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Strengthening the Role of Insurance Distribution Channel through Banks - Bancassurance for Entities and Economies

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Abstract

Bancassurance is understood as a partnership between a bank and an insurance company. The Bank leverages its database and sales channel system to sell insurance products to efficiently distribute banking and insurance products. The paper clarified the theoretical basis of bancassurance and evaluated in detail its important roles for insurance businesses, commercial banks, customers and the economy. Based on insurance market data, the authors have commented on the impact of the rapid growth of

Bancassurance distribution channels at banks, but the management and supervision system has not changed in time, leading to many mistakes, losing the image of businesses, affecting the interests of customers and adversely affecting the Vietnamese economy. The authors propose several solutions for management agencies, insurance companies, and commercial banks to better develop bancassurance activities, thereby enhancing the role of this distribution channel in Vietnam's economy.

Keywords: Bancassurance, Banks, Insurance Companies, Customers, Economy

1. Introduction

"Bancassurance is a relationship between a bank and an insurance company for the purpose of providing insurance products or insurance benefits to a bank's customers" ^[1]. In the same vein, Munich Re (2001) also stated: "Bancassurance is the provision of insurance, banking, and financial services products through a common distribution channel and to the same customer base" ^[2]. Although born late compared to traditional insurance distribution channels, Bancassurance with the foundation of the association of the two banking and insurance industries has brought outstanding features and advantages, becoming a distribution channel with outstanding competitiveness.

First of all, Bancassurance is an efficient and widespread insurance distribution channel. This is due to the fact that Bancassurance operates on the bank's network of available, dense, and reputable agents and branches. The advantage of these networks has created the ability to conveniently supply bancassurance products to customers stemming from human and geographical proximity. The close relationship with customers is also an important factor in Bancassurance cooperation because it not only builds the trust and loyalty of customers to the bank but will help increase the opportunity to sell insurance products, thereby making it easier to cooperate in selling insurance through banks. On the other hand, because selling insurance through banks is a combination of insurance companies and banks, the inherent prestige of banks has become the prestige of this new insurance sales channel and a guarantee for bancassurance activities. The effective operation of the bank will positively affect Bancassurance activities. It is from the trust with the bank that although Bancassurance is still a new distribution channel at first, customers also have confidence in Bancassurance because they see assurance from banks they trust.

Second, Bancassurance has the strength of its sales staff. Thanks to the foundation of cooperation between banks and insurance companies, Bancassurance can mobilize a fairly abundant force of skilled salespeople in both the banking and insurance sectors. These employees have sufficient ability and work experience to adapt to collaborative projects between banks and insurance companies. For banks, the advantage they have is regular contact with customers, understanding customer needs and having the necessary information base about customers. Therefore, selling insurance through banks will take advantage of this to serve customers in the best way, customers when coming to reliable banks can buy optimal insurance products because the Bancassurance sales team will be based on customer knowledge and give appropriate advice. At the same time, directly answer

all questions of customers. For insurance companies, the advantage they bring to Bancassurance is a team of skilled staff, with specialized knowledge of insurance products. Combined with the information based on customers' needs and financial situations that banks provide, the professional understanding and experience of insurance consultants will bring effective bancassurance advice or contracts to customers.

Third, the Bancassurance product portfolio is diversified, meeting the increasing needs of customers. The increasing level of knowledge, the growing standard of living and the ability to adopt new distribution channels faster mean that today's customers always have higher demand and demand for the type and mode of providing financial services. With Bancassurance, customers can use diversified and "package" financial services through "one-stop" at a lower cost, more convenient than before and enjoy additional services. The products that bank and insurance companies provide through the Bancassurance distribution channel are products that combine banking services and insurance products, such as credit insurance products, overdraft loan insurance products, investment insurance products, protective insurance products, and savings insurance products... It is the characteristics of the service combination that make up such diverse products that help both banks and insurance companies achieve their goal of maximizing the quality and quantity of customer service. This is not easy to achieve if banks and insurance companies operate separately because no other bank or insurance company can provide a set of services with such superior features.

