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Evaluating the Bancassurance Model Applied at Commercial Banks in Vietnam

¹Nguyen Zen Nguyen, ²Ngoc My Anh Do, ³Tran Hong Minh Nguyen

¹ Department of Insurance, University of Labour and Social Affairs, Vietnam

^{2,3} Student D18BT, Department of Insurance, University of Labour and Social Affairs, Vietnam

Corresponding Author: Nguyen Zen Nguyen

Abstract

Bancassurance is a combination between banks and insurance companies. Unlike the traditional distribution channel controlled and managed by insurance enterprises, the distribution channel of insurance products through Bancassurance is responsible for employees of banking partners. There are many cooperation models between insurers and banks, but there are four main cooperation models: Distribution cooperation model, with which banks will act as intermediaries to distribute and provide products to insurance companies. The second model is the strategic alliance model, also known as crossholding. In this model, the bank sells only one insurance company's products and holds shares of that insurance company. The third model is the joint venture model. In this model, both insurance

enterprises and banks contribute capital to establish an insurance company and organize the operation of providing insurance products. The fourth most popular model is the merger model to become a financial corporation. This is the highest cooperation model between banks and insurance companies. These models all carry the pros and cons of the Bancassurance distribution channel. However, which model to apply depends entirely on the financial capacity, the system of facilities, the staff of the bank, and the insurance enterprise. In addition, for the cooperation model to be effective, both businesses and banks must always evaluate the results and eliminate the current points of this distribution channel.

Keywords: Model, Bancassurance, Insurance, Banking, Vietnam

1. Introduction

Bancassurance refers to an agreement between an insurance company and a commercial bank. It is a term that first appeared in France in the 80s of the 20th Century. At first, many regulators and researchers argued that giving banks too much control over the market's financial products would lead to restrictions. However, the facts have proven that the effectiveness of this relationship has helped the insurance market develop successfully in the world, especially the European market. In the Bancassurance distribution channel, banks can sell insurance products and receive a certain fee as agreed upon by insurance enterprises. Along with that, insurers can use the bank's distribution system, facilities, employees, and customer database to reach potential customers. Today, bancassurance is not appreciated in some markets such as the US, India, and Australia, but in most developed countries of Europe, Bancassurance is considered an important distribution channel of the insurance market. To consider the effectiveness of the distribution channel and the appropriate partnership model, many researchers have assessed its impact trends on the insurance market, such as the study by Bamahan *et al.* (2007), ^[1] "Assessing development trends and identifying opportunities and challenges for the insurance industry". The study has shown the "business strategy" of enterprises and identified the distribution channel through banks - Bancassurance is a strategy of insurance businesses and banks. The purpose of this distribution channel is to exploit in an integrated way the market of financial services. In addition, the study also assesses development trends and identifies opportunities and challenges for the insurance industry in particular and financial services in general. The author concludes that Bancassurance achieves only a small effect on the actual capacity of the market. Davis (2007) ^[2] study provides an overview of bancassurance in different insurance markets around the world concerning the bancassurance model of banks and financial corporations. The problem of product development of bancassurance distribution channels in countries, the selection of partners and target markets of bancassurance, and the problem of developing effective distribution channels. Davis (2007) ^[2] provides valuable experience for Vietnamese banks in

