



## THE IMPORTANCE OF BANCASSURANCE MODELS IN NORTH AFRICA

Elda MARZAI (ABLIZ)<sup>1</sup>, Florentina-Ştefania NEAGU<sup>2</sup>

<sup>1</sup> Bucharest University of Economic Studies, Romania, E-mail address [elda.abliz@yahoo.com](mailto:elda.abliz@yahoo.com)

<sup>2</sup> Bucharest University of Economic Studies, Romania, E-mail [stefanianeagu15@yahoo.com](mailto:stefanianeagu15@yahoo.com)

### Abstract

*In an increasingly competitive market, new technology, new business models and consumer behaviors are developing, forcing the players from all areas to reinvent themselves. Also, in the financial sectors, there are developing of new products and services. Bancassurance is one of the new product, where banks and insurers create a partnership to improve financial performance by reducing costs and increasing revenues. The aim of the present article is to highlight the importance of bancassurance for clients, banks and insurance companies in North Africa.*

### Key words:

*Bancassurane, clients, interest rate, insurance*

### JEL Codes:

**M41**

### 1. INTRODUCTION

“It is important that every country, developing or otherwise, gives careful consideration to the great value of Bancassurance as a means to grow the presence and use of insurance within a community. For all its youth, Bancassurance is emerging as a natural pathway for the effective development of insurance. There can be no doubt of the importance of the potential for Bancassurance to open the path toward cost-efficient access to insurance products, both Life and non-Life” (Gonulal et al., 2012).

Bancassurance developed and play a major role in some European countries, dominated several countries such as France and Italy (approximately 80% from life insurance premiums are distributed by bancassurance channel). Bancassurance is a relationship between a bank and an insurance company, aimed at offering

insurance products or insurance benefits to the bank's customers. In this partnership, bank staff and tellers become the point of sale and point of contact for the customer.

Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces or pay commissions to insurance agents or brokers. Bancassurance has proved to be an effective distribution channel in a number of countries in Europe, Latin America, Asia and Australia.

### 2. BUSINESS MODELS ACROSS THE WORLD

The all institutions of credit of around the world use one of three models of bancassurance: integrated, non integrated and open architecture.

The choice of one of the three models is influenced by several factors such as: credit brokers must have a minimum training to sell insurance products, the bank owns a portfolio of products that it is authorized to sell, and the nature of the relationship between the bank and insurance company.

**Integrated model** - represents the integrated insurance business in all banking processes. The bank receives the money directly from the client's account following its agreement. Insertion of customer data is made within the bank account and is automatically transmitted to the insurance company. Insurance products are distributed by bank staff and integrated into bank savings and investment products. Insurance products are built to make advantageous medium and long term investments and are used on all bancassurance channels. As a result of the sale of these products, the bank receives commissions, and some of them come to employees as a result of the Bank's sales targets.

**Non-integrated Models** - is represented by the sale of life insurance products by bank employees, being limited by legal regulations, as most investment products can be sold only by authorized financial advisors. So the banks have resorted to setting up networks of financial advisors authorized to sell financial products. This adopted measure allows banks to consolidate their bancassurance position and respond effectively to all customer requirements.

**Open Architecture** – represent the implementation of three general life, health insurers, as well as new models such as marketing insurance

companies that allow authorized dealers to sell insurers' products (Sud, 2018).

Banks following the analysis of all insurance portfolios created an insurance client profile as follows (Muiruri, 2016):

- Demographics –75% below 35 years of age
- Older clients –where are their dependents
- Nature of accounts they hold
- Management of the accounts they hold
- Insurance products they already have
- Engagement with the bank
- Banks customer satisfaction index

At European level, about half of the life insurance business is managed by banks. In France, Portugal, Spain, banks manage over 60% of life insurance. Bancassurance is of interest to insurers for several reasons: Traditional agencies can be reduced, a large database of customers with customers can be accessed, easier to develop new products with partner banks, additional capital to improve the degree solvency and business expansion (Bențe and Ghilimei, 2008).

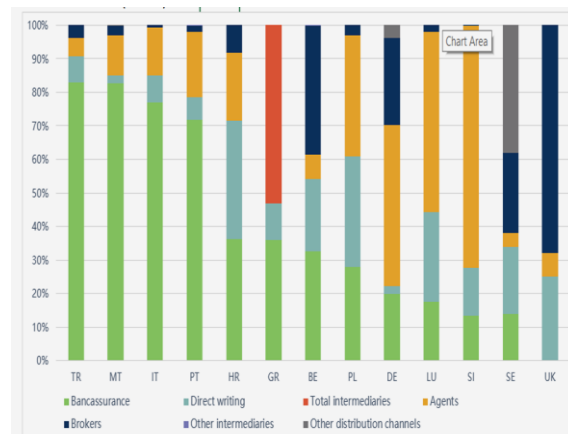
In South Africa, the bancassurance model has four different forms, such as: distribution partnership, where the bank is an intermediary, offering products from several insurance companies; strategic alliance is the situation where the bank only sells the products of a single insurance company; joint venture, in which the bank and the insurer set up an insurance company or jointly-owned distributor through more or less balanced participations. The joint venture becomes a new legal entity that distributes insurance or

investment products through the parent bank network. In some cases, the relationship between the bank and the insurer is strengthened by a strategic participation.