2. The role of Bancassurance

2.1 Roles for insurance companies

The problem that insurance companies often face with the traditional agency model is the large, fixed costs, the delivery of products depends a lot on agent quality. The association with banks to sell insurance products is a new distribution channel besides traditional distribution channels to help insurance companies make the most of the market and improve the efficiency of premium collection for customers.

Bancassurance helps insurers diversify insurance distribution channels, expand customer exploitation networks and increase competitiveness. The bank's network of branches and offices is spread across localities, especially in some regions where insurance enterprises do not have a commercial presence. Distribution through the banking network has helped the insurance company save costs in expanding the scale of mining operations, increasing competitiveness, and expanding market share. At the same time, it is possible to penetrate deeply into the target market that was previously unable to enter, effectively exploiting potential markets that insurers can hardly access through traditional distribution channels.

Bancassurance helps diversify products, providing more and more increasing needs of customers. Banks and insurance companies jointly design insurance products specifically for the bank's customers, increasing the utility of banking products. Since then, insurance businesses have created new insurance products to meet new customers.

Bancassurance creates a new source of potential customers for insurers. Through Bancassurance, insurers have access to and use big data sources about the bank's customers. It can be seen that the bank's customers are customers with great

potential for insurance businesses because they often have a good average income or more and more or less have the habit of using financial services.

Bancassurance helps insurance companies reduce risks arising from cash transactions and solve the problem of collecting fees and transferring compensation. For countries with high cash habits like Vietnam, this is even more significant, helping insurance companies reduce risks in collecting fees and paying cash compensation such as theft, confusion, and counterfeit money...

Due to the association with the Bank, the brand of the insurance business is enhanced, and the reputation is enhanced, building trust with customers. Because the banking system has great prestige in socio-economic life. Banks act as guarantors for the insurance products they offer, build trust in customers, and promote brands for insurers.

2.2 Role of banks

Bancassurance helps banks diversify banking products, increase competitiveness, and save costs. The bank provides more comprehensive products and services, the better quality of services increases customer retention and attracts more new customers to use the bank's services, thus increasing competitiveness. At the same time, the Bank saves costs in creating new products.

Bancassurance helps banks have more services. The Bank has increased the service of providing insurance products, in addition to other related services such as transfer fees, ATMs, credit cards, collection and payment for insurance companies, household payroll, opening payment cards for insurance company employees and customers... Banks can leverage their customer base, long-term relationships with their customers, etc. in order to create advantages over other distribution channels in distributing insurance products to generate stable income for themselves.

Bancassurance helps banks increase business opportunities. The amount of money from banks attracting deposits from insurance companies is huge, especially in life insurance. With the amount of insurance premiums collected, insurance enterprises invest and deposit money in banks is a safe form of investment for insurance enterprises. In addition, banks can become strategic partners of insurance enterprises, reducing credit risks through credit insurance products...

Bancassurance helps banks reduce the risk of failure to collect debts. The provision of insurance products helps banks reduce the risks of non-recovery of loans and helps increase the bank's capital mobilization from insurance companies through insurance premiums.

Bancassurance helps banks increase the productivity of their employees through the provision of additional insurance products. Thus, it helps to reduce fixed costs relatively for the bank while increasing the income of its employees. In addition, the "sales culture" obtained in the insurance business will have a positive impact on the bank's business activities, improving the quality of banking services.

In addition, Bancassurance helps banks build a complete and complete database of customers, creating favorable conditions for banks to exploit customer databases in a long-term and effective way, helping banks get closer, stick with customers, accompany customers and serve customers better.

Cooperation agreements between banks and Vietnamese insurance companies, usually imply agreements on

depositing money and using banking services such as salary transfer through the affiliated banking system, opening transaction accounts at associated banks, depositing insurance premiums into affiliated banks, etc.

2.3 Roles for customers

Bancassurance helps customers participating in financial services at the bank to be protected against unintended risks. Unfortunately, customers participating in the above financial services participating in insurance affiliated with the bank will lose their ability to pay debts due to accidents, illnesses, and deaths. Then the insurer will perform financial obligations to the bank on behalf of the customer.