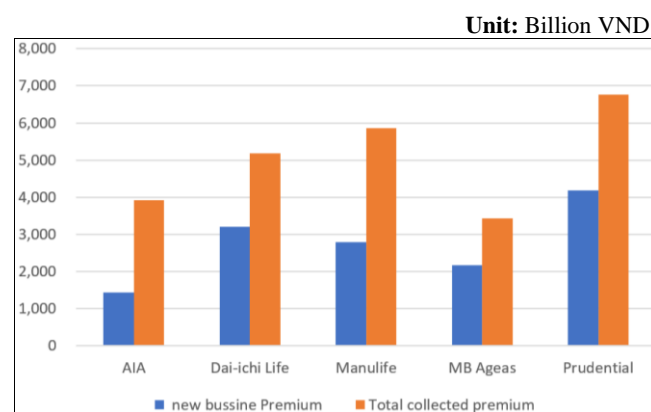
developing bancassurance models as well as provides managers with guidance in issuing policies related to the development of bancassurance activities. In Vietnam, Bancassurance has a development process of more than 10 years and accounts for a large proportion of the distribution network of insurance businesses. Research by Hai (2015) [3] on bancassurance distribution channel development at the Joint Stock Commercial Bank for Investment and Development of Vietnam. Research has shown that the development of the Bancassurance distribution channel still has many limitations such as not taking full advantage of the unique advantages of the Joint Stock Commercial Bank for Investment and Development of Vietnam. The software system used for the Bancassurance distribution channel is incomplete and has errors. The professional level of staff directly selling products at the Joint Stock Commercial Bank for Investment and Development of Vietnam is not high. The financial mechanism for this distribution channel has not been paid enough attention, Joint Stock Commercial Bank for Investment and Development of Vietnam's image and brand have not been outstanding. Some insurance products are not effective and meet customer expectations. From the above limitations, the author proposes some solutions such as strengthening linkages in the cooperative distribution model; Improving technical infrastructure for Bancassurance channel development; Improving professional qualifications, strengthening skills training and sales support; Building reasonable financial mechanisms, promoting and motivating business; Promote marketing, advertising and sales promotion activities; Building the brand and image of insurance distribution channels, choosing simple insurance products, suitable for the needs of banks and customers. Research by Nhung (2016) [4] on bancassurance development at Single share-holder limited company Insurance Vietnam Joint Stock Commercial Bank for Industry and Trade - VietinBank Insurance (VBI). The study synthesizes the general theory of the concept, characteristics, ways of implementing the Bancassurance model, the benefits of implementing Bancassurance activities for insurance companies, and the concept of developing Bancassurance activities for insurance companies. Evaluate the factors affecting the development of Bancassurance activities at insurance companies. From there, based on the mentioned theory, the author goes into analyzing the status of Bancassurance activities and assessing the situation and results of implementation at VietinBank Insurance. Through analysis and evaluation of the implementation situation, there are still some problems and limitations in the process of implementing Bancassurance activities at VietinBank Insurance such as the relationship between the bank - VietinBank and VietinBank Insurance is not close, leading to the direct exploitation results of the Bancassurance distribution channel right in the potential market of VietinBank's customers not high. Products distributed through the Bancassurance channel are limited in quantity. Since then, the author has offered solutions such as strengthening the link between VietinBank and VBI, and developing and diversifying insurance products. Thus, it can be seen that the above research works focus on issues such as the theory of Bancassurance, products, distribution channels, and factors affecting the implementation of the Bancassurance model. The studies remain mostly single, analyzing a bank's bancassurance system, or evaluating an insurer's system.

There has not been a comprehensive assessment of the bancassurance model of insurance enterprises, its advantages, and disadvantages. At the same time, the research does not have suitable solutions to develop the bancassurance model of Vietnamese insurance enterprises today.

2. Advantages and disadvantages of insurance distribution channel through commercial banks

Bancassurance distribution channel development has benefits (advantages) and disadvantages (disadvantages) for banks, insurance companies, and customers.

About the advantages of Bancassurance distribution channel. The Bancassurance model has brought many benefits, not only to banks, and insurance companies but also to many benefits to customers. Bancassurance assists banks in increasing revenue through customers purchasing insurance from affiliated insurance companies. From there, banks can increase their competitiveness and maintain a stable customer base. Support banks to take advantage of existing customers from insurance companies, contributing to strengthening relationships with potential customers. Support banks to expand their operation scale and increase their reputation in the financial market. Because, when implementing the Bancassurance association model, banks can increase capital mobilization from owners. For insurance businesses: Increase opportunities to expand market share through the bank's potential customers after cooperation; reduce the cost of distributing insurance products to customers. Because when applying the appropriate Bancassurance model, insurance companies can diversify distribution channels thanks to banks, thereby increasing the level of competition for other insurance businesses; Enhancing corporate brand image, promoting your image to customers when insurance companies cooperate with banks, especially reputable banks, with good brands in the market. Finally, customers of both insurance businesses and banks when using Bancassurance products enjoy the benefits brought by this linkage. Specifically, customers save costs when buying a package of services from banks or insurance companies. Reduce the risks that may occur to yourself when buying insurance products at banks such as fraud by the reputation of the insurance company. Customers can better manage their finances when they can plan their expenses and have control over their assets.



Source: Vietnam insurance statistics - first 9 months of 2022 [5]

Fig 1: Enterprises with the highest Bancassurance Premium Revenue

Regarding the disadvantages of Bancassurance, besides the advantages, the Bancassurance model also has disadvantages for banks, insurance companies and customers. On the banking side, cooperation with insurance companies is a big relationship. If the insurance company is inefficient or unprofessional, the image and brand of the insurance company will decrease, which will affect the psychology and credibility of customers towards that bank. The insurer may also face reputational problems if the commercial bank is not suitable or underperforms due to the huge initial cost that the insurance company pays to the bank. If Bancassurance revenue is not effective, it will affect the profit of the insurance company in the long run. Customers, when buying insurance products through the Bancassurance distribution channel, may face trouble if the cooperation agreement between the bank and the insurance company ends or there is a dispute. At that time, customers will not be supported with procedures and paperwork when an insurance event occurs.