Bancassurance developed and play a major role in some European countries, dominated several countries such as France and Italy (approximately 80% from life insurance premiums are distributed by bancassurance channel). Bancassurance market growth in Europe is expected to be highest in Turkey at 14.7 % and in Poland at 15.1 % until 2020. It is more stagnant in the biggest European economies, where market penetration of insurance products is highest. In Western Europe, insurance premiums account for 7.4% of GDP, whereas in the Philippines, insurance premiums only account for 1.7% of GDP. In recent years, the practice of bancassurance within the insurance industry is most prevalent in Latin America.

In 2013, the share of life insurance policies sold through commercial banks was 44% in Colombia and Mexico, 50% in Chile, and 80% in Brazil. Bancassurance is widespread in China, with 54 of China's 108 largest banks offering some form of insurance in 2014. Furthermore, 30% of all new insurance policies sold in China were sold by banking firms, as of June of 2016. According to Insurance Europe, the distribution channels were illustrated on figure below:

**Figure 1. Life distribution channels (% of GWP) – 2016**



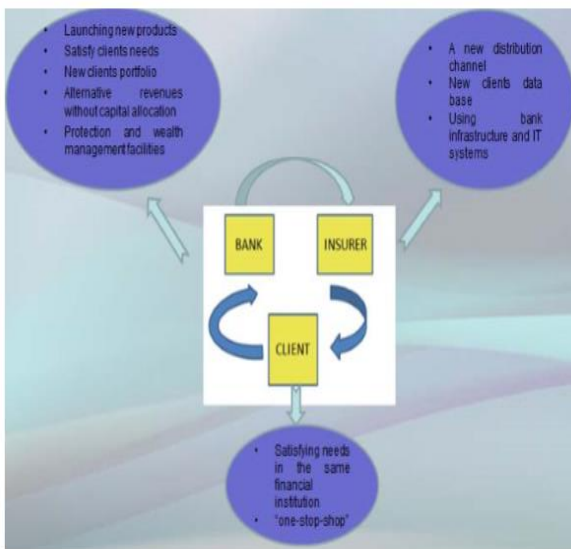
Source: European Insurance-Key facts, August 2016

Bancassurance remains prohibited in some other countries, but the global trend has been toward the liberalization of banking laws and the opening up of domestic markets to foreign firms. In Kenya, bancassurance debuted in 2004, first insurance agency license was to CBA Bank. According to the Insurance Regulatory Authority, the insurance sector in Kenya has, in the last 5 years, an increase in dropout of agents and a considerable reduction in new agent registrations. In 2013, there were 593 new registered agents down from 1,085 new agents registered in 2012. Over 1,900 agents dropped out of the industry in 2013 up from 758 agents who dropped out in 2012.

According to the statistics, insurance penetration in Kenya stands at 3.4%—the 4th highest in Africa after Mauritius (6%), Namibia (7.2%) and South Africa (14.1%). Agents, instead of looking at banks as the enemy, should seek ways to work with or alongside them as well as devise ingenious ways to reach the over 96% of the population still untapped. In many countries around the world, the distribution of insurance by banks using their branch network has proven to be

very efficient, which bring real advantages to all the parts implicated: clients, insurance companies and banks. The implementation of Bancassurance has a lot of advantages for all the parts implicated: clients, banks or insurance companies as can be seen in the Figure 2.

Figure 2. The advantages of bancassurance implementation



Source: Marzai (Abliz), 2018, p.51

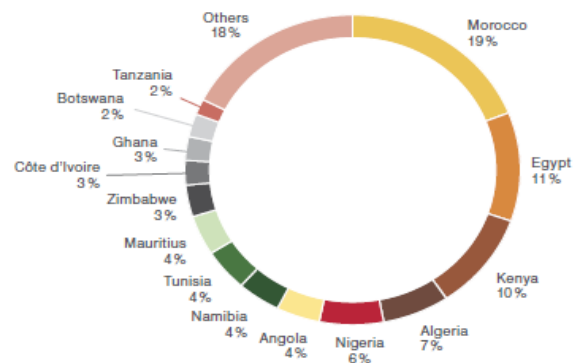
Among African states, South Africa has a modern and sophisticated financial sector, but also, population has a low access to basic financial products, loans, savings and insurance products. South Africa's insurance sector is the largest in Africa, based on written premium volume and assets under management. The penetration of life insurance and short term insurance premiums at 12.7% and 2.7% of GDP in 2014 is the highest in the world. The density of premiums per capita is quite low by world standards, at only USD 844 for

life insurance and USD 181 for short term insurance.