Bancassurance helps customers use financial services packages, conveniently and save time, satisfying overall financial needs due to only having to transact at a single place such as borrowing money and buying insurance at the same place, withdrawing money and paying premiums at the same card... Thereby, helping customers better manage risks, plan asset management more effectively and insurance policies are easily renewed.

Bancassurance helps customers get financial advice and enjoy other added services such as: Automatic premium payment through the bank, customers can authorize the bank to automatically carry out insurance transaction procedures and transfer money from the account to pay the premiums due, to open an account and open a credit card without fees.

Bancassurance also helps increase trust in customers, customers will feel more secure when buying insurance through banks because the provision of insurance through banks has been considered, evaluated and selected by the bank.

2.4 Role in the economy

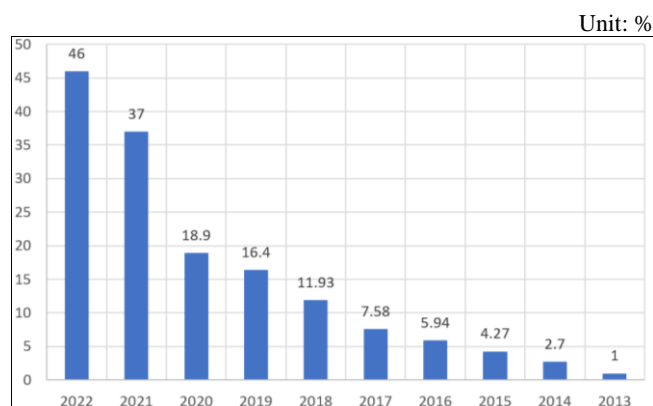
Banking and insurance are the two leading types of financial services, when they work together, promote each other's strengths, promote each other's comparative advantages, and cooperate to develop together. Thereby, creating a diversity of links between economic sectors, makes the financial market more efficient and more exciting, it positively impacts the macroeconomy.

Bancassurance helps promote international cooperation: The trend of opening cooperation to attract foreign investment links the three fields of insurance – investment – finance, contributing to the development of financial services in particular and the development of the country's economy in general.

3. Development results of the Bancassurance distribution channel

Born about 10 years ago but with about 6 years of brilliant growth, Bancassurance leaves a lot of expectations of benefits for the economy and all 3 parties: banks, insurance companies and customers. Thanks to the advantages of the above cooperation, the Bancassurance distribution channel has accounted for a large proportion of the total premium revenue of insurance enterprises. Compiled data from Vietnamese life insurance enterprises in the period of 2013 to 2022 shows that Board revenue grew strongly for 6 consecutive years from 7.58% in 2017 to 46% in 2022 ^[3]. However, in 2023, the life insurance industry may record negative growth figures for the first time, after major fluctuations in the market in recent times, especially on the Bancassurance channel. Recently, the insurance market in

general and insurance sales channels through banks in particular have grown rapidly. Many activities in the process of providing insurance products through commercial banks are not in accordance with regulations. The situation of employees of some banks introducing, soliciting, and forcing customers to buy life insurance, and investment-linked insurance when depositing money or borrowing credit capital. Already in 2022, the leader of the Ministry of Finance has instructed relevant units to urgently organize inspection and inspection of insurance sales through banks. The Department of Insurance Supervision and Supervision has inspected insurance business activities at 04 insurance enterprises: Prudential, MB Ageas, Sun Life and BIDV Metlife. The inspection results showed that the sale of insurance through agent channels is that banks still have many violations, especially the consultation of bank staff. Some typical violations such as: Not directly advising customers or not fully guiding procedures in the process of implementing the required process and procedures according to the regulations of the enterprise; Not ensuring the quality of consulting on insurance products, leading to customers not understanding insurance products well; Let others (other personal agents, bank employees) use iPad, agent number to guide customers to enter information; Failure to comply with the premium schedule approved by the Ministry of Finance.



