First-year premiums (FYP) written was VND49.5 tn in 2021, and bancassurance sales accounted for about 39% of the total FYP written in 2021. Again, this is relatively low compared to the Philippines (43%) and Thailand (47%), which have more developed commercial banking sectors. This figure was even higher in Singapore (51%), Indonesia (57%), and China (68%). Although comparisons with other banking jurisdictions should be taken only as a guide for the potential in Vietnam, these figures indicate that plenty of room still exists to expand the bancassurance business here (Yuanta, 2022)^[12].

4. Discussion

Although the development of the Bancas distribution channel has continuously increased over the years in terms of the number of newly mined coins and insurance premium revenue, bancassurance activities in Vietnam are still young and only focus on distributing insurance products instead of integrated asset management. Selling life insurance products and providing credit, trust, and savings services on a large scale today can immediately increase revenue and profits for all banks and security businesses. However, in the long run, there is no contract cancellation rate, which reduces business stability and threatens the reputation and trust of customers in this type of life insurance product. Reaching customers is challenging.

Product characteristic solution bancassurance products are all a combination of savings and risk management or savings and investment, which can confirm the collection of bank deposits. In addition, customers often need to

understand the diverse benefits of insurance products fully, and they only buy insurance products to receive incentives or to manually offer loan conditions in the context of legal regulations on insurance products. This type of business has not yet been perfected. Bankers are forced to sell bancassurance products, but few have enough product knowledge to give helpful advice to customers who sell bancassurance products to meet their KPIs. Credit consulting staff needs to be completed, causing confusion between insurance and banking products, especially for investment-linked insurance products.

This generates revenue and fees, but the situation could adversely affect customer perception of banks and the bancassurance business in general. Thus, customers can terminate the insurance contract before its expiration date. Meanwhile, with the role of insurance networks, information insurance products are often tailored to meet specific customer needs, so it is usually best handled through agent channels instead of information through the bancassurance channel.

In the future, insurance companies and banks should explore the ideal type of underwriting infrastructure for bancassurance to improve service quality. Insurance businesses should divide products into different groups. Accordingly, insurance services that are easy to sell through banking channels are simple life insurance products that come with existing bank incentives, such as credit loan terms. These products are well suited to be marketed by a general bank's sales force. However, complex and consulting-intensive products require more staff training and are unsuitable for all bank customers. Complex life insurance products are not even sold through banking channels to ensure customers' rights and improve the quality of after-sales service.

In addition, in the trend of digital transformation and development of online distribution channels, it is necessary to develop and design products with simple and easy-to-understand product information to take advantage of the infrastructure of smart banking applications of banks. This helps customers check information and concretize the intangible benefits of insurance products, thereby increasing

customer confidence and limiting contract cancellations.

In addition, training activities aim to improve product qualifications, skills, and professional responsibilities for bank employees in the insurance sales process. In addition, insurance businesses need to have a mechanism to monitor or recover sales commissions for canceled contracts or customer complaints to improve the quality of product underwriting services for businesses.

Bancassurance is an important innovation for financial services in emerging and developed markets. However, insurance companies must improve the service quality of bancassurance to gain a competitive advantage and long-term sustainable development in the market.

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