### 3. THE SIZE OF BANCASSURANCE MARKET IN NORTH AFRICA

Since the beginning of 2016, three Maghreb countries, Algeria, Morocco and Tunisia, have seen a rise in the bancassurance market higher than GDP growth over the past five years, with Egypt remaining affected by political and economic instability. The non-life insurance market accounts for 1.5% of the global emerging market and 0.9% of regional GDP, these differences are due to the strong link between the GDP per capita distribution and the poverty the population in each the country. As can be seen in Figure 3, the share of the insurance premiums for the year 2016 is higher for the Maghreb states than for the rest of the African states.

Figure 3. Geographical split of total African insurance premiums in 2016 (excluding South Africa)



Source: Swiss Re Institute, Sigma No 3/2017

Since 2017 Egypt has had the fastest growing bancassurance market in the third quarter of 2018, this growth has been favored by the economic recovery approved by the government and aimed at implementing structural reforms such as raising taxes, reducing subsidies and new investments, Egyptian non-life insurance and reinsurance markets increased almost 40%. In line with the reforms, investor confidence has been strengthened, as evidenced by a doubling of the international level of reserves between 2016 and 2017. The cost of economic reforms was largely borne by the population, this measure was doubled by the efforts of the population to cope with rising inflation. Based on an inflation adjustment, the rise in the life and insurance market was much lower, but still recorded a 9.9% increase.

Algeria's bancassurance market has been rising since 2006 when it was introduced, and in 2009, CNEP Bank, which currently has more than 3 million clients, is joining Cardiff El-Djazair as the life insurance subsidiary of the French banking group BNP Paribas, which led to an increase in the portfolio by 77,000 clients by the end of 2013 (L'Éco News, 2015). The market rose by 8.6% in the first quarter of 2018, demonstrating, according to the National Insurance Board's forecast, that the annual turnover of the insurance market was 11%, starting from a turnover of 19.5 billion dinars in 2000 to 46.5 billion in 2006 when bancassurance was introduced and reached 133.3 billion dinars in 2017. The only decrease registered by the insurance market was in the period 2015-2016 due to the impact of the

decrease in oil prices, after this period of decline, the market recorded a 50% increase in the auto insurance market, 35% in personal insurance and 4% in transport insurance (Mehenni, 2018).

Following the upgrading of the Financial Sector Assessment Program (FSAP) in 2007, the Moroccan financial system has witnessed an increase in the banking sector and the expansion of the insurance industry. According to the Insurance and Insurance Supervisory Authority (ACAPS) doubled its turnover in 2008-2017 to 9.7 billion Moroccan dirhams in 2017. On the insurance market in Morocco, are three big insurance companies Wafa Assurance companies, RMA Watanya and Mutuelle Attamine Chaabi generated 80% of total insurance contracts in 2017, the largest client portfolio being held by AWB (Attijariwafa Bank). Bancassurance commissions received by banks for 2017 amounted to 425 million Moroccan dirhams, a 16% increase over 2016 (Middle East Insurance Review, 2018).

The bancassurance market in Tunisia recorded a turnover of 445 million dinars in 2017, of which 95% was generated by life insurance. At the level of the insurance market in Tunisia, bancassurance represents 11% a small share compared to the states in the region.

The bancassurance market in Tunisia faces a series of barriers from the operational ones that were limited by the 2002 tax code, which involved the existence of four types of insurance: agricultural risks, loans and bonds, life insurance and insurance. In the event of a collapse of the financial system, the insurance system has a set of difficult

procedures that make the economic and financial recovery very slow. Another impediment is related to access to databases of insurers who are not connected with their partners (Good Stock Invest, 2018).

#### 4. CONCLUSIONS

Nowadays, The main challenge for financial institutes is to try to offer the particular products for their customers. Bancassurance is one of the most important distribution channel for insurance , its implementation leads to efficiency and profitability of the bank and also leads to a high security of bank loan contractors. Implementation of bancassurance in all bank system in Africa is a must. However, bancassurance offers a number of advantages for banks to implement this concept, provides a competitive environment for banks in the context in which national economies periodically record a decline in benchmark interest rates, bancassurance products increase profitability and productivity of banks, can bring more benefits to banks by increasing revenue generated by earned commissions, reducing fixed costs, increasing labor productivity of staff dealing with these portfolios, expanding to other international markets.