Source: Compiled from Insurance Market Data 2013-2022 ^[3]

Fig 1: Proportion of Bancassurance revenue at Vietnam Life Insurance Company

4. Recommendations to enhance the role of Bancassurance in the economy

4.1 Recommendations to State Management Agencies

Innovating the financial supervision system model: Currently, the trend is shifting from the method of supervision according to each individual field to the formation of a unified supervisory authority. Implementing oversight of the entire financial system is becoming more visible because this model provides higher and more consistent oversight.

The State needs to build a legal environment and more actively support Bancassurance activities: Bancassurance is a distribution channel that has officially entered Vietnam for more than 10 years. Law on Insurance Business the Law on Insurance Business (2022), No. 08/2022/QH15 ^[4] has many amendments and new regulations in this regard. At the same time, the market is also expecting the operation of the industry to have many positive changes, when Circular 67 guiding the Law on Insurance Business takes effect from the beginning of 2023 ^[5] and will come into practice soon.

Before 2023, many business activities do not have a specific apparatus, leading to the deployment and development of Bancassurance in small, odd and unsystematic insurance companies. Therefore, for the development of Bancassurance to be recognized and systematized, state agencies such as the Insurance Association, the Insurance Supervision Administration – and the Ministry of Finance in collaboration with the Banking Association and the State Bank of Vietnam have documents specifying how to sell and introduce products through Bancassurance channels, subjects deploying products of bankers or financial consultants. The mechanism of payment of commissions and bonuses for Bancassurance products should be clearly stipulated to ensure competitive factors or regulations on training methods and programs for agents and organizations. The State needs to support insurance enterprises in propagating, educating and raising people's knowledge about insurance knowledge: Insurance products are intangible products and services, and when an insurance event occurs, participants can see its full meaning. In addition, Vietnamese people's perception of insurance is skewed, tending to consider this a fraud. Therefore, propagating, educating and raising people's knowledge about insurance knowledge and the need to participate in insurance in the mass media is essential for the development of the insurance industry in general and the development of Bancassurance activities in particular.

In addition, the State needs to have strict policies to handle violations against enterprises that take advantage of insurance or violate the law on insurance business.

4.2 Recommendations to the Insurance Association of Vietnam

Vietnam Insurance Association must be an intermediary organization to create a relationship between insurers and banks: Vietnam Insurance Association is a voluntary socio-professional organization of Vietnamese insurance enterprises for the purpose of protecting the legitimate interests of its members, orienting cooperation and development of Vietnam's insurance market within the framework of Vietnamese law. Being an organization representing members to participate in drafting guidelines and policies to develop laws of the State on insurance-related issues. In order for bancassurance activities to grow stronger and stronger, the Vietnam Insurance Association needs to implement:

Coordinate activities among members in insurance professional training, especially Bancassurance and agent training.

Improve the regulations on cooperation between insurance companies and banks, avoiding competition for mutual customers.

Organize forums for universalizing laws and policies of the State through practical implementation, giving suggestions to improve current legal documents on Bancassurance and other related activities.

Organize propaganda of insurance activities both at home and abroad. Thereby improving the level of knowledge in insurance and banking, creating more confidence in insurance in the domestic market. Moreover, helps and advises insurance companies to be able to cooperate with many domestic and foreign banks.

4.3 Recommendations to banks

Some banks have not seen all the benefits of the Bancassurance channel, do not believe in the success of channel deployment and believe that selling insurance through banks is not the job of banks, the association only makes banks have to do more work but their commissions are not high, This is only the insurance company's own business, so they "resolutely" secure their customer database, do not actively participate in cooperation agreements, are afraid to share information with insurance businesses. In order to be effective in the process of developing a Bancassurance channel, the role of banks is extremely important, it is necessary to have active coordination of banking partners. Banks need to understand that this is cooperation based on "development, mutual benefit", banks should:

Seriously in a cooperative relationship, after signing the cooperation agreement with the insurance company, it is necessary to direct the bank's Board of Directors to branches/transaction offices, set targets for exploitation premium revenue and have sanctions if the committed revenue is not achieved;

Clearly define the linking model to have more appropriate and active support in sharing customer data;

It is necessary to coordinate with insurance enterprises in communication, advertising insurance products for customers, and insurance professional training for bank staff.

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