3. Bancassurance models applied by commercial banks in Vietnam

The bank's participation in Bancassurance activities can be at many different levels depending on the Bancassurance model, and the business strategy of the insurer. Based on the level of cooperation between the insurance company and the bank from low to high, the linking of bank insurance is mainly carried out according to four models.

First, is the cooperative distribution model. The cooperative distribution model is a model where a bank enters a distribution contract with one or more insurance companies, whereby the bank will act as a distribution intermediary providing products to the insurance company. If applied appropriately, this model brings satisfying results to both banks and insurance companies, banks earn revenue from selling insurance products to insurance companies, insurance companies expand the market, grow premium revenue and insurance company's products create a brand when offered through banks. The advantage of this form is that both banks and insurance only need to invest very little, saving management costs, transaction costs, and office costs by leveraging each other's networks and customer sources. This form is applied a lot by banks with insurance companies because banks often do not want to focus too many resources with high opportunity costs. However, this model also has the disadvantage that banks often share fewer customer databases with insurance companies because they are almost exclusively distributors and enjoy benefits on revenue.

Table 1: Enterprises apply an insurance distribution model

Unit: Billion VND				
Bank	Insurers	Year of Cooperation signing	Upfront fee	Year
SacomBank	Dai-ichi	2017	2,000	20
Techcombank	Manulife	2017	1,446	15
VPBank	AIA	2017	1,600	15
SHBank	Dai-ichi	2018	1,000	15
Oricombank	Generali	2019	850	15
TPBank	Sun Life	2019	1,840	15
VIBank	Prudential	2019	750	NA
Vietcombank	FWD	2020	9,200	15
Maritime Bank	Prudential	2021	2,000	15

Source: Vietnambiz^[6]

Second, is the strategic alliance model - crossholding. This model requires the bank to sell only the products of one insurance company. The bank invests and holds shares in the insurance company. This level of alignment is higher than the level of alignment through distribution contracts in product supply and channel management and there is the sharing of customer databases. This partnership requires banks and insurers to invest in information technology and salespeople. With this cooperation model, the two parties have a higher level of alignment in product supply and distribution channel management. The advantage is to take advantage of the bank's wide branch network to sell insurance products, exploit an abundant source of customers and have strong financial capacity, collect insurance premiums, and pay claims quickly and conveniently. The products implemented in this cooperation model are often associated with the bank's credit form, so they are very suitable and easily accepted by customers. For example, personal credit insurance, insurance for both mortgage and mortgage loans, private home fire insurance, bank loans, and mortgage taxes. The disadvantage of the model is that it requires investment in information technology development and sales personnel.

Third, is the venture model. The joint venture model requires banks and insurance companies to contribute capital to establish a new insurance company to coordinate the provision of insurance products. This legal entity is an insurance enterprise, licensed by a competent state agency to do business in the field of insurance. Under this partnership model, the design and distribution of the product is entirely done by the new insurer. The bank and the established capital-contributing insurer will enjoy profits from the business results of the new insurance company. The advantage of this model is that the customer base is shared back and forth between the original bank and the original insurer and the new insurer. On the downside, this model requires a strong and long-term commitment from both sides in terms of product distribution strategy, facilities, and human resources.

Fourth, merging to become a financial corporation. This is the highest model of cooperation between banks and insurance. With this partnership model, customers will be able to use one-stop financial services and create the possibility for the full combination of banking and insurance products. Under this model, the bank and the insurance company are either in the same financial conglomerate or mutually owned. A bank may partially or wholly own an insurance company or an insurance company that owns part or all a bank or a financial group that owns both the bank and the insurance company agrees to participate in the bank-insurance partnership model. Form of manifestation: The bank acquires part or all an insurance company; The insurance company acquires part or all of a bank; The bank establishes a new insurance company 100% owned by the bank; The insurance company establishes a new bank that is 100% owned by the insurance company; A consortium that owns the bank and the insurance company agrees to join the insurance-banking partnership model.

4. Criteria for assessing the suitability of the bancassurance model at insurance enterprises

Currently, there is no specific indicator system to evaluate the effectiveness of bancassurance in general for insurance companies. Depending on the characteristics and

development orientation, each insurance company sets its criteria. Below is a set of common indicators to evaluate the development of bancassurance operating models at some insurance companies.