#### BIBLIOGRAPHY:

1. Abajah, B., (September 13, 2016). Bancassurance not the end of insurance agencies. Turnkey Africa, available online at: <http://turnkeyafrica.com/bancassurance-not-end-of-insurance-agencies/> accessed at 05.11.2018

2. Bențe, C., and Ghilimei, E., (2008). Benefits of bancassurance. Annals of the University of Oradea, Economic Science Series . 2008, Vol. 17 Issue 3, p. 85-89
3. Gonulal et al., (September 2012). Bancassurance. A valuable tool for developing insurance in emerging markets. Policy Research Working Paper no 6196, The World Bank, Financial and Private Sector Development Non-Bank Financial Institutions
4. Good Stock Invest, (October 25, 2018). Finance: The second breath of bancassurance in Tunisia?. Available online at: <https://good-stockinvest.com/finance-the-second-breath-of-bancassurance-in-tunisia/4064/> , accessed at 29.11.2018
5. Insurance Europe (October 30, 2018). Insurance data. available online at: <https://www.insuranceeurope.eu/insurance-data> accessed at: 27.11.2018
6. Investopedia (no date). What is Bancassurance. available online at: <https://www.investopedia.com/terms/b/bancassurance.asp#ixzz5WlxiRndj> accessed at: 13.11.2018
7. Karugaba, P. and Kakongi, T., (August 23<sup>th</sup>, 2017). New regulations allow for bancassurance in Uganda, available online at: <https://www.ensafrica.com/news/New-regulations-allow-for-bancassurance-in-Uganda?Id=2764%20%20&STitle=ENS%20africa%20%20ENSight>
8. L'Éco News,( April 1, 2015). 185 822 souscripteurs à la bancassurance chez Cnep-Banque. Available online at: [http://www.leconews.com/fr/actualites/nationale/finance-assurances/185-822-souscripteurs-a-la-bancassurance-chez-cnep-banque-01-04-2015-173842\\_290.php](http://www.leconews.com/fr/actualites/nationale/finance-assurances/185-822-souscripteurs-a-la-bancassurance-chez-cnep-banque-01-04-2015-173842_290.php), accessed at 12.11.2018
9. Marzai (Abliz), E., (2018). Bancassurance – one of the most important distribution channels in Europe. Conference Proceedings International Finance and Banking Conference FI BA 2018 (XVI<sup>th</sup> Edition), available online at:

[http://store.ectap.ro/suplimente/International\\_Finance\\_and\\_Banking\\_Conference\\_FI\\_BA\\_2018\\_XVI.pdf](http://store.ectap.ro/suplimente/International_Finance_and_Banking_Conference_FI_BA_2018_XVI.pdf)

10. Mehenni, E., (July 09, 2018). Marché algérien des assurances : progression du chiffre d'affaires de 8,6% au 1er trimestre 2018. *Algerie Eco.* available online at: <https://www.algerie-eco.com/2018/07/09/marche-algerien-des-assurances-progression-du-chiffre-daffaires-de-86-au-1er-trimestre-2018/>
11. Middle East Insurance Review, (November 04, 2018). Morocco: Bancassurance nets 25 % of total premiums in 2017. available online at: <http://www.meinsurancereview.com/News/View-NewsLetter-Article?id=44709&Type=MiddleEast> accessed at 29.11.2018
12. Muiruri, G., (2016). Bancassurance implementation strategy 2016. Lloyds Africa Markets Research and Consulting, available online at: <http://oesai.org/wp-content/uploads/2015/01/BANCASSURANCE.pdf>, accessed at November 28, 2018
13. Richard, K., et al., (October 2015). Bancassurance, vertical integration and customer outcomes (Final), Genesis Report, available online at: [http://members.banking.org.za/private\\_documents/2015/NOVEMBER/InfoDoc\\_162710.PDF](http://members.banking.org.za/private_documents/2015/NOVEMBER/InfoDoc_162710.PDF), accessed at 05.11.2018
14. Sud, R., (April 26, 2018). How open distribution in insurance can help. available online at: <https://www.livemint.com/Money/o2ZoxSkqcz8UCGn5lchrLO/How-open-distribution-in-insurance-can-help.html>, accessed at November 27, 2018
15. Teunissen, M. (July, 2008) Bancassurance: Tapping into Banking Strength. *The Geneva Papers on Risk and Insurance - Issues and Practice*, Volume 33, Issue 3, pp.408-417