Premium revenue through Bancassurance. For Bancassurance, premium revenue is a result indicator reflecting the market size that Bancassurance achieves. For a distribution channel, the channel's revenue reflects the business results achieved by the distribution channel. The increase in distribution channel revenue over time will show how the results and part of the distribution channel's performance are improved and developed.

Number of Bancassurance agents. The number of Bancassurance agents is the number of insurance agents who are banks. This indicator reflects the level of expansion of the bancassurance distribution channel in terms of the volume of the insurance company. The large number of Bancassurance agents and geographical coverage will show wide coverage and partly reflect the ability to reach customers. Compared to non-bank insurance agents, Bancassurance agents have the advantage of potential customers, the quality level related to the agent's education level is usually higher than that of regular agents. Bank agents are usually institutional agents in which bank employees (usually credit officers) are members of the institutional agent, performing the function of introducing and selling insurance products to the bank's customers. If the link between the bank and the insurance company is well established and tight, bancassurance agents can maximize their capacity and achieve high exploitation results.

The number of Bancassurance products. The number of insurance products of a bancassurance indicates the total number of insurance products offered by a bancassurance to the market. The large and diverse number of products signifies the insurer's efforts in meeting the insurance needs of customers in the market. The number of bancassurance products can be divided into two small indicators: the number of traditional products and the number of integrated products. **Number of traditional products:** The number of traditional products reflects the diversity of products and also reflects the ability of a bancassurance to meet the needs of corporate customers, and individual customers. **The number of integrated products:** This is an important indicator of the development of Bancassurance activities in product development. The number of integrated products reflects the insurer's efforts to design specialized products, which can be integrated with banking products to offer to the bank's customers. Diversified integrated products can enhance the exploitation results of the Bancassurance distribution channel due to the suitability of the product for the potential customer market.

Bancassurance channel cost. This is a target reflecting the benefits that Bancassurance brings to the bank. Usually, the higher the cost of sales calculated on revenue paid to the bank, the more Bancassurance activities develop and the operation activities in the Bancassurance channel bring high results. Bancassurance channel costs are also a driving factor in increasing the level of close commitment between banks and insurance companies in developing Bancassurance activities.

Fee revenue growth of Bancassurance operations. The fee revenue growth of Bancassurance activities is determined based on the difference in fee revenue of the Bancassurance distribution channel in the operating year and the reporting

year divided by the fee revenue of the Bancassurance channel in the reporting year.

Fee revenue growth = $(DT1 - DT0) \times 100 / DT0$ (%)

DT1: Bancassurance distribution channel fee revenue in the business year

DT0: Bancassurance Distribution Channel Fee Revenue Report

This is an important indicator for evaluating the development of the Bancassurance distribution channel model. High fee revenue growth represents the rapid expansion of the distribution channel in business results. This indicator is also used to calculate the growth of premium revenue of an insurance company in general or Bancassurance in particular. The growth of premium revenue of an insurer during the year reflects the development, role, and position of that insurer in the market. **Proportion of Bancassurance fee revenue.** The proportion of Bancassurance premium revenue in the total revenue is determined based on premium revenue exploited through the Bancassurance distribution channel to the total original premium revenue of the insurance company. This indicator reflects the proportion or fee revenue structure of the Bancassurance distribution channel in the total original premium revenue of an insurance company. This indicator indicates the importance and position of the Bancassurance distribution channel in the distribution channel system of the insurance company.

The proportion of Bancassurance fee revenue = $\text{Bancassurance} \times 100 \text{ distribution channel fee revenue} / \text{Total original premium revenue}$ (%)

5. Conclusions

After the rapid development process leading to many violations in the insurance distribution channel through banks recently discovered by the Inspection Board of the Ministry of Finance, the cooperation model between banks and insurance enterprises needs to be improved more to keep stable growth and keep trust with customers. Research results have shown shortcomings such as businesses and associated banks not investing in Bancassurance; the limited professional qualifications of professional staff are limited; limitations on costs for bancassurance development and some objective reasons such as the legal environment, competition in the insurance market are fierce, the bank has not fully committed to implementation. One of our suggestions is that insurers need to personalize products for customers by leveraging data from affiliated banks and analyzing existing sources of information. Enhance customers' insurance policy signing experience through a digital sales system. Recruiting quality human resources, these salespeople need to be equipped with banking skills and at the same time need to be proficient in the insurance business.

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